313 AGRICULTURAL LOANS

Agriculture and fisheries projects with long gestation periods. Pursuant to Section 24 of R.A. No. 8435 (Agriculture and Fisheries Modernization Act of 1997), agriculture and fisheries projects with long gestation periods shall be entitled to longer grace periods in repaying the loan based on the economic life of the project. For purposes of this Section, the following definitions and guidelines shall govern the grant of loans for long-gestating agriculture and fisheries projects.

Definition of terms.

a. *Gestation period* shall refer to the span of time from the commencement of the project to the time that it is economically productive and producing revenues; and
b. *Grace period* under this Section shall refer to the period that the initial amortization payment on the loan is deferred. All payments, however, must be made on or before the maturity of the loan.

Grace period. Banks are allowed to extend loans/guarantees with a grace period of up to seven (7) years to viable long-gestating agriculture and fisheries projects.

Suggested gestation and grace periods for some of the long-gestating projects are in *Appendix 32.*

Responsibility of lending banks. Lending banks shall institute the necessary safeguards and precautions to ascertain the viability of the projects financed and the capability of the borrower in fulfilling his commitments.

Past due loans. The rule on past due accounts under Sec. 304 shall apply except that the reckoning date shall be the grace period and not the original maturity of the loan.

Non-performing loans. The rule on non-performing loans under Sec. 304 (*Accounts considered non-performing*) shall apply except that the reckoning date shall be the grace period and not the original maturity of the loan.

Agricultural value chain financing framework. The Bangko Sentral supports the promotion of agricultural value chain financing as an effective and organized approach to channel financing to the agriculture and fisheries sectors and promote financial inclusion. By encouraging the linking of various actors/ players in an agricultural value chain, credit risk of participating smallholder farmers/ fisherfolks can be reduced. As a result, this type of financing would facilitate and allow small farmers/fisherfolks to have, if not more, access to credit. This is expected to further improve productivity in the agriculture and fisheries sectors and at the same time uplift the lives of these marginalized farmers/ fisherfolks.

The provisions covering the agricultural value chain financing framework shall be implemented in consonance with Sec. 143.

***Definition of terms*.** For purposes of this Section, the following definitions shall apply:

a. *Value chain* – refers to a set of actors/ players, e.g., producers (farmers/fisherfolks), traders, suppliers, processors, aggregators, who conduct linked sequence of value- adding activities involved in bringing a product from its raw material stage to the final consumers;

b. *Value chain finance* – refers to the financial flows to those actors/players from both within the value chain and financial flows to those actors/players from the outside as a result of their being linked within a value chain;

c. *Agricultural value chain analysis* – refers to the assessment of actors/players, e.g., from input suppliers to producers to processors and to traders, their interests and the factors influencing the performance of a particular value chain, e.g., palay, corn, livestock, marine products, as a whole, as opposed to only examining targeted sections of the chain; it also includes understanding the nature of the chain, identifying the weakest and strongest links along the chain and the business models shown in *Appendix 121*; and

d. *Value chain aggregator* – refers to any value chain actor/player or any entity outside the value chain which initiates the formalization and/or organization of a value chain and/or which offers services that aim to strengthen existing value chains.

Features of agricultural value chain financing program. Consistent with existing provisions on sound credit risk management practices, the Bangko Sentral hereby recognizes agricultural value chain financing programs that have the following features:

a. *Agricultural value chain policy and procedures.* The BSFI shall put in place adequate policies and procedures which cover the identification of value chains, comprehensive value chain analysis, and the design of appropriate financial products and services, among others;

b. *Types of credit products.* BSFIs can design and/or offer appropriate financial products either to a specific actor/player or to various actors/players of the value chain model simultaneously. In addition to the traditional loans and discounts that BSFIs are currently offering, the following products and financial services may also be made available to agricultural value chain actors/ players:

(1) *Trade-receivables finance* – a BSFI advances working capital to agribusiness (supplier,

processor, marketing and export) companies against accounts receivable or confirmed orders to producers. Receivables financing takes into account the strength of the buyer's purchases and repayment history;

