

Ex-ante project evaluation report

1. Name of Project

Country: Republic of the Philippines
Project title: Agricultural Credit Support Project
L/A signed on: November 25, 2009
Loan amount approved: 14,608 ,million yen
Recipient: Land Bank of the Philippines (LBP)

2. Background and necessity of the project

(1) Past result (status quo) and issues of the development in the agricultural sector in Philippines

The poverty rate of the Philippines still remains high, that is, 33% and 27,620,000 people stay below the poverty line (in 2006). Approximately 75% of people in poverty (2004) live in rural areas, namely, small or landless farmers and fisherfolk (in 2004). The poverty rate among farmers is as high as 48.8% (in 2004). People in rural areas are faced with the difficulty to own land and also have poor access to financial and technical services and various types of infrastructure. Productivity still hovers at a low level.

In particular, major problems as to financial services to the agricultural sector including the livestock and fishing industries, the food processing industry, and agriculture/fisheries-related services are; a shortage of medium and long-term funds, credit squeeze of banking institutions to agriculture that carries high risks and high handling costs, the scarcity of necessary technical assistance given to borrowers to improve their borrowing capacity, and difficulty for borrowers to satisfy the lending criteria of banking institutions due to lack of creditworthiness and collateral. Hence, it is reported that approximately 70% of farmers who need agricultural loans are compelled to depend upon informal financial institutions that charge high interest. Thus, an important issue is to improve their access to institutional loans.

LBP is a government-affiliated financial institution that is mandated to extend agricultural loans on behalf of the government. Nonetheless, due to the scantiness of financial resources for medium and long-term loans, it is confronted with the circumstances in which it is unable to fully meet financial demand in the agricultural sector.

(2) Development policy of the agricultural sector and the position of this project in the Philippines

The Medium-Term Philippines Development Plan (2004~2010) lists “poverty reduction” as one of the priority areas. Assistance to the agricultural sector is emphasized as an important measure to address poverty reduction, and the President’s 10-point agenda include the extension of finance to small and medium enterprises including agricultural finance and “job creation for ten million people” through the development of agriculture-related lands covering an area of two million hectares. At the same time, the Philippine government underlines the promotion of loans to agricultural production in its food crisis mitigation action (FIELDS Program) announced in the National Food Summit held in the Philippines in August 2008 as its measures for food security.

(3) Assistance policy and actual performance of Japan and JICA to the agricultural sector

The Japanese government’s country assistance program (2008) includes the issue of “assistance to the self-reliance and living environment improvement of the poor” as one priority area and “livelihood improvement (self-reliance of the poor)” as a development issue. Under this country program, JICA identifies agricultural and rural development as a cooperation program.

Thus far, JICA implemented the policy credit projects in the agricultural sector such as “AJDF Category B (Land Bank of the Philippines),” “Rural Farmers and Agrarian Reform Support Credit Program ” Through LBP, JICA provided financing fund as Japan’s ODA loans to agricultural cooperatives (hereinafter referred to as “ACs”). Similarly, in technical cooperation and grant aid, JICA offered assistance to agricultural technology, extension of rice farming technology, strengthening of water users associations, strengthening of ACs, and infrastructure development in the farmland reform areas.

(4) Measures taken by other aid agencies

The World Bank completed the “Rural Finance Projects (I ~ III)” (1991 ~ 2007) with the objective of providing medium/long-term fund to the private sector, particularly small and medium enterprises in rural areas, through LBP which is the executing agency of this project. The Asian Development Bank, on the other hand, lists poverty reduction as one of its priority issues and implements

loan projects in the fields of farmland reform, irrigation and rural infrastructure.

(5) Necessity of this project

This project is consistent with the development policy of the Philippines and the assistance policy of Japan. The objectives of this project are to provide financing fund for the agricultural sector through LBP, to offer necessary technical assistance without fee through LBP to ACs and farmers organizations that are unable to meet the lending criteria of banking institutions for improving their creditworthiness, and to assist with establishing business relationships with agriculture-related enterprises, thereby leading to easing the loan approval criteria¹ and improving access to loans among farmers, fisherfolk, and farmers organizations. Thus, the necessity and relevance of the assistance provided by this project are high.

3. Project Description

(1) Project objectives

This project provides funds such as production fund, operating fund and capital investment fund to ACs, farmers organizations (FOs), small and medium enterprises (SMEs) and large agribusiness enterprises (LAEs)², thus vitalizing investment activities that will contribute to enhancing job creation and agricultural productivity in rural areas and eventually leading to poverty reduction in the Philippines.

(2) Project site/target area

The whole of the Philippines

(3) Project Outline

1) Two-step loans

① Eligible sector

Agriculture/livestock/fishing industries, food processing industry, and

¹ Under this project, as a measure to improve access to institutional loans, farmers organizations and agricultural cooperatives that do not meet the lending criteria of LBP will be eligible for financing by easing the terms and conditions of loans in case when they have concluded contracts or agreements with SMEs or LAEs as to the production of, sale of, or technical assistance on agricultural products (hereinafter referred to as marketing contracts).

