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HOUSE OF REPRESENTATIVES
Quezon City

SIXTEENTH CONGRESS

_____ Regular Session

House Bill No. **2866**



Introduced by REP. JOSEPHINE RAMIREZ SATO

EXPLANATORY NOTE

Background

During a meeting initiated by the National Grains Authority (NGA now NFA) and the Central Bank of the Philippines (now BSP) with private banks in 1978, a consensus was reached whereby government will come up with a guarantee mechanism which shall mitigate the banks' risks in connection with the former's proposition that the banks provide additional procurement capital to rice millers, warehousemen and traders. The banks were assured that loans granted to grains businessmen would be deemed as compliance with the Agri-Agra Law (later repealed by the Agrarian Credit Reform Act) which mandated banking institutions to set aside 25% of their loanable funds for agricultural credit.

The proposal was the offshoot of bumper harvests in recent years. This enabled the country to attain self sufficiency in rice in 1976 and enter the export market the following year. The grains business sector however, which absorbed 80% of market directed produce, could not efficiently procure surplus production due to inadequate procurement capital. On the other hand, NGA intervention in the market was limited to 10% which was calculated to stabilize the price of the commodity in the market. Thus to sustain the gains in rice production, the absorptive capacity of the grains businessmen had to be enhanced through the financial assistance of the private banks.

The lending scheme designed to provide additional capital to grains businessmen was the Grains Quedan Financing Program (GQFP). This was conceptualized when the government established a Guarantee Fund and created the Quedan Guarantee Fund Board (QGFB, predecessor of Quedancor) to administer the Fund. The program revolved around the quedan or negotiable warehouse receipt which represented palay stocks deposited in franchised bonded warehouses. To entice the active participation of the banks, the Program provided the following incentives:

1. Quedancor guarantees the existence of palay stocks pledged by businessmen to banks through quedans. In the event of default and the pledged stocks are non-existent, Quedancor shall pay the lending bank its obligation including interests and penalties up to loan maturity. (This was later strengthened with sovereign guarantee when the QGFB was reconstituted into Quedancor through RA 7393).
2. The NFA guarantees that in case of loan maturity but the pledged stocks could not be disposed due to unfavorable prices in the market, the grains agency shall purchase the volume of stocks necessary to settle the loan.
3. Loans granted under the Program were deemed as compliance with the Agri-Agra Law (PD 717).
4. Lending banks may rediscount quedan loans with the Central Bank.
5. Quedancor shoulders the administrative costs of program promotion, client prospecting, credit and background investigation, collateral appraisal, account monitoring and trouble shooting of accounts. However, it was the sole prerogative of the banks to approve loans.

The Program was implemented through the following steps:

1. Grains businessmen secure Special Franchise from NFA (now from Quedancor). This authorizes franchised bonded warehousemen to issue negotiable warehouse receipts or quedans to third party depositors or for their own stocks.
2. Accredited lending banks grant loans to grains businessmen who pledge their quedans representing palay stocks deposited in franchised bonded warehouses.
3. Quedancor issues guarantees to lending banks which grant loans to grains businessmen.

Due to its success in its limited implementation to palay and in response to the persistent clamor by other sectors of the food industry for coverage, the Program was eventually expanded to include corn and other grains substitutes such as sorghum, soybeans, peanuts and food commodities recommended by NFA and the Food Terminal Inc. (FTI).

When QGFB was reorganized into Quedancor in 1992, one of its priority mandates was the establishment of a credit support mechanism for the benefit of farmers, fishermen, rural workers, cooperatives, retailers, wholesalers and primary processors of agricultural and aquatic commodities. Credit support mechanism was in the form of assistance in client prospecting, credit evaluation, collateral appraisal, co-financing arrangement, co-guarantee and other similar incentives for rural

borrowers and lending institutions. Another concern was financing support to agrarian reform beneficiaries and their cooperatives for their production inputs and labor costs and their acquisition of farm equipment and post-harvest facilities.

