Philippine Institute of Development Studies

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

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List of Acronyms

ACPC	Agricultural Credit Policy Council
AFFP	Agriculture and Fisheries Financing Program
AFMA	Agriculture and Fisheries Modernization Act
AFMP	Agri-Fishery Microfinance Program
AGFP	Agricultural Guarantee Fund Program
AMP	Agri-Microfinance Program
AMCFP	Agro-Industry Modernization Credit and Financing Program
CALF	Comprehensive Agriculture Loan Fund
CALP	Cooperatives Agri-Lending Program
CBAP	Cooperatives Banks Agricultural Lending Program
CEI	Credit Extension Index
DA	Department of Agriculture
DBM	Department of Budget and Management
DOF	Department of Finance
DBP	Development Bank of the Philippines
EO	Executive Order
ERB	Executive Review Board
GFI	Government Financial Institutions
ICB	Institutional Capacity Building
LBP	Land Bank of the Philippines
NEC	National Executive Committee
OI	Outreach Index
PCFC	Peoples Credit Finance Corporation
PFIs	Private Financial Institutions
RBI	Reaching the Borrower Index
RSBSA	Registry System for Basic Sectors in Agriculture

Executive Summary

In line with the government's thrust to improve efficiency and effectiveness of the government's budgeting system, the Department of Budget and Management (DBM) commissioned the Philippine Institute of Development Studies (PIDS) to review the performance of government entities in executing their mandates and delivering their major outputs. This study covers the assessment of the Agricultural Credit Policy Council (ACPC).

The ACPC is mandated under E.O. 113 to coordinate all credit policies and programs in support of the department's policy and program priorities. R.A. 8435 or the Agriculture and Fisheries Modernization Act (AFMA) further expanded ACPC's role as administrator of the Agro-Industry Modernization Credit and Financing Program (AMCFP). The ACPC provides a) credit facilitation services, including administration of the AMCFP; b) extension, support, training and education services; and c) development, implementation, monitoring and evaluation of plans, policies and programs. It presently implements the three financing programs under the AMCFP: a) Cooperatives Banks Agricultural Lending Program (CBAP), b) ACPC-Peoples Credit Finance Corporation (PCFC)-Agri-Microfinance Program (AMP) and c) Sikat-Saka Program.

The study conducted an assessment of ACPC's role as evaluator of credit programs, policy research body and administrator and implementer of the AMCFP vis a vis its legal mandates covering the period 2008-2012. The review focused on the credit financing activities of the ACPC specifically those of the AMCFP Programs. Other interventions (e.g. capacity building, research and advocacy), deemed also contributory to the overall objective of providing access to credit of small farmers, were not covered by the study.

The assessment particularly focused on the a) efficacy of ACPC policies and guidelines in helping small famers gain access to loan funds; b) 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 E.O. 138; and c) review of ACPC's consolidated major final output (MFO) to determine whether its role has been actually broadened instead of limiting it to policy-making and pilot-testing of credit policies and programs.

The following are findings from the assessment:

<u>On ACPC's policies, guidelines and activities</u>

1) The ACPC has performed the following major activities: a) administered the collection and mobilization of funds and monitored terminated DCPs and on-going programs under AMCFP; b) conducted credit facilitation activities including institutional capacity building; and c) designed and pilot-tested innovative financing schemes as part of its credit financing activities.

2) Nonetheless, it needs to refocus some activities to be consistent with the overarching policy principles espoused under the AFMA. As oversight of the AMCFP, ACPC reviews and approves funding proposals from accredited wholesalers. Following the review, ACPC allocates funds based on the projected credit demand of the accredited wholesaler. The ACPC secretariat, however, is also involved in the program design and formulation, thus, compromising its role as reviewer of the credit program. As administrator of the AMCFP, it is limited to the review, monitoring and approval of programs that will be funded by AMCFP. The tasks of preparing, designing and pilot-testing innovative financing schemes (IFS) or credit programs are not considered one of its inherent functions. These tasks should instead be given to accredited wholesalers such as the LBP, DBP and PCFC. ACPC may design an incentive mechanism for the implementation of other innovative schemes (e.g. provision of funds for capacity building, etc.) to encourage wholesalers to develop and implement IFS. 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.

3) The credit programs financed by AMCFP has adopted different implementation mechanisms (e.g. wholesaler-retailer through revolving fund or special financing window for rediscounting and credit line; depository mode scheme or placement of special time deposits in conduit banks; or wholesaler-end-borrower relending) that are market-based consistent with the principles and operational guidelines of the AFMA, except for the Sikat-Saka Program which has a cap on its interest rate. Credit decisions are assumed by the wholesalers. Credit risks are also either assumed fully by the wholesalers or shared among their retailers. Fund allocation to retailers is by demand.

On effectiveness and efficiency of credit programs

4) The credit programs funded by the AMCFP are found to be responsive. A total of P 3.89 billion was released to about 164,533 borrowers representing 61% of the target loans to be generated and 87 % of the target number of borrowers, respectively, from 2008 to 2012. Some 553 conduit financial institutions (rural banks, cooperatives, NGOs and people's organization) participated in the program. Factors contributory to the receptiveness of these programs are the simple loan application and screening procedures adopted and tailor-fitted to small farmers and fisherfolk and proximity of the retail financial institutions to their clients. Whether the programs have increased the number of small farmers and fisherfolk with access to credit or just financed repeat loans, however, cannot be categorically determined due to the lack of baseline information.

5) The computed average credit extension index, 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 DA. Meanwhile, the average loan size stood at P 23,630 per beneficiary that was less than the average loan size of the sector. The resulting reaching the

target borrower index showed that the AMCFP-funded programs are catering to the small farmer and fisherfolk borrowers as intended.

6) In terms of efficiency, the ratio of operating cost to total loans outstanding (cost per peso loan), averaging at 0.05 for the period covered paralleled with the average administrative cost per peso loan of microfinance institutions. When total cost of lending (including personnel services and those associated with the implementation of capacity building, research and advocacy programs) is considered, however, average cost per peso loans granted at 0.07. This ratio appears to be on the high side given that ACPC is wholesaling the AMCFP fund to partner wholesale institutions. The relatively high cost is due to the inclusion of the cost of capacity building interventions to facilitate access to the funds. The authors were not provided a breakdown of these costs.

On guidelines of the Agriculture and Fisheries Financing Program (AFFP)

7) The AFFP is a P 1 billion flexible credit facility earmarked initially for farmers and fisher folk who are non-agrarian reform beneficiaries in the 20 poorest provinces included in the Registry System for Basic Sectors in Agriculture (RSBSA). ACPC has drawn up the implementing guidelines for the program in December 2013. A review of the guidelines, however, showed that the program appears to revert to the old directed credit program with its many inconsistencies with the AFMA principles and guidelines. One is that the program adopts both directed/fixed and market-oriented interest rates that can send confusing signals in the credit market. Certain credit decisions (minimum criteria for eligible sub-borrowers and pass-on rate) are imposed when these should be left to the participating financial institutions' discretion. The credit-risk free arrangement with GFIs clearly violates the intent of the AFMA and the AMCFP and may prompt GFIs to behave in a sub-optimal manner in terms of screening and evaluating borrowers. Similarly, the special credit facility where service conduits will endorse borrowers to LBP may also lead to entitlement mentality among members of the service conduits. The policy formulation and oversight roles of the program's National Executive Committee (NEC) seemingly duplicate those of the ACPC Council which can best provide the policies and overall direction of the program. Finally, there is no clear monitoring and validation mechanism on the beneficiaries of program. It is important that a baseline information on borrowers availing loans from the AFFP be collected for evaluating and determining program effectiveness and impact.

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

1) *On ACPC's role and mandates. As* administrator and overseer of AMCFP, 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 innovative financing schemes 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 AFMA, ACPC can instead focus on special projects to promote innovative financing schemes that reduce agricultural risks and administrative costs of lending institutions (e.g. guarantee and insurance mechanisms) to facilitate credit delivery.

2) 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) *Monitoring and evaluation.* 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. ACPC as oversight should 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 policy guidelines to be adopted for the P1 billion credit facility

4) GFIs should be required to share the credit risks of the AFFP to increase their stake in the program. To encourage wholesalers to participate in the program, a performance indicator and incentive system may be set-up. Incentives, tied-up with a performance indicator system, should be able to prompt and encourage wholesalers and retailers to lend to the higher risk small farmer and fisherfolk.

5) ACPC should be the oversight and monitor of the credit facility. There is no need to establish an NEC inasmuch as this will duplicate the function of the Council. The day to day operation of the program should best be left to the participating GFIs and other retail institution.

6) There is also a need to establish a baseline information and monitoring system that will enable program evaluation including its effectiveness and efficiency in covering the target clientele in the poorest provinces.

On strategies for making credit more accessible to farmers

7) ACPC should focus on developing, facilitating and/or providing needed support services to both lenders and borrowers. Credit enhancement facilities or risk reducing and risk mitigating mechanisms for agricultural lending (insurance and guarantee) should be established to ensure that credit risks are reduced. ACPC may also study index-based

insurance to determine their applicability to local situation, review the role and function of the PCIC given the increased interest of the private sector in providing risk protection to the low income sector, study and promote public-private sector partnerships in crop insurance, and study the current performance of the guarantee system for agriculture.

8) Aside from reducing risks in agriculture to encourage lenders to lend to small farmers and fisherfolk, improving the financial literacy of small farmers and fisherfolk 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 of available risk management tools.

1 Background and Rationale for the Study

In line with the current thrust to be more efficient and transparent in the use of government resources, the DBM commissioned the PIDS to review the institutional efficiency and effectiveness of the Agricultural Credit Policy Council (ACPC). The review will provide relevant information as the government shifts into zero-based budgeting system. Specifically, the review will provide information on ACPC's programs, activities and projects that are not within its core mandate or information on programs, activities and projects that are not implemented but are part of its mandated functions. The review will also determine the efficiency and effectiveness of ACPC in providing credit support services using a market-oriented approach as espoused in the Agriculture and Fisheries Modernization Act (RA 8435) and in Executive Order 138, which were issued in 1997 and 1999, respectively. The assessment of the ACPC's programs, policies and guidelines on providing small farmers access to credit is important in designing succeeding programs and policies on agricultural credit financing. In particular, results of the review will inform the proposed guidelines on the implementation of the P 1 billion flexible credit facility being proposed for the small farmers.

The review will also provide relevant information on the effectiveness of the DBM Executive Review Board's (ERB) directive for ACPC to veer away from directly implementing credit programs but to instead focus on policy research on the efficacy of agriculture credit programs and on the formulation of appropriate and relevant policy guidelines to provide farmers increased access to credit.

In view of the foregoing, the proposed undertaking of the zero-based budgeting-program evaluation on the efficiency and effectiveness of the ACPC on credit financing is therefore important.

2 Objectives of the Study

As an attached agency of the Department of Agriculture (DA), the ACPC is mandated under Executive Order 113 (1987) to coordinate all credit policies and programs in support of the department's policy and program priorities. DA Administrative Order No. 5 (1987) also mandated ACPC to administer the Comprehensive Agriculture Loan Fund (CALF). Under Republic Act (RA) 8435 known as the Agriculture and Fisheries Modernization Act (AFMA) of 1997, ACPC's role was further expanded as administrator of the Agro-Industry Modernization Credit and Financing Program (AMCFP) which consolidates all the remaining credit funds of phased-out directed programs in agriculture. The law specifically mandated the adoption of market-oriented approach in the implementation of AMCFP. Thus, under AMCFP guidelines, funds shall be transferred to GFIs and qualified cooperative banks which shall provide wholesale funds to private financial institutions using market-based principles.

At present, the ACPC implements the following financing programs under the AMCFP: a) Cooperatives Banks Agricultural Lending Program (CBAP), b) ACPC-Peoples Credit Finance Corporation (PCFC)-Agri-Microfinance Program (AMP) and c) Sikat-Saka Program.

In line with the DBM's thrust to improve efficiency and effectiveness of the government's budget, an assessment of ACPC's role as evaluator of credit programs, policy research body and administrator and implementer of the AMCFP vis a vis its legal mandates shall be conducted. The study, among other things, reviewed the efficacy of ACPC policies and guidelines in helping small famers gain access to loan funds. In relation to this, the ACPC's consolidated major final output (MFO) was also reviewed to determine whether its role has been actually broadened instead of limiting it to policy-making and pilot-testing of credit policies and programs.

The study reviewed and assessed the credit financing programs of ACPC based on its core mandate and in view of the rationalization of credit programs as embodied in the AFMA and E.O. 138. It covered the following:

a) 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;

b) 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;

c) 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

d) recommendation on the improvement to be done on ACPC function, credit policy, role and strategy that the national government can pursue.

3 Limitations of the Study

The study did not attempt to make an overall assessment of the ACPC as an institution. While the study is entitled institutional efficiency and effectiveness of the ACPC, it only focused on the specific objectives stated in Section 2. The evaluation was limited to the credit financing activities of the ACPC specifically those of the AMCFP Programs. Other interventions (e.g. capacity building, research and advocacy) that are also deemed contributory to the overall objective of providing access to credit of small farmers were not covered by the review.

4 Conceptual Framework and Methodology

The efficiency and effectiveness of an institution's approach to credit financing is demonstrated when small farmers are actually given access to financing. As an attached agency to the Department of Agriculture, the ACPC is mandated under EO 113 and EO 116 to coordinate all credit policies and programs in the agriculture sector to ensure that small farmers are given access to credit. Part of the task is to review and evaluate the economic soundness of all ongoing and proposed locally or foreign-funded agricultural credit programs prior to approval.

