



HOUSE OF REPRESENTATIVES

H.B. No. 3434

Introduced by Rep. Vilma Santos-Recto
6th District of Batangas

AN ACT
EXPEDITING THE TITLING OF LANDS AWARDED UNDER THE
COMPREHENSIVE AGRARIAN REFORM PROGRAM, LIFTING THE
RESTRICTIONS ON THE UTILIZATION OF SUCH LANDS AS COLLATERAL
FOR SECURING AGRICULTURAL LOANS, AND OTHER SIMILAR FINANCIAL
INSTRUMENTS, AND FOR OTHER PURPOSES

Rural credit flow supports economic, agricultural and social activities in rural areas – from the procurement of farm inputs to the payment of educational expenses of the farmer’s dependents. A study of the Agricultural Credit Policy Council (ACPC) on agricultural credit costs and interest rate sensitivity of small farmers¹ revealed that more than 80% of the farmer- and fisherfolk-respondents contracted loans for agricultural and non-agricultural purposes. Without credit, farming is reduced to a subsistence activity and a poverty trap² for small landholders and other agricultural workers.

Despite the significance of a stable rural credit market in the lives of farmers and fisherfolk, participation of the formal lending institutions in the agricultural industry has been limited. The ACPC study highlighted several concerns in the prevailing rural and agricultural credit market. First, only a quarter of the agricultural loans were contracted from formal sources, with only one percent (1%) sourced from government agencies and instrumentalities³. Second, 12% of non-borrowing respondents did not contract any loan because they believed they have inadequate collateral. Third, 36% of formal lenders admitted that they have rejected loan applications for having insufficient collateral⁴. Thus, it is not surprising that nearly a decade since the enactment of Republic Act No. 10000, or *The Agri-Agra Credit Reform Act of 2009*, direct compliance of Philippine financial institutions to the credit quota requirement remained at a low 26.05%⁵.

The weak presence of a formal rural credit market can be traced back to the Comprehensive Agrarian Reform Law (CARL). Among its provisions, CARL prohibits farmer-beneficiaries from selling, transferring or conveying the land for a period of ten (10)

¹ Cuevas, A. C. and Sumalde, Z. M. (2015). *Costs of Agricultural Credit and Interest Rate Sensitivity of Small Farmers: An Empirical Study*. Quezon City: Agricultural Credit Policy Council.

² Fabella, R.V. (2003). “Comprehensive Agrarian Reform Program and the Coase Theorem.” *Discussion Paper No. 0302*. Quezon City: University of the Philippines School of Economics.

³ Cuevas, A. C. and Sumalde, Z. M. (2015).

⁴ Cuevas, A. C. and Sumalde, Z. M. (2015).

⁵ Figures exclude alternative compliance. Data retrieved from http://www.bsp.gov.ph/banking/pbs_new/71.htm

years, and from mortgaging the rights to the awarded land until full payment has been conveyed. This prohibition, and the absence of self-sustaining agro-economic institutions in lieu of the landlord-tenant relationship, isolated the farmer from the market for his product, as well as from the sources of technology and financing. It also abetted in the materialization of other problems such as illicit rental, sale and mortgaging of awarded lands, informal creditors that charge usurious loan rates, and ultimately, the emergence of a new class of people – the *landed poor*⁶.

The problems arising from the restrictions on selling, transferring, conveying, and mortgaging CARP-awarded lands are further aggravated by the long-delayed land titling and subdivision. As of January 2016, only 1.06 million hectares of the estimated 2.17 million hectares of lands distributed under the collective CLOA arrangement have been subdivided⁷. This figure represents less than a quarter of the 4.74 million hectares of CARP lands distributed from 1972-2016.

The slow subdivision of lands awarded under the agrarian reform program adversely affects the financial capacity and long-term productivity of farmer-beneficiaries. The sheer number of collective CLOAs issued on agricultural lands for individual cultivation, coupled with the slow rate of land parcel subdivision, is one of the major causes of property rights instability in the countryside⁸. Moreover, collective CLOA does not improve rural economies as it weakens the capacity of local government units to collect real property taxes⁹ and reduces the capacity and incentive for farmer-beneficiaries to plan, invest and improve the productivity of their farmland¹⁰. Ultimately, lands under collective CLOA arrangement would not help farmer-beneficiaries source financial resources given the high uncertainty of ownership and high transaction cost that comes with securing and disposing the land.

