

PH-AAA-295

**AGRICULTURAL CREDIT**

**IN THE**

**PHILIPPINES**

**SPRING 1975**

**GLENN BROWNE**  
**Consultant, USAID/Philippines**  
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Mr. Glenn Browne's consultancy was arranged to provide the USAID Mission and concerned members of the Philippine Government and private sector with an objective overview of the present agricultural credit system.

Mr. Browne is extremely knowledgeable in areas related to agricultural credit both at the farm level as well as the national policy level. Until recently he was the Fiscal Agent for the Farm Credit Banks of the U.S. and was former Deputy Governor of the Farm Credit Administration. Mr. Browne served the USAID in Korea where he assisted in the establishment of the National Agricultural Credit Federation. Mr. Browne has served as a consultant to the Philippines and other Asian countries many times in the past.

This consultancy covered the period from March 7-21, 1975. During this time Mr. Browne and members of the USAID Mission met with the following persons:

Director Domingo F. Panganiban, National Food and  
Agriculture Council (NFAC)

Dr. Eduardo Quisumbing, Deputy Executive Director, NFAC

Mr. Pelayo Gabaldon, Agricultural Credit Adviser to the  
Department of Agriculture

The Honorable Arturo R. Tanco, Jr., Secretary of the  
Department of Agriculture

Ms. Meliza Agabin, National Economic and Development  
Authority

Mr. Manuel V. Soliven, Vice-President, Philippine  
National Bank

Director Honesto Francisco, Department of Rural Banks and  
Savings and Loans Association, Central Bank of the  
Philippines (DRBSLA)

Mr. Mariano Gimenez, Assistant Director, DRBSLA

Mr. Renato Quinto, DRBSLA

Mr. and Mrs. Liwag, Cabanatuan City Rural Bank,  
Cabanatuan City, Nueva Ecija

Mr. Romeo de Leon, Bank Manager, Rural Bank of Sto. Tomas,  
Sto. Tomas, Pampanga

Mr. Verden Dangilan, Manager, Agriculture Department,  
Development Bank of the Philippines

Mr. Basilio Estanislao, President, Land Bank of the  
Philippines

Dr. Jaime Laya, Deputy Governor, Central Bank of the  
Philippines

Governor Gregorio Licaros, Central Bank of the Philippines

Mr. Gary Lewis, Agricultural Program Manager, U.S. Peace  
Corps

Mr. Browne urges the reader to consider his present general comments as a follow-up on the Browne/Brake "Comments and Recommendations" based upon their joint consultancy of January and August, 1972.

Mr. Browne greatly appreciates the many courtesies shown him during this visit. Officials of the Government, officers of the various financial institutions - including several rural banks - and members of USAID were, without exception, helpful and cooperative. A special thanks to Mr. Honesto Francisco of the Central Bank for his candor in providing an insight into a very complex program and to David Delgado of USAID/Philippines for his knowledge and patience in facilitating the consultancy.

AGRICULTURAL CREDIT IN THE PHILIPPINES  
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In the early fall of 1972 as well as in preceding periods Philippine agriculture in general, and the small scale rice and grain farmer in particular, suffered from an acute shortage of institutionalized credit. Although commercial sized producers of agricultural goods did have access to bank-type credit of a highly selective character, the small farmer was, for all practical purposes, in the hands of the private money lender and with little hope or faith in the future. The failure or stagnation of various credit programs over the years gave him scant reason to expect any meaningful improvement over his existing depressed existence. It was in this type of environment that the above mentioned study of agricultural credit was undertaken in 1972. The study focused on what was obviously the most pressing of the manifold problems in agriculture, that being the extension of credit to the smaller scale farmer. The study was completed in mid-August 1972 at a time when it was clear that the damaging monsoon would call for emergency type lending for rehabilitation of farm lands and for family subsistence. What was not known was that the Philippines would soon experience a change in government and that the stage would be set for dramatic and far-reaching changes in the life of the country, particularly in the rural areas. The Agrarian Reform Decree for the emancipation of tenant farmers and the Presidential Decree for strengthening the cooperative movement are examples of the new direction taken by the Government.

**HIGHLIGHTS OF 1972 RURAL CREDIT FINDINGS**

The thrust of the 1972 recommendation was for a major strengthening and expansion of the institutional delivery system for credit extension to the small scale farmer. The new government provided the impetus for credit operations significantly greater than had been envisaged, and it has been in this crucible of rapid change that programs such as Masagana 99 and Integrated Agricultural Financing have been formulated and are being implemented. In this kind of period, great forward movement can be generated, but equally so, great problems can be created by the sheer effort of changing a nation's pace and direction. It is pleasing, however, to see that in this, the Spring of 1975, many of the major recommendations in the 1972 study have - for whatever reason - been implemented.

### Rural Banks Expansion

The 1972 study called for an approximate doubling in the number of rural banks - with more diverse stock ownership - to serve as the major conduit for financing small scale farmers through the use of supervised lending programs. In fact, the rural banking system has more than doubled to a present 721 banks with a greater sense of community and many with broadened ownership base. These banks are playing a significant role in the expansion of agricultural credit through supervised lending programs.

