FINAL REPORT

Use of the Agricultural Competitiveness Enhancement Fund (ACEF) by the Department of Agriculture (DA)[1*]

Danilo C. Israel, Ph.D.

I. Introduction

The Agricultural Competitiveness Enhancement Fund (ACEF) is an ongoing loan and grant program of the national government for agriculture and fisheries. Its main objective is to increase the productivity and cut costs of agricultural and fisheries producers through the provision of loans to income-generating and competitiveness-enhancing projects, particularly Small and Medium Enterprises (SMEs).

From the start of its actual implementation in 2000 up to the present, ACEF has been plagued by various problems which may have significantly derailed the attainment of its objectives. Among the earlier reported limitations of the program were its weak identification of strategic investment areas to benefit the most vulnerable agricultural sectors, lack of a monitoring system to ensure the availability and timely release of funds, and absence of impact assessment to determine the contribution of the fund to the competitiveness agenda (Yorobe 2005). More recently, the program has been reported in the media to be experiencing very low loan repayment rates and poor loan accessibility performance (PS 2010, PDI 2009, Alave 2001).

Probably the most telling commentary on ACEF came from its donor itself, the national government. The Commission on Audit (COA), in particular, asserted that as of 2009, a substantial portion of ACEF funds were actually not utilized for the program, only a small portion of the collectibles of the program were collected, additional loans were granted to beneficiaries with unpaid past loans, some fund transfers were actually not released to project proponents, and loans were granted without interest and collateral to the disadvantage of the national government (COA 2010).

With the afore-cited numerous problems related to the ACEF program, it was not coincidental that in February 2011 the national government through the Department of Budget and Management (DBM) suspended its implementation. The suspension was pronounced as in line with the vigorous thrust of the Aquino administration to implement the zero-based budgeting (ZBB) approach. Among others, this approach implements periodic evaluation and review of major

[*] The author is Senior Research Fellow of the Philippine Institute for Development Studies (PIDS). Research assistance was provided by Jeffrey Lintag, also of PIDS.

government programs to avoid automatic program carryover and “incrementalism” in the budgets of the individual departments, agencies and other government offices.

In pursuance of the ZBB approach, in 2001 the DBM has started evaluating a number of key government programs with significant funding provisions and reported to be suffering from irrelevance, unfulfilled mandates, political interference, improper targeting, and poor implementation records and program designs. Among these programs is ACEF, the evaluation of which has been conducted by the Philippine Institute for Development Studies (PIDS), a government economic and policy research agency attached to the National Economic Development Authority (NEDA).

II. Objectives and Data Sources

The mandated objectives of this study which evaluates ACEF 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 some specific areas for spending and how it addresses the fund’s intended use.

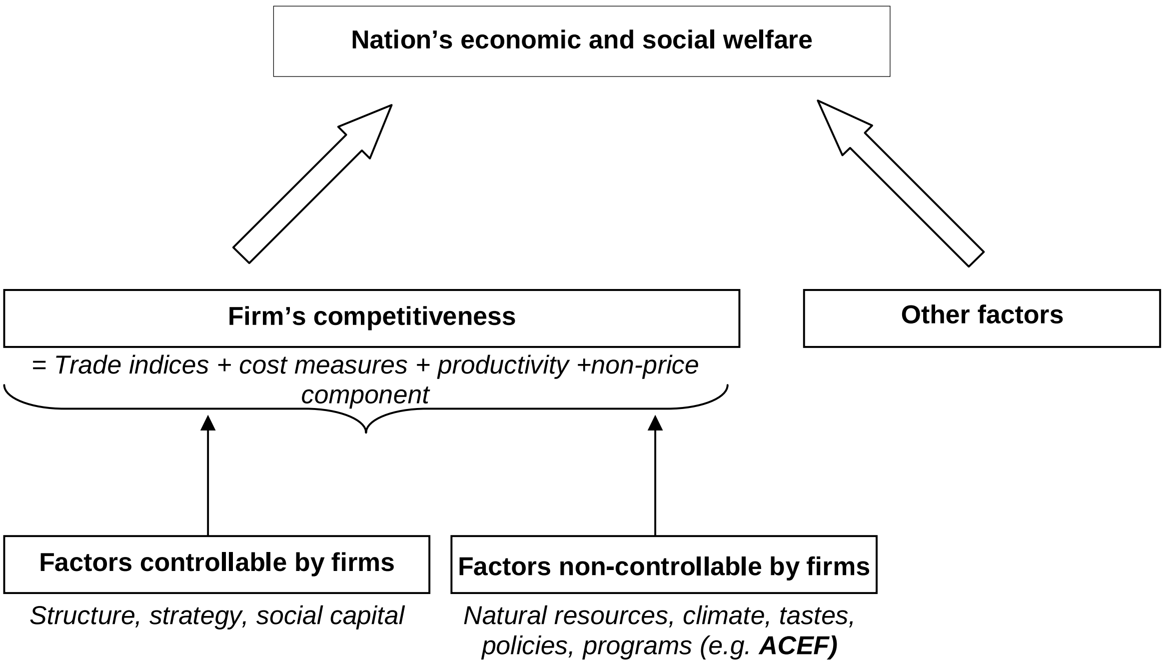
This study utilizes both primary and secondary data and information. Primary data and information were gathered through interviews with key informants representing relevant government agencies and ACEF recipient firms. Secondary data were sourced from the available existing literature on ACEF and relevant records of government agencies such as the Department of Agriculture (DA), DBM, COA, COCAFM (Congressional Oversight Committee of Agriculture and Fisheries Modernization), Agricultural Credit Policy Council (ACPC), Land Bank of the Philippines (LBP) and other relevant institutions.

As caveat, however, during the preparation of this report, the study proponent was not able to access the necessary primary and secondary data and information from the DA, COCAFM, and LBP which are the main government institutions involved in the management of ACEF. The proponent was also not granted interviews with identified key informants from these same institutions although some key informants from other institutions were interviewed. On the other hand, comments requested from the DA on the first draft of the first draft of this report which was submitted to it earlier were forwarded to the proponent in time for the preparation of this final report. To an important extent, therefore, the attainment of the objectives of the study has been constrained by the limited data and information available the proponent to be explained in more detail in relevant sections below. While this is so, it should be mentioned also that the comments of the DA on the first draft have been very useful in the finalization of the final report.

III. Methodology

Put simply, the policy of providing financial assistance, such as loans, to SMEs that are competitive is one of the factors usually not controlled by firms and, thus, the government and other financial sources may have to provide (**Figure 1**). If done in an efficient and effective manner, a loan program like ACEF will potentially increase the competitiveness of SMEs which will, in turn, promote the economic and social welfare of the country. On the other hand, if done wrong, the ACEF program will just be another anomalous way of wasting precious government money subsequently exacerbating the numerous problems that the country already faces.

Figure 1 Framework of the Study



Source of Figure: Modified from Latruffe (2010)

For the first major objective of the study which is to look into the financial performance of the ACEF fund, including sources, variability, and predictability, and projected outlook; the study will attempt to analyze to the extent possible the financial and other relevant records and documents of ACEF pertaining to the aforementioned parameters. In addition, the study will try to look into the performance of ACEF in terms of its financial status using indicators such as liquidity, repayment rates, meeting performance targets, financial internal rates of return (FIRR) and other appropriate financial indicators.

For the corollary objective which is to look into the quality of projects funded in terms of cost efficiency, viability and impact, the study will analyze to the extent possible the actual operations of the ACEF program (for cost efficiency and program viability) and actual operations of the program recipients (for project viability and impact). There are three types of objectives by which the ACEF program and its recipient projects may be evaluated: a) the firm's immediate economic objectives such as profitability, productivity, product quality and other related business concerns; and b) the country's immediate economic objectives such as contributions to generation of foreign exchange, employment, and public revenues; and c) the country's development objectives such as the contributions to the national economic and social goals stated in government plans and laws particularly the Medium Term Philippine Development Plan (MTPDP) and Agriculture and Fisheries Modernization Act (AFMA).

For the corollary objective of looking into operations and project selection criteria, monitoring and evaluation processes, the study will scrutinize DAO No. 19 of 2008, the latest Implementing Rules and Regulations (IRR) of the ACEF program particularly its relevant provisions. Then the study will analyze to the extent possible the effectiveness of ACEF in terms of operations, project selection, criteria, and monitoring and evaluation in light of the relevant IRR provisions.

For the second major objective of identifying other types of high-return investment projects which have not received adequate funding support in the past, e.g., high yielding agriculture R&D projects, the study will conduct a review and identification of such projects based on the MTPDP, AFMA and other documents.

For the third and fourth major objectives of determining the feasibility of reverting back the balance of the ACEF fund to the general fund of the government, and if this is not possible, formulating specific strategies to improve access and quality of spending of the fund, the study will review the pertinent provisions in the relevant laws and regulations. Furthermore, to the extent possible, perceptions and opinions of selected and cooperative key informants from the relevant government agencies involved in the management and implementation of the ACEF program and the private sector will be solicited to generate some ideas on how it should be managed in the future.

IV. Background of ACEF

4.1 Laws

The AFMA, or Republic Act (R.A.) 8435) of 1997 is the overarching law in the agriculture sector. In terms of agricultural credit, this law declared that it is the policy of the State to alleviate poverty and promote vigorous growth in the countryside through access to credit by small farmers, fisher folk, particularly the women involved in the production, processing and trading of agriculture and fisheries products and the small and SMEs and industries engaged in agriculture and fisheries. It further mandated that an agriculture, fisheries and agrarian reform credit and financing system, called the Agro-Industry Modernization Credit and Financing Program (AMCFP), shall be designed for the use and benefit of farmers, fisher folk those engaged in food and non-food production, processing and trading, cooperatives, farmers'/fisherfolk's organization, and SMEs engaged in agriculture.

