

Philippines

“ASEAN-Japan Development Fund for Republic of the Philippines Category B (Land Bank of the Philippines)”

Project Summary

Borrower:	Land Bank of the Philippines (Guarantor: Government of Republic of the Philippines)
Executing Agency:	Land Bank of the Philippines
Exchange of Notes:	May 1991
Date of Loan Agreement:	March 1992
Loan Disbursed Period:	March 1997
Loan Amount:	¥6,686 million
Loan Disbursed Amount:	¥6,686 million
Procurement Conditions:	General Untied
Loan Conditions:	
Interest Rate:	2.500%
Repayment Period:	30 years (10 years for grace period)

<Reference>

1. Currency: Peso

2. Exchange Rate Consumer Price Index

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	
Rate	Peso/US\$	24.311	27.479	25.512	27.120	26.417	25.714	26.216	29.417	40.893
	¥/US\$	144.79	134.71	126.65	111.20	102.21	94.06	108.76	120.99	130.91
	¥/Peso	6.0	4.9	5.0	4.1	3.9	3.7	4.1	4.1	3.2
CPI (1990=100)	100.0	118.7	129.3	139.1	151.7	164.0	177.8	186.8	203.5	

Source: IFS (Yen/Peso was calculated based on the figures above. CPI was calculated based on IFS.)

3. Fiscal Year: 1 January ~ 31 December

4. Abbreviations

- AJDF (ASEAN Japan Development Fund)
- LBP (Land Bank of the Philippines)
- TSL (Two Step Loan)
- SAPI (Special Assistance for Project Implementation)
- PCR (Project Completion Report)
- USP (Unified System Project)

5. Terminology

- Two-step loan: Common name for financial intermediary loans. Financial intermediary loans are provided to build up manufacturing, agriculture and other businesses by small and medium businesses. The loans are re-loaned to the actual borrower (the end-user) through a development finance institution within the recipient developing country, which is why these loans are also called Two-step loans (TSL).
- End-user: The final borrower of the TSL, who needs finance for capital investment etc. In this project it corresponds to agricultural cooperatives and their members.
- Sub-loan: The loan to the end-user.
- Revolving fund: A fund formed from repayments of principal and interest on sub-loans received from end-users. In general the revolving fund is used for continued lending.

1. Background and Need for Project Implementation

1.1 Objectives

This project was a two-step loan channeled through the LBP to provide agricultural cooperatives with low-interest funds for improving agricultural productivity. The aim was to help to strengthen the organization and activities of the agricultural cooperatives and, by lending funds to the members of the cooperatives, to raise the productivity and standard of living of small farmers and fishermen.

1.2 Background

Through the '70s and into the '80s the ASEAN nations faced economic difficulties due to low prices for primary products, volatility in exchange rates, and other factors. They sought to overcome these problems by increasing economic efficiency, diversifying economic structures and expanding export ability. In particular, the ASEAN nations concentrated their efforts on strengthening private-sector industry. At the ASEAN Summit in December 1987, which took place in Manila, the Japanese government pledged to provide a fund of \$2 billion to promote the private sectors of ASEAN nations and to encourage intra-regional cooperation. In July 1998 the "Implementation Guidelines" for the ASEAN-Japan Development Fund (AJDF) were agreed between Japan and ASEAN. Financial cooperation was to center on two-step loans as the main forms of assistance, and the guidelines laid down detailed rules for Category A to support projects that promote economic cooperation within the region, and Category B, which provide TSLs to nurture private-sector industries.

In addition to this project, other two-step loans channeled through the Development Bank of the Philippines (DBP) to financially support small and medium businesses were provided under category B.

1.3 Need for the Project

In 1980, approximately half of the workers in the Philippines were farmers (including fishermen) and they accounted for approximately one quarter of the country's GDP and export value at that time. Of the 9.73 million ha then under cultivation, 72% was owned by independent owner-farmers, who numbered approximately 58% of the country's farmers. The remainder was used by sharecroppers, or farmers who combined the two types. While 85% of all farmers had less than 5ha of land under cultivation, their land accounted for only about half of the total area of farmland. Thus the other half of the land was in the hands of large farmers, who numbered only 15% of the total number of farmers. A majority were micro-scale farmers. In the fishing industry, eight out of ten fishing operations were very small. These small farmers and fishermen were poor, and it was very important to improve their productivity and income.

The farming finance situation was that in 1988 the value of lending to the agricultural sector from financial institutions was 28.3 billion Pesos, less than 20% of their total lending. Within the lending to the agricultural sector, around 60% came from commercial banks, followed by

less than 20% from rural banks and over 10% from special government-affiliated financial institutions. In terms of new lending, 32.2 billion Pesos of loans went to the agricultural sector in 1990 (approximately 6.5% of total lending in that year). While the nominal value of lending to the agricultural sector was growing, in real terms taking account of inflation, it peaked in 1983 before effectively falling to around half that level, by 1990. "Private finance" from moneylenders and rice polishers was still used as finance to small farmers and fishermen, and the rates of interest on such loans were still extremely high. Modernization and improvement of the agricultural finance system was an urgent task. The Philippine government had been already providing loans through the Rural Bank, but it began to concentrate its efforts on improving agricultural finance by lending through agricultural cooperatives with the LBP (Land Bank of the Philippines) as the wholesale bank. This approach was taken because it was effective in strengthening the agricultural cooperatives which support farmers, and because it made the cooperatives an effective channel for lending to individual farmers. However, the Agricultural Reform Fund (the ARF, which was mainly funded by the proceeds of privatizing state-owned enterprises), which was used to fund lending through the agricultural cooperatives, was short of funds and in need of other funding sources.

