Institutional Efficiency and Effectiveness of the Agricultural Credit Policy Council (ACPC) on Credit Financing

Response to/Clarifications on ACPC Comments

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The conceptual framework and methodology are not well thought out. If the framework is impaired, result of the study is invalid. How can evaluate the so-called efficiency and effectiveness of ACPC if there is not enough scanning of its programs and environment? For example, the study failed to look at Magna Carta of Small Farmers (RA 7607, 1992) which mandates ACPC to conduct innovative financing schemes for small farmers.	This is a valid observation considering the title of the study. The authors would, however like to point out that the study mainly answered the specific questions and objectives spelled out in the terms of reference which essentially focused on the review of the efficiency and effectiveness of existing policies, rules and guidelines of ACPC in responding to the credit needs of small farmers as well as ACPC's role in implementing credit programs; assessment of ACPC's proposed guidelines on the use of the P1.0 billion 2013 appropriation for the establishment of a flexible credit facility for small farmers registered in the RSBSA; study of the management and utilization of loan funds as well as the agency's collection efficiency for at least during the last 5 years; and recommendation on the improvement to be done on ACPC function, credit policy, role and strategy that the national government can pursue. The authors also believed that the provisions on credit in RA 7607 which was enacted in 1992 have already been repealed by the credit provisions in RA 8435 which was enacted in 1997. RA 8435 only provided for the exemption of interest rate-related credit arrangements for agrarian reform beneficiaries.
The study failed to take into account that the MFO of ACPC is no longer "credit facilitation" but "credit support services effective January 2014.	The study covers the period prior to 2014 thus looked at the MFO during the period. It will be noted in the study that the MFO was refocused to"credit support" in 2014.
The ACPC is not a "bank" but the framework only focused on its credit programs. Why weren't the other programs and activities of ACPC not included in the analysis? Policy research, capacity building, monitoring and evaluation, advocacy and other tasks assigned by the Secretary of Agriculture all impinge on the so-called efficiency and effectiveness of the agency.	As mentioned earlier, the terms of reference of the study specifically called for the "review of the efficiency and effectiveness of existing policies, rules and guidelines of ACPC in responding to the credit needs of small farmers as well as ACPC's role in implementing credit programs." The study, however recognizes in the recommendation portion of the study that given the existing policy that government should focus on the establishment of the appropriate policy and regulatory environment for the participation of the private sector in agriculture credit,

	ACPC should instead focus its efforts in policy research, capacity building, monitoring and evaluation and advocacy. The study explicitly recognized that these activities are important in enabling small farmers to have access to credit and therefore should be the focus of ACPC as an institution. These activities are also in line with the current general policy framework on the role of government in credit provision.
The conceptual framework should have included budget and staffing complement for the AMCFP.	The study team requested for breakdown of budget specific to AMCFP but only total budget (table on Five (5) Year Budget and Expenditure/Obligation) was made available.
For the study to be meaningful, the consultant should have talked to one or two wholesalers and retailers and should have interviewed a few borrowers.	Given the time and budget constraints of the study, the authors opted for meetings with some stakeholders. There was no more time to interview wholesalers and retailers and borrowers. The evaluation of credit programs conducted earlier was instead used as basis of some of the observations.
1. On the Policy Framework:	
The policy framework should have cited the AFMA provision re initial and continuing appropriation and how the amount should be allocated to the 12 components of agricultural modernization. For the first year of implementation, Section 111 of AFMA provides an initial appropriation of P20 billion of which 10% should be allocated to AMCFP. Section 112 provides for a continuing appropriation of P17 billion annually for the next six years of AFMA. Given the provisions of Sections 111 and 112 of AFMA, we estimate that AMCFP should already have a total funding of 12 billion.	The authors recognized this. The authors, however believed that the basic policy framework on agriculture credit provision envisioned in Chapter 3 of AFMA is a demand-based allocation of credit, thus the emphasis on allowing private financial institutions to take a greater and more active role in agriculture credit. Hence, the authors believe that should funds be made available for the AMCFP, the basic policy framework for credit provision espoused in Chapter 3 of AFMA and the operating guidelines of AMCFP should be adopted.
2. On Section 4.5 – Evaluation of AMCFP Credit Programs The study cited a whole page of the findings of the Evaluation of the AMCFP credit Programs conducted by Dr. Gilbert Llanto in 2010. However, the author did not make a comment on these findings. Are these her conclusions as well? The author failed to look at the developments/ changes at ACP three years after the study was conducted.	The author agrees with most of the findings and recommendations of the Llanto study. The authors also recognized the changes made at ACPC by recognizing the new modality used to encourage private financial institutions to lend to agriculture – i.e. the use of special time deposits.
3. On Chapter 5 – On Efficiency and Effectiveness	
<u>On Assessment of Effectiveness</u> Unlike GFIs (e.g. Land Bank) or specialized government institutions (e.g. PCFC) engaged in lending, the ACPC does not directly implement credit program nor its functions solely on facilitating implementation of AMCFP credit programs. ACPC is engaged in catalytic actions to facilitate access to credit such as initiating the	The TOR of the study focused only on AMCFP. Data on effectiveness referred to AMCFP operations only. Specific information on the other programs in which ACPC is involved were not gathered inasmuch as these were already outside of the scope of the study. The authors however recognize that these programs are contributory to the overall objective of providing

