

Document: EB 2015/115/R.13
Agenda: 6(b)(iv)
Date: 12 August 2015
Distribution: Public
Original: English

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President's report

Proposed loan to the Republic of the Philippines for the Convergence on Value Chain Enhancement for Rural Growth and Empowerment Project (CONVERGE)

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Executive Board — 115th Session
Rome, 15-16 September 2015

For: Approval

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Abbreviations and acronyms

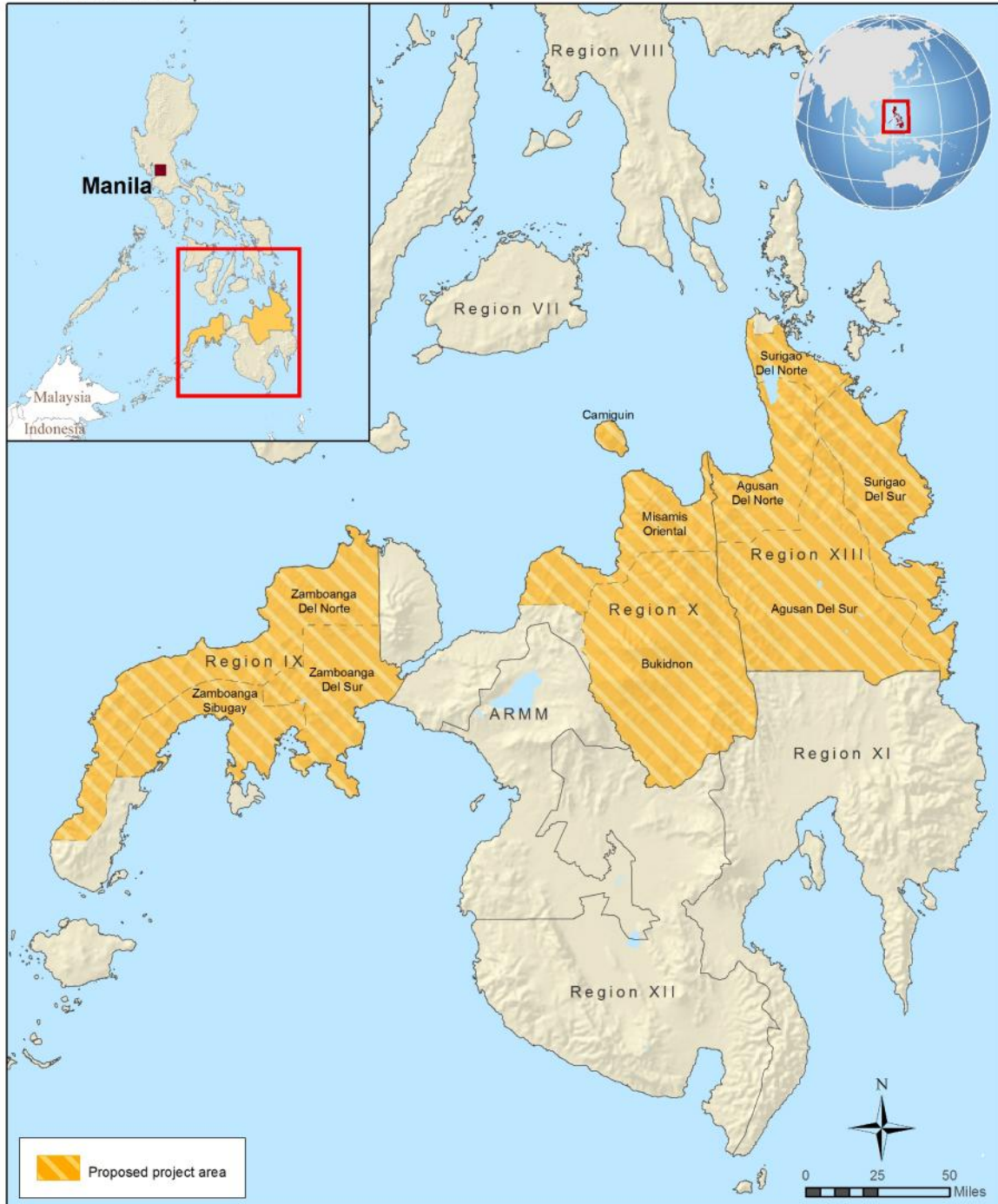
ARB	agrarian reform beneficiary
ARC	agrarian reform community
ARC-VIP	ARC Value Chain Investment Plan
CIS	communal irrigation scheme
CONVERGE	Convergence on Value Chain Enhancement for Rural Growth and Empowerment
CPMO	central project management office
CPOT	cluster project operations team
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DENR	Department of Environment and Natural Resources
DOST	Department of Science and Technology
DTI	Department of Trade and Industry
IP	indigenous people
KM	knowledge management
LGU	local government unit
M&E	monitoring and evaluation
NCI	National Convergence Initiative
NCIP	National Commission on Indigenous Peoples
PDP	Philippines Development Plan
PIM	project implementation manual
PO	people's organization
PPMO	provincial project management office
RMSC	regional multi-stakeholders committee
RPMO	regional project management office

Map of the project area

Republic of the Philippines

Convergence on Value Chain Enhancement for Rural Growth and Empowerment Project (CONVERGE)

President's report



06-02-2015



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

Republic of the Philippines

Convergence on Value Chain Enhancement for Rural Growth and Empowerment Project (CONVERGE)

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of the Philippines
Executing agency:	Department of Agrarian Reform
Total project cost:	US\$52.53 million
Amount of IFAD loan:	EUR 22.8 million (equivalent to approximately US\$25.01 million)
Terms of IFAD loan:	Ordinary: Maturity period of 15-18 years, including a grace period of 3 years, with an interest rate per annum equal to 100 per cent of the IFAD reference interest rate
Contribution of borrower:	US\$9.59 million
Contribution of beneficiaries:	US\$17.93 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of the Philippines for the Convergence on Value Chain Enhancement for Rural Growth and Empowerment Project (CONVERGE), as contained in paragraph 37.

Proposed loan to the Republic of the Philippines for the Convergence on Value Chain Enhancement for Rural Growth and Empowerment Project (CONVERGE)

I. Strategic context and rationale

A. Country and rural development and poverty context

1. In 2009 the population was 92.2 million and growing at 2.04 per cent annually. In 2010, gross national income per capita was US\$4,002 (in 2008 dollars). Since 1981 GDP growth has averaged 3.1 per cent per annum, but only 2.3 per cent per annum from 2001 to 2010. Over the period 2004-2010, the headline inflation rate averaged 5.6 per cent. The Human Development Index of 0.638 in 2010 ranked the country 97th among 169 countries, whereas in 1998 it was 0.744, which shows that, over those 12 years, development efforts were unable to improve the human development status. The gender development index decreased from 0.768 in 2005 to 0.742 in 2008 and the gender empowerment measure fell from 0.590 in 2005 to 0.560 in 2008. The national poverty incidence decreased slightly, from 21.1 per cent of families in 2006 to 20.9 in 2009. But with population growth, the number of poor families rose from 3.67 million to 3.86 million in the same period, higher than in 2003. Farmers and fishers were the poorest groups in the country, with a poverty incidence of 44 and 50 per cent, respectively, in 2006. Nationally, income inequality remains high, with a Gini coefficient of 0.448.
2. The failure to reduce poverty in recent years reflects underinvestment and the slow growth of per capita incomes, high population growth and dependency rates, natural disasters and inflationary pressures, mainly from rising fuel and food prices. Despite the recent lack of progress in reducing the incidence of poverty, the Philippines Development Plan (PDP) 2011-2016 envisages that the country can still achieve Millennium Development Goal poverty reduction targets by 2015. Favourable factors exist that may help the country break out of its perennial condition of widespread rural poverty, inequity and lagging human development, including a healthy external payments situation, years of trade reform (leaving an industrial sector fairly undistorted by subsidies and heavy protection), a stable currency, low inflation and positive political developments.