Based on its legal mandate, the ACPC identified credit facilitation services as its major final output. In view of this, ACPC formulates and implements programs, activities and projects that would facilitate private sector participation and therefore provide small farmers access to credit. Aside from this, the ACPC also formulates policies, guidelines and rules for implementing credit programs using a market-based approach. The National Government through the DBM allocates budgetary resources for personnel, operations and maintenance for the implementation of ACPC's core mandate.

Using the above framework (shown in Figure 1 below), the various programs, activities and projects of the ACPC shall be assessed and evaluated in terms of their efficiency and effectiveness in providing small farmers' access to credit services. In particular, the P1.0 billion funds appropriated under the FY 2013 General Appropriations Act "for the establishment of a flexible credit facility for the benefit of small farmers registered in the Registry System for Basic Sectors in Agriculture (RSBSA) as an alternative to the stringent credit facilities usually provided by banks" shall be evaluated. The guidelines formulated by ACPC for a streamlined and equitable access by the farmers of this credit facility shall likewise be evaluated.

Based on the results of the evaluation, specific recommendations on how ACPC as an institution engaged in policy research and formulation can effectively carry out its mandate to ensure effective credit financing shall also be formulated.

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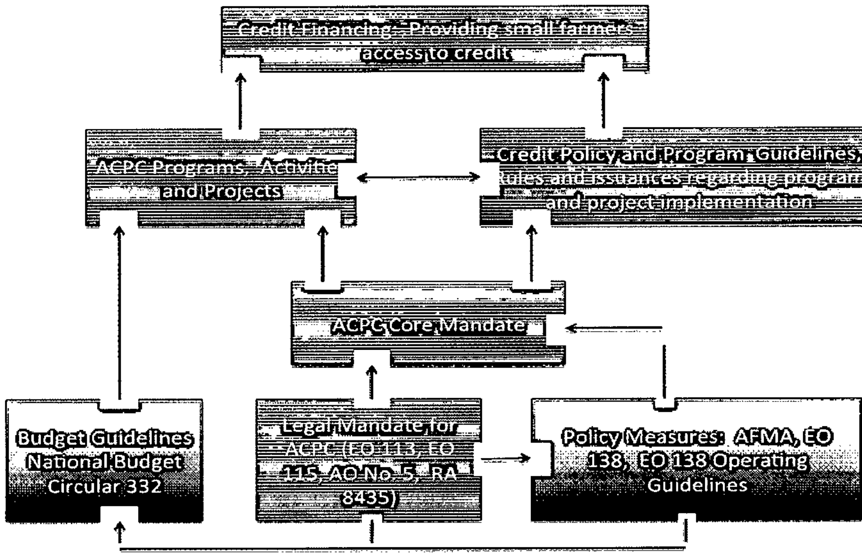
Figure 1. Analytical Framework



5 ACPC: Efficiency and Effectiveness of Credit Policies and Programs

5.1 The Mandate of ACPC

With the implementation of financial reforms in the mid- 80s and in response to the findings that direct government intervention in the credit market resulted in very poor repayment rates, weak private financial institutions 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 Executive Order 113. Instead of providing credit directly to target beneficiaries, the CALF was used to provide guarantee to agricultural loans granted by private financial institutions. This is to encourage private financial institutions to lend to the agricultural sector in general and the small farmers in particular.

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,

1 Section 4 of EO 113 states that 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.

small farm financing and resource mobilization. In particular, the management of CALF was also delegated to ACPC. The ACPC is an inter-agency Council whose membership is comprised of the following: Minister of the MAF as Chairman, Governor of the Central Bank of the Philippines as Vice Chairman, the Director-General of the National Economic and Development Authority (NEDA), the Minister of the Ministry of Budget and Management and the Minister of the Ministry of Finance as members. The Council is supported by a secretariat, headed by an Executive Director, which is tasked to implement the policies, guidelines, decisions, programs and activities directed and approved by the Council for implementation.

Aside from synchronizing credit policies and programs, the Council is also tasked to i) review and evaluate the economic soundness of all on-going and proposed agricultural credit programs; ii) review reports and documents of all programs with agriculture credit and financing components; and iii) undertake measures to increase its fund base in consultation with the Monetary Board.

The ACPC became an attached agency of the Ministry of Agriculture when the latter was reorganized into the Department of Agriculture in January 1987 under EO 116. ACPC's core mandate and functions that were stipulated in EO 113 remained.

5.2 The Policy Framework

Recognizing the inefficiencies of subsidized directed credit programs[3], the government shifted towards a market-based approach in providing credit services to small farmers and fisherfolk. This is specifically stipulated in RA 8435 - Agriculture and Fisheries Modernization Act (AFMA), which among other things, provided for the following: i) phase-out of subsidized directed credit programs; ii) adoption of market-based credit policies and; iii) non-participation of government non-financial agencies in the implementation of agricultural credit programs. To implement these provisions, the Agricultural Modernization Credit and Financing Program (AMCFP) was established under RA 8435. All the funds of the phased-out and terminated agricultural directed credit programs shall be consolidated into the AMCFP, which shall 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 private financial institutions (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 private financial institutions in delivering credit services to the agriculture sector.

Based on the policy thrust and directives articulated in the AFMA, the program design and operating guidelines of the AMCFP was jointly formulated by the Department of Finance- National Credit

[3] Various studies conducted by the Department of Finance, National Credit Council through the USAID-funded Credit Policy Improvement Program (CPIP) in 1987 report and document the inefficiencies of directed credit programs in the agriculture sector.

Council (DOF-NCC) and the DA-ACPC[4]. The AMCFP design and operating guidelines adopt the following policy principles:

- The Department of Agriculture 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 private financial institutions.

- Lending institutions (banks, cooperatives, and other microfinance institutions) shall make the credit decision and bear the credit risks. Government Financial Institutions (GFIs) shall provide wholesale funds to private retail financial institutions such as cooperatives, rural banks and microfinance NGOs which shall bear the credit risks. These lending institutions are given the leeway to disburse the funds and screen their 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 Executive Order No. 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; non-participation of government non-financial 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. It espouses the same policy principles in the AFMA and the AMCFP.

5.3 Major Final Outputs

Given its mandate under EO 113 and EO 116 to assist the Department of Agriculture (DA) in synchronizing all credit policies and programs with the end view of expanding credit services to small farmers and fisherfolk, the ACPC contributes to two major final outputs (MFOs)[5] of the DA. These are: in DA-MFO 1 - the delivery of agriculture support services and in DA-MFO 3 - the

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[4] The design and operating guidelines of the AMCFP were approved by the DOF-NCC on December 11, 1998 and the ACPC governing council on January 7, 1999. The guidelines were subsequently revised and approved on June 20, 2001.
[5] Major final output (MFO) is defined in the Organizational Performance Indicators Framework (OPIF) developed by the Department of Budget and Management (DBM). MFO is defined as the goods and services provided to external clients to achieve a common outcome. Accomplishing the MFOs results in organizational outcomes that provide short and medium-term benefits to clients.

planning, development, implementation, monitoring and evaluation of plans, policies and programs of the Department. Under each of these MFOs are sub-MFOs that identify the specific outputs expected of ACPC as the attached agency of DA responsible for ensuring that small farmers and fisherfolk have access to credit financing. The sub-MFOs are i) credit facilitation services; ii) extension, support, training and education services and iii) policy research and studies, program monitoring and evaluation for the development and formulation of appropriate credit policies and programs.

Given the policy principles embodied in the AFMA and the program guidelines of the AMCFP, ACPC conducted the following activities from 2008 to 2010[6].

<u>On credit facilitation services.</u>

- Administer collection, mobilization of funds and monitoring of terminated DCPs and on-going programs under AMCFP
- Oversee the implementation of the AMCFP
- Conduct credit facilitation meetings, consultations, dialogues, workshops, orientation, market matching seminars with program partners and beneficiaries
- Design and pilot-test innovative financing schemes

<u>On extension, support, training and education services.</u>

- Package and fund Institutional Capacity Building (ICB) programs for farmers' organization or NGOs
- Implement ICB activities for coops, banks, NGOs etc. through training institutions
- Conduct advocacy activities to generate public awareness, understanding, acceptance and support to ACPC/DA policies, programs and projects
- Package, publish and disseminate IEC materials

<u>On development, implementation, monitoring and evaluation of plans, policies and programs</u>

- Undertake policy research and studies that provide timely recommendations on credit policies and programs for the agriculture and fisheries sector
- Provide comments on legislative bills and participate as resource persons in legislative hearings
- Conduct monitoring activities on: AMCFP, IFS and ICB activities, guarantee and insurance programs, total bank loans to agriculture and fisheries

[6] Based on the physical report of operations and agency performance measures submitted by ACPC to the Department of Agriculture annually. Only accomplishments for the years 2008 to 2012 were covered by the study.

- Maintain and administer the management information system

The foregoing activities show that ACPC implements pilot or innovative credit schemes but does not directly implement credit programs. ACPC develops, designs and pilot-tests innovative financing schemes that would increase the access of small farmers and fisherfolk to credit. The pilot-testing of innovative financing schemes are, however time-bound[7].

Its oversight function over the AMCFP ensures that AMCFP-funded credit programs follow the policy principles espoused in the AFMA and in the design and operating guidelines of the AMCFP. Specific implementation issues related to ACPC's oversight functions of the credit programs under the AMCFP are discussed in Section 4.4 below.

Assessment of the MFOs

While the sub-MFOs seem to be aligned with the policy principles espoused in the AFMA and EO 138 (i.e. government to only provide the enabling environment for credit services to allow the increased participation of the private sector and that government should not be engaged in directly implementing government credit programs), there may be a need to refocus the specific activities under each sub-MFOs to ensure that ACPC does not engage in activities that may pose a conflict with the overarching policy principles. These are:

i. _On ACPC oversight function over AMCFP._ As oversight of the AMCFP, ACPC reviews and approves funding proposals from accredited wholesalers which determines the projected credit demand. Based on the review, ACPC allocates funds based on the projected credit demand of the accredited wholesaler. The ACPC secretariat, however, forms part of the committee that designs and formulates the credit program. As such, its role as reviewer of the credit program is compromised.

ii. On design and implementation of pilot schemes. Under the credit facilitation services, ACPC engages in the design and implementation of innovative financing schemes. While these schemes are implemented by GFIs and/or accredited wholesalers, these seem to pose a conflict with its function as AMCFP oversight, monitor and evaluator of programs implemented under AMCFP. As administrator of the AMCFP, it is limited to the review, monitoring and approval of programs that will be funded by AMCFP. As articulated in the operating guidelines, the ACPC, as oversight committee shall exercise the following functions[8]:

- Review and approve the annual budget of the AMCFP;

[7] ACPC in coordination with the Land Bank of the Philippines designed two innovative financing schemes (RHBF from 2004-2008 which was later subsumed under PCFC's AMP and AFMP from 2007-2010)

[8] Quoted from the design and operating guidelines of the AMCFP revised and approved by the ACPC governing council on June 20, 2001

- Approve the AMCFP plan of action including targets and priorities;
- Cause and facilitate the conduct of performance evaluation of the AMCFP, the AMCFP Fund Wholesalers and the AMCFP Fund Retailers;
- Cause and facilitate the conduct of related policy and action research studies to equip itself with empirical trends and findings as a guide in recommending appropriate policy directions; and
- Require the submission of reports from the institutions involved in AMCFP implementation.

Given the foregoing, it shows that the task of preparing, designing and pilot-testing innovative schemes are not considered as inherent function of the ACPC. These are tasks that are expected of the AMCFP's accredited wholesale financial institutions. It is, however argued that ACPC's role in the design and pilot-testing of innovative financing schemes is merely catalytic and is time-bound. Llanto (2010) reported that Land Bank of the Philippines (LBP) adopted the Special Agricultural Financing Window (SAFW) as part of its regular program and the Rural Household Business Financing (RHBF) under the AMP was implemented by PCFC after the pilot phase.

While the schemes seemed to have worked out, it is believed that design, and pilot-testing is not within the mandate of ACPC as oversight of AMCFP. By engaging in this activity, its monitoring and evaluation function is compromised. The accredited wholesalers, LBP specifically, given its mandate as an institution and its role in the AMCFP should instead be given the responsibility to design and pilot-test innovative schemes.

To enable and encourage them to do this, ACPC may design an incentive mechanism for the implementation of innovative schemes (e.g. lower interest rates, provision of funds for capacity building, etc.). As a financial institution that caters to small farmers and fisherfolk, the LBP in particular has the mandate, competence and responsibility to design and implement innovative credit programs/schemes. Also, by veering away from pilot-testing, the seeming conflict of interest between design, implementation, monitoring and evaluation is addressed. As monitor and evaluator, it is best for ACPC to limit itself to this function.

In view of the foregoing, *the sub-MFO credit facilitation services* may be refocused to *credit support services* inasmuch as credit facilitation can be construed to include direct implementation through pilot-testing. Credit support services would mean the implementation of activities that supports effective credit implementation, e.g. conduct of advocacy activities, capacity building activities, monitoring and evaluation and conduct of policy research and studies that would provide useful insights in the effective design and implementation of credit programs..

5.4 The Credit Programs Implemented

To address the continuing problem of the small farmers' and fisherfolk's limited access to credit financing, the government through the Department of Agriculture took a more pro-active stance in expanding credit to small farmers and fisherfolk. In line with this, the ACPC approved the development and pilot-testing of innovative financing schemes for credit constrained small farmers and fisherfolk using funds from and following the operational policies and guidelines of the AMCFP (Llanto, 2010). These are time-bound credit programs, which could be replicated by participating financial institutions if proven successful. Llanto reported that two innovative financing schemes (SAFW and RHBF) were completed and were found successful. The SAFW used non-traditional lenders such as input suppliers and traders in lending to individual farmers while RHBF employed a cash flow-based financing/ repayment for agricultural households. The LBP has adopted the RHBF as part of its regular lending program for rural and agricultural households.

