

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA8374

<b>Project Name</b>	Philippine Rural Development Program (P132317)
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Philippines
<b>GEF Focal Area</b>	Multi-focal area
<b>Sector(s)</b>	General agriculture, fishing and forestry sector (50%), Rural and Inter-Urban Roads and Highways (40%), Irrigation and drainage (10% )
<b>Theme(s)</b>	Rural services and infrastructure (40%), Climate change (20%), Rural markets (20%), Decentralization (10%), Rural non-farm income generation (10%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P132317
<b>Borrower(s)</b>	Department of Finance
<b>Implementing Agency</b>	Department of Agriculture
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	10-Jun-2014
<b>Date PID Approved/Disclosed</b>	26-Feb-2013, 27-Feb-2013, 17-Jun-2014
<b>Estimated Date of Appraisal Completion</b>	30-May-2014
<b>Estimated Date of Board Approval</b>	29-Aug-2014
<b>Decision</b>	The Bank Task Team was authorized on December 18, 2012 to proceed with the appraisal of the Project. Appraisal of the Project commenced in February 2013 and was concluded in May 2014.

**I. Project Context**  
**Country Context**

1. Despite growing urbanization, 51% of the population of the Philippines remains rural. The contribution of the collective agribusiness sector accounts for 35% of the economy and about 50% of the labor force. However the Philippine rural economy has been characterized for many years by the low income levels of primary producers, low levels of rural employment, lack of food security, weak agricultural competitiveness and an overall high level of rural poverty.

2. Sector growth accelerated after 2001 following a period of protracted stagnation as real agriculture value-added grew at 3.7% per annum over the period 2000-2007. However, from 2008-2010, it fell to less than 1%, before increasing to 2.5% in 2011 and 2.23% in 2012. The first nine months of 2013 have shown a downward trend again (only 1.1% sector growth) due to the

severe devastations brought about by various strong typhoons. While the sector has not been the driver of overall growth, it has great potential for making the overall pattern of economic growth in the Philippines to be more inclusive. A key issue however has been the eroding competitiveness of the Philippine farm sector where the share of agricultural gross value added that is exported has declined.

3. The underlying reasons for the relatively poor performance of the sector have been extensively studied. Poorly developed infrastructure for transport, particularly roads, port facilities and inter-island shipping head the list of constraints. About half of rural villages in the country lack all-weather access to the main transport system. The spread of modern agricultural technology has also been constrained by a weak extension system and high costs of inputs. As a result, yields of most crops are well below potential. High post-harvest losses further reduce productivity. Market assistance has also been limited, contributing to poorly developed value chains for many commodities, while product standards and quality systems have been ineffectively regulated. The result has been an under-investment by the private sector in agriculture.

4. Related concerns have been that while some Philippine agriculture products have performed well in export markets and have significant revealed comparative advantage (i.e., bananas, papayas, mangoes, pineapple, fruit products, coconut products, abaca, sugar, and fresh vegetables), their production areas are disproportionately small. The concentration on traditional crops, especially rice and corn, along with the declining factor productivity has resulted from past government policies through which (i) rice self-sufficiency has been the priority, with inadequate resources given to other commodities; (ii) production subsidies (fertilizer & seeds) have been emphasized, with inadequate attention to increasing access to markets, improving farm incomes and food supplies; and (iii) the strategic network of infrastructure needed to support commodity value chains has not been prioritized. However, considerable policy and strategic reforms have been introduced since 2010 that provide the basis on which the proposed PRDP has been designed.

5. The Philippines must also contend with the continuing degradation of its natural resources. It has experienced one of the highest rates of biodiversity loss with 284 species considered endangered. Coastal and marine resources continue to be degraded with less than 3% of the coral reefs still in excellent condition. Only 5% of mangrove cover is “old-growth”. Although the Philippines has established approximately 1,300 marine protected areas (MPAs), only 10 to 15% are managed properly. In responding to this, a number of strategies have been adopted, notably the 2006 Executive Order 533 adopting Integrated Coastal Management as a national strategy and Executive Order 578 which established the national policy for biological diversity. The Updated Philippine Development Plan also emphasizes the need to support community-based efforts for protected area and coastal resource management.