B. Rationale and alignment with government priorities and RB-COSOP

3. The proposed project is consistent with the PDP 2011-2016, the IFAD Strategic Framework 2011-2015 and the IFAD country strategy for the Philippines for 2010-2014. The rationale for IFAD's help in financing the project is to: (i) exploit opportunities to support the agrarian reform process and help meet the needs of under- and unserved agrarian reform beneficiaries (ARBs) – through a value chain approach to enhance agricultural growth and agribusiness development – in order to maximize benefits from the land distribution programme; (ii) support harmonization of rural development efforts by the Departments of Agrarian Reform (DAR), Agriculture (DA) and Environment and Natural Resources (DENR), and other agencies engaged in agribusiness development, in order to maximize impact in rural poverty reduction; and (iii) support the DAR approach of clustering agrarian reform communities to realize economies of scale for production, access to

markets and service provision in order to benefit from value chain development. The project will contribute to the PDP's goal of a competitive and sustainable agriculture and fisheries sector through improved food security and increased rural incomes, and it supports the national Comprehensive Agrarian Reform Programme.

4. The project is part of the National Convergence Initiative (NCI), which seeks to synchronize the initiatives of the three departments engaged in rural development – DAR, DA and DENR – and optimize use of the resources available to support sustainable rural development. Linkages will be built with the Department of Trade and Industry (DTI) under the Rural Microenterprise Promotion Programme, with the DA under the Second Cordillera Highland Agricultural Resource Management Project and with the DENR under the Integrated Natural Resources and Environmental Management Project approved by the Executive Board in December 2012. Lessons learned in ongoing and previous projects have been incorporated into the design.

II. Project description

A. Project area and target group

5. The project will target Regions IX, X and Caraga, located in the west, north and north-east of Mindanao, which are the three poorest regions of the country, accounting for 18 per cent of those living below the national poverty line. Within the three regions, the project will target 11 agrarian reform community (ARC) clusters, including 93 ARCs in 48 municipalities in 10 provinces. The target group includes ARBs, other smallholders, under- or unemployed rural youth, indigenous peoples (IPs), women, and business development partners, including eligible people's organizations (POs). The total size of the target group is estimated at 144,732 agricultural households (about 773,106 people), including non-ARC barangays (villages) and IP households. Of this total, ARBs account for 59,217 households, of which 30 per cent are headed by women. The major crops cultivated include coconut, rice, maize, rubber, banana, high-value vegetables, oil palm, coffee and cassava. Some 29 per cent of ARC average incomes are below the poverty line.

B. Project development objective

6. The overall goal of the project is to contribute to the reduction of poverty incidence in the 10 target provinces of Regions IX, X and Caraga. The project's development objective is to enable ARBs and other smallholder farmers in the 10 target provinces of Regions IX, X and Caraga to become highly productive and competitive entrepreneurs and contribute to the achievement of broad-based rural economic growth. The expected impact and outcome indicators for the approximately 35,000 households and 100 POs (e.g. farmers' cooperatives and associations) in the 11 ARC clusters include: (i) average annual income increased; (ii) increased farm income derived from new farming activities; (iii) increased ownership of household assets; and (iv) reduced prevalence of child malnutrition.

C. Components/outcomes

7. The project has the following components: (1) participatory value chain analysis and planning; (2) integrated smallholder agricultural and rural enterprise development; (3) subdivision of collective certificates of land ownership award and facilitation of land transfer programme; and (4) project management, monitoring and evaluation and knowledge management.
8. Component 1: Participatory value chain analysis and planning. The expected outcome of this component will be that value-chain business development plans for selected crops are validated and implemented, resulting in improved farm income. In each of the 11 ARC clusters, the component will support: (i) validation of the proposals for value chain development as identified by the feasibility studies; (ii) identification of the gaps and inefficiencies in the value chains and of the solutions and investments required; (iii) identification of POs and private-sector

- organizations wishing to and capable of participating in value chain development; and (iv) updated ARC value chain investment plans (ARC-VIPs).
9. Component 2: Integrated smallholder agricultural and rural enterprise development. The expected outcome of this component is improved production, value addition and marketing of selected agricultural commodities. The component has two subcomponents: (i) farm and value chain enterprise development; and (ii) investment in value chain-related rural infrastructure.
 10. Under farm and value chain enterprise development, the project will support improvement of the quantity and quality of production at the farm level and the phasing of production to meet market demand. It will achieve this through farmer training, capacity-building and the provision of technical and farm management advice in product testing, soil analysis, production technologies and management, adaptation to threats from climate change, environmental awareness-raising and good agricultural practices. This will involve the private sector (e.g. extension personnel employed by buyers or consolidators) and/or public-sector agencies (e.g. DAR development facilitators, technical staff of local government units (LGUs) and the Agricultural Training Institute). In the area of value addition and diversification, the project will facilitate the creation of appropriate business models and of the institutional structures required to enable smallholders and their organizations to engage in value addition and enterprise development, with private-sector management of these value chains. The project aims to increase farmer share in value chains through product differentiation and the already-mentioned value addition and diversification. Project interventions will be implemented through the provision of matching grants when there is a clear opportunity to improve profitability for the target group. Other investments to enhance value addition include the provision of assistance for product development, branding, packaging, logistics, certification/accreditation, technology and equipment upgrading, and organizational development through training with a focus on meeting market requirements. The project will provide investments, on a cost-sharing basis, to match the contributions of private-sector participants for eligible proposals and for financing the equipment associated with post-harvest facilities.
 11. In the area of market and investment facilitation, the project will develop linkages within the value chain among input providers, producers and buyers to enhance the profitability of farm enterprises. Assistance in consolidating supplies to meet the volume and frequency requirements of buyers and investors is part of this process. The assistance provided will include support for improving and/or extending existing market information systems, trade fairs, business and investors' forums, and assistance in negotiations with buyers and investors for leasehold, contract growing, joint venture or marketing arrangements. The project will make use of the expertise of agencies such as DA, DENR, DTI and the Department of Science and Technology (DOST) to enable target beneficiaries to optimize production of their chosen commodities, improve their market access and competitiveness, generate greater profits and provide a more integrated package of services in the priority chains to be developed. The project will also assist project beneficiaries in accessing funding from the banking and microfinance sectors using a combination of approaches: private-sector enterprises involved in the value chain; project matching grant funds to farmers, POs and private-sector organizations meeting strict eligibility criteria for investments; development of the capacity of viable farmers' organizations to access finance from the formal banking sector, government finance institutions and microfinance institutions; and linkages with financial institutions to develop appropriate financing packages and products for the value chain initiatives.