To date, ACPC continues to oversee the implementation of credit programs that are designed following the policy principles and operating guidelines of AMCFP. Table 1 below lists the various programs funded by AMCFP funds and the status of their implementation.

Table 1. Credit Programs funded by the AMCFP[9]

Name of Program	Launch Date/Legal Basis/Area Coverage	Status of Implementation						
		Amount earmarked at start	*Amount outstanding at end of program*	*No. of wholesalers/ participating banks/ coops*	*Total fund releases from AMCFP to partner institutions*	*Volume of loans granted*	*No. of end-beneficiaries*	*Collection Efficiency (%)*
On-going Programs								
1. Cooperative Banks Agricultural Lending Program (CBAP)	2008-2010 as IFS (CBAP1); 2011 (CBAP2)/ RA 8435 (AFMA); RA 7607 (Magna Carta for Small Farmers)/ Nationwide	P 400 m; total approved STD placements is P 473 m (as of Dec 2013)	P 24.07 m (CBAP1) and P 248.53 m (CBAP2) (in Dec 2013)	4 wholesalers (CBAP1); 17 retailer coop banks (CBAP2)	P 504 m	P 1,406.8 m (CBAP1); P 1,130.6 m (CBAP2	24,726 (CBAP1); 21,527 (CBAP2	99.18% for CBAP1; 60.06% for CBAP2
2. Agricultural Microfinance Program (AMP)	Sept 2009/ Sec. 23 of RA 8435 (AFMA); RA 7607 (Magna Carta for Small Farmers)/ Nationwide	P200 m (Dec 2010)	P 140 m (in Dec 2013)	1 wholesaler (PCFC); MFIs= 30	P 200 m (in Dec 2013)	P 530.4 m	50,592 agri-fishery households	100 %

[9] The AMCFP became operational in 2003.

Name of Program	Launch Date/Legal Basis/Area Coverage	Status of Implementation						
		Amount earmarked at start	*Amount outstanding at end of program*	*No. of wholesalers/ participating banks/ coops*	*Total fund releases from AMCFP to partner institutions*	*Volume of loans granted*	*No. of end-beneficiaries*	*Collection Efficiency (%)*
3. Sikat-Saka	2012/ RA 8435 (AFMA); RA 7607 (Magna Carta for Small Farmers)/ 4 priority provinces: Nueva Ecija, Isabela, Iloilo and North Cotabato	P 400 m (P200 million from ACPC-AMCFP and P200 million from Land Bank)	P200 m	1 wholesaler (LBP)	P 200 m	P 49.2 m	764 rice farmers	0% (started in 2012)
Completed Programs								
1. Agri-Fishery Microfinance Program (AFMP)	2007-2010/ RA 8435 (AFMA); RA 7607 (Magna Carta for Small Farmers)/ Nationwide			497 conduits		P 44.2 m	3,641	100%
2. Cooperatives Agri-Lending Program (CALP)	2011-2012/ AFMA/Quezon, Camarines Sur, Iloilo, Antique, Isabela, Leyte, Sorsogon, Misamis Oriental, and Northern Samar	P 200 m	0			P. 5.5 m	159	100 %
3. Tobacco/ Rice Contract Growing Program (with NTA)	2007-2010 DA policy thrust to extend to this sector Region 1 including Abra	P 28.5 m		Not applicable		P 53.6 m	5,920	
4.Tomato Production and Paste Processing System (with NFC)	2008-2011 DA policy thrust to extend to this sector Ilocos Region			Not applicable		P 127 m	7,024	
5. Fisheries Financing Program	2007-2011 AFMA Nationwide		P 13 m	2 GFIs		P 3.5 m	237	0 %
6. AMCFP-Quedancor	2003-2007 AFMA			1 (QUEDANCO		P 749.3 m	33,732	

Name of Program	Launch Date/Legal Basis/Area Coverage	Status of Implementation						
		Amount earmarked at start	*Amount outstanding at end of program*	*No. of wholesalers/ participating banks/ coops*	*Total fund releases from AMCFP to partner institutions*	*Volume of loans granted*	*No. of end-beneficiaries*	*Collection Efficiency (%)*
	Nationwide			R))				
7. Special Agricultural Financing Window (SAFW)	2003-2007			1 (LBP)		P 226.9 m	41, 387	
Others (IFS and DA-funded)								
1. IFS-Rural Household Business Financing Program (RHBF)	2004-2008/ RA 8435 (AFMA)	P 6 m	0	19		P 75.9 m	6,465	100 %
2. Direct Market Linkage Development Program (DMLDP)	2008-2012/ AFMA/ Nueva Vizcaya, Tarlac, Laguna, Batangas, CARAGA, Negros Occidental and Iloilo.			16		P 104.9 m	26,933	
3. Microfinance Credit Component of Upland Southern Mindanao Credit and Institution Building Program (USM-CIBP)	2010-2012/ Southern Mindanao; Bohol			Not applicable		P 30 m	P 2,534	

Source: ACPC Accomplishment and Annual Reports

Except for the NTA, NFC and DMLDP, all of the other programs were implemented using the wholesale-retailer strategy wherein the ACPC lends out the AMCFP funds to accredited wholesalers (i.e. Land Bank of the Philippines, People's Finance and Credit Corporation, United Coconut Planters' Bank, and big some cooperatives) which then relend the funds to participating private financial institutions that retail the funds to small farmers and fisherfolk.

In 2011, following the recommendations of the study that reviewed the implementation of credit programs funded under the AFMA, AMCFP funds were placed as special time deposits (STDs) in selected wholesalers (CBAP2). According to the ACPC, this approach lowers the cost of lending to small farmers and fisherfolk inasmuch as one layer of cost was eliminated (i.e. the AMCFP to wholesaler interest on loans). The STD rates are lower than the cost of wholesale funds.

5.5 Evaluation of the AMCFP-funded Credit Programs

In 2010, the ACPC commissioned the review of credit programs funded by the AMCFP. Note that the findings are fairly recent and still applies to the current situation. The study (Llanto 2010) reported the following:

- Except for two (NTA and NFC programs)[10], all the credit programs financed by the AMCFP are consistent with the market-based policy thrust espoused in the AFMA and in Executive Order 138. The procedures and guidelines employed are also consistent with the operational guidelines of the AMCFP.
- Some programs (CBAP and PCFC-AMP) have increased the volume of loans to small farmers and fisherfolk. While the number of borrowers has also increased with these programs, the study mentioned the participating wholesalers are still operating below their potential capacities. It is believed that the participating financial institutions can still significantly increase their outreach and coverage.
- Two programs (LBP AMFP and FFP) were found not to be delivering the desired results and were suggested to be scrapped. The funds for these programs are recommended for transfer to other programs that are performing well.
- In view of the sub-optimal performance of the wholesalers and retail financial institutions, the policy relevance of the programs is muted at the implementation level. Since there is no monitoring at the retail level, the study surmised that some of the FIs used the AMCFP fund to finance repeat loans of existing borrowers hence, no additionality from program.
- The lack of additionality puts the potential effectiveness of the programs in doubt. The study further states that the programs can further be improved to deliver strong results: i.e. finance more new borrowers.
- The programs funded by the AMCFP lack work and financial plans, which indicate program targets that are supportive of the policy thrusts of the DA and the ACPC. Because of this, the programs have been convenient source of loan funds for both wholesalers and retailers. The liquidity in the system and the availability of wholesale funds from other government financial institutions or GOCCs (e.g. LBP, NLDC, etc.) put the AMCFP programs sometimes at a competitive disadvantage.
- Most of the participating institutions are considered viable and able to deliver the needed results except for a few that were accredited despite poor financial condition (i.e. negative net worth and high past due)
- The biggest funded programs (CBAP and PCFC-AMP) are deemed responsive to the clients. The loan application and screening procedures are considered simple and

[10] According to ACPC, these programs were directly funded by the DA and did not use any AMCFP funds. As such, the program design did not follow the AMCFP guidelines and policy principles.

tailor-fitted to small farmers and fisherfolk. Also, the proximity of the retail financial institutions enables them to be more responsive to the clients.

- An alternative lending strategy of using selected financial institutions as depository banks of government funds to be used for credit programs with those institutions assuming full credit risk could be explored to lower the borrowing cost to small farmers and fisherfolk and to expand outreach.

5.6 Effectiveness and efficiency in implementing its mandate

5.6.1 Effectiveness

Program policies, guidelines and procedures

In facilitating access to credit, ACPC has pilot-tested and implemented different approaches and schemes. Table 2 provides a cursory evaluation of the different implementation approaches and schemes pilot-tested and implemented by ACPC. Some have been effective in facilitating credit provision.

Table 2. Evaluation of AMCFP Implementation Approaches

Implementation Mechanism	Specific Credit Program/s	Policy principles/guidelines adopted	Remarks
1. wholesaler-retailer approach thru credit fund and risk sharing arrangement	AMP – PCFC to accredited MFIs to end-borrowers CBAP1 – wholesalers (UCPB, selected coop banks) to borrower coop banks to end-borrowers AFMP/RHBF- Land Bank to BACs, BACs that failed microfinance RAAC and non-BACs	• Market oriented interest rate; • Credit risk under AMP by PCFC; CBAP1 by coop banks; AFMP risk sharing arrangement between LBP and ACPC • Adoption of credit policies and procedures of partner financial institutions; • Credit decisions by wholesaler; and • Fund allocation by demand	Specific programs where the wholesalers bear the credit risks (AMP and CCBAP1) are deemed consistent with the AMCFP operating guidelines. The risk sharing arrangement, on the other hand, enables the partner wholesalers to lower its cost of lending and also to increase monitoring and collection efficiency. Since the wholesaler shares the risks and therefore has a stake in the program, it is prompted to perform well but not as well as when it bears the full credit risks. However, the wholesalers and conduits may opt to refinance same loans to ensure payments especially of riskier clients.

Implementation Mechanism	Specific Credit Program/s	Policy principles/guidelines adopted	Remarks
2. wholesaler- retailer thru revolving credit line	CALP – DBP to coop banks and cooperatives	• Market oriented interest rate; • DBP bears full credit risk for CALP; portfolio guarantee by Quedancor under SAFW • Adoption of credit policies and procedures of partner financial institutions; • Credit decisions by wholesaler; and Fund allocation on demand	The mechanism allows a demand-based allocation of wholesale credit funds to private retail financial institutions. Private retail financial institutions only draw down from the revolving fund when needed.
3. wholesaler-retailer thru special financing window for rediscounting and credit line	SAFW – Land Bank to coops, banks, NGOs/POs		
4. depository mode scheme or placement of special time deposits in conduit banks	CBAP2 – STDs in coop banks that meet CAMELS rating of at least 3	• Market oriented interest rate; • Coop banks assume full credit risk; • Adoption of credit policies and procedures of partner financial institutions; • Credit decisions by wholesaler; • Fund allocation on demand	• The participating financial institution bears the credit risk and is allowed to make its own credit decisions. • This arrangement lowers the cost of lending to retail financial institutions inasmuch as the wholesaler only pays the deposit rate. • AMCFP funds are used to augment lending funds of wholesaler. Given fungibility of funds, there is some likelihood that funds are used elsewhere • Depository institutions should be required to submit work and financial plans and an indicator system should be installed to monitor compliance to program objectives.
5. wholesaler-end-borrower relending	Sikat-Saka – Land Bank to end borrowers through IAs; IAs act as service conduits or loan consolidators of members; requires management takeover of farm in case of default; IAs	• Interest rate initially pegged at 15% and to be reduced by 1% for every succeeding cycle on loans fully paid until the 8^{th} cycle;	• This is an innovative scheme that significantly reduces the risks of lending to institutions. The risks accruing to the lending

Implementation Mechanism	Specific Credit Program/s	Policy principles/guidelines adopted	Remarks
	receive incentives based on amount of members' loans paid on time and collection rate	• Shared credit risk: Borrower- loan secured by assignment of produce or with marketing agreement; surrenders land title for safekeeping by LBP; auto-debit arrangement with LBP for loan payment; AGP guarantees loan portfolio to farmers, with 2% guarantee fee shared by LBP • LBP provides incentive fee to IAs chargeable to its internal funds • Eligibility criteria for small farmers set under AFF; and • Fund allocation on demand	institution is reduced through market linkage and through a loan guarantee. The scheme will encourage participation of wholesalers and ensure repayment This is not market-oriented scheme inasmuch as there is a cap on interest rate.

Provision of Credit

The effectiveness of the ACPC in facilitating access to credit was assessed based on:

a) coverage of the targeted population or beneficiaries of the AMCFP (actual over target loans and beneficiaries);

b) whether the loans provided have reached the target borrowers in the sector as measured by outreach index (OI). [11] Outreach is measured as a weighted average of two indices, namely: reaching the borrower index (RBI) which is the ratio of the average loan size in the target sector to the average loan size of AMCFP loans; and credit extension index (CEI) which is the ratio of actual to the potential/target number of borrowers; and

c) contribution to increasing the proportion of small farmers' and fisherfolk with access to formal credit. ACPC targeted to increase the incidence of formal

[11] This index was used in the "Assessment of the Performance of GFIs and GOCCs/NBFIs in Implementing DCPs" conducted under the Credit Policy Improvement Project in 1998. The study became the basis of EO 138. An index of more than or equal to one implies that the program is effective in reaching its ultimate target borrowers.

borrowing among its target clientele from 57% in 2008 to 65% in 2016 or an annual increase of 1% or 8% over said period.[12]

Table 3 shows that a total of P 3.89 billion were released to 164,533 borrowers from 2008-2012 under the AMCFP-funded programs, including the innovative financing schemes pilot-tested. The average loan size stood at P 23,630 per beneficiary (nominal terms). Some 553 conduit financial institutions (rural banks, cooperatives, NGOs and people's organization) participated in the program.