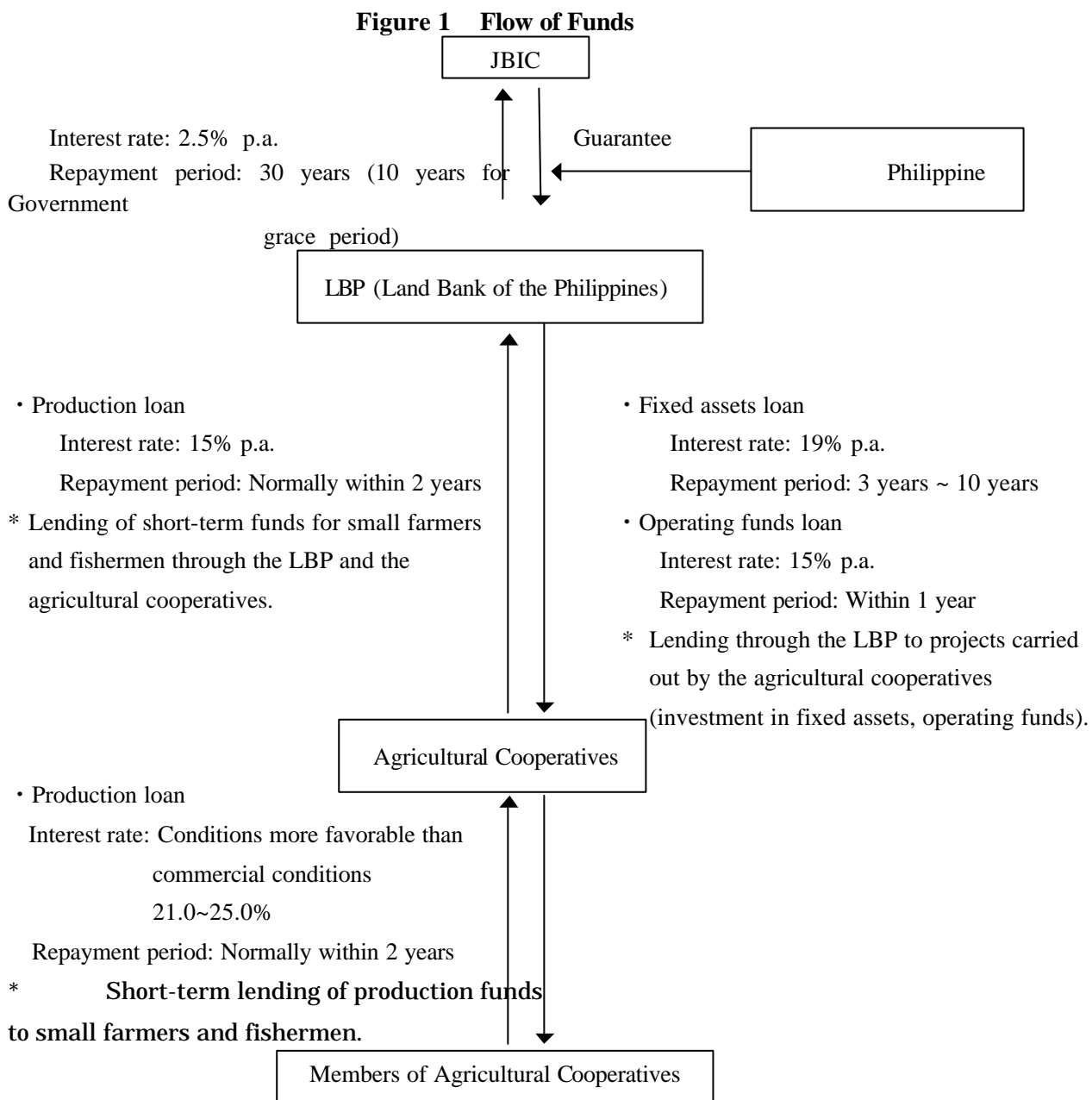
In line with the above policy, the Land Bank of the Philippines (LBP) began the Countryside Credit Delivery Program (CCDP) in 1987. The CCDP provided loans to support small farmers (those with 5ha or less of arable land), small fishermen (those owning fishing vessels of three tons or less) and those farmers who became independent farmers through the Agricultural Land Reforms announced in 1987. The number of eligible borrowers was estimated at 5.8 million, being 5.2 million small farmers and 600,000 small fisherman. The total workforce in the small farming/ fishing sector was approximately ten million. The value of loans extended to such borrowers was to rise gradually and reach the target of lending to approximately quarter of them (1.5 million borrowers) in 1995, with a new lending value of two million Pesos in that year. The recorded results for the program between 1987 and 1990 and the planned figures for 1991~1995 are presented in the table below. The project was requested as a new source of funds for the program. The CCDP also made loans directly to small farmers and fishermen, but the plan was to reduce the proportion of direct loans and increase the proportion channeled through agricultural cooperatives and rural banks. This policy was adopted as a means of strengthening the agricultural cooperatives, and also to accommodate the personnel and organizational limitations of the LBP. As a result, the proportion of direct loans fell to 14% in 1990, with 22% channeled through rural banks and 64% through agricultural cooperatives. This was a major shift in the balance of lending channels.

Year	Lending channels	Value of new lending (millions of Pesos)	Number of beneficiary farmers	Number of agricultural cooperative borrowers	Share channeled through agricultural cooperatives (/)
1987	Total lending	105	14,385	-	-
	Proportion channeled through agricultural cooperatives	7	2,278	20	7%
1988	Total lending	343	53,813	-	-
	Proportion channeled through agricultural cooperatives	81	18,353	281	24%
1989	Total lending	1,116	164,161	-	-
	Proportion channeled through agricultural cooperatives	412	69,669	841	37%
1990	Total lending	2,828	306,239	-	-
	Proportion channeled through agricultural cooperatives	1,798	210,522	2,879	64%
Plan					
1991		5,000	500,000		
1992		8,000	700,000		
1993		12,000	1,000,000		
1994		18,000	1,200,000		
1995		20,000	1,500,000		

2. Project Content

2.1 Project Summary

This project was a two-step loan. The funds loaned by the Japan Bank of International Cooperation (JBIC) (then the Overseas Economic Cooperation Fund (OECF)) were channeled through the Land Bank of the Philippines to the agricultural cooperatives, who were the end-users, and to their members. The flow of funds was as shown in the chart below.



