

**REPORT OF THE CHIEF OF THE DIVISION OF
THE CURRENCY TO THE TREASURER OF
THE PHILIPPINE ISLANDS CONCERNING
THE ADVISABILITY OF ESTABLISHING A
GOVERNMENT AGRICULTURAL BANK IN
THE PHILIPPINES; PP. 1-158**

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Concerning the Advisability of Establishing a Government Agricultural Bank in the Philippines;
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BUREAU OF INSULAR AFFAIRS WAR DEPARTMENT

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1914

REPORT

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CHIEF OF THE DIVISION OF THE CURRENCY

TO THE

TREASURER OF THE PHILIPPINE ISLANDS

CONCERNING THE

ADVISABILITY OF ESTABLISHING A GOVERNMENT

AGRICULTURAL BANK IN THE

PHILIPPINES.

BUREAU OF INSULAR AFFAIRS,
WAR DEPARTMENT.

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REPORT OF THE CHIEF OF THE DIVISION OF THE CURRENCY
TO THE TREASURER OF THE PHILIPPINE ISLANDS.

TREASURY BUREAU OF THE PHILIPPINE ISLANDS,
DIVISION OF THE CURRENCY,
Manila, P. I., February 7, 1905.

SIR: Pursuant to instructions given the chief of the division of the currency in June, 1904, by the treasurer of the Philippine Islands, under authority of a resolution of the commission passed April 13, 1903, instructing the insular treasurer to present to the commission a plan for the establishment and maintenance of an agricultural bank in the Philippines with government funds, I have the honor to make the following report:

THE NEED OF AN AGRICULTURAL BANK IN THE PHILIPPINES.

The need of some institution in the Philippines which will make advances to farmers upon the security of their lands or crops has been a long felt one. The establishment of such an institution was frequently urged in Spanish times, and it is said that several serious efforts were made in that direction, efforts, however, which proved futile principally on account of the confused condition of land titles in the islands. The code of commerce^a contains liberal provisions for the establishment of agricultural banks on the debenture plan. The charter of the Banco Espanol-Filipino authorizes that bank to make loans on real estate, under certain restrictions, to half the value of the property mortgaged. The report of the Schurman Commission declared that "the lack of proper capital and the high price asked for loans constitute another obstacle, which stupefies industry, augments the cost of production, and restrains, in consequence, its benefits." The civil commission, in its second annual report, discussed the subject at length; and recommended Congressional action to encourage the creation of mortgage banks by private enterprise. The desirability of some government action with this object in view has been frequently urged by provincial governors, provincial treasurers, and others having an intelligent interest in Philippine affairs. Inquiries made sometime ago of the various provincial treasurers with reference to the need of an agricultural bank in their respective provinces^b elicited in nearly every case the reply that the need was a most urgent one. Out of 28 replies received to the inquiries made, 24 were favorable to such a project. Although these letters were written nearly two years ago, there is little reason to believe that the conditions therein described have very materially changed in the interim.

^a See Exhibit D.

^b Exhibit B, Schedules II and III.

The deplorable condition of agriculture in the Philippines is too well known to require comment.^a The ravages of rinderpest and of locusts, the failure of crops through droughts, the havoc wrought by the insurrection, the wretched facilities for the transportation of crops, as well as the normally backward condition of Philippine agriculture at its best are commonplace among people familiar with Philippine conditions. In this connection it is sufficient to repeat the statement so frequently made that there are few countries so fertile and as richly endowed with agricultural possibilities as the Philippines, and withal few so primitive in methods of cultivation and so unproductive of results. The Philippines are preeminently an agricultural country, and their economic future will depend very largely upon the development of their agricultural resources.

Thanks to the enlightening influence of American occupation, and more especially to the work of the American teacher and the insular bureau of agriculture, the Filipinos are beginning to wake up to the deplorable condition of Philippine agriculture and to its wonderful possibilities if properly utilized.

A knowledge on the part of the people of these had agricultural conditions and of possible means of remedying them is one thing, the ability to adopt improved methods is quite another one. Waste land can not be reclaimed, improved farm machinery can not be bought, fields can not be drained or irrigated, and draft animals can not be bought without capital, and the Filipino people are at present land poor.

Without credit facilities the world's present day great commercial and industrial enterprises would be utterly impossible. The stock-broker buys upon a margin, deposits the stock purchased as security for payment, and later settles his account from the proceeds of its sale. The manufacturer purchases his raw material and hires his labor by means of funds borrowed from a bank on the security of the goods purchased and of the product being manufactured therefrom. The debt is paid from the proceeds of the sale of the finished product. The exporter purchases his produce and hires his labor by means of funds borrowed from a bank on the security of a pledge to transfer to the bank, at certain rates fixed in advance, the exchange bills he will draw upon the consignee of the goods when exported. The consignee in turn accepts the bills when presented, obtains the goods, and in three, four, or six months' time, as the case may be, pays his home bank from the proceeds of the sale of the goods imported. From first to last the great bulk of the world's commercial transactions are effected through the mechanism of credit.

