



Report and Recommendation of the President to the Board of Directors

Project Number: 53353-001
July 2020

Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 Republic of the Philippines: Competitive and Inclusive Agriculture Development Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 July 2020)

Currency unit	–	peso (₱)
₱1.00	=	\$0.02023
\$1.00	=	₱49.43

ABBREVIATIONS

ADB	–	Asian Development Bank
ANR	–	agriculture, natural resources, and rural development
COVID-19	–	coronavirus disease
DOF	–	Department of Finance
DWR	–	Department of Water Resources
FRMMP	–	flood risk management master plan
GDP	–	gross domestic product
ha	–	hectare
NFA	–	National Food Authority
NIMP	–	National Irrigation Master Plan
PBL	–	policy-based loan
PDP	–	Philippine Development Plan
PFM	–	public financial management
RCEF	–	Rice Competitiveness Enhancement Fund
RSBSA	–	Registry System for Basic Sectors in Agriculture
RTL	–	Rice Tariffication Law
SURE	–	survival and recovery
TA	–	technical assistance

NOTE

In this report, "\$" refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 53353-001	
Project Name	Competitive and Inclusive Agriculture Development Program (Subprogram 1)	Department/Division	SERD/SEER
Country	Philippines	Executing Agency	Department of Finance
Borrower	Philippines		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=53353-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=53353-001-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Agriculture, natural resources and rural development	Subsector(s) Agricultural policy, institutional and capacity development		400.00
		Total	400.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Promoting rural development and food security		ADB Financing	
✓ Strengthening governance and institutional capacity		Adaptation (\$ million)	40.00
✓ Fostering regional cooperation and integration		Mitigation (\$ million)	12.31
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.3		Some gender elements (SGE)	✓
SDG 2.1, 2.4, 2.c			
SDG 5.a			
SDG 10.1		Poverty Targeting	
SDG 13.a		General Intervention on Poverty	✓
4. Risk Categorization: Complex			
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		400.00	
Sovereign Programmatic Approach Policy-Based Lending (Regular Loan):		400.00	
Ordinary capital resources			
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		400.00	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed programmatic approach for the Competitive and Inclusive Agriculture Development Program, and (ii) a proposed policy-based loan (PBL) to the Republic of the Philippines for subprogram 1 of the Competitive and Inclusive Agriculture Development Program.

2. In line with the Philippine Development Plan (PDP), 2017–2022, the program aims to reduce income inequality by expanding economic opportunities in agriculture.¹ The program will support the government's effort to increase competitiveness and inclusiveness of the agriculture sector by (i) implementing agricultural trade policy and regulatory reforms, (ii) enhancing public services and finance for the sector, and (iii) increasing social protection to rural families who may be affected by the reforms. The program is included in the country operations business plan for the Philippines, 2020–2022 of the Asian Development Bank (ADB).² The program is consistent with ADB's Strategy 2030 and country partnership strategy for the Philippines, 2018–2023.³

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. Prior to the coronavirus disease (COVID-19) pandemic, the Philippines presented very strong economic performance with an average annual economic growth rate of 6.4% from 2010 to 2019.⁴ This sustained high economic growth contributed to a reduction in the national poverty rate from 23.3% in 2015 to 16.6% in 2018.⁵ However, during 2010–2018, the Philippines' agriculture sector growth was stagnant with annual growth averaging 1.3%, which was lower than that of Indonesia (3.9%), Viet Nam (2.7%), and Cambodia (2.0%).⁶ The poor sector performance has been the result of decades of underinvestment, policy distortions, uncertainties linked to the implementation of agrarian reform, and periodic extreme weather events. It has significantly impacted people's livelihoods and rural poverty. First, it has resulted in low incomes for farmers and the majority of the rural population, which has impeded the government's efforts to significantly reduce rural poverty. The rural poverty rate remains high at 24.5% while national poverty incidence has declined (paras. 4, 12). Second, it has pushed up rice prices about 30% higher than global prices. As rice accounts for 50% of total household calorie intake in the country, the high domestic rice prices (i) hurt poor households with high food expenses in proportion to their total expenses, and (ii) threaten food security.

4. **Impact of COVID-19.** These development challenges have been compounded by the COVID-19 pandemic, which has serious economic and social consequences. Measures to contain the spread of the virus have resulted in job losses and reduction in household incomes. According to ADB estimates, the unemployment rate in Luzon, which represents about 50.0% of the country's population and 70.0% of economic activity, could peak at 22.0% in the second

¹ Government of the Philippines, National Economic and Development Authority. 2017. [*Philippine Development Plan, 2017–2022*](#). Manila.

² ADB. 2019. [*Country Operations Business Plan: Philippines, 2020–2022*](#). Manila. The program was formerly known as the Support for Agrifood System Competitiveness Program (for \$300 million). The government later requested to increase the amount to \$400 million given the substantive reforms to be supported by the program.

³ ADB. 2018. [*Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*](#). Manila; and ADB. 2018. [*Country Partnership Strategy: Philippines, 2018–2023—High and Inclusive Growth*](#). Manila.

⁴ Government of the Philippines. Philippine Statistics Authority. [*National Accounts*](#) (accessed 25 June 2020).

⁵ Government of the Philippines. Philippine Statistics Authority. <http://www.psa.gov.ph/poverty-press-releases/nid/144752>.

⁶ ADB. 2019. [*Key Indicators for Asia and the Pacific 2019*](#). Manila.

quarter of 2020 and gradually decline to 9.6% by the first quarter of 2021, well above the pre-COVID-19 rate of 5.4% at the end of 2019.⁷ The recent Labor Force Survey reports Luzon unemployment at 18.2% in April 2020. Poverty incidence is estimated to rise to 20.7% in 2020 from 16.6% in 2018, threatening to reverse the gains made on this front with 5.5 million more Filipinos falling into poverty. Disruptions in the food supply chain because of the community quarantine have severely affected the poorest citizens, including farmers and fisherfolk. Playing a pivotal role in poverty reduction and ensuring food security, agriculture is among the priority areas for reforms in the government's COVID-19 economic recovery program.

5. **Development constraints.** The Government of the Philippines recognizes the need for competitive and inclusive agricultural development. However, this has been hampered largely by (i) decades of protective policies and regulations for agricultural trade, (ii) inadequate provision of public services and finance for agricultural development, and (iii) insufficient social protection of rural families.

6. **Policy and regulatory barriers to international and domestic trade of agricultural products.** Agricultural policy over the past few decades has prioritized food (particularly rice) self-sufficiency by protecting domestic producers through import restrictions (including quantitative restrictions on rice imports).⁸ These protective policies make domestic rice prices artificially higher than world prices, giving incentives for farmers to continue with basic rice production. This has limited their potential to move up the value chain, and precludes them from diversifying into higher-value crops and earning higher income.⁹ The protective rice trade is one of the root causes of the slow progress in agriculture diversification and commercialization, resulting in low sector productivity and low farm incomes.¹⁰

7. Under the protective trade regime, the National Food Authority (NFA) controls rice imports through the issuance of licenses for importers, wholesalers, retailers, and rice mills operating in the domestic market.¹¹ To protect farmers, the NFA also buys domestic paddy at higher prices; mills, distributes, and sells most of the rice at lower-than-market prices; and keeps the rest for emergency stock. However, this procurement operation is poorly targeted and benefits only few farmers, as the NFA's operation covers only 1% of domestic production.¹² Further, the NFA's financially inviable operation translates into substantial liabilities (₱169.7 billion in 2017) which has considerable national budgetary implications.¹³

⁷ ADB. 2020. [Report and Recommendation of the President to the Board of Directors: Proposed Countercyclical Support Facility Loans to the Republic of the Philippines for the COVID-19 Active Response and Expenditure Support Program](#). Manila.

⁸ Organisation for Economic Co-operation and Development. 2017. [Agricultural Policies in the Philippines](#). Paris.

⁹ Estimates of the effective rates of protection measure the net protection received by domestic producers from the protection of their outputs and the penalty from protection of their inputs. In 2004 (the latest estimates available), the average effective rates of protection in the Philippines were 14.2% for agriculture, 10.0% for manufacturing, and 18.1% for importable agricultural products (indicating protection afforded to agriculture, with a relatively high effective rate of protection for rice). R.M. Aldaba. 2010. [Micro Study: Philippines Does Trade Protection Improve Firm Productivity? Evidence from Philippine Micro Data](#). In C.H. Hahn and D. Narjoko, eds. *Causes and Consequences of Globalization in East Asia: What Do the Micro Data Analyses Show?* ERIA Research Project Report 2009-2. Jakarta: Economic Research Institute for ASEAN and East Asia.