To remedy this problem, this bill proposes to turn CARP-awarded lands into effective resource generation mechanisms that can help farmers-beneficiaries improve their agricultural productivity. The bill seeks to expedite the process of subdividing and titling lands under CLOA arrangement, thereby removing ownership uncertainties associated with CARP-awarded lands. The bill also intends to allow farmer-beneficiaries to use their awarded land as collateral in availing loans from banks and other financial institutions for the improvement of the land they cultivate, procurement of agricultural inputs and machineries, and establishment of agricultural facilities. With these twin provisions, it is hoped that the rural credit market will be revitalized, countryside productivity enhanced, farm income increased, and the lives of millions of Agrarian Reform Beneficiaries uplifted.

Ultimately, this bill seeks to realize the noble intents of an effective agrarian reform – a program that can promote social justice, effect sound rural development and industrialization, and establish owner-cultivatorship of economic-size farms as the basis of Philippine agriculture.

⁶ Fabella, R.V. (2014). Comprehensive Agrarian Reform Program (CARP): Time to Let Go. *Discussion Paper No. 2014-02*. Quezon City: University of the Philippines School of Economics.

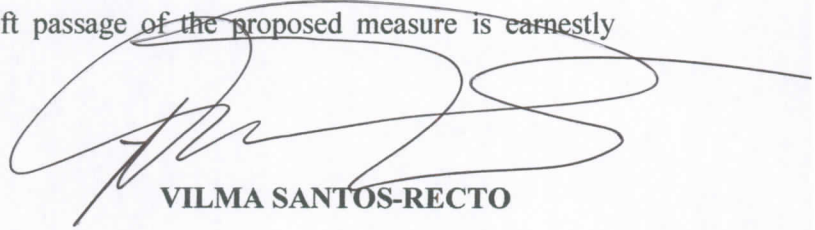
⁷ De los Reyes, V. (2016). End of Term Report of Secretary Virgilio de los Reyes for the Term from July 2010 – June 2016. Quezon City: Department of Agrarian Reform.

⁸ De los Reyes, V. (2016).

⁹ Department of Agriculture (2011). DAR leaves choice to farmers: collective or individual CLOA. Retrieved on January 30, 2018 from <http://www.officialgazette.gov.ph/2011/11/28/fdar-leaves-choice-to-farmers-collective-or-individual-cloa/>

¹⁰ Fabella, R.V. (2014).

In view of the foregoing, the swift passage of the proposed measure is earnestly sought.

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VILMA SANTOS-RECTO

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

SECTION 1. *Subdivision and Titling of Awarded Lands under the Comprehensive Agrarian Reform Program.* Within ninety (90) days from the effectivity of this Act, the Department of Agrarian Reform (DAR) is hereby directed, in consultation with Agrarian Reform Beneficiaries (ARBs), relevant national government agencies, and other pertinent stakeholders, to establish guidelines and procedures to expedite the subdivision and titling of agricultural lands or parts thereof awarded to farmer-beneficiaries under the Comprehensive Agrarian Reform Program (CARP). The subdivision and titling process shall prioritize portions of land that represents the home-lots of the farmer-beneficiaries.

SEC. 2. *Acceptability of Agricultural Land as Loan Collateral.* All agricultural lands shall be accepted as collateral by any lender, bank or other financial institution to secure loans of the registered owners as appearing in the Emancipation Patent, Homestead Patent, Free Patent, Certificate of Land Ownership Award, Original Certificate of Title, or Transfer Certificate of Title: *Provided, That* the loans obtained shall be used in the improving or developing the land awarded, procuring agricultural inputs and machineries, establishing facilities that will enhance production, processing, marketing, and distribution of agricultural products, or increasing farm income.

1 **SEC. 3. *Default and Foreclosure of Mortgage.*** In the event of default by the borrower
2 under this Act, the lender, bank, or financial institution may proceed against the security for
3 the loan in accordance with existing laws.

4 **SEC. 4. *Implementing Rules and Regulations.*** Within thirty (30) days from the
5 approval of this Act, the DAR shall, in coordination with the Department of Agriculture
6 (DA), Land Bank of the Philippines (LBP) and other relevant government agencies,
7 promulgate the rules and regulations to effectively implement the provisions of this Act.

8 **SEC. 5. *Separability Clause.*** – If any provision, section or part of this Act shall be
9 declared unconstitutional or invalid, such judgment shall not affect, invalidate or impair any
10 other provisions, sections or parts hereof.

11 **SEC. 6. *Repealing Clause.*** – All laws, decrees, orders, rules and regulations which are
12 inconsistent with the provisions of this Act are hereby repealed or modified accordingly.
13 Nothing in this Act shall be construed to amend existing policies, rules and regulations on
14 extending collateral-free loans to small farmers and other marginalized sectors by
15 government financial institutions and other institutions engaged in micro-finance activities.

16 **SEC. 7. *Effectivity.*** – This Act shall take effect fifteen (15) days following its
17 publication in at least two (2) newspapers of general circulation or in the *Official Gazette*.

18 Approved,