PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC19681

Project Name	PEACE Financing Facility (P153153)
Region	EAST ASIA AND PACIFIC
Country	Philippines
Sector(s)	General agriculture, fishing and forestry sector (50%), Agro-industry, marketing, and trade (50%)
Theme(s)	Rural services and infrastructure (80%), Rural non-farm income generation (20%)
Lending Instrument	Investment Project Financing
Project ID	P153153
Borrower(s)	Government of the Philippines
Implementing Agency	Land Bank of the Philippines
Environmental Category	F-Financial Intermediary Assessment
Date PID Prepared/ Updated	23-Jun-2015
Date PID Approved/ Disclosed	24-Jun-2015
Estimated Date of Appraisal Completion	15-Sep-2015
Estimated Date of Board Approval	22-Dec-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Strong fundamentals have enabled the Philippines to record respectable growth in recent years, despite the global slowdown. The Philippines has benefited from strong macro-economic fundamentals, manifested by low and stable inflation, falling debt ratios, healthy current account surpluses, high international reserves, and a stable banking sector. While performance has historically lagged behind its neighbors, it is now considered a high performer in the region. Growth in the Philippines has been averaging at about 5 percent since 2002, significantly higher than the rate achieved in the previous two decades. Amid global uncertainties and a string of calamities that hit the country, the economy posted 7.2 percent GDP growth in 2013, driven by the robust services and industry sector, and boosted by strong household consumption and government spending. While growth slightly declined in 2014, growth continues to be higher than the previous decade’s average and within the East Asia regional average.

The Philippines has restored stability and proved resilient to food and fuel price hikes, the global financial crisis and recession, and the impact of typhoons and El Niño. Following typhoon Haiyan and the Bohol earthquake in 2013, the government initiated reconstruction efforts in the affected communities. The country meanwhile continues to enjoy investment grade ratings from major credit raters for the economy’s strong performance and the government’s sound fiscal management. Stable remittances have provided a strong basis for currency stability and a healthy buildup of international reserves. The country currently enjoys a savings rate that exceeds investment, while its human resources continue to be in high demand around the world.

High economic growth in the Philippines over the last decade did not translate into poverty reduction. While the latest official poverty statistics show a 3 percentage point decline in the national poverty in the first semesters of 2012 and 2013, from 27.9% to 24.9%, it continues to be high at 24.9% (equivalent to about 24 million Filipinos). The overall 7.2 percent GDP growth in 2013 and about 6% growth in 2014 mask the variation in regional GDP growth. Likewise, overall poverty of 25% does not really reflect the severity of the problem in some regional pockets in the Philippines. The April 2014 Philippine Development Plan (PDP) 2011-2016 Midterm Update highlights the spatial dimension of poverty, focusing government interventions on provinces chosen by the number of magnitude of poverty, the provincial poverty incidence, and the province's vulnerability to natural disasters, with the type of intervention determined by the type of poverty or vulnerability.

Sectoral and Institutional Context

The Autonomous Region in Muslim Mindanao (ARMM) is located in the Mindanao island group. With about 3.5% of the Philippine population, its economy contributed less than 1% to the country GDP and its per capita GDP is the lowest of any region in the country. Economic growth has lagged, and in 2011, when the Philippine GDP grew at 3.6%, the ARMM economy actually contracted by 1%. The decades-long conflict-affected ARMM is the poorest region in the country, with poverty incidence at 52.9% compared to 27.9% nationally. Poor education and limited economic opportunity has led to widespread unemployment, leaving young men in particular vulnerable to recruitment by armed groups.

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In October 2012, the government signed a Framework Agreement with the Moro Islamic Liberation Front (MILF). The Agreement lays out a process to establish "the Bangsamoro", a new autonomous political entity to replace the Autonomous Region in Muslim Mindanao and finalize a peace agreement with the MILF. It is hoped the Agreement will meet the demands of the Muslim population for genuine autonomy and contribute to improved security. The Comprehensive Agreement on the Bangsamoro way signed on March 27, 2014, and the Bangasamoro Development Plan which sets strategic directions for the development of the Bangsamoro, was presented at the November 2014 Philippines Development Forum. Two critical steps remain on the road map to establishing the Bangsamoro entity: the passing of the new Bangsamoro Basic Law (which was submitted to the Philippine Congress in September 2014) and its ratification in a plebiscite.