Performance Highlights

Loan and Guarantee Releases (in P Million)

YEAR	Sole Guarantee Mode	Guaranteed Co- Financing Mode	Special Window Mode	TOTAL RELEASES	No. of Beneficiaries
1978 - 1983	618.34	-	-	618.34	232,021
1984 - 1991	11,535.48	679.27	393.32	12,608.06	2,269,618
QGFB*-TOTAL	12,153.82	679.27	393.32	13,226.40	2,501,639
1992 - 2000	8,635.80	1,800.34	2,157.01	12,593.15	1,379,799
2001 - 2007	2,333.90	1.96	18,638.53	20,974.39	1,170,014
QRCGC**-TOTAL	10,969.70	1,802.30	20,795.54	33,567.54	2,549,813
2008 - 2013	131.87	6.48	652.75	791.10	33,200
GRAND TOTAL	23,255.39	2,488.05	21,841.61	47,585.04	5,084,652

* QGFB - Quedan Guarantee Fund Board

** QRCGC - Quedan & Rural Credit Guarantee Corp.

From 1978 up to 1991, the erstwhile QGFB with its initial guarantee fund of P95M generated P12.15B through the sole guarantee mode. All the beneficiaries were grains and other food businessmen including farmer-cooperatives who pledged their stocks through quedans. In 1984, QGFB was authorized to undertake joint financing with partner banks and to pursue financing on its own using its retained earnings.

Under the co-financing mode, QGFB and partner banks financed market retailer loans on a 50/50 basis with 100% guarantee cover on the banks' exposure. Income from this arrangement was equally shared between the partners. Total loans released from 1984-1991 amounted to P679.27M. QGFB implemented special lending only in areas where the services of banks were not available. Over the same

period, cumulative loans granted reached P393.32M. The aggregate loan generation under the three lending modes was P13.22B. In sum, this much of capital was channeled from the urban centers to the rural areas benefiting about 2,501,639 farmers, grains businessmen and food market retailers.

On the other hand, total guarantee claims paid to banks amounted to P147M. The bulk of guarantee calls was caused by the El Nino phenomenon which hit the country in 1987 and adversely affected the agriculture industry. When QGFB was reconstituted into Quedancor in 1992, its net assets amounted to P164M. And all through these years, it never received any budgetary support from the national government since operating expenses were defrayed from incomes from operations and investments.

As Quedancor, the Corporation received equity infusion of over P400M from the national government released over an 8-year period (1992-2000). Total loans generated for the period was P12.59B with P8.63B, P1.80B and P2.15B released through the guarantee, co-financing and special lending modes. The number of direct and indirect beneficiaries was placed at 1,379,799.

Guarantee calls again peaked towards the end of the 1990s as a result of the worldwide economic meltdown that started in 1997. Many businessmen-borrowers defaulted on their loans while a number of partner banks in the rural areas folded. These developments substantially reduced the guarantee funds of the Corporation. But amidst these adversities, Quedancor's credibility as a reliable facilitator and guarantor remained intact.

Bank Support

Under its guarantee and co-financing programs, accredited partner banks in the 1990s numbered 256 consisting of 170 rural banks, 37 commercial banks, 17 stock savings banks, 14 universal banks, 12 thrift/savings/mortgage banks, 4 foreign banks and 2 specialized government banks. Since then, many banks did not renew their accreditation due to closures, mergers while some simply shied away when the Corporation undertook direct lending as its priority thrust beginning in 2001.

Focus on Direct Lending and Resulting Impact

Starting in 2001, under a new national leadership and a new management team at its helm, Quedancor ventured heavily into direct lending on production loans. In pursuit of this undertaking, the Corporation resorted to borrowings from the capital market. Further, it opened additional provincial offices and created support departments/divisions at the head office and hired additional personnel to man these offices. Over a period of 6 years (2001-2007), total loan releases reached P20.97B with direct lending accounting for P18.63B with only P2.33B for guaranteed loans. Only P1.96M was released through co-financing.

The high costs of borrowed funds and maintenance of personnel and services as well as the low collection performance on direct loans compromised the financial viability of the Corporation. Quedancor defaulted on its loan obligations with its creditor banks. By the end of 2006, the Corporation posted a net loss of P23M.

Later Developments

In August of 2008, the Corporation upon instructions of its governing board ceased its direct lending activities. In June 2012, the Board also directed management to discontinue reviving the co-financing program for food market retailers. The only program allowed for implementation was the guarantee program. However, the vital factors necessary to successfully implement the guarantee program were not in place hence the difficulty to make headway. The only activity which has kept the Corporation afloat since 2007 is the collection of trade receivables and disposal of acquired assets. The yearly collections, however, continued to decline as current accounts are settled while the more saleable acquired assets have been disposed.

