Agricultural Credit Policy Council

15 September 2015

USEC. LAURA B. PASCUA
Undersecretary
Budget Policy and Strategy
Department of Budget and Management
General Solano St., San Miguel, Manila

Dear **Usec. Pascua**:

We are submitting ACPC's rejoinder to the revised draft of the study entitled "Institutional Efficiency and Effectiveness of the Agricultural Credit Policy Council (ACPC) on Credit Financing" which we received on September 11, 2015 at 1:22 p.m.

We would like to thank the DBM and the study's authors from PIDS for addressing some of our comments in the initial draft of the study. However, there are still certain aspects of this revised version of the study that we do not agree with. Hence, we are again providing clarifications over some study findings as well as a few suggestions for further improving the draft report. These are as follows:

1. On the study's objectives and limitations

As we have already pointed out previously with the study authors, it would be inaccurate and incomplete to assess the institutional efficiency and effectiveness of ACPC by merely focusing on certain aspects of its major functions such as credit financing through the AMCFP programs. To do so will result in a "piece-meal" evaluation that does not accurately capture and depict the whole picture of what ACPC is doing, much less its impact on its target clientele, the small farmers and fishers. ACPC takes on a holistic approach to agricultural financing which entails not only the provision of credit but also the simultaneous implementation of credit-enhancement activities such as capacity-building, policy research and advocacy, which are equally important. Given this approach, the institution should therefore be assessed via its overall performance of its legal mandates, not just on the aspect of AMCFP credit financing.

2. On designing and piloting of innovative financing schemes (under Assessment of MFOs, page 17)

The study states that "...the task of preparing, designing and pilot-testing innovative schemes are not considered as inherent function of the ACPC." As we already clarified in our comments on the initial draft, ACPC is mandated by the Magna Carta for Small Farmers to "conduct special projects to promote innovative financing schemes for small farmers" (Section 21, Chapter VII). We do not agree with the authors of this study that this is inconsistent with the policy principles of the AFMA-AMCFP. Besides, the oversight function also includes taking the lead and an active role in developing credit programs for small borrowers. The authors, however, maintain that "special projects" pertain to credit enhancements, particularly agricultural insurance and credit guarantee, that reduce agricultural risks and administrative costs. For ACPC's part, we likewise maintain our argument that the said provision is meant as it is stated. Further, while insurance and guarantee are expected to reduce agricultural risks, they do not directly address the issue of reducing administrative costs. On the other hand, the financing schemes that ACPC helped design such as the Cooperative Banks Agricultural Lending Program (CBAP) specifically took into account the reduction of not only agricultural risks but also administrative costs of its partner financing institutions.

Likewise, the issue of banks being more competent than ACPC in designing credit programs for small farmers and fishers is largely a matter of perspective. Few formal lending institutions would take the initiative to design a credit program targeted for a risky sector and clients. ACPC is mandated to do so and its programs have been responsive as the study itself acknowledges. In fact, some financing schemes that were designed by ACPC have already been adopted as regular programs of banks such as the Land Bank of the Philippines.

Still on the issue of competence, it should be made clear that all financing schemes designed by the ACPC Secretariat is subject to review, scrutiny and approval of the ACPC Governing Council chaired by the Secretary of the Department of Agriculture with the Governor of the Bangko Sentral ng Pilipinas as Vice Chair and the Secretaries of the Department of Finance, Department of Budget and Management and Director General of the National Economic and Development Authority as members.

Competence of course is a matter of opinion. But we strongly believe that an agency such as ACPC with the mandate and the track record of improving credit access of small farmers and fishers, and headed by a Governing Council composed of the heads of agencies tasked to manage the financial, monetary, budgetary and economic affairs of the country, is more competent than banks in designing financing schemes for the small farming and fishing sector which, to begin with, are not popular clientele of most banks.

That being said, we refute the authors' claims and again maintain that ACPC has the legal mandate, competence, expertise and experience to design financing schemes for small farmers and fishers.

3. On Provision of Credit, page 25

The study mentions that "… ACPC has covered 61% of the target loans to be generated and 87 % of the number of borrowers to be covered for the period 2008 to 2012 (Table 3)." We suggest that the improving performance also be stated, noting that by 2012, the targets for loans granted was already exceeded (104 percent) and number of borrowers almost attained (99 percent).

4. On the administrative costs of AMCFP

The so-called absence of data on the costs of delivering credit under the AMCFP should not be a limitation. Researchers should not expect to have every data that they need at the tip of their fingers. Surely, there are ways of estimating the proximate ratio of operating costs to total loans granted. We believe that the cost of AMCFP credit is overestimated because the total budget of ACPC was used in the computation of costs.