2.2 Sub-loan Scheme

(1) Subject Divisions and Sectors

The project has two types of sub-loan scheme (types of loans from the LBP to agricultural cooperatives).

- (i) Lending through the LBP to projects carried out by the agricultural cooperatives (fixed assets loans, working capital loans). The specific lending targets were as follows:
 - Procurement of agricultural equipment and machinery such as warehouses, rice polishing facilities and agricultural tools that are owned by the cooperative and used in common by the members. (Fixed assets loans).
 - Funds necessary for the operation of facilities such as those listed above, and funds needed for the joint purchase of agricultural input materials or the joint sale of produce. (Working capital loans).
- (ii) Short-term lending of production funds to small farmers and fishermen through the LBP and the agricultural cooperatives. (Production loans).

Specifically, production loans were available for the purchase of fertilizer and seeds, for stock raising and the construction of fish pools.

(2) Conditions for End-Users

The end-users of this project were the agricultural cooperatives and their members. The basic conditions for loan eligibility for each are as listed below.

- (i) Agricultural cooperatives
 - a) A majority of the cooperative members (at least 51% of total membership) must be small farmers or fishermen.
 - Small farmers: Those owning up to 7ha under PD27 ("Release of Tenant Farmland Act" 1972).
Those owning up to 5ha under PD6657 ("General Agricultural Land Reform Act" 1988).
Those owning up to 24ha under the Homestead Act.
 - Small fishermen: Those owning fishing vessels of up to three tons and fishing within 25km of the coast or lakeshore.
 - b) Borrowers must be officially registered with a government agency (CDA, SEC: (Securities Exchange Commission etc.).
 - c) Borrowers must have book-keeping staff, or they must have well defined accounting systems and procedures.
 - d) Borrowers must have at least two years of credit history with the LBP, with a good repayment record.
- (ii) Cooperative members
Members of agricultural cooperatives as described above. The following conditions must be satisfied for membership in a cooperative:

- a) Members must have Philippine nationality.
- b) Members must be competent to enter into a membership contract (of legal age 15 or older, with adequate earning.)
- c) Members must be small farmers or fishermen operating in the area of activity of the agricultural cooperative concerned.

2.3 Sub-loan Finance Conditions

(1) Fixed Assets Loans/ Working Capital Loans

- (i) Eligible loan applications
 - a) Lending for agricultural cooperative equipment and machinery.
 - b) Lending for the processing etc. of agricultural produce.
 - c) Lending for fishing vessels or other fishing equipment.
 - d) Lending to fund the storage of commercial crops.
 - e) Lending of funds necessary for the purchase or sale of agricultural produce and crops.
- (ii) Lending limits and proportions
 - Limits on lending: No particular maxima or minima.
 - Lending share: The following shares of project cost:
 - 80%: Lending from the LBP
 - 15%: Independent finance from the agricultural cooperative.
 - 5%: Lending from other government agencies.
 - Loan interest rates: Fixed assets loans: 19% p.a., Working capital loans: 15% p.a. (see Figure 1).
 - Loan duration and repayment conditions: Fixed assets loans: 3~10 years, Working capital loans: one year (see Figure 1).
 - Collateral, guarantees etc.: Buildings, land and other realty etc.

(2) For Production Loans (From Agricultural Cooperatives to Their Members)

- (i) Eligible loan applications
 - a) For the purpose of agricultural production
 - b) Raising livestock
 - c) Fish raising pools
- (ii) Lending limits and proportions
 - Limits on lending: Only for rice, corn and sugarcane.
 - Rice and corn: 8,000 Pesos/ha. Sugarcane: 18,000 Pesos/ha.
- (iii) Loan interest rates: From the LBP to the agricultural cooperatives: 15% p.a. From the cooperative to the member: 21~25% (see Figure 1).
 The interest rate is set with consideration of the lending costs incurred by the cooperatives and the necessity of strengthening those cooperatives. The LBP informs the AJDF of the level of these interest rates and applies management and

guidance to ensure that they undercut market rates.

- (iv) Loan duration and repayment conditions: Normally within two years (see Figure 1).
However, if the subject of the loan is the purchase of feed for livestock, the term may be extended to three or four years. As the terms of the loans are short, there is no grace period.
- (v) Collateral, guarantees etc.: Right of pledge over produce or produce insurance.

2.4 Evaluation of Project Content

The LBP's finance to small farmers and fishermen included direct loans from the LBP to those borrowers, but under this project, which was funded by the AJDF, lending was concentrated into a single channel, through agricultural and fishing cooperatives.

In the Philippines at the time, increased employment and income in rural areas was extremely important for expanding domestic demand, increasing savings and expanding investment. The reinforcement and development of farmers organizations and agricultural finance was essential for that purpose. The LBP shifted its policy to lending via the agricultural cooperatives in order to overcome the limitations of its staff and organization, and to reinforce the agricultural cooperatives. The cooperatives became the single channel for funds from this project. The adoption of this single, consistent lending channel was appropriate from the point of view of fund management, and did not pose a problem.

The fixed assets loans and working capital loans provided to strengthen the agricultural cooperatives, and the production loans provided to small farmers and fishermen as working funds were appropriate to the objectives of the project, and the forms of sub-loans were suitable.

II. Evaluation on the Project Implementation

1. Flow of Funds (Loan Disbursement Period and Project Costs)

The cost of this project was ¥6.686 billion, which funded ODA loans provided between 1992 and 1996. The ODA loans in turn were used to provide a total of 1.642 billion Pesos in sub-loans. The planned disbursement period was from April 1992 to March 1997, but disbursement actually began in March 1992 and ended in January 1996, as shown in Table 1. According to a reply from the LBP, the change in the disbursement period was due to the selection of superior projects by the LBP's Field Operations Group and rapid disbursement procedures for those projects.

