

Executive Summary of Evaluation

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Background

In the Philippines, there are wide income disparities and 27.6 million Filipinos remain close to extreme poverty, living on less than USD 1.25 per day. Micro, small and medium enterprises (MSMEs) play a significant role as drivers of economic growth (95% of business enterprises in Philippines), yet there are barriers to entry and growth for entrepreneurs and small businesses. While the government has mobilized significant investments in infrastructure in recent years, there remains a very large backlog which hinders economic growth.

Agriculture is one of the most important sectors in the Philippines – representing 32% of land use; contributing to 10% percent of national GDP; and employing 31% of working Filipinos in 2013. However, the agriculture sector continues to experience declining productivity, efficiency and competitiveness, most significantly in crops where the Philippines has a comparative advantage. The Philippines Agribusiness Program can be seen as an effort to effectively respond to the decline in agricultural productivity and competitiveness.

The Philippines Agribusiness Program (2013-2017) supports the Government of Philippines in its effort to improve the productivity and the competitiveness of Filipino farmers and the agribusiness sector in order to ensure the sustainable economic development of rural areas in the Philippines. Canada, through the Department of Foreign Affairs, Trade and Development (DFATD), has contributed to over half of the funding for this Program of USD 14.5 million. In quantitative terms, the Program expects: to reach 60,000 (including 6,000 women) farmers; to increase investment in agribusiness by USD 120 million; to increase gross margins to farmers by USD 6 million per year; and, to reduce compliance cost leading to USD 6 million in private sector savings. In order to achieve these objectives the Program, implements five inter-related projects (Agri-Finance, Typhoon Index Insurance, Agri-Trade, PPP Grains and the Davao Sasa Port) which address market failures and system challenges to the competitiveness of the Philippines agribusiness sector.

Objectives

The overall objective of the Mid-term review (MTR) was to methodically assess the performance to date of the Philippines Agribusiness Program and the likelihood of achieving Program objectives by 2017. The MTR is intended to provide recommendations for mid-course corrections as required and to ensure the accountability of the International Finance Corporation (IFC) to the Program’s donors and stakeholders.

The MTR assessed the Program in accordance with Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/DAC) assessment and evaluation criteria of relevance, efficiency, effectiveness, impact, and sustainability. The MTR also addressed the cross-cutting criteria of gender equality and environmental sustainability.

Analysis

Relevance

The Agribusiness Program and its projects are highly relevant to the Philippines context and the needs of farmers and other value chain actors, in the light of continuing market failures. The projects address the needs and key challenges of farmers including: declining productivity and competitiveness; lack of training for farmers in modern farm practices and financial literacy; limited access to credit; the risk of disaster and damages to crops; poor infrastructure; demanding regulatory processes for quarantine; and, cumbersome licensing process in the domestic shipping industry. Overall, the Agribusiness Program supports the Government of the Philippines in its effort to improve the productivity and the competitiveness of Filipino farmers and the agribusiness sector in order to ensure sustainable economic development. The Program is well aligned to the Philippines Development Plan 2011-2016.

The project concept generation and design has not only taken into account the context in Philippines but also the IFC’s prior experience in Mindanao, coupled with expertise in the financial sector and global value chains. The IFC has forged credible partnerships for carrying out the implementation of its advisory services. The buy-in and contribution of the partners is evident in the projects. The Program has remained relevant over time by being flexible and adapting to changing environment.

Furthermore, the Program is aligned with DFATD (donor) priorities and IFC’s development goal (agribusiness).

Effectiveness

Overall, the Program has been effective in achieving its “inception to-date” output and outcome targets – which are set internally by IFC to monitor progress. The Program achieved or exceeded “inception to-

date” targets for 75% (18/24) of the output indicators and 63% (10/16) of the immediate outcome indicators, while achieving 50% or more in four of 24 (17%) output indicators and three of 16 (19%) immediate outcome indicators at the Program level. The IFC Project Supervision Report (PSRs) rated four out of five projects as satisfactory or higher and only one project as unsatisfactory for progress made until end of 2014.

In terms of progress toward the end of Program targets, the Program achieved or exceeded 75% (18/24) of outputs indicators. Five of the remaining six indicators, were found to have made satisfactory progress. Most of the projects are very early in their operational phase hence the achievement of verifiable results, at immediate level outcomes, for the Program has been slow. Of the 16 immediate outcome indicators, progress on achievement of March 2017 targets was less than 5% on 10 indicators, 20% to 50% on three indicators, and none on the remaining three indicators. It is too early to arrive at definitive findings on overall Program effectiveness.

