



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
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**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON A PROPOSED FINANCIAL ASSISTANCE TO

**THE REPUBLIC OF THE PHILIPPINES**

FOR

**THE WESTERN MINDANAO COMMUNITY INITIATIVES PROJECT**



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### CURRENCY EQUIVALENTS

Currency Unit	=	Philippine Peso (PHP)
USD 1.00	=	PHP 36.00
PHP 1.00	=	USD 0.03

### WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

### ABBREVIATIONS AND ACRONYMS

ACC	Agrarian Reform Communities
ARF	Agrarian Reform Fund
CADC	Certificate of Ancestral Domain Claim Areas
CEDO	Credit and Enterprise Development Officer
CFEW	Community Fishery Extension Worker
CIDA	Canadian International Development Agency
CIF	Community Infrastructure Fund
CO	Community Organizer
COA	Commission on Audit
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DENR	Department of Environment and Natural Resources
FEA	Field Extension Agent
HH	Household
LBP	Land Bank of The Philippines
LCC	Lead Credit Conduit
LGSP	Local Government Support Project
LGU	Local Government Unit
LPCI	Local Participating Credit Institution
MBN	Minimum Basic Needs
MNLF	Moro National Liberation Front
NGO	Non-Governmental Organization



PMO	Project Management Office
PO	Peoples' Organization
SOU	Site Operation Unit
SRA	Social Reform Agenda
SZOPAD	Southern Philippines Zone of Peace and Development
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
USAID/GEM	USAID Growth with Equity in Mindanao

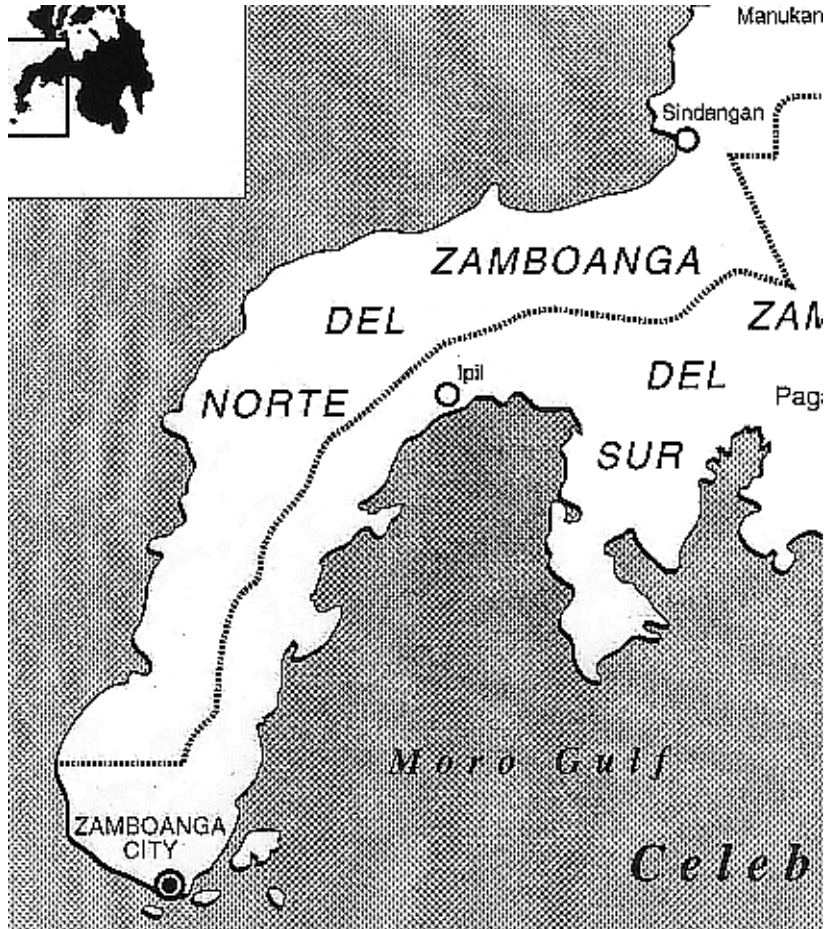
**GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES**

**Fiscal Year**

1 April - 31 March



MAP OF THE PROJECT AREA



Source: IFAD Appraisal

*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.*



## REPUBLIC OF THE PHILIPPINES

### WESTERN MINDANAO COMMUNITY INITIATIVES PROJECT

#### FINANCING SUMMARY

<b>INITIATING INSTITUTION:</b>	IFAD
<b>RECIPIENT:</b>	Republic of The Philippines
<b>EXECUTING AGENCY:</b>	Department of Agrarian Reform (DAR)
<b>TOTAL PROJECT COST:</b>	USD 18.15 million
<b>AMOUNT OF IFAD LOAN:</b>	SDR 11.0 million (equivalent to approximately USD 14.79 million)
<b>AMOUNT OF IFAD GRANT:</b>	SDR 0.56 million (equivalent to approximately USD 0.75)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIERS:</b>	None
<b>CONTRIBUTION OF RECIPIENT:</b>	USD 2.30 million
<b>CONTRIBUTION OF BENEFICIARIES:</b>	USD 0.31 million
<b>APPRAISING INSTITUTION:</b>	IFAD
<b>COOPERATING INSTITUTION:</b>	United Nations Offices for Services (UNOPS)



## PROJECT BRIEF

1. **The target group.** The project will target some 16 000 households of indigenous peoples, upland groups, coastal communities and ex-combatants from the recent communal conflicts in Western Mindanao. The region is one of the most depressed and deprived in The Philippines having suffered an increase in poverty incidence in the last five years and with only 14 municipalities classified as having limited poverty. The severity of poverty is well above average and among the highest in the country.

2. **Reasons for poverty.** The main factors contributing to poverty are: (a) lack of productive resources, encompassing no secure tenure, rights of use or control of abuse, of land and coastal waters; (b) limited access to technical and financial assistance, with credit and extension services normally reaching less than 10% of the respective population; (c) poor social and infrastructure support services, with few paved or proper roads, sporadic absence or scarcity of assured potable water and limited access to health services in rural communities; (d) inadequate finances and management of local government, and, to date, minimal involvement of communities in planning; (e) lack of employment opportunities, with 55% of the poor engaged in farming and over 200 000 people seeking jobs; and (f) a fragile peace-and-order situation.

3. **Project activities to benefit the target group.** The project will strengthen communities and local institutions to enable them to plan their own development initiatives and provide support to the communities for improved planning through community mobilization and technical training. It is expected that particular initiatives to benefit women will be identified and promoted by this process. New technologies that both support production and sustain the upland environments will be demonstrated by a core of specialized extension workers and village-based workers. As appropriate, local agencies will also receive training to improve their performance. A series of practical pilot interventions will examine ways to increase income in coastal communities, at the same time protecting the fragile environment. Grant support for local infrastructure needs will be provided to communities following completion of their planning process, including support for activities that will specifically benefit women including adult literacy, water supplies and sanitation, day-care centres and support to basic health training as well as activities that promote income. Credit intermediaries will allow potential small enterprises to access credit, and collaboration with ongoing bilateral donor programmes such as the United States Agency for International Development (USAID) will enable access to specialized training for enterprise development. Support to the peace and development process will be through the grant financing of agricultural rehabilitation of ex-combatants through consolidation of the Government's agrarian reform programme which will bring the ex-combatants into mainstream development activities.

4. **Project implementation.** A series of workshops held by IFAD (participants included local line agencies, mayors and local government officials, non-governmental organizations (NGOs), national agencies and representatives from bilateral donors) throughout the project design process brought together the key partners required for effective, sustainable development. A distinctive theme has emerged that, given the nature of the issues in Western Mindanao and the current institutional capacity, no single institution (NGO, private, community, national or local government) will be able to implement and sustain development activities alone. Effectiveness of the project on the ground will be assured and enhanced by the system of engagement of services, which, while competitive, will make maximum use of existing knowledge, resources and expertise, including the labour and skills of local people; and will incorporate a substantial measure of training, orientation, advice and follow-up to support peoples' organizations and NGO capabilities.





**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD  
TO THE EXECUTIVE BOARD ON A PROPOSED FINANCIAL ASSISTANCE TO  
THE REPUBLIC OF THE PHILIPPINES  
FOR  
THE WESTERN MINDANAO COMMUNITY INITIATIVES PROJECT**

I submit the following Report and Recommendation on a proposed financial assistance to the Republic of The Philippines, comprising a loan for SDR 11.0 million (equivalent to approximately USD 14.79 million) on highly concessional terms and a grant for SDR 0.56 million (equivalent to approximately USD 0.75 million) to help finance the Western Mindanao Community Initiatives Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

**PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY<sup>1</sup>**

**A. The Economy and Agricultural Sector**

1. The Philippines is one of the largest island groups in the world. It has more than 7 100 islands and extends 1 800 km north to south and 1 100 km east to west. The topography ranges from flat and undulating to hilly and mountainous terrain, with numerous volcanoes, some still active. About 40% of land is cultivated and 53% classified as forest, but only 21% has actual forest cover. The climate is wet-tropical. Population is estimated to have reached nearly 70 million in 1996, with an annual rate of growth of about 2.4%. Despite widening practice of birth control, the high birth rate produces a predominantly young population, with 51% under 20 years of age in 1990. The people have long been mainly agrarian, with farming, natural forests and marine resources providing sustenance for about 11 million people, 43% of the employed work force of 26 million.

2. The financial crisis in South East Asia has affected The Philippines but less than some of its neighbours. Gross National Product (GNP) growth reached 6.9% in 1996 and grew by 6% in the first three quarters of 1997 despite higher interest rates, volatile exchange rates and a slowdown in agricultural production, linked to the El Niño phenomenon. Final-year figures for 1997 show growth at 4.5-5%. Government forecasts a 4% growth in 1998 and a return to previous levels in 1999. The Philippine Peso (PHP) has floated since July 1997 and depreciated against the US dollar by up to 39%. Although GNP per capita figures have risen to over USD 1 000 for 1995 (the latest official figures available) it is estimated that GNP per capita will have declined in 1997 and will decline further in 1998 to below USD 900. There are marked differences between The Philippines and other Asian countries. Philippine banks remain financially strong (rated with Hong Kong and Singapore in terms of asset quality). The real estate sector remains financially sustainable with house rentals rising and office vacancy rates low. The current account deficit, at 4.3% of GNP, is lower than that of its neighbours and the country has consciously shifted to reliance on direct investments rather than portfolio investments and on long-term loans rather than short-term borrowing. The peace accord agreed with the Moro National Liberation Front (MNLF) signed in September 1996 (ending two decades of conflict) has

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<sup>1</sup> See Appendix I for additional information.



improved overall economic and political stability although it has highlighted the need to address the development issues of Mindanao.

3. The effects of the regional economic problems are likely to continue throughout 1998 with consequent slow-down of growth and fiscal pressure. There will be potential stress on the corporate sector as higher interest rates limit investors, with the poor being disproportionately affected if inflation rises. While the Government remains committed to strengthening further its economic fundamentals, new policy measures are required. Areas included reductions of restrictions on trade, reform of competition laws and monopolies. Concerns remain about possible cuts in public expenditure and the effect these could have on the social sectors and poverty in general.