**Table 1 Actual Expenditure of Project Costs
(recorded disbursements of ODA loan funds)**

Year	Required funds (¥ 1 millions)	Cumulative loans (¥ 1 millions)	Loan progress rate
1992	2,230	2,230	34.8%
1993	2,103	4,333	64.8%
1994	1,005	5,338	79.8%
1995	1,271	6,609	98.8%
1996	77	6,686	100.0%
Total 1992~1996	6,686		

(1) Sub-loan Operation Status

There were no problems with the operation of sub-loans under this project. The total value of sub-loans outstanding at the end of 1996, when disbursement was completed, was 1.642 billion Pesos. Of that, 79.84% (1.311 billion Pesos) was in the form of production loans and 16.50% (271 million Pesos) in the form of working capital loans. The remaining 3.66% (60 million Pesos) was in the form of fixed assets loans. The loan operation results are presented in Table 2.

Looking at the breakdown of recipient cooperatives by membership size, approximately 54% had between 50 and 200 members, and those cooperatives received 40% of the disbursed value. Cooperatives with 300 or more members accounted for 12% of the number of cooperatives, and received approximately 40% of the disbursed value. This distribution confirms the LBP's explanation that larger cooperatives with more developed organizations, and smaller cooperatives that were more skillfully managed tended to be selected. The value of the loan for each financed sub-loan project was three million Pesos or less in eight out of ten cases. The sub-loan repayment period was one year or less in seven out of ten cases. By region, nearly seven out of ten were used in Central Luzon, Southern Tagalog, Western Visayas and Southern Mindanao.

Table 2 Operation Results of Project Cost

Classification	Sub-loans for agricultural cooperatives		
	No. of sub-loans	Amount (million peso)	Shares by value (%)
Sub-loans, classified by type			
a) Fixed Assets Loan	97	60	3.66
b) Working Capital Loan	117	271	16.50
c) Production Loan (for agricultural cooperatives)	601	1,311	79.84
Total	815	1,642	100.00
Loan recipient cooperatives, classified by membership size			
a) Below 50 persons	170	150	9.13
b) 51~100 persons	208	339	20.65
c) 101~200 persons	129	308	18.76
d) 201~300 persons	38	193	11.75
e) 301 persons or more	75	652	39.71
Total	620	1,642	100.00
Sub-loans, classified by amount (thousand Peso)			
a) Below 500 thousand peso	505	485	30.15
b) 501~1,000 thousand peso	288	411	25.03
c) 1,001~3,000 thousand peso	146	436	26.55
d) 3,001~5,000 thousand peso	16	123	7.49
e) 5,001~7,000 thousand peso	5	40	2.44
f) 7,001 thousand peso or more	2	137	8.34
Total	962	1,642	100.00
Sub-loans, classified by loan period (No. of months)			
a) Below 12 months	555	1,147	69.85
b) 12~18 months	128	271	16.50
c) 19~36 months	84	59	3.59
d) 37~48 months	41	10	0.61
e) Exceeding 48 months	160	155	9.44
Total	968	1,642	100.00
Sub-loans, classified by loan year			
a) FY 1992	426	585	35.63
b) FY 1993	343	513	31.24
c) FY 1994	189	357	21.74
d) FY 1995	148	187	11.39
Total	1,106	1,642	100.00
Sub-loans, classified by implementation region			
a) Ilocos	31	29	1.77
b) Cagayan Valley	46	74	4.51
c) Cordillera	9	10	0.61
d) Central Luzon	152	377	22.96
e) Southern Tagalog	71	292	17.78
f) Bicol	23	51	3.11
g) Western Visayas	129	187	11.39
h) Central Visayas	35	149	9.07
i) Eastern Visayas	11	78	4.75
j) Western Mindanao	17	25	1.52
k) Northern Mindanao	2	13	0.79
l) Southern Mindanao	58	249	15.17
m) Central Mindanao	31	90	5.48
n) ARMM	1	2	0.12
o) CARAGA	4	16	0.97
Total	620	1,642	100.00

Note: The numbers of sub-loans do not match because statistical collation methods vary between LBP regional offices.

Source: PCR

As mentioned in section 1.3 on the need of the project, the ODA loan funds were managed within the Countryside Credit Delivery Program (CCDP), which is run by the LBP. On 30th September 1995 the balance of outstanding disbursements from the CCDP was as shown in Table 3. The ODA loan funds (AJDF) provided 15% of the total. The cumulative total of disbursements from the CCDP between 1987 and the end of June 1995 exceeded 34 billion Pesos. Loans had been made to 25,769 agricultural and fishing cooperatives and 8.765 million farmers and fishermen. (Table 4).

**Table 3 Outstanding Loan Balance to Small Farmers and Fishermen
(as of 30th September 1995)**

By type of economic activity			By funding source		
	Outstanding loan balance (million peso)	Ratio		Outstanding loan balance (million peso)	Ratio
Crops production	5,154	57.1%	Asian Development Bank	1,292	14.3%
Stock farming	1,933	21.4%	ODA loan (AJDF)	1,390	15.4%
Fishing	440	4.9%	Others	1,051	11.7%
Agricultural service	19	0.2%	LBP own funds	5,292	58.6%
Marketing	1,006	11.2%			
Equipment investment	416	4.6%			
Others	57	0.6%			
Total	9,025	100.0%		9,025	100.0%

(Source: JBIC materials)

Table 4 Transition in Value Loaned to Small Farmers and Fishermen, Number of Recipient Agricultural and Fishing Cooperatives, and Number of Recipient Farmers and Fishermen

FY	Value loaned (million peso)	No. of recipient agricultural and fishing cooperatives	No. of recipient farmers and fishermen (1,000 persons)
1987 ~ 1990	4,392	4,021	539
1991	6,132	6,476	973
1992	7,515	6,345	1,688
1993	6,936	5,198	2,574
1994	6,031	3,729	2,991
1995	3,016	-	-
Accumulative total	34,022	25,769	8,765

(Note): FY 1995 is the actual result up to the end of June, 1995.

(Source): JBIC materials

Repayments on subloans are used as the source of funds (the revolving fund) for further loans on the same terms as the original subloans. The subloan repayment situation and the balance held in the revolving fund, as reported by the LBP in 1996, are as shown in Table 5.

