PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC18824

Project Name	Inclusive Partnerships for Agricultural Competitiveness (P153042)
Region	EAST ASIA AND PACIFIC
Country	Philippines
Sector(s)	General agriculture, fishing and forestry sector (30%), Agro-industry, marketing, and trade (20%), Rural and Inter-Urban Roads and H ighways (20%), Agricultural extension and research (15%), Irrigation and drainage (15%)
Theme(s)	Rural markets (30%), Rural services and infrastructure (30%), Rural non-farm income generation (20%), Other rural development (10%), Rural policies and institutions (10%)
Lending Instrument	Investment Project Financing
Project ID	P153042
Borrower(s)	Department of Finance
Implementing Agency	Department of Agrarian Reform (DAR)
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	14-May-2015
Date PID Approved/ Disclosed	18-May-2015
Estimated Date of Appraisal Completion	31-Jul-2015
Estimated Date of Board Approval	29-Jan-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

The Philippines is a lower middle income country with a population of about 98 million people, over half of whom, 55 percent, living in rural areas. Economic growth has expanded rapidly in recent years with an average growth rate of 6.3 percent per year recorded between 2009 and 2013. Growth was primarily driven by consumption and investment, and supported by remittances and strong macroeconomic fundamentals. There has also been some improvement in the poverty headcount, with the incidence of poverty falling to about 25 percent in mid-2013 from 28 percent in 2012, albeit with some setbacks later in the year due to natural disasters.

Though overall economic outlook remains favorable, the persistent structural rigidities and the risky business climate present challenges to the government in its pursuit of an inclusive and sustainable growth, and in its efforts to reduce poverty and create jobs. The high frequency of natural disasters also exacerbates the vulnerability of a large section of the population to fall back into poverty. On the supply side, much of the economic output generated in recent years was in the services and manufacturing sectors. The agricultural sector has remained broadly stagnant.

Sectoral and Institutional Context

Despite its declining contribution to 12 percent of total Gross Domestic Product (GDP), the agricultural sector still employs around one third of the total labor force. Agricultural growth has averaged 2.6 percent over the past decade. Low productivity led to diminished domestic supply which combined with increased domestic demand has turned the country into a net food importer. The sector has been plagued by a number of challenges that inhibited its contribution to economic growth, job creation, and poverty reduction. The poverty rate in the rural areas remains high with nearly 38 percent of the rural population classified as poor. The challenges facing the agricultural sector include: low farm productivity, high production costs, weak agricultural extension systems, low level of technology adoption, poor access to markets, weak producer organizations, inefficient supply chains and logistics system, lack of proper infrastructure (roads and irrigation), inadequate post-harvest facilities, limited access to finance, and lack of clear property rights.

Recent positive trends in yields have failed to reverse the stagnation of farm productivity. The Philippines continues to trail other countries in the region in the yields levels for key commodities such as rice, coconut and sugarcane. For instance, the country ranked fourth among the ASEAN countries (Malaysia, Indonesia, Thailand, and Vietnam) in rice and coconut yields, and fifth in corn. Land reform, mainly through the Comprehensive Agrarian Reform Program (CARP), has resulted in the distribution of more than 6.9 million hectares to small scale farmers, also known as agrarian reform beneficiaries (ARBs), with the objective of developing the ARBs into self-reliant producers. However, only about 50% of the ARBs have so far been assisted in improving the productivity of their farms. The poor rural business climate, malfunctioning land markets, and the absence of risk mitigating institutions have overall inhibited private investment in the modernization of the agribusiness sector.

Successful integration of smallholders in commercially thriving agribusiness value chains is essential for inclusive growth. Many of them find it difficult to do so because of the lack of adequate support services and weak market linkages. Despite having the land, small scale producers are unable to engage in viable partnerships and to enter commercial markets for a number of reasons. First, farmers do not typically invest in the necessary resources to meet the volume and quality of supply required by the market because they are either not well organized, they lack the capital, or they have no access to market information. Second, they are unable to access credit because they have no track record of viable business operations, or they lack the proper collateral. Third, farmers may have difficulty adopting new practices and technology that increase their yield and quality or help them diversify to other emerging viable higher value crops without proper extension and technical support system and an enabling policy environment.

