

SUBJECT : REPORT ON THE PUBLIC HEARING OF THE COMMITTEE ON AGRICULTURE AND FOOD ON SEPTEMBER 17, 2004 AT 2:00 P.M., SENATOR J. P. LAUREL ROOM, SENATE OF THE PHILIPPINES, GSIS BLDG., FINANCIAL CENTER, PASAY CITY.

I. PRELIMINARY

Hon. Ramon B. Magsaysay, Jr., Chairman of the Committee on Agriculture and Food, called the public hearing to order at 2:02 p.m. to discuss and finalize the Committee Report relative to the proposed legislative bill on ;

Extension of the utilization period of ACEF

- 1. SB No. 1165 – “An Act extending the utilization period of the Agricultural Competitiveness Enhancement Fund, amending for this purpose pertinent provision of Republic Act No. 8178, entitled ‘An Act Replacing Quantitative Import Restrictions on Agricultural Products, except Rice, with tariffs, creating the Agricultural Competitiveness Enhancement Fund’ and for other purposes”. (Senator Magsaysay, Jr.)**

Also present: Senator Flavier,

Resource Persons: *Undersecretary* Cesar Drilon – Department of Agriculture (DA); *Director* Jose Montes– Project Development Service, Department of Agriculture (DA); *Director* Nora Oliveros – Department of Budget and Management (DBM); *Deputy Director* Wilfrido Pastrana – International Operations, Bangko Sentral ng Pilipinas (BSP); *Assistant Vice President* Liduvino Geron - Program Management Department, Land Bank of the Philippines (LBP);

II. HIGHLIGHTS

Senator Magsaysay, Jr. informed the Body that the public hearing is a continuation of the last public hearing held last 14 September 2004 on the proposed legislative bill for consideration by the Committee on Agriculture and Food on the extension of the utilization period of the agricultural competitiveness enhancement fund (ACEF). The meeting is meant to finalize the draft Committee Report which is an output of the Technical Working Group (TWG) which met last Wednesday, 15 September 2004.

DISCUSSION/ POSITION PAPER:

Department of Budget and Management (DBM). On matters referring to the ACEF Fund, Director Oliveros said that the existing set up is that, all collections from imported products under the MAV accrues to the Special Account Fund 183 in the General Fund of the National Treasury.

The DBM maintained their position to adhere and to follow the existing set up, so that collections from repayments of loans including interest is being proposed by the DBM to be remitted back to the General Fund of the National Treasury, and not to the Special Account.

Bangko Sentral ng Pilipinas (BSP). Asked by Senator Magsaysay, Jr. regarding the fund being able to invest in equities, Mr. Pastrana said that, generally the BSP policy is to discourage agencies such as the DA to engage in lending operations. Points for consideration aired out are as follows:

- The BSP suggested that the DA tie-up with a GFI like the LBP or DBP considering the institution's expertise. It's not the transfer of the whole operation, policies will still be with the DA's recommendation, while the LBP does the cashiering.
- The BSP is in agreement with the DBM's stand on the period of extension which should not be more than six (6) years;
- BSP agrees with the DBM that credit extension is not a core function of the DA. Its mandate is to provide the policy environment for micro-credit in the countryside. Added that the E.O. 138 directs all national government agencies to transfer all directed credits to financial institutions, indicates the policy direction of the government on the matter;
- Page 2 line 9, change the word "*grant*" to loan.

In answer to the query of Senator Flavier, whether there is any legal impediment if the extension period is nine years, Mr. Pastrana of the BSP said there is none.

Land Bank of the Philippines (LBP). In response to the query of Senator Magsaysay, Jr. on how the fund can maintain itself and even keep on being used for competitiveness enhancement, and LBP being a part of the process of safeguarding the fund, Mr. Geron clarified that the LBP is doing some service regarding the ACEF, but largely on cashiering basis. Outlining the procedure relative to the LBP's services, the DA evaluates the proposals, and upon approval, advise the LBP to disburse to the beneficiary the amount of loan. The LBP does the collection and remits it back to the DA. The LBP's understanding is that, the remittance being given back to the DA from the collections on loans, is remitted back to the National Treasury.

Mr. Geron clarified that the remittance of the LBP to the DA is part of the agreement between the two agencies, when asked by Senator Magsaysay, Jr.

