REG: Sustainable Financing of Small-Scale Agriculture in South Asia and Southeast Asia

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### ABBREVIATIONS

- ADB – Asian Development Bank
- QAC – qualified agribusiness company
- QFI – qualified financial institution
- TA – technical assistance

### NOTE

(i) In this report, "$" refers to US dollars.

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<tr>
<th>Role</th>
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<tr>
<td>Vice-President</td>
<td>Diwakar Gupta, Private Sector Operations and Public-Private Partnerships</td>
</tr>
<tr>
<td>Director General</td>
<td>Michael Barrow, Private Sector Operations Department (PSOD)</td>
</tr>
<tr>
<td>Director</td>
<td>Christine Engstrom, Financial Institutions Division, PSOD</td>
</tr>
<tr>
<td>Team leader</td>
<td>Rainer Hartel, Lead Investment Specialist, PSOD</td>
</tr>
<tr>
<td>Team members</td>
<td>Pamela Bracey, Principal Investment Specialist</td>
</tr>
<tr>
<td></td>
<td>Dionisio Camangon, Public-Private Partnership Specialist, Office of Public-Private Partnerships (OPPP)</td>
</tr>
<tr>
<td></td>
<td>Henri Devys, Public-Private Partnership Specialist, OPPP</td>
</tr>
<tr>
<td></td>
<td>Catherine Fong, Senior Public-Private Partnership Officer, OPPP</td>
</tr>
<tr>
<td></td>
<td>Siddhartha Shah, Principal Public-Private Partnership Specialist, OPPP</td>
</tr>
<tr>
<td></td>
<td>Edmond Yee, Associate Project Analyst</td>
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I. BACKGROUND INFORMATION

1. The Capacity Building Technical Assistance (TA) 8861 REG: Sustainable Financing of Small-Scale Agriculture in South Asia and Southeast Asia was approved on 23 December 2014 with a total amount of $750,000. The TA was designed to support the establishment of scalable models for commercial credit to small farmers via contract farming and product aggregation. The TA aims to increase farm household incomes through scalable farm credit to small farmers in collaboration with qualified financial institutions (QFIs) and qualified agribusiness companies (QACs).

II. CURRENT STATUS OF TA IMPLEMENTATION

2. As of date, $100,000 has been committed and about $75,000 has been disbursed. The amount was used to procure a consultant in 2015 to (i) review the relevant regulations in Indonesia pertaining to certain loan products; (ii) identification of existing loan products and their effectiveness in reaching targeted customer segments; and (iii) identification of market niches and opportunities through a cash flow-based lending approach for coffee farmers. At the end of the contract, the consultant was able to design a plausible loan structure for the coffee farmers. The aim was to use the results of the study to create a pilot lending facility that would allow the off-takers to grow its supply chain relationships with existing small coffee farmers. Following the introduction of a subsidized loan facility for farmers by the state-owned bank which was to have partnered with ADB, Bank BRI, the pricing was deemed too high by the farmers prompting the assistance not to push through.

3. No other activities have been planned for the remaining uncommitted $650,000 prior to this request.

III. THE PHILIPPINE IDENTIFICATION SYSTEM

4. On 6 August 2018, the President of the Philippines signed into law Republic Act No. 11055, “An Act Establishing the Philippine Identification System”. The law requires the establishment of a single national identification system for all citizens and residents of the Philippines. The Philippine Statistics Authority (PSA), an attached agency of the National Economic and Development Authority (NEDA), has been appointed as the implementation of the Philippine Identification System (PhilSys). Additionally, an inter-ministerial council, PhilSys Policy and Coordination Council (PSPCC) has been constituted to provide guidance and oversight to ensure effective coordination and implementation of the PhilSys. It is chaired by the Secretary of NEDA. The PSA and PSPCC have requested assistance from ADB for the implementation of the PhilSys.

5. The World Bank and ADB are working jointly to support this project. The World Bank, with the support of its specialized ID4D team\(^1\), leads on the upstream design and strategy related activities while ADB will lead in the transaction support for the tendering process of the procurement of the PhilSys system, the monitoring and evaluation, and the financial inclusion aspect of the project. The government is fully committed to implementing the project with priority implementation for the beneficiaries of the unconditional cash transfer and conditional cash transfer programs. Currently, both WB and ADB are supporting the government for the creation of an implementation strategy, with a view to ensuring proper procurement and implementation.

\(^1\) [http://id4d.worldbank.org/](http://id4d.worldbank.org/)
of the project. The PhilSys project will start in 2019 and targets to register 90% of the population by 2022.