4. Industry is the major exporter by value, but agriculture is of greater importance in terms of employment and as a net earner of foreign exchange since the import content of its output is minimal. A wide range of crops is produced, but two (rice and coconuts) dominate, accounting for some 16 and 8% of agricultural Gross Domestic Product (GDP) respectively and occupying 3-4 million ha each, primarily in small-scale production. In normal conditions, The Philippines is self-sufficient in rice, the food staple; and it accounts for about half of the world supply of coconuts, its prime export crop. Output of rice has been rising, with the introduction of new high-yield strains. Coconut production has been falling, due to ageing of stands and use of trees for timber, but a major replanting and rehabilitation programme began to show results in 1995 and by 2000 is expected to produce a markedly increased output of over 3 million t equivalent of copra. The other main export crops are bananas, mango, pineapple and rubber. Fruits are increasing in importance, but sugar, formerly a major export, is in decline due to the reduction of the United States preferential market, and coffee (another traditional export) is now mostly directed to meeting domestic demand.

5. Livestock production is predominantly for domestic consumption. Pigmear output is adequate for self-sufficiency. Poultry production exceeds domestic requirements and limited quantities are exported. Beef and dairy products are major import items. Fisheries constitute a key sector of the economy, an important source of foreign exchange earnings, a major internal as well as export trade and a primary source of food supply. Fishing contributes some PHP 40 billion or nearly 5% to GDP and is estimated to employ nearly two million people, mostly in subsistence activities concentrated in inland waters and in the so-called municipal fisheries of the near inshore areas extending some 15 km from the coast. Forestry has been in decline since the 1970s, a decline which accelerated dramatically in the 1990s. Exploitation by commercial contractors of logging concessions without adequate regeneration measures and illegal logging and smuggling of timber are probably equally to blame. Like fishing, the need for effective regulation of forestry and for regeneration of large areas of affected lands is urgent, particularly in the drier uplands.

## **B. Experience and Lessons Learned**

6. IFAD has three ongoing projects in The Philippines: the Visayas Communal Irrigation and Participatory Project, the Cordillera Highland Agricultural Resource Management Project and the Rural Micro-Enterprise Finance Project. The Visayas irrigation project has been effective since August 1992; the other projects were declared effective only in December 1996.

7. The lessons learned and general experience gained from Philippine projects are that: a more decisive impact on the rural poor occurs when the project deals with the wider economic problems of communities rather than single sectors or production factors (such as irrigation); thus area-based, integrated projects have proved more successful than sectoral national ones. Production should not be divorced from processing, and marketing aspects and financial support to communities or peoples' organizations (POs) should extend to livelihood aspects. Beneficiary participation in project identification and preparation results in greater long-term impact. Implementation, even after the



project documentation has been approved, should remain in conformity with the loan agreement but be flexible enough so that adjustments can be made to the plan of operations and implementation procedures in line with general objectives. Successful projects are characterized by the ease of availability and accessibility of credit through cooperatives and informal organizations for investments in value-added production and by the development of employment opportunities. Project management should be decentralized, with strong coordination of the implementing agencies - including line departments, local government units (LGUs), non-governmental organizations (NGOs) and POs - at local level.

### **C. IFAD's Strategy for Collaboration with The Philippines**

#### **The Philippines Policy for Poverty Eradication**

8. The Social Reform Agenda (SRA) is the Government's integrated national agenda for action on anti-poverty which embodies the National Action Agenda on anti-poverty developed from the National Anti-Poverty Summit in 1996. To date, the SRA appears to be the most comprehensive and focused and best-funded programme for alleviating poverty. Apart from the urban poor, the SRA has specified convergence areas (focus of intervention) where the rural poor are concentrated. These cover agrarian reform communities (ARCs) coastal villages, resettlement areas, the Certificates of Ancestral Domain Claim Areas (CADCs) (involving mostly upland dwellers), and areas severely lacking in social services. To a great extent, the SRA has identified the poorest provinces/cities and municipalities in terms of minimum basic needs (MBN). While these efforts are nationally-funded, they are largely implemented by decentralized LGUs and to a lesser degree, by NGOs and POs. Of the convergence areas in the rural sector, the ARCs have received greatest assistance owing to the legislated Agrarian Reform Fund (ARF) and under the Comprehensive Agrarian Reform Programme. In coastal and upland areas CADC interventions and opportunities are considerably fewer.

#### **The Poverty Eradication Activities of other Major Donors**

9. Establishment of the peace process, an improved law and order situation and the focus of annual Consultative Group Meetings chaired by the World Bank have encouraged donors to start channelling aid to the area known as the Southern Philippines Zone of Peace and Development (SZOPAD) including Mindanao, Palawan and neighbouring island groups. The United Nations Development Programme (UNDP) is supporting a project to address emergency needs of MNLF base camps. Further interventions will take place through the Food and Agriculture Organization of the United Nations, the United Nations Children's Fund and the World Health Organization with support from bilateral donors including Australia, Belgium, Canada, and The Netherlands. The World Bank is developing a Social Fund to provide quick disbursing aid for immediate infrastructure needs of SZOPAD.

10. The USAID Growth with Equity in Mindanao (GEM) project promotes investment and private sector enterprise development and assists with agriculture rehabilitation under the peace and development process. The European Union, apart from the Southern Mindanao Agricultural Project, supports European NGO initiatives to provide primary health care in the island provinces of Basilan and Tawi-Tawi in the East of Mindanao. The Canadian International Development Agency (CIDA) is currently funding a Local Government Support Project (LGSP) for SZOPAD that has been extended in 1997 to include Region IX. The Expanded Belgian Agrarian Reform Support Project funds health and education activities in Region IX ARCs. The Government of Japan is supporting institutional capacity-building, and considering proposals on secondary education, integrated coastal and fisheries resource management and agro-industry growth centres.



## **IFAD's Strategy in The Philippines**

11. IFAD strategy has been shaped by a Special Programming Mission (1987) and a Country Strategy Mission (1991). Themes developed include: (i) adopting a policy for better natural resource management; (ii) ensuring more equity in land distribution and tenure; (iii) increasing productivity of land, water and labour; (iv) providing employment opportunities; and (v) empowering people and communities through proper organization. Over the past year the strategy has further evolved in the light of recommendations from a series of workshops which brought IFAD together with Government agencies, the private sector, line agencies, NGOs, LGUs and community organizations. These recommendations are in line with overall government strategy and exemplified by the present project. Key themes identified include the need to: (i) develop a focus on beneficiaries/areas which are jointly perceived by partners as priorities; (ii) develop an effective partnership of stakeholders building on the strength of each partner in a participatory manner; (iii) complement resources and interventions of partners and between IFAD projects and other projects; (iv) strengthen the capabilities of both service delivery institutions and the beneficiaries to ensure sustainability; and (v) continue to develop innovative systems and processes in project design and interventions.

### **Project Rationale**

12. The land resources of the project area have been exploited and farmed in a haphazard manner, and consequently degradation and loss of soil fertility have occurred. The result has been low and declining production and incomes for farmers. Fish stocks have been depleted by overfishing, intrusion of commercial vessels in municipality zones, and by injudicious and destructive methods and practices. Small enterprises are poorly developed in the region, constrained by the low incomes of consumers; limited business skills; difficult access to credit; communication problems caused by poor infrastructure; and not least by the recently prevailing insecurity.

13. The resource base, even where degraded, can sustain higher productivity of existing and new crops and higher incomes by the introduction of measures such as sloping agricultural land technology and improved input supplies. Damage to marine resources and water resources can be halted and reversed through community-based coastal resource management which will create a sustainable communal fishery in localized areas. Despite stock depletion and resource damage, there are opportunities for adding value to existing products and introduction of new activities without expanding fishing effort. As security and stability return there will be increasing opportunities for small businesses. These will require improvements in agriculture and fisheries so as to increase demand for consumer and farm goods and services, and to make available more raw materials for processing.

14. Moreover, POs and civil societies are increasingly asserting their role in the development process. It had been shown in several community-based projects that sustainability of interventions can be enhanced with specific schemes leading to ownership by the beneficiaries of the development process. Beneficiaries have shown that, collectively and with assistance from support institutions, they are capable of planning and managing the processes that chart their desired destiny.

15. The participation of all partners in the project has been sought throughout the design stage, principally through a series of workshops, to ensure both participation in the design decisions and an evolution in the ownership of project design to promote involvement and sustainability during implementation. The first workshop (with IFAD support) held in March 1997, followed a survey of potential project ideas carried out by NGOs and focused on the identification of beneficiaries and both geographical and technical interventions. Representatives of national and local government and NGOs attended. A second workshop was held by NGOs in April 1997 to develop their perspectives and



strategy for involvement in the project. A third workshop, held during formulation, reviewed NGO programmes. Finally, during appraisal a two-day Preview Implementation Workshop (supported by the Danish International Development Assistance) was held with approximately 60 participants including local line agencies, mayors and local government officials, NGOs, national agencies and representatives from the USAID/GEM and the CIDA-assisted LGSP. Participants took part in working groups and plenary sessions to review, amend and agree on aspects of implementation including such issues as involvement and funding of NGOs; flows of credit funds; sub-contracting of site offices and contracting of extension workers.

## PART II - THE PROJECT

### A. Project Area and Target Group

16. **Project area.** Western Mindanao covers three provinces known collectively as Region IX, (Zamboanga del Norte, Zamboanga del Sur and the offshore island Basilan). Adjacent are the island provinces of Tawi-Tawi and Sulu. There are four cities - Dapitan, Dipolog, Pagadian and Zamboanga City. The region has an area of 16 000 km<sup>2</sup> and an extended coastline of over 2 560 km. It has 74 municipalities of which over 95% are graded as fifth and sixth class, indicating that they are among the poorest and least developed in the country. The topography is rugged; hills cover over 50% of the area with elevations ranging from 100 to more than 1 000 m above sea level. There is no pronounced wet or dry season; most of the area has a uniform annual rainfall distribution of over 2 400 mm, and water resources derive from eight major and 26 smaller rivers, and river basins, lakes and wetlands. The region is outside the typhoon belt and is a key supplier of coconuts, rubber, palm oil, bananas, mango, other fruit, and fish to the country.

17. Region IX is one of the most depressed and deprived in The Philippines. In 1991, of all 13 regions, it ranked: tenth in unadjusted GDP; lowest in life expectancy at 55 years; lowest in literacy rate at 81%; and lowest in mean years of schooling at 5.3 years. It has a poverty index of 42%, 17% higher than the national average. This means that some 220 000 households are living in poverty and barely able to meet minimum food and non-food needs. The population was 2.8 million in 1995 with an annual growth rate of 2.5%. Whilst the regional unemployment rate is low at 6.5%, underemployment is 38% and widespread. Poorer households tend to depend on agricultural and related work and tenant or share farming and fishing. Many upland farmers, labourers and fishermen belong to indigenous and Muslim communities that have been forced into marginal lands and introverted modes of living, partly by population pressure and partly to preserve their own cultures. There are six major and six smaller indigenous groups (some Muslim) and several associated with active rebel movements.

