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OF AGRICULTURAL PRODUCTIVITY ^{*}/_✓

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By

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INTRODUCTION

It is a rare honor and privilege to be here today as a participant in this workshop on Rural Development. I am sure that at this time there is little need for me to emphasize the significance of rural development, particularly the Philippine economic development, since this has been adequately covered by the esteemed speakers of the previous days. Let us then directly proceed to the topic of this paper: The Rural Banking System as an institution for financing agricultural productivity.

The central role of agricultural productivity in the over-all pattern of rural development is universally recognized. It may, with precision, be designated as the "moving" factor of rural development. A low level of rural development is always traceable to low agricultural productivity, while high agricultural productivity never fails to increase rural development. Of course other factors may affect the pace of rural development, but it is undeniable that real rural development cannot proceed without an improvement in agricultural productivity.

Accepting the premise that a high degree of agricultural production is a necessary factor of rural development, let us then turn to the Philippine situation.

Present production figures sadly bear out the fact that the Philippines has one of the lowest levels of agricultural productivity. Rice and corn, which are our country's staple food items, are still way below the world's average productivity yields. Even in our part of the world, in Asia, our productivity suffers by comparison to other countries such as Japan, Burma and China. In the face of a rapidly increasing population, the problem of low productivity assumes graver proportions as deficiencies in agricultural production result in inflation and spiralling food prices, and hinders the over-all development of our country.

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Increased agricultural productivity then has become an imperative of rural, and total, development of our country. Toward this end, various programs have been set up and initiated, each designed to solve a specific aspect of the problem. The Rural Banking Program is one of these, and it is especially designed to meet the problem of financing agricultural productivity.

The Historical Background of the Philippine Rural Banking System -

The establishment of the Rural Banking System in 1952 by Republic Act 720 was a bold step taken by the government to solve the problem of providing credit to the small farmers, small businessmen, and small entrepreneurs who comprise 75% of our population. The organization of rural banks marked the end of almost five decades of vacillation and failures on the part of the government to set up a truly effective system of providing credit to the rural population. These early failures have been variously attributed to the lack of adequately trained personnel, lack of capital, lack of adequate supervision and mismanagement of funds.

Conceived as a new formula in rural financing and premised on the assumption that a partnership by the government and private capital with a minimum of interference from the government would be satisfactorily workable, our Rural Banking Program is unique in the world. Further, as believed that banks in the rural areas owned and managed by people living in the locality could more effectively operate by dispensing with the usual banking formalities and attending with dispatch the credit needs of local borrowers. It was natural to observe that in the early days of the Program, there were so many misgivings on the chances of success of this new Program. During the first two or three years of the Program, the Central Bank's function was mainly devoted to promoting intensively the rural banking system in the country.

Fourteen Years of Rural Banking in the Philippines

Fourteen years of rural banking, however, have produced results that dispelled the early doubts and misgivings. This bold approach to the problem of rural credit and the results after 14 years of the System has fully justified the faith of those who originated the idea and exerted efforts to establish the System as well as those who primarily risked their capital in the venture.

We have today a vast network of 317 rural banks spread over the length and breadth of our islands satisfactorily supplying the credit requirements of the farmers in their respective areas of operation. These are indeed 317 solid arguments in favor of the efficacy and serviceability of the rural banks as credit institutions in these rural areas.

Present figures show that during these 14 years of the System, it has granted loans aggregating 1.2 billion pesos to some 2.1 million borrowers. Of this, almost one billion pesos or 83% went to agriculture. At present, resources of the System totalled almost 300 million pesos spread out all over 52 provinces of the archipelago. This compares dramatically with 13 years ago when only 13 rural banks served the country with a meager 2.4 million pesos in resources. During 1965 alone 261 million pesos in loans were extended - an increase of 15.2 million pesos over those of the previous year.

A very encouraging aspect of the System has been its effectiveness in mobilizing savings in the rural areas. The end of 1965, showed 320,000 savings and time accounts of the rural banks representing P75.2 million in deposits as against 265,008 accounts worth 62.5 million pesos in deposits for 1964. It is needless to state that these savings have augmented considerably the available resources of rural banks.

On its part, the Central Bank has continued to assist the System with capital contributions. As of the end of 1965 some 239 rural banks have received counterpart capital assistance of about P44.3 million.

For the last three years, the rural banks have been the recipient of some 90 million pesos a year in rediscounting from the Central Bank through a preferred rate of from 1/2 of 1% to 2-1/2%. At year end, liabilities on rediscounted notes stood at 68.1 million pesos, representing a decline of over half a million from that of the previous year.

