

# Decentralized Loan Management Improves Infrastructure for Rural Productivity

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## CHALLENGES

Rural poverty is a serious issue in the Philippines. The rural poor comprise 80% of people living below the poverty line, and many of them are engaged in subsistence agriculture. While farmers may be persuaded to plant high-value commercial commodities such as coconut, cassava, tobacco, sugarcane, rice, and corn, their efforts are often severely undercut by the limited sources of water for crops. Water itself also runs the risk of being infected with waterborne diseases, affecting health and productivity. Many farmers live in communities that have no farm-to-market roads, raising the cost of transporting their produce to markets. Many farmers resort to selling their crops at the farm gate, greatly affecting their profit margin.

These issues reflect problems in the country's agricultural value chain. The Philippines' Medium-Term Development Plan for 1999–2004 and 1997 Agriculture and Fisheries Modernization Act emphasized the importance of pro-poor mechanisms to realize the potential of agricultural production and create employment and income opportunities in rural areas. Pursuing these, the government secured support from the Asian Development Bank (ADB) through a \$113 million loan that sought to improve infrastructure for rural productivity in Bicol, Eastern Visayas, Mindanao, and the island provinces of Region IV.

The project had three components:

- Improved rural infrastructure, covering farm-to-market roads, communal irrigation, and potable water supply;
- Capacity building for devolved project implementation; and
- Project management and coordination.

## APPROACH

**Setting Up.** The loan took effect in 2002. Its development targets were the increase of annual farm household income, reduction of poverty incidence in project areas, and decline in transportation costs throughout the agricultural value chain. Infrastructure targets included the rehabilitation of 800 kilometers (km) of rural roads (upgraded to 1,500 km in 2008), upgrade of communal irrigation systems for 8,000 hectares of agricultural land, and installation of 300 potable water systems by 2008.

The project was set up to respond to local demands, where local government units (LGUs) applied for project funds according to their needs. The Department of Finance and its subagency, the Municipal Development Fund Office, directly released the funds to the LGUs, employing a stratified system of grants. For instance, a Category 6 LGU is among the country's

## Highlights

- With 80% of the Philippines' poor living outside its cities, and many of them living on subsistence farming, improving the value chain for rural agriculture can improve the lives of millions.
- A sprawling rural infrastructure development project encompassing four geographically scattered areas in southern Philippines can be better managed from the field.
- Granting local government partners latitude and freedom to manage their projects promotes ownership and productivity.



poorest and received the majority of funds as grant. A Category 1 or 2 LGU is among the country's most affluent and developed; the funds allocated to them were generally considered as loans. LGUs also had to contribute equity financing.

In the end, over 92 LGUs across nine geographically scattered provinces applied for and were allocated project funds, spread across 143 contract packages.

**Facing Challenges.** Managing and coordinating such scattered project sites are bound to be a challenge, especially if management is centralized in Manila, the headquarters of both ADB and the executing agency, the Department of Agriculture (DA). The project found itself overwhelmed by administrative issues for the first 6 years. A difference of opinion between ADB and DA on the recruitment of consultants delayed the process for over 2 years; DA personnel supported the project with limited capacity in the interim. The consultants, when eventually on board, were concentrated in Manila, not in the LGUs they were supposed to be helping.

The delay also ensured that crucial activities could not take place as scheduled. For instance, it was not until December 2004 that subprojects were submitted for approval and funding. In the meantime, the Philippine government was racking up commitment fees, interest, and implementation charges. By project reappraisal in 2008, only 27% of the funds had been disbursed, despite the project being scheduled to end in 2007.

**Rethinking Project Management.** Project management adjustments were clearly warranted. First order of business was to put the technical resources where they were most needed: the field. By early 2009, the technical experts engaged by the project were deployed directly to the zonal offices of DA. This led to

closer operational collaboration and enhanced coordination with DA's field offices and, in turn, enabled both to better guide and capacitate the LGUs in implementing subprojects.

Self-correction was also embraced. The initial consultant team leader was replaced over 4 years after loan approval due to poor performance. ADB also assigned a new project officer to bring the project to fruition after its original closing date was extended from 2008 to 2012.

With the reorganization of project management, ADB and DA stuck to a more frequent schedule of reporting and project discussion—monthly, and sometimes fortnightly, informal meetings were held to thresh out issues and identify areas where services can be bolstered. This allowed both agencies to discuss problems affecting the builds, and course-correct and troubleshoot whenever necessary.

## RESULTS

In the next 4 years (2009–2012), the project achieved 94% of its targets for access infrastructure, and 100% of both potable water supply and communal irrigation system targets.

The average rural household income increased by 69%, still under the appraised target of 80% but the average farm household income in the project areas increased by roughly P37,000, above the targeted P28,000. The actual reduction in farm transportation cost was 78%, almost double the appraisal target of 40%. Improvements in the lives of project beneficiaries can be gleaned from various ways—people started buying more household and farm assets, accessing higher credits, practicing better hygiene, using electricity and liquid petroleum gas for cooking as opposed to charcoal and firewood, and building sturdier houses. Women, too, have started participating more in community affairs. Taken together, these indicate more direct impact on households' earnings.

The success of the decentralized approach has also influenced the project management arrangements in subsequent development projects: the Lao PDR has a rural infrastructure project in progress that in 2 years had already managed to achieve 40% of its objectives. These practices have also been adopted for projects in Viet Nam and Cambodia.

## MOVING FORWARD

The lessons of the experiment have been illuminating. Granting local government partners latitude and freedom to manage their



Before (inset) and after project intervention in Ligao, Albay.

Photos by ADB Photo Library

projects makes them more productive. Initiating recruitment of implementation consultants during the loan/grant fact-finding mission will facilitate early deployment of technical resources to the project sites soon after the loan/grant effective date.

Project planning should also consider a systematic geographical rollout. A focus on developing one or two regions with potential growth areas could facilitate management of project and travel costs, consultant deployment, and implementation monitoring.

Weather and climate conditions should also be factored into project planning. For instance, in the Philippines, the rainy season generally brings typhoons. Construction must be scheduled for the dry season, with paper work and planning scheduled during the wet months.

LGU management is also key—creating a system by which low-performing or corrupt LGUs are penalized by de-prioritizing them from future support could ensure that their focus on development is not dissipated.

The Philippine infrastructure for rural productivity project, and the subsequent projects modelled after it, proves that there are rewards to giving government partners a chance to claim ownership of their development initiatives.

## Related Links

- Philippine Infrastructure for Rural Productivity Enhancement Sector Project: <http://www.adb.org/projects/30552-013/main>

## KNOWLEDGE CONTRIBUTOR



**Bui Minh Giap** ([buigm@adb.org](mailto:buigm@adb.org)) is a natural resources and agricultural economist for ADB's Southeast Asia Department. He is the mission leader for the Philippine Infrastructure for Rural Productivity Enhancement Sector Project, as well as similar demand-driven, decentralized infrastructure projects in the Lao PDR, Viet Nam, and Cambodia.



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