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Agricultural Credit and Policy Council (ACPC): Performing more than it should

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The Agricultural Credit and Policy Council (ACPC) is mandated under Executive Order (EO) 113 to coordinate all credit policies and programs in support of the Department of Agriculture's (DA) policy and program priorities. Republic Act (RA) 8435 or the Agriculture and Fisheries Modernization Act (AFMA), meanwhile, further expanded ACPC's role as administrator of the Agro-Industry Modernization Credit and Financing Program (AMCFP). Thus, the ACPC provides (1) credit facilitation services, including the administration of the AMCFP; (2) extension, support, training, and education services; and (3) development, implementation, monitoring, and evaluation of plans, policies, and programs.

This *Policy Note* discusses the results of an assessment of the ACPC's role—as evaluator of credit programs, policy research body, and administrator and implementer of the AMCFP vis-à-vis its legal mandates. The review mainly looked at the credit financing activities of the ACPC from 2008 to 2012, specifically those pertaining to the AMCFP. In particular, the review focused on the (1) efficacy of the ACPC policies and guidelines in helping small famers gain access to loan funds, (2) efficiency and effectiveness of its credit financing programs based on its core mandate and in view of the rationalization of credit programs as embodied in the AFMA and EO 138, and (3) review of ACPC's consolidated major final output to determine whether its role has been actually broadened instead of limiting it to policymaking and pilot testing of credit policies and programs.

Other interventions (e.g., capacity building, research, and advocacy), which were deemed contributory to the overall objective of

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providing small farmers access to credit, however, were not covered in the study.

ACPC's mandate

With the implementation of financial reforms in the mid-1980s, and in response to the findings that direct government intervention in the credit market resulted in poor repayment rates, weak private financial institutions (PFIs), and huge fiscal costs, subsidized agricultural credit programs were abolished and consolidated into the Comprehensive Agricultural Loan Fund (CALF) in 1986 through the issuance of EO 113. Instead of providing credit directly to target beneficiaries, the CALF was used to provide guarantee to agricultural loans granted by PFIs. This is to encourage PFIs to lend to the agriculture sector, particularly to small farmers.

Under EO 113, the Ministry of Agriculture and Food (MAF) was designated to manage and supervise the CALF.[1] To implement this provision, the ACPC[2] was established to assist the MAF in synchronizing all credit policies and programs, particularly those relating to the following: land development/improvement and farm production, farm mechanization, production and supply of agriculture inputs, transportation and storage, processing, marketing and other related activities, small farm financing, and resource mobilization. In particular, the management of the CALF was also delegated to the ACPC.

In 1987, the ACPC became an attached agency of the MAF when the latter was reorganized into the DA under EO 116. Nonetheless, the core mandate and functions of the ACPC stipulated in EO 113 were retained.

The ACPC is an interagency council whose membership is comprised of the following: (1) secretary of the DA as chairman, (2) governor of the *Bangko Sentral ng Pilipinas* as vice chairman, (3) director-general of the National Economic and Development Authority, and (4) secretaries of the Department of Budget and Management and the Department of Finance as members. The ACPC is headed by an executive director, and is supported by a secretariat that implements its policies, guidelines, decisions, programs, and activities.

Aside from synchronizing credit policies and programs, the ACPC is also tasked to (1) review and evaluate the economic soundness of all ongoing and proposed agricultural credit programs, (2) review reports and documents of all programs with agriculture credit and financing components, and (3) undertake measures to increase its fund base in consultation with the Monetary Board.

The policy framework

Recognizing the inefficiencies of subsidized directed credit programs (DCPs),[3] the government shifted toward a market-based

[1] Section 4 of EO 113 states that the CALF shall be under the control and supervision of the MAF.
[2] The ACPC was established to replace the Presidential Committee for Agriculture Credit and the Technical Board for Agricultural Credit.
[3] The various studies conducted by the Department of Finance and the National Credit Council through the USAID-funded Credit Policy Improvement Program in 1987 reported and documented the inefficiencies of DCPs in the agriculture sector.

approach in providing credit services to small farmers and fisherfolk. This is specifically stipulated in RA 8435, which, among other things, provided for the following: (1) phase-out of subsidized DCPs, (2) adoption of market-based credit policies, and (3) nonparticipation of government nonfinancial agencies in the implementation of agricultural credit programs. To implement these provisions, the AMCFP was established under the same RA.