12. Under investment in value chain-related rural infrastructure, after participatory planning with target ARCs and target group members, the project will invest in rural infrastructure subprojects meeting eligibility and priorities criteria to support value chain development. Eligible infrastructure includes farm-to-market roads, rehabilitation/restoration of communal irrigation schemes (CISs), water-harvesting and management, post-harvest facilities (storage, auction centres, etc.) and water supply required to process local produce for value chain development. Irrigators' associations and farmers' groups/associations will operate and maintain CISs and post-harvest facilities, while LGUs will maintain the farm-to-market roads. Investments in additional road construction will take place only after firm funding has been secured from participating LGUs. In addition, the capacity of LGUs to fund and undertake maintenance of the roads will be closely monitored.
13. Component 3: Subdivision of collective certificates of landownership award (CLOA) and facilitation of land transfer program. This component will cover the subdivision of CLOAs and facilitation of land transfer action to stabilize ownership and property rights in the project areas. This will provide incentive to farmers to make their lands more productive and enable them to access credit and engage in agribusiness projects with private investors. Target outputs and outcomes for this component will be under the regular programme of DAR and will be funded under the regular budget of DAR.
14. Component 4: Project management, monitoring and evaluation and knowledge management. The expected outcome of this component is that the project is completed on time, within the agreed budget, and to the satisfaction of beneficiaries. The output will be timely, cost-effective and transparent management that is gender and culturally sensitive. The component will finance the costs of project management and coordination, monitoring and evaluation (M&E) and reporting activities at national, regional and provincial levels. It will also finance the costs of contracted project staff based in the central project management office (CPMO) in Mindanao, the three regional project management offices (RPMOs) and in the 11 provincial project management offices (PPMOs), honorariums of DAR regular staff assigned to the project, equipment, vehicles, short-term consultants, training, preparation of project manuals, case studies and operating costs.

III. Project implementation

A. Approach

15. The key elements of the overall project approach are: (i) use of a participatory value chain development approach to enable target beneficiaries to optimize production of their chosen commodities, sustainably improve the profitability of household farm enterprises, improve their market access and competitiveness and generate greater profits; (ii) application of convergence in implementing project activities under the leadership of DAR to enhance the investment and opportunity climate for agribusiness; (iii) use of the ARC clustering approach for the provision of support to ARCs for value chain development; (iv) implementation through DAR, at all levels, with the participation of the other agencies (e.g. DTI, DOST, LGUs and the National Commission on Indigenous Peoples [NCIP]); and (v) emphasis on knowledge management (KM) and learning to ensure that experience and lessons learned are available to improve project performance and for scaling up and wider dissemination.
16. The project implementation period is six years. The implementation strategy will include: (i) geographic targeting to identify the project areas and provide a preliminary list of target commodities based on the 11 feasibility studies and investment plans already prepared; (ii) selection of private sector organizations to provide marketing and/or other services that meet the proposed eligibility criteria during the initial participatory value chain analysis and planning phase; (iii) self-targeting by members of the target group based on their interest in participating in

project activities; (iv) non-poor households will be targeted through their inclusion in the POs or other types of organizations formed; and (v) provision of public goods, such as improved farm to market roads, rehabilitated CISs, post-harvest facilities, etc. Consultations were held with the NCIP, the organization charged with supporting the integration of IPs in the mainstream. The approach to working with IPs as a sub-group of the target group will work within the framework of the NCIP's Ancestral Domain Sustainable Development and Protection Plan. This approach involves putting into practice the principle of free and prior informed consultation/consent on all project activities by providing adequate information.

B. Organizational framework

17. DAR will be the lead agency for project implementation, in cooperation with DA, DENR, DTI and DOST. DAR has the necessary institutional capacity and structure to undertake this role and the experience gained from implementing over 60 externally funded projects – including two recently completed IFAD projects that were implemented satisfactorily in Mindanao. DAR has staff at all levels of government, down to the municipal level (municipal agrarian reform officers), and a development facilitator assigned to each of the 11 ARCs to work with beneficiaries. The project management structure involves a CPMO based in Cagayan de Oro (Region X); RPMOs in each of the three regions; and PPMOs in each of the 10 provinces (two operational divisions in Bukidnon). The oversight structure includes a project steering committee at the national level as the project's policymaking body; a regional multi-stakeholders committee (RMSC) in each of the three regions to advise regional project implementers on major policy considerations and technical and operational issues and to ensure participation of the region-based agencies in project implementation; and a cluster project operations team (CPOT) in each of the 11 ARC clusters to serve as coordinating mechanisms for delivery of government services to the clusters.

C. Planning, monitoring and evaluation, and learning and knowledge management

18. At start-up, project staff and stakeholders at national and regional levels will prepare a multi-year global workplan and budget for achieving project objectives and targets, for approval by the project steering committee. Participatory planning of annual workplans and budgets (AWP/Bs) will start at the barangay and ARC cluster levels, involving representatives of the ARCs, CPOTs and PPMOs. The project will have a results-based M&E system to report the status of project implementation and progress on outputs, outcomes and impact. The overall M&E system will consist of regular reports and process monitoring by the CPMO, based on data provided by RPMOs, PPMOs and implementing agencies, and communicating the project's physical progress data and financial accounts, maintained by the CPMO and regional/provincial offices. During the first project year (PY1), DAR will undertake a baseline survey to cover all indicators of the logical framework, including RIMS indicators, and, subsequently, midterm impact and completion impact surveys. M&E and KM units will be established in all implementation levels. M&E documentation results will contribute to policy studies to improve the business environment for smallholder farmers in the Philippines, with a view to scaling up within the country.

D. Financial management, procurement and governance

19. Financial management of the project will follow government systems, rules and regulations for receipts and disbursements of proceeds from the loan – to the extent that they are consistent with IFAD's standard disbursement procedures. The Bureau of the Treasury, through DAR, will maintain one designated account exclusively for the loan. DAR, through the CPMO, will be responsible for overall management of project funds, which includes: oversight of project operations, procurement, internal control, accounting, review and consolidation of project AWP/Bs, physical and financial reporting, audits; and consolidation of accounts and

withdrawal applications. RPMOs and PPMOs will be accountable for project funds received for implementation of the project. DAR will execute a memorandum of agreement with each of the partner implementing agencies at national, regional, provincial and municipal levels to specify the services and support to be provided by each agency and by the project.

20. IFAD's review of the project implementation manual (PIM) will be a precondition of disbursement. Guidelines in the PIM will be consistent with the Government's and IFAD policies, systems and procedures. Annual financial statements on project funds will be prepared in accordance with acceptable accounting standards, such as the International Financial Reporting Standards (IFRS), the International Public Sector Accounting Standards (IPSAS), or national standards where these are converging towards internationally recognized best practice and/or are deemed to provide minimum disclosures.
21. The project's consolidated financial statements will be audited annually in accordance with IFAD Guidelines on Project Audits. All project accounts will be audited, including all sources of funding. Annual audit reports will be submitted to IFAD within six months after the end of each fiscal year.
22. The project will follow government procurement regulations (RA 9184) using the latest implementing rules and regulations – to the extent that they are consistent with IFAD's Project Procurement Guidelines. IFAD will apply a zero-tolerance policy to fraudulent, corrupt, collusive or coercive actions.

E. Supervision

23. Annually, IFAD and the National Economic Development Authority will jointly conduct a full supervision and implementation support mission, and a post-supervision mission 6 to 9 months later, depending on progress.

IV. Project costs, financing, benefits

A. Project costs

24. Project costs are estimated at about US\$52.53 million over a six-year implementation period, including taxes and duties estimated at US\$5.96 million or 11 per cent of total costs. Price contingencies of 3 per cent, and physical contingencies have been computed at 3.5 per cent of base costs on all items, both decided by the National Economic and Development Authority.