The Agricultural Tariffication Act or R.A. 8178 of 1995, on the other hand, is the law that created ACEF. It mandated that the program derive its funding from the proceeds of the in-quota tariff rate for the minimum access volume (MAV) of imports which, together with the out-quota tariff for volumes beyond the MAV, form the two-tiered tariff quota system for sensitive agricultural commodities. Among the notable provisions of R.A. 8178 are that a) the Committees on Agriculture and Food, Appropriations and Finance of both the Senate and the House of Representatives shall conduct a periodic review of the use of the Fund; b) ACEF shall have a life of nine 9 years, after which all remaining balances shall revert to the General Fund of the national government; and c) it repeals previous laws and all other laws or provisions of law prescribing quantitative import restrictions or granting government agencies power to impose such restrictions on specific agricultural products.

In 2008, R.A. 9496 was enacted extending the utilization of ACEF up to year 2015. Among the important provisions of this law are that: a) fund releases for ACEF shall not be subject to any ceiling by the DBM; b) the fund shall continue to be set aside up to the year 2015, after which the collection of duties from the MAV mechanism and the setting aside *of* the amount collected for the purpose shall terminate; c) any remaining balance at the date of expiration of the Fund shall not revert to the General Fund but shall continue to be used for the purpose for which it was collected and set aside; and d) the Fund shall be set aside and earmarked by Congress for the protection of farmers against unfair trade practices and for the increased productivity of farmers and fishermen through the provision of the necessary agricultural support services.

Other special features of R.A. 9496 is that it allows local government units (LGUs), state universities and colleges (SUCs) or other government institutions involved in the research and development of agricultural products to avail of ACEF funds in the form of grant without any collateral or security. It also mandated the following sharing of ACEF funds: 70 percent for agri-based production and postproduction, and processing activities; 20 percent for research and development and the commercialization of such; and 10 percent for the funding of a comprehensive scholarship program for agriculture, forestry, fisheries, and veterinary medicine education.

Finally, to implement the ACEF program, the DA issued the following series of Department Administrative Orders (DAOs) through the years (**Table 1**). The latest of these are DAO No. 19, Series of 2008 which provided the newest Implementing Rules and Regulations (IRR) of the program and DAO No. 14, Series of 2009 which provided the addendum to the IRR.

Table 1 Various Administrative Orders Issued by the Department of Agriculture Providing the Implementation Guidelines on the Utilization of ACEF Including the Amendments to Some Provisions

DA Administrative Order		Particulars
Number	Date	
9, Series of 1997	09.15.97	Implementation Guidelines on the Utilization of the ACEF
39, Series of 1999		Revised Implementation Guidelines on the Utilization of the ACEF
10, Series of 2000	03.28.00	Revised implementing Guidelines on the Utilization of the ACEF under AO No. 39, series of 1999 as amended by AO No, 10, series of 2000
28, Series of 2000	07.12.00	Addendum to DA AO No. 39, Series of 1999, as amended by AO 10, Series of 2000, Governing the Use of the 1999 Sugar Conversion Fee Collections.
22, Series of 2005	07.22.05	Reconstitution of the ACEF National and Regional Technical Committees
8, Series of 2006	05.24.06	Amended Revised Implementation Guidelines on the Utilization of the ACEF
23, Series of 2007	07.17.07	Addendum to DA AO No. 8 Series of 2006, Governing the Utilization of the ACEF for Public Investment Projects
19, Series of 2008		Implementation Guidelines on the Utilization of the ACEF
09, Series of 2009	05.27.09	Guidelines on the ACEF Scholarship Program
14, Series of 2009	08.03.09	Addendum to DA AO No. 19, Series of 2008, Revised Guidelines on the Utilization of ACEF*(Mode of financing and fund allocation)*
08, Series of 2010	03.10.10	Amending DA AO No. 19, Series of 2008: Reconstituting the ACEF

Source: COA (2010)

4.2 Management

The overall management of ACEF is undertaken by its Executive Committee (ExeCom) which is tasked to allocate funds and review, approve, and prioritize project proposals and feasibility studies submitted for ACEF funding. The Secretary of the DA and the Chairperson of the COCAFM serve as the Chair and Co-Chairs of the ExeCom, respectively. The members of Execom include the representatives from government financing institutions, private sector, National Agriculture and Fishery Council (NAFC), and the small farmers, fisherfolk, industry, and agricultural councils.

The LBP is the government financial institution (GFI) which serves as the conduit bank for the ACEF program to service the needs for the release and collections of loans to and from the program beneficiaries. As procedure, the DA transfers the funds it receives from the DBM to the LBP for the implementation of the loan and LBP then releases the fund in tranches to beneficiaries upon advice of the Execom.

V. Financial Performance and Issues

5.1 Funds remitted to the Bureau of Treasury, released by DBM and received by DA

ACEF was originally scheduled to start in April 1996 when a special account for the purpose was set by the Bureau of Treasury (BTr). However, its implementation was delayed as the relevant MAV revenues for 1995, 1996, and 1997 did not accrue to the fund, basically due to the absence of clear procedures (Habito 2005). The guidelines were formulated later but no releases had been made yet as late as 1999 (Habito et al. 1999). Then, in 2000, the DBM assigned the ACEF program a special account number which allowed it to finally commence.

The available data showed that from 2000 to 2010, the MAV revenues intended for ACEF and remitted to the BTr totaled about P10.6 billion. Of this, approximately P9.9 billion were for regular ACEF while P0.6 billion were for sugar ACEF (**Table 2**). On the other hand, during the same period, the DBM released a total of about P8.6 billion of ACEF funds. Of this, approximately P8.0 billion were for regular ACEF and a little less than P0.6 billion were for sugar ACEF. The total balance between funds remitted and released were about P2.0 billion. Of this, less than P457,000 were sugar ACEF funds and the rest were regular ACEF funds.

From 2000 to 2009, the DA received a total of P7.752 billion of ACEF program funds from the DBM (**Table 3**). In general, the annual funds received have been increasing over the years with the largest tranches occurring in 2004, 2007, 2008 and 2009 while the smallest were in 2000, 2001, 2002, 2003, and 2005. The smallest tranche received by the DA from DBM was in 2000 while the largest was in 20009. The data indicate that no ACEF funds were received by the DA from the DBM in 2006.

Table 2 Balance of ACEF Funds Remitted to BTr and Released by DBM, as of December 2010 (in Pesos)

Year	Regular ACEF	Sugar ACEF	Total
Remittances to BTr	9,989,761,696	600,000,000	10,589,761,696
Releases by DBM	7,999,467,558	599,543,000	8,599,010,558
Total	1,990,294,138	457,000	1,990,751,138

Sources of data: Appendix Tables 1 and 2

Table 3 ACEF Funds Received and Utilized by the Department of Agriculture, 2000-2009

Calendar Year	Funds Received from DBM (in Pesos)	Utilized National Cash Allocation (NCA in Pesos)	Fund Utilized/ Fund Received (%)
2000	62,480,831	62,480,831.00	100
2001	394,907,370	384,907,370.00	97.47
2002	456,764,456	456,764,456.00	100
2003	514,544,288	512,276,297.47	99.56
2004	762,107,371	762,107,370.78	100.00
2005	577,580,355	577,577,503.36	100.00
2007	1,400,655,033	1,400,655,033.00	100
2008	1,701,466,795	1,701,466,795.00	100
2009	1,881,931,940	1,720,523,629.00	91.42

Total	7,752,438,439	7,578,759,285.61	97.76

Source of data: COA (2010)

5.2 Utilization of funds

COA (2009) reported that from 2000 to 2009, of the P7.752 billion received by DA, P7.579 or 97.76 percent were utilized national cash allocation while P173.679 or 2.24 percent were unutilized (**Table 3**). The fund utilization of P7.579 billion consists of fund transfers (FT) to various government agencies for the implementation of ACEF projects of P6.576 million; loans granted to Quedan and Rural Credit Guarantee (QUEDANCOR) of P1 billion; and funds allotted for the operation of MAV in CY 2003-2005 totalling P3.053 million. The afore-cited data indicate that the rate of utilization of ACEF funds on the part of the DA is high reaching 100 percent in some years and not less than 90 percent on others.

5.3 Fund management issues

Substantial unreleased funds at LBP

While the rate of utilization of ACEF funds overall is high on the part of the DA, in some years, there have been problems in the utilization of the funds of the program on the part of the LBP down to the loan beneficiaries. Specifically, COA (2008) mentioned that in 2007, unreleased loan balances amounting to P28.416 million were not withdrawn from LBP pending approval on the requests for loan restructuring or loan amortization deferment by various proponents. COA (2010) further stated that in 2009, funds received from DBM of P173.679 million were actually not utilized for the program and fund transfers to LBP of P887.220 million were not released to proponents.

In its comments, the DA forwarded to the proponent a draft of the Revised Implementation Guidelines on the Utilization of ACEF dated June 2011 which it hopes will address all the valid concerns about the program and ensure a more effective and efficient implementation. In the case of the problem of substantial unreleased funds at the LBP, the DA stated that it will now ensure the expeditious actions on the requests for loan restructuring to avoid accumulation of unreleased loan balance at the LBP. In addition, the agency mentioned that based on the aforementioned amended guidelines, actual loan releases will now be done at the

DA-Central Office. For its part, the LBP which would simply become a depository bank and perform background and credit investigation for the program.

While the revised implementation guidelines in general may be a step forward for ACEF management, it is not clear from the DA explanations, among others, whether doing the function of loan releasing is really part of its mandate, it has the manpower capability and other resources to do so without sacrificing its organic responsibilities, and it has a clear comparative advantage over LBP in a job that requires some level of banking expertise.

On the issue that in 2009, funds received from DBM of P173.679 million were actually not utilized for the program and fund transfers to LBP of P887.220 million were not released to proponents, the DA argued that said funds were not released to recipients because of the a) absence of the endorsement from the concerned DA Regional Field Unit (RFU), b) non-compliance by the beneficiary on the requirements as stated in the conditions for release; and c) absence of a request for release from the beneficiary. The DA also said that it has already made a request to the DBM for the use of the unreleased funds for other projects and that this request was initially granted. So far, however, no final clearance has been released by DBM.