¹⁰ Government of the Philippines, Department of Agriculture. 2018. [The Philippine Rice Industry Roadmap 2030 \(first edition\)](#). Manila.

¹¹ Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development (accessible from the list of linked documents in Appendix 2).

¹² Government of the Philippines, NFA. 2019. [Beginning Rice Stock Inventory, by Month, by Sector, Philippines, 2013–2019](#). Manila. In 2018, the NFA held about 100,000 metric tons of rice (equivalent to about 150,000 metric tons of paddy) as a retainer, while the total paddy production was about 19.07 million metric tons.

¹³ Government of the Philippines, Development Budget Coordination Committee. 2019. [Fiscal Risks Statement 2020](#). Manila.

8. High import tariffs and quantitative restrictions on rice imports, alongside the NFA's near-monopoly on rice trade, have resulted in inadequate rice supply and a serious distortion in the domestic rice market. Additionally, administrative trade barriers, such as the issuance of sanitary and phytosanitary certificates for import, and inadequate interagency coordination among trade regulatory agencies also result in a high level of protection in agriculture.

9. **Uncertain agricultural land ownership.** Piecemeal and incomplete agrarian reforms have led to uncertainties in agricultural land ownership and titles.¹⁴ The uncertainties have been partly caused by restrictions imposed by the Public Land Act enacted in 1936.¹⁵ The restrictions comprise (i) prohibition on the sale and mortgaging of land within the first 5 years of the patent grants; (ii) possible buy back of the land titles by original landowners within a 5-year period; and (iii) prohibition on corporations, associations, or partnerships acquiring or owning land. Uncertain land ownership prevents farmers from using their land as collateral to access credit. It also impedes agricultural land transfer among farmers and agriculture-based corporations. Uncertain land ownership results in creating disincentives for landowners to invest in their own land, which leads to low agriculture productivity and poor sector performance. These restrictions inadvertently encourage underpriced informal land transactions, leading to losses in tax revenue. Women also remain at the margins of agricultural land ownership, comprising about 30% of total agrarian reform beneficiaries with individual land titles during 2000–2016.¹⁶

10. **Ineffective water resources management.** A complex institutional setup and poor coordination and planning for water resources management cause inadequate irrigation services and uncontrolled flood risks, eroding agricultural productivity. There are more than 30 government agencies managing water resources and utilization in the Philippines, operating without an effective coordination mechanism. This results in substantial inefficiencies in the development and operation of irrigation systems and low irrigation coverage.¹⁷ To tackle increasingly intense and frequent floods, the government needs to prepare flood risk management master plans (FRMMPs) for major river basins.

11. **Limited public financing and provision of agriculture extension services.** Uncoordinated arrangements for public financing and fragmented institutional setup for extension services undermine support to agriculture. There are various government programs and credit schemes to support agriculture, with a focus on rice production. However, there is a lack of overall planning and coordination of those programs. Farm extension services are not effectively delivered because of the structural disconnect between the Department of Agriculture and local

¹⁴ Presidential Decree No. 2 issued on 26 September 1972 proclaimed the entire country as a land reform area, and simultaneously the Agrarian Reform Program was decreed. On 15 June 1988, the Comprehensive Agrarian Reform Law was enacted, and the government aims at distributing the targeted 5.43 million hectares (ha) of agricultural lands to landless farmers and farm workers under the Comprehensive Agrarian Reform Program (1988–2008) and the Comprehensive Agrarian Reform Program Extension with Reforms (2009–ongoing). During 1972–2019, cumulative land distribution and registration totaled 4.82 million hectares (88.8% of the targeted area) and the total number of agrarian reform beneficiaries reached 2,887,914. Government of the Philippines, Philippine Statistics Authority. 2019. [Redistribution of Land](#). *Agricultural Indicators System*. No. 2019-7. Manila.

¹⁵ Government of the Philippines. 1936. [Commonwealth Act \(No. 141\)](#). Manila. The Commonwealth Act is also known as the Public Land Act.

¹⁶ The 30% figure includes land ownership and emancipation patent holders. Government of the Philippines, Philippine Statistics Authority. 2016. [2016 Statistical Handbook on Women and Men in the Philippines](#). Manila.

¹⁷ Irrigated farmlands in 2018 totaled 1.92 million ha, comprising 61.39% of the estimated total irrigable area. Government of the Philippines, Philippine Statistics Authority. 2019. [Selected Statistics on Agriculture 2019](#). Manila. However, 0.36 million ha of irrigated farmlands have dysfunctional and aging canals in 2015 (there is no current data available). Government of the Philippines, National Economic and Development Authority. 2017. [Philippine Development Plan, 2017–2022](#). Manila.

government units. This hinders farmers from adopting modern seed varieties, modern farming technologies and practices, and farm mechanization. This is particularly aggravated for female farmers, as they are not recognized as farmers because of social and cultural norms. Despite their primary role in the family's food security, only 23% of female farmers have access to extension services and only 14% of them receive financial assistance.¹⁸

12. **Persistent rural poverty and food insecurity.** Despite recent strong economic growth, annual incomes of households engaged in agriculture, forestry, and fishery are still low, leading to high rural poverty. While the rural poverty rate has declined to 24.5% in 2018 from 34.0% in 2015, it remains substantially high.¹⁹ Poverty is also directly linked to malnutrition and stunting in children. The 2018 Expanded National Nutrition Survey showed that undernutrition rates remained very high and stunting stood at 30% among children under 5, affecting 3.5 million children of the 11.7 million aged 0–5 years.²⁰ Chronic malnutrition or stunting is strongly linked with high rates of disease and premature death. It also has adverse effects on crucial stages of child development, leading to cognitive and behavioral deficits, learning disabilities, and ultimately an uncompetitive and suboptimal labor force. The Philippines is lagging behind other Southeast Asian countries such as Thailand and Viet Nam in terms of making the shift from low-value agricultural commodities to products that can attract higher returns and improve farmer incomes. This is largely because of distortive policies favoring low-value commodities, particularly rice. Moreover, rice is the largest expenditure item in the food basket for poor Filipinos. Among the poorest 20% of households, including households headed by women, rice constitutes over 19% of their total expenditure.²¹ Low farm incomes together with high rice prices reduce disposable income of poor households for other necessities, including human capital investments such as education and health care, that are critical for future employment prospects.

B. Policy Reform and ADB's Value Addition

13. **Government reform agenda.** The PDP promotes inclusive growth and sets a strategic target for the Philippines to reach upper middle-income status by 2022. To maximize the inclusive growth potential of agriculture, the PDP lays out strategies to raise sector productivity and competitiveness. Prior to the onset of COVID-19, the government had set the following targets to be achieved during 2016–2022: annual real gross domestic product (GDP) growth of 7%–8%, per capita GDP increase from \$3,550 to \$5,000, and poverty rate reduction from 21.6% to 14.0%. To accomplish inclusive growth, the government has emphasized agriculture sector development, because the sector is pivotal in generating employment for one-fourth of the country's labor force that is dependent on agriculture, including women, thereby reducing poverty and inequality for three-fourths of the poor who are in rural areas. Female workers account for 22% of the agricultural labor force.²² The sector also provides raw materials to the manufacturing and services sectors, generating higher-paying and more stable job opportunities through forward linkages.

¹⁸ Food and Agriculture Organization of the United Nations, International Fund for Agricultural Development, United Nations Children's Fund (UNICEF), World Food Programme, and World Health Organization. 2018. [The State of Food Security and Nutrition in the World, 2018: Building Climate Resilience for Food Security and Nutrition](#). Rome.

¹⁹ Government of the Philippines, Philippine Statistics Authority. 2020. [Farmers, Fisherfolks, Individuals Residing in Rural Areas and Children Posted the Highest Poverty Incidences Among the Basic Sectors in 2018](#). News release. 3 June.

²⁰ Government of the Philippines, Department of Science and Technology, Food and Nutrition Research Institute. 2018. [The Expanded National Nutrition Survey Overview](#). Manila.

²¹ Government of the Philippines, Philippine Institute for Development Studies. 2018. [Pass Rice Tariffication before TRAIN2](#). News release. 18 May.