For their part, the employees of Quedancor have worked tirelessly and even sought ways to help rehabilitate the Corporation. They crafted a rehabilitation plan that unfortunately was left unappreciated. They opposed the RAT PLAN which was approved in 2010 by elevating their grievances to the courts. But despite court rulings in their favor, their ranks have been methodically decimated leaving only a few to continue the struggle.

The House of Representatives Committee on Agriculture rejected the proposal to deactivate Quedancor in 2008. The legislators held that the Corporation had substantial trade receivables and decided to give the corporation more time for rehabilitation. Many among the legislators were aware that their constituents were beneficiaries of the credit and guarantee programs implemented by Quedancor.

Since then, however, the long sought and prayed for rehabilitation remained elusive. Yet Quedancor has managed to survive, albeit barely, amidst daunting challenges indicating an inner strength deserving a second look. Thus Congress must do its part and pass measures to nurture the corporation back to recovery and productivity.

Desired Action

For starters, Quedancor's present authorized capital stock of P2B must be increased to P20B. This is because while the P1.2B share of the national government is almost fully capitalized, only a small portion is intact due to the settlement of guarantee claims. The equity balance of the national government is only P190M which has yet to be released by DBM. On the other hand, available guarantee fund with Quedancor is P300M, an insignificant amount considering that the estimated credit requirements just for rice, corn, high value crops, fisheries and livestock production for year 2014 is over P400B and the figure is projected to increase every year.

Without a doubt, a significant increase in the guarantee fund of the Corporation will rekindle the interest and active participation of the banks in extending credit to agriculture. After all, the banking sector is mandated under the Agrarian Credit Reform Act (which repealed the Agri-Agra Law) to set aside 25% of their loanable funds for agricultural credit. In 2007, the reported value of the 25% was equivalent to P1.8T. In other words, the lending institutions do have the financial muscle to finance the credit needs of agriculture provided that the risks inherent to agricultural lending are mitigated by guarantee cover. Loans covered by the guarantees of Quedancor and investments of banks in the capital stock of the Corporation are likewise considered compliance with the Law.

As discussed earlier, guarantee funds are vulnerable to man made as well as natural calamities such as the El Nino phenomenon in 1987 and the economic meltdown in 1997. Borrowers affected by calamities inevitably default on their loans resulting in guarantee claims thereby depleting guarantee funds. Thus it is necessary to sustain the guarantee fund with yearly replenishment from the GAA. On the other hand, collections or recoveries from defaulting accounts shall be remitted to the National Treasury.

The Corporation is authorized by its charter to fix interest and penalties for delinquent accounts. For purposes of effective collection and to ease the burden on delinquent borrowers affected by circumstances beyond their control, the Corporation must now be explicitly empowered to condone surcharges, penalties and interests under meritorious reasons. This will enable borrowers, specially the farmers, to regain their status of good standing with the lending banks.

It is also about time that the corporate name of Quedan and Rural Credit Guarantee Corporation be changed to Agricultural Credit and Guarantee Corporation or AGRICOR for short. The new name is more descriptive of Quedancor's functions and would give a fresh start for the Corporation.

These are the major points of the proposal to amend the Charter of Quedancor or Republic Act No. 7393 in order to revitalize the corporation, keep it abreast with developments and make it more responsive to the credit needs of agriculture today and the coming years.

It is on this note that we earnestly seek your support and approval.


JOSEPHINE RAMIREZ SATO
Lone District, Province of
Occidental Mindoro

Republic of the Philippines
Congress of the Philippines
Quezon City

Sixteenth Congress

House Bill No. **2866**

Introduced by REP. JOSEPHINE RAMIREZ SATO

AN ACT REORGANIZING QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION (QUEDANCOR), RENAMING IT AS AGRICULTURAL CREDIT AND GUARANTEE CORPORATION (AGRICOR), BROADENING ITS POWERS AND RESOURCES TO MAKE IT MORE RESPONSIVE TO THE CREDIT NEEDS OF FARMERS AND RURAL ENTERPRISES, AND FOR OTHER PURPOSES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. Sec. 1 of Republic Act No. 7393 is hereby amended to read as follows:

"Sec.1. – This Act shall be known as the *Agricultural Credit and Guarantee Corporation (AGRICOR) Act.*"

SECTION 2. Sec. 3(a) of Republic Act No. 7393 is hereby amended to read as follows:

"Sec. 3(a) 'Corporation' – *The Agricultural Credit and Guarantee Corporation.*"

SECTION 3. Sec. 4 of Republic Act No. 7393 is hereby amended to read as follows:

"Sec. 4. Reorganization. - The *Quedan and Rural Credit Guarantee Corporation* is hereby reorganized in accordance with the provisions of this Act, renamed as the *Agricultural Credit and Guarantee Corporation* and hereafter referred to as the Corporation. The Corporation is hereby attached to the Department of Agriculture pursuant to Administrative Order No. 59 (1988), but subject to the regulatory powers of the Securities and Exchange Commission insofar as allowed under Sections 9, 10 and 13 hereof."