Agrifinance

The likelihood of the Program eventually achieving its immediate level outcomes indicator target for training is estimated to be high based on the confidence of IFC and the current level of enthusiasm and contribution from the clients. The training of trainers and of farmers has begun and is making good progress backed by a credible plan and budget.

In terms of the likelihood of increased access to financial products and the achieving the targeted results for micro and SME lending through the two rural-based financial institutions, the following should be noted:

To reach the total amount of targeted loan (USD 15 million) disbursement for SME, a significantly larger number of SME beneficiaries have to be reached, given the current average loan amount disbursed to SME borrowers (20 versus 1110). This means a total of about 41 SME loans per month (between January 2015 and March 2017) by the two rural financial institutions;

In the case of micro loans, with only Rizal Microbank lending micro loans, about 1,500 loans have to be disbursed between January 2015 and March 2017, which is approximately 54 loans each month. However, Rizal plans to focus only on SME loans initially and this implies reduced timeframe to disburse micro loans; and,

This indicates that additional financial institutions should be brought in as clients to lend to both micro and SME borrowers at the current loan size or alternatively to grant larger SME loans to achieve the intended results.

Typhoon Index Insurance

With reference to mitigating typhoon-related risks through appropriate insurance to financing agriculture, the Program is in the final stage of product development. Its success will depend on arriving at appropriate pricing which will determine the uptake and sustainability of the product. The only target

in the Program for this project has been the development of the insurance product itself. However, the IFC has planned to track internally the uptake of the product. No results on uptake have been reported as the product is in design stage, at the time of the MTR.

Public-Private Partnership projects (PPP)

In terms of increased ability of the private sector to invest in agri-related infrastructure through PPPs, the Program has achieved mixed results. Under its PPP grains project, the program has been able to sell only one facility from the original eleven post-harvest processing and trading centres (PHPTCs) and it is very unlikely that the other 10 will be sold due to complications in the political context, complex land ownership arrangements among local government units (LGUs), and diverse interest among decision makers within each LGU. This project should be closed. Not achieving the immediate outcome of selling the facilities (and attracting private sector investment) will obviously increase the dependence of the Program on the Davao Sasa Port modernization to achieve the targeted increased private sector investment. The Davao Sasa Port project should be able to proceed toward the achievement of its planned intermediate outcome following the expected award of the contract (in 2016) and signing of the concession. At the same time, it should be noted that there are some challenges for the Program in managing the relationship with local stakeholders if it is to proceed to a successful award of contract.

Agritrade

The Program should be able to achieve the targets set out for domestic shipping reforms and improving trade facilitation and logistics to increase the competitiveness of agribusiness and farmers. The IFC proposes to conduct a process mapping study toward the end of the agritrade project to assess the savings accrued to the identified 1,848 businesses due to the adoption of new/reformed procedures.

Efficiency

Overall, the Program has been efficient in terms of using of budgeted resources and achieving the expected outputs. The Program had allocated a budget of USD 6.07 million (52.8% of the total Program budget of USD 11.5 million) for Program implementation to the end of 2014, spread across the five projects. The actual total Program expenditure as of 2014 was USD 4.4 million, which is 91.5% of the budget (USD 6.07 million) allocated till the end of 2014 and 48.3% of the total Program budget (USD 11.50 million until March 2017).

Key highlights include:

The Program and its projects have operated within the budget allocated as at the end of 2014, while achieving or exceeding targets for 75% of the output metrics. Overall, this indicates an efficient use of financial resources in achieving outputs;

Not only have the Program and projects operated within budget but also the burn rate of all the cost categories has been less than 100%; and,

Overall overhead expenses for the Program are only 7.1% of the total expenditures, which is lower than the global average (9% of the total spend) for the IFC in 2013.

Staffing resources for the Program were found to be adequate and appropriate and where additional expertise was required consultants were hired or global/regional IFC expertise was used. Both PPP projects had high consultant costs (50% and 59%) due to the necessary feasibility studies.

With the exception of the Agri-Trade project, all projects have had slower start-up phases than expected. Various reasons noted for this slow start included – the adjustment to a lead firm model typically specializing in supply of one or two specific services (banking, seeds, extension, etc. for selected commodities) from a value chain approach (which essentially spans the entire spectrum from producers to end market buyers), initially focusing too much on the large commercial banks, normal delays in government processes and priorities, and other external factors that include the socio-political environment. Most of these impediments have now been overcome and, for most program components, program implementation is proceeding on a more predictable basis.

