Making the Agri-Agra Law work
Some implementable proposals


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MAP INSIGHTS
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The Agri-Agra Law has been a frustration of regulators and farmers alike. The banks who find it inconvenient to comply just opt to pay the penalties. The penalties are not even prohibitive because the Central Bank implementors themselves (they will not admit it though) are unconvinced about the efficacy of the law so they do not make it too costly to not comply. There is a not-so-obvious regulatory forbearance in that sense. The banks who comply are those that are into agricultural lending in the first place. They would have done that sort of lending with or without the Agri-Agra Law.

In short, the Agri-Agra Law does not really generate "new funds" that become available for farmers. The whys and the wherefores of non-compliance by banks is a long conversation in itself but the more useful discussion is how to make the law achieve its objectives. Much of it though has to do with the saying that "you can bring a horse to the water but you cannot make him drink."

The relevant question therefore is how do you make banks pour money into agriculture and agrarian reform? Here are some suggestions:

1. First, forget about making banks do production loans. It is just too risky for any private financial institution. None of the risk management algorithms support it. The math doesn't justify it — period. You hear cooperatives and social development organizations talk about approaches that they claim to have worked but all their successes are obviously not commercially replicable and scalable. Why? What many people overlook is that it is not just about repayment. It is, probably more so, about administrative costs and loan margins. You can get good repayment but see all your lending margins disappear because it took massive resources (ergo costs) to get the repayment you wanted.

2. Make banks go into inventory finance. While they are totally clueless when it comes to production finance, they are masters of asset-based finance. Look at how great they are with auto finance, jewelry finance, condo finance, etc. How do you make them do inventory finance? Make them feel comfortable about the inventory that they finance. Make them feel that it will not disappear or lose value before the loan that financed it is liquidated. Let's take *palay* (unmilled rice) and corn as an example. There are so many National Food Authority (NFA) warehouses nationwide. They are no longer needed because the government has already applied tariffs to rice imports. Why not make NFA operate as a warehousing entity whose mandate is to ensure that everything stored in its warehouses is reasonably protected and cared for during storage? Then, these warehouses can issue receipts to farmers who store their *palay* and corn.

These farmers can then go to banks and borrow against these receipts. The banks will lend if the government will guarantee, NOT THE REPAYMENT OF THE LOAN, but the sanctity and integrity of these receipts. This makes the warehouse receipt a tradable instrument because it has guaranteed value. This is even better than floor stock financing that banks do for automotive dealers. All that's needed is for the government to guarantee that when a holder of a warehouse receipt for high-grade *palay* goes to the NFA warehouse to redeem the high-grade *palay*, he will get it.

Warehouse receipts, more popularly known as *quedans*, have been extensively used in the Philippines but their integrity has always been suspect because the very issuers of warehouse receipts are owners of the commodities supposedly stored in these warehouses.

3. Make banks go into capex finance. If entities other than the NFA want to go into the warehousing business, let them do so but prohibit them from going into trading of commodities that are stored in these warehouses. Why? The integrity of a warehouse receipt becomes suspect when the issuer of the warehouse receipt himself owns the commodities stored in the warehouse. Make it a serious crime to engage in trading while holding a warehousing license. But make warehousing a profitable business by itself. How? If you want to encourage the creation of more warehouse capacity, you need to guarantee the throughput or capacity utilization. Be ready to subsidize those who are experiencing low-capacity utilization during the pre-harvest season.

Is it bad economics to do it? That is debatable. What's inarguable is that it is not bad public policy to subsidize a private endeavor that supports an essential good. Just look at the iron-clad power purchase commitments given to private parties that invested in new power generating capacity when the country urgently needed power. Look at the subsidy given by the Department of Education to private schools that invested in new classrooms to accommodate new K-12 enrollees that public schools couldn't take in. With throughput guaranteed, private warehouses will become profitable. If they are profitable, banks will finance them.

How does that help the small farmers? If there are independent warehouses (i.e., not owned by the commodity owners themselves) and if warehouse receipts are sacrosanct (and are therefore bankable), farmers can choose to store their produce instead of selling at bargain basement prices during harvest season when supply is plenty. If they need liquidity in the meantime, they can go to the banks and borrow against these warehouse receipts. Dry warehouses are just one form of capex. We can talk about cold storage facilities too. The same principle applies.

4. Securitize private investment in agricultural infrastructure and make the banks buy the resultant securities. It is clear to everyone that we lack essential agricultural infrastructure. Everyone mouths it: farm-to-market roads, transport systems and equipment, processing facilities (as rudimentary as drying and shelling, etc.), and storage. Throw in food terminals and town-center agricultural exchange marketplaces. Throw in online platforms enabled on phones. All these can be done by the private sector. But, unless there is a clear agreement on throughput protection by the government, private entities will not go into these projects. When I speak of throughput protection, I'm not talking about the messy type of arrangements, such as those in MRT 3. I'm talking about arrangements as neat and unequivocal as the purchased power deals with power generation companies. If these deals are present, private entities will invest and the banks will finance.