²² Government of the Philippines, Philippine Statistics Authority. 2019. [Population and Labor Force](#). *Agricultural Indicators System*. No. 2019-8. Manila.

14. **Proposed policy reforms.** The reform areas are (i) agricultural trade policy and regulatory framework improved, (ii) public services and finance for the agriculture sector enhanced, and (iii) social protection to rural families increased. The program will comprise two subprograms. Subprogram 1 largely addresses constraints in the enabling environment and has provided much-needed government-led direction and planning to support sustainable agriculture productivity growth in the long term. Subprogram 2 will continue effective implementation of these reforms to further boost competitiveness and expand economic opportunities for farmers, crucial to accomplishing inclusive growth. A programmatic approach gives a flexible and effective way of tackling complex policy and institutional reforms to increase agricultural competitiveness. Under subprogram 1, the government has accomplished 13 policy actions, including 5 policy triggers and 8 policy milestones. Subprogram 2 comprises 15 policy actions, of which 6 are policy triggers and 9 are policy milestones.

15. **Reform Area 1: Agricultural trade policy and regulatory framework.** Under this policy reform area, the government has liberalized and facilitated rice trade to make sufficient rice available at affordable prices in the domestic market and to be a catalyst for resources to diversify production and shift to higher-value agricultural products. This reform area will make agricultural products and input markets more flexible and responsive to price signals. Under subprogram 1, the government enacted the Rice Tariffication Law (RTL), 2019 and adopted its implementing rules and regulations. The RTL removed (i) quantitative restrictions on rice imports and replaced them with a pure tariff system, and (ii) the NFA's regulatory powers and commercial functions over the domestic and international trade of rice and other grains.²³ The government also facilitated trade of non-rice agricultural products by removing administrative barriers for their import, and it rolled out an online trade facilitation portal (TradeNet) with the Department of Agriculture as a key regulatory agency. Under subprogram 2, the government will issue implementing rules of the NFA's buffer stock management to better cope with any emergency situations, including infectious disease outbreaks.

16. **Reform Area 2: Public services and finance for the agriculture sector.** Under this policy reform area, the government has improved (i) land and water resources use planning and management, which are key production factors for agriculture; (ii) financing to make the Philippine rice industry competitive under the liberalized trade regime; and (iii) access and quality of extension services.

17. Under subprogram 1, the government enacted the Agricultural Free Patent Reform Act, 2019 to retroactively remove the restrictions on the sale and transfer of agricultural land to facilitate efficient and effective utilization of land as an asset. The government (i) took steps to create the Department of Water Resources (DWR) as a significant institutional reform aiming to centralize management of water resources; (ii) formulated and adopted the National Irrigation Master Plan (NIMP)²⁴ for efficient and sustainable planning, and management of irrigation; and (iii) developed FRMMs for major river basins.

18. The government set up the Rice Competitiveness Enhancement Fund (RCEF) to strengthen the rice industry in 57 rice-competitive provinces during 2019–2024 in accordance with the Philippine Rice Industry Roadmap (footnote 10). The RCEF provides an annual budget of ₱10 billion from increased tariff revenue from rice imports for four primary programs: (i) rice farm machineries and equipment (₱5 billion); (ii) rice seed development, propagation, and promotion

²³ The import tariff rates are set for ASEAN countries at 35% and for non-ASEAN countries at 40% within the minimum access volume of 350,000 metric tons and 180% for over the minimum access volume.

²⁴ Government of the Philippines, National Irrigation Administration. National Irrigation Master Plan 2020–2030. Manila. Unpublished.

(₱3 billion); (iii) expanded rice credit assistance (₱1 billion); and (iv) rice extension services (₱1 billion). If the rice tariff revenue goes beyond the ₱10 billion, the RCEF will further support the following: (i) rice farmer financial assistance, (ii) titling of agricultural rice lands, (iii) an expanded crop insurance program on rice, and (iv) a crop diversification program. To improve the targeting of RCEF programs, the government started updating the Registry System for Basic Sectors in Agriculture (RSBSA) to identify the beneficiary farmers, farmworkers, and their dependents.

19. Subprogram 2 will help consolidate and solidify these reforms by (i) transforming the National Water Resources Board into the National Water Management Council to streamline water resources management as a provisional measure towards the establishment of the DWR, and (ii) allocating national budget to implement priority investment projects under the NIMP and the FRMMPs. The government will (i) develop a rice fund impact monitoring system to assess the impact of the RCEF programs on farm productivity and income; (ii) complete updating of the RSBSA; (iii) develop a national agriculture and fisheries modernization and industrialization plan to map out a detailed sector strategy; and (iv) develop a pilot project to establish provincial agricultural and fishery extension centers to strengthen local government units' extension services for farmers, with measures to promote women's meaningful participation and benefits.

20. **Reform Area 3: Social protection to rural families affected by the reforms.** There are two development objectives under this policy reform area: (i) mitigate the adverse impacts of the RTL on potential losers from the reforms, such as smallholder rice farmers, as well as the unforeseen impact of COVID-19 on rural communities, and (ii) expand targeted social assistance programs to rural communities including national feeding program to tackle persistent malnutrition and stunting among children and rural poverty. Under subprogram 1, the government (i) established unconditional cash transfer programs for smallholder rice farmers who were most affected by low farmgate rice prices as a result of the RTL, and (ii) allocated ₱3 billion under the Rice Farmer Financial Assistance Program and an additional ₱3 billion under the Financial Subsidy to Rice Farmers Program.

21. The government also established (i) the Expanded Survival and Recovery (SURE) Assistance Program for Rice Farmers (SURE Aid, which is one of the SURE assistance programs) to issue no-collateral, interest-free loans totaling ₱2.5 billion to 164,274 small rice farmers (1 hectare [ha] or less), of which about 45% are female; and (ii) the SURE COVID-19 Program with an additional ₱2.5 billion to provide no-collateral, interest-free loans to small farmers and fisherfolk (3 ha or less) and agri- and fishery-based micro and small enterprises affected by the COVID-19 pandemic. The government institutionalized through legislation a national feeding program for undernourished children in public day care, kindergartens, and elementary schools to address high rates of child malnutrition and stunting rates, improving nutritional status of children.

22. Under subprogram 2, the government will (i) provide an additional ₱2.5 billion for SURE assistance programs as part of emergency support for vulnerable groups, (ii) implement a national feeding program, and (iii) commence planning for a nutritional food program for poor pregnant women as part of its zero-hunger agenda to address malnutrition and stunting in newly born babies. The Box summarizes the key achievements of the program thus far, and Table 1 shows the alignment with Strategy 2030.

Box: Key Achievements under Subprogram 1

- Enactment of Rice Tariffication Law and adoption of implementing rules and regulations, which has considerably streamlined agricultural trade
- Enactment of Agricultural Free Patent Reform Act, which has liberalized land markets
- Land and water resources use planning improved, supported by adoption of National Irrigation Master Plan and steps to establish an integrated Department of Water Resources
- Access and quality of agricultural extension services improved
- Establishment of Rice Competitiveness Enhancement Fund
- Rolling out comprehensive social protection programs to compensate farmers affected by the reforms

Table 1: Alignment with Strategy 2030

Strategy 2030 Operational Priorities	Program Actions
Promoting rural development and food security	The program will enhance food security by making sufficient rice available at affordable prices for all Filipinos as a result of the rice trade liberalization. The RCEF strengthens the rice industry and promotes crop diversification, which will increase supply of other food products and boost farmers' incomes to increase their economic access to food.
Accelerating progress in gender equality	The program will support gender mainstreaming in (i) water resources management, (ii) master planning of irrigation development and flood risk management, and (iii) RCEF programs and interest-free loans for small farmers and fisherfolk under SURE assistance programs.
Addressing remaining poverty and reducing inequalities	The program will comprise mostly pro-poor policy actions, including strengthening social protection systems for rural families and making rice available at affordable prices, which has the most significant impact on the poor as rice is a key household expenditure.
Strengthening governance and institutional capacity	The program will improve (i) governance in the food grain sector by removing the NFA's regulatory powers on rice trade and improving their rice buffer stock management, and (ii) national water resources management by taking a step to create the Department of Water Resources.
Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability	The program will strengthen climate resilience by (i) improving water resources management, (ii) strengthening flood risk management, and (iii) promoting climate-resilient seed development and distribution. Climate mitigation will be realized by reducing (i) energy use as a result of improved water resources planning and utilization, (ii) greenhouse gas emissions via crop diversification, and (iii) food loss and water use.
Fostering regional cooperation and integration	The program will foster international trade of agricultural products by replacing quantitative restrictions with tariffication and streamlining administrative procedures.

