



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 908
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Subject : Agricultural Value Chain Financing Framework

The Monetary Board, in its Resolution No. 360 dated 24 February 2016, approved the adoption of the agricultural value chain financing framework which defines the lending program features and regulatory incentives for the guidance of Bangko Sentral-supervised financial institutions (BSFIs) that plan to engage in this type of financing, to be incorporated under Section X350 of the Manual of Regulations for Banks (MORB) and Sections 4350Q and 4350N of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFIs).

Section 1. Section X350/4350Q/4350N of the MORB/MORNBFIs is hereby added as follows:

Section X350/4350Q/4350N. Statement of policy. 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 following provisions covering the agricultural value chain financing framework shall be implemented in consonance with Sections X178/4178Q/4197N.

Subsection X350.1/4350Q.1/4350N.1. 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 (Annex A); 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.

Subsection X350.2/4350Q.2/4350N.2. 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. ***Agriculture 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 sells 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, prefer 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 term 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 to 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.

Section 2. Subsection X350.3/4350Q.3/4350N.3 of the MORB/MORNBFI is hereby added as follows:

Subsec.X350.3/4350Q.3/4350N.3.Regulatory Incentives. To encourage BSFIs to engage in agricultural value chain financing, the following incentives shall apply; provided, Subsecs. X350.2/4350Q.2/4350N.2 are complied with:

- a. Loans granted to agricultural value chain actor(s)/player(s), who are qualified borrowers under Subsec. X341.2, MORB, shall be considered as either direct or allowable alternative compliance to the mandatory agriculture and agrarian reform credit allocation; and
- b. Increase in Single Borrower's Limit (SBL) for an additional (25%) twenty-five percent 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 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 25% shall only be for a period of three years, subject to review after said period.

Section 3. The following Section and Subsection of the MORB are amended as follows:

a. **"Sec. X303 Credit Exposure Limits to a Single Borrower.**

a. Consistent with national interest xxx

Xxx

b. The total amount of loans xxx

1. By an additional ten percent xxx

Xxx

4. By an additional (25%) twenty-five percent of the net worth of such bank; Provided, That the additional loans, credit accommodations and guarantees are 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 further, That the additional 25 percent will apply only to non-DOSRI/RPT loans; Provided, finally, That such additional 25% shall only be for a period of three years, subject to review after said period.

"xxx"

b. **"Subsec. X341.1 Definition of terms.** For purposes of this Section, the following definitions shall apply:

a. Accredited rural financial institutions (FIs) xxx

Xxx

f. Agriculture and agrarian reform credit shall refer to loans granted for the following activities and purposes:

(i) agricultural production;

xxx

(vii) efficient and effective merchandising of agricultural and fishery commodities stored and/or processed by the facilities aforesaid in domestic and foreign commerce;

(viii) agricultural value chain financing availed by actor(s)/player(s) who are considered as qualified borrowers under Subsec. X341.2, MORB; and

(ix) other activities identified in Section 23 of R.A. No. 8435, otherwise known as the "Agriculture and Fisheries Modernization Act of 1997", as follows:

"xxx"

Section 4. Effectivity. It shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD


NESTOR A. ESPENILLA, JR.
Officer-In-Charge

14 March 2016

Agriculture value chain – Business Models

The agriculture value chain business models are characterized by the main driver of the value chain, and its rationale or objectives. The following are the typical organizational models for smallholder production:

Model	Driver of organization	Rationale
Producer-driven (Association)	<ul style="list-style-type: none"> • small-scale producers, especially when formed into groups such as associations or cooperatives; • large scale farmers 	<ul style="list-style-type: none"> • access to new markets; • obtain higher market price; • stabilize and secure market position
Buyer-driven	<ul style="list-style-type: none"> • processors; • exporters; • retailers; • traders, wholesalers and other traditional market actors 	<ul style="list-style-type: none"> • assure supply; • increase supply volumes; • supply more discerning customers – meeting market niches and interests
Facilitator-driven	<ul style="list-style-type: none"> • NGOs and other support agencies; • National and local governments 	<ul style="list-style-type: none"> • ‘make markets work for the poor’; • Regional and local development
Integrated	<ul style="list-style-type: none"> • lead firms; • supermarkets; • multi-nationals 	<ul style="list-style-type: none"> • new and higher value markets; • low prices for good quality; • market monopolies;

Reference:

1. Miller, C. and Jones, L. ‘Agricultural Value Chain Finance, Tools and Lessons’. Published by FAO and Practical Action Publishing, 2010.