18. In The Philippines women are generally accorded a higher status than women in many other countries, but in Region IX their life is more difficult than that of the average Filipina. The difference derives not so much from discrimination but from the low level of socio-economic development. In the less advanced villages only 12% of women have secondary schooling; there is minimal access to information on health and sanitation, and employment opportunities are scarce. Where local employment exists, typical earnings can be as low as only 20% of those of men and 65% of the national average for women. Rural women play a major role in farm produce and fish processing and trading. Moreover, in the regional professional workforce (both private sector, LGUs and line agencies) women predominate, with 50 000 jobs, 72% of the total. Similarly, in the NGO sector, there is a high representation of women bringing their commitment, leadership and enthusiasm.

19. **Target group.** The IFAD/NGO/Government Workshop held in Cebu in March 1997 identified upland, coastal areas and indigenous peoples as the focus for IFAD and set further criteria



for selecting target groups as: (i) the magnitude and depth of poverty; (ii) low ranking of minimum basic needs; (iii) low LGU revenues; (iv) absence of development aid, or where there was aid, complementarity; and (v) presence of support units, such as NGOs, POs, private sector or academia. These definitions are in line with the Government's SRA; and in addition, in line with the overall peace and development process, the returning ex-combatants have been included.

20. **Project sites.** Definition of the sites where the most disadvantaged can best be targeted focuses on: support to existing initiatives, particularly those relating to asset control and with replicability potential; communities where NGOs are actively present; building on peace process achievements; and, achieving an equitable geographic spread. Three contiguous sites, one within each province and each with upland, lowland and coastal communities, have been selected. They cover a total of 21 municipalities with 80 *barangays* (sub-districts).

### B. Project Objectives and Strategy

21. **Objectives.** The project's development objective is the increased subsistence, cash crop and fishery production of up to 16 000 farm and fishing households in selected areas of Western Mindanao.

22. **Strategy.** Five institutions will be established; working **in parallel**, they will be able to deliver advice, services, materials and works to the development sites. The prospective institutions need to work in partnership. Given the nature of the issues in Western Mindanao and the current institutional capacity, no single institution (NGO, private, community, national or local government), will be able to implement and sustain development activities alone. **Line agencies** are needed to bring technical expertise and **NGOs** to develop the critical link between formal agencies and target communities. Specialist assistance for development planning and execution, including training, will best be obtained from the **private, professional or academic sectors**. **LGUs** are required for programme and project planning, financing, implementation and control at local level. **Community organizations** are essential to allow participation of the target beneficiaries in all aspects of the development process.

### C. Project Components

23. The project will be implemented over a period of six years and will have the following components: (i) community and institutional development; (ii) resource management; (iii) small enterprise development and credit; and (iv) project implementation.

#### Community and Institutional Development

24. **Community organizational development.** The task of community organizational development will be contracted by competitive tender to NGOs, line agencies or other institutions which have a demonstrated capability and proficiency to undertake this work. Inputs will be based on deployment of community organizers (COs), who will be village-based and responsible for direct contact with rural people in developing their organizations. The formation of community organizations will follow CO deployment and initial mobilization. Series of awareness-raising meetings, with COs acting as facilitators, will be held with the barangay communities, leaders and representatives. The participatory approach will require continuing project inputs for planning sessions with central and local Government staff, and municipality and barangay councils. Training will include exchange visits by community leaders and groups; seminars; and formal courses, focused at both barangay and municipal levels, in such subjects as: basic institutional development; leadership; conflict resolution; formation and operation of savings/credit groups; land tenure; gender issues; literacy; and environmental management.



25. **LGU Capacity development.** This sub-component will develop LGU capacity at province, municipality and barangay levels, mainly by awareness-building, reorientation and skills training for staff, to enable the LGUs to play a greater role in development, from identification of needs through to implementation. Project inputs will include two full-time planning trainers to develop and arrange: training programmes; exchange visits; on-the-job experience-sharing sessions; and professional consultancies. The project will work closely with ongoing CIDA-LGSP operations in Region IX.

26. **Line agency processes support.** This sub-component will assist the Departments of Agrarian Reform (DAR), of Environment and Natural Resources (DENR) and of Agriculture (DA) to refine their processes for supporting rural communities. The main requirement will be staff training: in all aspects of the project cycle; in programming and methods for efficient delivery of services to farmers; and particularly in cultural sensitization for officers dealing with indigenous peoples.

### **Resource Management**

27. **Land resource management.** A core team of experts in agricultural disciplines will be deployed as natural resources officers. They will be specialists in disciplines relevant to the site and form the technical support cadre under the overall supervision of a natural resources specialist. They will direct and back-up a force of field extension agents (FEAs). A team of up to 240 farmers will be trained to be field organizers to supplement and facilitate the work of FEAs. The FEAs, working with field organizers and supported by the site operation units (SOU) specialists, will supervise on-farm trials and demonstrations in all ecosystems. Six farming systems development studies will be contracted to regional institutions and 30 farmers/year will undertake visits within the region to inspect cropping practices. Grant resources will assist the development of agrarian reform sites for ex-combatants and develop the basis for their inclusion in longer-term project activities.

28. **Marine and water resources management.** Community fishery extension workers (CFEWs), one in each province, will provide the technical and managerial expertise to complement the work of the COs. CFEWs will train and arrange exchange visits for fishermen focusing on community-based fishery and coastal management. Practical pilot surveys and trials will be undertaken including: assessment of sites for seaweed and cage culture, lagoon ranching and fish aggregation devices; trap fishery and cage culture demonstrations; and seaweed nursery.

29. **Infrastructure and resource enhancement.** Sustainable development will require that communities invest in maintaining and enhancing the productive capacity of their areas. Adoption of on-farm and land management practices by a large proportion of farmers or the undertaking of a major social or protection forest planting programme will require funding assistance. This sub-component will include sub-projects to meet such needs, as identified through the community development process and to be grant-aided by a community infrastructure fund (CIF). The CIF may be used, for example, on road and bridge rehabilitation; potable water supply; transport and storage facilities; small-scale irrigation; communal plantations; and grain-drying areas. Communities will prioritize potential schemes and will have to contribute in cash or kind - materials and labour - a minimum proportion of project cost; and assume responsibility for operation, maintenance and repair. Strict criteria will be applied to assessment of feasibility, selection and approval of CIF schemes.

### **Small Enterprise Development and Credit**

30. **Business advisory services.** A Credit and Enterprise Development Officer (CEDO) will: interact with communities and credit intermediaries to facilitate credit supply; provide business research and advisory services; and oversee the provision of external services and training in



technical skills and entrepreneurship. All training will be provided by CEDOs and/or contracted professional institutions, line agency specialist sections, other projects including USAID-GEM, or consultants.

31. **Enterprise development credit.** The Land Bank of The Philippines (LBP) will act as trustee and supervisor for channelling funds from Government to lead credit conduits (LCCs), which will in turn on-lend to local participating credit institutions (LPCIs) for lending to individuals and groups. LCCs will include government and non-government institutions with proven expertise in credit. Loans will be made for agriculture and livestock, fishery and small business, especially agri-business.

### Project Implementation

32. This sub-component will include all the inputs required for effective project implementation. Funds will be provided for technical support, systems and packages to facilitate studies, surveys, sub-project and enterprise design, management/accounting/administration activities, and sub-contracted specialist services that will be engaged by the project on behalf of beneficiary groups, communities and LGUs to carry out specific tasks.

### D. Project Costs and Financing

33. **Project costs.** Total project costs, including physical and price contingencies are estimated at USD 18.15 million at January 1998 prices. Exchange rate projections and price contingencies (taking into account domestic and international inflation) have been estimated according to the latest World Bank and Central Bank of The Philippines projections bearing in mind the current financial crisis in the region. The disbursement period is six years; a cost summary is presented in Table 1.

**TABLE 1: SUMMARY OF PROJECT COSTS<sup>a</sup>**  
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Community and institutional development	1 697	66	1 762	4	11
Resource management	8 016	130	8 146	2	50
Small enterprise development and credit	550	3 284	3 834	86	23
Project Implementation	2 241	358	2 599	14	16
<b>Total base costs</b>	<b>12 504</b>	<b>3 838</b>	<b>16 342</b>	<b>23</b>	<b>100</b>
Physical contingencies	116	5	121	4	1
Price contingencies	1 307	353	1 690	23	11
<b>Total project costs</b>	<b>13 927</b>	<b>4 226</b>	<b>18 153</b>	<b>23</b>	<b>112</b>

<sup>a</sup> Discrepancies in totals are due to rounding.



**TABLE 2: FINANCING PLAN<sup>a</sup>**  
(USD '000)

	IFAD		GRANT		GOVERNMENT		BENEFICIARIES		TOTAL		Local (Excl. Taxes)	Duties & Taxes	
	LOAN												
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			For. Exch.
<b>A. Community and Institutional Development</b>													
1. Community organizational development	1 283.20	94.9	-	-	67.7	5	-	-	1 350.90	7.4	71.9	1 262.30	16.7
2. LGU Capacity development	420.6	100	-	-	-	-	-	-	420.6	2.4	-	420.6	-
3. Line agency processes support	199.4	80	50	20	-	-	-	-	249.4	1.4	50	199.4	-
<b>Subtotal</b>	<b>1 903.20</b>	<b>96.6</b>	<b>50</b>	<b>2.5</b>	<b>67.7</b>	<b>3.4</b>	<b>-</b>	<b>-</b>	<b>2 020.90</b>	<b>11.2</b>	<b>121.9</b>	<b>1 882.30</b>	<b>16.7</b>
<b>B. Resource Management</b>													
1. Land resource management	1616	73.1	500	22.6	93.2	4.2	-	-	2 209.20	12.2	148.2	2 049.20	11.7
2. Marine and water resources management	428.6	65.2	200	30.4	28.8	4.3	-	-	657.4	3.6	66.6	474.7	6.2
3. Infrastructure and resource enhancement	4 299.60	70	-	-	1 535.60	25	307.1	5	6 142.30	33.8	-	6 307.90	-
<b>Subtotal</b>	<b>6 344.20</b>	<b>70</b>	<b>700</b>	<b>8.3</b>	<b>1 657.60</b>	<b>18.3</b>	<b>307.1</b>	<b>3.4</b>	<b>9 008.90</b>	<b>49.6</b>	<b>214.8</b>	<b>8 831.80</b>	<b>17.8</b>
<b>C. Small Enterprise Development and Credit</b>													
1. Business advisory services	602.9	97.2	-	-	17.2	2.8	-	-	620.1	3.4	12.4	603.4	4.3
2. Enterprise development credit	3 648.40	100	-	-	-	-	-	-	3 648.40	20.1	3 629.10	19.2	-
<b>Subtotal</b>	<b>4 251.30</b>	<b>99.6</b>	<b>-</b>	<b>-</b>	<b>17.2</b>	<b>0.4</b>	<b>-</b>	<b>-</b>	<b>4 268.50</b>	<b>23.5</b>	<b>3 641.50</b>	<b>622.6</b>	<b>4.3</b>
<b>D. Project Implementation</b>	<b>2 291.10</b>	<b>80</b>	<b>-</b>	<b>-</b>	<b>563.8</b>	<b>19.7</b>	<b>-</b>	<b>-</b>	<b>2 854.90</b>	<b>15.7</b>	<b>377.6</b>	<b>2 379.50</b>	<b>80.3</b>
<b>Total Disbursement</b>	<b>14 789.80</b>	<b>81.5</b>	<b>750</b>	<b>4.1</b>	<b>2 306.30</b>	<b>12.7</b>	<b>307.1</b>	<b>1.7</b>	<b>18 153.20</b>	<b>100</b>	<b>4 355.80</b>	<b>13 716.20</b>	<b>119.1</b>

<sup>a</sup> Discrepancies in totals are due to rounding.