The 2011 World Development Report: Conflict, Security and Development (WDR), concludes that in addition to “strengthening legitimate institutions and governance to provide citizen security and justice”, creating remunerative jobs is crucial to break cycles of violence. This view is also espoused by the Bangsamoro Transition Commission (BTC) which has reiterated that: (a) private investment in business activities on the scale needed to ensure robust and sustainable growth will not be forthcoming until the security of personnel and assets can be assured; (b) employment creation is an extremely important instrument in restoring law and order, in particular, for the effective re-deployment of MILF combatants and members of private militia and resettlement of displaced communities; and (c) efforts have to be made to encourage private investment for the creation of jobs and income earning opportunities during this transition period.

While a portion of the Bangsamoro poor may get subsumed in subsistence farming, aquaculture or other micro-scale activities, a large portion of the predominantly unskilled and mostly illiterate workforce will need to be deployed in large private sector enterprise jobs to lift families out of extreme poverty. Also while private corporate investments in major projects could be crucial, these would not be the only principal drivers of high and inclusive growth. Currently, there are few large-scale plantations, and economic activity in the ARMM is dominated by micro and small-scale enterprises, reflecting the uncertainties and risks posed in a conflict-affected region. These enterprises are primarily engaged in activities related to the existing resource base (agriculture, fishing, aquaculture, forestry, trade), and operate in both the informal and formal sectors.

Any strategy for creating jobs and income generation opportunities would need to have at least three key components: (a) supporting large private corporate investments; (b) encouraging the micro, small and medium enterprise sector; and (c) providing an opportunity to agriculture producers and fisherfolk to organize and operate at scale through producers' organizations or forming cooperative alliances.

Several studies have identified a number of constraints (apart from lack of peace and order) that deter private sector investment in the Bangsamoro area, notably: (a) difficulty of access to large tracts of land; (b) working through the complicated and feudal social structure; and (c) inadequate long term and concessional financing considering the longer gestation period of some of the plantation crops and the need to invest in in-estate infrastructure.

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Some large private sector firms with operations in the ARMM area have demonstrated that doing business in the region is indeed possible. The problems of security and constraints to land access were creatively addressed by forging local partnerships, and entering into contract growing or leasehold agreement with small and medium-sized landowners and/or securing exemption from Comprehensive Agrarian Reform Program coverage. Inadequate infrastructure issues (for example, power supply) were addressed by incorporating these into the project scope (captive power generation) which resolved the constraint but escalated the investment cost.

Access to basic financial services in Bangsamoro is practically non-existent. About 93% of cities and municipalities in ARMM and 89% in Bangsamoro are unbanked – representing the highest percentage of unbanked regions in the country. Only 20 bank offices operate in ARMM and 59 in Bangsamoro. Based on a 2010 representative survey by the World Bank and the World Food Programme, none of the respondents in the ARMM island provinces borrowed from a bank and only 1% did in Maguindanao.

The Philippine banking system deposits are predominantly short-term in nature, and cannot be deployed for longer term loans with extended grace periods to match the gestation period of some of the tree crops that interest the private sector. Further, the relatively high cost of funds to the banks makes it impossible for them to offer such loans (if at all) at concessional rates. This market failure clearly establishes the need for a concessional financing facility to attract private sector investment in the region.

The proposed project, therefore, expects to create jobs and income generation opportunities in Bangsamoro by extending a concessional financing facility through the LBP to finance large private corporate firms; cooperatives, producers' organizations, and private anchor firms; and micro, small and medium enterprises. The financing would support agriculture, aquaculture, agri-business and related services, the core sectors where the region has a solid comparative advantage.