Since the ACPC continually conduct advocacy and IEC activities supportive of the credit programs funded by AMCFP, the loan releases and the number of borrowers served by the AMCFP-funded programs also resulted from and were facilitated by the conduct of consultation meetings and dialogues with key stakeholders and beneficiaries of the programs.

In terms of covering the target beneficiaries, 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). According to ACPC, the targets were set based on (i) fund allocation per program; (ii) performance of the program in the previous year; and (iii) commitments of program partners to leverage the funds availed from the program. The figures show that 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 DA. Accomplishments vis-à-vis the plans should be strictly monitored. ACPC may consider providing performance incentives or penalties to program partners to improve program accomplishments. To support its program partners ACPC should also intensify its advocacy and capacity building activities to cover new borrowers. Advocacy programs can include support for promotional activities such as orientation seminars on available financing facilities to farmer groups and associations and provision of trainings on work and financial planning and for farmers, trainings on financial literacy and simple book keeping, among others. Credit enhancement mechanisms such as the Agriculture Guarantee Fund can also be provided to encourage program partners to participate[13].

Table 3. Coverage Ratios

Year	Target		Actual		Coverage Ratio	
	Loans Granted (P Million)	No. of Borrowers	Loans Granted (P Million)	No. of Borrowers	Loans Granted (%)	No. of Borrowers (%)
2008	1,781.00	80,955	1,035.00	41,387	58	51

[12] ACPC surveys conducted from 1996 to 2008 indicated an annual average growth of 1% in formal borrowing among farmers and fisherfolk. The original target in the Philippine Development Plan was to increase incidence of formal borrowing from 57% in 2008 to 85% in 2016 based on the assumption that the budget allocation for AMCFP (P 12.2B or P2.0B for year 1 and P1.7 B for the next six years thereafter) as provided for in the AFMA would be released. This target was adjusted given that the indicated amount was not granted.

[13] ACPC reported that the Agriculture Guarantee Fund is up for review to determine its effectiveness as a credit enhancement mechanism for agriculture.

Year	Target		Actual		Coverage Ratio	
	Loans Granted (P Million)	No. of Borrowers	Loans Granted (P Million)	No. of Borrowers	Loans Granted (%)	No. of Borrowers (%)
2009	1,420.00	28,400	567.30	30,978	40	109
2010	1,600.00	35,000	665.17	25,228	42	72
2011	468.80	47,957	495.90	36,091	106	76
2012	1,080.00	31,174	1,124.50	30,849	104	99
Total/ Ave	6,349.80	188,486	3,887.87	164,533	61	87

Source of basic data: ACPC Annual and Accomplishment Reports

Note: Loan and borrower targets are set for each program under the AMCFP and generally based on the following: a) fund allocation per program; b) program performance in the previous year; c) commitments of partners to leverage funds availed from the program. Targets for loans granted in 2011 was adjusted given the temporary halt in the implementation of CBAP whose loans accounted for 70% of AMCFP loans granted in 2010.

Bangko Sentral ng Pilipinas estimates that the average total demand for agricultural credit is around P 377 billion (2010-2012). From 2008-2012, the share of loans from the AMCFP-funded programs to total agricultural loans from the banking sector averaged at about 0.13% (Table 4).

Table 4. Share of ACPC Loans to Total Agricultural Lending

Year	Total Agri Loans Granted (P m) * (a)	AMCFP-funded agricultural Loans (P m) (b)	Share of AMCFP-funded loans to Total (%) (b)/(a)	No. of AMCFP Borrowers (c)
2008	419,890	567	0.14	41,387
2009	349,347	647	0.19	30,978
2010	621,145	665	0.11	25,228
2011	669,356	496	0.07	36,091
2012	705,114	1,125	0.16	30,849
Total/ Ave	2,764,852	3,500	0.13	164,533

Source: BSP, ACPC Annual Reports

* includes production, processing and other agri-related activities; production loans, on average account for 40% of total agri loans

While the loans released under AMCFP barely made a dent, the loans provided access to formal credit to about 165,000 small farmers and fisherfolk from 2008 to 2012. Whether this has increased the number of small farmers and fisherfolk cannot be categorically determined due to the lack of baseline information. In the absence of a baseline data on the end borrowers of AMCFP funded programs at the retail level, it is difficult to determine whether the Program has actually added to the proportion of small farmers and fisherfolk that have accessed to formal credit or have just been small farm financing and resource mobilization. In particular, the management of CALF was also delegated to ACPC. The ACPC is an inter-agency Council whose membership is comprised of the following: Minister of the MAF as Chairman, Governor of the Central Bank of the Philippines as Vice Chairman, the Director-General of the National Economic and Development Authority (NEDA), the Minister of the Ministry of Budget and Management and the Minister of the Ministry of Finance as members. The Council is supported by a secretariat, headed by an Executive Director, which is tasked to implement the policies, guidelines, decisions, programs and activities directed and approved by the Council for implementation.

Aside from synchronizing credit policies and programs, the Council is also tasked to i) review and evaluate the economic soundness of all on-going and proposed agricultural credit programs; ii) review reports and documents of all programs with agriculture credit and financing components; and iii) undertake measures to increase its fund base in consultation with the Monetary Board.

The ACPC became an attached agency of the Ministry of Agriculture when the latter was reorganized into the Department of Agriculture in January 1987 under EO 116. ACPC's core mandate and functions that were stipulated in EO 113 remained.

5.2 The Policy Framework

Recognizing the inefficiencies of subsidized directed credit programs[3], the government shifted towards a market-based approach in providing credit services to small farmers and fisherfolk. This is specifically stipulated in RA 8435 - Agriculture and Fisheries Modernization Act (AFMA), which among other things, provided for the following: i) phase-out of subsidized directed credit programs; ii) adoption of market-based credit policies and; iii) non-participation of government non-financial agencies in the implementation of agricultural credit programs. To implement these provisions, the Agricultural Modernization Credit and Financing Program (AMCFP) was established under RA 8435. All the funds of the phased-out and terminated agricultural directed credit programs shall be consolidated into the AMCFP, which shall 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 private financial institutions (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 private financial institutions in delivering credit services to the agriculture sector.

Based on the policy thrust and directives articulated in the AFMA, the program design and operating guidelines of the AMCFP was jointly formulated by the Department of Finance- National Credit

[3] Various studies conducted by the Department of Finance, National Credit Council through the USAID-funded Credit Policy Improvement Program (CPIP) in 1987 report and document the inefficiencies of directed credit programs in the agriculture sector.

Council (DOF-NCC) and the DA-ACPC[4]. The AMCFP design and operating guidelines adopt the following policy principles:

- The Department of Agriculture 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 private financial institutions.

- Lending institutions (banks, cooperatives, and other microfinance institutions) shall make the credit decision and bear the credit risks. Government Financial Institutions (GFIs) shall provide wholesale funds to private retail financial institutions such as cooperatives, rural banks and microfinance NGOs which shall bear the credit risks. These lending institutions are given the leeway to disburse the funds and screen their 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 Executive Order No. 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; non-participation of government non-financial 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. It espouses the same policy principles in the AFMA and the AMCFP.

5.3 Major Final Outputs

Given its mandate under EO 113 and EO 116 to assist the Department of Agriculture (DA) in synchronizing all credit policies and programs with the end view of expanding credit services to small farmers and fisherfolk, the ACPC contributes to two major final outputs (MFOs)[5] of the DA. These are: in DA-MFO 1 - the delivery of agriculture support services and in DA-MFO 3 - the

[4] The design and operating guidelines of the AMCFP were approved by the DOF-NCC on December 11, 1998 and the ACPC governing council on January 7, 1999. The guidelines were subsequently revised and approved on June 20, 2001.
[5] Major final output (MFO) is defined in the Organizational Performance Indicators Framework (OPIF) developed by the Department of Budget and Management (DBM). MFO is defined as the goods and services provided to external clients to achieve a common outcome. Accomplishing the MFOs results in organizational outcomes that provide short and medium-term benefits to clients.

planning, development, implementation, monitoring and evaluation of plans, policies and programs of the Department. Under each of these MFOs are sub-MFOs that identify the specific outputs expected of ACPC as the attached agency of DA responsible for ensuring that small farmers and fisherfolk have access to credit financing. The sub-MFOs are i) credit facilitation services; ii) extension, support, training and education services and iii) policy research and studies, program monitoring and evaluation for the development and formulation of appropriate credit policies and programs.

Given the policy principles embodied in the AFMA and the program guidelines of the AMCFP, ACPC conducted the following activities from 2008 to 2010[6].

On credit facilitation services.

- Administer collection, mobilization of funds and monitoring of terminated DCPs and on-going programs under AMCFP
- Oversee the implementation of the AMCFP
- Conduct credit facilitation meetings, consultations, dialogues, workshops, orientation, market matching seminars with program partners and beneficiaries
- Design and pilot-test innovative financing schemes

On extension, support, training and education services.

- Package and fund Institutional Capacity Building (ICB) programs for farmers' organization or NGOs
- Implement ICB activities for coops, banks, NGOs etc. through training institutions
- Conduct advocacy activities to generate public awareness, understanding, acceptance and support to ACPC/DA policies, programs and projects
- Package, publish and disseminate IEC materials

On development, implementation, monitoring and evaluation of plans, policies and programs

- Undertake policy research and studies that provide timely recommendations on credit policies and programs for the agriculture and fisheries sector
- Provide comments on legislative bills and participate as resource persons in legislative hearings
- Conduct monitoring activities on: AMCFP, IFS and ICB activities, guarantee and insurance programs, total bank loans to agriculture and fisheries

[6] Based on the physical report of operations and agency performance measures submitted by ACPC to the Department of Agriculture annually. Only accomplishments for the years 2008 to 2012 were covered by the study.

- Maintain and administer the management information system

The foregoing activities show that ACPC implements pilot or innovative credit schemes but does not directly implement credit programs. ACPC develops, designs and pilot-tests innovative financing schemes that would increase the access of small farmers and fisherfolk to credit. The pilot-testing of innovative financing schemes are, however time-bound[7].

Its oversight function over the AMCFP ensures that AMCFP-funded credit programs follow the policy principles espoused in the AFMA and in the design and operating guidelines of the AMCFP. Specific implementation issues related to ACPC's oversight functions of the credit programs under the AMCFP are discussed in Section 4.4 below.

Assessment of the MFOs

While the sub-MFOs seem to be aligned with the policy principles espoused in the AFMA and EO 138 (i.e. government to only provide the enabling environment for credit services to allow the increased participation of the private sector and that government should not be engaged in directly implementing government credit programs), there may be a need to refocus the specific activities under each sub-MFOs to ensure that ACPC does not engage in activities that may pose a conflict with the overarching policy principles. These are:

i. *On ACPC oversight function over AMCFP.* As oversight of the AMCFP, ACPC reviews and approves funding proposals from accredited wholesalers which determines the projected credit demand. Based on the review, ACPC allocates funds based on the projected credit demand of the accredited wholesaler. The ACPC secretariat, however, forms part of the committee that designs and formulates the credit program. As such, its role as reviewer of the credit program is compromised.

ii. On design and implementation of pilot schemes. Under the credit facilitation services, ACPC engages in the design and implementation of innovative financing schemes. While these schemes are implemented by GFIs and/or accredited wholesalers, these seem to pose a conflict with its function as AMCFP oversight, monitor and evaluator of programs implemented under AMCFP. As administrator of the AMCFP, it is limited to the review, monitoring and approval of programs that will be funded by AMCFP. As articulated in the operating guidelines, the ACPC, as oversight committee shall exercise the following functions[8]:

- Review and approve the annual budget of the AMCFP;

[7] ACPC in coordination with the Land Bank of the Philippines designed two innovative financing schemes (RHBF from 2004-2008 which was later subsumed under PCFC's AMP and AFMP from 2007-2010)

[8] Quoted from the design and operating guidelines of the AMCFP revised and approved by the ACPC governing council on June 20, 2001

- Approve the AMCFP plan of action including targets and priorities;

- Cause and facilitate the conduct of performance evaluation of the AMCFP, the AMCFP Fund Wholesalers and the AMCFP Fund Retailers;

- Cause and facilitate the conduct of related policy and action research studies to equip itself with empirical trends and findings as a guide in recommending appropriate policy directions; and

- Require the submission of reports from the institutions involved in AMCFP implementation.

Given the foregoing, it shows that the task of preparing, designing and pilot-testing innovative schemes are not considered as inherent function of the ACPC. These are tasks that are expected of the AMCFP's accredited wholesale financial institutions. It is, however argued that ACPC's role in the design and pilot-testing of innovative financing schemes is merely catalytic and is time-bound. Llanto (2010) reported that Land Bank of the Philippines (LBP) adopted the Special Agricultural Financing Window (SAFW) as part of its regular program and the Rural Household Business Financing (RHBF) under the AMP was implemented by PCFC after the pilot phase.

While the schemes seemed to have worked out, it is believed that design, and pilot-testing is not within the mandate of ACPC as oversight of AMCFP. By engaging in this activity, its monitoring and evaluation function is compromised. The accredited wholesalers, LBP specifically, given its mandate as an institution and its role in the AMCFP should instead be given the responsibility to design and pilot-test innovative schemes.