(2) *Factoring* – a financial transaction whereby a business sell its accounts receivable or contracts of sales of goods at a discount to an appropriate BSFI, called a factor, who pays the business minus a factor discount and collects the receivables when due; and

(3) *Warehouse receipts* – farmers and other value chain enterprises receive a receipt from a certified warehouse that can be used as collateral to access a loan from an appropriate BSFI against the security of goods in an independently controlled warehouse.

c*. Loan disbursement.* Loan releases may take the following forms depending on the role that the borrower takes in the value chain and the risks to be addressed by the BSFI:

(1) *Cash disbursements* – the most common practice which may be completed in one transaction or in installments;

(2) *Loan proceeds transfer to suppliers* – under this scheme the BSFI prefers to deal with the supplier directly to control loan utilization and, therefore, prefers to transfer the loan proceeds straight to the supplier upon full acceptance of the buyer (borrower). In case the supplier is a related party, the BSFI shall ensure that the terms and conditions of the loan are not less favorable to the borrower than those offered by other lenders; and

(3) *Anchor firm (institutional buyer) triggered loan release* – loan release to the borrower will be endorsed by the anchor firm to ensure the adoption of the technology protocol required by the buyer (anchor firm). This would optimize productivity by the farmer-borrower and the technology adopted conforms with the requirements of the buyer; thus, reduce rejects on the deliveries of the produce;

d*. Disaster contingency mechanism.* In light of the vulnerability of the agriculture and fisheries sectors which could result in significant credit losses to financial institutions, if not managed well, the BSFI may put in place a disaster contingency mechanism that anticipates such events and provides response mechanisms to mitigate the impact of such inherent risks. The disaster contingency mechanism can provide timely relief to a borrower to facilitate recovery. This mechanism shall be adequately documented with clear policies and guidelines.

Provided such built-in contingency mechanism is prudently designed, its activation shall not automatically trigger adverse loan classification and past due loan recognition so as to manage credit losses to the BSFI and minimize burden on the client. Any new financing granted under such schemes will also not be adversely classified. However, such credit should be closely monitored and appropriate corrective measure should be taken once it becomes clear that recoverability is impaired.

e*. Other features*. The following activities may also be allowed:

(1) Director/s, officer/s and/or stockholder/s of BSFIs engaged in agricultural value chain financing may own and/or control: (i) private entities that would act as aggregators to facilitate the formation of value chains, and (ii) economically-linked entities that are also actors/players in the value chain: *Provided*, That all transactions with such entities shall be in the ordinary course of business and not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances. These transactions shall comply and adhere to existing regulations pertaining to DOSRI loans and/or related-party transactions; and

(2) The BSFI, if necessary, may initiate the formulation of formal agreement(s) with qualified value chain actors/players to protect the interests of all parties involved.

Regulatory incentives. To encourage BSFIs to engage in agricultural value chain financing, the following incentives shall apply; *Provided*, this Section on Features of Agricultural Value Chain Financing Program is complied with:

a. Loans granted to agricultural value chain actor(s)/player(s), who are qualified borrowers under Sec. 331 shall be considered as either direct or allowable alternative compliance to the mandatory agriculture and agrarian reform credit allocation; and

b. Increase in SBL for an additional twenty-five percent (25%) for loans, other credit accommodations and guarantees granted to entities, which act as value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain: *Provided*, That the additional twenty-five percent (25%) will apply only to non-director/s, officer/s, stockholder/s, and related interest/s (DOSRI)/related party transaction (RPT) loans: *Provided, further,* That such increase in the SBL for an additional twenty-five percent (25%) shall only be for a period of three (3) years starting 02 April 2016[1], subject to review after said period.

Parcellary plans on crop loans. Banks shall require the submission of parcellary plans as requisite for granting crop loans to sugarcane planters.

(Circular No. 908 dated 14 March 2016)

Footnotes

1. Effectivity date of Circular No. 908 dated 14 March 2016.