6. Compounding the environmental degradation is the damage caused by frequent destructive weather conditions, which over the past decade resulted in losses averaging US\$ 500 million annually. This excludes the devastating damage and losses caused by Super-Typhoon Yolanda (International name Haiyan) which struck the Central Philippines during the period of project appraisal (November 8, 2013). Some 600,000 hectares of agricultural lands were affected of which coconut accounted for 73% of the area, rice 16% and corn 4%. Crop and fishery losses are estimated at PhP31 Billion including PhP4 Billion damage to irrigation and agricultural infrastructure. As a result, significant losses in rice production are expected in 2014 due to damaged paddy fields, irrigation systems, limited availability of seed, loss of draught animals and tools,

inability to buy fertilizer and reduced availability of labor. Plantation development of coconut and other tree crops will take 6 to 9 years. Likewise, fisheries will take years to recover from loss and damage to boats, wharves, equipment, reefs and mangroves. Compounding all these, is the fact that the severely typhoon-affected areas were already among the poorest in the country in terms of family income, with poverty levels well above the national average. A major focus of PRDP will be directed to the rehabilitation of the productive capacity of agriculture and fishery sectors in these affected areas. With the Philippines being ranked high among the major global climate hotspots, sea level rise, temperature increase, changes in rainfall patterns and increasing frequency and intensity of extreme weather events are seemingly now inevitable. Adding to toll on human lives and productive capacity has been the 7.2 earthquake that struck Bohol, also in Central Philippines, in October 2013 where total damages to livelihood and infrastructure amounted to some PhP1.6 billion. PRDP-supported activities would also be critical in rebuilding the agriculture and fisheries base of Bohol and other affected areas.

### **Sectoral and institutional Context**

7. For the agricultural sector, reforms under the current administration have been quite significant and provide a basis for a more programmatic engagement by the Bank than has been possible in the past. Previously, the Department of Agriculture (DA) followed “top-down” modalities without the active engagement of Local Government Units (LGUs) and stakeholders in planning or implementation. Although plans were routinely prepared by the DA Regional Field Offices (RFOs), these were often not supported through the budget process. Instead, interventions were determined by centrally managed programs supporting largely supply-driven commodity interventions providing fertilizers, seeds, planting material, animal dispersal etc. Integration between programs was often lacking.

8. The agricultural sector strategy (Agri-Pinoy) embodied in the Updated Philippine Development Plan (PDP) for 2011-2016, now advances the principles of inclusive growth, food staple sufficiency, natural resource management and area-based development. The over-riding strategy is Government's “Poverty Agenda” and focus of programs such as PRDP on raising incomes, particularly in rural areas where majority of the country’s poor live and depend upon agriculture and fisheries for their livelihoods. The Government has developed several poverty tools and programs to better target poor households. Complementing this poverty agenda, Agri-Pinoy also includes strategies to: (i) institutionalize regionally-based, spatial planning (ii) develop a systems approach for both planning and resource allocation; (iii) provide the critical infrastructure needed by priority value chains; and (iv) building a more resilient production base to accommodate fluctuations in global markets and effects of climate change (i.e., through climate-smart agriculture). The National Climate Change Action Plan (NCCAP) also highlights the priority to be given to the rural sector in pursuing climate adaptation measures. All these have been taken into consideration in the design of how to better prioritize PRDP interventions to targeted beneficiaries and areas.

9. Implementing the Agri-Pinoy sector strategy will require a significant shift from DA’s “top-down” business practices of the past. In response to this, the Department of Agriculture has initiated an Agriculture and Fisheries Modernization Planning process (AFMPs) through which strategic objectives are now formulated at the national level and translated through regional AFMPs into programs responsive to area-specific needs. This devolved planning and programming is backed up by budget reforms being implemented by the Department of Budget and Management (DBM). A

central goal of the AFMP is to raise rural incomes, create employment and improve the competitiveness of the agriculture and fisheries sector. The strategy to achieve this would be through a value-chain, market-oriented and integrated service delivery approach. The strategy also recognizes that diversifying small-scale producers from traditional commodities to higher value commodities with established comparative advantage involves a number of institutional and structural rigidities that will take time and significant public and private resources to achieve. The new focus is to provide catalytic investments to spur economic development through critical rural infrastructure that has constrained the development of value chains, and to support the clustering and vertical and horizontal integration of small-scale producer groups and associations with those involved in agro-processing and marketing.

10. The PRDP has been designed to support both the institutional reforms outlined above, as well as the infrastructural and technological interventions needed to underpin the transformation of the sector's large number of small-scale producers to become more market-oriented and vertically-integrated with agri-business. The focus is on income generation and employment creation through the targeting of small-scale agricultural, livestock and fishery producers throughout the country with the potential to increase their productivity, but who lack the capacity to do so because of factors such as poor access to markets, lack of timely market information, inefficient post-harvest handling, dependence on intermediary traders, small volumes, inadequate finance, outdated production technology and unfamiliarity with benefits from improved, climate-smart technology. As such, the PRDP complements such programs as the NCDDP, CCT and BUB which target the most marginalized and most vulnerable of the poor through various social protection and community empowerment programs. The PRDP would be a flagship program of the DA and be implemented nationwide. It would be implemented through DA's existing units and agencies wherein staff capacity exists, although training and reorientation will be needed.