To enable and encourage them to do this, ACPC may design an incentive mechanism for the implementation of innovative schemes (e.g. lower interest rates, provision of funds for capacity building, etc.). As a financial institution that caters to small farmers and fisherfolk, the LBP in particular has the mandate, competence and responsibility to design and implement innovative credit programs/schemes. Also, by veering away from pilot-testing, the seeming conflict of interest between design, implementation, monitoring and evaluation is addressed. As monitor and evaluator, it is best for ACPC to limit itself to this function.

In view of the foregoing, *the sub-MFO credit facilitation services* may be refocused to *credit support services* inasmuch as credit facilitation can be construed to include direct implementation through pilot-testing. Credit support services would mean the implementation of activities that supports effective credit implementation, e.g. conduct of advocacy activities, capacity building activities, monitoring and evaluation and conduct of policy research and studies that would provide useful insights in the effective design and implementation of credit programs..

5.4 The Credit Programs Implemented

To address the continuing problem of the small farmers' and fisherfolk's limited access to credit financing, the government through the Department of Agriculture took a more pro-active stance in expanding credit to small farmers and fisherfolk. In line with this, the ACPC approved the development and pilot-testing of innovative financing schemes for credit constrained small farmers and fisherfolk using funds from and following the operational policies and guidelines of the AMCFP (Llanto, 2010). These are time-bound credit programs, which could be replicated by participating financial institutions if proven successful. Llanto reported that two innovative financing schemes (SAFW and RHBF) were completed and were found successful. The SAFW used non-traditional lenders such as input suppliers and traders in lending to individual farmers while RHBF employed a cash flow-based financing/ repayment for agricultural households. The LBP has adopted the RHBF as part of its regular lending program for rural and agricultural households.

To date, ACPC continues to oversee the implementation of credit programs that are designed following the policy principles and operating guidelines of AMCFP. Table 1 below lists the various programs funded by AMCFP funds and the status of their implementation.

Table 1. Credit Programs funded by the AMCFP[9]

Name of Program	Launch Date/Legal Basis/Area Coverage	Status of Implementation						
		Amount earmarked at start	*Amount outstanding at end of program*	*No. of wholesalers/ participating banks/ coops*	*Total fund releases from AMCFP to partner institutions*	*Volume of loans granted*	*No. of end-beneficiaries*	*Collection Efficiency (%)*
On-going Programs								
1. Cooperative Banks Agricultural Lending Program (CBAP)	2008-2010 as IFS (CBAP1); 2011 (CBAP2)/ RA 8435 (AFMA); RA 7607 (Magna Carta for Small Farmers)/ Nationwide	P 400 m; total approved STD placements is P 473 m (as of Dec 2013)	P 24.07 m (CBAP1) and P 248.53 m (CBAP2) (in Dec 2013)	4 wholesalers (CBAP1); 17 retailer coop banks (CBAP2)	P 504 m	P 1,406.8 m (CBAP1); P 1,130.6 m (CBAP2	24,726 (CBAP1); 21,527 (CBAP2	99.18% for CBAP1; 60.06% for CBAP2
2. Agricultural Microfinance Program (AMP)	Sept 2009/ Sec. 23 of RA 8435 (AFMA); RA 7607 (Magna Carta for Small Farmers)/ Nationwide	P200 m (Dec 2010)	P 140 m (in Dec 2013)	1 wholesaler (PCFC); MFIs= 30	P 200 m (in Dec 2013)	P 530.4 m	50,592 agri-fishery households	100 %

[9] The AMCFP became operational in 2003.

Name of Program	Launch Date/Legal Basis/Area Coverage	Status of Implementation						
		Amount earmarked at start	*Amount outstanding at end of program*	*No. of wholesalers/ participating banks/ coops*	*Total fund releases from AMCFP to partner institutions*	*Volume of loans granted*	*No. of end-beneficiaries*	*Collection Efficiency (%)*
3. Sikat-Saka	2012/ RA 8435 (AFMA); RA 7607 (Magna Carta for Small Farmers)/ 4 priority provinces: Nueva Ecija, Isabela, Iloilo and North Cotabato	P 400 m (P200 million from ACPC-AMCFP and P200 million from Land Bank)	P200 m	1 wholesaler (LBP)	P 200 m	P 49.2 m	764 rice farmers	0% (started in 2012)
Completed Programs								
1. Agri-Fishery Microfinance Program (AFMP)	2007-2010/ RA 8435 (AFMA); RA 7607 (Magna Carta for Small Farmers)/ Nationwide			497 conduits		P 44.2 m	3,641	100%
2. Cooperatives Agri-Lending Program (CALP)	2011-2012/ AFMA/Quezon, Camarines Sur, Iloilo, Antique, Isabela, Leyte, Sorsogon, Misamis Oriental, and Northern Samar	P 200 m	0			P. 5.5 m	159	100 %
3. Tobacco/ Rice Contract Growing Program (with NTA)	2007-2010 DA policy thrust to extend to this sector Region 1 including Abra	P 28.5 m		Not applicable		P 53.6 m	5,920	
4.Tomato Production and Paste Processing System (with NFC)	2008-2011 DA policy thrust to extend to this sector Ilocos Region			Not applicable		P 127 m	7,024	
5. Fisheries Financing Program	2007-2011 AFMA Nationwide		P 13 m	2 GFIs		P 3.5 m	237	0 %
6. AMCFP-Quedancor	2003-2007 AFMA			1 (QUEDANCO		P 749.3 m	33,732	

Name of Program	Launch Date/Legal Basis/Area Coverage	Status of Implementation						
		Amount earmarked at start	*Amount outstanding at end of program*	*No. of wholesalers/ participating banks/ coops*	*Total fund releases from AMCFP to partner institutions*	*Volume of loans granted*	*No. of end-beneficiaries*	*Collection Efficiency (%)*
	Nationwide			R))				
7. Special Agricultural Financing Window (SAFW)	2003-2007			1 (LBP)		P 226.9 m	41, 387	
Others (IFS and DA-funded)								
1. IFS-Rural Household Business Financing Program (RHBF)	2004-2008/ RA 8435 (AFMA)	P 6 m	0	19		P 75.9 m	6,465	100 %
2. Direct Market Linkage Development Program (DMLDP)	2008-2012/ AFMA/ Nueva Vizcaya, Tarlac, Laguna, Batangas, CARAGA, Negros Occidental and Iloilo.			16		P 104.9 m	26,933	
3. Microfinance Credit Component of Upland Southern Mindanao Credit and Institution Building Program (USM-CIBP)	2010-2012/ Southern Mindanao; Bohol			Not applicable		P 30 m	P 2,534	

Source: ACPC Accomplishment and Annual Reports

Except for the NTA, NFC and DMLDP, all of the other programs were implemented using the wholesale-retailer strategy wherein the ACPC lends out the AMCFP funds to accredited wholesalers (i.e. Land Bank of the Philippines, People's Finance and Credit Corporation, United Coconut Planters' Bank, and big some cooperatives) which then relend the funds to participating private financial institutions that retail the funds to small farmers and fisherfolk.

In 2011, following the recommendations of the study that reviewed the implementation of credit programs funded under the AFMA, AMCFP funds were placed as special time deposits (STDs) in selected wholesalers (CBAP2). According to the ACPC, this approach lowers the cost of lending to small farmers and fisherfolk inasmuch as one layer of cost was eliminated (i.e. the AMCFP to wholesaler interest on loans). The STD rates are lower than the cost of wholesale funds.

5.5 Evaluation of the AMCFP-funded Credit Programs

In 2010, the ACPC commissioned the review of credit programs funded by the AMCFP. Note that the findings are fairly recent and still applies to the current situation. The study (Llanto 2010) reported the following:

- Except for two (NTA and NFC programs)[10], all the credit programs financed by the AMCFP are consistent with the market-based policy thrust espoused in the AFMA and in Executive Order 138. The procedures and guidelines employed are also consistent with the operational guidelines of the AMCFP.
- Some programs (CBAP and PCFC-AMP) have increased the volume of loans to small farmers and fisherfolk. While the number of borrowers has also increased with these programs, the study mentioned the participating wholesalers are still operating below their potential capacities. It is believed that the participating financial institutions can still significantly increase their outreach and coverage.
- Two programs (LBP AMFP and FFP) were found not to be delivering the desired results and were suggested to be scrapped. The funds for these programs are recommended for transfer to other programs that are performing well.
- In view of the sub-optimal performance of the wholesalers and retail financial institutions, the policy relevance of the programs is muted at the implementation level. Since there is no monitoring at the retail level, the study surmised that some of the FIs used the AMCFP fund to finance repeat loans of existing borrowers hence, no additionality from program.
- The lack of additionality puts the potential effectiveness of the programs in doubt. The study further states that the programs can further be improved to deliver strong results: i.e. finance more new borrowers.
- The programs funded by the AMCFP lack work and financial plans, which indicate program targets that are supportive of the policy thrusts of the DA and the ACPC. Because of this, the programs have been convenient source of loan funds for both wholesalers and retailers. The liquidity in the system and the availability of wholesale funds from other government financial institutions or GOCCs (e.g. LBP, NLDC, etc.) put the AMCFP programs sometimes at a competitive disadvantage.
- Most of the participating institutions are considered viable and able to deliver the needed results except for a few that were accredited despite poor financial condition (i.e. negative net worth and high past due)
- The biggest funded programs (CBAP and PCFC-AMP) are deemed responsive to the clients. The loan application and screening procedures are considered simple and

[10] According to ACPC, these programs were directly funded by the DA and did not use any AMCFP funds. As such, the program design did not follow the AMCFP guidelines and policy principles.

tailor-fitted to small farmers and fisherfolk. Also, the proximity of the retail financial institutions enables them to be more responsive to the clients.

- An alternative lending strategy of using selected financial institutions as depository banks of government funds to be used for credit programs with those institutions assuming full credit risk could be explored to lower the borrowing cost to small farmers and fisherfolk and to expand outreach.

5.6 Effectiveness and efficiency in implementing its mandate

5.6.1 Effectiveness

Program policies, guidelines and procedures

In facilitating access to credit, ACPC has pilot-tested and implemented different approaches and schemes. Table 2 provides a cursory evaluation of the different implementation approaches and schemes pilot-tested and implemented by ACPC. Some have been effective in facilitating credit provision.

Table 2. Evaluation of AMCFP Implementation Approaches

Implementation Mechanism	Specific Credit Program/s	Policy principles/guidelines adopted	Remarks
1. wholesaler-retailer approach thru credit fund and risk sharing arrangement	AMP – PCFC to accredited MFIs to end-borrowers CBAP1 – wholesalers (UCPB, selected coop banks) to borrower coop banks to end-borrowers AFMP/RHBF- Land Bank to BACs, BACs that failed microfinance RAAC and non-BACs	• Market oriented interest rate; • Credit risk under AMP by PCFC; CBAP1 by coop banks; AFMP risk sharing arrangement between LBP and ACPC • Adoption of credit policies and procedures of partner financial institutions; • Credit decisions by wholesaler; and • Fund allocation by demand	Specific programs where the wholesalers bear the credit risks (AMP and CCBAP1) are deemed consistent with the AMCFP operating guidelines. The risk sharing arrangement, on the other hand, enables the partner wholesalers to lower its cost of lending and also to increase monitoring and collection efficiency. Since the wholesaler shares the risks and therefore has a stake in the program, it is prompted to perform well but not as well as when it bears the full credit risks. However, the wholesalers and conduits may opt to refinance same loans to ensure payments especially of riskier clients.

Implementation Mechanism	**Specific Credit Program/s**	**Policy principles/guidelines adopted**	**Remarks**
2. wholesaler- retailer thru revolving credit line	CALP – DBP to coop banks and cooperatives	• Market oriented interest rate; • DBP bears full credit risk for CALP; portfolio guarantee by Quedancor under SAFW • Adoption of credit policies and procedures of partner financial institutions; • Credit decisions by wholesaler; and Fund allocation on demand	The mechanism allows a demand-based allocation of wholesale credit funds to private retail financial institutions. Private retail financial institutions only draw down from the revolving fund when needed.
3. wholesaler-retailer thru special financing window for rediscounting and credit line	SAFW – Land Bank to coops, banks, NGOs/POs		
4. depository mode scheme or placement of special time deposits in conduit banks	CBAP2 – STDs in coop banks that meet CAMELS rating of at least 3	• Market oriented interest rate; • Coop banks assume full credit risk; • Adoption of credit policies and procedures of partner financial institutions; • Credit decisions by wholesaler; • Fund allocation on demand	• The participating financial institution bears the credit risk and is allowed to make its own credit decisions. • This arrangement lowers the cost of lending to retail financial institutions inasmuch as the wholesaler only pays the deposit rate. • AMCFP funds are used to augment lending funds of wholesaler. Given fungibility of funds, there is some likelihood that funds are used elsewhere • Depository institutions should be required to submit work and financial plans and an indicator system should be installed to monitor compliance to program objectives.
5. wholesaler-end-borrower relending	Sikat-Saka – Land Bank to end borrowers through IAs; IAs act as service conduits or loan consolidators of members; requires management takeover of farm in case of default; IAs	• Interest rate initially pegged at 15% and to be reduced by 1% for every succeeding cycle on loans fully paid until the 8^{th} cycle;	• This is an innovative scheme that significantly reduces the risks of lending to institutions. The risks accruing to the lending

Implementation Mechanism	Specific Credit Program/s	Policy principles/guidelines adopted	Remarks
	receive incentives based on amount of members' loans paid on time and collection rate	• Shared credit risk: Borrower- loan secured by assignment of produce or with marketing agreement; surrenders land title for safekeeping by LBP; auto-debit arrangement with LBP for loan payment; AGP guarantees loan portfolio to farmers, with 2% guarantee fee shared by LBP • LBP provides incentive fee to IAs chargeable to its internal funds • Eligibility criteria for small farmers set under AFF; and • Fund allocation on demand	institution is reduced through market linkage and through a loan guarantee. The scheme will encourage participation of wholesalers and ensure repayment This is not market-oriented scheme inasmuch as there is a cap on interest rate.