It is still a wonder to us why the ACPC-AMCFP efficiency is compared to MFIs. There should be an explanation why this is so. Also, the authors of the study should show the "cost" and source of the MFI data on transaction costs.

5. On issues pertaining to the AFFP Guidelines, page 33-35

We would like to emphasize that the AFFP Implementing Guidelines was formulated by ACPC in close coordination with partner lending institutions, namely the Land Bank of the Philippines and the People's Credit and Finance Corporation (PCFC) as provided for under the special provisions of the 2013 P1.0 billion GAA capital outlay. The Implementing Guidelines, which provides for the organization of a National Executive Committee (NEC), was also reviewed not only by the ACPC Governing Council but by the DBM, as well. The NEC plays a very important role as one of the monitoring levels in the implementation of the AFFP.

As we have stated in our comments on the initial draft of the study, the performance of the Agri-Fisheries Financing Program (AFFP) is subject to periodic reviews during which, operational as well as policy issues such as those raised by the study on credit risk-sharing arrangements and credit pricing, shall be revisited and revised, if deemed necessary. Again, we reiterate that all credit programs including the AFFP are subject to evaluation and approval by the ACPC Governing Council prior to implementation. As for the need to establish baseline information on program beneficiaries, ACPC has already been conducting a benchmark survey for the AFFP involving RSBSA-listed farmers and fishers which will be used as basis for evaluating program performance.

On risk-sharing with Land Bank and PCFC. We agree with the authors that the Land Bank and PCFC should bear some of the risks of lending. But the sad truth is that they are only willing to lend to RSBSA-listed small farmers and fishers because it is not their money. And they will not even do it without the management fee. In fact, we recommended a 4% per annum management fee but land Bank and PCFC haggled for an additional 0.5% for a total of 4.5% per annum. And the authors are telling us that Land Bank and PCFC should be the ones to develop innovative financing schemes for the high-risk, marginalized farmers and fishers?

On the AFFP being both a directed and market-oriented program. It is true that the design of the AFFP is a virtual mix of a directed and market-oriented program. It is Land Bank that extends credit directly to farmers and fishers through its Lending Centers. By comparison, PCFC wholesales credit funds to its network of microfinance institutions (MFIs). Land Bank is a bank and we do not see anything amiss if it lends directly to farmers and fishers. It is non-financial government institutions that are not allowed under AFMA to engage in Directed Credit Programs (DCPs). Government financing institutions (GFIs) by all means can extend credit directly to borrowers. Also, the success of the Sikat-Saka Credit Program wherein Land Bank lends directly to farmers, has convinced the ACPC Governing Council that the Land Bank should follow the same design for the AFFP.

Both borrowers of Land Bank and PCFC are validated. The Regional Field Offices of the Department of Agriculture assist Land Bank and PCFC in authenticating the farmers and fishers in the RSBSA list.

On different interest rates by Land Bank and PCFC. As far as the interest rates are concerned, Land Bank lends at 15% per annum to its borrowers. For PCFC, the agreement is that interest rate at the borrowers' end should not exceed 24% per annum.

The market-oriented policy is a guide in setting interest rates. While it is true that the Secretary of Agriculture has dialogued with financial institutions to fix the interest rates at 15% and 24%, respectively for Land Bank and PCFC, the bottomline is that financial institutions are able to recover their costs in extending credit to poor farmers and fishers. This is actually a win-win solution for both FIs and poor borrowers.

6. *On Section 5.4, Credit Programs Implemented, page 18*

It is not true that the collection rate for the Sikat-Saka Credit Program is 0%. It is 89% as of June 30,2015.

7. *Study should have a "Discussion" Chapter*

Before the chapter on "Recommendation", the authors should provide a "Discussion" Chapter to synthesize the findings of the study. The Discussion Chapter shall also provide on the relevance of the AMCFP vis-à-vis the priority programs of the Department of Agriculture, on the one hand, and on the need to increase access to credit of small farmers and fishers, on the other hand. The discussion should also make a commentary on the AMCFP budget and ACPC Manpower Complement.

8. *On the Recommendations*

The recommendations are too simplistic. The authors should elaborate more on what they mean instead of making motherhood statements, e.g. "credit enhancement facilities should be established to ensure that risks in agricultural lending are reduced. In this regard, ACPC should coordinate with other concerned agencies" (Section 7.3, page 38).

We hope that the draft report will be further revised to incorporate our additional comments.

Thank you very much.

Very truly yours,

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