34. **Project financing.** IFAD will finance approximately USD 15.54 million of total project costs including an IFAD loan of approximately USD 14.79 million representing 81% of total project costs and a grant of USD 0.75 for agricultural rehabilitation of ex-combatants. The Government will finance approximately USD 2.3 million representing 13% of project costs, and the project beneficiaries will contribute approximately USD 0.31 million or 2% of project costs. Costs assume that IFAD and Government will finance both investment and recurrent component costs. A financing plan by component is presented in Table 2. Formal cofinancing has been replaced by collaborative arrangements with the ongoing CIDA-assisted LGSP, which is about to enter its second phase 1998-2001 and the USAID-GEM project, which is promoting investment and private sector enterprise development and assisting with agriculture rehabilitation under the peace and development process. IFAD will separately provide a Special Operations Facility grant of USD 45 000 to finance essential project start-up activities. The arrangements will include retroactive financing, from 1 May 1998 and prior to loan effectiveness, of eligible items to maximum USD 500 000 for financing the sub-contracts for site operations units, community mobilization, participatory planning and baseline studies.

### **E. Procurement, Disbursement, Accounts and Audit**

35. **Procurement.** Procurement of goods and services will be in accordance with IFAD and UNOPS guidelines. Major procurement items include equipment, vehicles, inputs, training, and technical assistance. Contracts with beneficiary organizations will be in accordance with procedures and conditions adopted by the Government for participatory implementation. Contracts for goods and services costing more than USD 100 000 and contracts of over USD 50 000 for consulting firms, NGOs and individuals will be given prior review by UNOPS; between USD 50 000 and USD 100 000 by post-review by UNOPS and below USD 50 000 by selective review during supervision missions.

36. **Disbursement, accounts and audit.** The loan will be channelled through two special accounts maintained in US dollars at the national level, one managed by DAR and the other by the LBP. Following loan effectiveness, IFAD will make an initial deposit of USD 750 000 and USD 500 000 respectively, corresponding to about six months' requirements. DAR will open a special account for the grant into which an initial deposit of USD 300 000 will be made upon effectiveness. A trust account to be opened in Zamboanga will be operated by the project manager who will transfer funds to the project implementing agencies. The Commission on Audit (COA) is empowered by Philippine law to subject to annual audit the accounts of all government agencies and also, through specific procedures, the funds provided to NGOs and POs. The Project Management Office (PMO) will submit the annual financial statements to COA within two months of the end of the financial year. Copies of the annually audited financial statements will be sent to UNOPS and IFAD within six months of the end of the financial year. The closing date of the loan is 31 December 2005.

### **F. Organization and Management**

37. **Beneficiaries' participation.** During implementation, community and peoples' organizations will help to form the umbrella grouping for implementing community development programmes and productive activities and providing linkage between institutions and beneficiaries. NGOs will collectively, jointly or individually, be prime candidates, as contractors or partners, for the supply of community development and organizational, administration and business training services.

38. **Gender considerations.** The role of women in NGOs will be particularly important as NGOs will have the main responsibility for community organization and for leading the process of community planning and resource allocation. It is expected that the barangay planning workshops



will identify the need for gender sensitivity/awareness training in the community as a result of particular issues which has arisen in the community meetings. Specific programmes for women (e.g., skills development, adult education) will be financed. This will be particularly relevant in coastal and small island communities where the population is predominantly Muslim as well as with indigenous peoples in upland areas.

39. **Project implementation.** The Project Executive will comprise senior management that will assume responsibility for project performance, being directly answerable to the project director in Manila and to the Inter-Departmental Steering Committee. The Project Executive will consist of the project manager, based in the PMO in Zamboanga City; the PMO financial controller/administrator, community development supervisor and natural resources specialist; and the three operations managers of the SOUs, located in Dipolog, Ipil and Isabela. The Project Executive will liaise with provincial, municipal and barangay committees and planning bodies. Integral to the work of the PMO and SOUs will be the need to continue and build on the partnerships of implementing institutions as a fundamental strategy of implementation. The PMO will organize the project grant element activities for ex-combatants.

40. **Monitoring and evaluation.** Monitoring will be at three levels: in the field, in community and in barangay activities, where the COs, FEAs and all participating agencies will have monitoring and evaluation responsibility as part of their contract obligations. Project evaluation will take place: at the mid-term review in PY 3 when an interim impact assessment will be made of tasks completed, increments obtained and benefits accrued against baseline data and target; and post-project in PY 7 when a completion impact assessment report will be prepared. In both cases local consultants will draft papers on project impact and the achievement of project objectives with respect to the beneficiaries and local institutions involved. The scope for continuation, adaptation, expansion and replication of project activities will be highlighted at both interim and completion assessments.

## G. Economic Justification

41. **Production, marketing and prices.** Project impact on output of the major crops will be significant, particularly in the case of the principal crops of coconuts (copra) and rice; and to a lesser extent, corn, vegetables and rubber. The output of these five products is estimated in terms of annual production at project maturity and as a proportion of present volumes as follows; copra, 1 901 t and 191.4%; rice, 6 939 t and 85.4%; corn, 9 804.2 t and 172.6 %; vegetables 1 814.4 t and 158.1%; and rubber 250 t and 100%. The increased outputs of rice, corn, vegetables and rubber will find a ready market both within Region IX and Mindanao as a whole where they are often in short supply. Increased copra and vegetables output will meet more stringent market conditions; fortunately for copra, the peak output will not be reached for at least 10 years, giving trade an opportunity to adjust. Incremental livestock and fish production will be absorbed in the immediate locality of production by the well-established trade where they will add to the quality of diet.

42. **Benefits and beneficiaries.** The target group numbers 16 000 households (HHs), of which: about 10 500 are agricultural, with an estimated 70% (7 350) in the uplands, and 3 150 in the lowlands; and 5 500 are fishing HHs in coastal areas. Major beneficiaries will be: upland and undulating land farming HHs, using coconut-dominated mixed systems or slash-and-burn techniques, for whom the key initiatives will be in higher-yielding hybrid coconut planting, inter-cropping with high productivity upland rice and fruits, agro-forestry, including rubber and robusta coffee, and livestock; lowland HHs, mainly on rice-based systems, for which high-yielding variety seeds, fertilizer and agro-chemicals, and improved techniques, possibly including irrigation and storage facilities will be made available (through credit where necessary), and hog and chicken rearing encouraged; coastal fishing HHs, with emphasis on providing alternative means of livelihood through diverse enterprises such as trap fishing, cage culture, lift nets, seaweed farming and post-harvest



processing (which do not add to the present pressure on the basic traditional fishery); and enterprise HHs, which will come from all of sections of these communities and two thirds of which are expected to set up new businesses.

43. **Economic analysis.** The economic analysis is confined to the readily quantifiable direct benefits; secondary and linkage benefits from project actions (for instance, in soil and water conservation or infrastructure improvement) and social effects (which will be considerable) are ignored. Benefits of increased agricultural and fisheries production and enterprise profitability are projected from the foregoing analysis of beneficiaries and financial impact. The net benefit and cost streams generate an economic internal rate of return (EIRR) of 14%, which reflects a satisfactory prospective result for a project such as this. The sensitivity of the EIRR to increases in costs or falls in benefits of 10 or 20%, or to benefits lagging one year is limited, indicating the resilience of project activities, e.g., an increase of 20% in project costs decreases EIRR to 11%.

### **H. Risks**

44. The susceptibility of the project to adverse economic factors depends on the continued resilience of the national economy in the face of the regional conditions. Present consensus is that the country will maintain an equable climate and that continuation of liberalization and high growth strategies will assure reasonable cost levels and marketing prospects. In agriculture, the resource base, though widely degraded and under further threat, is readily recoverable given adequate rehabilitation and protection, some of which will be provided under the project. In fisheries, the stock depletion pressures in coastal waters, and their probable continuation, constitute a serious risk. The project will not expand traditional fishing but will offer alternative income-generating opportunities and promote coastal protection measures and better regulation to mitigate the risk.

45. Inevitably there are risks in the socio-cultural aspects of project implementation in a region which has a high incidence of poverty, a large proportion of ethnic communities and a turbulent history of civil unrest. The people are naturally and justifiably risk-averse, somewhat introspective and possibly even suspicious of Government intention. There will therefore be an element of risk for the rate of progress of the community development and empowerment processes and more particularly for interest and uptake of credit. The project design has addressed these risks in the formulation of strong, but flexible and sensitive community organization and enterprise/credit interventions, firmly based at grass roots level and capitalizing on existing knowledge, experience and resources.

### **I. Environmental Impact**

46. Given the levels of both current and imminent further degradation of much of the middle and upper catchment areas in Region IX, and damage from overfishing and illegal fishing in coastal waters, the project interventions should have significant environmental benefits and pose minimal hazards. The agricultural, land management and conservation practices that will be incorporated in support of perennial crop and timber planting in undulating and upland areas and mixed cropping with coconut are consistent with the sloping agricultural land technology that has been pioneered and proven effective in The Philippines. Other technical packages for application in upland areas will discourage use of land over 18% slope for cultivation and include conservation techniques such as vegetative contour barriers, using napier or vetiver grass and Ipil-Ipil or madre cacao. Only small incremental amounts of fertilizers and agro-chemicals are advocated.



## **J. Innovative Features**

47. The project was originally identified and has been formulated from the outset within an intensely consultative and participatory process; Government, line department, LGU, NGO, beneficiary, private sector and other donor/project stakeholders have been involved throughout. This process will continue into implementation, through the partnership of agencies and the dynamic and performance-related organization and management systems proposed. Effectiveness of the project on the ground will be assured and enhanced by the system of engagement of services, which, while competitive, will make maximum use of existing knowledge, resources and expertise, including the labour and skills of local people, but incorporating a substantial measure of training, orientation, advice and follow-up support to bolster PO and NGO capabilities.

48. The project will contribute both directly and indirectly to the resolution of problems associated with decentralization and devolution. LGUs will be among the principal recipients of project resources, training and expertise, not least in the development of better planning, management and revenue raising systems; and less directly, but importantly, through local area economic growth and enhancement of the self-reliance of community organizations.

## **PART III - LEGAL INSTRUMENTS AND AUTHORITY**

49. A Financing Agreement between the Republic of The Philippines and IFAD constitutes the legal instrument for extending the proposed financial assistance to the recipient. A summary of the important supplementary assurances included in the negotiated Financing Agreement is attached as an annex.