Table 5 Transition in the Balances of Sub-loans and Revolving Fund

(Unit: ¥ 1 million)

	End of 1992	End of 1993	End of 1994	End of 1995	End of March 1996
Sub-loans					
1. Initial disbursed balance	0	2,230	885	296	0
2. Annual value of disbursements	2,230	2,103	1,005	1,195	153
3. Annual value of repayments	0	3,448	1,594	1,491	153
4. Outstanding balance of disbursements at year end	2,230	885	296	0	0
Revolving funds					
1. Initial source of disbursed funds	-	-	-	-	0
2. Annual value of disbursements	-	-	-	-	1,370
3. Value of repayments on sub-loans (source of the fund)	-	-	-	-	4,633
4. Funds available for disbursement at year end	-	-	-	-	3,263

Note: The revolving fund was formed in 1993, but reloans from it began in 1996.

Source: PCR

Reloans from the revolving fund began in 1996 when subloan disbursements were completed. The LBP reports that by June 1997 the value of reloans from the revolving fund had reached 861 million Pesos, bringing the value of loans extended under this project (subloans plus revolving funds) to 2.504 billion Pesos. Within that amount, there were 40 million Pesos in written off bad debts (90 loans), being 1.6% of the overall value. There were 553 loans in arrears, worth 199 million Pesos, a past due rate of 7.9%. The lending criteria for this project were determined by the LBP following prior discussions with the JBIC (such as "agricultural cooperatives which have been registered with a government agency such as the Cooperative Unions Development Agency, and which have a good repayment record over the previous two years"). Loans under this project were extended to 836 agricultural cooperatives (as of August 1995) which satisfied those standards, and there does not appear to be any great problem with repayment of the loaned funds.

2. Executing Agency

(1) The Land Bank of the Philippines

The Land Bank of the Philippines, which was the executing agency for this project, is a special bank which was established in 1963 to lend to the agricultural sector. Its main business is to carry out financial operations related to agrarian reform on behalf of the government. In 1973 the law on which the LBP was based was revised, enabling it to carry out commercial banking operations. Since then, commercial banking has formed a large part of the LBP's operations. However, in June 1988 the Comprehensive Agrarian Reform (CARP) came into effect and the LBP took on the responsibility for financial operations within the Philippine agrarian reform.

As a result, the agricultural sector which was responsible for CARP, expanded within the LBP, which was built around its commercial banking sector. In 1989 the agricultural sector came to handle approximately half of the bank's 7.491 billion Pesos of outstanding loan balances (27%

related to agrarian reform and 22% related to small farmers). In 1996, the LBP merged its agrarian sector and its banking sector as a means of providing more efficient services and cutting costs, forming the Agrarian and Domestic Banking Sector (ADBS). The two sectors were also merged at the branch level, and the banks Unified System Project (USP) made it possible for the bank to deliver comprehensive services in the regions as well. The ADBS is divided into five sectors, in addition to the supporting sector. Of these, the sections practically involved with this project were the Domestic Banking Groups I and II (DBG I, II). DBG I covered Northern and Central Luzon and Mindanao and DBG II covered Metro Manila, Southern Luzon, Bicol and Visayas.

Figure 1 Organization Chart of LBP (1)

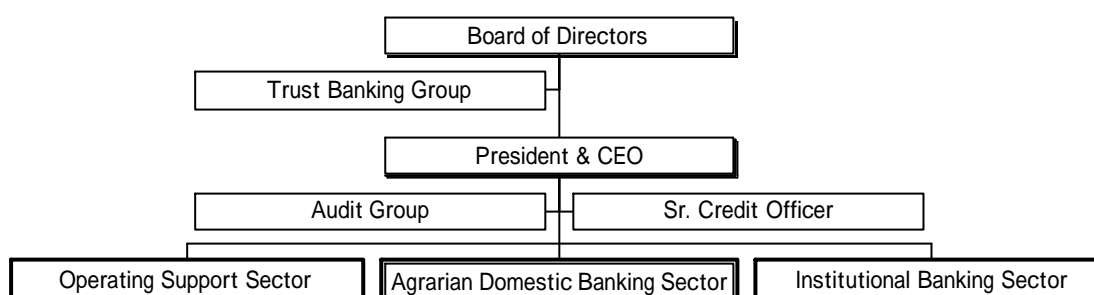
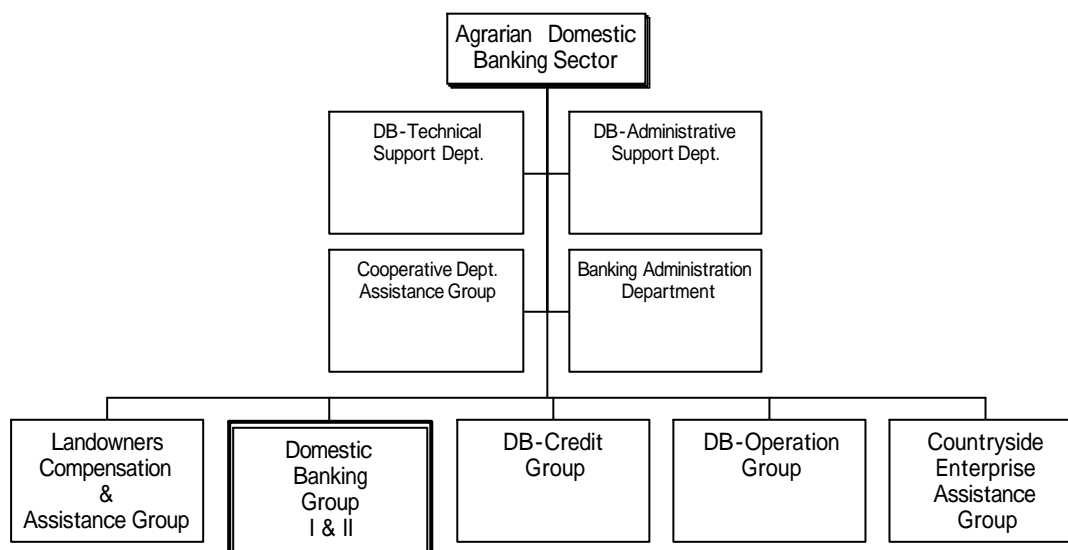


Figure 2 Organization Chart of LBP (2): Organization Chart of ADBS



In August 1998 the nominal capital of the LBP was increased from nine billion Pesos to 25 billion Pesos in a bid to maintain the bank's profitability and expand its regional trust banking operations. As of December 1998, the LBP had its head office in Manila, and a nationwide network of 87 branches, 166 Unified System Project (USP) offices, 5 field offices, and 44 extension offices. The bank had 8,873 staff, of whom around a quarter (2,202) worked in the head office, 2,020 in branches, and nearly half (4,206) in USP offices. Over two thirds of all the bank's staff were educated to at least graduate level.

