



The World Bank

Philippines Sustainable Agriculture Transformation(P507504)

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 06-Dec-2024 | Report No: PIDPC00158



BASIC INFORMATION

A. Basic Program Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Philippines	EAST ASIA AND PACIFIC	P507504	Philippines Sustainable Agriculture Transformation
Financing Instrument Program-for-Results Financing (PforR)	Estimated Appraisal Date 24-Mar-2025	Estimated Approval Date 05-Jun-2025	Practice Area (Lead) Agriculture and Food
Borrower(s) Department of Finance	Implementing Agency Department of Agriculture		

Proposed Program Development Objective(s)

To promote climate resilient agrifood systems for increased productivity, enhanced diversification and efficient use of public resources in the Philippines.

COST & FINANCING (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	Yes

SUMMARY

Government program Cost	20,000.00
Total Operation Cost	12,897.50
Total Program Cost	12,895.00
Other Costs (Front-end fee,IBRD)	2.50
Total Financing	12,895.00
Financing Gap	2.50

FINANCING

Total World Bank Group Financing	1,000.00
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World Bank Lending	1,000.00
Total Government Contribution	11,895.00

Concept Review Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **Over the past decade, the Philippines has been among the most dynamic economies in the East Asia and Pacific (EAP) region, with structural reforms leading to significant economic growth.** The country's growth rate increased by an average of 6.4 percent per year between 2010 and 2019, driven mainly by services and industry, surpassing that of its peers in the region, including Vietnam (6.3 percent), Indonesia and Malaysia (5.4 percent), and Thailand (3.6 percent). However, in 2020, the Philippines' economy saw its worst contraction, shrinking by 9.5 percent due to the adverse impacts of the COVID-19 pandemic. The country has since rebounded strongly, growing by 5.7 percent in 2021, 7.6 percent in 2022 and 5.6 percent in 2023. This momentum has been sustained, with the economy growing 6.0 percent in the first half of 2024, placing it among the top growth performers in the region.

2. **While poverty levels have been dropping over the years, they remain relatively high with about 17.5 million Filipinos currently living below the poverty line.** Poverty levels fell from 23.3 percent in 2015 to 16.6 percent in 2018. However, this trend was reversed by the effects of the pandemic, with poverty levels rising to 23.7 percent in 2021. The poverty rate has since declined, and by 2023 stood at 15.5 percent (Philippines Statistics Authority [PSA]). Despite the country's overall robust growth trajectory, income disparities persist. The top one percent of earners have benefitted the most, capturing 17 percent of the national income, while only 14 percent of national income is obtained by the lowest-earning 50 percent of the population (ADB). The urban-rural divide in the country is significant: while the incidence of poverty in the urban areas stands at 10.2 percent, it is more than double in rural areas at 21.9 percent. Farmers remain the poorest segment of society: poverty rate among farmers is estimated at 30 percent.¹

3. **Food and nutrition security are of significant concern, especially among the poor and vulnerable households.** According to the Food and Agriculture Organization's (FAO) State of Food and Nutrition Security World Report, 2023, between 2021–2023, about 51 million Filipinos (44.7 percent of the population) experienced moderate or severe food insecurity, the highest in Southeast Asia, with 29 percent of children affected by stunted growth. Persistent levels of poverty and high food prices have contributed to the existing threats to food and nutrition security (FNS). Food inflation has, however, eased from 8.2 percent in August 2023, to 6.7 percent in July, and down to 4.2 percent in August 2024. The inflation rate of rice, however, remains high at 14.7 percent in August 2024, although down from 20.9 percent during the previous month.²

¹ Philippines Institute of Development Studies

² Philippine Statistics Report- Summary Inflation Report Consumer Price Index (2018=100): August 2024



4. **The Philippines is highly vulnerable to the impacts of climate change from rising temperatures, stronger typhoons, sea-level rise and more extreme rainfall patterns.** The country is affected by some 20-25 typhoons each year, of which at least five are usually highly destructive. Climate shocks, whether in the form of extreme weather events or slow-onset trends, will hamper economic activities, damage infrastructure, and induce deep social disruptions. Current annual losses from typhoons are estimated to reach 1.2 percent of the Gross Domestic Product (GDP), which could be significantly higher in case of Super Typhoons. Climate change will impose substantial economic and human costs, affecting the poorest households the most. It is estimated that total economic damage from climate change in the Philippines could reach up to 7.6 percent of GDP by 2030 and 13.6 percent of GDP by 2040. All sectors will be affected, with capital-intensive sectors likely to suffer most from extreme events, and agriculture suffering the most from slow-onset trends. (World Bank Philippine Country Climate and Development Report 2022).

5. **The Government of the Philippines is committed to building on the current growth momentum and supporting a program of economic and social transformation to steer the country on an inclusive high-growth path.** Towards this, it is implementing the Philippine Development Plan (PDP) 2023-2028 with the view to reinvigorating job creation and accelerating poverty reduction. The Plan aims, *inter alia*, to maintain robust macroeconomic fundamentals to foster consumer and investor confidence, fast-track investments in effective resilience-building strategies, promote technology and innovation, particularly digital technology, and enhance partnerships with the private sector. It emphasizes the transformation of production sectors, including agriculture, industry and services, to generate more quality jobs and competitive products.

Sectoral (or multi-sectoral) and Institutional Context of the Program

6. **The agricultural sector in the Philippines has high potential for contributing to the country's socio-economic development agenda.** The country's fertile land, strategic location, large workforce (of the 48.7 million employed Filipinos, some 22 percent are in agriculture), including the relatively young population (64 percent aged between 15 and 64)³ and high adult literacy rate (97 percent in 2020) offer strong opportunities for transforming the sector. While rice cultivation dominates the sector (PhilRice 2022) there is good potential for growing high-value crops such as bananas, pineapples, mangoes, coconuts, and coffee, as well as developing the livestock and aquaculture subsectors, and benefiting from the associated economic opportunity for value addition. Women are heavily involved in the value-added segment of these value chains. Sustainable growth in these subsectors could enhance import substitution (in 2022-2023, growth rate of imports of fruits and vegetables exceeded growth rate of exports by roughly 7.4%, PSA), while boosting exports; enhancing national food and nutrition security; generating employment in rural areas given the labor-intensive nature of these subsectors, particularly horticulture; creating economic opportunities for women in agricultural production and especially value-added processing activities.