The approach of using the unreleased ACEF funds for other projects would certainly reduce the volume of unreleased funds at the LBP and may also be allowed by law. On the other hand, juggling or diversion may not address the root causes of why there has been such a large amount of unreleased funds in the first place. It may be better if the reasons behind the non-release of the funds, such as those enumerated by the DA, are tackled first.

Very low loan repayment rates

In its annual audit reports, COA reported that ACEF has very poor performance in terms of collecting loan amortization, with repayment rates ranging from 38.38 percent in 2004 to 7.04 percent in 2009 (**Table 4**). The data further indicate that the repayment rates were not only very low but also consistently decreasing over the years.

As of 2009, by region, Region IX and Region V had the best repayment rates among the regions of the country (**Table 5**). Those with the worst repayment rates of zero percent were Regions CAR, IV-B, VII, XIII and ARMM. Mindanao had the highest repayment rate followed by Luzon (**Figure 2**). The Visayas, on the other hand, had the lowest repayment rate which was significantly less that than those of Mindanao and Luzon. It is a bit surprising that Mindanao which is supposed to be relatively behind in economic performance as compared to the other two regions has a higher repayment rate of ACEF loans.

In its comments, the DA mentioned that with the loan security provisions listed in the revised implementing guidelines, the loan repayment performance of

ACEF should improve. While it acknowledges the low repayment rate, it also showed that using its own formula, which is quite different from that of COA, the repayment rate of the program during the period of implementation (for instance 2002-2009) should be higher, at 25 percent.

It is well acknowledged that the new loan security provisions in the revised implementing guides, by themselves, should help improve the repayment performance of ACEF if effectively and efficiently implemented. On the other hand, while there is indeed discrepancy in the formula used by the COA and DA, it provides little comfort since the resulting rates from both computations are still very low compared to what is acceptable for development loans, much less for commercial loans.

Table 4 ACEF Loan Repayment Rates, 2005, 2006, 2008, 2009, 2010

CY	Amount due for Amortization (in Million Pesos)	Amount Collected (in Million Pesos)	Repayment Rate (%)
2004	49.112	18.848	38.38
2005	117.000	34.872	30.00
2007	343.144	31.774	9.26
2008	487.352	3.041	7.19
2009	737.565	51.947	7.04

Source of Data: COA (2005, 2006, 2008, 2009, 2010)

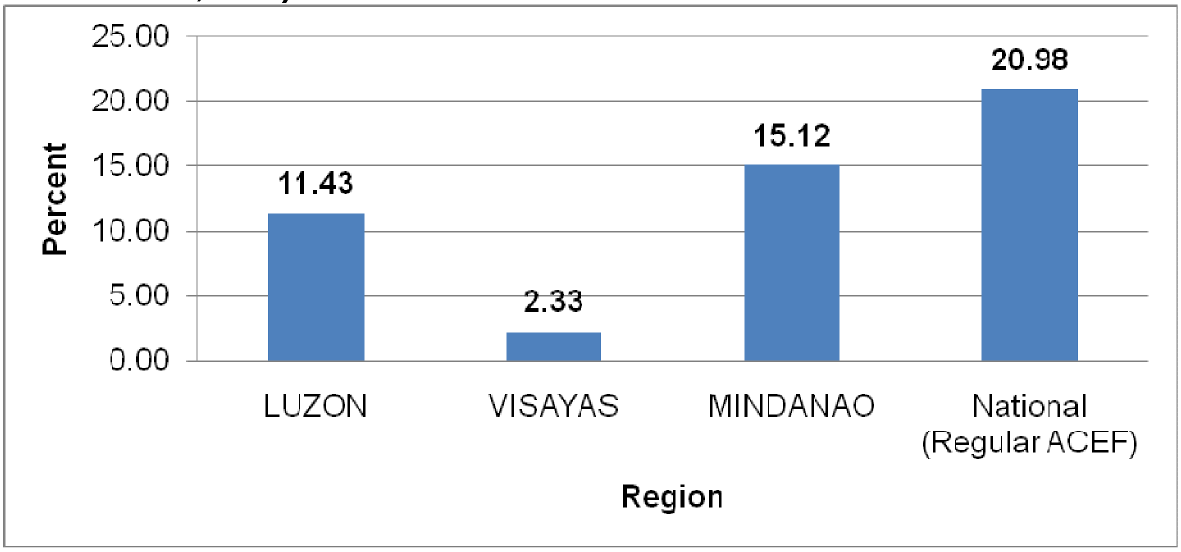
Table 5 ACEF Repayment Rates, by Region (As of December 31, 2009)

Region	Total Collectible for CY 2009	Collections in CY 2009	Repayment Rate (%)
CAR	28,425,000.00	0	0
REGION I	52,305,575.00	5,397,200.00	10.32
REGION II	24,911,463.30	1,161,861.25	4.66
REGION III	149,961,507.27	1,025,000.00	0.68
REGION IV-A	77,603,289.80	6,097,819.00	7.86
REGION IV-B	2,220,000.00	0	0
REGION V	2,111,696.00	1,267,017.60	60.00
REGION VI	85,424,512.45	5,967,279.75	6.99
REGION VII	24,228,060.00	3,242,000.00	13.38
REGION VIII	35,650,612.00	0	0
REGION IX	19,535,000.00	14,608,500.00	74.78
REGION X	66,533,277.00	7,610,000.00	11.44

REGION XI	49,222,984.10	1,657,415.00	3.37
REGION XII	71,483,437.68	809,840.00	1.13
REGION XIII	3,086,790.00	0	0
ARMM	33,645,852.50	0	0
National (Regular ACEF)	11,216,140.50	3,103,000.00	27.67
Total	737,565,197.60	51,946,932.60	7.04

Source of data: Appendix Table 3

Figure 2 ACEF Repayment Rates, Luzon, Visayas and Mindanao (As of December 31, 2009)



Source of data: Appendix Table 3

Over-allocation for grants

The latest IRR for ACEF provided the following sharing of ACEF funds among uses: a) seventy percent for agri-based production and post-production and processing activities; for technical assistance and feasibility studies grant; and for public investment that will increase the productivity of farmers; b) twenty percent for research and development and commercialization of such, including the upgrading or research facilities of qualified state universities and colleges; and c) ten percent to be used for the funding of a comprehensive scholarship program for agriculture, forestry, fisheries, and veterinary medicine education. Key informants also state that the sharing of ACEF funds is roughly 70 percent for loans and 30 percent for grants.

Although the unavailability of data from the DA, LBP and COCAFM has precluded a deeper analysis on ACEF funds, data earlier generated by the Monitoring and Evaluating Agricultural Policy Indicators-Capacity Development Project of PIDS from the DA provide some interesting insights on sharing of ACEF funds. As of 2008, of the total ACEF assistance of P5.778 billion, P3.928 billion or 67.97 percent are loan assistance while P1.850 billion or 32.03 percent are in the form of grants (**Table 6**). Thus, the share of grants to the ACEF funds has gone past the 30 percent of total fund assistance.

It is comments, the DA explained there is actually no provision in ACEF that limited grant allocation to only 30 percent and that allocation is done on the basis of activities and not mode of fund disbursement, that is, loans versus grants. It also mentioned that public goods and services such as public investments are normally provided in the form of grants.

DA Administrative Order No. 19 (s.2008) has the following to say about the fund allocation quoted verbatim:

a. Ninety percent (90%) of the total available Agricultural Competitiveness Enhancement Fund (ACEF) shall be allocated to finance ACEF project Executive Committee (ExeCom) approved project proposals. This allocation shall be earmarked to finance the following:

i. Seventy percent (70%) for agri-based production and post-production and processing activities particularly those that generate added value agri-products and create new market products and activities and create new market.

ii. Ten percent (10%) for commercialization and application of research inputs including upgrading of facilities of research State Universities and Colleges (SUCs).

iii. Ten percent (10%) to be used for the funding of a comprehensive undergraduate scholarship program in agriculture, forestry, fisheries and veterinary medicine and graduate studies in environmental and marine science, hydrology, renewable energy and agri-business management programs.

b. The remaining ten percent (10%) shall be used for technical assistance and feasibility studies grant to eligible project/activities and administrative expenses. Not more than three percent (3%) thereof should be used for administrative overhead, one percent (1%) for national technical secretariat, one percent (1%) for the regional secretariat and one percent (1%) for the evaluation and staff of the Congressional Oversight Committee on Agriculture and Fisheries Modernization (COCAFM).

Thus, from the above allocation, even granting that there is no provision in the law that specifically divided ACEF funds between loans and grants, grant-like allocations (ii), (iii) and (b) shall be earmarked 30 percent. This is in contrast to what the available data indicate (see **Tables 6 and 7**). Also, there is no argument that public investments such as roads in Aurora province are indeed afforded as grants as mentioned by the DA and indicated by the data (**Table 7**). Moreover, (a) above clearly stipulates that ACEF funds and not activities should be the basis of allocation and that 70 percent should be loan-like, if you well, and 30 percent are grant-like. Thus, the spirit of the law if not its word implies a 70 percent loan allocation and a 30 percent grant allocation.

Few grant beneficiaries and substantial grants

In addition to the amount of grants exceeding its maximum of 30 percent, the beneficiaries of the already substantial amounts of grants are eight entities only (**Table 7**). A beneficiary, the Bureau of Post-Harvest Research and Extension (BPHRE) received two grants of half a billion pesos each. Another, the Post Harvest Processing and Trading Center of the National Agribusiness Corp (NABCOR), got a P300 million grant. Incidentally, the universities in the list got the least grants.