development of new financing programs or credit enhancement schemes, policy research and advocacy, marketing and promotion credit facilities (including but not exclusively AMCFP-funded programs, conduct of capability building activities and acting a monitor of credit and credit enhancement programs. Moreover, ACPC continues to collect past due loans from terminated DCPs of various DA agencies. The non-AMCFP programs include the AGF Pool, Agrarian Production Credit Program (APCP) and Direct Market Linkage Program (DMLP). These programs, although not AMCFP-funded contribute to the overall goal of increasing access to credit. Thus, a fair assessment of ACPC's effectiveness should be based both on its direct contribution, i.e. AMCFP funded and its indirect contribution – through other facilitative actions- development of financing/credit support schemes, capacity building, monitoring and evaluation, among others.	access to credit to small farmers.
<u>Assessment of Efficiency</u> The costs for "administering" AMCFP is overestimated considering that ACPC is doing other programs/ activities other than AMCFP administration although as discussed in the foregoing section, there are all contributory to increasing access of small borrowers to agricultural credit. In fact, only one division (with 6 staff) is directly involved in facilitating and coordinating the implementation of AMCFP programs. The other divisions are partially or minimally involved as they have their primary functions to do. Bulk of total administrative costs of ACPC will be incurred regardless of the sale of AMCFP funded programs as these costs are incurred to perform continuing mandated concerns- monitoring bank credit flows, providing technical secretariat to RA 10000, policy research and advocacy, information campaign to farmers and fisherfolk on credit programs, capacity building and other tasks assigned by the Secretary of Agriculture like chairing the annual search for the Outstanding Organization and membership in the TWGs of the banner commodity programs. Thus, it is erroneous to impute that the total GAA budget of ACPC is the cost of administering AMCFP. Likewise, it is not proper to compare "operating cost per peso loan of ACPC administered programs" with administrative ost per peso loan of MFIs or similar lending institutions.	There was no breakdown of costs specific to AMCFP made available to the study team, thus, total cost was used to assess efficiency. A percentage of total costs may be computed for AMCFP activities but would still be an estimate.
In estimating for efficiency, the total loans generated instead of total loans granted should have been used.	Sources of data on loans granted included ACPC Accomplishment Reports and Annual Reports. Both reports use "loans granted" as indicator. "Amount of loans generated/granted (PM)" is even used as MFO/Performance indicator which actually reported loans granted. "Loans granted" was used to be