<u>Provision of Credit</u>

The effectiveness of the ACPC in facilitating access to credit was assessed based on:

a) coverage of the targeted population or beneficiaries of the AMCFP (actual over target loans and beneficiaries);

b) whether the loans provided have reached the target borrowers in the sector as measured by outreach index (OI). [11] Outreach is measured as a weighted average of two indices, namely: reaching the borrower index (RBI) which is the ratio of the average loan size in the target sector to the average loan size of AMCFP loans; and credit extension index (CEI) which is the ratio of actual to the potential/target number of borrowers; and

c) contribution to increasing the proportion of small farmers' and fisherfolk with access to formal credit. ACPC targeted to increase the incidence of formal

[11] This index was used in the "Assessment of the Performance of GFIs and GOCCs/NBFIs in Implementing DCPs" conducted under the Credit Policy Improvement Project in 1998. The study became the basis of EO 138. An index of more than or equal to one implies that the program is effective in reaching its ultimate target borrowers.

borrowing among its target clientele from 57% in 2008 to 65% in 2016 or an annual increase of 1% or 8% over said period.[12]

Table 3 shows that a total of P 3.89 billion were released to 164,533 borrowers from 2008-2012 under the AMCFP-funded programs, including the innovative financing schemes pilot-tested. The average loan size stood at P 23,630 per beneficiary (nominal terms). Some 553 conduit financial institutions (rural banks, cooperatives, NGOs and people's organization) participated in the program.

Since the ACPC continually conduct advocacy and IEC activities supportive of the credit programs funded by AMCFP, the loan releases and the number of borrowers served by the AMCFP-funded programs also resulted from and were facilitated by the conduct of consultation meetings and dialogues with key stakeholders and beneficiaries of the programs.

In terms of covering the target beneficiaries, 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). According to ACPC, the targets were set based on (i) fund allocation per program; (ii) performance of the program in the previous year; and (iii) commitments of program partners to leverage the funds availed from the program. The figures show that 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 DA. Accomplishments vis-à-vis the plans should be strictly monitored. ACPC may consider providing performance incentives or penalties to program partners to improve program accomplishments. To support its program partners ACPC should also intensify its advocacy and capacity building activities to cover new borrowers. Advocacy programs can include support for promotional activities such as orientation seminars on available financing facilities to farmer groups and associations and provision of trainings on work and financial planning and for farmers, trainings on financial literacy and simple book keeping, among others. Credit enhancement mechanisms such as the Agriculture Guarantee Fund can also be provided to encourage program partners to participate[13].

Table 3. Coverage Ratios

Year	Target		Actual		Coverage Ratio	
	Loans Granted (P Million)	No. of Borrowers	Loans Granted (P Million)	No. of Borrowers	Loans Granted (%)	No. of Borrowers (%)
2008	1,781.00	80,955	1,035.00	41,387	58	51

[12] ACPC surveys conducted from 1996 to 2008 indicated an annual average growth of 1% in formal borrowing among farmers and fisherfolk. The original target in the Philippine Development Plan was to increase incidence of formal borrowing from 57% in 2008 to 85% in 2016 based on the assumption that the budget allocation for AMCFP (P 12.2B or P2.0B for year 1 and P1.7 B for the next six years thereafter) as provided for in the AFMA would be released. This target was adjusted given that the indicated amount was not granted.

[13] ACPC reported that the Agriculture Guarantee Fund is up for review to determine its effectiveness as a credit enhancement mechanism for agriculture.

Year	Target		Actual		Coverage Ratio	
	Loans Granted (P Million)	No. of Borrowers	Loans Granted (P Million)	No. of Borrowers	Loans Granted (%)	No. of Borrowers (%)
2009	1,420.00	28,400	567.30	30,978	40	109
2010	1,600.00	35,000	665.17	25,228	42	72
2011	468.80	47,957	495.90	36,091	106	76
2012	1,080.00	31,174	1,124.50	30,849	104	99
Total/ Ave	6,349.80	188,486	3,887.87	164,533	61	87

Source of basic data: ACPC Annual and Accomplishment Reports

Note: Loan and borrower targets are set for each program under the AMCFP and generally based on the following: a) fund allocation per program; b) program performance in the previous year; c) commitments of partners to leverage funds availed from the program. Targets for loans granted in 2011 was adjusted given the temporary halt in the implementation of CBAP whose loans accounted for 70% of AMCFP loans granted in 2010.

Bangko Sentral ng Pilipinas estimates that the average total demand for agricultural credit is around P 377 billion (2010-2012). From 2008-2012, the share of loans from the AMCFP-funded programs to total agricultural loans from the banking sector averaged at about 0.13% (Table 4).

Table 4. Share of ACPC Loans to Total Agricultural Lending

Year	Total Agri Loans Granted (P m) * (a)	AMCFP-funded agricultural Loans (P m) (b)	Share of AMCFP-funded loans to Total (%) (b)/(a)	No. of AMCFP Borrowers (c)
2008	419,890	567	0.14	41,387
2009	349,347	647	0.19	30,978
2010	621,145	665	0.11	25,228
2011	669,356	496	0.07	36,091
2012	705,114	1,125	0.16	30,849
Total/ Ave	2,764,852	3,500	0.13	164,533

Source: BSP, ACPC Annual Reports

* includes production, processing and other agri-related activities; production loans, on average account for 40% of total agri loans

While the loans released under AMCFP barely made a dent, the loans provided access to formal credit to about 165,000 small farmers and fisherfolk from 2008 to 2012. Whether this has increased the number of small farmers and fisherfolk cannot be categorically determined due to the lack of baseline information. In the absence of a baseline data on the end borrowers of AMCFP funded programs at the retail level, it is difficult to determine whether the Program has actually added to the proportion of small farmers and fisherfolk that have accessed to formal credit or have just been financing repeat loans of existing borrowers. This concern was also previously raised in Llanto (2010).

To compute for the RBI for AMCFP-funded programs, the average loan sizes granted were compared with those released by Land Bank. While the data may not be representative of the whole sector (there is no data available on the number of borrowers from RB, KB and other sources), Land Bank's average loan size gives a general indication of the average loan size in the sector given that it is one of the major sources of loans for small farmers and fisherfolk. Table 5 shows that the average loan size of AMCFP-funded loans was less than the average loan size of the sector resulting in an average RBTI that is more than one. This implies that AMCFP-funded programs are reaching the small farmer and fisherfolk borrowers.

Table 5. Reaching the Borrower Index

Year	AMCFP*			Land Bank**			RBI (b)/(a)
	Loans Granted (P m)	No. of Borrowers	Ave (P) (a)	Loans Granted (P m)	No. of Borrowers	Ave (P) (b)	
2008	1,035.00	41,387	25,008	17,056	400,971	42,537	1.70
2009	567.30	30,978	18,313	25,214	458,011	55,051	3.01
2010	665.17	25,228	26,366	30,580	811,671	37,675	1.43
2011	495.90	36,091	13,740	40,485	947,841	42,910	3.12
2012	1,124.50	30,849	36,452	12,087	638,439	52,902	1.45
Total/Ave	1620.40	66940	23,630	52572	1171971	44,122	1.87

* From Table 3
** Land Bank data from ACPC M&E Division

The average CEI using 2008-2012 data was also less than one, implying that the number of borrowers of AMCFP-funded programs is below the potential or target number of clients (Table 6).

Table 6. Credit Extension Index

Year	Potential/Target no. of borrowers [14] (a)	Actual No. of Borrowers (b)	CEI (b)/(a)
2008	80,955	41,387	0.51
2009	28,400	30,978	1.09
2010	35,000	25,228	0.89
2011	47,957	36,091	0.75
2012	31,174	30,849	0.99
Total/Ave	188,486	164,533	0.87

Source of basic data: Table 3

[14] The target borrowers were based on conduit banks' target demand gathered by ACPC

The resulting outreach index (OI) was computed to be more than one implying that AMCFP has reached its intended target clientele (Table 7).

Table 7. Outreach Index

Year	RBI	CEI	OI = 0.5(RBTI)+0.5(CEI)
2008	1.70	0.51	1.11
2009	3.01	1.09	2.05
2010	1.43	0.89	1.16
2011	3.12	0.75	1.94
2012	1.45	0.99	1.22
Total/Ave	1.87	0.87	1.37

Conduct of ICB, Credit Policy Research and Advocacy Programs

ACPC provided grant and technical assistance for the conduct of ICB activities intended to strengthen the capacities of program implementors, partner institutions and borrower organizations including networks/federations and small farmer and fisherfolk organizations to access and manage credit funds. ICB activities included trainings, coaching, product development and management assistance. ACPC's partner institutions conducted most of these activities. From 2008 to 2012, a total of 229 trainings were conducted benefiting 577 farmer and fisherfolk organizations and 5,460 officers and members.

An evaluation of the ICB programs conducted from 1996 to 2010 by 11 partner institutions revealed that trainings on bookkeeping, accounting and good governance were the most appreciated and utilized and have improved the capabilities of beneficiary borrower organizations in recording and analysis of their financial transactions.[15] Evaluation results further indicated that ICB programs: a) increased capital and savings mobilization of more than half of the beneficiary organizations surveyed; b) improved compliance to leadership and management parameters; and c) improved financial performance (loan availment and repayment rates and profitability) of majority of members. However, they had no impact on membership size of beneficiary organizations.

Policy research were focused on improving credit access, credit supply and value chain of key commodities, profiling and estimation of credit demand, assessment of guarantee funds; participatory approaches to rural finance, financial inclusion and new microfinance technologies. From 2008 to 2010, 15 policy research and 29 policy papers and briefs were prepared. These outputs a) provided recommendations to address factors that prevent FIs from generating more new borrowers and to improve collection efficiency; b) informed the design of ICB interventions and focus of AMCFP information and marketing activities; c) provided useful insights for the design of innovative financing schemes; d) identified strategies to explore new financing opportunities

[15] Evaluation of the ACPC's Institutional Capacity Building Program, MRMCI Corporation, January 2011

especially in agribusiness investments; e) improved management capabilities and strengthen coordination between the PMO and LCs; and f) provided policy inputs/informed proposed policies like laws and other issuances.

To enhance access to information of both lenders and borrowers on various agri-financing projects and programs of the DA, the ACPC conducts tri-media campaigns, packages/disseminates news articles, program brochures and other materials and conducts study visits. These activities are pursued not only to generate greater public awareness on AMCFP and other programs of the DA (e.g. APCP, AGFP) but, more importantly, to deepen understanding of stakeholders on pressing rural finance issues and how best to address them. The objective of these efforts is to increase the number of small farmers and fisherfolk that have access to formal credit sources and expand the volume of credit delivered to the target clients.

5.6.2 Efficiency

Efficiency of AMCFP-funded programs was measured in terms of the relative cost of delivering the envisaged outcomes of expanding the volume of credit in the agriculture sector and increasing the proportion of small farmers and fisherfolk with access to formal credit sources. The following indicators were used to assess ACPC's efficiency in performing its mandate of providing credit support:

a) operating cost as a ratio of loans outstanding
b) ratio of income from lending to the total costs of lending
c) total operating cost incurred to number of farmers served
d) total cost incurred per peso loans outstanding
e) total cost incurred per peso loans granted

Table 8 shows the ACPC's financial efficiency indicators. The ratio of operating cost to total loans outstanding (cost per peso loan) which amounts to an average of P0.05 for the period covered compares with the average administrative cost per peso loan of microfinance institutions. When total cost of lending (including personnel services) is considered, average cost per peso loans granted is a bit higher at 0.07.

Considering that ACPC is practically wholesaling the AMCFP fund to partner wholesale institutions, the costs of lending seem to be on the high side. As mentioned earlier, the costs compare with those of retail MFIs as shown in the micro banking bulletin.

The relatively higher cost per peso loans granted incurred by ACPC, however, maybe attributed to the fact that the total cost of lending, which included direct costs of AMCFP administration and those associated with the implementation of capacity building, research and advocacy programs, was used in the computation. No breakdown of costs incurred per major activity implemented was provided to the researchers at the time of the study.