SECTION 4. There shall be three (3) subsections for Sec. 7 of Republic Act No. 7393 to read as follows:

"Sec. 7 (a) Authorized Capital Stock. – The authorized capital stock of the Corporation shall be *Twenty billion pesos (P20,000,000,000.00)* to be divided into twenty billion common and voting shares, with the par value of One peso (P1.00) per share, sixty percent (60%) thereof to be subscribed solely by the

National Government and/or government-owned or -controlled corporations and forty percent (40%) thereof solely by small farmers, fisherfolk, their cooperatives and other private investors: Provided, however, That the shares of the National Government and government-owned or -controlled corporations may be sold to one another but not to private investors.

Sec. 7 (b) Initial Budgetary Appropriations. – Pending subscription in the capital stocks by the National Government to the Corporation, the Department of Budget and Management (DBM) is hereby directed to set aside an initial appropriations of Two Billion pesos (P2,000,000,000.00) representing payment to be incurred for Personal Services (PS) and Maintenance and Other Operating Expenses (MOOE) for the Corporation; Provided that once the necessary funds come in and the Corporation realizes income therefrom, the DBM shall be reimbursed for the purpose, afterwhich it shall operate on a self-liquidating basis in the succeeding years.

Sec. 7 (c) Government to Restore Capital Impairment. – The DBM shall appropriate in the Annual General Appropriations Act the amount incurred by the Corporation during the previous year representing guarantee calls by participating lending banks to ensure fund availability and thus sustain the integrity of the guarantee system. In turn, recoveries on paid guarantee claims from defaulting borrowers shall be remitted to the National Treasury."

SECTION 5. Sec. 8 of Republic Act No. 7393 is hereby amended to read as follows:

"Sec. 8. Subscription by National Government. - Upon the effectivity of this Act, the National Government shall be deemed to have subscribed to such number of shares of the Corporation equivalent in par value to, and considered paid for by, the net assets of the *Quedan and Rural Credit Guarantee Corporation (Quedancor)*, as determined and certified by the Commission on Audit within three (3) months from the effectivity hereof. "

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SECTION 6. Sec. 11(f) of Republic Act No. 7393 is hereby amended to read as follows:

"Sec. 11(f). Prescribe fees and charges for the Corporation's services; fix interest; *enforce penalties and other charges ; condone the same for meritorious reasons as may be provided by law*; and impose fines and sanctions for violations of its rules and regulations"

SECTION 7. Sec. 12 of Republic Act No. 7393 is hereby amended to read as follows:

"SEC. 12. Governing Board. - The affairs and business of the Corporation shall be directed, its properties managed and preserved, and its corporate powers exercised, unless otherwise provided in this Act, by a Governing Board consisting of fifteen (15) members composed initially of the following: the Secretary of Agriculture, the Secretary of Agrarian Reform, the *Secretary of Budget and Management*, the Governor of the *Bangko Sentral ng Pilipinas*, the Chairman of the Cooperative Development Authority, *the President of Land Bank of the Philippines, the President of the Development Bank of the Philippines, the top three private investors, and three (3) other representations from the cooperatives, local government units and rural financial institutions to be endorsed by nationally organized associations* and approved by members of the Governing Board. Said representatives shall serve for a term of one (1) year. Members of the Governing Board who would proportionately represent the private investments in the Corporation shall be decided upon by the initial members of the Governing Board.

The Secretary of Agriculture who shall be permanent ex officio chairman, shall preside over the meetings of the Governing Board where aside from voting regularly he shall vote to break a tie. He shall likewise preside over the stockholders' meetings.

The Board shall have a Vice-Chairman who shall be elected from among its members and who shall assist the Chairman and act in his stead in case of the latter's absence or incapacity. In case of incapacity or absence of both the Chairman and Vice-Chairman, the Governing Board shall designate a temporary Chairman from among its members."