² At least 70% or more of loans to SMEs and LAEs will come from the Philippine capital and a prerequisite of the loans is that such an enterprise has concluded a marketing contract with farmers, fisher-folk, FOs or ACs

agriculture and fisheries-related service industry

- ② Eligible usage of the loan
Production fund, operating fund, capital investment fund, and consulting service
- ③ Eligible end users
Farmers/fisherfolk³, FOs, ACs, SMEs and LAEs
- ④ Lending methods
 - (a) Direct loans from LBP (retail banking)
 - (b) Indirect loans via ACs, FOs, SMEs, LAEs, and participating financial institutions (PFIs) (wholesale banking)
- ⑤ Sub-loan interest
 - (a) Direct loans: LBP base rate {PDST-F rate (three-month securities by the Department of Finance) + LBP management costs 1.5%} + LBP spread (For ACs and FOs: 2~6%: for SMEs and LAEs: 2 ~ 4%)
 - (b) Indirect loans: LBP base rate {PDST-F rate (three-month securities by the Department of Finance) + LBP management costs 1.5%} + LBP spread 2 ~ 6% + ACs/FOs/SMEs/LAEs/PFIs spread 3 ~ 10%)
- ⑥ Repayment period of sub-loans
Six months or more and within 15 years (Grace period: Three years or less in principle)
- ⑦ Currency of sub-loans (currency conversion by LBP and PFI/ACs, etc.)
Philippine pesos

2) Consulting service

- ① Technical assistance for strengthening the institutions and borrowing capacity of borrowers and possible borrowers
- ② Assistance for public relations activities, extension and marketing of this project
- ③ Assistance for sub-project formulation
- ④ Assistance to borrowers and possible borrowers as to business development such as support to the conclusion of marketing contracts

³ Under this project, LBP will finance farmers and fisherfolk through ACs, FOs, SMEs, LAEs and PFIs.

- ⑤ Assistance for capacity building of LBP (Strengthening of customer information management and speeding-up of lending procedures, etc.)
- ⑥ Assistance to LBP as to the management of this project and subprojects (appraisal, implementation, management and evaluation)

(4) Total project cost/Loan amount

18,754 million yen (including the target amount of ODA loans: 14,608 million yen)

(5) Project implementation schedule

The duration is scheduled from November 2009 to October 2016 (84 months in total). The project will be completed when final disbursement is done (to be scheduled in October 2016).

(6) Project implementation structure

- 1) Borrower: Land Bank of the Philippines (LBP)
- 2) Guarantor: Government of the Republic of the Philippines
- 3) Executing agency: Same as 1)
- 4) Operation and management/maintenance and administration system:
The Project Management Office (PMO) to be established within LBP will be responsible for the management and operation of the whole project.

(7) Environmental and social consideration, reduction of poverty and social development

1) Environmental and social consideration

- ① Category: F1
- ② Reason of categorization: Loans will be provided to financial agents under this project and it would be impossible to specify a sub-project before JICA's approval of loans, and further it is supposed that such sub-project will have effects on environment. Therefore, this project falls under the category FI under "Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations" (established in April 2002).

③ Others/Monitoring: LBP will carry out categorization based on environmental and social effects of individual sub-project and necessary measures, etc., in accordance with LBP's environmental guidelines and JICA's environmental guidelines while receiving assistance by consultants which will be employed under the yen loan. In addition, if a sub-project includes a project falls under the category A, environmental and social considerations shall be carried out in accordance with the procedures of the category A and it will be necessary to submit a report on environmental and social consideration appraisal (EIA) to JICA in order to obtain JICA's approval.

2) Promotion of poverty reduction

It is expected that this project will promote poverty reduction through job creation and boost productivity in rural areas.

3) Promotion of social development (gender prospective, prevention of infections diseases including HIV/AIDS, participatory development, care for people with disabilities, etc.)

None

(8) Collaboration with other donors

None

(9) Other remarks

None

4. Outcome of Project

(1) Indicators of performance and effectiveness

Indicator	Reference value	Target value (2018) 【2 years after the project completion】
1) Sub-loan		
Total amount of sub-loans (in million yen)	—	17.749
Ratio of Nonperforming Loan Amount (%) (Note 1)	—	12.96% or below

Number of new borrowers (case)	—	100
2) Job creation		
The number of the newly employed (in person) (Note 2)	To be decided at the time of the baseline study	To be decided at the time of the baseline study
3) Increased productivity		
Yields of farmers and fisherfolk (Increase rate in %)	To be decided at the time of the baseline study	To be decided at the time of the baseline study

Note 1) Ratio of Nonperforming Loan shall be calculated in accordance with the baseline of Central Bank of the Philippines.. The current baseline defines that a nonperforming loan shall mean a loan which has not been repaid for more than three months. A percentage of 12.96% set as the target value is the most recent rate of non-accrual loans for SFF from LBP

Note 2) It is not easy to obtain data on the number of newly employed people and the yields of farmers and fisherfolk for all subprojects. Hence, LBP shall select sample subprojects and carry out a baseline study for the selected subprojects to set the reference value and the target value with help from the consultant to be employed with the ODA loans.

(2) Internal rate of return: Not applicable

5. External conditions and risk control

None

6. Evaluation Results of and Lessons Learned from Findings of Similar Projects Undertaken in the Past

What we have learned from the past Japan's similar ODA loan projects is the importance of technical assistance and business assistance that will be useful for improving the solvency of farmers, fisherfolk and ACs. Based on this lesson, this project will strengthen technical assistance to improve the organizational capacity and solvency of farmers, fisherfolk and ACs and give assistance to the conclusion of marketing contracts through consulting service and the technical assistance program by LBP.

7. Plans for Future Evaluation

(1) Indicators to be used in the future evaluation

1. Sub-loans

Total amount of the sub-loans

Ratio of Nonperforming Loan Amount

The number of new borrowers

2. Job creation

The number of the newly employed

3. Increased agricultural productivity

Yields of farmers and fisherfolk

(2) Timing of the future evaluation

Two years after the completion of the project

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