Table 1
Indicative project costs by component and financier
(Thousands of United States dollars)

Components	IFAD Loan		Government		LGUs		Beneficiary/ proponent		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Participatory value chain analysis and planning	0.58	63.5	0.34	36.5	-	-	-	-	0.92	1.8
2. Integrated smallholder agricultural and rural enterprise development										
i. Farm and value chain enterprise development	11.78	35.6	1.72	5.2	2.01	6.1	17.56	53.1	33.07	63.0
ii. Value chain related rural Infrastructure	10.86	79.0	1.05	7.6	1.47	10.7	0.37	2.7	13.74	26.2
Subtotal	22.63	48.3	2.77	5.9	3.48	7.4	17.93	38.3	46.81	89.1
3. Project management, M&E and KM										
1. M&E and KM	0.93	50.9	0.90	49.1	-	-	-	-	1.83	3.5
2. Project management	0.86	29.0	2.10	71.0	-	-	-	-	2.96	5.6
Subtotal	1.80	37.4	3.00	62.6	-	-	-	-	4.80	9.1
Total	25.01	47.6	6.11	11.6	3.48	6.6	17.93	34.1	52.53	100.0

B. Project financing

25. Project financing comprises: (i) an IFAD loan of US\$25.01 million (47.6 per cent); (ii) contribution of the borrower for US\$9.59 made of national government counterpart funding of US\$6.08 million (11.6 per cent) and LGU financing of US\$3.51 million (6.6 per cent); and (iii) contributions from proponents and beneficiaries of about US\$17.93 million (34.1 per cent). The financing plan by expenditure category and financier is presented in table 2 below. The categories of expenditures may be merged into broader categories in the financing agreement.

Table 2

Indicative project costs by expenditure category and financier
(Thousands of United States dollars)

Expenditure categories	IFAD Loan		Government		LGUs		Beneficiary/Proponent		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Works	9.79	80.0	0.61	5.0	1.47	12.0	0.37	3.0	12.24	23.3
2. Equipment and materials (for farms and enterprise development)	8.17	30.0	0.68	2.5	1.50	5.5	16.88	62.0	27.23	51.8
3. Equipment and materials (for value chains)	1.87	55.0	0.34	10.0	0.51	15.0	0.68	20.0	3.40	6.5
4. Consultancies	3.69	73.0	1.36	27.0	-	-	-	-	5.05	9.6
5. Training and workshops	1.32	71.7	0.52	28.3	-	-	-	-	1.85	3.5
6. Equipment	0.17	35.0	0.32	65.0	-	-	-	-	0.49	0.9
7. Government support staff	-	-	0.80	100.0	-	-	-	-	0.80	1.5
8. Operation and maintenance	-	-	1.48	100.0	-	-	-	-	1.48	2.8
Total	25.01	47.6	6.11	11.6	3.48	6.6	17.93	34.1	52.53	100.0

C. Summary benefit and economic analysis

26. It is estimated that about 35,000 rural households will benefit directly from the project, including 3,000 jobs to be generated by the project in the value added subsector. Some 15,000 households, not counted elsewhere, will benefit from improved rural roads, bringing the total to 50,000 beneficiary households. The main incremental outputs following project investment in the target ARC clusters will derive from the priority products selected by the feasibility studies. Likely benefits at the farm level will stem from increased production and improved productivity, enhanced value added at the farm level and higher prices as a result of both quality improvements and more efficient marketing. Additional benefits will be generated by the project's capacity-building programme, e.g. strengthened capacity to participate in value chain and rural enterprise development, and for implementing agencies, capacity to target and manage poverty reduction and rural development programmes in a gender-sensitive and participatory manner.
27. The financial and economic impact of the project has been assessed by: (i) preparing detailed feasibility studies for the value chain investments that are likely to be undertaken under the project; and (ii) analysing each model to ascertain probable impact at the individual farmer level, in comparison with typical without-project incomes. The project shows an economic internal rate of return (EIRR) of 44.6 per cent and a cost-benefit ratio of 1.57 discounting benefits and costs at 15 per cent. The sensitivity analysis demonstrates that the results are robust. For example, the project would still be viable if all costs increased by 20 per cent and benefits 20 per cent lower. The economic and farm budget analyses will be updated based on market demand and value chain analysis undertaken in the first year.

D. Sustainability

28. The following elements are built into project design to help ensure that the proposed investments and benefits are sustainable: (i) dedication of the first year of implementation to the analysis, identification and planning of the project's investments in priority value chains involving farmers, their organizations and the

private sector; (ii) the experience and lessons learned in the implementation of the 11 feasibility studies contribute to ensuring that subsequent investments are sustainable; (iii) the project has a strong focus on involvement of the private sector on a long-term basis to enhance the sustainability of investments and benefits; (iv) it will support contractual and other types of arrangements linking smallholders with the private sector to enable them to move up the supply chain and incorporate greater value addition; (v) beneficiaries and LGUs will be involved in providing counterpart funds for infrastructure facilities and will be responsible for their operation and maintenance; (vi) project design takes into account the knowledge, systems and practices of IPs, which will also help ensure the sustainability of project interventions in areas where IPs are present; and (vii) 18 months before the completion date, the CPMO will work closely with all stakeholders at national, regional, provincial and municipal levels, and with ARCs and barangays, to finalize an exit strategy and sustainability plan based on specific mechanisms to ensure sustainability after the end of the project.

E. Risk identification and mitigation

29. The first risk is that effective coordination among the three NCI agencies in the field will be more difficult than at the national level. Project design counters this risk as follows: (i) all agencies having a role in project implementation will be members of the project steering committee to be able to resolve inter-agency coordination issues; (ii) all implementing agencies will have an NCI focal point through whom the project will interact with the NCI at the national level; (iii) the three RMSCs will include representation of all relevant agencies to ensure effective coordination of implementation in the regions and ARC clusters; and (iv) within ARC clusters, CPOTs will include staff involved in day-to-day project implementation. The second risk is the degree of willingness of the private sector to be involved in implementation of component 2, which is essential for the success of the project. This risk is addressed through: (i) component 1 and the participatory analysis and planning process, which will involve all potential participants, including representatives of private-sector agencies involved in the particular value chains under analysis; and (ii) during the value chain analysis and planning process, publication of the availability of grants for value chain development to match investments from the private sector, the size of the grants available, and the terms and conditions of the grants for diverse interventions. The third risk is the weak capacity of poorer LGUs to provide the required counterpart funds for rural infrastructure investment. The project counters this risk by reaching an agreement with the Government on a financing plan for these investments based on a financing ratio of 80 per cent for the IFAD loan, 5 per cent for national government counterpart funds, 12 per cent on average for LGUs and 3 per cent for beneficiary contributions.

V. Corporate considerations

A. Compliance with IFAD policies

30. IFAD policies relevant to the project include: the IFAD Targeting Policy: Reaching the Rural Poor; Gender Equality and Women's Empowerment; Engagement with Indigenous Peoples; IFAD Rural Enterprise Policy; IFAD's Private-Sector Development and Partnership Strategy; IFAD Climate Change Strategy; IFAD Rural Finance Policy; and IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations. Project design has reflected these policies and lessons learned in the IFAD country programme. The project is classified as Category B and employs the following mitigation measures: value chain development is resilient to climate change, environmentally friendly and sustainable; training includes management and adaptation to the threats of climate change and environmental awareness; environmentally friendly and sustainable production systems will be promoted (e.g. use of the farming systems approach, good agricultural practices and varieties that can tolerate climate variability); and DENR and its local offices will be involved to ensure that value chain development is in line with good practices for

environmental and natural resource management.