As of December 1997, the bank's balance sheet showed a total of 160.1 billion Pesos in capital and liabilities, of which 9.2% was own capital (nominal capital and various reserve funds and reserved profits) and 70% was deposits from the government and related agencies. The bank's assets on the balance sheet consisted of 61% general lending and 22% investments. The profit situation was generally good, with a pre-tax profit of approximately 3.6 billion Pesos in 1997. This was a 2.3% profit rate on total assets.

As mentioned above, the LBP has been financing small farmers and fishermen through the CCDP since 1987, with the value of outstanding loans standing at nine billion Pesos in September 1995, as shown in Table 3 above. The value of outstanding loans rose steadily to reach approximately 12.4 billion Pesos by the end of 1997. One can conclude that the LBP's lending procedure systems, loan appraisal system, and loan management and recovery system are functioning smoothly, and there is no problem with its implementation system.

(2) Agricultural Cooperatives

Under the Countryside Credit Delivery Program, the LBP emphasizes the role of the agricultural cooperatives as the supervisory agencies for lending to farmers. The cooperatives also bear the duties of guaranteeing and approving the projects eligible for loans and their values, collecting loan repayments and other functions. This system helps to strengthen the organization of the cooperatives and to support their activities. They are also encouraged to transform into comprehensive agricultural cooperatives, a move which can be expected to stimulate local economies, promote the development of the agricultural sector and raise the living standards of farmers. In addition to lending to their members, agricultural cooperatives are active in agricultural production, marketing and various services.

Agricultural cooperatives are usually led by a board of directors which usually has 5~15 members, and are organized into three committees for credit, elections and audit and inventory. Each committee comprises at least a chairman and two members. Some of the activities of the cooperatives, particularly savings operations and business issues are managed and operated under the authority of managers. Within the three committees mentioned above, the credit committee is the one which approves loans to cooperative members.

As of June 1995, the LBP had made loans to over 8,300 members, of which only 836 were qualified to receive loans under this project. Only those cooperatives with a perfect 100% repayment record over the previous two years were eligible for loans under this project, which narrowed the number of eligible cooperatives down to around one tenth of those qualified for general LBP lending. In fact, loans under this project were only made to 620 of those eligible cooperatives.

There were no significant problems with the lending procedures, appraisal systems and loan management systems used by the cooperatives with their members.

3. Consultant

When the appraisal was conducted in 1990, it was decided not to employ the consultants which were originally scheduled for employment in this project. The reason for the change was that the LBP wanted to emphasize sub-loan lending and disburse the entire amount of the loan in the form of sub-loans, and it was judged that the LBP's abundant experience in lending operations would prevent any problems in implementation. There does not appear to have been any problem in the implementation of this project due to the lack of a consultant¹.

4. Evaluation on Project Implementation

The sub-loans and re-loans for this project were proceeding smoothly, and by June 1997 a total of 2.504 billion Pesos had been loaned to agricultural and fishing cooperatives and their small-scale members. The overall operation for lending to small farmers and fishermen made loans to over 8.7 million such borrowers, and the project has clearly been implemented effectively.

¹ In the "Rural and Agrarian Reform Support Policy Finance Project" (ODA loan agreement signed in 1996), which was the successor to this project, a consulting service was provided to enhance the LBP's supervision and evaluation, lending and monitoring abilities and improve the agricultural cooperative reinforcement program. This assistance was intended to step up the LBP's project implementing abilities.

III. Evaluation on the Project Continuity

1. Operation of the Revolving Fund

As mentioned above, the revolving fund, funded by sub-loan repayments, went into operation in from the start of 1996. In the one and a half years to June 1997, the value of reloans from the revolving fund reached 861 million Pesos, more than half the value of the original subloans. This fact indicates that the revolving fund was being operated effectively. The outstanding balance of LBP loans to small farmers and fishermen reached 12.38 billion Pesos at the end of 1997 (compared to approximately nine billion in September 1995), which demonstrates that the scope of the project was growing steadily, with no problems in the project's overall operation.

2. The Arrears and Business Positions of End-users

According to a questionnaire survey of 100 agricultural cooperatives in 1995, the rate of debts in arrears² in 480 loans extended to farmers by the cooperatives which responded was 62%, a very high rate. Among the farmers, 75% had taken production loans which they intended to repay from the proceeds of selling their produce. Therefore if the income from sale of produce falls for any reason, the farmers can fall into arrears. The most common reason for the arrears, stated in approximately 40% of cases, was reduced income due to some natural disaster. The other reasons, in order of frequency, were reduced income due to depressed market conditions, lack of will to repay loans, and reduced yields due to low levels of project technology. The LBP states that this distribution of reasons for arrears is still largely unchanged. Arrears are most common among the members of agricultural cooperatives which have low levels of managerial ability. The LBP and other agencies must take steps to improve the arrears situation by strengthening the organization and activities of the agricultural cooperatives.

In June 1997 the total value of debts in arrears was 199 million Pesos, equivalent to 7.9% of the total disbursed value, in 553 loans. However, as agricultural produce was set as collateral, and subscription to the government's crop insurance was mandatory, the insurance payments are taken in pledge. Therefore loans in arrears will not directly become unrecoverable. However, JBIC calls on LBP to apply more thorough management.