Table 8. Efficiency Indicators

Item/Indicator	Amount (P m)					
	2008	2009	2010	2011	2012	Ave
Personnel Services	14.98	16.29	18.85	22.72	37.18	
Operating Cost	11.40	100.87	99.63	64.29	46.79	
Total Cost of Lending	36.38	117.16	118.48	87.02	83.97	
Loans Receivables	1,289.41	1,215.26	1,509.18	1,289.18	1,206.26	
Current Assets	1,581.80	1,507.98	1,773.38	1,415.02	1,477.45	
Interest Income	6.12	5.09	19.34	11.34	11.92	
No. of farmers served	41,387	30,978	25,228	36,091	30,849	
Total Loans Granted	567.3	646.7	665.17	495.9	1,124.50	
Ratio of Operating Cost to Loans Outstanding	0.01	0.08	0.07	0.05	0.04	0.05
Ratio of income from lending to the total cost of lending	0.17	0.04	0.16	0.13	0.14	0.13
Total cost incurred per farmer served	879.02	3,782.04	4,696.37	2,411.13	2,721.97	2,898.10
Total cost incurred per peso loans outstanding	0.03	0.10	0.08	0.07	0.07	0.07
Total cost incurred per peso loans granted	0.06	0.18	0.18	0.18	0.07	0.13

Source: COA Audited Reports; ACPC Accomplishment Reports

6 Evaluation of the Agriculture and Fisheries Financing Program (AFFP) (P1 Billion Flexible Credit Facility)

The AFFP is a P 1 billion flexible credit facility earmarked initially for an estimated 1,080,420 farmers and fishers who are non-agrarian reform beneficiaries engaged in priority commodities identified by DA in the 20 poorest provinces. The target beneficiaries of the AFFP are those that are listed in the completed registry of farmers and fisherfolk under the Registry System for Basic Sectors in Agriculture (RSBSA) prepared by the National Statistics Office. The estimated/target requirement of these identified beneficiaries is about P 59.56 billion (P 32.55 billion for agri production and P27.01 billion for microfinance/livelihood projects) The facility is envisioned to ensure availability of financing to help increase the proportion of small farmers and fisherfolk with access to loans from formal sources, i.e. from 57% in 2008 to 65% in 2016.[16] The over-all goal is to help contribute to the attainment of inclusive growth through financial inclusion of the unbanked and under-banked sectors in the agriculture sector.

The specific objectives of this facility are as follows:

a) increase access to financing of small marginalized farming and fishing households engaged in the production of priority commodities in geographic areas unserved/underserved by financial institutions;

b) help enhance the productivity, competitiveness and income earning potential of said households through provision of credit for production, processing, marketing and other income generating livelihood activities; and

c) facilitate the coordinated provision of credit-enhancement and other credit support services such as capacity building, technical assistance, credit guarantee, crop insurance, marketing and monitoring and evaluation in order to optimize the benefits and potential impact of credit to target areas and beneficiaries.

6.1 AFFP Guidelines

The implementation guidelines for the facility, formulated by ACPC, are envisioned to facilitate a streamlined and equitable access by the farmers to this credit facility. Below are highlights of the guidelines:

Mode of Lending: The AFFP adopts the wholesaler-retailer lending approach. Capital (loan) outlay from 2013 GAA will be transferred by ACPC to partner GFIs to be utilized for the implementation of the AFFP. The GFIs will relend to eligible borrower organizations.

Fund releases and administration: ACPC shall release funds to partner GFIs based on approved work and financial plans (with loan targets and schedule, list of target borrower organizations, geographic and monthly loan disbursement targets) to be validated by ACPC through the conduct of a credit demand assessment in the target provinces. Funds shall be administered by the GFIs for a period of 5 years. The GFIs shall not bear the credit risk in implementing the program and shall charge management fee (equiv. to 4.5% per annum of loans released and collected) and other administration related expenses against the income of the Fund. The Fund assets shall be

[16] Revised target indicated in the results matrices of Chap 4: competitive and sustainable agriculture and fisheries sector of the PDP 2011-2016

transferred to ACPC after 5 years. A third party will be deployed by ACPC after 2 years of implementation.

Program management: The National Executive Committee comprised of the DA Secretary, ACPC Executive Director and one representative from each of the partner GFIs shall be the policy making body. The Technical Secretariat (ACPC) will monitor, review policies, and recommend enhancements. The GFIs shall administer, collect, remit, monitor funds disbursements and maintain an MIS.

Program lending guidelines: The AFFC shall abide by the following guidelines:

a) Use of funds – AFFC funds shall be used for agricultural microfinance (wholesale loans that shall be used for financing agri fishery and income generating activities; and for agri fishery production, marketing and processing);

b) Mode of lending – wholesale-retail (i.e. AFFP-PCFC-borrower organization; and special lending facility or wholesale-end-borrowers (i.e. Land Bank to small farmer/fisher borrowers through service conduits);

c) Credit decisions (eligibility of borrowers, credit limit for borrowers' loans, pass-on rate) - minimum criteria based on AFFP guidelines and GFI and borrower conduit's credit guidelines;

d) Pass on interest rate – market rate under the wholesale-retailer scheme; fixed rate at 15% under the wholesale-direct lending scheme; and

e) Credit risk – GFIs shall not bear the credit risk but can charge risk premium on the borrower organization (in the case of the wholesale-retailer scheme).

Performance incentive guidelines: Interest rebates for borrower conduits shall be made available to encourage them to charge lower interest rates and also for service conduits assisting in lending and collection. The rate of interest rebates shall be set by the NEC to be charged against the Fund's interest income.

Monitoring and evaluation: ACPC shall monitor and validate compliance of borrower organizations with AFFP guidelines, particularly on adherence to eligible sub-borrowers, pass-on rates and sub-loans extended as basis for granting of performance incentives. ACPC shall also establish an M&E system to track progress of program implementation and determine program impacts at beneficiary and conduit levels, with the latter to be conducted by a third party.

6.2 Status of Program to date

The ACPC Council approved the operating guidelines for the facility on December 9, 2013. The fund was released to ACPC and was transferred immediately to the partner GFIs on December 27, 2013. P 550 million was allocated to Land Bank and P450 million to PCFC. Fund allocation is based on the percentage share of agricultural production (55%) and agri-microfinance requirement (45%) to the total estimated credit requirements of the 20 RSBSA provinces. LANDBANK will implement the agri-fishery production facility while PCFC will implement the agri-microfinance facility. The partner GFIs have already submitted their work and financial plans for disbursing their respective fund allocations under the AFFP. The program is currently being implemented by both GFIs.

6.3 Assessment of the guidelines

<u>On the design of the program</u> – The 1 billion fund is intended to be a flexible credit facility to benefit small farmer and fisherfolk households included in the RSBSA. The 1 billion fund allocation is also in compliance to the provision of AFMA which mandates the allocation of funds to the AMCFP on an annual basis.

As stated in the program documents, the AFFP is envisioned to be an alternative to the rigid and stringent credit facilities provided by banks. The program is designed to be directly administered by partner GFIs or cooperative banks using either a wholesale-retail strategy or the special lending facility where the wholesaler directly retails the funds to borrowers endorsed by identified service conduits. The program will be implemented by partner wholesale institutions (GFIs and accredited coop banks) using market based interest rates as provided for in the policy principles of AFMA and the AMCFP.

The implementing guidelines developed are, however a semblance of being both directed/fixed and market-oriented. Being both can send confusing signals in the credit market. While DA will not directly implement the AFFP, it has imposed specific terms on certain credit decisions (minimum criteria for eligible sub-borrowers and pass-on rate) that should belong to participating financial institution. Imposing these terms are also not consistent with AFMA guidelines.

The credit-risk free arrangement with GFIs clearly violates both the spirit and the intent of the AFMA and the AMCFP. This arrangement may prompt GFIs to behave in a sub-optimal manner in terms of screening and evaluating borrowers. Prospective borrowers, on the other hand, may consider the pre-identification of clients as a form of entitlement which could again lead to dole out mentality among borrowers. It should be noted that similar arrangements used in the past (i.e pre-identification of borrowers and credit risk free arrangements with conduits of funds) led to the failure of government credit programs. The credit risk free arrangements with the GFIs strip the financial institution of its basic role and mandate of screening and evaluating the creditworthiness of borrowers. While it is recognized that the basic argument for the establishment of the AFFP is the relative stringent policies and procedures of financial institution, the credit risk free arrangement may not be the appropriate design for enticing financial institutions to serve the small farmer and fisherfolks. Credit enhancement mechanisms that lower the risks faced by financial institutions may instead be implemented. To ensure that appropriate and market based credit policies are adopted, financial institutions should have a stake in the lending process.

Similarly, the special credit facility where service conduits will endorse borrowers to LBP may also lead to entitlement mentality among members of the service conduits. To avoid this, the endorsement should not be construed as an automatic qualification for getting a loan. It should instead just verify and attest that the farmer is a member of the service conduits.

On credit risks and interest rates– As an incentive given to GFIs to encourage them to cater to the unserved and perceived high risk sector in the poorest provinces, the guidelines provide that the participating GFIs will not bear the credit risk of the program. The Fund will also pay the wholesaler a management fee for implementing the program.

Without bearing any credit risk and given a fixed fee for managing and implementing the program, there is no incentive for the participating wholesaler to perform and ensure that the credit program is implemented in a prudent manner.

While the arrangement may seemingly lower the cost of borrowing for the end borrowers, it may result in moral hazard behavior on the part of the GFIs. Since both credit risk and administration expense are born by the fund, the wholesalers do not have any stake that will prompt them to be prudent and efficient both in lending and in collecting loan repayments. Should there be huge non-repayments later on, the provision of seemingly low cost funds to small farmers will eventually translate to huge fiscal costs on the part of the government. These fiscal resources may be better spent on more important basic and infrastructure services that have direct and greater impact on small farmers (e.g. irrigation services, technical training, crop insurance, guarantee mechanisms).

Also, the two modalities of lending may result in differing prices between the end borrowers of the PCFC wholesaler-retailer scheme and the special lending facility wherein LBP directly lends to small farmers who are members of the service conduits. Considering that both schemes under Land Bank and PCFC cater to the same target borrowers, those borrowing through the latter's accredited conduits may be at a disadvantage since their rates might be higher. Note that the special lending facility to be established under Land Bank has a fixed pass on rate of 15%. Those under the PCFC facility do not have any cap on lending rates.

On the NEC composition – The NEC is tasked to formulate policies and set the overall direction of the program. It shall also review and approve work and financial plans of the participating wholesaler which shall be the basis of fund releases. The NEC shall also monitor and evaluate program performance. These functions are aligned with the tasks of the ACPC as program oversight. Thus, there is concern on the need for the NEC. The Council is mandated to approve the work and financial plans of programs funded out of AMCFP funds. The AFFP is considered part of the AMCFP funds inasmuch as the argument for the AFFP allocation is the appropriation for credit funds provided for in the AFMA. As such, the Council, not the NEC, can best provide the policies and overall direction of the program. Following this, the review of the work and financial plan can be done by the ACPC technical secretariat while the approval shall continue to be vested with the Council. The monitoring and evaluation of program performance can best be done by the ACPC technical secretariat. Monitoring and evaluation is better performed independently. As such, having an NEC which is comprised of members of the wholesaler defeats the purpose and conflicts with the independence required of monitoring and evaluation. The wholesalers should just be required to submit the required information and data for monitoring and evaluation purposes.

On interest rebates – Interest rebates are a laudable form of incentives to promote utilization and collection of Program funds. However, the guidelines should be clear on how this will be administered particularly for the service conduits of Land Bank. There is also concern as to why the NEC should be given the responsibility of deciding on the interest rebates of credit to be extended by the GFIs. With this arrangement, and given that there is no credit risk on the part of the participating GFIs, the program is a typology of the old directed credit program.

On monitoring and validation – The guidelines indicate the conduct of monitoring and validation by ACPC of borrower organizations under PCFC to ensure that they adhere to sub-borrower eligibility criteria and pass on rates. There is no mention on the monitoring and validation of Land Bank's beneficiaries. Also, it is important that a baseline information on borrowers availing loans from the AFFP be collected. This information is important for evaluating and determining program impact.

7 Recommendations

7.1 On Role and functions of ACPC

ACPC is mandated to assist the Department of Agriculture in synchronizing all credit policies and programs to ensure that small farmers and fisherfolk are given access to credit. As such, it provides services that facilitate access of small farmers and fisherfolk to credit services. Given the market-based approach to credit and the policy thrust and directive for government to veer away from directly implementing credit programs, ACPC's role and function should be focused on the following:

Administration and oversight of the AMCFP. As administrator and overseer of AMCFP, it should primarily focus on how AMCFP shall be disbursed and allocated to financial institutions that will implement and administer the credit programs for small farmers and fisherfolk. As oversight, it should focus on ensuring that programs to be funded by AMCFP are consistent with the policy principles and operational guidelines of the program. It 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. Some argue that ACPC has an explicit mandate to undertake special projects under the Magna Carta of Small Farmers. Section 22 Chapter VII of the law is used as basis for ACPC to implement special projects to promote Innovative Financing Schemes. This paper, however argues that this provision was superseded by the policy framework espoused in Chapter 3 of the AFMA. If one is to cautiously read the provisions in the Magna Carta, the paragraph containing the section on the "special projects to promote innovative financing scheme" refers more to credit enhancement projects that reduce agricultural risks and administrative costs of lending institutions, particularly referring to guarantee and insurance mechanisms. This supports the current involvement of the ACPC in the agriculture guarantee fund and the crop insurance program.

ACPC will be more effective in delivering its mandate and functions by prioritizing and focusing on policy research, advocacy and education, capacity building and monitoring and evaluation. The design and implementation of innovative financing schemes should instead be given to government financial institutions (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. Given the limited staff complement of ACPC, this will enable the institution to be more objective and effective in its policy analysis and program monitoring and evaluation function.

ACPC as oversight, however, should require the wholesale financial institutions the submission of work and financial plan on how the program will be implemented. 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. Performance-based incentive mechanism for participating wholesalers may also be drawn up. Detailed work and financial plans with clear indicators on how the program will be evaluated should be submitted to the ACPC for evaluation and monitoring.

Institutional capacity building. To facilitate the provision of credit services, ACPC may continue to engage in conducting institutional capacity building activities for borrower organizations and their clientele. However, ICB activities should focus more on the small and weak borrower organizations and their clientele included in the RSBSA and in areas covered by the P1 billion AFFP. ICB activities should also include training of borrower organizations on work and financial planning to help them meet their targets and cover more beneficiaries. Lessons learned and espoused in research and in program evaluations should be used as basis in developing relevant ICB activities. Monitoring of results/ outcomes of ICB activities should also be made part of the training activities conducted and of ACPC's M&E system.