B. Alignment and harmonization

31. The project objective is aligned with the PDP's goal of a competitive and sustainable agriculture and fisheries sector. The project will complement other donors working in the same sector – such as the Asian Development Bank, Japan International Cooperation Agency and World Bank – to increase project impact in poverty reduction and on policy dialogue with the government and other stakeholders. IFAD will also work with government programmes for an improved policy environment and governance. The project will explore diverse types of partnership arrangements between project beneficiaries and the private sector, ensuring that such arrangements are fair to farmers and ARC communities. Private-sector organizations and business development partners can take a leading role as innovators in improving the returns from existing and emerging value chains in an enterprise-oriented development approach.

C. Innovations and scaling up

32. The project will be the first foreign-assisted project under DAR to support the NCI. Its investment is quite small when compared with the growth needed to make a serious dent in rural poverty in Mindanao. However, the project could catalyse improved household incomes and attract further investment for scaling up – in order to fully realize the potential benefits of Mindanao's comparative advantage in key agricultural commodities.

D. Policy engagement

33. The project will finance policy/case studies – for policy dialogue and consultation with relevant national and local institutions and with other stakeholders – on planning and implementation of the value chain approach to agro-enterprise development, mechanisms for convergence and other relevant studies. The studies envisaged could include: (i) consolidation of smallholder production to achieve economies of scale in production and marketing, appropriate business models, and contractual and legal arrangements; and (ii) innovative engagement of the private sector in providing rural infrastructure to support value chain development.

VI. Legal instruments and authority

34. A financing agreement between the Republic of the Philippines and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an appendix.
35. The Republic of the Philippines is empowered under its laws to receive financing from IFAD.
36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

37. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on ordinary terms to the Republic of the Philippines in an amount equivalent to twenty-two million eight hundred thousand euros (EUR 22,800,000), equivalent to approximately US\$25.01 million and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement:

"Convergence on Value-Chain Enhancement for Rural Growth and Empowerment Project "CONVERGE"

(Negotiations concluded on 19 June 2015)

Loan Number:

Project Title: Convergence on Value-chain Enhancement for Rural Growth and Empowerment Project (the "Project")

The Republic of the Philippines (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended hereafter from time to time (the "General Conditions"), are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is twenty-two million eight hundred thousand Euro (EUR 22 800 000).
2. The Loan is granted on ordinary terms and shall have a rate of interest per annum equivalent to one hundred percent (100 percent) of the variable reference interest rate, as determined annually by the Executive Board, and a maturity period of eighteen (18) years including a grace period of three (3) years.
3. The Loan Service Payment Currency shall be the United States Dollars (USD). Payments of the principal and interest shall be payable on each 01 May and 01 November.
4. The first day of the applicable Fiscal Year shall be 1 January.

5. Proceeds from the Loan shall be deposited in the account of the Treasurer of the Philippines, in the Designated Account for this Project, in the Bangko Sentral ng Pilipinas.

6. The Borrower shall provide counterpart financing for the Project in the amount of approximately six million and eighty thousand United States Dollar (USD 6 080 000). Additional counterpart funds for approximately three million five hundred ten thousand United States Dollar (USD 3 510 000) are expected to be mobilized during the Project Implementation Period by the Local Government Units (LGUs).

Section C

1. The Lead Project Agency shall be the Department of Agrarian Reform (DAR) or any successor thereof.

2. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

1. The following are designated as additional conditions precedent to withdrawal:

(a) A national Project Steering Committee (PSC) shall have been set up as described in Schedule 1; and

(b) A draft Project Implementation Manual (PIM) shall have been submitted to the Fund.

2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

The Secretary of Finance
Department of Finance
DOF Building
Roxas Boulevard
Manila, Philippines

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

This Agreement, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

REPUBLIC OF THE PHILIPPINES

Name and title of
Authorized Representative

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Target Beneficiaries. The Project will directly benefit 300,512 farmer beneficiaries composed of 38,724 agrarian reform beneficiaries (ARBs) and 261,788 other rural workers in eleven agrarian reform communities (ARC) Clusters in ten (10) provinces in Region IX (Zamboanga del Norte, Zamboanga del Sur and Zamboanga Sibugay), Region X (Misamis Oriental, Camiguin and Bukidnon) and CARAGA (Agusan del Norte, Agusan del Sur, Surigao del Sur and Surigao del Norte) (Project Area). The other rural workers are composed of smallholders, un- or underemployed rural youth, indigenous peoples (IPs), women, and business development partners, including eligible people's organizations (POs – e.g. farmers' cooperatives and associations) involved in the value chains selected and willing and able to participate in Project interventions. The target are among the six poorest regions of the country. Within the three regions, the Project will target 91 ARCs and 50 municipalities in ten (10) provinces with a possible extension to qualified ARC clusters within the Bangsamoro region.

2. Goal. The Project aims to contribute to the reduction of poverty incidence ten (10) provinces of Regions IX, X and CARAGA through the promotion of sustainable livelihood activities based on key commodities e.g. rice, rubber, coffee, cassava and coco sugar that are deemed competitive in the Project Area. The agriculture and fishery sector through participatory value-chain development will improve and sustain the profitability of smallholder farmers.

3. Objectives. Specifically, the Project intends to enable ARBs and other small farmers in ten (10) provinces of Regions IX, X and CARAGA to become highly productive and competitive entrepreneurs and contribute to the achievement of broad-based rural economic growth by: (i) increasing the quantity and improve the quality of commodity production; (ii) improving the phasing of production in conjunction to meet market demand; (iii) adding value to farm produced by improving post-harvest handling/management; (iv) strengthening/developing farmers' linkage to selected value chains; and (v) diversifying sources of income through development of alternative livelihood/agri-enterprise activities in partnership with the private sector.

4. Components. The Project shall consist of the following four components: (i) Participatory Value-Chain Analysis and Planning to Link Smallholder Farmers to Existing Value-Chain Systems; (ii) Integrated Smallholders Agricultural and Rural Enterprise Development; (iii) Subdivision of Collective Certificates of Landownership Award (CLOA) and Facilitation of Land Transfer Program and (iv) Project Management, Monitoring and Evaluation and Knowledge Management.

4.1 Component A: Participatory Value-Chain Analysis and Planning to Link Smallholder Farmers to Existing Value-Chain Systems

The expected outcome of this component will be that value chain business development plans for selected crops validated and implemented resulting in improved farm income. This component will provide in each of the 11 ARC clusters: (i) validation of priority commodities and market analysis of the potential of the major commodities for future value chain development; (ii) prioritization of the commodities, processing and rural-based enterprises for Project support and identification of the "anchor value chain" and the "secondary" enterprises; (iii) identification of the gaps and inefficiencies in the value-chains and solutions and

investments required; (iv) identification of POs (associations, cooperatives) and private sector organizations wishing to participate and capable of participating in the value-chain development; and (v) updated ARC Value-chain Investment Plans (ARC-VIPs).

Commodity value-chain investment plans for the eleven ARC clusters were implemented in 2014/15 by DAR. Activities under this component include value-chain investment planning for secondary crops, as well as capacity building to ensure that small-scale producers/processors can adapt to market changes.