3. Evaluation of the Project Continuity

As mentioned in section 2 above, there is still room for improvement in strengthening the systems of the agricultural cooperatives themselves, but the system of supporting small farmers and fishermen through such cooperatives is a necessary and effective system for providing finance to such borrowers in the Philippines. As such, its implementation should continue. The present system appears adequate for the continued implementation of the program.

In order to secure the sustainability of the program, the organization of the cooperatives, besides

² Under the finance terms for this project, a loan is not deemed to be in arrears if there has been repayment of capital and interest within three months of the repayment due date.

the LBP itself, should be strengthened. In particular the financial aspects of the cooperatives need to be reinforced. To that end, the Philippine government should help the agricultural cooperatives to own their own warehouses and post-harvest processing facilities, which would increase their incomes. This and similar policies to strengthen various aspects of the cooperatives should be put into action in order to support the LBP's continuation of this project.

IV Evaluation on Project Effects and Impacts

1. Evaluation on Project Effects and Impacts

(1) Categorization of Effects

(i) Quantitative and Qualitative Effects

This project supplied sub-loans to 620 agricultural cooperatives, which were in turn loaned to small 133,000 farmers, fishermen and stock raisers. One of the objectives of this project was to raise the incomes and living standards of farmers. On that point, the average income of farmers in 1991, before the project, was 20,026 Pesos/ha, and a survey in 1995 found that the figure had risen to 33,656 Pesos/ha, an increase of 13,630 Pesos/ha (68%). The increase in income was not solely due to improvements in the finance system, but for farmers, who must spend on seeds, fertilizers and other materials before they recoup from the harvest, the introduction of an easily accessible finance system is a strong factor in motivating them to increase their production and income.

Another objective of this project was to strengthen the organization of the agricultural cooperatives. A majority of the 620 agricultural cooperatives covered by the project were set up between 1986 and 1992 to strengthen the country's agricultural finance system. Over the four year period in which loans were made under this project (1992~1995) these cooperatives increased their assets, profits and member numbers. Of the 515 cooperatives which have published their financial reports, 360 (76%) had increased their assets and 259 (approximately half) reported increased earnings. Furthermore, 66% reported growth in their membership. This strengthening of agricultural cooperatives has not been achieved by this project alone, but this project appears to have played a large part in that process.

The gross production value of Philippine agriculture, forestry and fisheries industries stood at approximately 173 billion Pesos in 1995 (pegged to 1985 prices), equivalent to 21.5% of GDP. The equivalent figure for 1985 was 162.5 billion (at 1985 prices), equivalent to 26.5% of GDP, exceeding the 24.5% share provided by manufacturing industry. By 1995, manufacturing's share of GDP was 25.3%, exceeding the share for the agriculture, forestry and fisheries industries. Thus, while the country's industrial structure is shifting from agriculture to industry, agriculture, forestry and fisheries retain their important position in the Philippine economy. The size of the farming population was 9.78 million people in 1985 (49.2% of the total economically active population). By 1995 the figure had risen to 11.768 thousand people, but the share of the economically active population fell to 42.1%. As a result, the gross production value per farmer (per agricultural worker) fell from 16,616 Pesos in 1985 to 14,700 Pesos in 1995 (both figures pegged to 1985 prices). This suggests the harshness of the environment in rural areas. The proportion³ of people living in poverty in rural areas improved from 59.4% in 1985 to 53.1% in 1995. However, the urban and national average figures for poverty rates were 45.2% and 53.9% respectively in 1985 and 28.0% and 40.6% respectively in 1994. Considering these declines in poverty rates, progress in improving living standards in rural areas can only be described as

³ From "Development and Poverty" (1998), Chapter 6 (Nakanishi).

slow. Support policies for small farmers and fishermen, including this project, will continue to be highly important measures.

(ii) Impact on the Natural Environment

No positive or negative effects on the natural environment were anticipated from the start of this project and accordingly no environmental impact assessment survey or other impact survey was conducted. There have been no reports of major environmental impact associated with the project.

(2) Case Studies of End-users

A simple interview survey of farmers who had received LBP loans was conducted in December 1998 as a way of making a diverse evaluation of the effects of the project⁴. This survey was conducted under tight time constraints, and it only covered a number of members from the two cooperatives below, which were recommended by the LBP.

1. Batangas Assn. Of Free Planters Inc. Sugar Marketing Cooperative.
(Calatagan, Batangas Province)
Members: 764, a large majority of whom produce sugar cane.
Registered as an LBP customer in August 1990.
LBP evaluation: This is a well-managed and highly active agricultural cooperative.
2. Catmon Multi-purpose Cooperative, Inc. (Santa Maria, Bulacan Province)
Members: 198, a large majority of whom raise pigs.
Registered as an LBP customer in September 1987.
LBP evaluation: This agricultural cooperative is average in its activity and management.

The findings of the interview survey (case studies) and other observations are as described below.

Both areas are satellites of Manila, around two hours away by car. Christian Tagalog people are a large majority of the population in each area. The areas inhabited by Tagalog people have historically been suburban areas which develop relatively early, after Manila. Batangas province was the first to industrialize in sugar production, led by the Raurel family, and it has been known as a prosperous region with benefits such as port development for southward trade. Bulacan province is known for sharecroppers and small-scale coastal fishing, and particularly as an area producing vinegar from nipa palm. Its productivity remains low because it is a marshy area. Therefore if natural conditions are compared, Batangas province is a far richer area than Bulacan province.

Both provinces were geographically favored by being close to Manila and were opened up as the living space of the Tagalog people (Barangay society) since start of the 16th century. It is not

⁴ We are grateful for the assistance of Professor Yasushi Kikuchi of Waseda University Asia Pacific Research Center in connection with this survey and related observations.

possible to make a definitive judgement due to the small number of surveyed samples, but respondents in both areas stated that in the absence of this project they would not have been able to build up their operations to their present levels.

Concerning this project, many residents of both areas stated that they had much greater peace of mind once their agricultural cooperatives had been established and they were able to obtain funds by borrowing without worrying unduly. From a social anthropological point of view, we can observe that the impact of this project helped to shift Philippine society from family-oriented human relationships to community relationships. It provided an opportunity to start thinking about human relationships from a basis of modern rationality. The expansion of rural finance systems can have a valuable impact in changing human relationships as rural society shifts to become more modern and rational society.