7. **However, the country has not been able to develop its full agricultural potential.** Agricultural policy has focused on food security, mainly through pursuit of self-sufficiency in rice production and stable supplies of other key staples. While the level of agricultural support provided by the government is high in international terms (2.3 percent of GDP in 2020-22), its growth impact is blunted by the production- and trade-distorting effects of the policy instruments used: market price support (mainly through tariff protection) and budgetary support (direct payments to producers for various inputs and investments). This has led to sluggish agricultural growth which is input-driven rather than productivity-based. Overall, agricultural production in the Philippines increased by only 0.5 percent p.a. on average from 2011-20, well below

³ Philippine Statistics Authority (PSA 2022-322)



the world average of nearly 2 percent p.a. A large part of this was due to low total factor productivity growth (+0.4 percent p.a.) against global average of 1.12 percent p.a. Support for the rice sector vividly illustrates the issue: although half of Department of Agriculture's (DA) annual budget is allocated for rice production, rice yields have risen only marginally, from an average of 3.4 ton/ha in 2003 to 4.7 ton/ha in 2023. This is well below average yields in Vietnam (6.1 ton/ha)⁴ and well below the 8 to 10ton/ha demonstrated to be achievable. Policy distortions and productivity constraints (small, fragmented land holdings; low levels of mechanization; limited access to modern technologies; ineffective extension system, among others) have also contributed to the slow pace of diversification to higher-value products. The share of high-value crops in terms of overall value added has risen only slightly, from 19.6 to 22.9 percent in 2000 and 2019 respectively (World Bank 2020). Low returns from agriculture have also discouraged private sector investments which are critical for growth and job creation in the sector.

8. Ineffective and inefficient sector policies and spending decisions have hindered agricultural growth. The pace of sector growth has not materialized despite the substantial budget allocated to the agriculture sector: PhP 213.08 billion (US\$3.8 billion equiv.) in 2024 or 3.5 percent of the national budget. Public spending is heavily skewed towards input subsidies; over the period 2015-19, subsidies consumed 32 percent of the DA's commodity "Banner" Program budgets, with another 28 percent going to subsidize machinery. Only 15 percent was allocated for technology transfer (extension) and 15 percent for other interventions, of which research and development was 8.6 percent and market development 0.8 percent. The over-sized allocation of budget resources to subsidies severely limits public investments in growth and job creating agricultural programs, i.e., adaptive agricultural research and technology development, effective advisory services and skills development, rural institutions, and productive rural infrastructure. Scaling up support in these critical areas is key to harnessing the potential of Philippines' agriculture towards broad-based rural job creation and income growth.

9. The Rice Tarification Law (RTL) which took effect in March 2019 and the Rice Competitiveness Enhancement Fund (RCEF) ushered in a number of consequential changes for the rice sector. These included the replacement of Quantitative Restrictions (QR) on rice imports with tariffs (fulfilling an obligation under the World Trade Organization WTO) and the repeal of National Food Authority (NFA)'s rice price stabilization function and regulatory controls over the marketing and distribution of rice. Equally importantly, it established the RCEF, sourced from tariff revenues, to assist rice farmers in improving their productivity and competitiveness. The RCEF was provided a fund of at least 10 billion pesos per year, to be allocated to machinery (50 percent), certified inbred seeds (30 percent), credit (10 percent) and training (10 percent). Going forward, the RCEF can play two critical roles in enabling agri-food system transformation to achieve the societal goal of availability and affordability of rice for all Filipinos through: (i) increased competitiveness; (ii) enhanced resiliency to disasters and climate risks; and (iii) ensured access to safe and nutritious rice. to support their transition to more modern, resource-efficient agriculture that exploits the potential of digital technologies.

10. A complex, fragmented institutional and regulatory system has further stymied sector development and disincentivized private sector investments in the country's agrifood systems. The organizational structure of the DA (8 bureaus, 10 attached agencies, 7 attached corporations, 15 regional field offices, many of which are commodity specific) has resulted in competing strategic objectives and limited budget allocations that are spread thinly across the various department entities. This has often resulted in duplicative efforts as well as prevented the achievement of impactful programs on the ground. Inefficiency issues also stem from the lack of integration between data and information systems including those within the DA where multiple data sources exist. Significant opportunities exist for enhancing efficiency through digitalization given there are some 204 government and privately operated digital platforms serving the agriculture sectors encompassing mapping, farmer registries, decision tools, learning and development, farm

⁴ <https://ipad.fas.usda.gov/countrysummary/Default.aspx?id=VM&crop=Rice>



management, advisory and support services, and general information. On the regulatory side, logistical costs for shipping companies, traders, and importers arise from informal fees collected by Local Government Units (LGUs), complex road and ship transport licensing requirements, and historical caps on foreign equity investment (OECD 2020). Coordination failures, such as the non-standardization of produce, also hinder investment in large-scale processing and pricing based on quality. As a result, farmers and traders have little incentive to improve product quality due to the small premium paid for higher-quality products, especially in traditional markets. Such coordination failures account for the high numbers of market players and multiple layers in trading, processing, and distribution which translates into lower profit margins.

11. The sector suffers high levels of farm and post-harvest losses that have significant implications for food and nutrition security and incomes. Agrifood losses average 30 – 60 percent when all losses from poor harvesting, handling, storage and transportation are taken into account. Post-harvest losses range from 9 to 37 percent for cereals, 27 to 42 percent for fruits and vegetables and 15 percent for rice.⁵ Such post-harvest losses are more than twice those recorded in Vietnam for rice at 6.2 percent and for vegetables at 8.7 percent.⁶ Annual rice losses amount to some 343,000 mt, which is equivalent to around 10 percent of the volume of imported rice (3.8 million MT in 2023; 3.6 million MT in 2023). Some 151,000 mt of corn is lost each year. There is a need for intensifying the use of location-specific technologies and higher investment for agri-processing facilities. For example, country has low milling efficiency of 50-57 percent compared to 62.5 percent in Vietnam. The country also lacks adequate cold storage facilities, which is critical for diversification into high value crops. Currently there is only 37 cu m/1000 residents of cold storage, or total capacity of 400,000 tons, compared with cold storage capacity of 116 cu m/1000 residents in Vietnam.