4.2 Component B: Integrated Smallholders Agricultural and Rural Enterprise Development

This component is developed based on the results of component A. It aims to improve production, value addition and marketing of the selected agricultural commodities. The subcomponent on farm production will specifically focus on the improvement of quantity and quality of production at the farm level, and the phasing of production to meet market demands. The Project will finance the initial costs of inputs (seeds, seedlings, and fertilizers), tools and equipment, capacity building for the farmers and the provision of technical and farm management.

Subcomponent on value addition and diversification, on the other hand aims to upgrade strategies to enhance enterprise development including: product development, branding, packaging, logistics, certification,/accreditation, technology upgrading and training on post-harvest handling and storage, food safety and product quality. The Project will also undertake market and investment facilitation to develop linkages within the value chain particularly among producers and buyers and input providers to enhance the profitability of the farm enterprises. This includes support for improving the existing market information systems, conduct of trade fairs, business and investor's for a and assistance in negotiations with buyers and investors for leasehold, contract growing, joint venture or marketing arrangements.

The Project will also provide financing assistance and raise the necessary capital investment through: (i) the private sector enterprises involved in the value-chain; (ii) matching grant funds to farmers, POs and private sector organizations; (iii) assisting eligible farmers and POs to access grant funds from other sources; (iv) developing capacity of viable farmers' organizations, so they can access finance from the formal banking sector/government's financing institutions and micro-finance institutions (MFIs); and (v) the financial institutions to develop appropriate financing packages and products.

Importantly, the Project ConVERGE will invest on value-chain related rural infrastructure. This component includes provision of farm-to-market roads, bridges and drainage crossings, rehabilitation/restoration of communal irrigation systems (CIS), post-harvest facilities, and water supply required for the processing of local produce.

4.3 Component C: Subdivision of CLOA and Facilitation of Land Transfer Program

This component will cover the subdivision of CLOAs and facilitation of land transfer action to stabilize ownership and property rights in the project areas. This will provide incentive to farmers to make their lands more productive and enable them to access credit and engage in agribusiness projects with private investors. Target outputs and outcomes for this component will be under the regular programme of DAR and will be funded under the regular budget of DAR.

4.4 Component D: Project Management, Monitoring and Evaluation and Knowledge Management

The expected outcome of this component is that the Project is completed on time and within the agreed budget. This component will finance the costs of Project management and coordination, compilation, reporting and Monitoring and Evaluation (M&E) activities at national, regional and provincial levels. In addition, the Project will finance policy studies, stakeholders' consultations and other events related to the planning and implementation of the value-chain approach to agro-enterprise development, mechanisms for convergence, and any other relevant policy studies.

II. Implementation Arrangements

A. Approach

5. The Project will use a convergence approach in implementing its activities under the leadership of DAR. The National Convergence Initiative combines the efforts of three national government agencies involved in the agriculture, agrarian reform and natural resource sector, namely Department of Agriculture (DA), DAR and the Department of Environment and Natural Resources (DENR) with the aim of providing more comprehensive and integrated support to smallholders and others in the rural areas. The Project implementation will extend the concept of convergence with DA and DENR as co-implementing agencies of DAR and to involve other agencies with a potential role to play in Project implementation, including Department of Trade and Industry (DTI), Department of Science and Technology (DOST), National Commission on Indigenous Peoples (NCIP) and Mindanao Development Authority (MinDA) as well as the Department of Interior and Local Government (DILG)-LGUs.

6. The Project implementation involves essentially two phases. In the first year, the Project will use the value chain studies prepared by the DAR. Activities in the crops validated by the beneficiaries will start in those communities expressing interest in them. In tandem with the Project stakeholders, the Project will identify an appropriate package of activities to intensify production, improve productivity, and to determine the need for access to markets, roads, irrigation and other marketing infrastructure to support these crops. Once experience has been gained with activities pertaining to the selected crops, the Project will consider adding selectively other crops/farming activities of interest to the beneficiaries as expressed in the cluster development plans. Prior to doing so, the Project will conduct a simple market demand analysis and if found that there is ample demand, this will be followed (if necessary) by a simplified value chain analysis to consider providing support to other immediate points along the selected chains for which the Project will provide investment funds. The aim of this phase is to validate and review the preliminary analysis of potential priority commodities prepared during the Project design and identify the champion and secondary value chains in each of the 11 target ARC clusters in ten provinces for which the Project will provide investment funds. The next five years will be the main investment phase of the Project in developing the selected value-chains with Project support, winding down during the last year of the Project (PY6).

7. The key elements of the overall Project approach are the following: (i) implementation through the DAR structure at national, regional, provincial and municipal levels, with the participation of the other convergence agencies using existing government staff to the maximum extent possible; (ii) use of the ARC clustering approach developed by DAR for the provision of support to the ARCs for value chain development; and (iii) an emphasis on knowledge management and learning to ensure that the experience and lessons learned are available to improve

Project performance and for wider dissemination.

8. The implementation strategy will include: (i) geographic targeting to identify the Project areas and provide a preliminary list of target commodities for further assessment at the start of the Project for value chain development; (ii) selection of private sector organizations to provide marketing and/or other services that meet the proposed eligibility criteria (Annex 5) during the initial participatory value chain analysis and planning phase; (iii) self-targeting by members of the target group based on their interest in participating in Project activities; (iv) non-poor households will be targeted through their inclusion in the POs or other types of organizations formed; and (v) provision of public goods, such as improved farm to market roads, rehabilitated CIS, post-harvest facilities, etc.

9. Consultations were held with the NCIP, the organization in charged with supporting the integration of IPs in the mainstream. The approach to working with IPs as a sub-group of the target group will work within the framework of the NCIP's Ancestral Domain Sustainable Development and Protection Plan, as a way of involving the community members with the local government agencies and a vehicle to strengthen capacities of IPs in the process. This approach involves practicing the principle of free and prior informed consultation/consent on all Project activities through the provision of adequate information.

B. Organizational framework

10. DAR will be the Lead Project Agency, which will also involve DA, DENR, DTI, DOST, MinDA and DILG-LGUs. In case there will be changes in the organisation of agencies providing support to farmers/ARBs, DAR will be the Lead Project Agency to continue the implementation of this Project. DAR has the necessary institutional capacity and structure to undertake this role and the experience gained from implementing over 60 externally funded Projects, including two completed IFAD Projects that were implemented satisfactorily in Mindanao. DAR has staff at all levels of government, down to the municipal level (municipal agrarian reform officers), and a development facilitator assigned to each of the 11 ARCs to work with beneficiaries. The Project management structure involves a Central Project Management Office (CPMO) based in Cagayan de Oro in Region X; Regional Project Management Offices (RPMOs) in each of the three regions; and Provincial Project Management Offices (PPMOs) in each of the 10 provinces (two operational divisions in Bukidnon).

11. The PSC chaired by the Secretary of DAR shall be the policy making body for the Project. Other members shall be senior officials of the DA, DENR, DTI, DOST, DOF, DBM, National Economic and Development Authority (NEDA), DILG, MinDA and private sector representative. The PSC shall review and approve the Project's Annual Work Plan and Budgets (AWPBs), Annual Procurement Plans and PIM, upon the recommendation of the CPMO.

12. A CPMO located in Mindanao shall act as the PSC Secretariat, with the Project Director as the Committee's secretary. It will provide overall direction, and directly supervise project implementation in Regions IX, X and CARAGA.

13. The Multi-Stakeholder's Committee (RMSC) shall be located in Regions IX X and CARAGA. The DAR Regional Director (RD) shall chair the RMSC with senior staff representative from the DA, DENR, NEDA, DTI, DOST, NCIP, DPWH, DILG, beneficiaries representative as members. Other attached agencies, such as NIA, FIDA, and PCA, shall be invited as needed. The LGUs shall serve as resource persons when the RMSC reviews sub-project proposals prior to approval.