Table 6 ACEF Assistance, by Loan and Grant (As of December 31, 2008)

Type of Assistance	Amount (Pesos)	Percent to Total
Loan	3,927,633,947.00	67.97
Grant	1,850,477,918.00	32.03
Total	5,778,111,865.00	100.00

Source of data: Appendix Table 4

Table 7 ACEF Grant Assistance, by Beneficiary, Amount of Assistance, Classification and Year of Approval (As of December 31, 2008)

Project/Proponent	ACEF Assistance	Classification	Year of Approval
1. Enhancement of Technology Based Agribusiness Industry/ Aurora State University, Baler, Aurora	100,072,400.00	University	2007

2.	Road Concreting and Improvement Project along Baler-Casiguran Road, LGU-Aurora, Baler, Aurora	200,000,000.00	Local Government	2008
3.	Abaca Production and Processing/ Palawan State University, Puerto Princesa, Palawan	10,255,662.00	University	2008
4.	Postharvest/Cold Chain Bureau of Postharvest Research and Extension	500,000,000.00	National (Regular ACEF)	2007
5.	Competitive Food Processing and Cold Chain Operation/ National Agribusiness Corporation	225,219,856.00	National (Regular ACEF)	2007

Table 7 (continued)

	Project/Proponent	ACEF Assistance	Classification	Year of Approval
6.	Post Harvest Processing and Trading Center/ National Agribusiness Corp (NABCOR), Ortigas Center, Pasig City	300,000,000.00	National (Regular ACEF)	2008
7.	Establishment of Cold Chain Facilities for Fruit, Vegetables, Livestock and Fishery Products/ Bureau of Post Harvest Research and Extension (BPHRE), Science City of Muñoz, Nueva Ecija	500,000,000.00	National (Regular ACEF)	2008
8.	Establishment of Aklan State University Biodiesel Plant Aklan State University Banga, Aklan	14,930,000.00	University	2007

Total	1,850,477,918.00

Source of data: Monitoring and Evaluating Agricultural Policy Indicators-Capacity Development Project

In addition to few beneficiaries of the ACEF grants, there also appears to be a potential misallocation of the grants. In particular, none of the grants provided was intended for the funding of a comprehensive scholarship program for agriculture, forestry, fisheries, and veterinary medicine education which should form ten percent of the total ACEF assistance as provided for in the IRR. A further check of the data shows that while some of the universities received their assistance in the form of grants, other universities received theirs in the form of loans.

On this point, the DA in its comments made clarifications most of which are well taken. However, the wisdom of providing ACEF grants to government corporations which also have track records of potential corruption should be revisited. Secondly, since government corporations are supposed to earn profits and can pay its managers and employees rates that are way above those received by other government employees (such as those in the DA), grants provided to them may be seen by the public as an anomaly and not an honest to goodness support for the agriculture sector.

Disparity in the provision of assistance

Of the 193 ACEF assistance provided in 2008, about two-thirds ranged from above P3 million to P15 million while about a fifth of the assistance ranged from above P15 million to P100 million. The rest of the assistance were up to P3 million or more than P100 million. The assistance therefore was concentrated in the middle ranges and not well distributed between ranges (**Table 8**).

Table 8 ACEF Assistance, by Number of Beneficiaries and Amount of Assistance (As of December 31, 2008)

Amount of Assistance	No. of Beneficiaries	Percent to Total
Up to 3 Million	16	8.29
3,000,001- 15,000,000	128	66.32
15,000,001-100,000,000	42	21.76
More than 100 Million	7	3.63
Total	193	100

Source of data: Appendix Table 4

Also, regionally, Regions III received the greatest number of ACEF assistance in 2008 while region XIII got the least (**Table 9**). Hence, there appears to be a significant disparity in the distribution of assistance between the regions. The assistance at the national level comprised 44.19 percent while that at the regional levels shared 55.81 percent. Luzon got the bulk of the assistance followed by Mindanao while Visayas received a much smaller assistance compared to the two other regional areas (**Figure 3**).

In its comments, the DA stated that the extension of ACEF assistance is based on demand or applications, regardless of economic class, regional parity, or any other basis. Therefore it is not based on a deliberate program of assistance the help the most needy and competitive sub-sectors of agriculture. The drafting of a well-thought out allocation plan for ACEF therefore becomes an utmost necessity.

5.4 Other fund management issues

In addition to the aforementioned issues, the following were reported as financial problems related to ACEF over the years: a) In 2003, incentive allowance to RFU VI totalling P152,000 for the implementation of ACEF was provided, contrary to law (COA 2004); b) In 2004 and 2005, funds amounting to P31.433 million and P66.58 million pertaining to ACEF projects which were terminated or had unreleased loan balances were not returned to the national Treasury (COA 2005, 2006); and (c) In 2009, additional loans of ₱35.659 million were granted to four proponents with unpaid loans of ₱72.245 million (COA 2010).

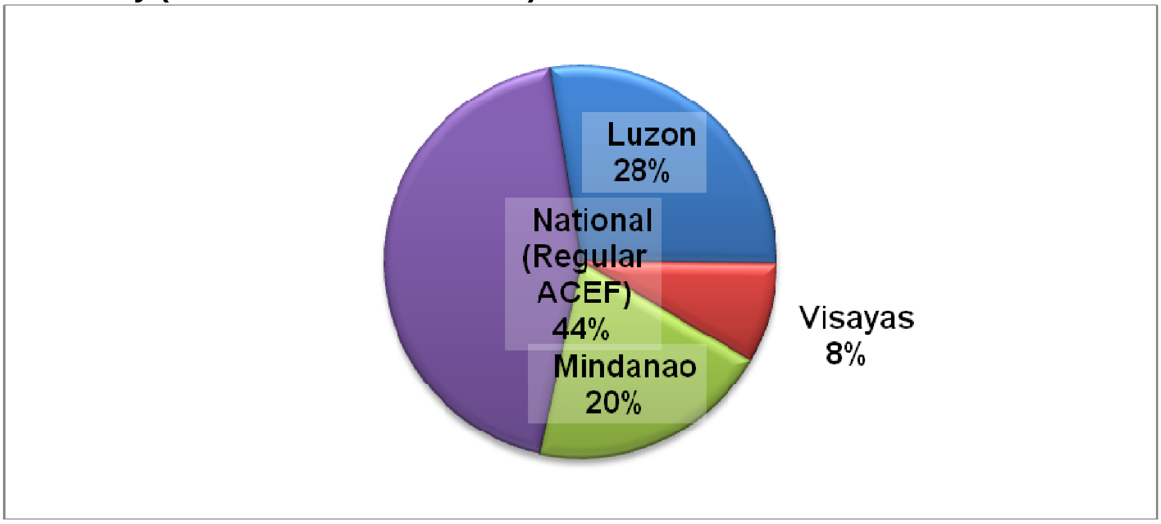
Table 9 ACEF Assistance, by Region (As of December 31, 2008)

Region	Amount of ACEF Assistance (Pesos)	Percent to Total
CAR	99,161,110.00	1.72
REGION I	237,080,839.00	4.10
REGION II	63,730,139.00	1.10
REGION III	730,432,429.00	12.64
REGION IV-A	382,653,146.00	6.62
REGION IV-B	44,596,142.00	0.77
REGION V	41,525,104.00	0.72
REGION VI	294,230,312.00	5.09
REGION VII	125,411,950.00	2.17
REGION VIII	55,611,474.00	0.96
REGION IX	179,847,602.00	3.11
REGION X	379,232,286.00	6.56
REGION XI	202,256,550.00	3.50
REGION XII	308,033,200.00	5.33
REGION XIII	6,139,772.00	0.11
ARMM	74,988,600.00	1.30
National (Regular ACEF)	2,553,181,210.00	44.19

Total	5,778,111,865.00	100

Note: The table does not include National (Sugar ACEF) with a total assistance of P5,599,543,000. The description of the national (Sugar ACEF) cannot be ascertained as of this writing because data and key informants from the DA, LBP and COCAFM were not available for this report.
Source of data: Appendix Table 4

Figure 3 ACEF Assistance Granted to Luzon, Visayas, Mindanao and Nationally (As of 31 December 2008)



Source of data: Appendix Table 4

In its comments, the DA does not have an explanation to (a) since its records do not show that the granting of incentive allowance indeed took place. On (b) it argued that funds amounting to P52.6 million were actually returned to the national treasury in 2006. On (c) the DA explained that the additional loans were granted because the unpaid loans were not yet due at the time. Furthermore, the DA mentioned that to address these and similar issues, among the provisions in the revised implementing guidelines is the general rule that the maximum loanable amount per project per proponent will be fixed at P15 million. It is difficult to assess these aforementioned explanations without a look at the records but the response to (b) appears inadequate as the amounts of the funds mentioned by both COA and DA do not match

VI. Other Management Issues

6.1 Zero Interest Rate and Collateral

Both RA 8178 and RA 9496 have no provisions related to the interest rate and collateral requirements for ACEF loans. On the other hand, the earliest DAOs up to DAO 19 Series of 2008 (Section I, J) stipulated that the fund shall be extended as an interest-free loan to eligible proponents the proposed projects of which are income generating. It also stated that ACEF shall be extended as a collateral-free loan, except for those which the ExeCom may require to put up collaterals as loan security.

The provision of an interest and collateral free ACEF loan program, however, may be contradictory to AFMA (Section 20) which declares that the interest rates for agricultural credit shall be determined by market forces, provided that existing credit arrangements with agrarian reform beneficiaries are not affected. Furthermore, the lack of interest and collateral is cited by key informants as one of the main reasons behind the very low repayment rate of the program. They further opined that without interest rate and collateral, it would be difficult to impose credit discipline among the recipients of the ACEF program as the loans become de facto grants.

In its comments, the DA mentioned that with the revised implementing guidelines, the ACEF will now be extended in the form of interest bearing and collaterized loan. This is a very welcome development and should be lauded. It may help if the actual loan rates and collateral requirements will be specified as well in the revised implementing guidelines.