50. The Republic of The Philippines is empowered under its laws to borrow from IFAD.

51. I am satisfied that the proposed financial assistance will comply with the Agreement Establishing IFAD.

## **PART IV - RECOMMENDATION**

52. I recommend that the Executive Board approve the proposed financial assistance in terms of the following resolution:

- (a) **RESOLVED:** that the Fund shall make a loan to the Republic of The Philippines in various currencies in an amount equivalent to eleven million Special Drawing Rights (SDR 11 000 000) to mature on and prior to 15 March 2038 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.
- (b) **RESOLVED FURTHER:** that the Fund shall provide a grant to the Republic of The Philippines in various currencies in an amount equivalent to five hundred and sixty thousand Special Drawing Rights (SDR 560 000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan  
President



**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES  
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Loan Negotiations concluded on 31 March 1998)

1. The Government of the Republic of The Philippines (the Government) shall make the proceeds of the loan allocated to Incremental Credit available to LBP in pesos, under a subsidiary loan agreement acceptable to IFAD. Except as the Government and IFAD shall otherwise agree, the terms for relending the proceeds of the loan shall include: (a) interest at the rate of six and three quarter per cent (6.75%) per annum for proceeds intended for sub-loans; (b) interest at the rate of one per cent (1%) for institutional development loans; and (c) a repayment period of twenty (20) years, including a grace period of six (6) years.
2. The Government shall cause LBP to enter into sub-financing agreements with LCCs, providing, *inter alia*, for the onlending of the proceeds of the loan for the carrying out of the project, and the rights of the Government and IFAD with respect thereto. Such sub-financing agreements shall be in form and on terms and conditions acceptable to IFAD.
3. The Government shall cause the proceeds allocated to Incremental Credit to be deposited in Special Account "A", to be redeposited in a timely manner into a separate project account with LBP for the purpose of relending the proceeds allocated to Incremental Credit to the LCCs.
4. The Government shall take reasonable measures to ensure that the project is carried out with due diligence in regard to environmental factors and in conformity with national environmental legislation and any international environmental treaties to which the Government may be a party, including the maintenance of appropriate agricultural pest management practices, where applicable. To that end, the Government shall ensure that the pesticides procured under the project do not include any pesticide that is either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations (FAO), as amended from time to time, or listed in Tables 1 (Extremely Hazardous), or 2 (Highly Hazardous) of the World Health Organization (WHO) Recommended Classification of Pesticides by Hazard and Guidelines to Classification 1996-1997, as amended from time to time.
5. During the execution of the project, the Government and IFAD shall periodically review the interest rates to be applied to the credits to be made out of the proceeds of the loan. The Government, if necessary, shall take appropriate measures, consistent with the policies of the Government, in order to harmonize the interest rates on credits with IFAD's policy on relending rates.
6. The following is specified as an additional condition precedent to the effectiveness of the loan agreement:

The project manager shall have been appointed to IFAD's satisfaction.



## COUNTRY DATA - THE PHILIPPINES

<b>Land area (km<sup>2</sup> thousand) 1994 1/</b>	<b>298</b>	<b>GNP per capita (USD) 1995 2/</b>	<b>1 050</b>
<b>Population (million) 1995 1/</b>	<b>69</b>	<b>Average annual real rate of growth of GNP per capita, 1985-95 2/</b>	<b>1.5</b>
<b>Population density (population per km<sup>2</sup>) 1995 1/</b>	<b>230</b>	<b>Average annual rate of inflation, 1985-95 2/</b>	<b>9.8</b>
<b>Local currency</b>	<b>Philippine Peso</b>	<b>Exchange rate: USD 1 =</b>	<b>PHP 36.00</b>
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual rate of growth) 1980-95 1/	2.3	GDP (USD million) 1994 1/	74 180
Crude birth rate (per thousand people) 1995 1/	29	Average annual rate of growth of GDP 1/ 1980-90	1.0
Crude death rate (per thousand people) 1995 1/	7	1990-95	2.3
Infant mortality rate (per thousand live births) 1995 1/	39	Sectoral distribution of GDP, 1995 1/	
Life expectancy at birth (years) 1994 3/	67.0	% agriculture	22
Number of rural poor (million) 1/	23.0	% industry	32
Poor as % of total rural population 1/	71.0	% manufacturing	23
Total labour force (million) 1995 1/	28	% services	46
Female labour force as % of total, 1995 1/	37	Consumption, 1995 1/	
<b>Education</b>		Government consumption (as % of GDP)	11
Primary school enrolment (% of age group total) 1993 1/	111	Private consumption (as % of GDP)	74
Adult literacy rate (% of total population) 1994 3/	94.4	Gross domestic savings (as % of GDP)	15
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1992 3/	2 258	Merchandise exports, 1995 1/	17 502
Index of daily calorie supply per capita (industrial countries=100) 1992 3/	73	Merchandise imports, 1995 1/	28 337
Prevalence of child malnutrition (% of children under 5) 1989-95 1/	30	Balance of trade	-10 835
<b>Health</b>		Current account balances (USD million)	
People per physician, 1993 1/	8 273	before official transfers, 1995 1/	-2 860
People per nurse, 1993 1/	n.a.	after official transfers, 1995 1/	-1 980
Access to safe water (% of population) 1990-96 3/	86	Foreign direct investment, 1995 1/	1 478
Access to health service (% of population) 1990-95 3/	71	Net workers' remittances, 1995 1/	296
Access to sanitation (% of population) 1990-96 3/	77	Income terms of trade (1987=100) 1995 1/	174
<b>Agriculture and Food</b>		<b>Government Finance</b>	
Cereal imports (thousands of metric tonnes) 1994 1/	2 219	Overall budget surplus/deficit (as % of GDP) 1994 1/	-1.5
Food imports as percentage of total merchandise imports 1993 1/	8	Total expenditure (% of GDP) 1994 1/	18.4
Fertilizer consumption (hundred grams of plant nutrient per arable ha) 1994/95 1/	655	Total external debt (USD million) 1995 1/	39 445
Food production index (1989-91=100) 1995 1/	116	Total external debt (as % of GNP) 1995 1/	49.4
Food aid in cereals (thousands of metric tonnes) 1994-95 1/	44	Total debt service (% of exports of goods and services) 1995 1/	16.0
<b>Land Use</b>		Nominal lending rate of banks, 1995 1/	14.7
Agricultural land as % of total land area, 1994 1/	35	Nominal deposit rate of banks, 1995 1/	8.4
Forest and woodland area (km <sup>2</sup> thousand) 1990 1/	78		
Forest and woodland area as % of total land area, 1990 1/	26		
Irrigated land as % of arable land, 1994 1/	17.2		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1997

2/ World Bank, *Atlas*, 1997

3/ UNDP, *Human Development Report*, 1997

## PREVIOUS IFAD LOANS IN THE PHILIPPINES

Project Title	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Magat River Multipurpose Stage II (Irrigation)	World Bank: IBRD	World Bank: IBRD	i	12 Dec 78	25 Apr 79	30 Jun 85	L - I - 8 - PHI	USD	10 000	100%
Smallholder Livestock Development	AsDB	AsDB	i	17 Dec 81	01 Oct 82	30 Sep 89	L - I - 84 - PH	SDR	7 100	32.6%
Communal Irrigation Development	World Bank: IBRD	World Bank: IBRD	i	15 Sep 82	29 Mar 83	30 Jun 91	L - I - 108 - PH	SDR	10 800	64.3%
Highland Agriculture Development	AsDB	AsDB	i	03 Dec 86	21 Aug 87	31 Dec 93	L - I - 196 - PH	SDR	3 900	77.5%
Visayas Communal Irrigation and Participatory	IFAD	UNOPS	i	14 Apr 92	25 Aug 92	31 Dec 98	L - I - 302 - PH	SDR	11 000	74.7%
Cordillera Highland Agricultural Resource Management	AsDB	AsDB	hc	06 Dec 95	04 Dec 96	30 Sep 03	L - I - 397 - PH	SDR	6 150	11.9%
Rural Micro-Enterprise Finance	AsDB	AsDB	hc	18 Apr 96	04 Dec 96	01 Mar 02	L - I - 416 - PH	SDR	10 150	10.3%

Note: hc = highly concessional  
i = intermediate





## LOGICAL FRAMEWORK

### COMPONENT 1: COMMUNITY AND INSTITUTIONAL DEVELOPMENT

**OBJECTIVE**

Cohesive communities able to plan programmes and access funds to meet priority needs

OUTPUTS	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	CRITICAL ASSUMPTIONS
Eighty functional community organizations able to implement locally-conceived sub-projects, programmes and plans	POs established, trained and effectively managed community plans prepared, costed, approved, funded and implemented. Projects prepared, approved, funded, implemented	Project PMO and SOU progress and M&E reports. Minutes of PO meetings and periodic reports. Reports of contractors - line agencies, NGOs, private Province/LGU records, accounts and reports	Communities agree to need for and take all steps for formalizing, organizations. LGUs adopt procedures to fund community development plans.
Improved planning and coordination capability at 21 municipality level and 80 barangay level LGUs	LGU cadre trained, oriented, motivated. Timely, professional output of sub-project plans. Schemes, programmes implemented using resources other than project, e.g.. CIDA-LGSP/USAID GEM	As above, plus training course/contractor records. Individual sub-project progress reports. Interim impact assessment; completion report	LGUs obtain necessary funds allocation - internal revenue allocation (IRA) LGUs adopt planning procedures, provide/train staff
Effective procedures for support to community organizations by three DAR and three DENR province offices and DA Region/Centre	Agency staff sensitized, trained, given on-the-job and exchange visit exposure/experience. Operating manuals/systems for improved procedures	As above, plus line agency field and periodic reports. Management records/surveys especially of community development supervisor (CDS)	Line agency acceptance/enthusiasm for partnership approach and cooperation with service contractors
<b>ACTIVITIES</b>			
<b>Output 1</b>			
Deploy community organizers (COs) Form community organizations Prepare community area plans and programmes Strengthen community organizations	Contractor has full number of COs trained and in field. Number of community organizations formed. Number of plans designed, appraised, approved, funded. Number of Pos trained, operating/administrating/accounts properly	Contractor progress reports and financial records. CDS records. Contract and works progress documents. Community organization coordinator (COC) and CDS surveys, routine records and reports	Community members aware; volition, conviction. Basis for communal interest sound/sufficient. Real/feasible development needs/aspirations present. Partnership, cooperation, cohesion adequate
<b>Output 2</b>			
Improve municipal level LGU staff performance Improve barangay level LGU staff performance	Numbers of staff trained, oriented, motivated. Proficient, timely delivery of LGU inputs, support	Departmental and course provider records. LGU Planning Training Adviser M&E reports	Staff enthusiasm. Adequate allowances/rewards for improvement
<b>Output 3</b>			
Improve province level DAR performance Improve DENR and DA performance	As above, plus numbers and types of systems and procedures improved.	Documentation/work effectiveness studies	As above



**COMPONENT 2: RESOURCE MANAGEMENT**

**OBJECTIVE**

Sustained higher productivity of natural resources available to up to 16 000 agricultural and fishery households