14. The RPMO shall be established in the three (3) regions covered by the Project, under the leadership of the DAR's RD. It shall supervise and provide technical support to project implementation in the ARC clusters.

15. A Provincial Project Management Office (PPMO) shall be located in every target province under the leadership of the DAR Provincial Agrarian Reform Officer II (PARO II). It shall implement project activities in the ARC cluster and prepare the ARC cluster AWPBs and procurement plans, monitor progress and report which shall be submitted to the RPMO.

16. A Cluster Project Operations Team (CPOT) will be convened in each ARC cluster. The CPO shall be responsible for the implementation of Project activities in the respective ARC cluster. A DAR Municipal Agrarian Reform Officer will head the CPOT with member from the DAR's development facilitators, LGUs (e.g., Municipal Agriculture Officer, Municipal Engineer, Municipal Planning and Development Officer, Municipal Environment and Natural Resources Officer), NCIP Service Center's Officer, DENR's Community Environment and Natural Resources Officer, private sector organizations and other implementing agencies as necessary.

C. Planning, monitoring and evaluation, and learning and knowledge management

17. At start-up, the Project staff and stakeholders (representatives of beneficiaries, the private sector, etc.) at national and regional levels will prepare a multi-year global workplan and budget for achieving Project objectives and targets for approval by the Project steering committee. Participatory planning of AWPBs will start at the barangay and ARC cluster levels, involving representatives of the ARCs, CPOTs and PPMOs. The Project will have a results-based M&E system to report the status of Project implementation and progress on outputs, outcomes and impact. The overall M&E system will consist of regular reports and process monitoring by the CPMO, based on data provided by RPMOs, PPMOs and implementing agencies and based on the Project's physical progress data and financial accounts, maintained by the CPMO and regional/provincial offices. During the first Project year (PY1), DAR will undertake a baseline survey to cover all indicators of the logical framework, including RIMS indicators, and, subsequently, midterm impact and completion impact surveys. Monitoring and evaluation and knowledge management units will be established in the CPMO and in each of the RPMOs and PPMOs. The outputs of these units will include documentation of innovative approaches and good practices in participatory value-chain analysis and planning methodology for sharing and replication. Based on these findings, policy studies will be prepared to contribute to improvement of the business environment for smallholder farmers in the Philippines, with a view to scaling up within the country.

D. Financial management, procurement and governance

18. Financial management of the Project will follow the government systems, rules and regulations for receipts and disbursements of proceeds from the Loan to the extent that they are consistent with IFAD's standard disbursement procedures. The Bureau of Treasury, through DAR, will maintain one Designated Account for the loan. DAR, through the CPMO, will be responsible for overall management of Project funds, which includes: oversight of Project operations, finance and procurement, implementation support for Project implementers; review and consolidation of Project AWPBs; physical and financial reports and audits; and consolidation of accounts and withdrawal applications. RPMOs and PPMOs will be accountable for Project funds received for implementation of the Project. DAR will execute a memorandum of agreement with each of the partner implementing agencies at national, regional, provincial and municipal levels to specify the services and support to be provided by each agency and by the Project. Annual financial

statements on Project funds will be prepared in accordance with acceptable government accounting standards as long as these converge towards internationally recognized best practices and/or are deemed to provide minimum disclosures. The Project audit will follow the rules and regulations of the Commission on Audit and IFAD Guidelines on Project Audits. The Project will follow government procurement regulations (RA 9184) using the latest implementing rules and regulations – to the extent that they are consistent with IFAD's Procurement. IFAD will apply a zero-tolerance policy in respect of fraudulent, corrupt, collusive or coercive actions. Where an investigation performed by IFAD, the Borrower or another competent entity has determined that fraudulent, corrupt, collusive or coercive actions have occurred in Projects financed through its loans and grants, IFAD will enforce sanctions in accordance with the provisions of applicable IFAD rules and regulations and this Agreement.

E. Supervision

19. Project supervision during the first 12-18 months will focus on ensuring that there are no delays in Project start-up and address any bottlenecks that may occur. Supervision will focus specifically: (i) the various aspects of overall Project management

to ensure that the AWPB is prepared and approved and that the PY1 AWPB is operational; (ii) the PIM, which will be prepared by the CPMO following the design completion mission and before Project start-up is in use; (iii) assessment of the Project institutional arrangements and Project management and coordination related issues; (iv) assessment of the results of the validation of the priority crops of interest to the POs and review of the need for market demand and value chain analysis for additional crops; (v) assessment of the implementation of the pilot value chains to gain lessons, as a failure to undertake these activities in a timely fashion will delay Project implementation and/or lose the benefits learned from the initial stages of the pilots; (vi) review of terms of reference of the Project value-chain staff and consultants and making and agreeing changes, if necessary; (vii) re-examining the need for subsidies and review options for cost recovery through the use of guarantees for bank loans to participating enterprises and the ability of farmers to obtain production credit; (viii) the Project financial management, accounting and internal controls processes are satisfactory at central, regional, provincial levels and within the ARC clusters; (ix) the bank accounts have been opened and the initial deposit received from IFAD; (x) a functioning M&E/KM system has been set up; (xi) the initial procurement of goods and services, especially that of the Project management staff and value-chain consultants, is completed in a timely fashion; and (xii) the training relating to various aspects of Project management, e.g. financial management, procurement, physical and financial reporting, etc. is being implemented. By concentrating on these subjects, the delays that often affect the start-up of IFAD Projects can be avoided or addressed before they lead to significant delays.

20. Annually, IFAD and the NEDA will conduct a full supervision and implementation support mission jointly with the government and a post-supervision mission 6-9 months later depending on progress. Expertise required will include: (i) a value-chain specialist familiar with Mindanao and value-chains that have provisionally been identified during Project design; (ii) a rural infrastructure specialist; (iii) a financial management specialist familiar with both IFAD and government procedures responsible for financial management, loan disbursements and procurement; and (iv) a community development specialist from time to time. Staff members from IFAD, the DAR SSO-FAP and NEDA will also be on the missions.

Schedule 2

Allocation Table

1. Allocation of Loan Proceeds. The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in EUR)	Percentage
I. Works	8 920 000	100% net of taxes and other contributions
II. Equipment and materials (for farms and enterprise development)	7 450 000	100% net of taxes and other contributions
III. Equipment and materials (for value chains)	1 710 000	100% net of taxes and other contributions
IV. Consultancies	3 360 000	100% net of taxes and other contributions
V. Training and workshops	1 210 000	100% net of taxes and other contributions
VI. Equipment	150 000	100% net of taxes and other contributions
TOTAL	22 800 000	

2. Category n. VI "Equipment" includes office equipment and vehicles.

3. Start-up Costs. Withdrawals in respect of expenditures for start-up costs for Categories IV, V, and VI incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of two hundred thousand United States Dollar (USD 200 000).

