

SUMMARY

Use of the Agricultural Competitiveness Enhancement Fund (ACEF) by the Department of Agriculture (DA)

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The Aquino administration has been implementing the zero-based budgeting (ZBB) approach which, among others, requires the periodic evaluation and review of major government programs including ACEF. In line with this, the objectives of the present study are to a) review the effectiveness of the program in terms of achieving its objectives as provided for by RA 9496 by looking into the financial performance of the fund, including sources, variability, and predictability, and projected outlook; operations and project selection criteria, monitoring and evaluation processes; and quality of projects funded in terms of cost efficiency, viability and impact; b) identify other types of high-return investment projects which have not received adequate government funding support in the past, e.g., high yielding agriculture R&D projects; c) determine the feasibility of reverting the balance of the ACEF fund to the general fund; and d) if item c is not possible, formulate specific strategies to improve access and quality of spending of the fund. Furthermore, the study is tasked to identify specific areas for spending and how it addresses the fund's intended use. The study utilizes both primary and secondary data and information. Primary data and information were gathered through interviews with key informants representing relevant government agencies and ACEF recipient firms. Secondary data were sourced from the available existing literature on ACEF and relevant records of concerned government agencies and other institutions.

Among others, the study found that ACEF has been facing several fund management problems and issues. These include the following: a) substantial unreleased ACEF funds at LBP; b) very low repayment rates of ACEF loans; c) over-allocation for grants vis a vis loans; d) few beneficiaries of grants which also receive substantial grants; e) disparity in the provision of assistance between different classes of SME beneficiaries; and other fund management issues. The study further found the following issues related to the overall management of ACEF: a) requirement of no interest and collateral; b) absence of a prioritization plan; c) inappropriate management organization; d) inconsistent definition of SMEs; e) inadequate review and monitoring; f) scarce management resources; g) limited involvement of conduit bank; and h) substantial involvement of QUEDANCOR.

In addition, the results of the study showed that the majority or more of the managers of recipient firms of ACEF perceived that the profitability, net worth, productivity, quality of products, recognition of products, local market share, international market share, number of international buyers of their firms have increased during the period they have availed of an ACEF loan. More of the managers also indicated that their post-harvest losses have decreased after availing ACEF assistance. Furthermore, the majority or more of the managers perceived that

the generation of foreign exchange, employment and taxes of their firms has increased during the period they have availed of ACEF assistance. Although these results simply provided a positive correlation between firm performance and ACEF assistance, the study asserted that they may also imply the possibility that assistance has actually contributed to the improved performance and quality of recipient-firms of ACEF.

The results of the study further showed that a majority of the managers of the recipient-firms took 1 to 3 years to process their loans from ACEF while some took even more time than that. Most of the managers also said that the processing of the loan is time-consuming and not conducive particularly to micro and small-scale firm and thus needs to be shortened. It also found that there are many competitive products than can be supported by ACEF and that most of the agricultural products and subsectors it actually supported also mentioned as competitive by government laws, plans and programs. However, the study explained that there is at least one group of product supported by ACEF which may not fall within the category of internationally competitive products, grains/rice.

Study enumerated general options for the improved management of ACEF in the futures. Regardless of which of these options the government would take, however, the study recommends the following immediate actions to be undertaken for a more efficient and effective ACEF:

- a. Implementation of the COA recommendations;
- b. Formulation of a well-prepared prioritization plan;
- c. Review of the ACEF IRR for its improvement;
- d. Implementation of a fund sharing scheme strictly based on the law;
- e. Possible involvement of the Office of the Solicitor General in the collection of arrears and amortization;
- f. Review of the involvement of QUEDANCOR, NABCOR, and BPHRE.

As caveat, the study asserts that due to its inability to gather all the needed data and information, some of its objectives were only partially attained. While this is so, on the other hand, the study argues that since ACEF is a big expenditure item of the national government with numerous problems and controversies, the need to immediately act and implement positive changes is now imperative. The study hopes that the recommendations and options it suggested will find significant consideration within the management circle of ACEF and the national leadership.