<b>OUTPUTS</b>	<b>OBJECTIVELY VERIFIABLE INDICATORS</b>	<b>MEANS OF VERIFICATION</b>	<b>CRITICAL ASSUMPTIONS</b>
Proven new crop options and farming systems ready for distribution of extension services	Number of famrs/groups adopting sloping agricultural land technology (SALT). Areas of trees planted, extent of conservation works. Schemes/aceage of adoption of mixed cropping	SOU and contractor reports. Contract and works progress records/accounts FEA, farmer/group, PO and DAR, DA records	Field trials find appropriate, profitable packages acceptable to farmers. Present imprudent/exploitative use restricted
Proven new fishery enterprise options for distribution by effective extension services	Number of cage fish/seaweed culture units adopted. Lagoons declared communal sanctuaries. Number of acquaculture enterprises started (including inland)	As above, plus CFEW records. LGU, DENR, DA and contractor reports	Imposition/enforcement of fisheries regulations. Pilot trials/demonstrations successful. New enterprises/techniques feasible/profitable
Improved infrastructure and resource management sub-projects chose and installed by up to 80 rural communities	Number of feasible proposals and plans submitted. Number of infrastructure facilities constructed. Number of resource management schemes completed	As above, plus provincial and LGU reports. DAR, DENR progress/completion documents	Acceptance of and capability for beneficiary/LGU maintenance, operation and upkeep. Belief, cohesion in communal management approach
<b>ACTIVITIES</b>			
<b>Output 1</b>			
Deploy trained agricultural extension staff Field trails and demonstrations Support agricultural institutions	Target number of FEAs trained and in position. Number of crop option/conservation trials undertaken. Number of training courses provided	Contractor progress reports, financial records. Natural resources specialist reports. Training effectiveness reports	Farmer field organizers available, motivated and trained
<b>Output 2</b>			
Deploy trained fishery extension staff Field trials and demonstrations	Contracted CFEWs in field. Enterprises proven by practical pilot studies/trials	Contractor and line agency records. Trial/demonstration results	Community fishery volunteers available, motivated and trained
<b>Output 3</b>			
Construction/implementation	Number of CIF schemes, programmes planned/underway	Contractor and LGU/Province records/reports	Technically/financially feasible proposals emerge

3



### COMPONENT 3: SMALL ENTERPRISES AND CREDIT

**OBJECTIVE**

Expanded and new on- and off-farm enterprises

OUTPUTS	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	CRITICAL ASSUMPTIONS
Effective Government and private advisory, research and counselling services for owner operators of on- and off-farm enterprises	Number of enterprises expanded/started up and making reasonable returns	SOU, LBP and contractor reports. Individual enterprise accounts. CEDO records	Viabie investment opportunities emerge
Viabie and accessible credit services providing 36 000 loans for small businesses	Number of loans made by LCCs and LCPIs. Loan recovery and reapplication rates	LCC and LCPI records and accounts. Lender records	Risk aversion of beneficiaries mitigated. Financing facilitation successful
<b>ACTIVITIES</b>			
<b>OUTPUT 1</b> Develop advisory and research services	Number of training courses supplied, staff proficient. Number of CEDO/adviser/entrepreneur consultations	As above, plus, records of business growth. Frequency of requests for assistance. LCC and LCPI annual and ad hoc reports. Lender operating records at branch/field level	Institutional commitment/staff enthusiasm
<b>OUTPUT 2</b> Strengthen credit institutions Provide credit for enterprises	Staff expansion, increased efficiency of operations. Loans made; loan recovery.		Business climate favourable and performance good

### COMPONENT 4: PROJECT IMPLEMENTATION

**OBJECTIVE**

Responsive, cost-effective and timely delivery of Project services/resources; efficient management of implementation to achieve project targets

OUTPUTS	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	CRITICAL ASSUMPTIONS
Steering/Advisory Committees and Project Directorate at DAR-PDMS (project development and monitoring service) set up; PMO Office and three contracted SOUs established with efficient project management cadre, systems and capability	Committees, Directorate, Secretariat operational. Service contracting system working. AWPBs of contractors/implementing agencies completed on schedule. Progress of sub-projects and activities	Committee meeting minutes, reports. Contract/MOA documents and progress reports.  PMO, SOU operations and M&E records. Periodic, interim evaluation and completion reports	Wholehearted cooperation by incumbents. Service contract principle and systems accepted.  Strict adherence to performance criteria/systems. Proficient contractors available/selected.
<b>ACTIVITIES</b>			
Project national policy direction and strategy Effective provision of services and resources Project Executive set up and management systems operational and efficient	Project strategy/operational guidelines agreed. Orderly/timely completion of plans, sub-projects. AWP/Bs of implementing agencies adhered to works/inputs completed on schedule/satisfactory	As above, plus, strategy/mision statement; operating manuals. Site and scheme records. Training, advisory, consultancy reports. PMO and SOU annual reports and accounts	Effort put in by top level officials and project director. Systems operate as realistically planned and prove sustainable



**COSTS AND FINANCING**

(USD '000)

	IFAD Loan		IFAD Grant		Government		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
<b>A. Investment costs</b>													
1. Buildings	436.9	100.0	-	-	-	-	-	-	436.9	2.5	-	436.9	-
2. Equipment	195.3	23.0	630.0	74.3	21.7	2.6	-	-	847.0	1.2	99.2	726.1	21.7
3. Vehicles	428.0	78.4	70.0	12.8	47.6	8.7	-	-	545.6	2.7	450.5	47.6	47.6
4. Training	1 610.8	97.0	50.0	3.0	-	-	-	-	1 660.8	9.3	-	1 660.8	-
5. CIF	4 299.6	70.0	-	-	1 535.6	25.0	307.1	5.0	6 142.3	35.3	-	6 142.3	-
6. Credit	3 629.1	100.0	-	-	-	-	-	-	3 629.1	20.9	3 629.1	-	-
7. Technical Assistance	913.3	100.0	-	-	-	-	-	-	913.3	5.2	-	913.3	-
<b>Subtotal Investment costs</b>	<b>11 513.1</b>	<b>81.2</b>	<b>750</b>	<b>5.3</b>	<b>1 604.8</b>	<b>11.3</b>	<b>307.1</b>	<b>2.2</b>	<b>14 175.0</b>	<b>77.1</b>	<b>4 178.8</b>	<b>9 927.0</b>	<b>69.3</b>
<b>B. Recurrent costs</b>													
1. Salaries & allowances	3 263.6	100.0	-	-	-	-	-	-	3 263.6	18.8	-	3 263.6	-
2. O&M (vehicles)	-	-	-	-	284.0	100.0	-	-	284.0	1.6	26.9	228.7	28.4
3. O&M (equipment)	-	-	-	-	121.8	100.0	-	-	121.8	0.7	12.2	97.4	12.2
4. O&M (buildings)	-	-	-	-	18.8	100.0	-	-	18.8	0.1	0.7	16.2	1.9
5. Miscellaneous	13.2	4.6	-	-	276.9	95.4	-	-	290.1	1.7	7.3	275.4	7.3
<b>Subtotal Recurrent costs</b>	<b>3 276.8</b>	<b>82.4</b>			<b>701.5</b>	<b>17.6</b>			<b>3 978.2</b>	<b>22.9</b>	<b>47.1</b>	<b>3 881.3</b>	<b>49.8</b>
<b>Total</b>	<b>14 789.8</b>	<b>81.5</b>	<b>750.0</b>	<b>4.1</b>	<b>2 306.3</b>	<b>12.7</b>	<b>307.1</b>	<b>1.7</b>	<b>18 153.2</b>	<b>100.0</b>	<b>4 225.9</b>	<b>13 808.3</b>	<b>119.0</b>



**EXPENDITURE ACCOUNTS BY COMPONENTS**  
(USD '000)

	Community and Institutional Development			Resource Management			Small Enterprise Development and Credit		Project Implementation	Total
	Community Organizational Development	LGU Capacity Development	Line Agency Processes Support	Land Resource Management	Marine/Water Resource Management	Infrastructure and Resource Enhancement	Business Advisory Services	Enterprise Development Credit		
<b>I. Investment Costs</b>										
A. Buildings	-	-	-	-	82.5	-	-	-	354.4	436.9
B. Equipment	84.2	-	-	469.9	196.6	-	32.2	-	64.1	847.0
C. Vehicles	33.0	-	-	76.5	39.8	-	6.5	-	389.8	545.6
D. Training	572.8	231.9	249.4	342.7	68.7	-	176.0	19.2	-	1 660.7
E. CIF	-	-	-	-	-	6 142.3	-	-	-	6 142.3
F. Credit	-	-	-	-	-	-	-	3 629.1	-	3 629.1
G. Technical Assistance	7.4	65.5	-	294.5	34.7	-	207.2	-	304.0	913.3
<b>Total Investment Costs</b>	697.4	297.3	249.4	1 183.6	422.3	6 142.3	421.9	3 648.4	1 112.2	14 174.9
<b>II. Recurrent Costs</b>										
A. Salaries and allowances	597.5	110.0	-	936.9	209.9	-	184.9	-	1 224.3	3 263.6
B. O&M (vehicles)	15.1	-	-	11.0	21.3	-	4.1	-	232.4	284.0
C. O&M (equipment)	34.5	-	-	59.2	-	-	-	-	28.1	121.8
D. O&M (buildings)	-	-	-	-	3.9	-	-	-	14.9	18.8
E. Miscellaneous	6.4	13.2	-	18.3	-	-	9.2	-	243.0	290.1
<b>Total Recurrent Costs</b>	653.5	123.3	-	1 025.5	235.1	-	198.2	-	1 742.7	3 978.2
<b>Total Project Costs</b>	1 350.9	420.6	249.4	2 209.1	657.4	6 142.3	620.1	3 648.4	2 854.9	18 153.1

7



**ORGANIZATION AND MANAGEMENT**

53. **Partner institutions.** DAR will be the lead agency; PDMS will supply the project director and overall secretariat. DAR will work closely with DENR, DA, LBP and other line departments and in partnership with: LGUs at province, municipal, and barangay levels; NGOs, POs and beneficiary communities; and with private and academic sector consultants and contractors.

54. **Project coordination.** The project director, who will be the Director of DAR-PDMS, will be answerable for project affairs to an Inter-Departmental Steering Committee (IDSC) comprising the Secretary or Director level officials of DAR, DENR, DA, NEDA, LBP and SPCPD. The IDSC will be responsible for national policy and programming concerns and for ensuring top-level support from line agencies, in particular with regard to the proposed system of multi-agency involvement and services engagement; and for formal approval and monitoring of the composite AWP/B. Since project focus is mainly on local development, the IDSC will have only overall strategic responsibilities, principally affecting subjects not devolved to province or LGU level. Thereafter, the execution of the work, including the subsidiary contract activities will primarily be the concern of the project director and Project Executive. The IDSC will meet bi-annually; one of its meetings each year will be in Region IX and will include familiarization with grass-roots project activities. The project director will have the authority to convene an *ad hoc* Advisory Committee, with the purpose of providing him - and through him the Project Executive - with specific help and guidance on management issues and key technical and social topics. This committee will comprise not more than five selected line agency, NGO, PO and private sector representatives. It will be expected to meet only infrequently; the project will cover participation expenses.