11. Through the PRDP, the DA will be able to engage more effectively with the poorest producers/smallholders within the areas which have been determined to be relevant for the development of commodity value chains in the agricultural and fisheries sector. The subsequent implementation of the PRDP would also benefit from the ongoing strong collaboration between the Bank and the IFC on the World Bank Group's Joint Agribusiness Agenda which would help facilitate better synergies between public institutions and private sector entities in this development agenda.

12. As part of a comprehensive approach, GEF funding will provide support to critical areas which have a significant link to a commodity value chain and promote biodiversity conservation activities. The GEF grant would finance biodiversity and coastal resource management in PDRP areas where there is a need for more attention to conservation and where opportunities exist for enhancing integrated coastal management interventions and catalyzing their broader application and adoption. This would complement existing strategies and plans implemented by the country and would contribute to achieving sustainable development in the rural areas.

13. The design of PRDP draws on two Bank supported Rural Development Projects in Mindanao (MRDP 1 and 2); a program that has been successfully implemented over the past decade. In many respects, the design and approach of PRDP has included refinements based on lessons learned from the MRDP experience. The design also incorporates international experiences and lessons (e.g., from China, Indonesia, India & Latin America). Important design aspects gleaned from local and other country development experiences are that while the merits have been well established for supporting agricultural development in a devolved manner with community (bottom-up)

participation in the selection and location of investments, there is also a need to be strategic in how such investments are made. PRDP would continue the substantial rural infrastructure program being supported under MRDP2 in Mindanao and expand this to other areas of the country. Economic Internal Rates of Return for such infrastructure based on the MRDP2 experience are in the range of 34% for rural roads, 27% for irrigation and 39% for potable water supplies. Through a joint DA-DPWH Memorandum No. 1, July 18, 2013, reforms would be introduced to strengthen the transparency and accountability for selection, construction and maintenance of farm-to-market roads, including an upgrading of design standards, planning and technical oversight by DPWH. A comprehensive mid-term evaluation of the effectiveness of the rural road implementation under the Infrastructure Development component would be an integral part of the project's monitoring and evaluation system, in support of Government's strategy of strengthening convergence between the DA, DPWH, and other related agencies on standards and protocols for rural road construction and rehabilitation. To improve planning and monitoring under PRDP, there would be systematic geo-tagging and geo-mapping of all infrastructure with overlays showing agricultural and fisheries potential, climate vulnerability, socio-economic, poverty and market linkages. All other DA programs supporting infrastructure development have already been directed to follow the procedures and standards to be implemented under PRDP.

14. Strategic Context: The overall goal of the WBG's Philippines Country Partnership Strategy for FY15-18 is inclusive growth through poverty reduction and shared prosperity, which is consistent with the Updated PDP's goal. The PRDP's link to the strategy is through support under Engagement Area 3 on "Rapid, Inclusive and Sustained Economic Growth", particularly in terms of helping increase economic growth, productivity and jobs in rural areas through its various interventions.

## **II. Project Development Objective(s) / Global Environmental Objective(s)**

### **A. Project Development Objective(s)**

The PRDP aims to increase rural incomes and enhance farm and fishery productivity in targeted areas.

The Project will promote more inclusive rural development by supporting smallholders and fishers to increase their marketable surpluses, and their access to markets. The PRDP would also support changes in the planning, resource programming and implementation practices of the Department of Agriculture. It will facilitate the integration and financing of priority local investments derived from the DA's agricultural and fisheries modernization plans which have been developed using a value chain approach, and through a consultative process with local stakeholders.

The results indicators for the Program are: (a) at least five (5) percent increase in annual real household incomes of farmer beneficiaries and 30% increase in incomes for targeted beneficiaries of Enterprise development, (b) seven (7) percent increase in value of annual marketed output, and (c) twenty (20) percent increase in the number of farmers and fishers with improved access to DA services.

### **B. Global Environmental Objective(s)**

The Global Environment Objective (GEO) is to strengthen the conservation of the coastal and marine resource base in targeted program areas through biodiversity conservation and fisheries resources management. This would be achieved through (i) enhancing institutional and planning capacities of LGUs and communities, (ii) providing support to MPAs in particular areas of global

biodiversity significance and select fishery co-management arrangements, and (iii) sharing of knowledge and best practices.