12. Climate change poses considerable challenges to the development of the Philippines' agriculture. From 2010 to 2019, damage from natural extreme events and disasters in the Philippines amounted to PhP463 billion (US\$8 billion), of which 62.7 percent or PhP290 billion (US\$5 billion) was in the agriculture sector (PSA 2020). Estimates suggest that climate change will decrease agricultural productivity in the Philippines by 9 to 21 percent by 2050 (Gevaña et al. 2019).

13. While the agrifood sector is vulnerable to climate-induced weather shocks, it is also a potential contributor to the effects of climate change. In the Philippines, agriculture and land use change (which is largely driven by extensive agriculture) contributes around 24 percent of the country's total GHG emissions. Of this, the rice sector contributes some 63 percent (mainly from methane emissions, poor water management, misuse of fertilizers and burning of straw) followed by the livestock sector.⁷ While the Philippines Nationally Determined Contribution (NDC) proposed ambitious goals, the greening opportunities in agriculture may not materialize due to the highly decentralized institutional framework, a lack of capacity and financing, limited access to technology or skills, and restrictive business regulations.

14. Recognizing the critical role of the agriculture sector in the country's socio-economic development agenda, the Government of the Philippines has emphasized the modernization of sector in the PDP-2023-2028. The PDP strategy for agrifood sectoral transformation consists of four pillars: (i) changes in farm scales; (ii) modernization; (iii) industrialization; and (iv) professionalization. More specifically, the National Agriculture and Fisheries Modernization and Industrialization Plan (NAFMIP) 2021-2030 calls for transformative shifts to: (i) diversifying incomes and employment of smallholder farmers and fisherfolk; (ii) defining the role of urban and peri-urban areas in agriculture growth; (iii) optimizing synergistic impacts using a spatial framework to geographically focussed investments; and (iv) matching the supply and demand for food. The strategy calls for transformative changes in the foci and organization of primary agricultural production, as well

⁵ Mopera, Lotis E. (2016) Journal of Developments in Sustainable Agriculture: Food Loss in the Food Value Chain: The Philippine Agriculture Scenario. Last accessed September 23, 2024, [Food loss and waste Study.pdf](#)

⁶ Hien, et.al. (2016) Conference Paper: Overview of Rice Post Harvest Situation in Vietnam. Last accessed September 23, 2024, [PHarvest_Vietnam-
FText- PHHienNTNghi.pdf](#)

⁷ Climate Resilient Agriculture in the Philippines. Last accessed September 23, 2024 [CRA_Profile_Philippines.pdf \(worldbank.org\)](#)



as in the linkages between primary production and rest of the food systems, spurred by increased investment in agrifood clusters, logistics, processing, and trade.

15. **The government has sought to reinvigorate the agriculture sector transformation through the PARA SA MASAGANANG BAGONG PILIPINAS 2024-2027 (MBP)⁸ - DA's 4-year plan.** The program focuses on the specific actions needed to achieve the food and nutritional needs of the country, and to develop the sectors as profitable industries for farmers, fisherfolk and all stakeholders involved in the value chains. The program spans the duration of the current administration and has been designed to address the policy, regulatory, service and investment gaps that have constrained the agrifood sectoral modernization efforts.

Relationship to CAS/CPF

16. **The proposed program is closely aligned with the Country Partnership Framework (CPF 2025-2028)⁹ and three High Level Objectives (HLOs), i.e., inclusive growth and jobs (HLO1); resilient communities (HLO3) and Environmental Sustainability (HLO4).** The CPF's HLO I: Inclusive Growth and Jobs is expected to be achieved through three interrelated objectives: (i) increased firm's and farm's productivity; (ii) competitive business environment for more and better jobs; and (iii) inclusive finance. The proposed Program would support these interrelated objectives by improving productivity through innovations and digital transformation, thereby increasing income opportunities in agriculture. It would foster partnerships in productive investments between farmer groups and commercial buyers along agricultural supply chains, thereby contributing to improved market access and higher income opportunities for all stakeholders across the value chain. The proposed Program would also contribute to HLO 3: Resilient Communities by supporting farmers in adopting climate-smart agriculture (CSA) technologies as well as HLO 4: Environmental Sustainability, specifically on the objective to transition to a green, climate-resilient economy by promoting CSA to reduce GHG emissions in the agriculture sector.

17. **The proposed Program is aligned with the World Bank Group's Global Challenge Program (GCP) on Food and Nutrition Security, Action Area 3: Supporting more productive, low-emissions and climate-resilient food systems** as it will contribute to improving longer-term agriculture productivity and inclusive income earning opportunities; increasing adoption of high-impact climate-resilience technologies; and enhancing capacity to reduce GHG emissions, while increasing climate resilience of food systems. It is also aligned with the **WBG's Gender Strategy (2024–2030)**, which aims to accelerate gender equality to end poverty on a livable planet. The proposed Program is aligned with Strategic Objective 2: *Expand and enable economic opportunities* through providing more and better jobs to women along the agriculture value chains, while increasing their representation in decision-making processes in the Program-supported value chains.