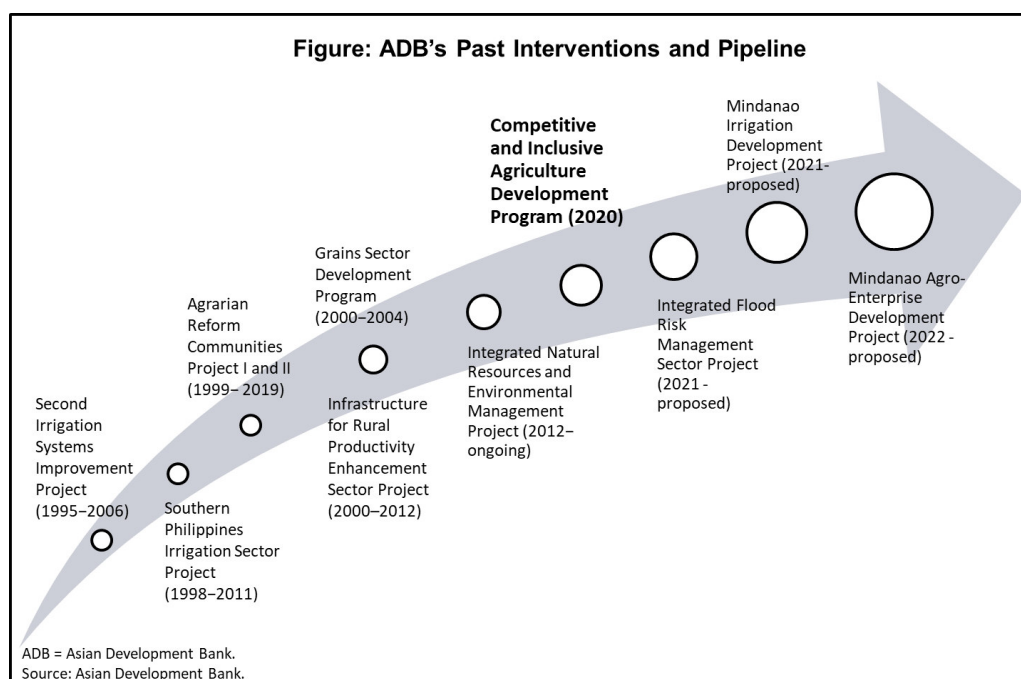
NFA = National Food Authority, RCEF = Rice Competitiveness Enhancement Fund, SURE = survival and recovery.
Source: Asian Development Bank.

23. ADB experience in the agriculture, natural resources, and rural development sector.

ADB has had a long engagement in the Philippines agriculture, natural resources, and rural development (ANR) sector through policy advice and investment projects. Through the Grains Sector Development Program (2000–2004), ADB developed an integrated package of policy and institutional reforms linked to agriculture sector investment loans and technical assistance (TA).²⁵ These included trade policy reforms to the rice sector and reforms to the NFA. However, the program was canceled in 2003 because of several reasons. First, the short period of the second tranche (9 months after effectiveness) required strong ongoing political support to meet timing

²⁵ ADB. 1999. [Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant to the Republic of the Philippines for the Grains Sector Development Program](#). Manila.

objectives while there was opposition from some stakeholders. Second, the counterpart funding requirements were substantial in the context of the Philippines budgetary constraints following the Asia financial crisis. Third, disbursements under the investment loan were linked to the program loan conditions. When the program loan failed to meet its policy objectives, the investment loan also failed. ADB supported agricultural land reform through the Agrarian Reform Communities Project, phases 1 and 2 (1999–2019) and irrigation investments through the Second Irrigation Systems Improvement Project (1995–2006) and the Southern Philippines Irrigation Sector Project (1998–2011).²⁶ Most recently, ADB supported the preparation of FRMMPs for major river basins through the ongoing Infrastructure Preparation and Innovation Facility (2017–2021).²⁷ The proposed program lays out the policy foundations for ADB’s future investment projects and programs in the ANR sector (Figure).



24. **ADB’s value addition to the program.** The program provides an overarching framework for ADB’s investment projects and TA in the ANR sector under the current country partnership strategy. ADB provided the government with critical policy advisory support to draft the implementing rules and regulations of the RTL. These include the necessary institutional arrangements that will enhance competitiveness, ensure the country’s smooth and timely transition to a new rice production and trading regime, and institute safety nets to assist local farmers. ADB is also providing TA on the preparation of the National Agriculture and Fisheries Modernization and Industrialization Plan, 2020–2025 and the strengthening of the Philippine Rice

²⁶ ADB. 1998. [*Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of the Philippines for the Agrarian Reform Communities Project*](#). Manila; ADB. 2008. [*Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan to the Republic of the Philippines for the Agrarian Reform Communities Project II*](#). Manila; ADB. 1995. [*Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant to the Republic of the Philippines for the Second Irrigation Systems Improvement Project*](#). Manila; and ADB. 1998. [*Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of the Philippines for the Southern Philippines Irrigation Sector Project*](#). Manila.

²⁷ ADB. 2017. [*Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the Republic of the Philippines for the Infrastructure Preparation and Innovation Facility*](#). Manila.

Industry Roadmap (footnote 10). ADB is preparing a TA to pilot farming cluster development with measures to ensure women's meaningful participation and benefit. ADB will support (i) the implementation of the NIMP through the Mindanao Irrigation Development Project (for approval in 2021); and (ii) preparation of FRMMPs for the major river basins through the ongoing Infrastructure Preparation and Innovation Facility, and implementation of these master plans through the Integrated Flood Risk Management Sector Project (for approval in 2021). ADB will also help promote value addition and diversification through the Mindanao Agro-Enterprise Development Project (for approval in 2022). To further reduce hunger, the government created the Inter-Agency Task Force on Zero Hunger on 10 January 2020, and ADB is advising the government on the design of a nutritional food program for poor pregnant women as part of its zero-hunger agenda.

25. **Lessons.** The program was designed based on relevant lessons from ADB's experience, particularly the Grains Sector Development Program whose objectives are similar to those of the PBL,²⁸ as well as evaluation findings on the special study on PBLs.²⁹ These lessons are as follows:

- (i) Agriculture reforms are complex, have a medium- to long-term gestation period, and require proper sequencing. Programs should exhibit sufficient flexibility to accommodate a medium- to long-term development horizon and the inevitable changes that occur when dealing with complex reform areas.
- (ii) Strong high-level government resolve and ownership are key to successful implementation of reforms.
- (iii) Policy reforms create winners and losers, and adverse impacts on the losers should be mitigated and supplemented with expansion of social assistance programs to vulnerable rural families and communities.
- (iv) A programmatic approach and PBL will help to promote structural policy reforms in the sector and support downstream investment projects in irrigation, flood risk management, and agribusiness in the pipeline. The "One ADB approach", involving extensive coordination within ADB's Southeast Asia Department and across ADB's departments, ensures an appropriate program design, the scope of which goes beyond the agriculture sector.

26. **Development coordination.** Major development partners in the ANR sector in the Philippines include the International Fund for Agricultural Development, Japan International Cooperation Agency, Korea International Cooperation Agency, and World Bank. Strong development coordination and effective and efficient use of resources provided by development partners are imperative for the program. ADB will continue communicating with key development partners to gather lessons from partner programs and projects and further improve the program's impact.

27. ADB has coordinated closely with the International Monetary Fund on macroeconomic conditions and prospects in the Philippines. The International Monetary Fund has provided an assessment letter for the program. The government had demonstrated a sound record of macroeconomic management before the COVID-19 crisis. The economy expanded by 6.4% on average during 2010–2019. Inflation had been carefully managed and was only 2.5% in 2019.

²⁸ ADB. 2007. [Completion Report: Grains Sector Development Program in the Philippines](#). Manila. The list of previous programs and projects are in Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development (accessible from the list of linked documents in Appendix 2).

²⁹ ADB. 2018. *Policy Based Lending 2008–2017: Performance, Results and Issues of Design*. Manila.

