

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

Report Date: March 2000  
Field Survey: December 1998

## 1 Project Summary and Japan's ODA Loan

### (1) Background

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. However, a majority of farms were very small in scale, and around 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.

"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 LBP (Land Bank of the Philippines) as the wholesale bank.

### (2) Objectives

This project was a financial intermediary loan (popularly known as two-step loan) channeled through 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.

### (3) Project Scope

This project was requested by LBP as a new source of funds for the Countryside Credit Delivery Program (CCDP)<sup>1</sup>. The loaned funds served as the funding source for the ASEAN-Japan Development Fund (AJDF), which was used by LBP to provide loans for agricultural cooperatives or, through them, to their members. Repayments from cooperative members were held in a revolving fund and used for re-lending by LBP for the same objectives.

### (4) Borrower/Executing Agency

Land Bank of the Philippines / Land Bank of the Philippines



<sup>1</sup> The CCDP is a program run by the LBP from 1987 that provided 20 billion Pesos in new loans every year to 1995, reaching 1.5 million borrowers. These borrowers constitute approximately one quarter of all the small farmers and fisherman in the country, estimated at approximately 5.8 million (5.2 million small farmers and 600,000 small fisherman).

## (5) Outline of Loan Agreement

|                                 |                     |
|---------------------------------|---------------------|
| Loan Amount                     | ¥6,686 million      |
| Loan Disbursed Amount           | ¥6,686 million      |
| Date of Exchange of Notes       | May 1991            |
| Date of Loan Agreement          | March 1992          |
| Loan Conditions                 |                     |
| Interest Rate                   | 2.5%                |
| Repayment Period (Grace Period) | 30 years (10 years) |
| Final Disbursement Date         | January 1996        |

## 2 Analysis and Evaluation

### (1) Evaluation on Project Content

The ODA loan was supplied by LBP to the agricultural cooperatives as fixed asset loans and operating fund loans. It was then applied to improving the facilities of the agricultural cooperatives, paying the running costs of those facilities and other applications, helping to strengthen those cooperatives. Cooperative provided their members with production loans for the purchase of fertilizer, animal feed, seeds and other supplies, and loans for operating funds. These sub-loans were appropriate and in accordance with the objectives of the project. All loans made to small farmers and fishermen under this project were channeled through agricultural cooperatives. This use of a single, consistent lending method was appropriate from the point of view of fund management, and did not pose a problem.

### (2) Evaluation on Project Implementation

The sub-loans from LBP to the agricultural cooperatives totaled 1.642 billion Pesos to 620 cooperatives. Within this total, 1.311 billion Pesos (80% of total loan amount) took the form of production loans from agricultural cooperatives to their members. The repaid funds from sub-loans were placed in a revolving fund and reloaned (861 million Pesos were reloaned between 1996 and June 1997). 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.

### (3) Evaluation on Project Continuity

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 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 LBP's continuation of this project.

### (4) Project Effects and Impacts

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.