Growth in the Number of Rural Banks

During the earlier years, there prevailed a lukewarm attitude towards the rural banks as a new venture. In recent years however, resistance has been melting fast under the cold proof of the System's success, and at present the Department of Rural Banks is literally swamped with applications to organize rural banks. As of today, we have approved 33 applications for the establishment of rural banks which are now in the final stages of organization and 326 applications are being processed. The increase in the number of rural banks since 1952 is detailed in the following table:

<u>Year</u>	<u>Luzon</u>	<u>Visayas</u>	<u>Mindanao</u>	<u>Total</u>
1953	13	4	1	18
1954	18	5	3	26
1955	29	6	3	38
1956	57	11	7	75
1957	78	15	13	106
1958	86	17	17	120
1959	98	18	19	135
1960	116	22	22	160
1961	133	25	23	181
1962	167	32	25	224
1963	193	34	25	252
1964	220	37	26	283
1965	241	42	26	309

As will be noted, almost 80% of the rural banks are located in Luzon and about 13% and 7% in the Visayas and in Mindanao, respectively. There has been a tendency to establish rural banks near the urban centers of

population and it would have been more desirable if more of these institutions were established in the Visayas and Mindanao. Toward this end we have provided incentives for encouraging the organization of rural banks in these areas.

The increase in rural banks and the numerous applications to set up rural banks reflect the heightened faith and confidence of our people in the System. However, we are proceeding carefully, so that the System's growth is never haphazard, but calculated and certain. While more rural banks might be desirable, we believe that we should not sacrifice quality of rural bank management to achieve numerical quantity. Applications to establish rural banks are, therefore carefully and thoroughly screened to determine whether the establishment of a rural bank in the locality and the type of its management serves the economic and urgent needs for credit assistance in the area.

Sources of Rural Banks Funds

The Rural Banks have three (3) main sources of funds: private capital; government funds (which includes counterpart capital assistance and rediscounting facilities) and deposits. The lack of adequate capital which had earlier plagued credit institutions established before the Rural Banks Act of 1952 still continues to be a problem of the Rural Banking System, though to a lesser degree. As at the end of 1965, the capital structure of the System consisted of private capital contributions of P52.8 million, counterpart capital assistance of the government, P44.3 million and surplus and undivided profits of P24.4 million. The modest amount of P52.8 million harnessed from the private sector in a government-sponsored project is by itself an accomplishment. It is generally admitted that there is a reluctance of private capital to engage in a joint venture with the government. It now appears that the Rural Banking System has hurdled this psychological block. The Rural Banking System as earlier pointed out has also been able to garner approximately P79 million deposits while borrowings from the Central Bank stood at P68 million as at the year end.

The flow of capital into the System, however lags far behind the credit demands of the borrowers of the rural areas. This means that a substantial number of borrowers will still have to turn to private money lenders for their credit requirements even at usurious rates of interest. The Rural Banking System therefore will have to tap other sources of funds, either deposits or from foreign loans, in order to meet the demand for credit by rural borrowers adequately.

In order to provide the necessary funds for agricultural development and in recognition of its improving efficiency, the Rural Banking System has been provided with funds for agricultural development. There are several moves of far-reaching significance which have just been launched. The first is the provision of medium and long-term loans for agricultural development through the Rural Banks out of a \$5 million World Bank loan to the Central Bank. The second is the Rice and Corn Administration - Rural Bank program for rice purchases through a system of payments by banks against warehouse receipts or quedans from the farmers at a price calculated to insure farmers a fair return in their investments. The third is the provision by the United States Agency for International Development, through the NEC for the amount of P250,000 in selected rural banks under the NEC-USAID rural development projects for production and commodity loans to farmers under liberal terms and conditions. Presently, discussions have been going on with representatives of the NEC, USAID, the Central Bank and the Rural Bankers Association of the Philippines for setting up an Agricultural Guaranty and Loan Fund which is hoped to provide added protection to rural banks in their financing of the Administration's Rice and Corn Sufficiency Program.

The present administration recognizes fully the strategic positions of rural banks in effectively promoting its program for agricultural development. Rural Banks are so well placed as ideal channels of funds for increased farm productivity since the management of these banks are composed

of local leaders who are consciously aware of agricultural problems in their respective community. With the intimate knowledge of these problems, they are, therefore, in a better position to come up with solutions responsive to local needs.

Character of Operations of Rural Banks

The operations of rural banks all over the country proves the extensive credit umbrella they are capable of providing. The high point involved here in the conglomeration of these small financial institutions around credit-parched areas. And because they cater to small farmers (defined as owning not more than 50 hectares of land) small businessmen and industrialists (the capitalization not exceeding ₱25,000) and cooperatives - the group most closely connected with agricultural production - their contribution to the Philippine economy, as a whole, is more direct. Their average capitalization amounts to about ₱270,000 including the government counterpart fund. It is staffed on the average by 4 to 6 people who are all required to undergo training in the Central Bank before the rural bank starts operation. Rural Banks are required to operate within the framework of banking laws and the rules and regulations governing rural banks promulgated by the Central Bank.