Slowing food price inflation served as the main inflationary brake following the enactment of the RTL. ADB estimates that the GDP will contract by 3.8% in 2020 because of a significant fall in household spending and investment as a result of COVID-19 impact, down from the originally projected 6.2% growth for 2020. With economic policies mitigating the impact of COVID-19 and an acceleration in public investment, growth is projected to rebound to 6.5% in 2021.³⁰

C. Impacts of the Reform

28. **Economic impact of the program.** The program reforms the agriculture sector with a specific focus on dismantling trade protection in the rice sector. Overall, through reforms to move toward market-based rice prices the program is expected to facilitate a transition from rice production to higher value-added crops supported by enabling reforms to the management and utilization of key production factors, such as land and water resources, and better extension services and targeted funding to the sector. The key effect of the program is increased agricultural competitiveness and inclusiveness. Reform area 1 will expose the rice sector to international competition; reform area 2 will enhance its competitiveness; and reform area 3 will enhance its inclusiveness. The program will increase income opportunities in the agriculture sector as well as in the industry and services sectors through backward and forward linkages. The assessment of the economic impact of the program focused on the impact of rice trade liberalization (reform area 1) since the economic impact of the program is expected to result substantially from the enactment of the RTL in 2019.

29. The welfare impact of the rice trade liberalization is estimated at \$21 billion during 2020–2040.³¹ This trade policy reform will benefit all rice consumers in the Philippines (i.e., nearly the entire population) through reduced retail rice prices, making them as the winners of the reform. On the other hand, it will hurt most of the about 2 million rice farmers who sell rice to markets through reduced farmgate prices, making them as the losers of the reform. The consumer surplus is estimated at \$50.7 billion. Per capita rice consumption is expected to increase by 6.3% to 120 kilograms per year by 2025 and to fall to 117 kilograms per year by 2040, and the number of malnourished children is expected to decline from 3.0 million in 2015 to 2.4 million by 2040. On the other hand, the loss in producer surplus is estimated at \$29.7 billion, which is expected to be partly mitigated by the RCEF programs under reform area 2. Some farmers are expected to shift to high-value crops, such as vegetables and fruits. The RCEF will be financed by the rice tariff revenue, which is expected to increase from \$487 million in 2020 to \$640 million in 2040. The RCEF programs, irrigation expansion, and agricultural extension programs are expected to generate a producer surplus of \$7.3 billion. Further, under reform area 3, the program will include income distributive benefits, such as income transfers to marginal rice farmers affected by the reforms and transfers to rural families to tackle long-term rural poverty, including dimensions such as malnutrition and stunting of children residing in rural communities.

D. Development Financing Needs and Budget Support

30. The government has requested a regular loan of \$400 million from ADB's ordinary capital resources to help finance subprogram 1.³² The loan will have a 15-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's London interbank

³⁰ ADB. 2020. [Asian Development Outlook Supplement \(June 2020\): Lockdown, Loosening, and Asia's Growth Prospects](#). Manila. The government projects that the GDP will contract by 2.0%–3.4% in 2020.

³¹ N. D. Perez and A. Pradesha. 2019. [Philippine Rice Trade Liberalization: Impacts on Agriculture and the Economy, and Alternative Policy Actions](#). NEDA-IFPRI Policy Studies. June. Washington, DC: International Food Policy Research Institute.

³² The loan may be disbursed in one or more installments.

offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement. Based on the annuity repayment method, the average maturity is 12.1 years, and there is no maturity premium payable to ADB. The indicative loan amount for subprogram 2 is \$400 million, which will be funded from ADB's ordinary capital resources. The annual budget deficit was originally programmed at 3.2% of GDP in 2020 compared to 3.4% of GDP deficit in 2019. With significantly lower revenues because of the economic contraction and higher spending to respond to the impacts of COVID-19, the deficit is expected to widen to 8.4% of GDP in 2020. As such, the financing requirement of the government is expected to reach record levels at ₱2.9 trillion with a financing mix of 74% from domestic borrowing and 26% from foreign borrowing.³³ The loan size of subprogram 1 reflects the government's total financing needs, the strength of the program, and its economic benefits.

E. Implementation Arrangements

31. The Department of Finance (DOF) is the executing agency. The implementing agencies are the National Economic and Development Authority, the Department of Agriculture, the Department of Environment and Natural Resources, the Department of Public Works and Highways, the Department of Social Welfare and Development, and the National Irrigation Administration. A steering committee chaired by the DOF with the implementing agencies as members will oversee the program's implementation. The implementation period is May 2018–April 2020 for subprogram 1 and May 2020–April 2022 for subprogram 2. The loan proceeds will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

III. DUE DILIGENCE

32. **Safeguards.** The program is classified category C for environment, involuntary resettlement, and indigenous peoples in accordance with ADB's Safeguard Policy Statement (2009). The potential environmental and social impacts of the proposed policy reforms have been assessed.³⁴ No policy action will entail any involuntary resettlement or adversely affect indigenous peoples or the environment. Indigenous peoples will benefit from the program (e.g., access to finance, food security, and flood risk mitigation). There will be no differential impacts on indigenous peoples.

33. **Climate change.** The Philippines is highly vulnerable to climate change. The weak performance of the crop subsector, the largest subsector in agriculture, is partly attributed to its vulnerability to extreme weather events (e.g., droughts and typhoons). The program will contribute to strengthening climate resilience of the agriculture and fishery sectors and reduce greenhouse gas emissions. Climate resilience will be realized by (i) improving water resources management through the legislation related to establishing the DWR, (ii) ensuring effective implementation of the climate change adaptation and disaster risk reduction and management measures laid out by the FRMMP and NIMP, (iii) strengthening flood risk management, and (iv) promoting climate-resilient seed development and distribution under the RCEF. Climate mitigation will be realized by reducing (i) energy use as a result of improved water resources planning and utilization, (ii) greenhouse gas emission from crop diversification, and (iii) food loss and water use as a result of farmers' investment in on-farm water management and post-harvest processing equipment and facilities from credit assistance under the RCEF.³⁵ The total estimated climate financing is \$52.31

³³ Government of the Philippines, Department of Finance. 2020. [Medium-Term Fiscal Program](#). Manila.

³⁴ Environmental and Social Impact Assessment (accessible from the list of linked documents in Appendix 2).

³⁵ Rice production generally requires more water than non-rice crops.

million, including \$12.31 million contributing to climate mitigation and \$40.00 million contributing to climate adaptation.³⁶

34. **Poverty and social.** The country's overall poverty rate decreased from 23.3% in 2015 to 16.6% in 2018. The short-term impact of the program is twofold. First, smallholder farmers will have increased access to extension services, credit, and other support programs (including farm mechanization), which will help lift productivity and incomes over the medium to long term. Further, the RTL has already pushed down domestic rice prices by as much as 22%, which has put a downward pressure to the national inflation rate, benefiting poor consumers.³⁷ Second, with falling rice prices, smallholder rice farmers, especially in marginal lands, will be adversely affected. The program's extension of social assistance to vulnerable communities will help mitigate these effects. In the longer term, part of labor and capital engaged in basic rice farming will be relocated to more profitable and diversified agricultural activities including farming with improved and high-quality rice varieties as the basic rice farming becomes less profitable. The COVID-19 pandemic has started having an adverse impact on poverty in the short term because of (i) loss of incomes and livelihood, especially for informal sector workers; (ii) disruption of trade and markets affecting small-scale entrepreneurs and food producers, including farmers; (iii) immense increase in personal debt; and (iv) illnesses or deaths of primary income earners in families. The financial relief and extension of social assistance programs will help alleviate these effects.

35. **Gender.** Subprogram 1 is categorized *some gender elements* at entry. The government has accomplished five policy actions with gender considerations under subprogram 1. The program will promote (i) the incorporation of gender equality in water resources planning, policy formulation, and management by the DWR (which is being proposed by the government) through consultations with all stakeholders, including women, the elderly, and people with disabilities; (ii) the inclusion of gender analyses in the NIMP and FRMMPs; (iii) the collection of sex-disaggregated data for the RSBSA; and (iv) the provision of interest-free loans to smallholder rice farmers, of which about 45% are female, under SURE Aid.