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. Private Sector. The Borrower confirms its commitment to engage with the private sector as implementing partners and service providers, in order to ensure that the Project objectives are met.
2. Procurement. The Borrower shall ensure that the Project shall follow the government's procurement regulations, as these may be amended from time to time, using national implementing rules and regulations to the extent that they are consistent with IFAD's Procurement Guidelines.
3. Monitoring and evaluation. The Project shall maintain its own monitoring system to be able to properly evaluate Project implementation, including the socio-economic and environmental impact thereof. The Lead Project Agency shall ensure that the criteria established and required by the Fund under its Results and Impact Monitoring System (RIMS), as communicated by the Fund to the Borrower, shall be incorporated into and form part of the Project's monitoring and evaluation system.
4. Anticorruption Measures. The Borrower shall comply with the requirements under IFAD's Policy on Preventing Fraud and Corruption in Its Activities and Operations, as amended from time to time.

Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
Goal			
Contribute to the reduction of poverty incidence in the ten target provinces of Regions IX, X and Caraga.	<ul style="list-style-type: none"> 35,000 households and 70 People's Organisations in the 11 ARC clusters: Increased ownership of household assets (household asset index) increased by 30% from baseline survey to xx by end of project (EOP). Prevalence of child malnutrition reduced by 30% at EOP from baseline survey. 	<ul style="list-style-type: none"> NSCB report. RIMS baseline, mid-term and completion surveys. 	
Development Objective			
Enable ARBs and other smallholder farmers in the 10 target provinces of Regions IX, X and Caraga to become highly productive and competitive entrepreneurs and contribute to the achievement of broad-based rural economic growth.	<ul style="list-style-type: none"> 300,512 farmer beneficiaries composed of 38,724 agrarian reform beneficiaries (ARBs) and 261,788 rural workers in 11 ARC clusters (includes women and IPs present in the target areas). <i>Average annual income (in constant 2009 prices) increased from PHP 17,582 in 2009 to about PHP 21,267 at EOP.</i> Farm income derived from new farming activities increased by 10 % at MTR and by 30% at EOP. 	<ul style="list-style-type: none"> Consolidated annual RIMS reports, baseline, mid-term and completion surveys. Annual participatory monitoring studies/ outcome assessments. DAR ALDA report. 	<ul style="list-style-type: none"> Peace and Order in the areas covered by the target ARC clusters. No major financial shocks, a stable inflation rate and purchasing power of smallholders/ producers maintained or increasing. No major climate shocks. Key policy environment improved for competitiveness of the agri-business sector.
Outcomes and Outputs			
Outcome Component 1: Value chain business development plans for selected crops validated and implemented resulting in improved farm income.	<ul style="list-style-type: none"> 70 participating POs and other entities in the ARC clusters validated and implemented their value-chain investment plans from PY2 -7. At least 10% of increased farm income derived from new farming activities by MTR and 30% by end of project. 	<ul style="list-style-type: none"> Project MIS and annual outcome assessments. Annual RIMS report. Supervision Mission (SM) reports. 	<ul style="list-style-type: none"> Government remains committed to value-chain development.
Outputs: Market demand analysis and value chain analysis undertaken and ARC cluster value chain investment plans prepared.	<ul style="list-style-type: none"> 11 updated ARC cluster prioritised value-chain investment plans (ARC-VIPs) prepared in PY1. 11 ARC cluster value-chain investment plans (ARC-VIPs) updated each year during PY2-7. 	<ul style="list-style-type: none"> Project MIS and annual outcome assessments. Annual RIMS report. SM reports. 	<ul style="list-style-type: none"> Highly competent value-chain staff and consultants appointed.
Outcome component 2: Improved production, value addition and marketing of the selected agricultural commodities.	<p>In the 11 ARC clusters:</p> <ul style="list-style-type: none"> <i>Gross value of agricultural production of 35,000 HHs increased by 15 % at MTR and 30% at EOP.</i> 8,000 HHs have entered into contractual marketing arrangements with buyers at MTR and 16,000 HHs at EOP. Traffic count on project financed roads increased by 20% at MTR and by 40% at EOP. Average farm-gate prices in real terms for the commodities selected by the target group members increased from baseline survey by 5% at MTR and by 10% at EOP. <i>Participating business enterprises have generated additional employment for 3,000 households by EOP and 1,000 by the MTR.</i> <i>40,000 (90% of the total target group) households have improved access to</i> 	<ul style="list-style-type: none"> Project MIS and annual outcome assessments. Annual RIMS report. SM reports. 	<ul style="list-style-type: none"> Government remains committed to value-chain development. Businesses willing to work with farmers', POs etc. Sufficient competition allows farmers, POs, etc. choices. LGUs and local communities assume responsibility for infrastructure O&M.

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
	<p><i>rural infrastructure and production/processing facilities by EOP, 20% by MTR.</i></p> <ul style="list-style-type: none"> • 90% of project financed infrastructure and equipment is operating and being well maintained at end of project 		
<p>Outputs: Services provided to improve the production, value addition and marketing of the selected agricultural commodities.</p>	<ul style="list-style-type: none"> • Target group smallholders receiving project services, increases from 5,000 in PY2 to 35,000 by EOP. • No. of business organisations/associations formed and/or assisted. • No of contract farming agreements. • No. of marketing agreements. • No. of private service providers contracted. • Around 136 km of road upgraded¹ • About 150 ln.m. bridges constructed. • Around 150 ha of irrigation rehabilitated/restored. • Around 3 units of water supply schemes constructed. • > 30% of the members of the management committees (POs etc.) are women PY1-6. • > 15% of the members of the management committees (POs etc.) are IPs PY1-6. 	<ul style="list-style-type: none"> • Project MIS and annual outcome assessments. • Annual RIMS report. • SM reports. 	<ul style="list-style-type: none"> • Levels of trust in ARCs adequate for establishing effective POs, binding contracts etc. • Adequate TA is provided.
<p>Outcome Component 3: Project implementation is completed on time, within the agreed budget and to the satisfaction of the beneficiaries.</p>	<ul style="list-style-type: none"> • Project implementation is completed within 7 years and all accounts are closed within 6.5 years. • <i>At least 90% disbursement of IFAD Loan and Grant after 6.5 years of project implementation.</i> • <i>95% of the financial and physical targets achieved, without cost overruns.</i> • Annual expenditures are >90% of the AWPB estimates, PY1-6. • >75% of target households from PY3-6satisfied with the services provided. 	<ul style="list-style-type: none"> • Project MIS and annual outcome assessments. • SM reports. 	<ul style="list-style-type: none"> • Effective coordination through the NCI. • All implementing partners adhere to the financing agreements, project implementation guidelines as specified in the MOAs
<p>Outputs: Project managed in a timely, cost effective, transparent and a gender and culturally sensitive manner.</p>	<ul style="list-style-type: none"> • Complete, accurate financial records prepared and audited annually beginning PY1. • Adherence to planning and reporting procedures and formats PY1-6 • M&E activities are timely, efficient and gender and culturally responsive PY1-6. • Annual dissemination of lessons learned/knowledge from project implementation PY4-6. • 46 contract and 239 DAR regular staff are in post with qualifications and experience appropriate for their terms of reference PY1-6. • At least 30% of the project staff are female PY1-6. 	<ul style="list-style-type: none"> • Project progress reports. • SM reports. • M&E reports. • Audit reports. 	<ul style="list-style-type: none"> • Timely fund flows from the Loan and Grant Accounts through the DAs to the Project Accounts at all levels. • Government and LGU counterpart funds and beneficiary contributions provided in a timely fashion.

¹Assumption: Of the total allocation of USD 11.4 million for Investments in VC Related Rural Infrastructure, 96 % will be invested in farm to market roads and bridges; 3% in rehabilitation of irrigation schemes; and 1 in water supply. Investments for storage and drying facilities will be funded under the Farm and Value Chain Enterprise Development Sub-component.