Furthermore, the PPP Grains project which was to have come to its end by December 2014 has had two 3-month extensions; the second was a no-cost extension. It is likely to have one more no-cost extension before the project is terminated without much success on the intended results.

In addition to monitoring progress and reporting through the PSRs at the project level, IFC has submitted progress reports to the donor every six months. PSRs for each project report on current targets and levels of achievement. IFC is reported to monitor interim targets on its online databases/monitoring systems. However, the interim targets (for example, for 2014, 2015, 2016 etc.) are not reflected in donor reports. IFC has begun work with clients, as appropriate, on developing/improving monitoring and data collection systems.

The presence and use of risk management systems is evident for each project of the Program. Risks are monitored and reported every six months in the PSRs. The PSRs report on environment and social risks, internal IFC risks, stakeholder risks, and external risks to IFC.

Impact

With the projects in its early stages, it is not possible to arrive at definitive findings on the impact of the Program. If the three intermediate outcomes of the Program can be achieved, the following impacts (intermediate outcomes) should be verifiable by the end of the Program period.

If each farmer can achieve an increase in gross margins of USD 585, then 10,256 farmers would need to be assisted by the Program to achieve the USD 6 million increased gross margin. It must be noted that other factors such as improved farm practices, reduced post-harvest losses, and access to finance among others could also enhance the improvement in gross margins;

For the credit component with an average disbursement amount of USD 4,445 per entity, the Program has to reach approximately 4,450 entities before March 2017. This means approximately 165 entities

every month (January 2015 to March 2017), unless there are some loans of large value disbursed. This means about 82 loans per month between the existing partner financial institution - Rizal and CARD SME to achieve USD 20 million in total financing. Significantly, the initial loan size reported by the Program is USD 8,388, which, if sustained, implies that only half the number of farmers/MSMEs have to be reached to achieve the targeted level disbursement;

In terms, of targeted private sector investment of USD 100 million, with Grains PPP project recommended to be closed the Program is largely dependent of the Davao Sasa Port for achieving this planned level. The apparent lack of financial incentives may hinder investment in the shipping industry despite the simplified licensing procedures.

With 1,848 businesses (identified by IFC) targeted to measure total savings of USD 6 million due to reduced compliance measures and transaction costs in the agribusiness sector, IFC proposes to conduct a process mapping/study to verify achievement of this target.

Both the Agri-Finance and Index-Insurance projects are focused on providing direct benefits to farmers and MSMEs serving the agribusiness sector. At the same time, the Agri-Finance and Agri-Trade projects constitute 70% of the Program budget and are expected to contribute to a larger share of the impact in terms of improving gross margins, creating access to financial services and achieving private sector savings.

However, the long-term impact of a positive contribution to the larger economy, specifically in Mindanao will be high when the Davao Sasa Port modernization is completed and operationalized. It is likely that the impact (for the Davao Sasa Port project) may be realized beyond the Program timeline of March 2017. Nonetheless, IFC will account for the private sector investment on the conclusion of the tender process and signing of the agreement of PPP, within the timelines of the Program.

Sustainability

It is too early to comment on the likelihood of the results/benefits of the Program continuing after the completion of the Program. However, capacity building has been a key element of the Program and its projects. Other key positive sustainability factors include:

Specific projects have shown initial evidence of institutionalization of enhanced capacity, processes and systems (this includes regulatory changes); and,

Clients/financial institution have indicated financial sustainability. With the exception of the PPP Grains project, the design of most of the program components has been consistent with a reasonable expectation of sustainability, but more time will be needed to verify whether these design elements result in observable sustainability.

Gender and Environmental Sustainability

Gender

The IFC, through its advisory work, strives to promote the inclusion of a gender perspective by producing and providing gender disaggregated evidence for policy making; by developing and providing tools and expertise to identify and reduce barriers to women's economic, social, and political participation; by sharing knowledge and experience on good practices; and, by making gender visible and relevant in M&E processes. The partners with whom IFC is working employ women at key levels of decision making. IFC has also undertaken gender diagnostic studies for various projects under the Program.