Smallholders are often located in remote areas with little to no access to appropriate business development service providers who could help them build technical, financial, and operational management capacity. They also lack the logistics support and the productive infrastructure to facilitate market linkages. Direct link to buyers gives farmers the opportunity to capture a bigger share of the profit margins. The project aims to help address some of these market failures faced by the ARBs and other smallholder farmers.

Relationship to CAS

The project contributes to the World Bank Group's Country Partnership Strategy (2015-2018) goal of rapid, inclusive and sustained economic growth. It also directly addresses the objective of the Philippine Development Plan 2011-2016 of developing a competitive, sustainable, and technology-based agricultural sector that would contribute to inclusive growth and poverty reduction.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The higher level objective of the project is to contribute to rural poverty reduction, job creation, and increased rural economic growth and households' incomes in the targeted agrarian reform community (ARC) clusters. While the PDO may be subject to refinement over the course of project preparation, the proposed PDO is to improve access to markets and enhance the competitiveness of smallholder farmers in the targeted ARCs. This would be achieved by strengthening farmer organizations, investing in productive partnerships, and upgrading support services delivery.

Key Results (From PCN)

1) Targeted Farmers Organizations (FOs) adopting improved practices in production and business/financial management.
2) Increase in the volume of sales from productive partnerships
3) Reduction in post-harvest losses in key commodities supported by the project.

III. Preliminary Description

Concept Description

The project would enhance the linkage of farmers to viable markets and strengthen the productive partnerships between FOs and buyers by providing technical assistance, matching grants, and necessary support infrastructure. The project would work with small FOs to enhance their technical, operational, and managerial capacity, and with larger FOs and their rural enterprises to engage in productive partnerships as well as help them develop into local business development service providers. It would champion an inclusive and beneficiary led selection of what the project would help support.

1. Description

It is expected that the project would cover 50 ARC clusters across 44 provinces. The estimated number of beneficiaries is 300,000, including beneficiaries in poor municipalities. The total size of the project is about USD 231.72 million including USD100 million from the World Bank loan. The proposed lending instrument is the Investment Project Financing. The project would have the following three components.

Component I: Support Services to Enhance Market Linkages

Extension and Organizational Development - This sub-component would provide technical training and capacity building to FOs through an approach similar to Farmer Field School approach (FFS) which could be the vehicle for extension services. Training would focus on Good Agricultural

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Practices (GAP), Integrated Pest Management (IPM), on-farm soil and water management, quality and safety certification, and postharvest management. Funding would be provided to adopt/ disseminate new varieties/technologies. This sub-component would also finance the efforts to empower and organize the farmers into producers groups through community consultations and development activities.

Business Development Services - Support would be provided to FOs/ rural enterprises on all aspects of managing their business affairs including business planning, accounting and auditing practices, loan applications, etc. Training would be facilitated though the recruitment of local business development service providers (NGOs, agri-universities, bigger FOs, etc.) who would train the FOs. The sub-component would also provide support to FOs to prepare their investments/business plans for submission under the project to avail of the matching grants, either solely or jointly with a private enterprise as part of a productive alliance.

Land Tenure Improvement Services - The lack of clear land ownership rights could constitute a hindrance to farmers being able to maximize the full potential of any economic activity currently undertaken or those that may develop in the future. This sub-component would provide support to strengthen land tenure improvement services. More specifically, it would provide advisory and financial assistance to the FOs and other smallholders in the subdivision of their collective Certificates of Land Ownership Award (CLOAs), land surveys, demarcation of plots, and titles registration. In addition, the project will support the DAR to strengthen its land tenure improvement program through conduct of policy studies, identification of new land tenure instruments and conduct of pilot activities to clarify succession planning for inter-generational land transfer, avoid land fragmentation and enhance the likelihood of longer term productive land use.