18. **The project aligns with the Paris Agreement (2015) and the Philippine's Nationally Determined Contributions (NDCs) (2021).** The focus on raising productivity, strengthening diversification and reducing post-harvest losses, particularly of rice based cropping systems, would generate substantial climate co-benefits. The proposed DLIs and actions encompass a range of climate smart technologies, coupled with improved policy, regulatory, planning and input use efficiencies. The PforR therefore presents a significant opportunity for advancing the country's NDC goals, given that the agriculture sector contributes some 17.7 percent of the country's total GHG emissions, of which rice-based farming account for some 67.9 percent. Result Area 1 (RA1) focuses specifically on rice-based farming systems and includes a range of actions to reduce GHG emissions and strengthen climate resilience e.g., through use of improved, drought tolerant

⁸ Para sa Masaganang Bagong Pilipinas or for a prosperous new Philippines

⁹ Philippine Country Partnership Framework 2025-2028 is awaiting approval. Details on the CPF pending for approval are based on the presentation during stakeholders consultation. Last accessed September 24, 2024,
<https://thedocs.worldbank.org/en/doc/bd52c8474d079136bfcd55bd56af4556-0070012024/original/WBG-PH-CPF-25-28-Consultations.pdf>



rice varieties, mechanization enabling improved water use efficiency, direct seeding, without continuous flooding, reduced burning of rice straw and diversification. RA 2 would reduce agrifood wastage and spoilage through more efficient post-harvest facilities and equipment, economies of scale and climate smart on-farm agrifood handling and storage. RA3 would *inter alia* mainstream more spatial planning for commodity and infrastructural support to improve alignment with climate vulnerability and suitability assessments, based on instruments developed under PRDP.

Rationale for Bank Engagement and Choice of Financing Instrument

19. **The proposed PforR instrument for Bank engagement is a natural progression to elevate Bank support to the next level of sectoral transformation in the Philippines by strengthening the government's own programs and institutional delivery mechanisms.** Unlocking agricultural growth, job creation and income generation potential requires broader policy and institutional enhancements, which go beyond the narrow scope of the Investment Project Financing IPFs. The country has an ambitious sectoral program (MBP) with significant budget resources which provides opportunities to enhance the efficiency and effectiveness of its program implementation support towards actions that will contribute to the transition towards a more competitive and resilient agri-food systems transformation, and create the enabling environment for leveraging private sector investments for driving modernization and industrialization. While the IPF approach through past and ongoing operations has been effective in supporting specific investments related to rural infrastructure and enterprise development as well as enhancing institutional capacity of the DA, including the robustness of the fiduciary, safeguard and Monitoring and Evaluation (M&E) systems, the transformation of agriculture sector as envisioned in the MBP requires a concerted and comprehensive programmatic approach.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

20. To promote modern and resource-efficient agrifood systems for increased productivity, diversification and resilience in the Philippines.

PDO Level Results Indicators

21. Preliminary PDO indicators are as follows:

- Increased productivity
- Crop diversification index
- Increased number of farmers adopting climate-smart technologies and practices
- Increased volume of agricultural production sold at farm gate (proxy for incomes)
- Increased volume of selected perishable commodities benefiting from improved post-harvest storage and handling

D. Program Description

PforR Program Boundary



22. **The proposed Program for Results (PforR) boundary would be nested within the DA's plan: PARA SA MASAGANANG BAGONG PILIPINAS 2024-2027 (MBP).** Proposed Result Areas (RAs) would be limited to those where implementation is within the institutional mandate of the DA, with some exclusions, and would be national in scope. The MBP has been designed to address those pervasive transformative issues that have constrained sectoral modernization, and where verifiable results could be achieved within the span of the current DA administration. The strategic objectives of the MBP are to; (a) accelerate agrifood sector growth and competitiveness as envisaged in both the PDP 2023-2028, and the DA's longer-term plan for sectoral transformation- the NAFMIP 2021-2030, (b) strengthen food security and agrifood system climate resilience, and (c) increase farm income, expand rural growth and provide livelihood opportunities. These strategic interventions are consistent with the goals for sectoral modernization as defined in the Republic Act No. 8435 or Agriculture and Fisheries Modernization Act (AFMA) of 1997.

23. **The proposed PforR, would support nine of the ten key Result Areas (RAs) of the MBP (Annex 1).** These RAs collectively aim to deliver outcomes that seek to: (i) achieve higher incomes for farmers through enhanced productivity growth and more efficient and resilient natural resource and input use; (ii) attract a new generation of agri-entrepreneurs to invest into post-harvest agri-logistic activities; (iii) Increase and diversify agri-food production across value chains. The PforR would specifically address issues related to the efficiency and effectiveness of DA budget utilization, and enhance institutional delivery mechanisms for the sector transformation.

24. **Several areas would be excluded from support through the proposed PforR.** The MBP's RA No. 9 which aims to increase access to credit and insurance is being addressed under a separate operation, while the MBP RA of achieving "better delineation through devolution of roles and strengthened functions, nationally and sub-nationally" has multi-institutional dimensions beyond the "DA-Institutional" boundary of the PforR. The functions of the National Irrigation Authority (NIA) are not included in the Program as this agency has been transferred to the Office of the President (Executive Order No. 69 series 2024)¹⁰ and the DA no longer has control over NIA's budget and investment decisions. The development of fish ports is also excluded as World Bank support for this is planned through potential subsequent operations. Investments being supported through ongoing World Bank loans and grants, including the Philippine Rural Development Project (PRDP), PRDP-Scale Up and FishCore, will also be excluded.

25. **Program Result Areas.** The PforR would particularly focus on the country's rice-based cropping systems. This encompasses 1.9 million ha and some 3 million farmers, which represent 37 percent of the country's farmers and fisherfolk. The RAs were selected considering that they: (i) have the potential to make a strong contribution to achieving the government's own targets; (ii) are linked to specific measurable results; and (iii) allow for quick results and disbursements in early years of the PforR. The RAs are expected to contribute to the Government's efforts of establishing a competitive, resilient and sustainable agricultural sector that would enhance food and nutrition security in all its dimensions of accessibility, availability, utilization and stability, create jobs, especially for women and the youth, and improve household incomes.