55. **Project management office.** The PMO will consist of the project manager, with senior secretarial/personal assistance; the financial controller/administrator with attendant accountancy, M&E and secretarial support; a technical cadre comprising the community development supervisor and the natural resources specialist, and the two LGU planning training advisers, the latter appointed for 9-month inputs only. The first four mentioned will be members of the Project Executive, will be recruited directly and competitively by the project and will preferably have sound private sector and public service experience.

56. The project manager will be responsible for liaison with the relevant regional and provincial development councils and planning offices, if necessary through the formation of a Project Liaison Committee. The development and planning bodies at all levels - barangay, municipality, province and region - will be fully involved in the sub-project acquisition and selection process and in wider matters of development consistency and impact. The Project Executive will hold management and progress review meetings at least bi-monthly. It will adopt a commercially-oriented approach to performance, especially in arrangement/supervision of service memoranda of agreement and contracts.

57. **Role of subcontracts.** The majority of the services required to undertake project actions will be acquired on a contractual basis from the various partner institutions noted above, through a commercial or quasi-commercial tender system. The terms of contracts or memoranda of agreement covering all inputs will encourage the project philosophy of partnership and cooperation, and allow for capacity-building and strengthening of the agencies concerned. They will be remunerative for effective performance, but will penalize failure and inadequate delivery or impact. The major agreements will be for the management of the SOUs and for the provision of all or most of the downstream services and resources, including staff - and particularly maximizing the use of local



people - to carry out the requisite work. The size and configuration of the contracts concerned will vary from site to site. This will be determined in the start-up phase by the project director and the PMO.

58. **Site operations units.** The field presence of the project will be centred on the SOUs, one per provincial cluster of municipalities. These will be headed by a site operations manager, who will need significant experience in development management and administration and a background in the relevant technical, socio-economic or human resource development aspects of this type of project. The office back-up to the site operations manager will consist of a finance/administration and contracts officer and secretarial and domestic assistance. The field operations complement at individual SOUs will vary with the characteristics and particular technical demands of the selected cluster of municipalities. In all cases there will be a credit and enterprise development officer; a community organization coordinator, in charge of COs; an agricultural economist or extensionist, in charge of FEAs; and a CFEW.

59. The other staff making up a cadre of natural resource officers will cover the relevant agricultural, forestry, livestock and land management disciplines, possibly in combination, and number one to three per SOU. Apart from the CEDO, the front line interface with LGUs and beneficiary communities will be the COs and FEAs. All barangays, other than those with well established POs and advanced development plans, will be provided with intensive coverage from a CO and an FEA in the first year of participation. In the second year, it is anticipated that it will be possible to cluster and rationalize barangay activity so that the village CO/FEA team can look after five barangays on average; in subsequent years, responsibility will revert to the LGU and/or NGO/PO staff who will have been trained and oriented in the project process.

60. **Community infrastructure fund.** The CIF may be used by communities to invest in maintaining and enhancing the productive capacity of their areas, e.g.: road and bridge rehabilitation; potable water supply; transport and storage facilities; small-scale irrigation; communal plantations; and grain-drying areas. Barangays, through the community planning process, will prioritize potential schemes, establish their technical and financial feasibility for both investment and subsequent upkeep costs; and decide, within fund limits, which projects to take up. Communities will have to contribute in cash or kind (materials and labour) a minimum proportion of project cost; devise sustainable systems for subsequent management of the facilities in association with their LGU; and assume responsibility for operation, maintenance and repair. Strict criteria will be applied to assessment of feasibility, selection and approval of CIF schemes. Initial preparation will be assisted by the COCs/COs, working with appropriate LGU and province officers, who will perform the first stage screening. Proposals will then be submitted for approval by the site operations manager to the full Project Executive, supported by professional expertise, for instance in civil engineering, to advise where necessary. The decision of the Project Executive will be submitted as a sub-project brief to the project manager for final approval of funding.

61. **Credit.** For funds flow and financing, LBP will not only be the supervising and overall monitoring agency but will also be the holding bank for subsidiary operating accounts for the PMO and SOUs. LBP will not levy any special fee on LCCs for handling project funds. Disbursements by LBP will be based partly on forward quarterly operating plans of LCCs and LPCIs, and partly on the submission of credit requests for approved plans for community, natural resources and enterprise development sub-projects. LCCs will also be able to borrow for their institutional and staff enhancement needs from separate concessional funds supplied for the purpose. The systems of supervision and monitoring and evaluation of credit operations, management information and of savings development will be modelled on those in use in the IFAD/ADB Rural Micro-enterprise Finance Project.



62. **Project operations manual.** Project implementation will be governed by an Operations Manual, prepared by DAR with the concurrence of IFAD and UNOPS. This manual will define the administrative procedures, sanction requirements, delegation of authority, specific terms-of-reference of different implementing agencies, procurement procedures, fund flows, accounting and auditing requirements, disbursement procedures, operation of the special account, the Memoranda of Agreements (MOA) between DAR and various participating agencies, and monitoring and evaluation arrangements. It will be periodically updated to reflect the policy and operational changes arising during the course of project implementation.

63. **Annual work programme and budget (AWP/B).** Implementing agencies, contractors and sub-contractors will prepare an AWP/B for operations at each barangay and for all other significant interventions such as training programmes, consultancy inputs, communal resource schemes and infrastructure construction. AWP/Bs will be submitted through the relevant front line staff to the site operations managers, and on approval will be consolidated into AWP/B for each site. The site operations manager will submit a summary of the consolidated AWP/B to the Project Executive and subsequently to the project manager for review by the project director and submission to the IDSC for final approval. Based on the Government fiscal year of 1 January to 31 December, the project AWP/B will be submitted to the IDSC no later than October 31 each year. This means that the annual planning process will have to start before June each year at municipal and provincial level.

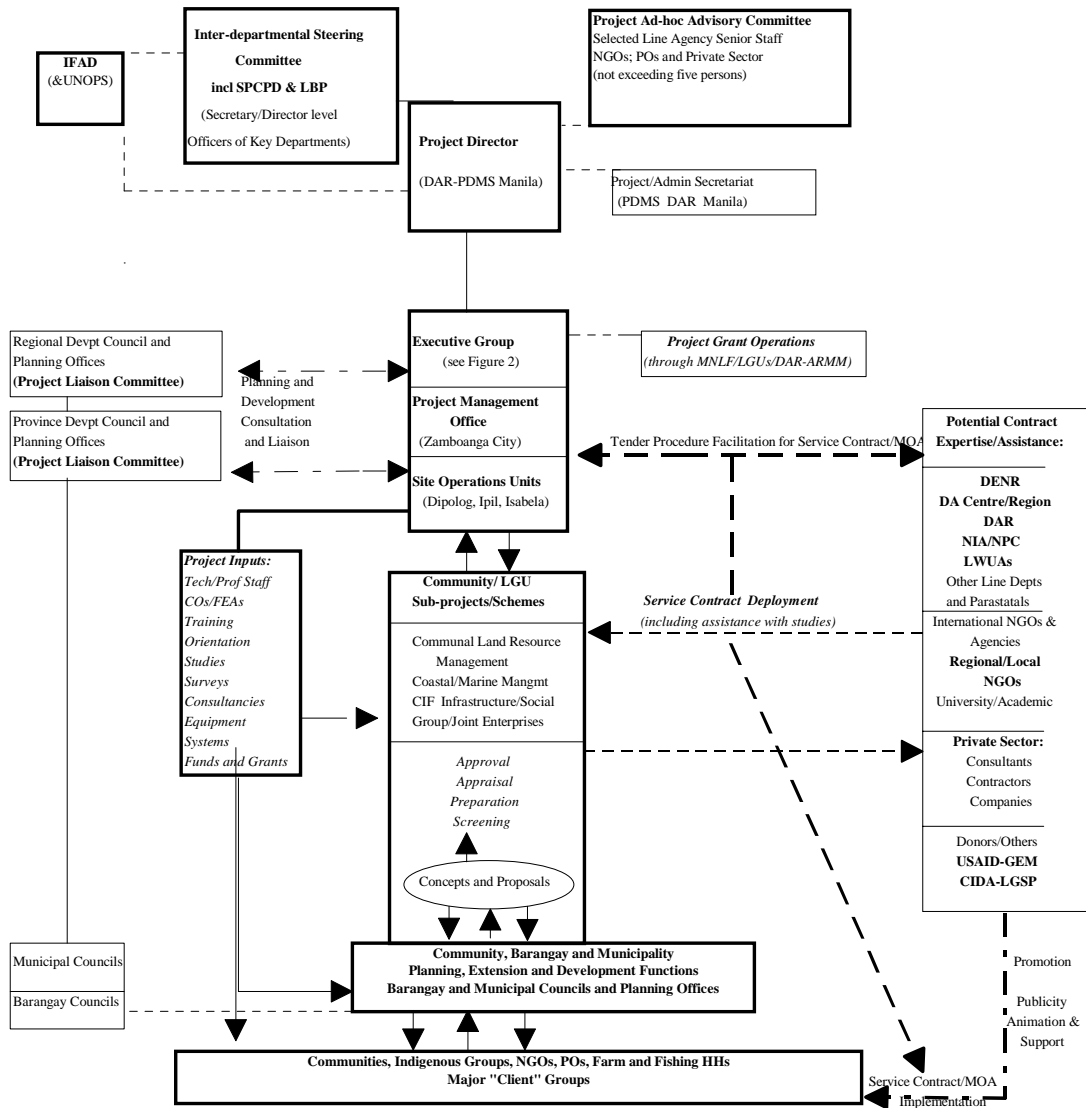
64. **Mid-Term Review (MTR).** An MTR of the project will be carried out jointly by the Borrower and the Fund, with the assistance of the cooperating institution, no later than the third year of the project implementation. The MTR will be used to evaluate the achievement of the project objectives and constraints, as well as such design reorientation as may be required to achieve the objectives and remove the constraints. This may necessitate amendments to the Financing Agreement.