6.2 Absence of a Prioritization Plan

R.A. 9496 mandates that the DA with the concurrence of the COCAFM shall draw up a prioritization plan for the optimum utilization of the Fund. Key informants mentioned that this plan has not been done yet by the DA and COCAFM. They argue that this could be an important reason why there is a generally disorganized and ad hoc system in the selection of projects, subsectors and areas to be supported as well as the misappropriation of ACEF between loans and grants.

In its comments, the DA stated that a commodity/thematic-based prioritization plan is not being prepared to serve as guide and basis for the utilization of ACEF. This plan will be used once the processing of funding assistance under ACEF resumes side by side with the AFMA and MTPDT. The DA also mentioned that contrary to perceptions, the products and subsectors supported by ACEF, except for rice/grains, are the competitive sectors promoted by AFMA, MTPDP and other institutions. The preparation of the prioritization plan is indeed a welcome development for ACEF.

6.3 Inappropriate Management Organization

The ACEF is based at the DA and the ExeCom, National Technical Committee (NTC), Regional Technical Committee (RTC), National Technical Secretariat, and Regional Technical Secretariat are headed and staffed mainly by DA personnel. Yet, the DA does not have the required expertise to undertake the management of an agricultural credit program like ACEF. In particular, they may not have the ability to do specialized tasks such as the technical review of project proposals for instance. Moreover, key informants opined that the involvement of the chair of COCAFM as co-chair of the ExeCom may result to conflict of interest especially when potential projects for ACEF funding are proposed by firms and organizations owned or supported by individual members of either houses of Congress.

In its comments, the DA argued that the ACEF enabling committees are represented by professional accountants and former bankers who can impart their rich experience in financial evaluation. It also mentioned that as regards conflict of interest, whatever political pressures in the ACEF committees can be neutralized by the non-political members. For instance in the Execom, representatives also include those coming from the private sector and other non-political entities. These justifications, although valid, may only partially rationalize the involvement of the DA and politicians in agricultural credit. For one, certainly the government has other institutions which are not only tasked to handle credit but also have better expertise in the area without hiring outside help. Furthermore, although the private sector and other outside entities can neutralize the influence of politics in the current ACEF set-up it cannot be denied that political pressures may still prevail. This is because the private sector and other groups members in the committees may be politically selected.

6.4 Inconsistent Definition of SMEs

The definition of SMEs is numerically specific in the national laws pertinent to ACEF. AFMA (Section 4) provides the following SME categories based on total assets: Micro: not more than P 1,500,000; Small: P1,500,001 - P15,000,000; and Medium: P15,000,001 million - P 60,000,000. On the other hand, RA 9496 (Section 1) stipulated that SMEs be defined based on the Magna Carta for Small Enterprises or R.A. 6977 of 1991 which has the following classification: a) Micro: less than P1, 500,001; b) Small: P1, 500,001 - P15, 000,000; and c) Medium: P15, 000,001 - P60, 000,000 which is the same as the AFMA classification. For its part, DAO 19 Series of 2008 (Section I,B) provides the following SME categories: a) Micro: not more than P3 million; Small: P3,000,001-P15,000,000; and c) Medium: 15,000,001-P100,000,000.

From the above-cited figures, it can be seen that between the AFMA and RA 6977 classifications on one hand and those of DAO 19 Series of 2008 on the other, significant changes have been made. Specifically, the upper end of the Micro category has doubled, the upper end of the Small category has remained the same, and the upper end of the Medium category has increased by more than half. Furthermore, the range of the Medium category has increased many times more than those of the Micro and Small categories. While the law (RA 6977, Chapter I, Section 3) provides that SME classifications can be changed based on inflation and other economic indicators, it is apparent that these factors are not uniformly applied and the changes made in the classifications are significantly inconsistent across SME categories.

In its comments, the DA said that the SME classifications for ACEF are based on the Small and Medium Enterprise Development (SMED) Council Resolution No. 01 Series of 2003. However, it does not provide a justification why the present classification inconsistently varies from that of previous laws defining

SMEs.

6.5 Inadequate review and monitoring

The DAO 19, Series of 2008, stipulates that a) the disposition and utilization of ACEF shall be monitored and reviewed by COCAFM; b) the regular monitoring of the actual implementation of projects shall be conducted by the National Technical Committee (NTC) who shall report regularly to the DA Secretary and COCAFM; and c) the DA shall facilitate the conduct of an external audit in monitoring the operational, financial, and management aspects of all the ACEF-assisted projects. Key informants mentioned that these functions are either not conducted or inadequately performed by the mentioned agencies contributing to the weak implementation of the ACEF program.

In its comments, the DA said that it acknowledged this limitation of ACEF and that the revised implementing guidelines have instituted a feedback and monitoring mechanism and regular regional consultation mechanism, While this is a welcome development, the specifics of the feedback and monitoring mechanism and regional consultation mechanism should be laid to see if this is indeed an honest to goodness implementable review and monitoring process and not a palliative to appease the critics.

6.6 Scarce management resources

For the conduct of management functions of ACEF, DAO 14, Series of 2009 mandates that not more than 3 percent of the ACEF funds should be used for administrative overhead, one percent 1% for national technical secretariat; 1 percent for the regional secretariat and 1 percent for the evaluation and staff of the COCAFM. Yet, key informants mentioned that one of the constraining factors why the pertinent ACEF agencies could not adequately perform their functions including on review and monitoring is the limited available manpower and financial resources to undertake the job. In its comments, the DA acknowledged the problem of scarce management resources but did not provide a specific solution to it.

6.7 Limited involvement of Conduit Bank

As earlier mentioned, The Land Bank of the Philippines (LBP) is the government financial institution (GFI) which serves as the conduit bank for the ACEF program, particularly for the release and collections of loans to and from the program beneficiaries. Key informants mention that Land Bank actually only provides cashiering services for ACEF. Because of this, it does not actively collect amortization payments from ACEF loan beneficiaries but simply accepts them. This situation has contributed to the very low repayment rate of the program there being no active collector of loan repayments.

In its comments, the DA explained that the LBP will now be made to conduct the background and credit investigation of prospective loan borrowers to ensure that the appropriate banking practice is this area observed. However, since the DA plans to handle actual loan releases itself, the role of the LBP is actually further diminished and not expanded.

6.8 Involvement of QUEDANCOR

QUEDANCOR is the agency mandated to accelerate the flow of investments and credit resources into the countryside so as to trigger the vigorous growth and development of rural areas. David (2011) explained that the ACEF loan program coursed the amount of one billion pesos for small farmers and fisherfolks through QUEDANCOR which in turn charged a 12 percent interest rate and P 50,000 maximum loan value to its loan recipients. Key informants feared that the loans may have been allocated to wealthier farmers and agri-business firms who have the collateral or the reputation to access it. In its comments, the DA mentioned that this concern on the involvement of QUEDANCOR is now being evaluated by the DA Executive Committee and COCAFM. If this evaluation is a serious attempt to look into the participation of QUEDANCOR in the ACEF program, it is a big step in the right direction.

VII. Quality of ACEF-Funded projects

The quality of ACEF-funded projects may be ascertained through their ability to contribute to the pursuance of the stated objectives of the program which is to increase the productivity, reduce costs and promote the competitiveness of recipient-firms, the agricultural sector and ultimately the entire economy. Due to the inability to access important data and information from the main institutional managers of ACEF and the limited time and resources at hand, however, the assessment of the quality of ACEF-funded projects cannot be done fully. In its place, rapid appraisal through interviews using phone and mailed questionnaires interviews with selected key loan recipient-informants was conducted. This was intended to collect data and information on the perceptions of the managers of recipient-firms on the profitability, productivity and quality of products, and market share of their firms after availing a loan from ACEF.

In addition to the aforementioned, data and information on the perceptions of managers on the generation of foreign exchange, employment and taxes by their firms were collected to provide a glimpse of their contributions to broader economic goals after ACEF support. Furthermore, perceptions of managers about the length of the processing time to avail of ACEF loan and what improvements can be made on the process were gathered. It should be remembered, however, that perceptions of performance by the managers may be different from actual performance, the results of the appraisal could be biased in favor of positive results and should be taken as indicative and preliminary only.

The results of the rapid appraisal showed that the majority or more of the managers of recipient firms 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 (**Table 10**). More managers 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, they may also imply the possibility that assistance has actually contributed to the improved performance and quality of recipient-firms of ACEF.

The results 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. Among the actions which they proposed to effect this are the: a) review of the overall policy and procedure for loan processing and streamlining the process b) reduction and simplification of requirements; c) early elimination of unqualified applicants; d) hiring of competent personnel for loan processing; e) establishment of a time frame or limit in the processing of individual loans; f) provision of assistance in project feasibility analysis; and g) avoid favoritism or selective treatment in the processing of individual loans

In its comments, the DA explained that the revised implementing guidelines provide specific timelines for the processing of proposals and that the ACEF program will now ensure a more judicious and speedy processing without compromising the quality of evaluation. These developments are steps in the right direction.