The study also called for creation of an economic climate wherein specialized farmers rural banks or cooperatively owned banks could be founded and provided an opportunity to compete for the farmers business. Currently, the Central Bank has granted a charter to a Cooperative Bank which is not yet operable, and is considering charter requests for two additional banks.

### PNB and DBP

The 1972 study recommended greater use of the Philippine National Bank (PNB) with particular reference to direction of some of its resources into the marketing sector of the rice industry and to use of its far flung branch system in extending supervised credit services to the small scale rice farmer. The PNB has moved into rice warehousing, milling and marketing, and, with the rural bank system, has become a major supervised credit lender under the Masagana 99 program. Likewise, recommended changes in operations of the Development Bank of the Philippines (DBP) have been carried out, its programs have been strengthened, and it is performing an important role in providing credit to commercial agriculture and in programs designed to support the broad scale development of supervised lending to small farmers.

A recommendation to improve warehouse facilities is in process of being met. A consortium of commercial banks has established a network of bonded warehouses, private interests are expanding in this direction, the rural banks are more involved and it can be anticipated that cooperatives as they grow and strengthen will also establish warehousing facilities. Thus it should only be a matter of time until the warehouse receipt becomes an accepted part of a balanced agricultural credit program.

### ACA

The 1972 study found little to commend in the activities of the Agricultural Credit Administration (ACA) but did recommend that its lending activities either be spun off into the rural banking system or that it be reconstituted and placed directly under the supervision of the Central Bank. To date, it appears that little has changed with ACA and it has not yet had a primary role in the new order of things. If future events indicate a change in the status quo, the comments in the 1972 study remain fully applicable from the Consultant's point of view.

### Land Bank

In 1972, the Land Bank of the Philippines was virtually dormant and was accorded only marginal attention in the Agricultural Credit study. The status of the Land Bank has changed in a fundamental way and it now is a full fledged partner in the field of agricultural finance, rural reform and other activities somewhat unique for a financing institution. Its ongoing operations should be observed and studied with care for it has become, in a very short time, an extremely complex organization with many functions of critical import for the future.

### Research Staff

A 1972 recommendation having to do with establishment of a permanent research and data gathering operation was considered to be of critical importance at that time. The 1972 study group was hampered in important respects by a lack of reliable consistent data covering virtually all areas of the credit field. The pressing need for such data to be used in forward planning and for important policy considerations was fully outlined in the study report and need not be repeated here. Although there was then and seems to be now unanimous agreement among knowledgeable Philippine officials as to the need for continuing research and data gathering functions, strangely nothing has been done to remedy this vital defect. With the rapidly moving changes in the fields of finance and credit, the need now is even more critical.

### COMMENTS ON THE PRESENT SYSTEM

From the vantage point of the 1972 study and with the exposure to the current scene made possible by the past two weeks in the Philippines the following comments are offered, in a constructive and helpful sense for consideration by concerned financial and GOP officials and appropriate members of USAID.

1. Supervised Credit Operations - Giving full recognition of the massive breakthroughs in agricultural credit as exemplified by Masagana 99, it seems clear that serious and growing problems of loan servicing and collection now threaten to nullify the early gains and inhibit future progress.

It is difficult to determine the full dimensions of the delinquency problem with precision due to a lack of timely and reliable data, or a consistent basis for evaluating such data as is available from the various lending institutions. Commonly acknowledged, however, is the fact that Masagana 99 Phase 3 collection is lagging far behind the announced collection levels of phases 1 and 2.

Poor weather conditions are generally cited as the reason for most delinquencies. However, the problem exists pretty much on a countrywide scale which indicates weather may not be the complete cause of trouble. When considering the magnitude of the lending program itself, the lack of trained credit technicians, the understanding of small scale farmers relative to the responsible use of credit, and the crash basis under which so-called supervised credit programs were launched, it is reasonable to expect and plan for a rather significant amount of loan default. A social and political cost is inherent in this kind of national program and the credit function should not be charged for the entire bill. It is also reasonable to assume, despite the best efforts of all concerned, that some loans were extended to ineligible receivers.

With the crop financing requirements of Masagana 99 Phase 4 added dimensions due to increased costs of essential items, the threat to the future of growing delinquencies and the commonly used corrective technique of simply restructuring farmers loans cannot be overlooked by Philippine planners and policy makers.

A serious unified examination of all factors in Phases 1, 2, 3 and 4 of Masagana 99 is imperative. Uniform data should be obtained from all lenders, correlated and then separated into categories of delinquency. Each category should have a corrective treatment devised and applied uniformly in the

field. Such treatments could involve refusal of new loans, restructuring of loans, forced collection, activation of the loan guarantee, or write off of debt. This operation should not be approached in panic for that would only further erode the program. The problem appears manageable at this time and corrective action would well cover a year or more.