36. Subprogram 2 is expected to achieve *effective gender mainstreaming* through (i) the compliance of the DWR's operation with the gender and development framework, (ii) the integration of gender considerations in the preparation and implementation of forthcoming investment projects under the NIMP and FRMMPs, (iii) the inclusion of gender analyses in FRMMPs for other priority river basins, (iv) the inclusion of gender impact assessment in the evaluation of the RCEF programs, (v) the targeting of female farmer beneficiaries of the SURE assistance programs, (vi) at least 30% participation by female family members in the pilot provincial agricultural and fisheries extension system, and (vii) the commencement of planning for a nutritional program for poor pregnant women as part of the government's zero-hunger agenda.

37. **Governance.** Public financial management (PFM) reforms implemented during 2011–2016 strengthened fiscal discipline and allocative and technical efficiency, while improving transparency and citizen empowerment. A 2016 public expenditure and financial accountability assessment found that three of the seven core PFM areas had improved: policy-based budgeting, transparency, and asset–liability management.³⁸ The government has set an aggressive reform agenda to promote effective and honest governance and to create an enabling environment for

³⁶ Climate Change Assessment (accessible from the list of linked documents in Appendix 2).

³⁷ Food and Agriculture Organization of the United Nations. [Food Price Monitoring and Analysis](#) (accessed 30 May 2020).

³⁸ World Bank. 2016. [Republic of the Philippines: PFM Strategy Implementation Support—Public Financial Management and Accountability Assessment](#). Report No. 105753-PH. Washington, DC.

citizens and the private sector. The framework of the PFM Reform Roadmap, 2017–2022 aims to strengthen the foundation of the PFM system by focusing on three components: (i) a shift to annual cash appropriations; (ii) automation reform, initially through the Budget and Treasury Management System; and (iii) the creation of an Office of the Comptroller General. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the DOF.

38. **Risks and mitigating measures.** Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.³⁹

Table 2: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Prolonged COVID-19 pandemic causes unprecedented economic crisis, which may affect the benefits of the policy and institutional reforms	The government is mounting a \$12.9 billion pro-poor countercyclical expenditure program with a focus on providing social protection for the vulnerable, scaling up resources for the health sector, protecting critical public spending, and providing economic stimulus. The government is also preparing a medium-term economic recovery strategy to recommend programs and policies to support the economy.
Rice exports to the Philippines may be restricted because of emergency situations in major rice-exporting countries	The government has diversified and increased the number of countries from which to import rice. The government is also strengthening the domestic rice sector.
Reforms stall as they did in the Grains Sector Development Program (footnote 25)	Based on lessons learned from the Grains Sector Development Program that had a similar reform objective, the proposed program includes measures to mitigate impacts on rice farmers of reduced farmgate rice prices resulting from the rice trade liberalization, such as various competitiveness enhancement programs under reform area 2 and financial assistance programs under reform area 3.

COVID-19 = coronavirus disease.
Source: Asian Development Bank.

IV. ASSURANCES

39. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan documents.

V. RECOMMENDATION

40. I am satisfied that the proposed programmatic approach and policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the programmatic approach for the Competitive and Inclusive Agriculture Development Program; and

³⁹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

- (ii) the loan of \$400,000,000 to the Republic of the Philippines for subprogram 1 of the Competitive and Inclusive Agriculture Development Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Masatsugu Asakawa
President

21 July 2020

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective Economic opportunities in agriculture expanded (Philippine Development Plan, 2017–2022) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Effect of the Reform Agricultural competitiveness and inclusiveness increased	By 2023: a. Labor productivity of farmers increased by at least 5.0% annually (2016 baseline: 4.6%) b. Poverty incidence reduced to 18.0% (2020 baseline: 20.7% as of 4 April 2020)	a–b. Philippine Statistics Authority website	Prolonged economic crisis induced by the COVID-19 pandemic undermines the reform efforts.
Reform Areas under Subprogram 1 1. Agricultural trade policy and regulatory framework 2. Public services and finance for the agriculture sector	Key Policy Actions By 2020: 1.1 The government enacted the Rice Tariffication Law ^b (2018 baseline: Not applicable) 1.2 The government removed the regulatory powers and commercial functions of the National Food Authority (2018 baseline: Not applicable) 1.3 The government facilitated agricultural trade by removing nontariff barriers and streamlining administrative procedures on the importation of agricultural products (2018 baseline: Not applicable) 2.1 The government enacted the Agricultural Free Patent Reform Act, 2019 (2018 baseline: Not applicable) 2.2 The government submitted a legislation to Congress to create the Department of Water Resources, an apex body for the water resources sector, taking into consideration gender equality, climate resiliency, and disaster risk reduction ^c (2018 baseline: Not applicable) 2.3 The National Irrigation Administration Board adopted the National Irrigation Master Plan, which promotes the integration of climate change and gender aspects into irrigation projects ^d (2018 baseline: Not applicable) 2.4 The government prepared and adopted flood risk management master plans for six major river basins, which include gender	1.1–1.2 Legislative reports in Official Gazette 1.3 Legislative report in Official Gazette; Department of Finance reports 2.1 Legislative report in Official Gazette 2.2 Philippine House of Representatives website 2.3 National Irrigation Administration website 2.4 Legislative report in Official Gazette;	Rice exports to the Philippines may be restricted because of emergency situations in major rice-exporting countries.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
3. Social protection to rural families	analysis and safeguard impact assessment ^e (2018 baseline: Not applicable)	Department of Public Works and Highways website	
	2.5 The government (i) approved the Rice Competitiveness Enhancement Fund to support 57 potential rice-competitive provinces during 2019–2024 and (ii) allocated ₱10 billion annually in the GAA 2019 and 2020 (2018 baseline: Not applicable)	2.5–2.7 Department of Agriculture website	
	2.6 The government issued implementing guidelines for four Rice Competitiveness Enhancement Fund programs (2018 baseline: Not applicable)		
	2.7 The government started updating the Registry System for Basic Sectors in Agriculture covering about 1.956 million rice farmers, where data collected is disaggregated by sex (2018 baseline: Not applicable)		
	3.1 The government approved unconditional cash transfer programs (i) in total of ₱3 billion in the 2019 GAA, and (ii) in total of ₱3 billion in the 2020 GAA to assist small farmers affected by low rice farmgate prices (2018 baseline: Not applicable)	3.1–3.2 Department of Agriculture website	
	3.2 The government approved (i) the Expanded SURE Assistance Program for Rice Farmers ^f to provide no-collateral, interest-free loans to 164,274 small rice farmers, of which about 45% are female; and (ii) the SURE COVID-19 Program ^g to provide no-collateral, interest-free loans in total of ₱2.5 billion to small farmers and fisherfolk and agri- and fishery-based micro and small enterprises affected by COVID-19 pandemic (2018 baseline: Not applicable)		
	3.3 The government enacted the National Feeding Program for Undernourished Children Act ^h and allocated ₱3.7 billion in the 2020 GAA (2018 baseline: Not applicable)	3.3 Legislative report in Official Gazette; Department of Social Welfare and Development reports	

Budget Support

Asian Development Bank

Subprogram 1: \$400 million (policy-based loan)

Subprogram 2: \$400 million (policy-based loan, indicative)

COVID-19 = coronavirus disease, GAA = General Appropriations Act, SURE = survival and recovery.

- ^a Government of the Philippines, National Economic and Development Authority. 2017. [Philippine Development Plan, 2017–2022](#). Manila.
- ^b Government of the Philippines, House of Representatives. 2018. [Republic Act No. 11203: An Act Liberalizing the Importation, Exportation and Trading of Rice, Lifting for the Purpose the Quantitative Import Restriction on Rice, and for Other Purposes](#). Manila.
- ^c The language “gender equality, social inclusion, climate resiliency, and disaster risk reduction” is from House Draft Substitute Bill 9 (consolidation of 35 bills) creating the Department of Water Resources, specifically Section 8, para. I (j), which states the following: “Ensure that gender equality, social inclusion, climate resiliency and disaster risk reduction are integrated into any water resource management planning, policy making, and the design and construction of water infrastructure.” In addition, Section 3 of the bill contains a definition of “gender equality” as the principle asserting the equality of men and women and their right to enjoy equal conditions realizing their full human potential to contribute to and benefit from the results of development, and with the state recognizing that all human beings are free and equal in dignity and rights.
- ^d The National Irrigation Master Plan, 2020–2030 includes sex-disaggregated data on employment in the agriculture sector from 2015 to 2017 (p. 26), a social profile of rice-based farm households indicating that “rice-based farms are heavily dominated by males with females comprising 10%–12% of total” (p. 29). It also recommends including a gender action plan as part of the Environmental and Social Impact Assessment, as well as hiring a gender specialist in the project team to formulate, ensure, and monitor gender action plan implementation (p. 388).
- ^e The flood risk management master plans include gender analysis of the current context. They also ascertain the potential impact and benefits of solutions proposed in the various master plans, which include possible impacts on involuntary resettlement, generation of employment, and occupational safety and health risks, among other impacts and benefits indicators. Gender analysis of the current context included employment and means of generating income for women and families, as well as issues they face related to flood risk management, as gleaned from focus group discussions held at the (village) level.
- ^f The Expanded SURE Assistance Program for Rice Farmers (SURE Aid) is one of the SURE assistance programs.
- ^g The SURE COVID-19 Program, another of the SURE assistance programs, is an emergency loan program for small farmers and fisherfolk and micro and small enterprises engaged in agriculture and fisheries affected by COVID-19.
- ^h Government of the Philippines, House of Representatives. 2017. [Republic Act No. 11037: An Act Institutionalizing a National Feeding Program for Undernourished Children in Public Day Care, Kindergarten and Elementary Schools to Combat Hunger and Undernutrition among Filipino Children and Appropriating Funds Therefor](#). Manila.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=53353-001-3>