6. As has been seen across the world, and most recently in India, in the fields of financial inclusion, social protection, tax reforms, and e-government alone, the PhilSys can give a significant boost for inclusive development particularly for those people in rural and outlying regions. The PhilSys Strategy aims to build a PhilSys that supports and enables a wide range of use cases across the public and private sectors. The PhilSys is expected to increase access to financial institutions for most of the population by facilitating authentication and e-KYC. Having a reliable, unique identifier will be crucial for maintaining accurate credit records and building credit histories that help financial service providers build risk profiles of potential borrowers. The credit information systems typically play this role working closely with the financial institutions. However, the Philippines currently ranks very low in terms of credit information coverage and this information is only available to select member institutions. PhilSys could create new economic opportunities for a larger segment of the population by providing a unique identifier linking several information databases.

7. Once the PhilSys is in place, a greater number of the underserved and unbanked population will have access to financial services. An example of this is linking bank and mobile accounts to the holder’s ID number which would make it easier for farmers to access loans if they have a positive credit score. Banks, microfinance- and mobile money institutions could share data on non-performing loans, as well as positive credit histories, providing a comprehensive credit information system. Utility providers, retail outlets and other nonfinancial firms that offer credit could also share information on a voluntary and reciprocal basis. The introduction of such credit information system, with data linked through each person’s national ID number, has been statistically associated with a decline in the share of non-performing loans as well as a decline in the proportion of loans secured by collateral, enabling more people to access credit. Using biometric technology to identify borrowers would allow lenders to better identify borrowers, enabling them to construct more accurate credit histories for clients, withhold loans from past defaulters, and reward timely repayments with expanded credit for good borrowers.

8. Small farmer access to credit is a priority for the Government of the Philippines; however, financial institutions have traditionally considered farmers (and fishermen) as unreliable borrowers. While the government has passed the Agri-Agra Reform Credit Act in 2009 which compels local banks to allocate 25% of their loan portfolio for agriculture and fisheries, financial institutions have preferred to pay the fine imposed by law rather than extend loans to farmers and fishermen. In 2017, the Department of Agriculture introduced the Production Loan Easy Access (PLEA) which offer uncollateralized loans to small farmers and fishermen. While still very low, the percentage of agriculture production loans doubled in 2015 to 1.2% of total system loans from 0.62% on average over the period 2011 to 2014. The use of the TA to support PhilSys will contribute to the Government’s objective to improve access to credit for farmers, both from public programs such as PLEA and from commercial banks or microcredit institutions.

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9. In addition to improved access to credit, PhilSys will also enable better delivery and targeting of existing and future social protection programs, with the potential of generating substantial public savings, and provide recipients with more secure, and often more convenient, access to their benefits. Farmers living in remote rural locations would particularly benefit from this, with some of them accessing social protection and healthcare for the first time. The biometric de-duplication and authentication will also limit leakage of public aid social protection programs and create substantial savings.

10. The PhilSys could also facilitate the rapid deployment of emergency assistance while limiting leakages and fraud. Lack of reliable ID has been identified as one of the major bottlenecks in delivering effective and rapid assistance to victims of natural disasters, to which farmers are particularly exposed.

11. With the approval of this major change in scope, the TA will be used to support the transaction advisory for PhilSys by procuring technical, legal, and procurement consultants to support the ADB team in (i) the preparation of the implementation strategy and of the procurement plan, (ii) the drafting of all the tender documents, (iii) the management of the tender process, and (iv) the evaluation, selection and negotiation with the bidders until the signing of the legal agreements.

12. **One ADB Approach.** The proposed TA also complements the work that is being undertaken by SERD. The ADB Board of Directors approved in August 2018 the proposed Programmatic Approach and Policy-Based Loan for Subprogram for Inclusive Finance Development Program. It includes two policy-based loans of $300 million each. The first loan (subprogram 1) was approved in September 2018 and the second loan is scheduled for approval in September 2020. As agreed with the government, the second loan includes policy actions related to the implementation and roll-out of the national ID system. The program is packaged together with technical assistance for implementing agencies to support the planning and implementation of a number of activities, including the rollout of the national ID system. Given the great potential of financial inclusion, SEPF in collaboration with the Bangko Sentral ng Pilipinas (BSP) also recently conducted an assessment to identify how a national ID system can accelerate financial inclusion in the Philippines.

13. Specifically, the TA will be used to fund the recruitment of consultants to support the transaction advisory services provided by ADB to the PSPCC for PhilSys.