Table 10 Perceptions of Selected ACEF Loan Beneficiaries on the Performance of their Businesses, 2011

Performance Indicators	Responses (%)			
	Increased	Decreased	Same	No Response
A. Profitability				
1. Profits of the firm after ACEF loan	57.1	00.0	14.3	28.6
2. Net worth of the firm after ACEF loan	71.4	00.0	14.3	28.6
3.Cost/unit of product after ACEF loan	28.6	28.6	00.0	42.9
4. Post-harvest losses after ACEF loan	28.6	42.9	00.0	28.6

B. Productivity and Quality				
1. Quantity of products produced by the firm after ACEF loan	85.7	00.0	14.3	00.0
2.quality of products produced by the firm after ACEF loan	85.7	00.0	14.3	00.0
3. Recognition of products of the firm after ACEF loan	85.7	14.3	00.0	28.6
C. Market Share				
1. Local market share of the firm after ACEF loan	57.1	00.0	14.3	28.6
2. International market share of the firm after ACEF loan	57.1	00.0	00.0	42.9
3. Number of international buyers of the firm after ACEF loan	28.6	14.3	14.3	42.9

Table 10 (continued)

Performance Indicators	Responses (%)			
	Increased	Decreased	Same	No Response
D. Economic Contributions				
1. Foreign exchange earnings of the firm after ACEF loan	28.6	14.3	14.3	42.9
2. Employment in the firm after ACEF loan	85.7	14.3	00.0	00.0
3.Taxes paid by the firm after ACEF loan	42.9	00.0	14.3	42.9

E. Period of Loan Processing				
1. Length of time for firm to process ACEF loan	Less than one year	1-3 years	4-6 years	More than 6 years
	14.3	57.1	14.3	14.3

Source of data: Interviews with seven key recipient-informants

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VIII. High-Return Investment Projects

Some existing laws and plans have already enumerated the types of agricultural subsectors and products that may be financed by agricultural credit programs. The AFMA (Section 23) states that generally, the projects that can be financed by the AMCFP are: a) agriculture and fisheries production including processing of fisheries and agri-based products and farm inputs; b) acquisition of work animals, farm and fishery equipment and machinery; c) acquisition of seeds, fertilizer, poultry, livestock, feeds and other similar items; d) procurement of agriculture and fisheries products for storage, trading, processing and distribution; e) acquisition of water pumps and installation of tube wells for irrigation; g) construction, acquisition and repair of facilities for production, processing, storage, transportation, communication, marketing and such other facilities in support of agriculture and fisheries; i) working capital for agriculture and fisheries graduates to enable them to engage in agriculture and fisheries-related economic activities; j) agribusiness activities which support soil and water conservation and ecology-enhancing activities; k) privately-funded and LGU-funded irrigation systems that are designed to protect the watershed; l) working capital for long-gestating projects; and m) credit guarantees on uncollateralized loans to farmers and fisherfolk. Since this is a general listing, AFMA therefore is not specific about which particular high-return investment projects should be supported.

For its part, The MTPDP for 2004-2010 is more specific on the potential high-return investment projects in the agriculture sector. In Chapter 2 on Agribusiness, the plan mentioned the following as high value agricultural food crops: pineapple, pili, sugar, coffee, mango, durian, banana, onion, cassava, citrus, vegetables and garlic. On the other hand, the high value agricultural non-food crops include abaca, rubber, coconut and tobacco. For Mindanao in particular, the plan listed the following agribusiness ventures to be promoted: fruit and vegetable production and processing, feed milling, animal production, meat processing, snack food manufacturing, ornamental horticulture, and industrial tree plantation (oil palm, rubber). For fisheries in Mindanao, the plan proposed aquaculture, fish processing/canning, crab production, and seaweed farming and processing. The draft MTPDP for 2011-2016 whose preparation is now in progress mentions that the

Philippines has revealed comparative advantage not only in lead exports such as coconut, banana, mango, pineapple but also in raw sugar, abaca, papaya, tropical fruits (dried), fruits (fresh) and fresh vegetables.

At least one international institution likewise enumerated the internationally competitive products of the Philippines. In its website, the Food and Fertilizer Technology Center for Asia-Pacific Region mentioned that most agricultural products of the Philippines are globally competitive as import substitutes. Among its crop commodities, coconut oil, palm oil, cavendish banana, banana chips, coffee beans, mango, pineapple, durian and mangosteen, onion (seasonal), abaca, cacao, and rubber are export-competitive crops. Except raw sugar and garlic, other crops (rice, yellow corn, potato, cassava, vegetables, tomato and cutflowers are competitive as import substitutes. The competitiveness factors include, among others, productivity, border prices, costs of production, quality, and volumes, especially for agricultural exports.

The Food and Fertilizer Technology Center for Asia-Pacific Region also mentioned that for livestock and poultry products, processed meats for pork and chicken have export potential. The Center further stated that for fisheries products, carageenan, seaweeds, prawns, tuna, and deboned milkfish are export winners. Likewise, tilapia is also emerging as competitive product in the international market.

Based on available data, most of the agricultural products and subsectors actually supported by the ACEF program are also mentioned as competitive by AFMA, MTPDP and the Food and Fertilizer Technology Center for Asia-Pacific Region (**Table 11**). However, there is at least one group of product which does not fall within the category of internationally competitive products, grains/rice. This group maybe one of the less competitive agricultural products of the country. On the other hand, it has been receiving a lot of financial support because of food self-sufficiency concern of the government. Thus, providing credit to the grain/rice subsector through ACEF may have to be reconsidered. This is important especially given that the repayment rate of some of the private grain/rice beneficiaries of ACEF is zero percent (**Table 12**).

Table 11 Number of ACEF Beneficiaries, by Agricultural Subsector/Project Classification, 2009

Subsector/ Classification	Number of Beneficiaries	Percent to Total
Grains/Rice	5	4.1
Corn	5	4.1
Coconut	2	1.6
HVCC – Banana	4	3.3
HVCC – Mango	2	1.6

Other HVCC	9	7.4
Fiber	2	1.6
Livestock and poultry	26	21.3
Fisheries	15	12.3
Feedmill	3	2.5
Fertilizer manufacturing	3	2.5
Flower/Ornamental Plants	3	2.5
Food Processing and Production Facilities	14	11.5
Postharvest Facilities	1	0.8
Agro-Industrial Research & Development	4	3.3
Farmers/Multi-Purpose Cooperative	9	7.4
Local Government	2	1.6
Others	13	10.7
Total	122	100

Source of data: COA (2010)

Table 12 Grain/Rice Beneficiaries of ACEF, 2009

Proponent/Project	Province	ACEF Assistance	Repayment Rate
1. Nararagan Valley Multi-Purpose Cooperative / Grain Center	Nararagan, Ballesteros	7,037,225.00	25.00
2. Yahweh Trading / Modernization of Grains Center and Marketing Project	Mlang, North Cotabato	14,980,000.00	0.00
3. Maligaya Farmers Multi-Purpose Cooperative / Agricultural Grains Center	Lambayong, Sultan Kudarat	19,400,000.00	0.00
4. SSPC-TARVIA Multi-Purpose Cooperative / Integrated Grains Center	San Miguel, Surigao del Sur	6,139,772.00	0.00
5. Philrice / Custom Service Provision for Rice Farm Mechanization	Munoz, Science City, Nueva Ecija	17,006,500.00	56.24

Note: Source of ACEF assistance data is Monitoring and Evaluating Agricultural Policy Indicators-Capacity Development Project
Source of data: COA (2010)

Finally, some key informants asserted that to promote the agriculture sector, those that should be given loan assistance by the government are not the already competitive products and projects but the currently non-competitive ones. They argued that the former do not need help anymore while the latter cannot improve without it. Other informants, however, contradicted this view and explained that non-competitive products and projects are plagued by various other problems and addressing their capital constraint alone will not help. They said that capital assistance should be given to the already sure winners and not to the non-winners which will not benefit from it because of the numerous other problems they face.

IX. Management Options for the Future

Summarized below are potential options that can be undertaken by the national government to address the problems faced by the ACEF program and improve its management in the future. The sources of information of this section are key informants from relevant government and private financial institutions and the presentation done by the Technical Working Group (TWG) of the COCAFM during the en-banc meeting of the COCAFM on March 19, 2011 at the ESDA Shangrila Hotel which was attended by the study proponent.

a. Maintain the status quo and do nothing - This may be the worst of all management options for ACEF. It will allow the program to continue as is despite the gross inefficiency and ineffectiveness in its implementation, thus, resulting to additional waste of funds. In its comments, the DA agreed that this is indeed the worst option and that things will be improved for a more efficient and effective implementation of ACEF.

b. Abolish the ACEF program – This option can only be done through legislation. Given that the support of legislators cannot be assured, this may take a long time to achieve, if at all possible. Some key informants also argued that the program is actually a good one in terms of the existing law but it is the actual implementation that is defective. Therefore implementation should be corrected and not the law itself.

c. Revert the remaining ACEF funds back to the General Fund - This option will stop the bleeding of government funds through ACEF and make the remaining money available for other more worthwhile societal purposes. It may not be possible, however, without Congress amending R.A. 9496. Furthermore, as mentioned earlier, the law stipulates that any remaining balance at the date of expiration of the Fund shall not revert to the General Fund but shall continue to be used for the purpose for which it was collected and set aside. Similarly, even if the remaining fund of ACEF is reverted back to the government with this option, the problem of how to effectively collect the substantial unpaid ACEF loans provided to the beneficiaries remains.

d. Convert the remaining ACEF funds into a grant - This option looks promising since capacity building is direly needed in the agriculture sector. The fund can do much to finance institutional improvements in the DA and its bureaus and attached agencies, including but not limited to research, training and extension activities. This alternative, however, may run counter to the laws creating ACEF which basically aimed it as a credit mechanism for the advancement of competitiveness in the agriculture sector. Besides, some key informants strongly argued that DA has already been benefitting substantial funds from the government over the years for its capacity building activities. In its comments, the DA explained that converting the remaining ACEF funds into a grant will enable the department to have a greater impact on capacity building and research and that it will increase resources for common service facilities and anti-smuggling among others. However, it argued that this will go against the law which specified that providing credit is one of the ways to utilize the ACEF fund.

e. Implement some or all of the following changes:

1. Merge the credit-component of ACEF funds to the AMCFP - This option is consistent with AFMA which stipulates that government credit programs be phased out and their loanable funds be deposited for the AMCFP (Section 21). Even with the transfer, key informants argue that the DA can still ensure its influence since the Agricultural Credit Policy Council (ACPC), which is the oversight institution of the AMCFP, is its attached agency. In its comments, the DA explained that this option has been considered but with reservations for several reasons that it enumerated.