As to the ongoing Phase 4, Phase 5, etc., new lending should be approached with more caution and the regulations governing loan extension examined carefully for weakness or deficiency with corrective action where necessary. Unified methodology should be used by all participating institutions. New lending should not be allowed to founder under the weight of old loan delinquencies but that activity should be closely allied with corrective efforts on over-due loans. It is historically true that the best time to collect a loan is at the moment it is made. If proven credit principles are applied to the loan process and appropriate provision made to cover the known or anticipated hazards, the future of small-scale farmer credit in the Philippines can be bright indeed. It would be tragic if the problems of today are allowed to multiply and thus place in jeopardy the advances of the past few years.

2. Technical Assistance in Supervised Credit - During the 1972 study it was recognized that the technical capability of lending institutions to mount fast moving large scale credit programs was less than satisfactory. Therefore caution and restraint was urged and stress was placed upon careful advance planning, preparation and training in the important areas of supervision, auditing and end-use checks. Accepting the desire of the government to move quickly and strongly into programs of rural reform, it is understandable and perhaps was inevitable that the technical ability of the delivery system for supervised credit would fall short. It is clear on the record that adequately trained and properly motivated credit technicians were and are ~~inadequately~~ <sup>inherently</sup> short supply. Leaving aside the question of farmer education, the lending institutions involved in credit to agriculture should band together - perhaps in a jointly operated facility - and provide uniform high quality training for employees. USAID/Philippines could be useful in this regard through the provision of technical assistance.

Because of the lack of trained technicians within the lending institutions, the GOP found it necessary to support new loan programs through assignment of its own technical personnel to those institutions. While this may have been tolerable under emergency conditions it clearly is not in the long term best interests of a viable Philippine credit system to have government technicians perform as operating personnel within the structure of a privately owned institutions. This activity should be phased out with all due speed.

The payment of bonus or commissions to technicians as a reward for the extension of loans can become corrupting and counter-productive in the long run. Therefore, good, honest, adequately paid credit people although not acquired or trained overnight are of singular importance at this time. Looking to the future, a unified effort should be mounted now to remedy the deficiencies in this area of operation.

3. Establishment of a Permanent Research Staff - The recommendations of the 1972 study remain valid, The need for this activity is fundamental and it is growing. As mentioned earlier in this report there is common acceptance of that need, but it is obvious that the idea requires sponsorship and support at the highest levels of Philippine officialdom. This activity - or lack of it - ties directly back to the agonizing problems now facing both the lenders and borrowers under Masagana 99, and ties just as directly to the problems briefly discussed under the heading of technical supervision. Without adequate, accurate and relevant data, and without competent, pragmatic assessment of such data, almost any large scale credit program implemented on a national scale is at best headed for trouble and at the worst total failure.

USAID/Philippines could be useful by providing technical assistance to this activity.

4. Establishment of a Coordinating Council - Activation of a research and evaluation undertaking as recommended has little value unless the information and ideas which flow from the operation are used to design and implement innovative but soundly conceived action programs. To accomplish this it is necessary to apply the judgemental factor of informed and involved senior-level officials. Again, in the present Philippine environment, it is vital that both GOP and the private sector meet on common ground and plan a unified approach to problem solutions.

It is my belief that a formally constituted council is of the utmost importance at this time. Chaired by an individual of recognized stature and seniority, it need not wait for input of a yet-to-be-formed research organization. Rather it could function immediately as a clearing house and action center for cohesive policy decisions to deal with current pressing problems. Again, USAID/Philippines could be useful in such an enterprise by providing intermittent senior level consulting services to the Council.

#### 5. Random Thoughts

- A. In August 1972, there existed in the Philippines a severe lack of institutional credit for the rural areas and few institutions were interested in the problem. Recommendations

were made to provide some remedial action. In March 1975 there is a visible possibility that too much unorganized credit may be going out, from too many sources and through too many organizations with conceivable overlapping interests and operations. There appears a need for careful study of this situation to insure that unplanned proliferation does not get out of hand.

- B. There appears the likelihood that in some areas of the country and in some types of credit, such as Masagana 99, the cost of extending loans (via helicopter, as an example) and subsequently affecting collection may be more costly than direct subsidy or outright grant. Cost effectiveness can well spell the difference between successful and unsuccessful programs.
- C. I understand that in the Philippines, law or regulations covering a statute of limitations against debt does not exist. If this is correct it would seem timely for the GOP to legislate such a statute. In the United States there is a five-year statute following which debt can be charged off without, however, eliminating entirely the possibility of future collection. Such a provision in the Philippines would enable long standing debt, where there is no present possibility of recovery, to be charged off the books of financial institutions and enable them to clear the decks for more productive future operations.
- D. I have gathered the impression that Central Bank officials would again welcome the presence of a very senior credit advisor to work across the board on all matters pertaining to agriculture. Despite the lack of success with a recent attempt to set up this kind of function, if the USAID/Philippines desires to pursue the subject I will be pleased to help in any way possible.

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There are pressing problems in the Philippine agricultural credit situation. These problems must be dealt with boldly, honestly and promptly for they contain the seeds of failure. However, far reaching social and economic change has indeed taken place and the opportunity exists now to provide the underpinning for a stable and dynamic period of growth in the rural areas for the benefit of the entire country. It is my hope that the foregoing comments and recommendations will be of some small help in that evolutionary process.

GLENN BLOWNE  
March 1975