Carefully worked out and highly specialized as is this credit system as regards industrial and commercial enterprises, it is still, relatively speaking, in a crude and undeveloped stage as far as agriculture is concerned. While there appears to be no reason in the nature of things why it should not ultimately be as easy for a farmer to obtain capital by the pledge of his land or crops, as it is for the manufacturer to obtain it on the security of his plant, his raw materials, or his finished product, and no reason why a farmer's crops should not be insured against losses by drought, insects, or other destructive agents as readily as is the manufacturer's plant from fire, this

^a Exhibit B, Schedule III.

condition of affairs has not yet been realized. Land titles are frequently uncertain; obstacles in the way of the facile alienation of landed property are numerous; rapid advances in the way of improved and extended transportation facilities and the resultant opening up of new territory render agricultural lands extremely uncertain in value; man has not yet attained sufficient knowledge and control of natural forces to be able to assure himself to any high degree of regularity and uniformity of crops; the supply of our staple crops is extremely variable, and so also is the price. For these and other reasons agricultural lands and growing crops are not generally looked upon as the safest and most desirable classes of securities for a banking institution, and, as a consequence, it has been found desirable for the state in many cases to assist in one way or another the development and extension of agricultural credit. At the present time nearly all civilized countries, as the laws appended in Exhibits C to M of this report will bear witness, grant special privileges and concessions to institutions loaning money for agricultural purposes. Among the numerous methods employed by different states for the assistance of agricultural credit may be mentioned the establishment of government agricultural banks, and the granting of special concessions to private agricultural banks or associations, such as subventions, guaranties of dividends on stock or of interest on bonds, the use of government officials and clerks for administrative purposes, exemptions from taxation, the franking privilege, and a great variety of extraordinary legal privileges to assure the prompt and economical enforcement of the bank's claims.

If state assistance is necessary in the more advanced countries of the world, how much more imperative is it in a backward country like the Philippines, where the impediments to the successful development of agricultural credit are infinitely greater.

In Exhibit B, Schedule I, of this report a summary statement is given of the interest rates prevailing in the different provinces of the islands on loans secured by agricultural property. The rates stated are appalling and sufficient to strangle the most productive agriculture anywhere. Rates of from 2 to 5 per cent a month appear to be common, while rates as high as 10 per cent a month, and even higher, are not infrequent. The treasurer of Cagayan reports that interest in that province varies from 25 to 50 per cent. In Ilocos Sur the rate is said to vary from 10 to 100 per cent; in Ilocos Norte, from 20 to 100 per cent. It is a common practice for the person loaning the money to obtain the privilege of purchasing the borrower's crops at ridiculously low prices fixed in advance, so that the nominal rate of interest often falls far below the rate actually exacted.

The demand for agricultural credit is not being met by the banks of the islands, nor does it offer any prospects of being so met for some time to come. Of the four large banking establishments in the Philippines, two—the Hongkong and Shanghai Banking Corporation and the Chartered Bank of India, Australia, and China—are prevented by their articles of association from making advances on real estate, although both institutions have occasionally, on special permission from their head offices, made small advances on real estate security as special favors to patrons of the bank. According to the latest reports received by this office the total outstanding loans secured by agricultural property of the Banco Español-Filipino and the International Banking Corporation, in the Philippines, will probably not exceed ₱750,000.

The figures can not be stated exactly because of the difficulty of drawing a sharp line between advances made on urban and agricultural property.

The larger European commercial houses frequently make advances upon crops, but these advances are for the most part limited to the owners of a few large estates, and even then the charges by way of interest, commissions, and the reduced prices at which the crops are purchased are said to often be excessive. Reports from Iloilo received this year state that loans of this type in that section of the islands are becoming less frequent.

POSTULATES OF SUCCESSFUL AGRICULTURAL CREDIT.

Mr. F. A. Nicholson, in his able and voluminous report to the governor of Madras "Regarding the possibility of introducing land and agricultural banks into the Madras presidency," sums up the postulates of successful agricultural credit in the three words, (1) proximity, (2) security, (3) facility and safety. "For the due provision of such credit," he says, "there are demanded as postulates proximity of lender and borrower, security to the lender that his loans are solidly and safely based on unincumbered property actually owned by the borrower; that they will be repaid with punctuality and strictness; that dues and arrears shall be readily recoverable; facility and safety to the borrower, so that on the one hand he may be able to borrow freely, promptly, and cheaply and to repay conveniently, and that on the other he may not only be free from the risk of unforeseen entanglements, accidental or deliberately promoted, but may be influenced and even guided toward the safe and productive use of the credit granted."

VARIOUS TYPES OF AGRICULTURAL BANKS.

As regards ownership and control four distinct types of agricultural credit institutions present themselves:

(1) An agricultural bank conducted by private capital for the profit of the promoters. Such an institution may be carried on independently, or in conjunction with other business enterprise.

(2) A purely governmental institution, financed with government funds, and administered through government agencies.

(3) Cooperative associations of the type so common throughout Europe, wherein the farmers in one or more rural communities band themselves together in a cooperative society, depositing their own funds in the society and obtaining additional funds by the sale of debentures, many of which they purchase themselves, loaning among their number the funds so obtained, and managing in every way the affairs of the institution.

(4) A private institution under careful government supervision and control, and with liberal government guarantees and concessions, as, for example, the Agricultural Bank of Egypt.

Each of the above types of institutions has its own peculiar merits and defects, and in each class the merits and defects have been made known through the test of experience. It is not the province of a report like the present one to enter into a detailed discussion of these or other possible types of agricultural banking institutions. A word with reference to the applicability of these different plans to conditions in the Philippines will be sufficient.