Possible intermediate outcome indicators for Component I include:
1) Number of farmers accessing appropriate technical services.
2) Number of business development service providers that provide training in enterprise building, financial education, and operational management.
3) Number of collective CLOAs processed.

Component II: Investments in Productive Partnerships

Market Forum Facilitation - This subcomponent would support information and communication campaigns activities to introduce scaling up programs and productive partnership alliances initiatives. These campaigns would highlight the mutually enhancing benefits of increased public-private-cooperation in order to strengthen the competitiveness of the agriculture sector. Calls for proposals and wide dissemination of the productive partnership’s operational procedures associated with the provision of project support would also be undertaken. In addition, an active networking and match-making effort would be supported to reduce the search costs for farmer organizations and agribusinesses in identifying suitable partners, and to assist partnerships in finding public and private service providers and other support institutions.

Productive Partnerships Sub-projects - This sub-component would support the establishment of productive partnerships between FOs exclusively, including their members, or with private agribusiness enterprises. The aim would be to develop a long-term, voluntary and commercial relationship and implement a detailed partnership/enterprise business and investment plan that would help the participating partners to improve their competitiveness in terms of price, cost of production, productivity, quality and sales volume. It would also build on and expand successful value chain partnerships between farmer groups and agribusinesses, helping them to broaden their activities, outreach and impact. Value chains that are eligible for scaling-up could be pre-determined or could be allowed to surface naturally through the competitive selection process.

Sub-projects support would be provided on a matching grant basis for eligible expenditures, including advisory services and training in support of FOs and the respective agribusiness partner, as well as goods, materials and works to allow for improved production and post-harvest management to be undertaken by FOs, all on an incremental basis. Matching grants would be allocated on the basis of a competitive selection process utilizing transparent appraisal procedures specifically designed and established under the project to result in the selection of commercially viable partnership/enterprise business plans. Sub-projects would be demand driven and could include production facilities (nurseries, green houses), value addition investments (post-harvest, storage, and small scale processing), and other priority rural infrastructure specific to the productive partnerships investments and to local agribusinesses.

Technical Assistance - This sub-component would finance technical assistance to conduct feasibility studies, including market analysis specific to agribusiness partnerships. It would also provide technical assistance to market partners to mitigate the relatively higher costs and risks associated with entering into financing and marketing arrangements with small rural producers.

Possible intermediate outcome indicators for Component II include:
1) Number of FOs linked to viable/commercial value chains.
2) Number of productive alliances formed.
3) Volume (or incremental increase in volume) of sales of FOs to markets.

Component III: Project Management, Monitoring and Evaluation

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The purpose of this component is to provide support to the project implementing agencies at central, regional, and provincial levels in project management, financial management, procurement, social and environmental safeguards, monitoring and evaluation, and impact assessment. The component would also finance: (a) training of Project Management Office (PMO) staff and partner line agencies on productive partnerships; and (b) studies related to the DAR's program, productive alliances, agricultural marketing or other areas of interests.

Possible intermediate outcome indicators for Component III include:
1) Number of person-days of training provided to project PMO staff and partner line agencies (including women).
2) Number of policy studies undertaken.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	**Yes**	**No**	**TBD**
Environmental Assessment OP/BP 4.01	✕		
Natural Habitats OP/BP 4.04		✕	
Forests OP/BP 4.36		✕	
Pest Management OP 4.09	✕		

Physical Cultural Resources OP/BP 4.11		×	
Indigenous Peoples OP/BP 4.10	×		
Involuntary Resettlement OP/BP 4.12	×		
Safety of Dams OP/BP 4.37		×	
Projects on International Waterways OP/BP 7.50		×	
Projects in Disputed Areas OP/BP 7.60		×	

V. Financing (in USD Million)

Total Project Cost:	231.72	Total Bank Financing:	100.00
Financing Gap:	0.00		

Financing Source	Amount
Borrower	131.72
International Bank for Reconstruction and Development	100.00
Total	231.72

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