26. **Result Area 1: Enhanced production and incomes in diversified rice-based farming systems.** The goal of this RA is to increase the productivity and efficiency of rice-based farming systems through the implementation of a suite of affordable, proven, and innovative technologies for improved rice productivity and diversification to high value crops for enhanced resilience and incomes. Possible activities under RA 1 could include, inter alia: (i) providing agro-ecologically suitable seed of high-yielding rice varieties to farmers and scaling up direct seeding programs; (ii) strengthening collaboration between the Rice Program and other DA programs and agencies to promote diversification of rice-based

¹⁰ Entitled "Reorganizing the NIA and transferring its attachment from the DA to the Office of the President."



farms; (iii) replacing the paper voucher system for providing input support to farmers with an Intervention Monitoring Card or eVoucher system to improve program efficiency; (iv) increasing training in climate-smart technologies, including innovative, digital technologies and environmentally-friendly agricultural practices (use of relevant digital applications for integrated weather and market information, delivery of early warning and response actions, etc.); and (v) increasing farm mechanization.

27. **Result Area 2: Enhanced efficiency and resilience of food value chains.** The goal of the RA is to support post-harvest infrastructure and management and improve logistics that would reduce food losses, translating to increase in marketable products among producers and agro-processors and improved incomes. Possible activities under RA 2 could include, inter alia: (i) providing Farmer Cooperative and Associations (FCAs) with access to modern National Food Authority (NFA) drying, milling and storage facilities with “buy-back” arrangements; (ii) institutional enhancements to enhance efficiency and availability of warehouse and storage facilities; (iii) joint planning between relevant agencies in the design, installation and operation of modernized post-harvest grain facilities and equipment; (iv) establishing and operationalizing a digital platform linking producers with agri-businesses and markets; (v) increasing training in on-farm, post-harvest loss reduction; and (vi) promoting Farm Clustering to achieve economies of scale and efficiency together with support for farmer cooperatives and associations.

28. **Result Area 3: Enhanced institutional and policy environment.** The goal is to accelerate agricultural growth through increased productivity and all-round competitiveness through improvements in policy environment and institutional arrangements that better align budget allocations with the stated program priorities, streamlining functioning of the DA and the LGU and promote investments into competitiveness (rather than simple expansion) of rice production. Possible activities under RA 3 could include, inter alia: (i) strengthening DA planning and budgeting processes towards more programmatic and results-based; (ii) institutionalizing a harmonized DA-LGU planning and support process; (iii) strengthening the RCEF through secure long-term funding and operational modalities that incentivize private sector investments; and (iv) enhancing institutional arrangements to attract capital and enterprise into digital transition and other agricultural innovations.

Table 1. The Government program: *Para Sa Masaganang Bagong Pilipinas* (MBP) and PforR Boundary Comparison

	Government program	Program supported by the PforR (PforR Program)	Reasons for non-alignment
Objective	<i>Masaganang Bagong Pilipinas</i> (MBP) 4-year Plan Achieve food security for the Filipino people through boosting agricultural production to ensure accessibility to affordable and nutritious food Develop Agri-Fishery sector as a profitable industry for farmers, fisherfolk, and all stakeholders in the value chain	To promote modern and resource-efficient agrifood systems for increased productivity, diversification resilience in the Philippines.	
Duration	2024 to 2027 – MBP 2021 to 2030 – NAFMIP	2025 to 2029	



Geographic coverage	Nationwide	Nationwide	
Results areas	<ol style="list-style-type: none">1. Expand and improve available agri-fishery areas for increased production2. Mechanize and modernize agri-fishery production systems3. Develop and improve postharvest systems and infrastructure4. Develop efficient logistics systems for input and production output5. Improve and expand local and international market access6. Proper balancing of both the developmental; and regular roles of the DA7. Science and information driven decision making through digitalization8. Strong partnership with farmers, fisherfolk, private sector and other stakeholders9. Available and accessible financing that encourage investment and Minimize Risks10. Research for Development and Extension (R4D) to optimize sector potential	<ul style="list-style-type: none">• All MBP actions except item no. 9, which were translated into 3 RAs• RA 1: Enhanced Production (Government programs 1, 2, 8, 10)• RA 2: Enhanced Resilience of value chains (Government program 3, 4, 5, 8)• RA 3: Improved enabling environment (Government program 6, 7) <p>Exclusions:</p> <ul style="list-style-type: none">• outside the institutional mandate of DA• ongoing / future World Bank financed projects• support for credit and insurance• development of fish ports NIA related activities	
Overall Financing	USD 12.89 billion	USD 1 Billion	

29. **The specific Disbursement Linked Indicators (DLIs) and Program Action Plans (PAP) will be determined based on the technical assessments of the activities included in the PforR boundary.** It is expected that there will be about 12-15 DLIs across the three RAs. The guiding principles for choosing the DLIs are: (i) have the potential to make a strong contribution to achieving the PforR objectives which are related to the government's own targets; (ii) generate measurable results and have direct control of the DA; (iii) address critical institutional development issues; and (iv) ensure continuous disbursements through the combination of fast institutional actions and medium-term results on the ground. Modifications to these DLIs including their values and verification protocols will be determined based on the Technical Assessment.