**IV. CHANGE IN TA SCOPE AND/OR IMPLEMENTATION ARRANGEMENTS**

14. The proposed major change of the TA’s scope will realign the uncommitted portion of the TA amounting to $650,000 to support the PhilSys project in the Philippines. ADB, specifically PSOD and OPPP, will remain the executing and implementing focal point of the TA. This includes the disbursement of funds and procurement of international and national consultants and consulting firms using Quality Based Selection (QBS). ADB will source all technical and administrative resources required to implement the activities of the TA. The terms of reference of the consultants are presented in Appendix 3.

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ADB. August 2018. Report and Recommendation of the President to the Board of Directors - Project Number 51309-001. Manila
15. With the approval of this major change in scope, the implementation period will require an additional 24 months from the current closing date of 31 December 2018. The TA closing is requested to be extended to 31 December 2020.

16. The impact, outcome and output of the TA have been revised to align with the proposed change of scope.

V. STAFF VIEWS

17. PSFI has consulted with CTL, OGC, OPPP, PPFD, and SERD on the above matter and their views are reflected herein.

VI. RECOMMENDATIONS

18. Pursuant to Project Administration Instructions 5.09 para 29 for the major change in scope and para 36 for the extension of TA completion report, the concerned Vice President approves the major change in scope and extension of the TA completion date as described in paragraph 13 and 14 above.
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<td><strong>Impact (2021)</strong></td>
<td>Scalable models for commercial credit to small farmers via contract farming and product aggregation established</td>
<td>Number of viable models exceeding 1,000 farmers Coverage of farmers (number)</td>
<td>QAC and QFI progress reports</td>
</tr>
<tr>
<td><strong>Outcome (2019)</strong></td>
<td>Two successfully tested pilot projects lead to higher farm household incomes</td>
<td>Average net farmer income before and after the pilot test Outstanding loans to small farmers through value chain funding arrangements increased</td>
<td>QAC and QFI progress reports</td>
</tr>
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<td><strong>Output (2018)</strong></td>
<td>Scalable farm credit to small farmers in collaboration with QFIs and QACs appropriately structured</td>
<td>Up to 5 pilot projects signed and executed by QACs and QFIs Good credit quality, defined by non-performing loans above 180 days not exceeding 19% of total loans Agreed term sheets Diagnostics prepared for up to 5 QFIS and QACs TA Agreements implemented for at least 3 QFIs and QACs Regional seminar organized with private financial institutions and QACs</td>
<td>QAC and QFI progress reports Seminar presentation</td>
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<td><strong>Impact (2024)</strong></td>
<td>Farmers have access to credit and financial products</td>
<td>Number of authentication requests from financial institutions in rural area. Number of regional agriculture banks registered as related parties for PhilSys</td>
<td>PhilSys reports and consultations</td>
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**Design Summary** | **Performance Targets and Indicators with Baselines** | **Data Sources and Reporting** | **Assumptions and Risks** 
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**Outcome (2022)** Farmers are registered in PhilSys | Percentage of registration in rural area to reach 90% by 2022 | PhilSys reports and consultations | Risks Registration in remote rural areas is not implemented due to access problem.
**Output (2020)** PhilSys is operational and mass registration of the population has started | Procurement of the System Integrator and the ABIS are concluded by Q1 2020. PhilSys is operational by Q2 2020. | PhilSys reports and consultations | Risks Procurement delays the start of the registration

**Key activities with Milestones**

1. **Scalable farm credit to small farmers in collaboration with QFIs and QACs appropriately structured**
   1.1 Recruitment of Individual consultant for phase 1 (March 2015)
   1.2 Mapping of opportunities by country and crop completed (September 2016)
   1.3 Opportunities shortlisted and selected (December 2016)
   1.4 TA letter Agreements signed with QACs and QFIs (January 2016 onwards) and consultants selected for phase 2 and 3
   1.5 Farmer and loan officer training (March 2016 onwards)
   1.6 Model evaluation 9December 2017 onwards)
   1.7 Expansion of models (January-December 2018)

2. **Support to the Philippine Identification System**
   2.1 Procurement of consultant by Q2 2019
   2.2 Strategy and Implementation plan to be finalized by Q3 2019
   2.3 Tender documents to be finalized by Q4 2019
   2.4 Tenders to be awarded by Q1 2020

**Inputs**

ADB: Technical Assistance Special Fund (TASF-V and TASF-other sources): $750,000
QACs and QFIs: $0.404 million (parallel financing)

ADB = Asian Development Bank, PhilSys = Philippines Identification System, QAC = qualified agribusiness company, QFI = qualified financial institution, TA = Technical Assistance