2. Transfer management of the credit-component of ACEF from the DA to GFIs - This option is also consistent with AFMA which mandates the transfer of the management of credit programs to cooperative banks, rural banks, government financial institutions and viable NGOs for the AMCFP (Section 21). Taking the management of a credit program away from the DA to the GFIs is also deemed appropriate since the former has the institutional capability to manage such programs while the latter has not. Because of its mandate related to agricultural credit, the LBP may be the GFI of choice for ACEF. Using this bank and giving it the needed management powers and functions beyond just providing cashiering services should help address some management problems such as the substantial unutilized ACEF funds sitting at the bank and the poor repayment rate at present. In its comments, the DA explained that this option has been considered but with reservations for some reasons it has also enumerated.

3. Revise the lending policy on interest and collateral – This option is likewise consistent with AFMA which states that interest rates for government credit programs shall be determined by market forces (Section 20). For its part, the requirement of collateral will ensure that the loans will be paid or repayment rates will improve at the least. The imposition of both development-oriented interest rate and collateral will also make the ACEF a true loan program and not a disguised grant initiative. As mentioned earlier, the DA said that the ACEF loans will now be provided with interest and collateral.

4. Retain the grant-component of ACEF with the DA - This option is welcome since it is the DA and its pertinent bureaus and agencies that have the institutional

mandate and capability to determine and provide the institutional needs for the management of the agriculture sector, which is basically what the ACEF grant wants to address. In its comments, the DA mentioned that the grant portion of ACEF will now be increased to 60 percent of the total available fund plus the ten percent grant for the scholarship program. The planned increase in the grant share is drastic and needs to be properly justified.

5. Modify the allocation of the grant-component of ACEF – Based on a more detailed study to be undertaken, the grant component of ACEF may be increased beyond the current 30 percent, if needed. Furthermore, the grant allocation of 30 percent can be disaggregated and made more specific, for instance, based on the following sharing as suggested by the TWG of COCAFM: 10 percent for scholarships; 10 percent common service facilities (public investments); 4 percent for commercialization of research technologies; 2 percent for anti-smuggling activities; 2 percent for market promotion activities, 1 percent for feasibility studies grant; and 1 percent for administrative cost. In its comments, the DA explained that the new sharing will be 60 percent grant, 30 percent loans and 10 percent for scholarship. Again, the rationale for these drastic changes needs to be properly explained.

Regardless of the choice of options among those cited above, below are the other management-related actions that should be undertaken by the government for ACEF program to become more efficient and effective:

a. The recommendations of COA regarding the financial problems over the years should be implemented. At present, the recommendations have either been disregarded or implemented only partially. It is high time for the government to correct the financial ills of ACEF by pursuing the suggestions of COA and improve its implementation. In its comments, the DA mentioned that an independent committee was created to look into the viability of projects with arrears in payment and pending requests for restructuring and that the findings will be completed by August 2011. However, it did not mention how the recommendations of COA on several other issues will be addressed.

b. As mandated by R.A. 9496 the DA with the concurrence of the COCAFM must immediately draw up a prioritization plan for the optimum utilization of the ACEF Fund. Among others, this plan should state the specific agricultural products, subsectors and areas to be targeted by the program; particular projects to be supported for each product, subsector and areas; how much support should each product, subsector and area should receive; and much each supported product, subsector and area would incrementally contribute to the MTPDP objectives related to agricultural exports in particular and the overall economy of the country in general. A development of a computerized database to support the prioritization plan and other management activities of ACEF will be useful. As mentioned earlier, the

DA in its comments mentioned that a prioritization plan for ACEF is now in the works.

c. The current IRR for ACEF should be reviewed for further improvement. The review should consider among others the following: a) a more consistent and fairer definition of what SMEs and their specific categories; b) inclusion of environmental analysis in project feasibility studies; c) streamlining the requirements and shortening the period of loan processing; d) development of an effective and efficient system for the periodic monitoring and review of the ongoing projects under ACEF; and e) implementation of a system for the periodic audit of ACEF projects and the entire program by independent and outside auditors.

d. The share and the distribution among beneficiaries of the grant portion of ACEF should be done strictly in accordance with the law to eliminate bias favoring certain sectors. Furthermore, as mentioned in DAO 14, Series of 2009, at most 3 percent of the fund should be strictly allocated for administrative overhead, one percent 1% for national technical secretariat; 1 percent for the regional secretariat and 1 percent for the evaluation and staff of the COCAFM to address the issue of limited manpower and finances resources for the management of ACEF.

e. In the long-term, the involvement of the Office of the Solicitor General (OSG) in the collection of arrears and amortization of ACEF loans should be seriously considered for recipients who intentionally will not pay. The OSG is the national government agency tasked to investigate, initiate court action, or in any manner proceed against any person, corporation or firm for the enforcement of any contract involving the government such as those pertaining to ACEF projects. This office can help pressure unscrupulous recipients to live up to their loan responsibilities and pay their arrears and amortization.

f. Since the QUEDANCOR, NABCOR, and BPHRE received the largest loan and grant assistance from ACEF, the use of these institutions of the funds should be periodically reviewed and strictly monitored by ACEF as a special concern. Key informants mentioned that there are reports of mismanagement of ACEF funds in these institutions and this alone should warrant the aforementioned suggested action.

In its comments and explained beforehand, the DA mentioned that the aforementioned actions have been considered and some actions are already done to implement them.

X. Summary and Conclusion

This study reviewed and assessed the effectiveness of the ACEF in terms of achieving its objectives. It looked into its financial performance, operational processes, quality of projects funded. It also identified other types of high-return investment projects which the program may fund. Furthermore, it provided recommendations to address the numerous problems ACEF is facing and potential courses of actions that can be undertaken for its improved management in the years to come.

As Caveat, due to the inability to gather all the needed data and information, some of the objectives of the study were only partially attained. These include the analysis of the following issues: financial performance of ACEF, including sources, variability, and predictability, and projected outlook; operations of the program and its project selection criteria, monitoring and evaluation processes; and quality of projects funded by the program in terms of cost efficiency, viability and impact. It is hoped that a fuller analysis can be done when all data and information are available.

The proponent is greatly indebted to the key informants and others who have provided necessary data and information for the conduct and completion of this report. For its part, the DA has been very helpful particularly in providing insightful comments on an earlier draft of the report. The COCAFM has contributed greatly as well, particular when it invited the proponent to one of its plenary meetings which covered ACEF.

To conclude, 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 imperative. Without reforms, ACEF may go down the drain as one of the greatest program failures among many in recent years. It is hoped that the recommendations and options for change suggested in this study will find significant consideration within the management circle of ACEF and the national leadership.

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Appendices

Table 1 Income Remittances For ACEF Deposited to the Bureau of the Treasury, as of December 2009
(in Pesos)

Year	Regular ACEF	Sugar ACEF	Total
2000	694,433,691	600,000,000	1,294,433,691
2001	97,704,014	-	97,704,014
2002	1,276,608,198	-	1,276,608,198
2003	2,441,479,210	-	2,441,479,210
2004	373,647,558	-	373,647,558
2005	335,263,140	-	335,263,140

2007	4,763,324,845	-	4,763,324,845
2008	7,301,040	-	7,301,040
Total Income	9,989,761,696	600,000,000	10,589,761,696

Source of data: DBM

Table 2 Releases of ACEF Funds, as of December 2010 (in Pesos)

Year	Regular ACEF	Sugar ACEF	Total
2000	62,480,831	-	62,480,831
2001	116,752,917	278,154,453	394,907,370
2002	137,839,309	318,925,147	456,764,456
2003	635,840,600	2,463,400	638,304,000
2004	638,304,000	-	638,304,000
2005	577,333,868	-	577,333,868
2007	1,561,332,010	-	1,561,332,010
2008	1,814,023,180	-	1,814,023,180
2009	2,330,925,221	-	2,330,925,221
2010	124,635,622	-	124,635,622
Total	7,999,467,558	599,543,000	8,599,010,558

Source of data: DBM

Table 3 ACEF Schedule of Unpaid Amortization, By Region and Province (As of 31 December 2009)

Region/Province	Amortization Due		Total Collectible for CY 2009	Collections in CY 2009	Unpaid Amortization as of 12.31.09	Repayment Rate (%)
	Arrears/Prior Years	CY 2009				
CAR	**16,500,000.00**	**11,925,000.00**	**28,425,000.00**	**0**	**28,425,000.00**	**0**
Benguet	15,500,000.00	9,425,000.00	24,925,000.00	0	24,925,000.00	**0**
Mountain Province	1,000,000.00	2,500,000.00	3,500,000.00	0	3,500,000.00	**0**
REGION I	**22,435,045.00**	**29,870,530.00**	**52,305,575.00**	**5,397,200.00**	**46,908,375.00**	**10.32**
La Union	9,197,360.00	8,413,360.00	17,610,720.00	196,550.00	17,414,170.00	**1.12**
Pangasinan	13,237,685.00	21,457,170.00	34,694,855.00	5,200,650.00	29,494,205.00	**14.99**
REGION II	**17,400,122.60**	**7,511,340.70**	**24,911,463.30**	**1,161,861.25**	**23,749,602.05**	**4.66**
Cagayan	6,443,122.60	2,942,340.70	9,385,463.30	911,861.25	8,473,602.05	**9.72**
Isabela	250,000.00	500,000.00	750,000.00	0	750,000.00	**0**
Nueva Vizcaya	10,707,000.00	3,569,000.00	14,276,000.00	0	14,276,000.00	**0**
Quirino	0	500,000.00	500,000.00	250,000.00	250,000.00	**50.00**