1. Loan Agreement
2. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items
10. Environmental and Social Impact Assessment

Supplementary Documents

11. Program Impact Assessment
12. Public Financial Management Assessment
13. Climate Change Assessment



Republic of the Philippines
DEPARTMENT OF FINANCE
Roxas Boulevard Corner Pablo Ocampo, Sr. Street
Manila 1004

DEVELOPMENT POLICY LETTER

MR. MASATSUGU ASAKAWA

President

Asian Development Bank (ADB)

Manila, Philippines

**SUBJECT: Competitive and Inclusive Agriculture Development Program,
Subprogram 1**

Dear **President ASAKAWA**:

On behalf of the National Government, I would like to express appreciation for ADB's continuing support in enhancing the competitiveness of the country's agriculture sector. This development policy letter signifies our interest in obtaining a USD400 million budget support loan to maximize the inclusive growth potential of agriculture through strategies to raise sector productivity and competitiveness.

In light of the COVID-19 pandemic, the Government implemented decisive actions including imposition of varying degrees of community quarantines throughout the country in an effort to save thousands of people from infection and death. However, with the restrictions on economic activities and movements, food security has emerged as an important issue given the loss of incomes and livelihoods and disruptions in the food supply chain. Thus, the Government intends to strengthen and sustain measures/reforms put in place to ensure affordability and availability of food.

The attached Competitive and Inclusive Agriculture Development Program Policy Matrix provides a view of the specific relevant reforms, including those already completed and for which we have requested ADB's assistance. Policy actions under the first subprogram runs from May 2018 to April 2020, while those under the second subprogram will be implemented from May 2020 to April 2022. This reform program is fully consistent with our Philippine Development Plan for 2017 to 2022 specifically on the expansion of economic opportunities in agriculture and increase in access to economic opportunities for small farmers and fisherfolk. These objectives can be achieved by (i)

A handwritten signature in black ink, appearing to be a stylized 'A' or similar character.

improving the agriculture trade policy and regulatory framework, (ii) strengthening public services and finance to the agriculture sector, and (iii) increasing social protection to rural families.

In the first subprogram, the Government largely addressed constraints in the enabling environment and provided much needed government led direction and planning. In February 2019, we enacted the Rice Tariffication Act (RTA), a landmark legislation liberalizing and facilitating rice trade to increase domestic supply. As a result, the domestic rice price decreased by about 30% closing the substantial price difference from the world price and thus benefitting all Filipinos, particularly the poor. The RTA removed quantitative restrictions on rice imports replacing them with a purely tariff system and removed the National Food Authority's regulatory powers over the domestic and international trade of rice and other grains. Moreover, we established and operationalized an online platform called TradeNet which operates as a National Single Window. TradeNet greatly simplifies trade document processing and exchanges and supports the Philippines' ASEAN commitments on trade facilitation.

Second, the Government undertook reforms towards coordinated and efficient water resource management by taking steps to create the Department of Water Resources and the National Water Management Council. We also developed the National Irrigation Master Plan for efficient and sustainable planning and management of irrigation as well as flood risk management master plans for six major river basins given the increasing climate change impact. These master plans will guide national government budget allocations to the sector. With the increased rice import tariff revenue which resulted from the RTA, we established the Rice Competitiveness Enhancement Fund (RCEF) to enhance competitiveness of the rice subsector with an annual budget allocation of PhP10 billion from 2019 to 2024. The RCEF will support the rice farmers including smallholders in 57 rice-competitive provinces through farm mechanization, seeds development and distribution, extension services, and credit assistance.

Finally, to address the limited reduction in rural poverty, in addition to making rice available at affordable prices, the Government enhanced its social protection programs to rural households. We strengthened social protection systems to mitigate the adverse impacts of trade liberalization reforms on rice farming communities, as well as the impact of COVID-19 pandemic in vulnerable rural communities.



Subsequently, under the second subprogram, we will endeavor to continue effective implementation of these reforms to further boost competitiveness of our agriculture sector and expand economic opportunities for our farmers and fisherfolk. We believe these continued efforts are crucial to accomplish inclusive growth and competitiveness in the agriculture sector which are critical to provide raw materials to the manufacturing and service sectors, resulting in generation of higher-paying and more stable job opportunities through forward linkages.

In view of the foregoing, the support that will be provided by ADB, in recognition of our completed policy actions under the first subprogram, is vital in helping us meet the Government's budget deficit primarily due to the pandemic and thus continue funding operations and policy actions including those consistent with the abovementioned reform program.

In closing, I would like to reiterate our commitment to work closely with the Bank to enhance the social fabric, reduce inequality, and increase competitiveness in the country's agriculture sector.

Thank you and I hope the Bank's hardworking management and staff stay safe and remain in good health.

Very truly yours,



CARLOS G. DOMINGUEZ
Secretary of Finance

JUN 11 2020



POLICY MATRIX

Policy Actions	Subprogram 1 Accomplishments (May 2018–April 2020) Policy Triggers in bold	Subprogram 2 (May 2020–April 2022) Policy Triggers in bold	Medium-term Framework and expected results (2018–2025)
Reform Area 1. Agriculture trade policy and regulatory framework			
<i>ADB's policy advisory on drafting of the Rice Tariffication Law (RTL) Implementing Rules and Regulations</i>	<p>The government eliminated market distortions in the agriculture sector by enacting the RTL. Its implementing rules and regulations laid foundations for a transition to a diversified and competitive agriculture sector.</p> <p>1. The government removed quantitative restrictions on rice imports converting these into a simple tariff system to improve food security by increasing rice availability for all Filipinos and reduce poverty by increasing disposable income through affordable rice prices.</p> <p>2. The government dismantled state monopoly for rice and improved governance in the food grains sector by removing the distortionary regulatory powers and commercial functions of the National Food Authority (NFA) and transforming it into an emergency buffer stock management agency.</p> <p>3. The government facilitated agricultural trade by streamlining administrative procedures on the importation of agricultural products and rolling out the government's online trade facilitation portal (TradeNet) with the Department of Agriculture (DA) as a key regulatory agency.</p>	<p>The government consolidates reforms to increase agriculture sector's competitiveness.</p> <p>1. The NFA Council issues implementing rules, regulations and procedures to maintain sufficient rice buffer stock to be sourced from local farmers covering: (i) an optimal level of rice inventory; (ii) composition, storage, processing, replenishment and release of rice stocks; (iii) location and amounts of stocks in anticipation of emergencies; and (iv) transaction flows for release of rice stocks to government agencies as emergency response.</p>	<p>1. Stable supply of rice and other key agriculture commodities at affordable prices in the domestic market is ensured.</p> <p>2. By 2022, the NFA functions as a buffer stock agency operating in an efficient and fiscally sustainable manner.</p> <p>3. TradeNet has simplified the import and export documentary process of over 900 regulated agricultural products.</p>