	consistent with these reports. The use of "loans generated" will include leveraged funds from partner organizations and will take account "efficiency" or operations of these institutions as well. This is already beyond the scope of the study.
The author should have estimated the level of funding required to increase borrowing from formal sources by 15 per annum to realize the goal of increasing formal borrowing from 52% in 2008 to 61% in 2016.	This is beyond the TOR of the study. As such, ACPC might want to include this in its policy research agenda.
4. On oversight of the AMFP function and Innovative Financing Schemes	
On page 12, the study noted...."The accredited wholesalers, LBP specifically, given its mandate as an institution should instead be given the responsibility to design and pilot test innovative schemes." While pilot testing is not within the mandate of AMCFP oversight, the ACPC has an explicit mandate to undertake special projects under the Magna Carta of Small Farmers. Section 22 Chapter VII of the law states that ACPC shall conduct special projects to promote IFS. The term "special projects" in this particular section includes time-bound projects that pilot-test IFSs. While pilot testing is not within the mandate of AMCFP oversight, the ACPC has an explicit mandate to undertake special projects under the Magna Carta of Small Farmers. Section 22, Chapter VII of the Magna Carta states that "The ACPC shall conduct special projects to promote innovative financing schemes for small farmers". The term "special projects" in this particular section includes time-bound projects that pilot test innovative financing schemes (IFS). Since the 1990's, the ACPC has been implementing special projects in partnership with financial institutions. In the case of the IFS called Rural Household Business Finance (RHBF), the ACPC provided the incentive through a hold-out deposit scheme to encourage rural financial institutions which are Land Bank partners under its rediscounting program to pilot test agricultural microfinance loan products. While the ACPC developed the basic concept of the loan product, the design of the particular loan products was the responsibility of the rural financial institutions. In the case of **Sikat-Saka,** the development of the special credit scheme was jointly done by DA and Land Bank with the latter taking the lead in designing the loan product, and ACPC providing the support fund (hold-out deposit) to Land Bank. Without the ACPC hold-out deposit, Land Bank and the rural banks would not have ventured in new (thus perceived risky) credit schemes. In all cases, implementation of the	As mentioned earlier, the authors believe that this provision was superseded by the policy framework espoused in Chapter 3 of the AFMA. Also, if one is to cautiously read the provisions in the Magna Carta, paragraph containing the section on the "special projects to promote innovative financing scheme" one would note that it refers more to credit enhancement projects that reduce agricultural risks and administrative costs of lending institutions, particularly referring to guarantee and insurance mechanisms. The current involvement of the ACPC in the agriculture guarantee fund and the crop insurance program addresses these concerns. Regarding the issue on the role of ACPC in developing concepts for innovative financing, the authors believe that ACPC will be more effective in delivering its mandate and functions by prioritizing and focusing on policy research, advocacy and implementation, capacity building and monitoring and evaluation. It is best to leave the design, pilot-testing and evaluation of credit programs to the financial institutions themselves. Given the limited staff complement of ACPC, this will enable the institutions to be more objective and effective in its policy analysis and program monitoring and evaluation.