**Table 2. Initial Disbursement Linked results areas under consideration**

Result Area	Disbursement Linked Indicator (DLI) <i>(Initial tentative list)</i>	Scalability
RA1: Enhanced production and incomes in diversified rice-based farming systems	<ul style="list-style-type: none"> • DLI 1: Strengthening of the rice seed distribution program. DLI1.1: Administrative Order issued directing the National Rice Program (NRP) and PhilRice to limit the number of improved varieties being promoted in RCEF supported provinces based on Regional/spatial suitability. DLI 1.2: No. of RCEF supported Provinces where seed distribution is in compliance with the Administrative Order. • DLI 2: Increased incomes and resilience of rice-based farming through diversification.: Administrative Order issued directing the Rice Program to collaborate with other DA programs and agencies, to promote and support diversification of rice -based farms where appropriate. DLI 2.2: Hectares of diversified, rice-based farms in RCEF supported Provinces • DLI 3: Number of hectares of rice-based farm area (% of wet and dry season) receiving support through the RCEF that is being cultivated with high yielding rice varieties • DLI 4: Replace the paper voucher system for fertilizer support with the more versatile and transparent Intervention Monitoring Card (IMC or eVouchers) for farmer subsidized fertilizer distribution. • DLI 5: Adoption of the CSA technologies and techniques. DLI 5.1: Supplemental Special Order issued directing Agricultural Training Institute to provide oversight and coordination with other DA agencies and offices for the delivery of CSA technologies and approaches to farmers that includes direct seeding and diversification of rice-based farming where appropriate. DLI 5.2: Number of farmers trained in CSA technologies and approaches • DLI 6: Increased mechanization levels by FCAs supported through the RCEF with collective farm areas >50ha. FCAs provided with mechanization support through the RCEF receive training in machinery Operation and Maintenance. 	Yes Yes Yes Yes Yes Yes Yes
RA 2: Enhanced efficiency and resilience of food value chains	<ul style="list-style-type: none"> • DLI 7: FCAs provided with access to NFA drying, milling and storage facilities with “buy-back” arrangements. Metric Tons of FCA palay being processed through NFA facilities. • DLI 8: Enhancing efficiency and availability of warehouses and storage facilities. • DLI 8.1: Special Order issued requiring joint planning between concerned agencies in the design installation and operation of post-harvest grain facilities and equipment. DLI 8.2: Annual joint-agency planning related to design installation and operation of post-harvest grain facilities and equipment. • DLI 9: Establish and operationalize a digital platform linking producers with buyers, agri- business, processors etc., with provision for promoting Good Agricultural Practices (GAP) certified products and export opportunities • DLI 10: Reduction of on-farm post-harvest losses. DLI 10.1: Supplemental Special Order issued directing ATI to provide oversight and coordination with other DA agencies and offices for the delivery climate-smart technologies and approaches to farmers that reduce on-farm post-harvest losses. DLI 10.2: Number of farmers trained in climate-smart, post-harvest loss reduction 	Yes Yes Yes Yes Yes Yes Yes



Result Area	Disbursement Linked Indicator (DLI) <i>(Initial tentative list)</i>	Scalability
RA 3: Enhanced institutional and policy environment	<p><i>Efficacy</i></p> <ul style="list-style-type: none"> • DLI 11: Improved Planning and Budgeting: Administrative Order issued on DA-Planning and Budgeting processes, instituting multi-year, programmatic and results-based approach. DLI 11.1. Revised Budgetary process phased in across the DA • DLI 12: Improved local implementation: Administrative Order issued instituting harmonized DA-LGU planning and implementation support process across all DA agencies and programs. DLI 12.1. Harmonized DA-LGU planning processes phased in across the DA • DLI 13: Integrated DA Database established and operationalized providing a harmonized DA-wide platform for data storage, analysis, and enhanced evidence - based decision making • DLI 14: Adoption and dissemination of updated procurement rules and guidelines <p><i>Competitiveness</i></p> <ul style="list-style-type: none"> • RCEF modalities: shift from 100% grant financing to matching grants and de-risking arrangements (e.g., credit guarantees) to incentivize private sector investments 	Yes Yes Yes Yes Yes Yes

E. Role of Development Partners

30. **Several development partners are currently supporting the Government's agricultural development program.** There is strong potential for developing complementarities and partnerships with ongoing activities of other developmental partners, including: (i) the Rural Agro-enterprise Partnerships for Inclusive Development and Growth Project (RAPID), financed by the International Fund for Agricultural Development (IFAD) and implemented by the Department of Trade and Industry (DTI); (ii) the Development Partnership Project (AGRI-DPP) financed by the German Agency for International Cooperation (GIZ) and supporting partnerships with leading firms in export value chains; (iii) Advancing Philippine Competitiveness (COMPETE), a project funded by United States Agency for International Development (USAID) that promotes public-private partnerships and improved credit access in the agriculture sector; and (iv) the Philippines Partnership for Sustainable Agriculture, a multi-stakeholder partnership platform initiated by Grow Asia and the DA. Other partners in the sector include the EU that is co-financing the PRDP as well as: (i) ADB - solar-powered irrigation; (ii) FAO - livelihood recovery of disaster-affected areas; (iii) JICA - post-harvest mechanization on rice; and (iv) GIZ- climate resiliency of various commodities production. In addition, the governments of France, China, Korea and the US are providing support towards capacity building, aquaculture, agri-business and farm-to-market bridges.

PRELIMINARY ASSESSMENTS

F. Theory of Change

31. **Problem Statement.** Transforming Philippines' agriculture for enhanced food and nutrition security, job creation, improved incomes, and increased agricultural exports requires a program of investments and institutional enhancements to address the critical challenges of low levels of productivity, commercialization and diversification; high post-harvest losses across key commodities; mis-aligned government spending that has focused primarily on rice



vis-à-vis high value crops and growth-enhancing areas such as extension and applied research and technology; and a weak enabling environment, with overregulation and cumbersome permits processes to name a few, that has discouraged private sector investments in the sector. At the farm level, there is a significant need for supporting the government's program of Farm Clustering to promote economies of scale, increase farm mechanization, use of high-quality appropriate inputs (seeds), training in climate resilient, innovative technologies, including the use of digital technologies and linking farmers to markets. High losses due to limited and inefficient post-harvest infrastructure and management will require support for cold chains, state-of-the-art warehouses and storage facilities and improved logistics. It is crucial that the government repurpose agricultural expenditures to harness the potential of remunerative value chains (e.g., fruits and vegetables) and create the enabling environment for leveraging private investments in the sector to put Philippines' agricultural sector on a high-growth, inclusive and resilient path.

Figure 1. Theory of Change



Critical Assumptions:

- All actions proposed are within the mandate of the DA and implementable during the period of the current administration.
- The DA will work with relevant agencies / departments on improving the policy and enabling environment.



G. Technical Aspects

32. **The proposed PforR support for the MBP is highly relevant in the context of the Government's goals of raising economic opportunities, food security and achievement of higher incomes for farmers and fisherfolk.** The MBP specifically identifies those key investment “gaps” and policies that have constrained transformation of agrifood systems in the Philippines. The strategic interventions defined by the MBP are key to improving agriculture economic opportunities and the profitability of farming, while also addressing resiliency in an environment of increasing vulnerability to effects of severe weather and climate change. The strategic relevance is further enhanced through the opportunity it provides for achieving efficiency of institutional delivery mechanisms for enabling public expenditures to be more strategically allocated through a more programmatic and coordinated approach, across DAs many units, programs, bureaus and attached agencies.