All of the funds of the phased-out and terminated agricultural DCPs were consolidated into the AMCFP to provide for the financing needs of small farmers and fisherfolk. The AFMA provides that AMCFP funds shall be channeled to government financial institutions (GFIs) and qualified cooperative banks, which will act as wholesalers of agricultural credit funds to PFIs. The PFIs shall provide for and meet the financing needs of small farmers and fisherfolk using market-based financial and credit policies. These specific provisions clarify the role of ACPC as oversight of the AMCFP and emphasize the role of the PFIs in delivering credit services to the agriculture sector.

The AMCFP design and operating guidelines adopt the following policy principles:

- *The DA shall not be directly involved in the implementation of credit programs*. It shall, however, coordinate with other government agencies in providing the necessary support services to make the provision of credit viable and, therefore, attractive to PFIs.
- *Lending institutions (banks, cooperatives, and other microfinance institutions) shall make the credit decision and bear the credit risks*. GFIs shall provide wholesale funds to private retail financial institutions, such as cooperatives, rural banks, and microfinance nongovernment organizations (NGOs), which shall bear the credit risks. The retail financial institutions shall disburse the funds and screen clients using their own credit policies and procedures.
- *Market-based interest rates shall be employed in the lending process*. Participating financial institutions are allowed to charge interest rates that cover their financial and administrative costs of lending.
- *Funds shall be allocated based on demand*. Funds under the AMCFP are allocated based on the demand of wholesalers, whose demand estimates are based on the actual need in the sector.

To ensure policy consistency in credit provision across all sectors, the government also issued EO 138 in 1999, espousing the same policy principles adopted in the AFMA and the AMCFP (i.e., increased role of the private sector in delivering financial services, adoption of market-based interest rates, nonparticipation of government nonfinancial agencies in direct lending, and government to provide the enabling policy and regulatory environment for the increased participation of the private sector in financial services). EO 138 covers credit to the non-agriculture sector.

Findings from the assessment

By using the findings of previous related studies, particularly those that reviewed the performance of agriculture credit programs funded out of the AMCFP,[4] interviews with key stakeholders in the agriculture credit market, and secondary data and information, an assessment of the ACPC as AMCFP administrator was conducted. The results are as follows:

On ACPC's policies, guidelines, and activities

The ACPC has performed the following major activities: (1) administered the collection and mobilization of funds and monitored terminated DCPs and ongoing programs under the AMCFP, (2) conducted credit facilitation activities including institutional capacity building, and (3) designed and pilot-tested innovative financing schemes as part of its credit financing activities.

The ACPC, however, needs to refocus some activities to be consistent with the overarching policy principles espoused under the AFMA. As oversight of the AMCFP, the ACPC reviews and approves funding proposals from accredited wholesalers. Following the review, it allocates funds based on the projected credit demand of the accredited wholesaler. The ACPC secretariat, then, provides technical support to the council in the conduct of these activities. It is also involved in program design and formulation. As such, its role as reviewer and evaluator of credit programs is compromised.

Meanwhile, as administrator of the AMCFP, the ACPC is limited to the review, monitoring, and approval of programs that will be funded by the AMCFP. The tasks of preparing, designing, and pilot testing innovative financing schemes (IFS) or credit programs are not considered part of the ACPC's inherent functions. These tasks should instead be given to accredited wholesalers, such as Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), and People's Credit and Finance Corporation (PCFC). By veering away from pilot testing, the seeming conflict of interest among ACPC's functions of designing, implementing, monitoring, and evaluating programs could be addressed.

On the effectiveness and efficiency of credit programs

The credit programs funded by the AMCFP are found to be responsive. A total of PHP 3.89 billion was released to about 164,533 borrowers, representing 61 percent of the target loans to be generated and 87 percent of the target number of borrowers from 2008 to 2012 (ACPC, various years). Some 553 conduit financial institutions (i.e., rural banks, cooperatives, NGOs, and people's organizations) participated in the program. The factors that contribute to the receptiveness of these programs include: (1) simple loan application and screening procedures adopted and tailor-fitted to small farmers and fisherfolk and (2) proximity of the retail financial institutions to their clients. However, due to lack of baseline information, the study cannot categorically determine whether the programs have increased the number of small farmers and fisherfolk with access to credit or just financed repeat loans.