The Central Bank, through its Department of Rural Banks, is charged with the responsibility of supervising the operations and activities of all rural banks whose books of accounts must be examined at least once a year. Aside from this annual regular examination, periodical examinations are conducted by the Department of Rural Banks to give every assurance that rural banks are operating in accordance with sound banking practices, laws, rules and regulations. Unsound banking practices, irregularities and other deviations from the regulations are immediately brought to the attention of the rural banks concerned and remedial measures are instituted. In the entire history of the System, we had only a few occasions to suspend the operations of some rural banks. For want of a better word,

we classify these banks as "distressed banks." Out of the 307 operating rural banks as of Dec. 31, 1965, only eleven have thus been classified. The Central Bank exercises utmost and unremitting vigilance in the supervision of the Rural Banking System so as not to allow these institutions to follow the same path of failure as the previous ones. Most important to us is the development of sound credit practices and attitudes of the rural bankers.

To insure that rural banks are run by competent personnel, the Central Bank has established the Institute of Rural Banking in the Department of Rural Banks which aims to provide banking education on a basic level to rural bankers. The program includes not only training in the basic operations of rural banks but also prepares them to assume positions of greater responsibility. Since the establishment of this Institute in 1957 about 3,000 rural bankers have undergone this training course. The supervisory activities of the Department of Rural Banks as well as those of the Institute of Rural Banking are designed to promote the sound continuance of the Rural Banking System. It is believed that the quality of the management of the rural bank is reflected in the quality of its operations.

Programs for the Improvement of the System

Some sectors have taken a dim view of the performance of the Rural Banking System during the last fourteen years of its operations. This cannot be altogether avoided. But as a growing and dynamic force, the Rural Banking System can stand some improvement in its drive to further enhance its effectiveness as an instrument for increased agricultural production in rural communities. In a joint research project of the Central Bank and the Agricultural Credit Cooperatives Institute involving personal interviews of some 600 farmer-borrowers selected at random, the following salient points were revealed: 3/4 of the borrowers interviewed felt that the loans granted to them were sufficient for their needs while 15% declared that it was not adequate; 30% of some 1,000 loans

granted were used for family living expenses, 10% for non-farming activities and 15% used the loans to repay debts from other sources; 44% said that the period of their loan was adequate while 56% considered the loan period as short.

An interesting feature revealed by the survey was that a majority or about 86% of the loans were released on time and 70% paid their loans on or before maturity dates. About 94% of the borrowers interviewed expressed satisfaction on the services of rural banks while 58% stated that rural banks helped them greatly to increase their production incomes.

The Central Bank through the Department of Rural Banks, aware of the multiple problems facing the system, has sponsored national agricultural credit conferences and co-sponsored with the Rural Bankers Association of the Philippines the annual convention of rural bankers. These agricultural credit conferences, at which rural bankers and experts in their respective lines of agricultural meet, have been responsible for valuable exchanges of views and information on the problems and solutions of agricultural development. In addition, the Central Bank in order to broaden the knowledge of rural bankers, sponsors and encourages observations and international conferences abroad on modern trends of agriculture and agricultural credit. We believe that these observation trips and participation in international conferences in advanced countries will enable the rural bankers to decide for themselves the solutions of similar problems in their respective areas of operations.

CONCLUSION

The challenge to the Rural Banking System is how the present programs can be effectively implemented to increase agricultural productivity and ultimately to achieve a high level of living for small farmers in the rural areas. Profiting from the experience of other countries faced with parallel problems and operating under

practically similar conditions, the Philippines has achieved a modicum success in the field of agricultural credit notably in the rural banking system. To be sure, the System has had also its fair share of failures. Problems like insufficiency of loanable funds, the slow growth of capital formation, the lack of trained farm credit technicians, the need for properly trained bank personnel, the lack of coordination among government agencies, the failure to disseminate the results of research studies, the inability to implement the Land Reform Program and other difficulties present seemingly insurmountable problems to increasing agricultural productivity.

I would like to request the participants in this conference for recommendations for practical and effective solutions to these problems. It is possible that the rural bankers might take a more active participation in discovering and identifying more profitable production possibilities in agriculture by working together with progressive farmers and other agricultural organizations.

Attention might be directed towards a study of possible sources of funds both domestic and foreign, specially funds which might be used for agricultural development programs. The Rural Banking System has set an example of a rural credit system under which private capital can be mobilized with assistance of public funds for servicing credit needs of agricultural development. The urgent need for funds by the System is as clear as its effectiveness as a tool for agricultural productivity. Foreign institutions therefore like the World Bank and USAID might be able to provide funds under easy credit terms. The need for financing agricultural development programs in the Philippines makes it necessary that the funds provided be in the category of "soft" loans. On this basis we can look forward to the continued progress of the Rural Banking System and consequently its dynamic role in financing agricultural productivity.