Figure 1 Organisational Structure and Operations Chart

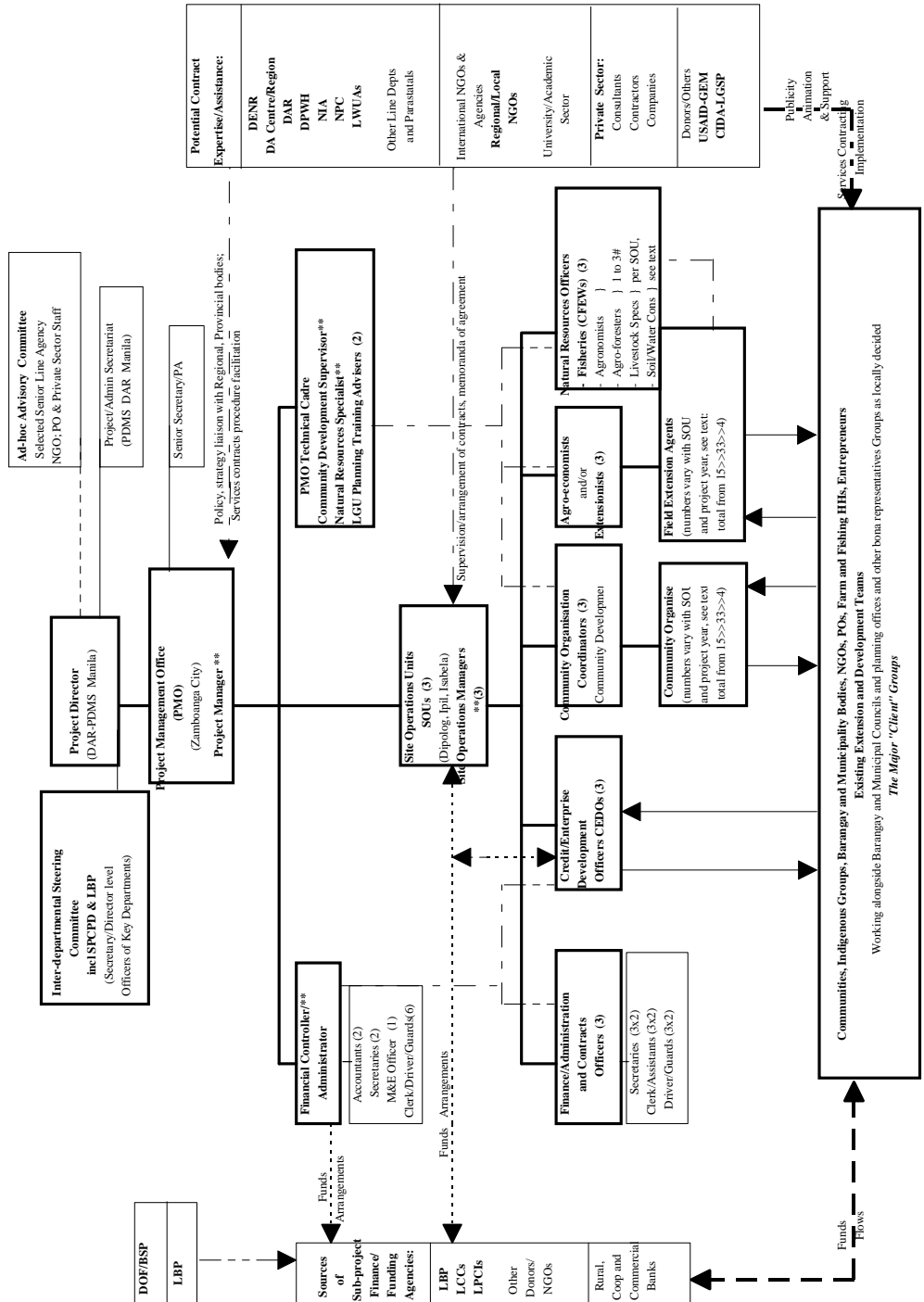
Appendix 3





Appendix 3

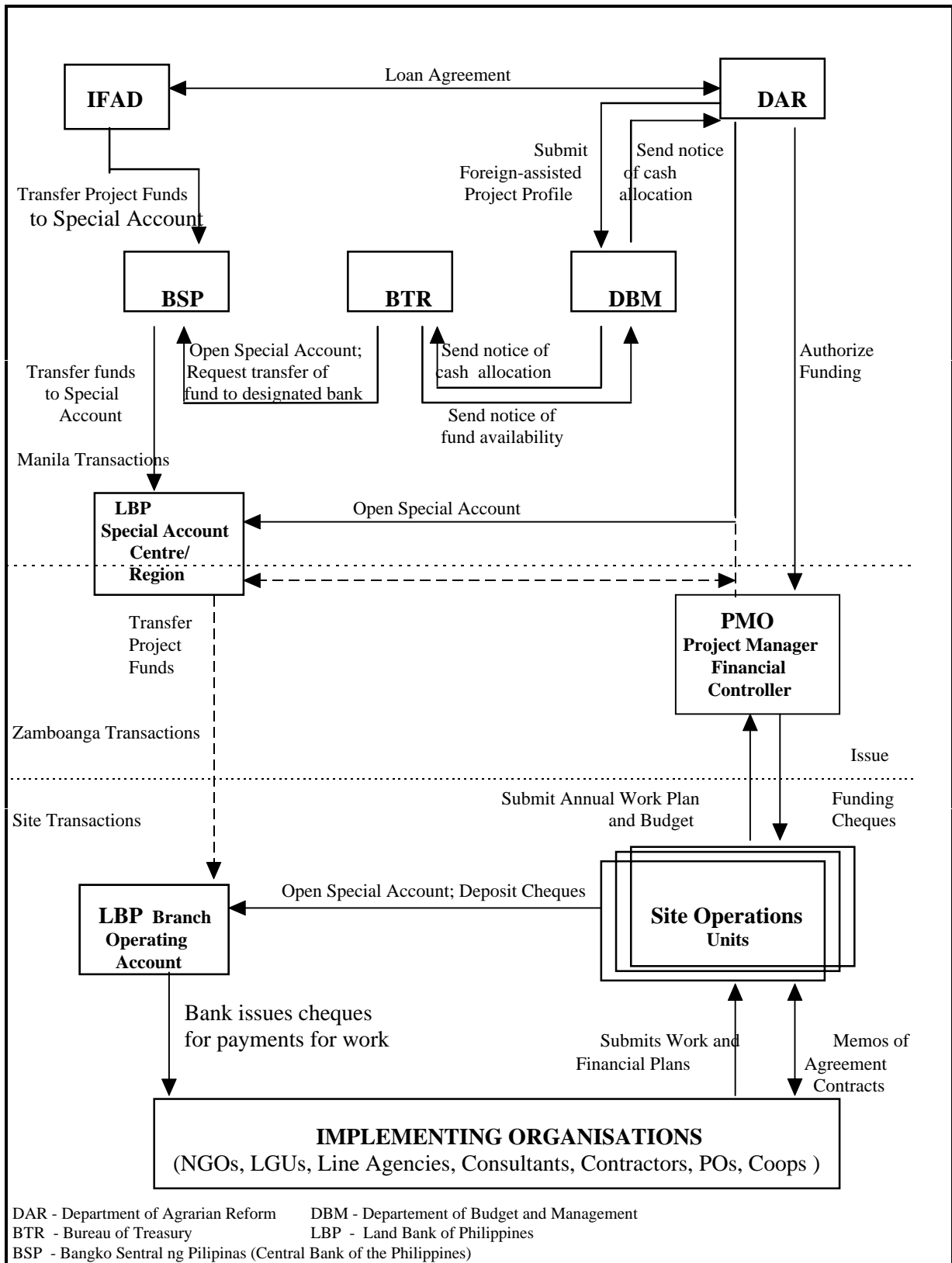
Figure 3 Project Organogram - Staffing Chart



Notes:  
 \*\* Indicates members of the Project Executive  
 # Numbers of Natural Resources Officers required dependent on target group size and stage of development, ecological variation and similar factors in separate Sites  
 — Lines of authority/answering  
 - - - Lines of technical communication



### Funds Flow Diagram





## ECONOMIC AND FINANCIAL ANALYSIS

### A. Introduction

1. The project will: assist the Government in raising incomes, employment opportunities and living standards of some rural households in hitherto neglected provinces; support productive farm activities, marine resources development and expand enterprises based on farm, fishery and related activities to create sustainable employment and production capacity at the barangay level; assist in the construction of essential economic infrastructure and provide institutional support and training to the participants; and assist the Government in raising incomes and living standards of rural households in the Provinces of Zamboanga del Norte, Zamboanga del Sur and Basilan, which form the main focus of activity.

### B. Project Beneficiaries

2. The project will directly benefit an estimated 16 000 households (HHs), of which 10 500 are agricultural, with an estimated 70z%, or 7 350 in the uplands, and 3 150 in the lowlands; and 5 500 are fishing HHs in coastal areas. Specific project beneficiaries include the following:

- (a) **Upland and undulating land farming HHs.** The project will benefit 2 000 small and marginal farmers in these areas whose yields are currently declining due to soil erosion and also whose cultural practices are very low. At an average farm size of 2.20 ha. the project will focus on the intensification of land use by way of mixed farming system of hybrid coconut, interplanting with horticultural plants, hardwood timber species and with robusta coffee. This will result in an increase in the cropping intensity from 1.27 to 1.36.
- (b) **Lowland HHs mainly on rice-based farming systems.** The project will benefit about 1 260 HHs who will participate in increasing the productivity of land, possibly including irrigation facilities. The project will facilitate the availability of credit through the lending organizations, and improve the delivery system. The storage facilities will be made available.
- (c) **Participants in coastal fishing and small off-farm enterprise.** The project will benefit 3 250 HHs who will participate in the improved coastal fishing. This will ease the pressure on the traditional fishery. This group will diversify their income-earning capacities by way of hog and chicken rearing in addition to their traditional means of livelihood.
- (d) **Ex-Combatants.** The project will benefit approximately 1 500 HH of ex-combatants by consolidating land ownership and increasing productivity by introducing high-yielding varieties, seeds, fertilizer and agro-chemicals and improved techniques as well as support for coastal activities, notably seaweed production.

### C. Project Benefits

3. The main quantifiable benefits arising from the project are derived from the major crops that will be significant, particularly in the case of the principal crops of coconut – copra – and rice; and to a lesser extent, corn, vegetables and rubber. The incremental output of these five products is estimated in terms of annual production at project maturity. As a proportion of the present volumes it



is as follows: copra, 1 901 t and 191.4%; rice 6 939 t and 85.4%; corn 6 207.8 t and 172.6%; vegetables 1 814.4 t and 158.1%; and rubber 250 t and 100%.

#### **D. Financial Implications for the Government**

4. Recurrent budget costs during project life are modest and largely limited to operational and maintenance costs of vehicles, equipment and buildings. Government will contribute to the community infrastructure fund to which there will be a contribution from the beneficiaries.

#### **E. Economic Rate of Return**

5. The economic evaluation of the project is based on the following assumptions: (a) project implementation period is six years; (b) the tree plantations; coconut, horticulture and timber trees have an economic life of 30 years; (c) the net benefit stream for the perennials have been analysed over a period of 20 years with horticulture crops and coconut reaching maturity at 10 and 15 years respectively; (d) tradable outputs are valued at border prices. Non-tradables are valued at prevailing prices, adjusted by a standard conversion factor of 0.9. Labour is valued at PHP 40/day, which is 80% of the current rural wage rate, to reflect the high level of under-employment in the project area; and (e) ongoing recurrent costs have been estimated for the entire project period.

6. The overall economic rate of return to the project is estimated at 14%. The return is sensitive to the cost increase of 10% or 20% will result in an EIRR of 12%, or 11% respectively. Similarly, drop of revenue by 10% or 20% will result in an EIRR of 11% or 10% respectively.

#### **F. Non-Quantifiable Benefits**

7. In the long run the project will strengthen the ability of regional and local government organisations to listen to villagers, plan jointly with participants, and implement once decisions have been jointly made. This benefit will be achieved as a result of the participatory method adopted right through out the project between the Government and the NGO sector.