pilot credit scheme is the responsibility of the lending institution while ACPC acts as the monitor. It is without basis to conclude that for ACPC to participate or take a lead in the design and development of innovative financing schemes would compromise its monitoring and evaluation function.	
Moreover, distinction should be made between the ACPC Governing Council (GC) and the ACPC is a National Government Agency. The GC is chaired by the Secretary of Agriculture while the Governor of the Central Bank is the Vice Chair. The other members of the GC are the Secretary of the Department of Finance, Secretary of the Department of Budget and Management, and the Director of the National Economic Development Authority. The GC is the policy-making body of ACPC and approves credit programs and their corresponding funding requirement. It is the agency that does the staff work, i.e., review of credit proposals including their funding requirement, design of innovative financing schemes, etc. To say that the design of innovative financing schemes would compromise the monitoring and evaluation of credit programs would put doubt on the capability of the GC in approving credit programs and their budgets.	It is true that the GC makes and approves the policies implemented. As secretariat to the Governing Council, it is believed that the GC as the policy making body uses the results of the study and analysis conducted by the secretariat. Hence, the secretariat has an important role in the decision making function of the GC. Results of the monitoring and evaluation activities of the secretariat have an important bearing on the decisions of the Council.
The author of the study claims that financial institutions should be the one to design innovative financing schemes because they are more competent to do so owing to their experience in banking. Although this generalization is unsubstantiated, we can accept it temporarily for the sake of argument. Of course, banks can always come out with new credit design and loan products but our guess is that these loan products are designed for those who can afford credit and thus would generate more profit for the institution. By contrast, the innovative financing schemes designed by ACPC are intended primarily for the sake of the under-banked and unbankable poor farmers and fisherfolk. ..... The author is recommending that financial institutions should be the one to design and implement innovative schemes for the underbanked and unbankable borrowers? Well, financial institutions have their own priorities and as the author says "financial institutions have their own bottom lines to protect".	The current policy framework derives wisdom from past experiences of government directly being involved in the design and implementation of credit programs. Tons of experience and empirical evidence compiled in various studies have shown this. It is right and the authors agree that private financial institutions cannot be convinced to lend to UNbankable and Unviable farmers and fisherfolk considering that the objective function of these institutions. As such, provision of credit may not be the primary intervention that should be given by government to these farmers. As secretariat to the GC which is the policymaking body mandated to make policy decisions on how to make credit more accessible to the farmers, the authors of the study believe that the ACPC as secretariat to the GC is mandated to provide options and recommendations on how to do this within the espoused policy framework of AFMA and AMCFP. Admittedly, some of the resulting solutions and recommendations may not necessarily be credit related and are not within the purview of the Governing Council. As such, it becomes imperative for ACPC as member of the DA family to espouse and

	advocate for such recommendations. Studies and empirical evidence have shown that there are several non-credit solutions to the access to credit problem.
5. 0% Collection efficiency of the Sikat Saka and the Fisheries Financing Program (FFP) (page 13, Table 1) The 200 million funding for the Sikat Saka Program with the Land Bank is still to mature by end of the Program in 2017 (?). Hence, no collection is expected, and no collection efficiency to speak of. Meanwhile, loans due under FFP totalling P13 million was collected/repaid in April 2014.	This was recognized in the study. In the table, it was indicated that the program only started in 2012. The 0% figure will be deleted and date started will be retained and explained in the text.
6. **On the AFFP Guidelines: (i) That GFIs should be required to share the credit risk; (ii) That the two lending modalities implemented by Land Bank and PCFC have differing interest rates; and (iii) That a baseline information and monitoring system should be established** (pages 35-37) The performance of the AFFP is subject to periodic reviews during which, operational as well as policy issues such as credit risk-sharing arrangements and credit and pricing schemes will also be revisited and, if needed, revised. Nonetheless, it should be noted that all credit programs are evaluated and approved by the ACPC Governing Council. Benchmarking for the AFFP involving RSBSA-listed farmers and fishers is currently being done for 41 provinces to establish baseline information by which the program will be evaluated.	These are observations in the guidelines borne out of earlier experience with similarly designed directed credit programs. These maybe considered in the periodic review of the guidelines.
7. **On the 15% interest rate.** While this is below market interest rate, it is a rate that banks have accepted through moral suasion mainly because it is still able to cover their administrative costs.	It is believed that AFFP as part of the AMCFP should still follow the credit principles espoused by AFMA.
8. The paper should have provided concrete examples for the recommendations given. Essentially, ACPC has been doing the strategies, e.g. ICB for weak farmer organizations, close coordination with other public and private organizations, recommended.	Elaboration on this was provided. Providing concrete example may not be within the study terms of reference at this point.