### III. Project Description

#### Component Name

Component 1: Local and National Planning (US\$14.29 M equiv. IBRD&US\$1.40 M equiv. GEF grant)

#### Comments (optional)

- a) Subcomponent 1.1: Enhancing the AFMPs Process (\$11.61 M IBRD and US\$1.40 M GEF grant)
- b) Subcomponent 1.2: Supporting AFMP Implementation (\$2.68 M IBRD)

#### Component Name

Component 2: Infrastructure Development (US\$361.71 M IBRD)

#### Comments (optional)

- a) Sub-component 2.1: Value Chain Infrastructure Support (US\$354.47 million IBRD)
- b) Sub-component 2.2: Approaches for Improving the Effectiveness and Sustainability of Infrastructure Investments (US\$7.23 million IBRD)

#### Component Name

Component 3. Enterprise Development (US\$100 M IBRD and US\$5.60 M GEF grant)

#### Comments (optional)

- a) Subcomponent 3.1: Rural agri-fishery enterprise and productivity enhancement (estd. US\$90 M IBRD and estd. US\$3.36 M GEF)
- b) Subcomponent 3.2: Technology and Information for Enterprise and Market Development (US \$10M IBRD and US\$2.24M GEF)

#### Component Name

Component 4: Program Support (US\$24M IBRD)

#### Comments (optional)

This would support the day-to-day coordination, implementation, monitoring and evaluation of the PRDP across each of the 16 regions of the country. Technical assistance, training, workshops, equipment and incremental operating costs would be supported.

### IV. Financing (in USD Million)

Total Project Cost:	671.59	Total Bank Financing:	501.25
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
Borrower			163.34
International Bank for Reconstruction and Development			501.25
Global Environment Facility (GEF)			7.00
Total			671.59

### V. Implementation

PRDP would be implemented over a six-year period. It covers the entire country comprising 16 Regions. However in light of the natural disasters that impacted the Central Philippines during 2013, it is expected that a portion of the Bank loan will be used to support the recovery of the agriculture

and fisheries sectors in the affected areas. The Office of the Undersecretary for Operations would have overall management responsibility. A National Program Advisory Board (NPAB) is being established, and is being complemented by Regional Program Advisory Boards (RPABs) in each of regions. The project components are interlinked and mutually reinforcing. The Local and National Planning Component would be implemented by the DA regional planning units. Infrastructure investments would be managed by Provincial LGUs with technical back-stopping from the RPCO and PSO. Enterprise development by small scale producers, as well as broader technical support services would be managed by the Provincial LGUs with backstopping from technical agencies of the DA as well as other service providers, based on suitability. The RPCOs, generally under the leadership of the Regional Technical Director for Operations, would be responsible for coordinating inputs from DA Technical Agencies and other public and private sector providers, in supporting the implementation of the various Infrastructure and Enterprise subprojects of the PLGUs. Overall implementation support would be done under the Program Support Component through the PSOs for Mindanao, Visayas and Luzon and coordinated through the National Program Coordinating Office (NPCO). The PSOs will provide oversight and technical support to the RPCOs, including final review of subproject proposals and safeguard requirements. Institutional assessments have been undertaken of the capacity of DA RFOs and LGUs in the typhoon- affected areas to carry out the project. Agreements have been reached on a number of short to medium term measures to facilitate implementation. While the assessments largely show capacity per se has not changed, the increased demands on staff time in responding to recovery and reconstruction needs will be a constraint at least in the early years of the project. To accommodate this, the project would provide for the contracting of service providers (including from outside the region) to meet specific project needs and enhanced procurement and financial management support. Other short-term measures include the use of Rapid Market Assessments to identify priority commodities, rather than the more comprehensive Value Chain Analyses, and more flexibility in clustering of farmers for enterprise development support.

## VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	<b>x</b>	
Natural Habitats OP/BP 4.04	<b>x</b>	
Forests OP/BP 4.36	<b>x</b>	
Pest Management OP 4.09	<b>x</b>	
Physical Cultural Resources OP/BP 4.11		<b>x</b>
Indigenous Peoples OP/BP 4.10	<b>x</b>	
Involuntary Resettlement OP/BP 4.12	<b>x</b>	
Safety of Dams OP/BP 4.37	<b>x</b>	
Projects on International Waterways OP/BP 7.50		<b>x</b>
Projects in Disputed Areas OP/BP 7.60		<b>x</b>

**Comments (optional)**

## VII. Contact point

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