[4] Included in the study of Llanto (2010).

The computed average credit extension index[5], which was shown to be less than one, implies that the number of borrowers of AMCFP-funded programs is below the potential or target number of clients. Thus, the coverage of the credit programs can still be improved by requiring program partners to prepare and align their work and financial plans with the policy thrusts and direction of the AFMA and the DA. Meanwhile, the average loan size stood at PHP 23,630 per beneficiary, which was less than the average loan size of the agriculture sector. The resulting reaching the borrower index[6] showed that AMCFP-funded programs are catering to small farmer and fisherfolk borrowers as intended.

In terms of efficiency, the ratio of operating cost to total loans outstanding (i.e., cost per peso loan) is averaging at 0.05 for the period covered, as paralleled to the average administrative cost per peso loan of microfinance institutions. When the total cost of lending (including personnel services and those associated with the implementation of capacity-building, research, and advocacy programs) is considered, however, the average cost per peso loan granted is 0.07. This ratio appears to be on the high side given that the ACPC is wholesaling the AMCFP fund to partner wholesale institutions. The computed ratios, however, considered all administrative costs—including those incurred for the conduct of policy research and advocacy, information campaign, and capacity-building interventions to facilitate access to the funds—as the authors were not able to get a breakdown of these costs and other costs specific to AMCFP operations.

Strengthening the ACPC's role: Some recommendations

The study recommends the following to strengthen ACPC's role in providing credit support and as administrator and oversight of the AMCFP:

On ACPC's role and mandates

1. The ACPC seems to be performing more than it should. It engages in program design when it should have limited itself to evaluation, monitoring, and research. As administrator and overseer of the AMCFP, the ACPC should be able to act independently and assess the programs objectively in terms of efficiency and effectiveness. As such, it should veer away from the design, pilot testing, and implementation of credit programs. The design and implementation of IFS should instead be given to GFIs (e.g., LBP, PCFC, DBP) that have the mandate, competence, expertise, and experience to formulate, design, and implement credit facilities for small farmers and fisherfolk. As mandated under the AFMA, the ACPC can instead focus on special projects to promote IFS that reduce agricultural risks and administrative costs of lending institutions (e.g., guarantee and insurance mechanisms) to facilitate credit delivery. Results of research

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[5] The credit extension index is a measure of outreach. It is the ratio of actual to the potential or target number of borrowers (DOF 1998).

[6] Reaching the borrower index is the ratio of the average loan size in the target sector to the average loan size of AMCFP loans.

studies that reveal issues and concepts that are important for program design and pilot testing should be shared with and be considered by financial institutions that have the mandate to design and implement credit programs.

2. The ACPC needs to strengthen its credit support services for effective credit implementation (e.g., conduct of policy research and studies that would provide useful insights in the effective design and implementation of credit programs, advocacy activities, capacity-building interventions, and monitoring and evaluation of credit facilities and programs catering to the agriculture sector).

3. The ACPC needs to strengthen its monitoring and evaluation functions. Being the administrator of the AMCFP, it can set up a monitoring system that will collect relevant, accurate, and timely data and information needed for evaluation. As oversight, it should also require the wholesale financial institutions to submit their work and financial plans on program implementation. It should also set performance indicators and require the submission of relevant data and information for the establishment of baseline information for monitoring and evaluation purposes.

On strategies for making credit more accessible to farmers

1. The ACPC should focus on developing, facilitating, and/or providing the needed support services to both lenders and borrowers. Credit enhancement facilities or risk-reducing and risk-mitigating mechanisms for agricultural lending (i.e., insurance and guarantee) should be established to ensure that credit risks are reduced. The ACPC may also study index-based insurance to determine their applicability to local situation, review the role and function of the Philippine Crop Insurance Corporation given the increased interest of the private sector in providing risk protection to the low-income sector, study and promote public-private partnerships in crop insurance, and study the current performance of the guarantee system for agriculture.

2. Aside from reducing the risks in agriculture to encourage lenders to lend to small farmers and fisherfolk, improving their financial literacy is equally important in making credit accessible to them. Borrowers should be informed and made aware on how risks in agriculture can be mitigated and what risk management tools are available for them.

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