I. Introduction and Context

Country Context

The Philippines is a lower middle-income country with a population of 92 million, of whom about 26 percent are classified as poor (National Statistical Coordination Board, 2011). Although the country’s economy has grown by an average of 4.9 percent from 2000 to 2009, the incidence of poverty has actually stagnated or increased during that same period suggesting that growth is not sufficiently inclusive; the Gini coefficient remains in fact one of the highest in East Asia. Inequality also varies substantially across regions and particularly between urban and rural areas. Poverty rates in the latter remain stubbornly high. The Aquino administration seeks to address poverty through inclusive growth and good governance (2011-2016 Philippine Development Plan). The administration’s Social Contract with the Filipinos underscores the importance of agricultural growth as key to make growth more inclusive and generate employment opportunities. Increased investment in the sector and a concerted effort to support the modernization of the small farm sector are regarded as key drivers to achieve a higher sustainable growth rate in the agricultural sector.

Sectoral and Institutional Context

The Philippines' Agriculture and Fisheries Sector contributes to 18.4% of total GDP and 35% of total employment. It consists of about 4.8 million agricultural farms covering around 9.7 million
hectares. As a result of a progressive loss of competitiveness, the sector’s contribution to exports has suffered a structural decline over the last few decades. Agriculture’s growth (2.6% on average during the last decade) suffers from inefficient supply chain and logistics systems, inadequate access to irrigation, weak agricultural extension systems, and limited access to finance. Recent positive trends in yields have failed to reverse the stagnation of farm labor productivity; poverty remains high among farmers, having increased from 42.4% in 2003 to 44% in 2006.

A weak rural business climate, imperfect land markets, and the absence of risk mitigating institutions have contributed to reduce private investment in the modernization of Philippine’s agribusiness sector and the emergence of competitive value chains. Implementation of the Comprehensive Agrarian Reform Program (CARP) since 1989 has resulted, as of December 2010, in the distribution of about 4.273 million hectares of land and the creation of almost 2.495 million smallholders. The program’s extension until 2014 is expected to lead in principle to the distribution of additional 880,665 hectares. However, as of December 2010, only about 54% of the agrarian reform beneficiaries (ARBs) have so far been assisted in improving the productivity of their farms.

As a rapidly transforming country, the Philippines is characterized by a heterogeneous small farm sector. Subsistence farmers, semi-commercial and fully commercial farmers give rise to three different agricultural systems which can spatially separate or coexist depending on the local agro-ecological conditions, proximity to infrastructure or dynamic cities, and past involvement in agricultural development projects. Depending on which stage of this agricultural development ladder a farmer belongs to, different types of interventions are required to advance the modernization of the agricultural sector. The Gearing Rural Organizations for Wealth Creation (GROWTH) project targets farmers in the middle of the ladder, those that have entered the process of modernization but that still fail to develop secure market linkages. In that regard, the GROWTH project complements other interventions that target more explicitly marginal farmer communities.

Relationship to CAS

The modernization of smallholders, the strengthening of their linkages to markets, and their inclusion in the development of competitive value chains is a basic cornerstone of the Bank’s vision and strategic goal of a private-sector led and inclusive agricultural development in the Philippines. The GROWTH project is well aligned to the Bank’s Country Assistance Strategy goals of increased farm productivity, investment and rural employment and of an improved investment climate. It supports the Philippine Development Plan 2011-2016 objective of developing a competitive, sustainable, and technology-based agriculture sector that will contribute to inclusive growth and poverty reduction. More specifically, it will contribute directly to achieving the goal of transforming ARBs into profitable agribusiness.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project aims to reduce rural poverty by enhancing the competitiveness, sustainability, and inclusiveness of commodity value chains in targeted Agrarian Reform Community (ARC) clusters. Its Project Development Objective is to raise the farm productivity and household income of targeted Agrarian Reform Beneficiaries (ARBs) and smallholder farmers by empowering the beneficiaries and their organizations; facilitating and scaling-up the development of livelihood and agribusiness opportunities; and improving access to critical infrastructure and key support services.

Key Results (From PCN)
Progress towards the PDO will be monitored through the following results indicators: (i) increase in farm productivity of targeted beneficiaries; (ii) increased beneficiaries’ household income; (iii) number of productive partnerships between farmer organizations and the commercial private sector formed under the project; (iv) increased farm revenues; and (v) increased employment.

III. Preliminary Description

Concept Description

Farmer organizations in ARC clusters will be developing productive partnerships with the government and private sector through agribusiness development activities and competitive matching grants. The main implementing agency of the project is the Department of Agrarian Reform (DAR). The project will target 14 pre-identified clusters of ARCs located in 56 municipalities. About 55% of the 290,000 direct project beneficiaries will be ARB smallholders. The project consists of five components: (a) Participatory Development and Capability Building - will build the capacity of beneficiary smallholders and their organizations to plan and undertake more profitable, competitive and sustainable enterprises; (b) Productivity Improvement and Extension Systems - will support access by farmers’ organizations to advisory services and extension systems, develop linkages with research institutions to adopt and adapt appropriate technologies, and access business development services to develop agro-enterprises development plans and improve business and marketing skills; (c) Agribusiness and Rural Enterprise Development - will support productive agribusiness partnerships between farmers’ organizations and the private commercial sector through a system of competitive matching grants and support the creation of Local Agribusiness Forums involving value chain stakeholders; (d) Rural Infrastructure and Agribusiness Investment Climate Support - will provide key productive and market access infrastructure and establish mechanisms to lower the transaction costs faced by perspective agribusiness investors; and (e) Project Management and Facilitation - will cover the overall project coordination, supervision and monitoring and evaluation activities. The project has an estimated cost of US$124 million, including an IBRD loan of about US$95 million.

IV. Safeguard Policies that might apply

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V. Tentative financing

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Borrower  29.00
International Bank for Reconstruction and Develo  95.00
Total  124.00

VI. Contact point

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