The Program has given adequate attention to gender equality in the Program. The focus of the gender-related indicators in the Program is on women's participation in decision making and access to resources (finance). However, almost all the Program gender-related indicators pertain to one project (Agri-Finance). The IFC gender studies have considered the infrastructure and Agri-Trade projects as gender-neutral. The initial results on target achievement have indicated a higher proportion of women reached than targeted. The IFC has supported efforts to make the components more gender focused by undertaking gender diagnostic studies. Gender issues at the port have been noted (with the majority of the inspectors being women and the seafarers being men). The IFC program has shared information with the DA and its focal persons the findings from the diagnostic studies on how to address the issue of inspectors facing a hostile environment. It was also noted while men were involved in farming activities; women often controlled household budgets and made decisions on the purchase of inputs for farming. This stresses the need for training more women on improved farm practices and financial literacy.

Environment

The IFC has identified environmental sustainability as an integral part of the Agribusiness Program, with different projects impacting the environment directly or indirectly. All the projects are assessed for environmental and social risk at the time of design (in the concept note) and plan with respect to the IFC Performance Standards and other guidelines within the IFC Sustainability Framework.

All the five projects within the Program have identified environmental risks and mitigation measures for each of them. These are monitored and reported every six months in the PSRs. All five projects have reported (as per latest PSR) that the IFC team has screened and assessed consistency with IFC Performance Standards as part of due diligence mandated by the Sustainability Framework. The Framework also takes into account the complexities of value chain management, specifically to those associated with working with smallholder farmers.

Conclusions and Recommendations

The main recommendations of the MTR which has been developed on the basis of the findings and conclusions presented earlier in this report. These include:

- **Recommendation 1: IFC to improve reporting to donors by including progress on interim targets and its contribution in the progress report.** As a best practice, including interim targets (e.g. targets for 2015, 2016 and 2017) presents a better picture and understanding to the donor on where the project/program is and how IFC plans to reach the end target. Where possible

track and report gender-disaggregated data in internal and external reports. Additionally, including the actual expenditure and showing the proportion of contribution from donor(s) and IFC or other sources presents explicitly the financial snapshot for the donor and / or other external stakeholders as to how the program/project is funded.

- **Recommendation 2: Understanding the socio-political and economical context especially while advising / undertaking PPP projects.** In general, PPP projects are complex in any country. The lesson from the PPP Grains project is a clear indication. Even without the devolvement of National Agribusiness Corporation (NABCOR) the complexities and issues on the ground would have largely remained the same. Adequate rigor and due diligence in assessments as in investments in private sector, will help avoid such a situation. Similarly, in the agriculture sector underlying issues of agrarian reform and its beneficiaries should not be under-estimated.
- **Recommendation 3: Intensify agri-finance lending** through one or more of the following methods: a) identify one or more rural financial institutions to reduce the pressure of lending to increased numbers of borrowers (due to smaller loan size) before the end of the Program; b) help the rural financial institutions to identify and lend to larger SMEs (processors, consolidators and pack-houses, etc.); and, c) step-up the lending pace in the current financial institutions (at the same time ensuring due diligence in lending). CARD SME and Rizal Microbank are focusing only on lending to MSMEs which means that no micro loans will be disbursed through the current clients/partners at least for another year and hence it is important to plan to add a rural financial institution that will provide micro loans.
- **Recommendation 4: Revision of the targets upwards (number of borrowers) for SME loans** due to the smaller loan amount. The smaller loan amounts actually depict the market trend and are more realistic. This is reflected in Rizal Microbank' s average loan size of their existing SME borrowers which is less than 10% of the upper limit they can lend to an SME.
- **Recommendation 5: Identify and work with an agribusiness** which is involved in the entire spectrum of the value chain from farmer to exports/markets to enable private sector investment. Working with agribusinesses, which operate in the entire spectrum also brings more synergy to the various interventions of the Program; it will also enhance the effectiveness of actors in the same value chain (e.g. processors, pack-houses, logistic providers, financial service providers, and consolidators among others). It links the farmers to the end markets. This will complement the existing efforts in reaching higher number of targeted farmers in terms of training, extension services, and financing. This will also likely facilitate private sector investment.
- **Recommendation 6: Advise clients to engage in activities to create local / regional buy-in,** for PPP and other projects especially while working with Government at the national level as the client. There are nuances in the socio-political environment between the national and regional level and understanding these creates efficiencies and avoids delay.
- **Recommendation 7: Identifying the rice farmers and conducting a baseline and endline survey** and comparing results achieved with those of a comparison group of farmers will be crucial to reporting on the contribution of the Program to increased gross margin The assessment of the increase in gross margin achieved by farmers due to training supported by the Program and

other benefits through different elements of the Program (planting of improved seed, financial literacy and access to financial services, etc.) as compared to non-participating farmers will highlight how the Program and its elements have made a difference to the participating farmers.

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