33. **The DA has the Institutional and technical capacity to undertake the required actions to be supported through the PforR.** It has benefited from some 20 years of implementing PRDP-SU, PRDP and its predecessors Mindanao Rural Development Projects (MRDPs) I and II. The DA has well established mechanisms for collaborative DA-LGU planning and investment; a platform that also has proven to be effective for leveraging convergence with other government programs and the private sector. The DA’s strong in-house capacity for developing and utilizing digital approaches to all aspects of its work is integral to the proposed PforR actions and verification. This includes geo-spatial planning and monitoring along with use of drones, geo-tagging linked monitoring of all procurement, and electronic processing and service standards monitoring of document flow. The M&E system developed under the PRDP would enable close monitoring, robust and timely feedback and verification of PforR results. The PforR would also be subject to oversight of the DA’s Internal Auditor whose independent functions and reporting has been strengthened along with an Institutional Strengthening Action Plan (ISAP) agreed with DA management to strengthen governance and integrity across the DA, and in particular for all World Bank supported projects.

34. **A substantial body of analytical studies also exist to underpin the strategies and approaches of the MBP and proposed PforR support.** These include several comprehensive studies supported by the World Bank,¹¹ as well as an extensive research, which is supported by “Commodity Road Maps” and “Masterplans”.¹² Collectively these have consistently called for shifting the overall strategic approach from protecting specific products, to improving resilience, competitiveness, and sustainability, while also moving from supply-oriented, to demand-driven approaches. But the misalignment of public spending with the strategic modernization goals has persisted, as highlighted by the Agricultural Public Expenditure Review conducted with World Bank assistance in 2022. Public spending has continued to rely heavily on inefficient instruments such as input subsidies. Over the period 2015-19, subsidies consumed 32 percent of commodity (Banner) Program budgets, with another 28 percent going to subsidize machinery. Only 15 percent was allocated for extension and 15 percent for other interventions of which research and development was 8.6 percent and market development 0.8 percent.

Program Expenditure Analysis

34. **The PforR Program financing is expected to amount to US\$12.89 billion over FY2025/26 – FY2029/30.** This is financed at 92.3 percent by the government and at 7.7 percent by IBRD. Aggregate public spending on agriculture

¹¹ Recent World Bank studies: (a) Realizing Scale in Smallholder-Based Agriculture: Policy Options for the Philippines. World Bank 2021; (b) Bridging the Gap: Options for Operationalizing National Agriculture and Fisheries Modernization and Industrialization Plan (NAFMIP): The “Whole of Value Chain Approach Technical Paper 2023, World Bank; and (c) Philippines: Transforming Agriculture for Food and Nutrition Security Political Transition Engagement Note, 2022, World Bank

¹² The Philippine Food Chain Logistics Masterplan 2023–2033 is currently under review/revision by the DA



implemented through the DA¹³ over the calendar years 2020 to 2023 averaged around US\$ 1 billion per annum while average annual budget over the same period amounted to US\$1.6 billion. In CY2024 and 2025, agriculture budget provided to the DA increased to US\$2 billion and US\$2.3 billion, respectively. Reflecting the selected program boundaries, the expenditures related to (i) construction, restoration, and/or rehabilitation of irrigation systems outside of DA, and (ii) access to credit and insurance and delineation and devolution of roles and functions, nationally and sub-nationally have been excluded. Assuming continuation of the funding levels using CY2025 and considering the program boundaries, the total government agriculture expenditures over the PforR implementation period (FY2025/26-FY2029/30) are estimated at US\$ 12.9 billion equivalent (or average disbursements of US\$ 2.6 billion per year) (Table 2).

35. **The average level of budget allocation for agriculture vis a vis the national budget was 2.4 percent over CY2021 to CY2023.** This level increased to 3.6 percent in CY2024 and 3.2 percent in CY2025. The DA budget allocation is heavily lodged under the Office of the Secretary (OSEC), which captures 80.6 percent of the DA budget.¹⁴ OSEC directly supervises the main components of the AFMA. Its attached agencies receive a small share of the remaining 20 percent for supervising other commodity-based services, including regulatory and policy formulation. OSEC exercises both staff and line functions through the policy and regulatory bureaus while the regional offices deliver the front-line services, including coordination with the LGUs. The DA's attached agencies exercise regulatory functions over commodities such as machinery, fiber, coconut, meat, and carabao. The Bureau of Fisheries and Aquatic Resources (BFAR) exercises both staff and line functions parallel with the functions of OSEC.

Table 3: Program Financing: FY2025/26-2028/29

Source	Amount (US\$ billion)	Percent of Total
Government	11.9	92.3
IBRD	1.0	7.7
Total	12.9	100.0

36. The Expenditure Framework Assessment (EFA) is being undertaken in parallel with the technical assessment and will be finalized by appraisal.

Economic Justification of the Program

37. **There is an immediate need for public financing for improving agri-food system efficiency, to alleviate the rising cost of food.** Public financing is also critical for leveraging the transformative changes and private sector investment needed in the agriculture sectors, a key priority of NAFMIP 2021–2030 and MBP. Public sector investments under the project include producer clustering, establishing enterprises providing common service facilities, and enhancing service provision. These investments are all designed to incentivize further private-sector investment and technological innovation.

38. **The Bank's history of support for agri-food system development in the Philippines and globally provides a**

¹³ Excluding government owned and controlled corporations

¹⁴ Philippines Agriculture Public Expenditure Review, February 16, 2023



wealth of experience to support the PSAT through Program for Results. IBRD lending for agriculture and rural development in the Philippines has amounted to over US\$1 billion and spans 23 years. This lending began in 2000 with the MRDP I and II, and since 2014, has been followed by the ongoing PRDP. The Bank's value- added also builds on a considerable platform of analytical work on Philippine sectoral transformation policies and options. This long-term operational and analytical partnership with the DA is particularly relevant as the government seeks to bring about substantial transformative actions in accordance with the NAFMIP 2021–2030.

