



## The Philippines

# Credit Support to Beneficiary of Agrarian Reform

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Field Survey: October 2005

## Outline and Objectives

In the Philippines, the Comprehensive Agrarian Reform Program (CARP) was established under the Aquino administration with full-scale implementation beginning under the Ramos government, inaugurated in 1992. There are two pillars to agrarian reform in the Philippines: land distribution and support for beneficiary farmers. With approximately 70% of the 8.06 million hectares of land targeted for reform (which corresponds to around 30% of the Philippine land mass) having now been transferred to farmers, the importance of the latter pillar is gaining ground. In this project (Rural Assistance Support and Credit Program = RASCP), the successor of the Agrarian Reform Infrastructure Support Project (ARISP), in which small scale irrigation systems were developed, the Department of Agrarian Reform (DAR) and the Land Bank of the Philippines (LBP) provide the 71 Agrarian Reform Cooperatives (ARC); principal members are agrarian reform beneficiaries) with technical assistance so that the ARC can arrange loans from the LBP. Moreover, the LBP extends loans to agricultural cooperatives including ARCs to support credit needs of agrarian reform beneficiaries and other group in rural areas. As with project evaluations, after the five DAC criteria were employed, a detailed analysis focusing on the effectiveness of technical and financial assistance for the ARC was conducted.

	Rural Assistance Support and Credit Program (evaluated project)	Agrarian Reform Infrastructure Support Project (related project)
Loan Amount	10,799 billion yen	6,151 billion yen
Disbursed Amount	10,717 billion yen	5,816 billion yen
Loan Agreement	March 1996	August 1995
Executing Agency	Department of Agrarian Reform, Land Bank of the Philippines	Department of Agrarian Reform

## Evaluation Results

### (1) Project Evaluation based on the Five DAC Criteria

Using the same criteria as are employed for project evaluations, the following ratings were awarded to this project: Relevance: a; Effectiveness: a; Efficiency: a; and Sustainability: b; with an overall rating of A.

(For details of the analytical process, refer to the full version report).

### (2) Technical Assistance for the Agrarian Reform Cooperatives (ARC)

The goal of the technical assistance was to strengthen the institutional capacity of infant ARC until when they would meet the credit requirements set by the LBP. More specifically, these criteria include securing a minimum regular cooperative membership (60 members) and capital (30,000 Pesos) and holding of board meetings on a regular basis.

In this project, development advisors (NGOs, etc.) were deployed to strengthen the administrative structures of the ARC and to assist the formation of ARCs. As a result, 48 of a total 71 ARC were able to obtain credit from the LBP. At the Jagna-Nagbalaye cooperative, for example, extensive work was undertaken to develop the foundations for cooperative activities: rules were revised and developed for newly-launched projects, as a consequence of which the cooperative succeeded in meeting credit requirements.

### (3) Financial Assistance for the Agrarian Reform Cooperatives and their Membership

The ARCs received financial assistance from the LBP for initiating various projects and for lending funds to their members (to procure seeds, livestock, farm equipment, etc.). As shown in



Dried copra in warehouse storage

## COLUMN

### The role of the LBP in agrarian financing

Small-scale farmers in the Philippines are able to obtain credit from the LBP via the cooperatives to which they belong (sublease interest rate approximately 16%), but can also access credit from rural, cooperative and other private banks and informal lenders such as crop brokers. With rural and cooperative banks charging interest rates of around 30%, loans from such lenders require land collateral rendering them essentially out of the reach of the agrarian reform beneficiaries who have ongoing repayment commitments on their land. Such banks also have a limited branch network, which restricts the number of people with access. Crop brokers will extend immediate credit, but apply disadvantageous terms, forcing farmers to sell their crops at a specific asking price, for example. In consequence, the credit available from the LBP via cooperatives has become an indispensable crutch to support the livelihoods of agrarian reform beneficiaries.

Graph 1, a pre and post project comparison of six cooperatives receiving both technical and financial assistance reveals that implementation of the RASCP provided a massive boost to cooperative activities. Two groups were subsequently compared vis-a-vis income status of household level: a group that received financial assistance and a group that received no assistance. As Graph 2 demonstrates, the outcome of the financial assistance is confirmed by the fact that financial expenses of the former equate to approximately half those of the latter. By contrast, after completion of the RASCP, ARC projects have tapered off and there are signs of a decline in repayment rates.

