



1. Project Data :		Date Posted : 06/29/2000	
PROJ ID: P004614 OEDID: L3938		Appraisal	Actual
Project Name : Second rural finance	Project Costs (US\$M)	262.7	262.9 (latest estimate)
Country : Philippines	Loan/Credit (US\$M)	150	150
Sector, Major Sect .: Agricultural Credit, Agriculture	Cofinancing (US\$M)		
L/C Number : L3938; L3939; L3940			
	Board Approval (FY)		96
Partners involved :	Closing Date	06/30/2002	06/30/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
Madhur Gautam	Ridley Nelson	Ridley Nelson	OEDST

2. Project Objectives and Components

a. Objectives

The project sought to expand the volume of medium and long term commercial credit to agriculture and rural development in the Philippines and to enhance the policy framework of the rural financial sector by (a) supporting the development of two funds at the Land Bank of Philippines (LBP) to finance private sector investments in the rural areas; (b) strengthening LBP as the main wholesale financial institution serving rural areas; (c) upgrading the operational capacity of rural cooperatives, Participating Financial Institutions (PFIs) in rural areas.

b. Components

(a) Credit: to provide medium and long term loans for private investments in agricultural and other viable rural operations for a broad spectrum of agricultural and non -farm rural activities. The credit operation would be determined by market forces, with no earmarked allocations by crop or type of investment and would bear a market determined interest rate. This was to be effected through two funds: the Country Side Loan Fund (CLF) and the Retail Cofinancing Fund (RCF), the former to be wholesaled to PFIs by LBP and the latter for LBP to retail directly. Due to the non-disbursement of the RCF, the component was revised with \$ 40 million of the original \$60 million reallocated to the CLF and the terms for the remaining RCF altered to make them more attractive for disbursement. (b) Institutional Strengthening Program: to strengthen the LBP financially and organizationally to ensure its sustainability in providing financial services to the rural population. The component consisted of implementation of an Institutional Strengthening Action Plan (ISAP).

c. Comments on Project Cost, Financing and Dates

The project funds are over 90% disbursed, and the remaining funds are expected to be fully dispersed well before the original closing date of June 30, 2002.

3. Achievement of Relevant Objectives :

This section is based on the findings of a recent performance audit by OED of this project and the ICR. The project succeeded in financing, at a pace substantially more rapid than anticipated at appraisal, a number of profitable and economically viable investments through the CLF. A debatable issue is the additionality of project funds, as discussed in the audit report, the ICR, and the borrower's contribution to the ICR. Since the sub-projects financed were profitable, it is highly likely that these could have been financed even without the project. However, whether or not the project assisted in providing additional investible resources cannot be established with certainty. The East Asia Region maintains the project had positive additionality (see region's comments attached to the PAR). As discussed in the PAR and in its response to the region, however, OED maintains that this cannot be positively established with the available data. The project did achieve its objectives of strengthening the LBP's operational capabilities, and to a limited extent, the PFIs implementing the credit component. The objective of upgrading the operational capacity of rural cooperatives or improving the performance of LBP's agrarian portfolio was less successful. However, despite the direct benefit to LBP's operational capacity, it could face potential problems in the future from policies beyond the LBP's control which would have an impact on its long run sustainability. The project had no explicit social objectives, although it did hope to contribute to poverty alleviation through job creation in rural areas (broadly defined as anything outside Metro Manila). The ICR notes that over 10,000 jobs were created, however, this could not be verified for lack of proper follow up by LBP.

4. Significant Outcomes /Impacts :

The project significantly improved the LBP's capacity to implement wholesale lending, as well as contributed to its institutional development. The credit component was well implemented with disbursements well ahead of schedule, financing economically viable investments and achieving a highly satisfactory recovery rate . The project also succeeded in distancing the LBP from the Agrarian Reform Fund (ARF), which was a serious threat to its future viability, by removing ARF assets and liabilities outside of LBP balance sheet, and by converting the original Land Reform Bonds issued in LBP's name to National Government Bonds . So far the project conditionalities have succeeded in restricting LBP dividends to real, as opposed to government mandated nominal, profits .

5. Significant Shortcomings (including non -compliance with safeguard policies):

External policy issues were not fully addressed by the project . Some policies pose potential problems for LBP's long run operations, as for example, keeping agrarian lending rates low, failure to permanently resolve the issue of burdensome dividend payments (which are currently addressed on an ad hoc annual basis), and the current negotiations by the government with other donors on subsidized credit lines which would substantially weaken LBP's competitive position. These actions and policies reflect a lack of appreciation on the part of the government that financial liberalization goes beyond decontrolling interest rates . The RCF component was not successful, largely as a result of conditions that made RCF funds unattractive .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Modest	The LBP continues to face problems, which have been kept at bay during the project lifetime by covenants, but could potentially undermine its future viability and development.
Sustainability :	Likely	Likely	The region maintains that project outcomes are highly likley to be sustained. However, for reasons given in section 5, OED rates sustainability as likely. The region disagrees with OED on the ratings. See the comments from the region in the PAR and OED response .
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

1. Project focus should be as narrow as possible to achieve project objectives, however, it should be broad enough to include elements that may be important for long -run sustainability .
2. Financial liberalization is not just decontrolling interest rates, but also involves attention to policies fostering competition and innovation and promoting a level playing field for all financial institutions .
3. It may be difficult to make project objectives such as environmental protection and poverty alleviation through rural job creation consistent with a market-based, demand driven allocation of credit .

8. Audit Recommended? Yes No

Why? The project has already been audited .

9. Comments on Quality of ICR :

The ICR is satisfactory . It covers the main issues well but could have focussed more on the major policy issues affecting LBPs operating environment .