Advocacy and education. ACPC can provide support to the lenders engaged in delivering credit to small farmers and fisherfolk in terms of advocacy and education. Education and advocacy should be focused on among other things, the following: available credit enhancement facilities (portfolio insurance, guarantee mechanism, credit information system) available to lenders of small farmers and fisherfolk; reducing risks in agriculture lending; rights and responsibilities of borrowers. ACPC should work and collaborate with other agencies that are already engaged in these activities.

Advocacy and education should also be provided to small farmers and fisherfolk. They should be given appropriate and relevant information on the various lending programs and credit enhancement facilities available for them. Likewise, a financial literacy program designed for small farmers and fisherfolk may also be designed to educate them on their roles and responsibilities as borrowers.

Monitoring and evaluation. As administrator of AMCFP that is not directly engaged in the design and implementation of credit programs, ACPC can effectively monitor and evaluate these programs. Being the source of funds, it can set up a monitoring system that will collect relevant, accurate and timely data and information needed for evaluation. Evaluation results may be used as basis by lending institutions in developing programs that are relevant and would meet the needs of small farmers and fisherfolk.

Policy and program research. As a policy council, ACPC should continually be engaged in policy and program research. Studies conducted should be focused on how credit can be more accessible to small farmers and fisherfolk. Both the demand and supply side of access to credit should be looked into. Studies should be relevant to policy making and program formulation. Data and information gathered from monitoring and evaluation may be used in the conduct of policy and program research. A short and long term research agenda should be drawn up by the ACPC. The agenda should focus on how best to provide small farmers and fisherfolk access to credit. The agenda should also include the establishment of baseline information on who and where the target small farmers are including their need for credit services. By identifying who and where they are, specific research on their behavior and peculiarities can be conducted. Results of these researches can provide relevant information in the design of credit programs and credit enhancement facilities.

7.2 On the AFFP Policy Guidelines

The following are recommendations to improve the administration and management of the AFFP:

1) GFIs should be required to share the credit risks of the AFFP. By doing so, the wholesalers are given a stake in the funds to be lent out to the borrowers. Experience in past credit programs show that performance of financial institutions is usually below par when they do not have any stake in the program. GFIs should be made accountable for the P1 billion credit facility.

2) To encourage wholesalers to participate in the program, a performance indicator and incentive system may be set-up. Incentives should be able to prompt and encourage wholesalers and retailers to lend to the higher risk small farmer and fisherfolk. These incentives should be tied-up with a performance indicator system (e.g. higher management fee for institutions that are able to maintain good portfolio quality as shown by past due ratios and collection efficiency, meet target number of clients as indicated in the work and financial plans etc.).

3) Establishment of baseline information and monitoring system that will enable program evaluation that determines both the effectiveness and efficiency of the program, especially coverage of the target clientele in the poorest provinces.

4) ACPC should be the oversight and monitor of the credit facility. There is no need to establish an NEC inasmuch as this will duplicate the function of the Council. The day to day operation of the program should best be left to the participating GFIs and other retail institution.

7.3 On Strategies for making credit more accessible to farmers

Given the lessons learned from the failures of implementing subsidized directed credit programs, the current framework espoused in the AFMA and adopted by ACPC in pursuing a market-based approach to the provision of credit services in the agriculture sector is deemed relevant and appropriate. The policies and guidelines employed should also be aligned with the market-based approach being pursued. To make credit more accessible to farmers, ACPC should focus on developing, facilitating and/or providing needed support services to both lenders and borrowers as follows:

1) Credit enhancement facilities should be established to ensure that risks in agriculture lending are reduced. In this regard, ACPC should coordinate with other concerned agencies.

2) Most lenders are averse to lend to agriculture in view of the risks associated with the sector. Risk reducing and risk mitigating mechanisms for agricultural lending (insurance and guarantee) should be set up. With the new technologies available and recent good practices in mitigating and reducing risks in agriculture, the current crop insurance program should be evaluated in terms of their relevance to both lenders and borrowers. Recent development in index-based insurance may be looked into to determine their applicability to local situation. Given the increased interest of the private sector in providing risk protection to the low income sector[17], the role and function of the PCIC may be reviewed. Public-private sector partnership in crop insurance may be adopted.

3) Similarly, the current guarantee system for agriculture may be looked into to determine how it is able to meet the needs of both lenders and borrowers and how access to credit by small farmers and fisherfolk is facilitated. Mid-term evaluation of how the program is implemented may be useful in fine tuning the program.

4) Aside from reducing risks in agriculture to encourage lenders to lend to small farmers and fisherfolk, the borrowers should also be given education on their roles and responsibilities as borrowers. Borrowers should be informed and be made aware on how risks in agriculture can be mitigated and of available risk management tools. Since provision of access is both a

[17] Recent experience in microinsurance where private sector play a major role may be considered and adopted for crop insurance.

supply and a demand issue, improving financial literacy of small farmers and fisherfolk is equally important in making credit accessible to them.

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Annexes

Annex A - Policy Research Studies, Policy Papers and Briefs, 2008-2012

ACPC Publications

1) ACPC Annual Report 2008-2009
2) APRACA Fin Power Program, Financial Access and Inclusion in the Agricultural Value Chain 2008
3) APRACA Fin Power Program, Training Manual on Agricultural Microfinance 2008
4) Credit in the Supply and Value Chain of selected Priority Agricultural Commodities 2009
5) Profiling and Estimation of the Credit Demand of Small Farmers and Fisherfolk 2008
6) Rural Household Business Financing (RHBF) Program Terminal Report 2009
7) An Evaluation of ACPC- Administered Financing Programs 2010
8) Evaluation of the ACPC's Institutional Capacity Building Program 2011
9) Agricultural and Fisheries Credit Summit Output 2011
10) Proposed Agriculture and Fisheries Credit Strategic Plan 2011
11) Agriculture and Fisheries Credit Strategic Plan 2011
12) 2008 Bank Lending to Agriculture
13) 2009 Bank Lending to Agriculture
14) 2008 Bank's Compliance to the Agri-Agra Law
15) 2009 Bank's Compliance to the Agri-Agra Law
16) 2010 Bank's Compliance to the Agri-Agra Law
17) Other Publications
    - Brochures on ACPC's credit and training programs particularly on AMCFP, CBAP, ICB
    - Philippine Agri-Finance News (Official Newsletter of ACPC), 2008
    - Philippine Rural Finance (Coffee Table Book) with NABCOR, 2008
    - Thirteen (13) success stories of ACPC credit and capacity-building program clients were also prepared and published in the book "Fields of Glory" by BAR. (2010)

Policy Research Studies, Policy Papers and Briefs

1) Position Paper on Amendments to PD 717 (Agri-Agra Law) (2008)
2) Position Paper on House bill 3795 (An Act Providing for a Rural Agricultural Development Financing System, Creating for the Purpose the Rural Agricultural Development Council (RADC) and for Other Purposes) (2008)
3) Policy Paper on Agricultural Credit, Guarantee ad Insurance for the National Food Summit (April 2008)
4) Quick Assessment of the Agricultural Guarantee Fund Pool (AGFP) (2009)
5) Supply and Value Chain Analysis of Dairy, Seaweeds and Swine (2009)
6) Analysis of the state of value chain financing in selected Asian counties, with APRACA CENTRAB (2009)
7) Policy paper on "Financing opportunities in agribusiness investment" presented during the National Convergence Agribusiness Forum on November 25, 2009.
8) Policy brief on PD 717 penalty clause, proposed alternative modes of compliance, and other related issues (2009);
9) Policy brief on Farmland as collateral bills; 3) Socialized credit and microfinance program proposal by DAR (2009)
10) Policy brief on Proposal for the creation of a national apex bank for cooperative banks (2009)
11) Policy brief DAF-ARMM proposal for the creation of an ACPC regional office in ARMM (2009)
12) Policy brief on Agricultural credit guarantee (2009)
13) Policy brief Proposed P5 billion bond float by the Dairy Confederation of the Philippine (2009)
14) Policy brief Resolution of PAFCs in several regions requesting all financial institutions extending loans to small farmers to minimize loan documentation requirements and lower interest rates (2009)
15) Policy brief Climate change program for agriculture proposed by BAR (2009)
16) Comments on Strategic Agribusiness Development Plan (SADP) (2009)
17) Comments on Proposal on crop insurance by Investor's Assurance Corporation (2009).
18) Review of ACPC Credit Programs.(2010)
19) Terminal Evaluation of LEAD 2000-II Program (2010)
20) Paper on "History, Status and Future of Rural Credit and Finance in the Philippines' presented during the D.L. Umali Lecture Series on July 22, 2010
21) Comments and official position on House Bills 95 and 2072 seeking to prevent the deactivation of Quedancor (2010)
22) Comments on House Bill 825 accepting farmlands as collateral (2010)
23) Comments and inputs on Republic Act 10000 or "An Act Providing for an Agriculture and Agrarian Reform Credit and Financing System through Banking Institutions", particularly on the following matters: i) draft RA 10000 and DA AO designating ACPC as the accrediting authority

for the implementation of the said law; ii) draft Implementing Rules and Regulations (IRR) of RA 10000; iii) AMCFP Trust Accounts under RA 10000; and iv) NFA loans as possible compliance to RA 10000 (2010)

24) Orientation/briefer for NEDA Dir. Gen. Cayetano Paderanga on significant accomplishments and developments in rural finance in the last three (3) years (2007-2009) as well as the issues and bottlenecks (2010)
25) Policy paper on Microfinance for agriculture and other credit delivery mechanisms (2011)
26) Policy paper on Interest Rates on Agriculture and Fisheries Loan (2011)
27) Policy paper on Absorptive capacity and bankability of small farmers and fishers (2011)
28) Policy paper on Risk management in agriculture and fisheries credit
29) Paper on governance and institutional reforms for improving credit access of farmers and fishers (2011)
30) Guidelines for the Certification of eligibility of debt securities and accreditation of NBRFIs (2011)
31) Evaluation of the validity of the Agrarian Reform 10-Year Bonds issued through Land Bank (2011)
32) Evaluation of the eligibility of the proposed P75 billion syndicated loan facility by Land Bank, DBP and participating banks for NFA (2011)
33) Evaluation of DA's Agricultural Guarantee Fund Pool (AGFP) (2012)
34) Evaluation of the Terminated Livelihood Enhancement for Agricultural Development (LEAD) 2000-Phase 2 Program of DA-NAFC (2012)
35) Paper on The Philippine Cooperative: A Vehicle for People Empowerment and Economic Development presented during the 9th Asia-Pacific Co-Operative Minister's Conference (2012)
36) Paper on Credit and Cooperative Support: Key Factors for Attaining Rice Self-Sufficiency (2012)
37) Paper on Cooperative Finance in the Philippines: Policies and Programs (2012)
38) Position paper on HB 5783 (Condonation of Penalties and Interest on Loans Secured by ARBs) (2012)
39) Position paper on HB 6085 (Ordaining the Promotion and Development of Social Enterprises to Ensure Poverty Reduction (2012)
40) Position paper on HB 5989 (Amending RA 9520 of the Cooperative Code of 2008) (2012)
41) Position paper on HB 5292 (Strengthening of Philippine Agriculture through Balanced Farm, Food, Trade and Development Policies(2012)

Sources: ACPC Annual Reports 2008-2012; ACPC Accomplishment Reports, 2008-2010

Annex B - Policy Advocacy and IEC Activities

1) Conduct of. National Agri Credit Summit on April 9, 2008
2) Conduct of Agricultural Credit Forum (May 8, 2008)
3) Participation in the Fertilizer, Irrigation, Education, Loans, Dryers, Seeds (FIELDS) Program Information and Techno Clinic Caravan (2008)
4) Conduct of Credit matching encounters through "Ugnayang Agri Kredit sa Probinsiya" with DA RACDOs and PACDOs (2008)
5) Orientation Seminar for Agri Credit Desk Officers (ACDOs) on DA-ACPC Credit and Microfinance Programs (2008)
6) Co-sponsored the 6th Asian Society of Agricultural Economists International Conference with SEARCA, (2008)
7) Press releases (9), print advertisements (5) and radio and television guest appearances (16) (see www.acpc.gov.ph), (2008)
8) Video Project on Organic Coffee Production and Marketing Project in Cordillera (ACPC, LBP, EU and Figaro), 2008
9) Participation in the Gawad Pitak and Gwad Saka annual search for outstanding achievers in the agriculture and fisheries sector (2008)
10) Sixteen (16) press releases and 11 advertisements on ACPC policies and programs were prepared and published in major dailies and agricultural magazines (2009)
11) Twenty-eight (28) press releases on ACPC policies and programs as well as significant developments in rural finance (e.g. enactment of RA 10000 or the Agri-Agra Reform Act) were prepared and published in major newspapers and agricultural publications.(2010)
12) Conduct of National Agriculture and Fisheries Credit Summit on August 18, 2011
13) Conduct of eleven (11) credit matching seminars through "Ugnayang Agri Kredit sa Probinsiya" in 12 provinces (2011)
14) Setting up of agri-credit desks at regional (DA-RFUs) and provincial levels (LGUs) (2011)
15) Press releases on the Agriculture and Fishery Credit Summit (2011)
16) Improvement of ACPC website (2011)
17) Participation in conferences and roadshows nationwide (2011)

Sources: ACPC Annual Reports 2008-2010; ACPC Accomplishment Reports, 2008-2010