



## **Republic Act No. 10000: Providing Agricultural and Agrarian Reform Credit<sup>1</sup>**

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### **INTRODUCTION**

Access to credit is important in the development of the agricultural sector in the Philippines. The Asian Development Bank (ADB) considered provision of rural credit as one of the seven priority areas crucial to the transformation of the rural economy. Rural credit is an essential agricultural service necessary to meet the requirements in the production and consumption of the rural people. However, only 30% of the rural credit is provided by banks and other loan associations and institutions, the remaining 70% of credit source is accessed from informal credits. Chowdhury and Garcia (1993) as cited by Poliquit (2006) indicated that rural households frequently borrow money from informal sources even at very high interest rates because they have poor or no-surplus production. Hence, agricultural credit needs to be available and accessible for the improvement of the rural economy.

It is the policy of the state to promote productivity as key to enhancing the quality of life of the people. To be able to achieve this, the government shall take actions to encourage rural development by enhancing access of the agricultural sector to financial services and programs. In 2009, the Republic Act (RA) No. 10000 or the Act Providing for an Agriculture and Agrarian Reform Credit and Financing System Through Banking Institutions was approved into law.

### **The Agri-Agra Reform Credit Act of 2009**

The Philippines has adopted several policy measures to enhance smallhold farmers' access to credit. These policies are created towards the establishment of a viable and sustainable rural and microfinance market. These credit policies include among others the issuance and enactment of the National Strategy for Microfinance in 1997; the Social Reform and Poverty Alleviation Act of 1997; the Agriculture and Fisheries Modernization Act (AFMA); the Executive Order (EO) 138 which directed the government agencies to implement credit programs to adopt the NCC Credit Policy Guidelines; the Agricultural Modernization Credit and Financing Program (AMCFP); and the General Banking Act of 2000. In 2009, another policy to expand the benefits of rural credit was created. RA 10000 also known as the Agri-Agra Reform Credit Act of 2009 was signed into law by then President Gloria Macapagal Arroyo. Its Implementing Rules and Regulations (IRR) was approved by Bangko Sentral ng Pilipinas (BSP) Governor

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<sup>1</sup> A short policy paper submitted to the Food and Fertilizer Technology Center (FFTC) for the project titled "Asia-Pacific Information Platform in Agricultural Policy". Short policy papers, as corollary outputs of the project, describe pertinent Philippine laws and regulations on agriculture, aquatic and natural resources.

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Amando M. Tetangco, Jr., DA Secretary Proceso J. Alcala, and Department of Agrarian Reform (DAR) Secretary Virgilio R. de los Reyes on 14 July 2011.

RA 10000 aims in providing agriculture, fisheries and agrarian reform credit, insurance and financing system to improve the productivity of the agriculture and fisheries sectors. The Act consists of loans to support activities and purposes pertaining to agriculture as stipulated under the Agriculture and Fisheries Modernization Act (AFMA) and the Agrarian Reform Code of the Philippines. Agriculture and agrarian reform credit refers to loans granted for the following activities and purposes: (i) agricultural production; (ii) promotion of agribusiness and exports; (iii) acquisition of work animals; (iv) acquisition of lands; (v) construction, acquisition and repair of facilities for production, processing, storage, and marketing and such other facilities in support of agriculture and fisheries; (vi) efficient and effective merchandising of agricultural and fishery commodities stored and/or processed by the facilities in domestic and foreign commerce; and (viii) other activities identified in Section 23 of AFMA<sup>3</sup> (Section 3.f, IRR, RA 10000).

The law stipulates that all banking institutions, whether government or private, shall set aside at least twenty-five percent (25%) of their total loanable funds for agriculture and fisheries credit in general, of which at least ten percent (10%) of the loanable funds shall be made available for agrarian reform beneficiaries<sup>4</sup>. The credit beneficiaries also include cooperatives and associations with good standing regardless of capitalization (Section 5). The total loanable funds as used in the section shall refer to funds generated from the date of effectivity of this Act. On the other hand, the twenty -five percent (25%) credit quota is subject to a joint review by the Department of Agriculture (DA), the Department of Agrarian Reform (DAR) and the *Bangko Sentral ng Pilipinas* (BSP) after three (3) years of implementation to determine whether the law has been effective in accomplishing its goals and whether the modes of compliance reached the targeted sectors on agriculture, fisheries and agrarian reform. The findings shall be submitted to Congress (Section 6)<sup>5</sup>.

## Modes of Compliance<sup>6</sup>

Banking institutions may be allowed to: (a) Invest in bonds issued by the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP) and/or open special deposit accounts (SDAs) with accredited rural financial institutions defined by the implementing rules and regulations; (b) rediscount with the universal banks and commercial banks, including local branches of foreign banks eligible paper covering agriculture, fisheries and agrarian reform credits, including loans covered by guarantees of the Quedan and Rural Credit Guarantee Corporation (QUEDANCOR)<sup>7</sup>, and the Philippine Crop Insurance Corporation (PCIC)<sup>8</sup>; (c) lend for the