H. Fiduciary Aspects

39. A detailed Fiduciary Systems Assessment (FSA) will be carried out and completed by the appraisal. The objective of the FSA is to determine the adequacy of the Program fiduciary systems that they provide reasonable assurance that the Program proceeds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. The FSA will be built off and tied to the Program expenditure framework. Data collection, review and analysis are needed to produce a good quality FSA. The material weaknesses identified in the FSA are translated to risks to the Program which will lead to formulation of appropriate mitigations measures. The task team will assess whether the program has fiduciary arrangements (in procurement, financial management, and anti-fraud and corruption) designed to facilitate and promote effectiveness, efficiency, economy, transparency and accountability. In addition, the assessment screens for excluded activities – i.e., high-value contracts. As soon as the Program expenditure framework is in reasonable shape with supported activities and budget expenditures, and implementing units identified, the FSA will be carried out making use of relevant available resources such as but not limited to (i) government fiduciary systems from sector analytic works; (ii) past performance of investment projects in the program sector (e.g., PRDP's, DFIMP) ; (iii) recent or on-going analytical works (i.e., PEFA, MAPS report, APCPI, AARs, PPRs).

I. Initial Environmental and Social Screening

40. The Program's Environmental and Social (E&S) risk is substantial. Overall, implementation of the program will have significant and broadly positive environmental and social outcomes in the Program regions. An initial E&S screening was conducted based on the proposed Program boundaries and activities. High-risk activities will be excluded. The program design is not expected to cause the conversion, modification, disruption of critical habitats nor will it compromise the location's natural landscape, biodiversity, habitats or ecosystem services. Potential E&S adverse effects during construction include dust, noise, water, and soil pollution; worker and community health and safety risks; labor influx; poor working conditions for vulnerable workers; child labor and forced labor; resistance to behavioral changes in farming practices; and potential exclusion of marginalized groups. Land requirements are minimal, with expansions expected within government properties, although due diligence will still be conducted on land acquisition and/or donations that may cause significant E&S risks and impacts. Due diligence is necessary for any changes that might require land acquisition or affect livelihoods. During operation, risks include health hazards from pesticide use, occupational health and safety issues, pollution, and greenhouse gas emissions. Social inequalities may worsen without culturally sensitive approaches and effective grievance mechanisms. These adverse E&S effects can be well identified and readily avoided, minimized, and mitigated through meaningful consultations, enhanced designs and the implementation of mature technologies and good management practices. The contextual risk is preliminarily deemed substantial because the Program will be implemented nationwide, including in conflict-affected areas with sensitive social settings. Being the first PforR in the country to be implemented by the DA, the institutional risk is regarded as substantial. The political and reputational risk is deemed low as the agricultural sector in the Philippines is not known to be controversial, and the Program aligns well with government strategies and programs.



41. An Environmental and Social Systems Assessment (ESSA) will be conducted during program preparation. The ESSA will ensure consistency with the six core principles outlined in the World Bank's Operational Policy on the PforR Financing and include: (1) detailed assessment of the nature and significance of the E&S risks and effects; (2) review of the national E&S legislative framework and the borrower's capacity to manage those risks; and (3) if necessary, formulating measures for inclusion in the overall PAP and/or considered for potential DLIs to enhance both the E&S management systems and the E&S outcomes during implementation. During the ESSA process, the task team will actively and meaningfully engage with both internal and external stakeholders to inform ESSA preparation and solicit inputs to strengthen E&S risk management throughout the lifecycle of the operation. The draft ESSA will be disclosed to the public and consulted with key stakeholders prior to appraisal.

J. Systematic Operations Risk Rating Tool System (SORT)

42. **Potential risks are summarized in SORT.** The overall risk is rated *Substantial*. The overall risk is rated *Substantial*. The political, governance and macroeconomic risk is rated *Moderate*. The Macroeconomic risk is rated *Moderate* as the Philippines' economy is on a robust growth path, and current macroeconomic trends are likely to help with reducing poverty, income inequality and unemployment. The proposed Program will contribute to these upward trends by boosting agriculture sector growth, competitiveness and sustainability. Sector Strategies and Policies is rated *Substantial* due to the legacy of a singular focus on food security through self-sufficiency in rice production and mis-aligned public expenditures in the sector biased towards high subsidies for inputs and investments, as well as distortionary trade practices. The proposed PforR seeks to mitigate this risk by effecting institutional and regulatory enhancements that would repurpose public expenditures for increased support to growth-enhancing and job creating subsectors, including diversification to high value agriculture, and creating the enabling environment for leveraging private sector investments in the sector. The Technical Design of the Program is rated *Substantial* as the PforR is a new instrument for the Government of the Philippines and internalizing its processes and procedures would take time and may result in delays with Program implementation. To mitigate this, the Bank team will work closely with the government all through implementation, guiding and advising as necessary, both during regular supervision missions as well as on an ongoing basis as necessary. The Institutional Capacity for Implementation is rated *Moderate* as the DA is well-staffed with qualified personnel and resources to undertake the program activities under each of the three RAs. Any critical gaps identified during preparation will be addressed through a capacity building action plan. The Fiduciary aspects is rated *Substantial*. Although fiduciary capacity of the DA has been built through several ongoing World Bank-funded projects, the full assessment of the country systems in procurement, financial management, and anti-fraud and corruption will be undertaken during PforR preparation. There is an ongoing INT case related to ineligible expenditures under the ongoing PRDP project. The Environmental and Social risk is rated *Substantial* after the initial screening owing to the national scope of the program, including its implementation in conflict-affected areas with sensitive social settings as well as the fact that the detailed Program activities are yet to be determined. All high-risk activities will be excluded under the PforR. The ESSA will sharpen its focus on core activities identified in the PforR boundaries and activities which may have environmental and social risks which will be assessed further during the preparation. The Stakeholder risk is *Moderate* as the project supports the on-going Government program.

**Table 4. Summary of SORT**

Risk Category	Rating (H, S, M, L)
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Moderate
OVERALL	Substantial

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