

THE AGRICULTURAL CREDIT POLICY COUNCIL (ACPC) AND CREDIT SUPPORT FOR AGRICULTURE IN THE PHILIPPINES

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1. Background

One of the enduring legacies of the reform process spurred by the 1986 “People Power” was the creation of the Agricultural Credit Policy Council or ACPC through Executive Order No. 113.

Born at the time that the agriculture sector, together with the rest of the economy and political system of the nation, was poised for massive transformation, the role of ACPC in the agricultural reform process focused on restructuring the rural financing system.

At that time, the rural economy sector was reeling from the continued decline of credit for agriculture. With the well-hyped achievements of past subsidy programs and policies for the agriculture and fisheries sector badly eroded by the financial debacles they engendered, the rural credit system was in shambles.

To reinvigorate rural financing, the ACPC assisted the Department of Agriculture (DA) in synchronizing all credit policies and programs in support of the priorities of the latter.

The ACPC infused the agri-finance system with a market-oriented, but people-centered approach that encouraged more participation from the private sector and promoted mechanisms for sustainable growth.

2. ACPC and the Rural Finance Reforms

As a result of the lessons from the failure of direct lending by government agencies and subsidized interest rates in the past, financial policy reforms were introduced in the mid-1980s to make the finance market function more efficiently and sustainably. The reforms included the elimination of subsidies, the deregulation of interest rates and, for the agriculture sector, Executive Order 113 was issued in December 1986.

2.1 Executive Order 113 and the Magna Carta for Small Farmers

A landmark measure under EO 113 was the creation of the Agricultural Credit Policy Council (ACPC). ACPC was vested with the mandate to (1) synchronize agricultural credit policies and programs in support of the priority programs of the DA; (2) develop and promote timely and appropriate credit policies that address the needs of agricultural stakeholders, particularly the small farmers, fisherfolk and the rural financial institutions; and (3) review and evaluate the economic soundness of all government agricultural credit programs.

The EO also put a stop to government's commodity-specific lending programs and directed the use of those program funds for the Comprehensive Agricultural Loan Fund (CALF). The CALF was used as a loan guarantee fund to encourage private banks to lend to agriculture by offering to cover as much as 85 percent of their credit risks in providing loans to small agricultural borrowers and enterprises.

In 1987, EO 116 was issued attaching the ACPC to the DA. Consequently, the DA issued Administrative Order No. 5 mandating the ACPC to administer the CALF. In 1992, the role of ACPC was further expanded by RA 7607, the Magna Carta for Small Farmers, which tasked ACPC to (i) conduct institutional capacity building programs, (ii) develop special projects to promote innovative financing schemes for small farmers, and (iii) advocate rural and agricultural finance policies and programs.

2.2 The Agriculture and Fisheries Modernization Act (AFMA)

Reforms in agricultural finance were further carried out when RA 8435 or the Agriculture and Fisheries Modernization Act (AFMA) was passed in 1997. The aim of the AFMA is to make the agriculture sector more productive and competitive in meeting the challenges of globalization. To achieve agricultural modernization, the premise of the law is to make available research and

development, infrastructure, training, marketing and credit, among others, in a simultaneous and holistic fashion.

Present policies governing agricultural finance in the country are based on the provisions of AFMA, which espouse the following principles:

- 1) Active participation of the banking sector and government financial institutions in the rural financial system and the non-participation of Government Non-Financial Agencies (GNFAs) and Government-Owned and Controlled Corporations (GOCCs) in the implementation of credit programs;
- 2) Phase-out of government directed credit programs (DCPs) and establishment of the Agro-Industry Modernization Credit and Financing Program (AMCFP);
- 3) Use of market-determined interest rates in government lending to (a) ensure the recovery of lending costs; (b) sustain the availability of credit funds; and (c) enhance the outreach of financing assistance to the sector;
- 4) Grace periods to be given on the repayment of loans to long-gestating agriculture and fisheries will be based on the actual economic life of the project; and

- 5) Rationalization and consolidation of all existing agriculture and fisheries credit guarantee schemes and funds into the Agriculture and Fisheries Credit Guarantee Fund (AFCGF).

3. ACPC Programs

As the Department of Agriculture's focal agency on credit facilitation, the ACPC has constantly worked at improving the outreach and sustainability of agricultural credit and financing services for the farm sector.

Cognizant especially of the crucial role that agriculture and fisheries play in ensuring economic and political stability in the country, the agency has continuously been at the forefront of government efforts to help the DA in developing loan programs that cater to the peculiar needs of farmers, fisherfolk and other potential agricultural clients. Following are on-going programs developed, administered and/or overseen by ACPC:

3.1 Agro-Industry Modernization Credit and Financing Program (AMCFP)

With the passage of AFMA, ACPC worked for the consolidation of all government agri-lending funds, including the CALF, into the Agro-Industry Modernization Credit and Financing Program (AMCFP) by the year 2002. Designed and managed by the ACPC, the AMCFP now lends to the agriculture sector based on market rates and the demand emanating from the sector –

consistent with the policy principles of AFMA. Under the guidelines of the AMCFP, government financial institutions serve as the program's wholesalers while private financial institutions (e.g. rural banks, cooperative rural banks, cooperatives, self-help groups, farmers' associations and non-government organizations) perform the role of loan retailers to end-borrowers. Some of the financing schemes that have been developed and piloted by ACPC under the mantle of the AMCFP which have catered to agriculture and fisheries are the following:

1) *Agri-Fishery Microfinance Program (AFMP)*

This is a joint agri-microfinance program of ACPC and Land Bank which lends to small agricultural households, not only for their farming activities, but also for other non-agricultural livelihood projects. It adopts the earlier Rural Household Business Financing Program (RHBF) model, which bases loan repayment schedule on the cash flow of the household. It also taps new but potentially viable lending conduits that are not currently accredited with the Land Bank (such as non-government organizations, people's organizations and farmers' organizations – including Irrigators Associations) to undertake agricultural microfinance operations.

Based on ACPC Resolution No. 31-01 of 2007, the AFMP received an initial P200 million from the AMCFP, which should be leveraged up to P1.5

billion through counterparting by Land Bank, the implementing institution of the program.

Financing conduits participating in the program are classified into three (3) types. Type 1 conduits are those accredited by Land Bank that pass its Risk Asset Acceptance Criteria (RAAC). Type 2 are Land Bank-accredited conduits that still have to pass the RAAC. Type 3 are those that are currently not accredited by the Land Bank, but are deemed vital in providing finance services to the prioritized sectors of the DA.

As of the first quarter of 2008, the AFMP, under its GMA Hybrid Rice sub-program, has started financing some Irrigators' Associations (IAs) in Nueva Ecija wherein 89 out of 166 farmers have already qualified and received a total of 217 bags of seeds valued at P500,000. More IAs are expected to benefit in the provinces of Kalinga, Pangasinan, Cagayan, Isabela, Oriental Mindoro, Camarines Sur, Leyte and Sultan Kudarat.

2) *GMA Hybrid Rice Credit Assistance Program (HyCAP)*

An exception to the non-commodity specificity of new programs because of its aim to promote a new production technology, the HyCAP is a joint program of the ACPC, the GMA Rice Program, the LBP and Quedancor. It was intended to help finance needs of small palay farmers who were adopting

the hybrid rice technology. Like the SAFW, HyCAP also tapped palay trader-millers as lending agents and, at the same time, as markets of the farmer-borrowers. Unfortunately, because the hybrid rice technology was still very new, farmers seemed to be wary of availing themselves of this program's loan services. The program is currently being revived with irrigators associations as conduits under the Agri-Fishery Microfinance Program (AFMP).

3) *Cooperative Bank Agri-Lending Program (CBAP), 2008*

Aware of the strategic importance of the cooperative banking sector in reaching small farmers and fisherfolk, ACPC has developed the Cooperative Bank Agri-Lending Program (CBAP). CBAP aims to expand lending of cooperative banks and increase their outreach to small holders in the agriculture and fisheries sector. The program will have credit and institutional capacity building components. The amount of P300 million has been provided by ACPC for this program which will be leveraged at least five times by participating cooperative banks.

Twenty seven (27) cooperative banks have pledged to deliver loans amounting to P4.1 billion starting this year until 2009 covering various provinces across the country. Of this amount, about P1.1 B will finance rice production across the country.

Since 2003, a total of more than P1.9 billion loans have been granted through the AMCFP to 83,480 farmers and fisherfolk through 361 rural financial retailers/lending agents of the Land Bank and Quedancor.

4) *Institutional Capacity Building Program*

By virtue of the Magna Carta for Small Farmers, the ACPC implements institutional capacity building (ICB) programs for farmers' organizations to improve their capability and capacity to access and manage credit funds. The need for this ICB intervention arises from the failure of many farmers' groups in credit management due to poor organization.

Through ACPC ICB programs and activities, farmers' organizations are trained on capital and saving mobilization; development of management information systems; social preparation for their farmer-members; management training; credit risk management; and organization, establishment and strengthening of cooperative banks and other farmer-owned financial institutions, among others.

4. ACPC Thrusts and Directions for the Future

Today, the priorities of the ACPC are aligned with the Five-Point Agenda of the Department of Agriculture focusing on 1) infrastructure build-up; 2) research and technology dissemination; 3) provision of appropriate post harvest

technology; 4) widening farmers' access to local and global markets; and 5) credit and microfinance.

To make the financing schemes and modalities of government suited to the distinct requirements of agricultural borrowers, ACPC is strengthening current strategies that are working and is exploring new approaches.

Supported by survey data showing that rural households access to loans from banks have been increasing in recent years as a result of the increasing popularity of microfinance programs,³ ACPC will continue to expand the agri-microfinance initiatives of the DA through the Agri-Fishery Microfinance Program (AFMP).

For rice and the other priority agricultural commodities, ACPC is also now studying how to implement supply and value chain financing in order for credit and financing to truly become instrumental in boosting not only production, but also overall productivity and incomes in agriculture.

³ From 76 percent of small farmers borrowing from informal sources over the period 1996-97, the percentage went down to only 48 percent over the period 2004-2005.

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