### (4) Cooperatives (other than ARC)

Under the RASCP, financial assistance via the LBP was also extended to agricultural cooperatives other than ARCs. Eight of the beneficiary cooperatives were compared, revealing improvements resulting from project implementation (Graph 3).

## Feedback Results

The following opinions were put forward during feedback seminars held for project proponents.

Various comments were heard from the cooperatives, which argued that LBP loan eligibility requirements were too rigorous, that in order to avoid becoming dependent on credit it was necessary to increase capital and to build up savings, and that rapid expansion of cooperative activities risked inviting failure.

The Department of Agrarian Reform (DAR) pointed out that many ARC have managed to meet LBP credit eligibility requirements and this shows the success of the technical assistance component. In addition, the DAR put forward a number of ideas geared toward enhancing project sustainability, including alliance of the cooperatives.

The LBP stressed the importance of financial assistance to farmers, and argued that instead of easing credit requirements, priority be given to improving the capabilities of the cooperatives, pointing out that the ARCs which fulfilled LBP's credit requirements have more sustainable projects.

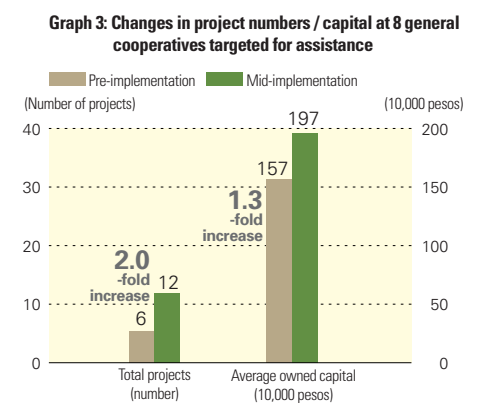
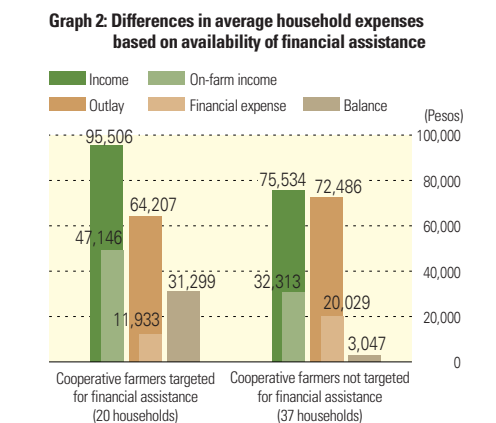
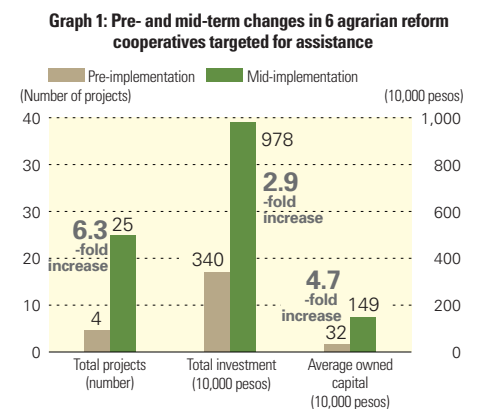
## Conclusions and Recommendations

Through this project, the following framework for technical assistance was formulated. First, the DAR supported the initial stage of capacity building of the ARCs. After the ARCs had met some targets for membership and capital, the LBP started financing and accounting-based support and strengthened institutional capabilities until the ARCs met LBP credit requirements. Nonetheless, there are many cooperatives throughout the Philippines that have yet to meet these requirements and there remains a pressing need for DAR and the LBP to provide ongoing technical assistance. In order to sustain the framework developed in this project, the budget for technical assistance must be appropriately distributed to both organizations.

## JBIC's Opinion

The LBP is committed to achieving the policy objective of supporting agrarian reform but is simultaneously a financially independent organ. JBIC therefore recommends that expense requirements for technical assistance to the ARC be clearly identified and a support system established, e.g. to ensure that a portion of DAR budget is assigned to the LBP to cover the expense of technical assistance.

(Please refer to Expert Evaluations p. 20 for more details.)



Feedback seminars were also attended by ARC representatives