5. Use technology to enable agricultural trading. Online trades are transparent. Banks will be able to easily verify deals done on neutral platforms and can therefore finance both spot and forward purchases of agricultural commodities (i.e., forward means purchases today for delivery at a later time, say 90 days). This is no different from PO financing which banks are so familiar with. It is not even that much different from salary loans. Of course, there is the risk of non-delivery, especially in cases of force majeure. Therefore, we need an honest-to-goodness crop insurance system. This is a job for the government. There is no need to go blind on risks like the Philippine Crop Insurance Corp. is doing today. We have weather and disaster data spanning probably a century. We can use that data to inform and enrich the risk algorithms that will be the basis for insurance tariffs. If there is credible insurance cover for delivery failure, banks will lend against forward deals. They are well-positioned to do this because they have good control of the cash tunnel, being the ultimate settlement institutions in any online platform.

There are practical ways of making banks channel money into agriculture in magnitudes bigger than any mandatory asset allocation, such as the existing coercive Agri-Agra Law, can ever do. ■

This article reflects the personal opinion of the author and does not reflect the official stand of the Management Association of the Philippines or MAP.

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Inflation, cement importation, and electricity concerns

MY CUP OF LIBERTY
BIENVENIDO S. OPLAS, JR.

Three different topics here, we go straight to them.

RISING PHILIPPINES INFLATION, BIDENFLATION

The Philippines saw a big jump in its inflation rate last month, from 3% in January-February to 5.4% in May. Big increases in May happened in transport (14.6%), housing, water and electricity (6.5%), and alcoholic beverages and tobacco (6.8%).

In the US, "Bidenflation" continued to wreak havoc in ordinary American households. The US inflation rate was only 1.4% in January 2021 when Trump left the White House; it jumped to 7.5% in January 2022 or 12 months into the Biden presidency and before the Russian invasion of Ukraine, and went up to 8.6% in May, the highest rate in 40 years.

Germany's inflation of 7.9% in May was highest perhaps in about six decades, while the United Kingdom's 9% in April was the highest in 40 years. The industrial economies of America and Europe are limping from high inflation (*Table 1*).

The west's "war on fossil fuels" is a big reason why this happened. High oil-gas-coal prices mean a higher cost of manufacturing, and higher commercial and household electricity bills. Underinvestment in oil refining also contributed to low fertilizer output and high fertilizer and food prices.

TABLE 1.
Inflation rate, %

Country	2020	2021	2022				
			Jan.	Feb.	March	April	May
US	1.2	4.7	7.5	7.9	8.5	8.3	8.6
UK	0.9	2.6	5.5	6.2	7.0	9.0	--
Germany	0.4	3.2	4.9	5.1	7.3	7.4	7.9
Thailand	-0.8	1.2	3.2	5.3	5.7	4.7	7.1
Singapore	-0.2	2.3	4.0	4.3	5.4	5.4	--
South Korea	0.5	2.5	3.6	3.7	4.1	4.8	5.4
Philippines	**2.4**	**3.9**	**3.0**	**3.0**	**4.0**	**4.9**	**5.4**
Taiwan	-0.2	1.8	2.8	2.3	3.3	3.4	3.4
Indonesia	2.0	1.6	2.2	2.1	2.6	3.5	3.6
Vietnam	3.2	1.9	1.9	1.4	2.4	2.6	2.9
Malaysia	-1.1	2.5	2.3	2.2	2.2	2.3	--
China	2.4	0.9	0.9	0.9	1.5	2.1	2.1
Japan	0	-0.3	0.5	0.9	1.2	2.5	--

SOURCES: IMF WEO 2022, TRADING ECONOMICS

CEMENT IMPORTATION AND THE CONSUMERS

I recently received many materials on "Cement Anti Dumping" presented by the Cement Manufacturers Association of the Philippines (CEMAP). They believe that cheaper imported cement, mainly from Vietnam, is bad for the economy because it adversely affects the revenues of their member-companies, their capacity expansion and job generation. Their argument is summarized in one report in *BusinessWorld*, "Cement group seeks safeguard for local manufacturers" (June 9).

Free trade means the consumers are the main beneficiaries of trade. Cheaper cement, steel, and other construction materials means poor people who otherwise would have weak wooden or bamboo houses can have concrete houses that can better protect them from strong typhoons and flash flooding, helping save lives and properties. And CEMAP think this is bad, that cheaper imported cement should be penalized with high tariffs to make it more expensive for consumers. Bad lobby.