Relationship to CAS

The goals of the 2015-2018 Country Partnership Strategy (CPS) for the Philippines are to reduce poverty, promote shared prosperity, and support inclusive growth. These goals are in line with the focus of the Government's Philippine Development Plan 2011-2016 on inclusive growth, defined as poverty reduction in multiple dimensions and massive creation of quality employment as the desired outcome, as well as with the WBG's goals of eliminating extreme poverty by 2030 and supporting shared prosperity.

The CPS is organized around the five key results areas of the Administration's Social Contract: (a) transparent and accountable government; (b) empowerment of the poor and vulnerable; (c) rapid, inclusive and sustained economic growth; (d) climate change, environment, and disaster risk management (DRM) and environmental protection; and (e) peace, institution-building, and social and economic opportunity.

The project is fully aligned with the CPS Engagement Area 5: Peace, Institution Building, and Social and Economic Opportunity. It will create jobs and income generation opportunities to rehabilitate the local poor population, ex-combatants, and the internally displaced persons to support peace and security in Bangsamoro. It also contributes to CPS Engagement Area 3: Rapid Inclusive and Sustained Economic Growth. It will provide credit to micro-, small and medium enterprises, afford access to formal financial services to some of the poorest in the lower 40% of income distribution and to agri-firms, and support large private sector investments in agriculture and agri-business sector in Bangsamoro. Also, this project falls under one of the key focus sectors highlighted for IBRD, IFC and MIGA transformational engagement in agri-business (with initial focus on Mindanao/Bangsamoro).

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II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The PDO will be to generate investment in agriculture and agri-business related activities to create sustainable jobs and income generation opportunities in Bangsamoro.

Key Results (From PCN)

- total loans provided for sub-projects financed – US$265 million
- investment generated in the region through project sub-loans – US$332 million; and
- number of new, direct and permanent jobs created and beneficiaries supported through project-financed sub-projects – about 45,000.

III. Preliminary Description

Concept Description

A. Lending Instrument

The proposed lending instrument is the Investment Project Financing (IPF). The IBRD loan would be made to the Land Bank of Philippines (LBP) with the Government of Philippines providing the sovereign guarantee. LBP would also be the on-lending agency, and would offer financing in accordance with the on-lending terms to end-borrowers for sub-projects that meet the eligibility criteria.

The total project cost is estimated at US$332 million. The tentative financing requirement for the proposed project is estimated at US$272 million, of which the Bank has proposed to financeUS$136 million with the remainder to be financed by another donor. This will be confirmed during preparation. The project period is expected to be five years.

B. Project Components

B1. Tentative Description of Component 1: Investment Development Fund (US$265 million)

The proposed project will provide a line of credit to LBP at a concessional rate to on-lend to eligible sub-borrowers, directly or through accredited conduits. Sub-loans would be demand-driven and made to end-borrowers meeting a set of predetermined eligibility criteria.

Eligible End-borrower Categories. Three main potential categories of sub-borrowers have been identified at this stage:

(a) Large Private Corporations
(b) Cooperatives (Producers' Organizations) and private anchor firms
(c) Micro, Small and Medium Enterprises

B2. Tentative Description of Component 2: Capacity Building, Institutional Development, M&E

This component would consist of the following activities:

(a) Capacity building of Cooperatives (producers' associations/organizations).
(b) Deepening outreach and access to financial services.
(c) Monitoring and Evaluation.
(d) Strengthening LBP safeguards department capacity, particularly social safeguards.

C. Tentative Project Implementation Arrangement

The proposed project would most likely be implemented by LBP through its existing organizational structure. A Project Management Office (PMO) would be established under the Programs Management Department of the Programs Management Group. The PMO would be responsible for inter-departmental co-ordination within LBP to ensure smooth implementation of the project, including generating periodic progress reports. The implementation of the project will be guided by a project-specific Operating Policy Guidelines to be prepared by LBP.

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:	332.00	Total Bank Financing:	136.00
Financing Gap:	0.00		

Financing Source	**Amount**
Borrower	60.00
International Bank for Reconstruction and Development	136.00
Bilateral Agencies (unidentified)	136.00
Total	332.00

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