Policy Actions	Subprogram 1 Accomplishments (May 2018–April 2020) Policy Triggers in bold	Subprogram 2 (May 2020–April 2022) Policy Triggers in bold	Medium-term Framework and expected results (2018–2025)
Reform Area 2. Public services and finance for the agriculture sector			
<p>2.1 Land and water management reforms implemented.</p> <p><i>ADB Loan 3589 “Infrastructure Preparation and Innovation Facility”</i></p> <p><i>ADB Loan 3886 “Infrastructure Preparation and Innovation Facility (additional financing)”</i></p>	<p>The government introduced regulatory and institutional reforms for efficient management of land and water resources that are critical to agriculture sector.</p> <p>4. To remove restrictions on agricultural land ownership, the government enacted the Agricultural Free Patent (AFP) Reform Act (2019), making the land titles held by AFP recipient farmers immediately tradeable and bankable, providing them access to capital and credit.</p> <p>5. The government submitted to Congress a proposed legislation on the creation of an apex body for the water resources sector, i.e., the Department of Water Resources, in order to: (i) address the fragmentation in important activities such as water-related plans, policies and program and/or project implementation; (ii) separate water resource regulation from economic regulation; and (iii) rationalize all water related functions in the government, taking into consideration, among others, gender equality, social inclusion, climate resiliency and disaster risk reduction.</p> <p>6. To improve the country’s irrigation systems and expand service areas including by addressing climate change impacts and impacts on gender, the National Irrigation Administration endorsed the National Irrigation Master Plan.</p>	<p>The government implements key reforms to land and water resource management.</p> <p>2. The government (through the Department of Environment and Natural Resources) issues implementing guidelines for the AFP Reform Act including use of the land titles as bank collateral.</p> <p>3. As part of water sector reforms, the government issues Executive Order, reconstituting and transforming the National Water Resources Board into the National Water Management Council, which shall be responsible for the planning and policy formulation, management and protection of the country’s water resources.</p> <p>4. The government implements the flood risk management master plans and the National Irrigation Master Plan by: (i) selecting priority investment projects in 2021–2022, (ii) allocating sufficient budget from the 2021–2022 General Appropriations Act (GAA) for priority projects, and (iii) integrating</p>	<p>4. The AFP for the remaining public agricultural land of approximately 500,000 hectares (ha) are granted to farmers without the restrictions.</p> <p>5. By 2022, substantial progress made in reforming the institutional set up in the water resource planning, policy, investment framework, compliant with the gender and development framework of the government and PCW MC 2018–04 on the preparation of the Gender and Development Agenda.</p> <p>6. Irrigated farmland are expanded by at least 300,000 ha.</p>

Policy Actions	Subprogram 1 Accomplishments (May 2018–April 2020) Policy Triggers in bold	Subprogram 2 (May 2020–April 2022) Policy Triggers in bold	Medium-term Framework and expected results (2018–2025)
	<p>7. To reduce flood risk, the government (through the Department of Public Works and Highways) prepared and adopted flood risk management master plans for six major river basins, integrating flood protection infrastructure with enhanced flood resilience and response measures in consultation with basin stakeholders, including due consideration given for safeguard impact assessment, the rights of indigenous people and gender aspects.</p>	<p>in each priority investment project climate change impact assessments and gender analysis, considerations and actions.</p> <p>5. The government (through the Department of Public Works and Highways) develops flood risk management master plans for additional seven priority principal river basins, including climate change impact assessment and gender analysis.</p>	<p>7. Flood risk on agriculture in the six river basins are reduced.</p>
2.2. Public financing enhanced.	<p>8. To improve rice sector competitiveness under the liberalized trade regime, the government (i) established the Rice Competitiveness Enhancement Fund (RCEF) to support 57 potential rice competitive provinces during 2019–2024, and (ii) allocated ₱10 billion in the GAA 2019 and 2020.</p> <p>9. The government issued implementing guidelines for four RCEF programs: farm mechanization, seeds development and distribution, extension and training services, and credit assistance.</p>	<p>6. The government allocates through the GAA ₱10 billion annually to RCEF for 2021–2022.</p> <p>7. The government (through the DA) develops the Rice Fund Impact Monitoring System to assess the impact of RCEF on farm productivity and income, including gender impact assessment based on sex-disaggregated data.</p> <p>8. The government (through the DA) completes validating and updating the</p>	<p>8. RCEF benefits about 1.956 million rice farmers listed in the Registry System for Basic Sectors in Agriculture (RSBSA) in 57 priority provinces to improve productivity and farm household income.</p> <p>9. By 2022, RCEF implementation is evaluated.</p>

Policy Actions	Subprogram 1 Accomplishments (May 2018–April 2020) Policy Triggers in bold	Subprogram 2 (May 2020–April 2022) Policy Triggers in bold	Medium-term Framework and expected results (2018–2025)
	10. For accurate targeting of RCEF beneficiaries, the government started updating the RSBSA covering around 1.956 million rice farmers, where data collected is disaggregated by sex.	<p>RSBSA with sex-disaggregated data and includes this data in regular reporting.</p> <p>9. The government develops National Agriculture and Fisheries Modernization and Industrialization Plan to enhance its financing to agriculture sector for modernization and industrialization.</p> <p>10. The government implements the Agriculture Dialogue and Information Network Groups Program as DA's integrity management implementation and advocacy program to ensure accountability of DA's programs and activities.</p>	
2.3. Extension services strengthened.		11. The government (through the DA) approves the budget and implements the pilot Provincial Agricultural and Fishery Extension System to strengthen local government units' extension services to farmers with at least 30% active participation by female family members.	10. By 2022, Provincial Agricultural and Fishery Extension Centers are established in 15 provinces.
Reform Area 3. Social protection to rural families			
3.1 Impact of RTL on smallholder farmers and fisherfolks mitigated.	11. The government established the Rice Farmer Financial Assistance Program and allocated (i) ₱3 billion in 2019 GAA to provide unconditional cash transfers to smallholder rice farmers that were affected by low rice farmgate prices, and (ii) ₱3 billion in 2020 GAA under the Financial Subsidy to Rice Farmers Program to provide unconditional cash transfers to smallholder rice farmers also affected by low farmgate prices in areas not	12. The government completes the disbursements of unconditional cash transfers in total of ₱6 billion to smallholder rice farmers with active participation of both male and female family members.	11. By 2022, about 900,000 smallholder rice farmers benefit from the unconditional cash transfers.

Policy Actions	Subprogram 1 Accomplishments (May 2018–April 2020) Policy Triggers in bold	Subprogram 2 (May 2020–April 2022) Policy Triggers in bold	Medium-term Framework and expected results (2018–2025)
	<p>covered by the Rice Farmer Financial Assistance Program.</p> <p>12. The government, through the DA-Agricultural Credit Policy Council (ACPC), established (i) the Expanded Survival and Recovery Assistance Program for Rice Farmers (SURE Aid, which is one of the SURE Assistance Programs) that provided 164,274 smallholder rice farmers (holding 1 ha or below), of which about 45% are female, with interest-free loans from ₱2.5 billion credit funds sourced from the 2019 GAA and ACPC loan collections; and (ii) SURE COVID-19 Program and allocated an additional ₱2.5 billion credit funds sourced from the 2020 GAA and ACPC loan collections to provide interest-free loans for smallholder farmers and fisherfolks (holding 3 ha or below) and agri- and fishery-based micro- and small-sized enterprises affected by the coronavirus disease (COVID-19) pandemic.</p>	<p>13. The government through DA-ACPC (i) provides interest-free loans to about 40,000 smallholder farmers and fisherfolks, of which 50% are female, and about 150 agri- and fishery-based micro- and small-sized enterprises under the SURE COVID-19 Program; and (ii) allocates an additional ₱2.5 billion in 2021 GAA for SURE COVID-19 Program and/or other SURE assistance program(s) to help smallholder farmers and fisherfolks mitigate impacts of specific environmental and economic shocks.</p>	<p>12. By 2022, various SURE assistance programs benefit 443,827 smallholder farmers and fisherfolks adversely affected by environmental and economic shocks.</p>
3.2 Delivery of basic services for the poor institutionalized.	<p>13. To improve child nutrition in poor households, the government enacted the Act Institutionalizing a National Feeding Program (NFP) for Undernourished Children in Public Day Care, Kindergarten, and Elementary Schools and allocated ₱3.7 billion in 2020 GAA.</p>	<p>14. The government ensures that adequate budget through the GAA is provided to the NFP to improve nutritional status of children.</p> <p>15. The government commences planning of a nutritional food program for poor pregnant women as part of its zero-hunger agenda.</p>	<p>13. By 2022, the NFP benefits about 2 million children annually.</p>

Source: Asian Development Bank.