REGION III	**110,073,977.85**	**39,887,529.42**	**149,961,507.27**	**1,025,000.00**	**148,936,507.27**	**0.68**
Bulacan	40,345,741.00	13,009,528.00	53,355,269.00	0	53,355,269.00	**0**
Nueva Ecija	16,550,032.00	3,266,676.00	19,816,708.00	0	19,816,708.00	**0**
Pampanga	48,915,197.45	8,986,997.06	57,902,194.51	0	57,902,194.51	**0**
Tarlac	0	7,075,893.20	7,075,893.20	1,025,000.00	6,050,893.20	**14.49**
Zambales	4,263,007.40	7,548,435.16	11,811,442.56	0	11,811,442.56	**0**
REGION IV-A	**45,312,226.50**	**32,291,063.30**	**77,603,289.80**	**6,097,819.00**	**71,505,470.80**	**7.86**
Batangas	7,381,000.00	11,851,872.00	19,232,872.00	3,197,819.00	16,035,053.00	**16.63**
Cavite	34,146,606.50	11,349,321.30	45,495,927.80	500,000.00	44,995,927.80	**1.10**
Laguna	3,184,860.00	3,790,790.00	6,975,650.00	150,000.00	6,825,650.00	**2.15**
NCR	0	3,000,000.00	3,000,000.00	2,250,000.00	750,000.00	**75.00**
Rizal	599,760.00	2,299,080.00	2,898,840.00	0	2,898,840.00	**0**
REGION IV-B	**2,220,000.00**	**0**	**2,220,000.00**	**0**	**2,220,000.00**	**0**
Occidental Mindoro	2,220,000.00	0	2,220,000.00	0	2,220,000.00	**0**
REGION V	**422,339.20**	**1,689,356.80**	**2,111,696.00**	**1,267,017.60**	**844,678.40**	**60.00**
Camarines Norte	107,339.20	429,356.80	536,696.00	322,017.60	214,678.40	**60.00**
Camarines Sur	315,000.00	1,260,000.00	1,575,000.00	945,000.00	630,000.00	**60.00**
REGION VI	**53,377,308.75**	**32,047,203.70**	**85,424,512.45**	**5,967,279.75**	**79,457,232.70**	**6.99**
Aklan	0	2,783,344.20	2,783,344.20	1,855,562.80	927,781.40	**66.67**
Capiz	10,469,529.50	7,386,841.20	17,856,370.70	0	17,856,370.70	**0**
Iloilo	26,479,443.00	9,114,480.00	35,593,923.00	1,183,500.00	34,410,423.00	**3.33**
Negros Occidental	16,428,336.25	12,762,538.30	29,190,874.55	2,928,216.95	26,262,657.60	**10.03**
REGION VII	**16,509,855.00**	**7,718,205.00**	**24,228,060.00**	**3,242,000.00**	**20,986,060.00**	**13.38**
Bohol	2,751,900.00	1,120,000.00	3,871,900.00	1,120,000.00	2,751,900.00	**28.93**
Cebu	13,757,955.00	4,776,205.00	18,534,160.00	300,000.00	18,234,160.00	**1.62**
Negros Oriental	0	1,822,000.00	1,822,000.00	1,822,000.00	-	**100.00**

Table 3 (Continued)

Region/Province	Amortization Due		Total Collectible for CY 2009	Collections in CY 2009	Unpaid Amortization as of 12.31.09	% Paid Amortiz ation to Total Collectib le for 2009
	Arrears/Prior Years	CY 2009				
REGION VIII	**33,226,262.00**	**2,424,350.00**	**35,650,612.00**	**0**	**35,650,612.00**	**0**
Leyte	25,191,262.00	2,424,350.00	27,615,612.00	0	27,615,612.00	**0**
Northern Samar	8,035,000.00	0	8,035,000.00	0	8,035,000.00	**0**
REGION IX	**57,000.00**	**19,478,000.00**	**19,535,000.00**	**14,608,500.00**	**4,926,500.00**	**74.78**
Zamboanga	57,000.00	19,478,000.00	19,535,000.00	14,608,500.00	4,926,500.00	**74.78**
REGION X	**49,553,318.00**	**16,979,959.00**	**66,533,277.00**	**7,610,000.00**	**58,923,277.00**	**11.44**
Bukidnon	21,872,130.00	11,381,530.00	33,253,660.00	7,400,000.00	25,853,660.00	**22.25**
Cagayan de Oro	15,836,850.00	4,521,650.00	20,358,500.00	210,000.00	20,148,500.00	**1.03**
Misamis Oriental	11,844,338.00	1,076,779.00	12,921,117.00	0	12,921,117.00	**0**

REGION XI	**25,125,001.30**	**24,097,982.80**	**49,222,984.10**	**1,657,415.00**	**47,565,569.10**	**3.37**
Davao del Norte	1,928,475.00	4,831,625.00	6,760,100.00	0	6,760,100.00	**0**
Davao del Sur	22,664,011.30	17,762,507.80	40,426,519.10	1,125,000.00	39,301,519.10	**2.78**
Davao Oriental	532,515.00	1,503,850.00	2,036,365.00	532,415.00	1,503,950.00	**26.15**
REGION XII	**36,747,955.68**	**34,735,482.00**	**71,483,437.68**	**809,840.00**	**70,673,597.68**	**1.13**
North Cotabato	4,998,730.00	11,863,880.00	16,862,610.00	0	16,862,610.00	**0**
South Cotobato	29,687,745.68	19,987,742.00	49,675,487.68	809,840.00	48,865,647.68	**1.63**
Sultan Kudarat	2,061,480.00	2,883,860.00	4,945,340.00	0	4,945,340.00	**0**
REGION XIII	**1,842,020.00**	**1,244,770.00**	**3,086,790.00**	**0**	**3,086,790.00**	**0**
Surigao del Sur	1,842,020.00	1,244,770.00	3,086,790.00	0	3,086,790.00	**0**
ARMM	**19,187,432.50**	**14,458,420.00**	**33,645,852.50**	**0**	**33,645,852.50**	**0**
Lanao del Sur	12,953,170.00	13,218,070.00	26,171,240.00	0	26,171,240.00	**0**
Maguindanao	6,234,262.50	1,240,350.00	7,474,612.50	0	7,474,612.50	**0**
National (Regular ACEF)	**5,577,169.70**	**5,638,970.80**	**11,216,140.50**	**3,103,000.00**	**8,113,140.50**	**27.67**
Total	**455,567,034.08**	**281,998,163.52**	**737,565,197.60**	**51,946,932.60**	**685,618,265.00**	**7.04**

Source of data: COA (2010)

Table 4 ACEF Loan Assistance, By Region and Province (As of 31 December 2008)

Region/Province	Amount of Loan Assistance (Pesos)	Percent to Total
CAR	**99,161,110.00**	**1.72**
Abra	14,970,000.00	0.26
Benguet	64,191,110.00	1.11
Mountain Province	20,000,000.00	0.35
REGION I	**237,080,839.00**	**4.10**
Ilocos Norte	9,904,617.00	0.17
La Union	44,231,000.00	0.77

Pangasinan	182,945,222.00	3.17
REGION II	**63,730,139.00**	**1.10**
Cagayan	40,885,139.00	0.71
Isabela	2,500,000.00	0.04
Nueva Vizcaya	17,845,000.00	0.31
Quirino	2,500,000.00	0.04
REGION III	**730,432,429.00**	**12.64**
Aurora	300,072,400.00	5.19
Bataan	14,991,196.00	0.26
Bulacan	164,718,225.00	2.85
Nueva Ecija	43,054,689.00	0.75
Pampanga	109,799,000.00	1.90
Tarlac	35,379,466.00	0.61
Zambales	62,417,453.00	1.08
REGION IV-A	**382,653,146.00**	**6.62**
Batangas	181,583,911.00	3.14
Cavite	67,986,426.00	1.18
Laguna	24,816,000.00	0.43
NCR	29,990,176.00	0.52
Quezon Province	28,284,633.00	0.49
Rizal	49,992,000.00	0.87
REGION IV-B	**44,596,142.00**	**0.77**
Occidental Mindoro	10,219,800.00	0.18
Palawan	34,376,342.00	0.59
REGION V	**41,525,104.00**	**0.72**
Camarines Norte	27,191,784.00	0.47
Camarines Sur	14,333,320.00	0.25

Table 4 (Continued)

Region/Province	ACEF Assistance	Percent to Total
REGION VI	**294,230,312.00**	**5.09**
Aklan	47,771,741.00	0.83
Capiz	73,567,562.00	1.27
Iloilo	79,944,749.00	1.38
Negros Occidental	92,946,260.00	1.61
REGION VII	**125,411,950.00**	**2.17**
Bohol	23,369,900.00	0.40
Cebu	92,932,050.00	1.61
Negros Oriental	9,110,000.00	0.16
REGION VIII	**55,611,474.00**	**0.96**

Biliran	10,554,522.00	0.18
Leyte	36,496,952.00	0.63
Northern Samar	8,560,000.00	0.15
REGION IX	**179,847,602.00**	**3.11**
Zamboanga	179,847,602.00	3.11
REGION X	**379,232,286.00**	**6.56**
Bukidnon	70,172,619.00	1.21
Cagayan de Oro	33,760,000.00	0.58
Misamis Oriental	275,299,667.00	4.76
REGION XI	**202,256,550.00**	**3.50**
Davao del Norte	38,572,000.00	0.67
Davao del Sur	137,470,996.00	2.38
Davao Oriental	11,453,554.00	0.20
Compostela Valley	14,760,000.00	0.26
REGION XII	**308,033,200.00**	**5.33**
North Cotabato	155,480,000.00	2.69
South Cotobato	118,153,200.00	2.04
Sultan Kudarat	34,400,000.00	0.60
REGION XIII	**6,139,772.00**	**0.11**
Surigao del Sur	6,139,772.00	0.11
ARMM	**74,988,600.00**	**1.30**
Lanao del Sur	66,436,850.00	1.15
Maguindanao	8,551,750.00	0.15
National (Regular ACEF)	**2,553,181,210.00**	**44.19**
Total	**5,778,111,865.00**	**100**

Note: The table does not include National (Sugar ACEF) with a total assistance of P5,599,543,000.
Source of Data: Monitoring and Evaluating Agricultural Policy Indicators-Capacity Development Project