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SECTION 8. Sec. 20 of Republic Act No. 7393 is hereby amended to read as follows:

"Sec. 20. Compliance with Agri-Agra Reform Credit Act (RA 10000). - Investment by any banking institution in the authorized capital stock of the Corporation *by purchase of stocks, conversion of debts to equity and other modes of stock acquisition* shall be considered compliance with *RA 10000* to the extent of its equity holdings in the Corporation. Likewise, loans extended by bank institutions to farmers, fishermen, cooperatives, rural workers and rural enterprises covered by the guarantees of the Corporation shall be deemed as compliance with *RA 10000*. Rediscounting by secondary banks of originating banks' loan receivables having the guarantee cover of the Corporation shall likewise be deemed compliance with the same law."

SECTION 9. There shall be two (2) subsections for Sec. 23 of Republic Act No. 7393 to read as follows:

"Sec. 23 (a) Investment by Other Government Entities.— The Department of Agriculture, the Department of Agrarian Reform, the Cooperative Development Authority, the Land Bank of the Philippines (LBP), the Development Bank of the Philippines (DBP), The Social Security System (SSS), the Government Service Insurance System (GSIS) and the Philippine Amusement and Gaming Corporation (PAGCOR) are hereby ordered to invest in the amount of One Billion pesos (P1,000,000,000.00) each in the capital stock of the Corporation in conformity with Sections 8, 10 and 12 hereof and may, in a trust, provide the Corporation with credit or guarantee fund to service particular clients, cooperatives and rural aggrupations, as may be specified by any of these institutions, in accordance with their respective charters. Their respective Governing Boards, which are tasked to submit a report to the Office of the President, are advised to convene on the appropriate measures to be undertaken in order to ensure compliance hereof within 30 days from approval of this Act.

Sec. 23 (b) The Secretary of the Department of Agriculture, in coordination with the Land Bank of the Philippines, who exercises direction and supervision over the Agricultural Guarantee Fund Pool (AGFP) thru a Governing Board, is hereby directed to transfer said Fund, to the Corporation within 30 days after signing of this Act."

SECTION 10. Sec. 27 of Republic Act No. 7393 is hereby amended to read as follows:

"SEC. 27 a) Transitory Provisions. - Upon the effectivity of this Act, the Governing Board shall immediately be constituted and convened. All incumbent officers and employees of the *Quedan and Rural Credit Guarantee Corporation* shall continue in office as personnel of the Corporation without demotion in rank nor diminution in compensation and fringe benefits. The incumbent President of the *Quedan and Rural Credit Guarantee Corporation* shall be the President of the Corporation until a new President shall have been elected by the Governing Board. The President shall, as soon as possible, prepare and submit to the Governing Board such plans and programs which will ensure harmonious and effective transitional activities towards the full operations of the Corporation.

SECTION 11. Sec. 28 on the Authority to Expand Personnel Complement is hereby amended to read as follows:

"SEC. 28. Authority to Adopt the Organization Structure and Staffing Pattern (OSSP) Approved by the Department of Budget and Management (DBM). – Notwithstanding the existence of Quedancor Rationalization Plan,

the Corporation shall reorganize and adopt the former's CY 1994 OSSP in order to achieve maximum efficiency and effectiveness in the delivery of its mandated services.

However, officers and employees who have expressed their desire to retire from government service but were prevailed upon due to circumstances beyond their control, shall be entitled to the retirement package provided for under EO No. 366 (s.2004), computed under EO No. 637 (s.2008), as amended by EO No. 77 (s.2012), including the retirement benefit under RA No. 660 or the applicable retirement/ separation/unemployment benefit under RA No. 8291, provided that casual and contractual personnel separated by Quedancor after 30 June 2012, but will opt to continue serving the government, shall be paid backwages and allowances including benefits withheld. In order to implement this provision, the DBM is directed to immediately release ONE HUNDRED NINETY MILLION pesos (P190,000,000.00, representing the unreleased portion of the National Government's share to Quedancor pursuant to RA No. 7393, provided that should this amount is insufficient to satisfy such expenditure, the same shall be sourced from its corporate funds.

SECTION 12. Sec. 29 of Republic Act No. 7393 is hereby amended to read as follows:

"SEC. 29. Obligations and Liabilities. - All rights, claims and interests of the *Quedan and Rural Credit Guarantee Corporation*, upon the effectivity of this Act, shall be deemed transferred to the Corporation and all existing obligations and liabilities of the former shall be assumed by the latter."

Approved,