I checked the Philippine Statistics Authority (PSA) data — the construction materials price index and price changes from 2020 to April 2022 — and it shows that concrete materials and cement has low or small price changes compared to overall construction materials and national inflation. In 2021, Philippines inflation was 3.9%, inflation for all construction materials was 3.2%, and inflation for cement was 1.5%. In the first four months of 2022, Philippines inflation was 3.7%, all construction materials 6%, cement 4.1% (*see Table 2*). This means cement liberalization is working for the consumers and if CEMAP will have its way, cement inflation should rise higher — at a time when higher inflation is causing more social and economic stress on Philippine households and businesses.

The Tariff Commission (TC) should consider the interests of consumers and not just the cement manufacturers, importers, and traders. Free trade is pro-consumers.

TABLE 2.
Construction materials wholesale price changes (2012=100), in %

Commodity group	2020	2021	J-A 2022
All items	1.2	3.2	6.0
Fuels and lubricants	-8.6	18.1	34.1
GI sheet	1.9	5.5	13.3
Steel	-0.6	5.0	9.0
Glass and glass products	7.1	13.3	4.7
PVC pipes	5.8	2.3	4.7
Concrete and cement	1.4	1.5	4.1
Hardware	4.0	2.2	3.7
Tileworks	15.7	1.6	-0.8

SOURCE: PSA

ELECTRICITY CONCERNS

These recent reports in *BusinessWorld* are interesting.

1. "NGCP starts new transmission line for Bataan capacity expansion" (May 26),

2. "Meralco seeks 'sound' policies to cut power costs" (June 1),

3. "Razon firm 'poised' to control Malampaya project" (June 3),

4. "Prime Infra unit plans world's largest solar farm" (June 9),

5. "Gov't imposes sanctions on two electric cooperatives" (June 9),

6. "Meralco power rates to rise in June" (June 10).

Report No. 1 is somehow good because the National Grid Corp. of the Philippines (NGCP) has a record of frequent delayed delivery of the needed transmission lines between new power plants and distribution utilities. The report refers to the Mariveles to Hermosa, Bataan line, which should have been finished much earlier. And NGCP should have finished the Hermosa, Bataan to San Jose, Zambales line by June 30 as the delayed transmission line there chokes 818 MW of power (GN Power Dinginin Unit 2 with 668 MW and SMC Mariveles Unit 1 with 150 MW) that can expand supply in the Luzon grid. This is far from happening yet. See Table 3 of this column on May 16, *https://bit.ly/Oplas051622*.

Reports Nos. 2 and 6 are related: Meralco has no choice but to raise electricity rates because the generation cost has increased. The price of coal (Newcastle) this June was $390+ per ton which is three times higher than a year ago when it was $175+ per ton. Even the price of domestic Malampaya gas is pegged to Dubai crude's price and thus is also rising. Good thing that Meralco is able to keep its distribution charge flat, with no increase since about 2015.

Reports No. 3 and 4 show further expansion of Mr. Razon's Prime Infra in energy. Its planned 2,500-3,500 MW solar plants will have a big impact on competition for land use because that will require about 4,000 to 5,500 hectares of land. In addition, more intermittent renewables with priority dispatch to the grid mean they can discourage other investments in coal, oil, gas, and nuclear as they are a lower priority in the grid. For instance, if coal and gas plants offer power at P5/kwh and solar offers P6/kwh, the latter will still be prioritized. Discouraging investments in conventional thermal plants can lead to the threat of blackouts in the future, and this is happening now in Europe, the US, and even Japan.

Report No. 5 is about Maguindanao Electric Cooperative, Inc. (Magelco) and Lanao del Sur Electric Cooperative, Inc. (Lasureco). They respectively owe P3.8 billion and P12.9 billion — a total

TABLE 3.
Philippines power generation mix, in GWH and % share

Generator type	2010	%	2020	%	2021	%
Coal	23,301	34.4	58,176	57.2	59,439	57.5
Natural Gas	19,518	28.8	19,497	19.2	18,332	17.7
Geothermal	9,929	14.7	10,757	10.6	11,169	10.8
Hydro	7,803	11.5	7,192	7.1	9,223	8.9
Oil-Based	7,101	10.5	2,474	2.4	1,452	1.4
Solar	1	0	1,373	1.4	1,465	1.4
Wind	62	0.1	1,026	1.0	1,218	1.2
Biomass	27	0	1,261	1.2	1,150	1.1
Total	67,743	100.0	101,756	100.0	103,448	100.0

SOURCE: DOE POWER STATISTICS 2020, 2021.

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