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<sup>3</sup> Signed into law on 22 December 1997, also known as the Agriculture and Fisheries Modernization Act (AFMA) of 1997. Activities include: a. agriculture and fisheries production including processing of fisheries and agri-based products and farm inputs; b. acquisition of work animals, farm and fishery equipment and machinery; c. acquisition of seeds, fertilizer, poultry, livestock, feeds and other similar items; d. procurement of agriculture and fisheries products for storage, trading, processing and distribution; e. acquisition of water pumps and installation of tube wells for irrigation; f. construction, acquisition and repair of facilities for production, processing, storage, transportation, communication, marketing and such other facilities in support of agriculture and fisheries; g. working capital for agriculture and fisheries graduates to enable them to engage in agriculture and fisheries related economic activities; h. agribusiness activities which support soil and water conservation and ecology-enhancing activities; i. privately-funded and LGU-funded irrigation systems that are designed to protect the watershed; j. working capital for long-gestating projects; and k. credit guarantees on uncollateralized loans to farmers and fisherfolk.

<sup>4</sup> Agrarian Reform Beneficiary refers to farmers who were granted lands under Presidential Decree No. 27, the Comprehensive Agrarian Reform Law and Republic Act No. 9700 or the "Comprehensive Agrarian Reform Extension with Reforms" and regular farm workers who are landless, irrespective of tenurial arrangement, who benefited from the redistribution of lands, regardless of crops or fruits produced, to include the totality of factors and support services designed to lift the economic status of the beneficiaries and all other alternative arrangements to the physical distribution of lands, such as production or profit sharing, labor administration, and the distribution of shares of stock which will allow beneficiaries to receive a just share of the fruits of the lands they work (Section 3.b).

<sup>5</sup> All Sections refer to RA No. 10000 unless indicated.

<sup>6</sup> Section 7.

<sup>7</sup> QUEDANCOR refers to a non-bank government financing institution (GFI) under the policy supervision of the Department of Agriculture (DA) created under Republic Act No. 7393 geared towards the establishment of an effective credit delivery system and a guarantee facility that would

construction and upgrading of infrastructure including, but not limited to, farm-to-market roads, as well as the provision of post-harvest facilities and other public infrastructure that will benefit the agriculture, fisheries and agrarian reform sector; (d) invest directly in preferred shares of stock in rural financial institutions like rural banks, cooperative banks, farmer's cooperatives and farmer's cooperative insurance or mutual benefit associations or lend wholesale to rural financial institutions accredited by the BSP; (e) invest in shares of stock of the QUEDANCOR and the PCIC; and (f) loans or investments in the activities identified under the Agro-Industry Modernization Credit and Financing Program (AMCFP) as enumerated under Chapter 3 Credit Section 23 of AFMA or RA No. 8435.

### **Sanctions for non-compliance or under-compliance**

The BSP shall impose administrative or non-monetary sanctions and other penalties on the lending institutions for non-compliance with the provisions of this Act. Penalties on non-compliance shall be computed at one-half of one percent (0.5%) of noncompliance and under compliance and shall be directed to the development of the agri-agra sector. Ninety percent (90%) of the penalties collected shall be equally allocated between the Agricultural Guarantee Fund Pool (AGFP) and PCIC. However, such allocation may be amended according to the needs of the agri-agra sector as provided for in implementing rules and regulations of this Act. The remaining ten percent (10%) shall be given to the BSP to cover its administrative expenses (Section 10).

### **Repealed laws<sup>9</sup>**

The following laws are repealed by RA No. 10000: (1) Presidential Decree 717, Providing an Agrarian Reform Credit and Financing System for Agrarian Reform Beneficiaries through Banking Institutions, approved on May 29, 1975; (2) the second paragraph under Section 8 of Republic Act No. 7900, otherwise known as High-Value Crops Development Act of 1995, approved on 23 February 1995; and (3) Section 9 of Republic Act No. 7721, otherwise known as liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines, approved on 18 May 1994.

## **CONCLUSION**

Provision of agricultural credit is among the major concerns of the government. It is one of the major services considered to be crucial in improving productivity, rural employment and income generation. The Agri-Agra Reform Credit Act of 2009 or RA 10000 provided increase access to financial support in the countryside through credit. With the implementation of this law, the provision of credit to farmers, fisherfolk and agrarian reform beneficiaries is viewed to address their need for financial capital to support production and consumption requirements.

The country's commitment to provide financial support through credit is manifested by the creation of the Agricultural Credit Policy Council (ACPC) under the DA. The ACPC is mandated to oversee the implementation of agricultural credit and guarantee programs to ensure that credit is truly made available and accessible to small farmers and fisherfolk; and to empower the rural finance sector by facilitating institution-building programs for countryside financial institutions, including cooperatives and other people's organizations as well as for their farmer and fisherfolk members (ACPC Website).

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promote inventory financing of agri-aqua commodities, production and post-harvest production facilities, farm and fishery machineries and equipment, investment in production inputs and labor and the development of rural livelihood enterprise (Section 3.q)

<sup>8</sup> *Philippine Crop Insurance Corporation (PCIC)* refers to a government-owned and -controlled corporation which provides insurance protection to the country's agricultural producers, particularly the subsistence farmers against crop losses arising from natural calamities such as typhoons, rising sea levels, floods, drought, earthquakes, volcanic eruptions, plant diseases and pest infestation, and non-crop agricultural asset losses due to perils for which the asset has been insured against (Section 3.p)

<sup>9</sup> Section 11

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