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Demolition job

By Dr. Fermin D. Adriano, PhD March 24, 2023

REGARDING my column last week, readers were asking what my recommendations were to dismantle the operations of state-sponsored cartels. The solutions are simple, if only the government has the political will to implement them.

The first and best solution is to remove all quantitative restrictions (quotas) and replace these with tariffs at reduced rates. This will make transactions transparent so that anybody who can pay the tariffs can import using their own money. It will also discourage smuggling because tariffs are lower.

The second-best solution is to auction import allocations so the government can obtain the highest revenues. We proposed this in the past because we knew that option one would be difficult to implement given the power of vested interest groups. But even then, we failed to make headway because of opposition from the bureaucracy itself.

Meanwhile, is there an ongoing demolition job against Land Bank of the Philippines' (LBP) President Cecile Borromeo? This ploy should be a cause for concern given that LBP is the second-biggest bank in the country, both in terms of assets and deposits.

A successful bank owned by the government seems to be an oxymoron knowing the inefficiency of state institutions. But miraculously it became so, particularly under Borromeo's leadership starting in March 2019. LBP's reach to small farmers and fishers has expanded by 270 percent, from 889,669 in June 2019 to 3.29 million as of April 2022.

LBP also served as the main delivery of cash grants for the 10 million beneficiaries of the Pantawid Pamilyang Pilipino Program. More recently, it became the conduit for direct cash assistance to rice farmers under the Rice Farmers Financial Assistance of the Rice Competitive Enhancement Program.

Digitalization of LBP operations also occurred at an accelerated pace under Borromeo's leadership. More than 35 million of its account holders use LBP's digital platform for bank transactions.

Moreover, it was under her term that the Overseas Filipino Bank (OFBank) — an LBP subsidiary — was established as a digital-only and branchless bank — the first in the Philippines. It caters to overseas Filipino workers, overseas Filipinos and their beneficiaries. LBP also provided unbanked Philippine Identification System registrants with transaction accounts. As of the end of 2022, LBP had onboarded more than 9 million previously unbanked Filipinos.

Borromeo's banking career spans 30 years in agricultural and development lending, treasury and investment banking, public sector lending, corporate banking, global banking, wholesale banking and lending program management. She holds the distinction of being the only banker to ever hold the presidency of two government financial institutions, LBP and the Development Bank of the Philippines.

Given her solid credentials and achievements, what then is the line of attacks by her detractors to undermine her credibility and reputation? It is the worn-out accusation that LBP is not lending or doing enough to help our small farmers and fishers, supposedly the mandate upon which LBP was established.

This criticism has long been addressed not only by LBP but by highly reputable economists. Former socioeconomic planning secretary Cielito Habito noted that the problem is LBP's charter, which stipulates that it should be run like any other commercial bank. As such, it will have to provide yearly dividends to the government. In fact, this dividend is being eyed as a major funding source for the proposed Maharlika Investment Fund.

There are recommendations that this provision should be amended and replaced with one where LBP's operations should primarily be geared toward attaining the government's social justice thrust. This means that even if many small tillers, fishers and agrientrepreneurs are unable to pay, which happened under past subsidized credit programs, the loans should be written off by LBP and their costs shouldered by the government (and ultimately the taxpayers).

Lastly, the transaction cost of dealing with small farmers owning a hectare or less will just be too burdensome for LBP. To address this, the bank can course its loanable funds to microcredit enterprises. However, this will raise the cost of lending.

Another option is for LBP to confine its lending operations to cooperatives to reduce transaction costs. Unfortunately, less than 20 percent of our small cultivators are members of cooperatives or farmers associations. This means that most will not be again covered by LBP lending programs.

These facts are known to many of those who are familiar with the dynamics of agricultural credit in the country. As such, rather than criticizing the leadership of the LBP, they should address the structural problems confronting the bank.

Only those with little knowledge of the workings of agricultural lending in the country or those with personal interests in taking over the leadership of the country's second-biggest bank will peddle incomplete information or half-truths. They pretend to occupy the moral high ground using legal mumbo jumbo that does not square with actual realities on the ground.

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