Questions	Respondent A (Batangas province) (Respondent: Male, aged 53, annual income 80,000 Pesos, sugar cane farmer)	Respondent B (Bulacan province) (Respondent: Male, aged 55, annual income 18,000 Pesos, pig farmer)
1. Describe your circumstances before joining your agricultural cooperative.	Before I joined the cooperative, I could not obtain (borrow) the funds for buying sugar cane seedlings as I would have liked. Now it is very convenient because I can borrow from the cooperative without having to worry.	We began raising pigs before we joined the cooperative. After joining, we could use different feed, buy vaccinations and ask veterinarians for diagnoses.
2. What was the difference between your circumstances after joining your agricultural cooperative and after the cooperative received the loan from the Land Bank?	Economically, it is now incomparably easier than it used to be to get production loans, and they are never a barrier to my production activity.	We gained the benefits mentioned above, but on one occasion there was a disease epidemic and we suffered when the market price dropped.
3. Did you receive an adequate explanation of the Land Bank loan?	Of course, I am well satisfied with the thorough explanation of the implementation of this project which I received from the LBP. Exchanges with others in the area each time the project implementation was explained were very useful in later cooperative activities (expansion of human relationships).	Members were asked for their opinions and explanations on the aims of the project and the benefits received.
4. Were you given an opportunity to speak at the explanatory meeting?	We had ample opportunity to express our views in the consultation meetings.	I have contributed my opinions from the project planning stage until the present. All members are given opportunities to speak.
5. At what stage of this project did you start to participate? 1] The planning stage. 2] The implementation stage and monitoring. 3] Evaluation and project revision.	We participated in the project from the implementation and monitoring stage.	I personally am happy to have been able to participate in this project.
6. How did your family's way of life change after the loan was disbursed?	The loan system was established, so we were able to make the money go round better than before. However, due to the El Nino effect in recent years, our production has not increased much.	We villagers are grateful for the support we receive from the LBP loan system because anyone can benefit from it, regardless of age or gender.

7. What would your way of life have been like if your agricultural cooperative had not received the loan from the Land Bank?	If there was no sustained loan system from the LBP, our lives would be much poorer.	If there was no loan system, we would have to take high interest loans from the animal feed company.
8. How do you manage to repay the loan? Over what period do you have to repay it?	On an annual cycle, we make two repayments, one from each harvest period (December to February, June to July).	We repay our loan every four months and take a new loan.
9. If there was no organization such as the Land Bank, where would you have obtained funds from?	We would probably borrow from rural banks or from relatives.	If the LBP loan system, or one like it, did not exist, I would probably be working as a cycle taxi driver. (An example of changing into an entrepreneur).
10. Are you satisfied with the loan system as it is today? If not, what are you dissatisfied with?	I am satisfied with the current loan system.	I am very satisfied with this loan system.
11. Do you know the source of the money you borrowed from the Land Bank?	I don't know where the LBP received aid for the loan. (This was the universal response).	I don't know where the loan funds come from.
12. What is the production cycle between planting and harvesting your produce?	Production cycle: Tilling and preparation of the arable land, planting, weeding, fertilizing, harvesting. One cycle takes four or five months.	Production cycle: Buy piglets, buy feed at the same time, vaccination, fattening, veterinary examinations.
13. How large are your expenses at each stage of the production cycle?	The total expenditure required annually is around 80,000 Pesos for two cycles.	It costs 18,000 Pesos per year to raise 12 pigs.
14. How many members of your extended family are in this cooperative? ⁵	I have some kind of extended familial relationship with most of the members in the cooperative.	I have some kind of extended familial relationship with most of the members in the cooperative.
15. How many of your close relatives are in this cooperative? What are your relationships to them?	None of my close relatives are in the cooperative (this was a very unusual response, but there are other extended family relationships).	Many of my close relatives are in most of the community groups at the same time. As a result, I have close relationships with nearly all of them.
16. Who in your family devises plans to improve your standard of living and makes decisions on them? The husband or the wife?	Husband and wife decide things together for the good of the family. (It was relatively more common for the wife to have authority over matters in the home).	My wife has authority over most decisions in the house. (This is a typical marital relationship in the Philippines).
17. Do you get help from your extended family or blood relatives? In what way?	Of course, close relatives living in the area give financial assistance, if they can afford to.	We have interdependent relationships through the community assistance organizations (the Bayanihan system). (These are independent community groupings).
18. Do your blood relatives look to you for assistance? In what way?	We won't refuse to give help (money, introductions to influential people etc.) if we can afford to.	Of course, blood ties mean we must help our close relatives.
19. Do you ever use loans for other than the intended applications?	Personally, I never use the loans for anything other than growing sugarcane.	We take loans to buy things (pigs, feed etc.) so we do not use them for other things.

⁵ People linked by pseudo-familial bonds such as through religious ceremonies (baptism, marriage registration etc.). In the Philippines, once an extended familial bond is cemented it becomes equivalent to a family relationship, forming a protective social and economic relationship. For example, even though the relationships have no legal force, people in them vouch for each other and will help each other in case of hardship as if they were blood relatives.

(3) Overall Evaluation on Project Effects and Impacts

It is difficult to grasp the economic effects of this project through general economic indicators, but in the four years in which loans were disbursed for this project, most of the agricultural cooperatives which received loans saw their assets, profits and numbers of members increase. In interviews with the members (farmers) of the agricultural cooperatives which received loans, nearly all members felt that they had benefited from the loans, setting aside issues of the cooperatives' management. These facts suggest that this project remains an important measure for supporting small farmers and fishermen, and it can be deemed an effective financial support measure for improving the living standards of small farmers and fishermen.

It is hoped that in future, the effective use of the revolving fund will continue to increase the efficacy of this project by increasing the number of farmers and fishermen who use the loans. Even without the revolving fund, the ODA loan directly funded loans which have benefited over 130,000 small farmers and fishermen, which indicates that the project is effective.