Ms. Oliveros concurring with the BSP, said that extending the period of extension to nine years has no legal impediment. However, the DBM agrees with the original version of the bill for the extension of the ACEF to six years, citing the DBM's learnings on the implementation of the ACEF since its inception in 1997. From then on, the DBM has monitored the utilization of the ACEF by the DA, saying that reports received from the DA showed a 1.4 billion pesos utilization which would mean a utilization rate of about 271 million a year. Given this absorptive capacity and adding some allowances and margin for the DA to improve the absorptive capacity, a six year period is justifiable. And given the current cap that the DBM imposes on the ceiling for the utilization of ACEF, DBM is providing an average of 630 to 830 million pesos a year.

Senator Flavier asked for the comment of Undersecretary Drilon on the absorptive capacity of the DA.

Department of Agriculture (DA). Undersecretary Drilon clarified that DA is not the sole factor wherein the absorptive capacity is short as expected, because the ACEF is a demand driven fund. He informed the body that DA has been campaigning in the countryside for its usage and that the proponents from concerned sectors using the fund has to prepare a feasibility study; and that approved projects submitted to the DBM is not immediately funded.

With regards the time frame of 6 to 10 years, Undersecretary Drilon said that it will be irrelevant if the fund will be consumed in 2 to 3 years with the repayments on loans remitted to the National Treasury; since there will be no funds to talk of in 5 to 6 years time.

At this juncture, Senator Magsaysay, Jr. said that the ACEF utilization period is being extended up to year 2015. While the DBM has its own priorities, the agricultural sector has its own needs which is the reason why there is the AFMA law but which funding has not been fully released, and that the funding requirement has been extended for another 10 years.

Senator Magsaysay, Jr. said that the proposed bill would like to see that the ACEF fund exists, survives and in fact trying to put "ODA" type of interests, and on the 10th year give it back to the National Treasury.

On matters relating to the direct credit, Undersecretary Drilon said that DA agrees with the statement of the DBM because it is stated in Section 21 of AFMA, wherein all direct credit program will be terminated from the DA, suggesting that the provision of AFMA be amended or incorporated in the new law should there be an exemption from the said provision.

On page 2 of the proposed bill from line 6, "The Department of Agriculture, DBM and the Bureau of Treasury shall adopt mechanisms to ensure speedy and expeditious processing of application for grants" is too vague and hanging. To this, Senator Flavier suggested to make it specific and be considered and spelled out in the IRR.

For purposes of the IRR, Senator Magsaysay, Jr. said LBP will be a member of the National ExeCom; The National TWG will be the DA considering that the time of processing is being shortened.

DIRECTED/ PREFERRED INVESTMENTS IN EACH REGION

In response to the query of Senator Magsaysay, Jr. regarding the directed or preferred investments in each region, citing a need to improve the ACEF fund distribution including reduction of post-harvest losses, Undersecretary Drilon said that it is part of the technical evaluation of the region and the regional committee will recommend the feasibility of the project in the area to the national technical committee.

Senator Flavier reiterated his bias that the committee should bear in mind some amount of specificity, as in, if the importation affects the livestock industry, effort needs to be placed to make sure that the sector would be given priority attention for assistance. To this Undersecretary Drilon concurred and in fact said that it is really the main purpose of the Fund. However, Undersecretary Drilon, added that other sectors whose commodity was not included in the MAV cannot be deprived from availing of the fund in order that they can also compete with those products being imported on their sector.

ACEF PERFORMANCE

Asked if the proponents who availed of the ACEF have started paying after the 2-year grace period, Mr. Geron answered that most of the accounts are still on grace period so LBP cannot say yet regarding the actual performance of the ACEF. However, per LBP's record, the total amount that has been released for the 44 projects that were endorsed by the DA amounts to 576 million pesos. The loans granted amounts to 390 million with a total collection of about 10 million.

Regarding the low collection, Mr. Geron said that based on the LBP's experience, the strength of any project is always on the basis of the project that has been funded. So if the technical evaluation of the project is good then the project gives the revenue that it is supposed to give, then there should be no problem in the repayment provided that the credit of the borrower has also been established.

After more clarifications on the MAV, Senator Magsaysay, Jr. summed up the inputs from the various sectors, taking note of the term "grant" to be changed to "loan"; removing the "2 %" and replacing it with "all types of concessional rates"; to provide a provision to be exempt from Sec. 21 of the AFMA; and extension will be up to year 2015. After which, whatever is left of the fund reverts back to the National Treasury of the General Fund.

III ADJOURNMENT

There being no other matters to be discussed, the meeting was adjourned at 3:14 p.m.

*Prepared by Redia N. Atienza, Legislative Committee Secretary of
the Senate Committee on Agriculture and Food*