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Enabling poor rural people
to overcome poverty

President's memorandum

Proposed supplementary financing to the Republic of the Philippines for the Rapid Food Production Enhancement Programme – Rehabilitation of Key Agricultural Infrastructure Damaged by Tropical Storm Sendong

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing in the form of a loan and a grant to the Republic of the Philippines for the Rapid Food Production Enhancement Programme – Rehabilitation of Key Agricultural Infrastructure Damaged by Tropical Storm Sendong, as contained in paragraph 15, and the modifications to the financing agreement, as contained in paragraph 14.

President's memorandum

Proposed supplementary financing to the Republic of the Philippines for the Rapid Food Production Enhancement Programme – Rehabilitation of Key Agricultural Infrastructure Damaged by Tropical Storm Sendong

I. Background

1. The Rapid Food Production Enhancement Programme (RaFPEP) was approved by the Executive Board on 17 December 2008 (EB 2008/95/R.26/Rev.2). The programme's total cost of US\$41.24 million is funded by: (i) IFAD, with a loan of SDR 10.685 million (equivalent to approximately US\$15.9 million), on intermediate terms; (ii) the European Commission (EC), with a grant contribution of EUR 9.60 million (equivalent to approximately US\$13.15 million); (iii) the Government of the Republic of the Philippines, with a contribution of US\$9.82 million; and (iv) local government units and farmer beneficiaries, with a combined contribution of US\$2.36 million.
2. The programme's goal is to sustainably increase food production by farmers on clustered irrigated rice production systems, thus contributing to rural poverty reduction. The programme consists of two projects: the Rapid Seed Supply Financing Project (RaSSFIP) and the Irrigated Rice Production Enhancement Project (IRPEP). RaSSFIP is designed to respond to the soaring food prices encountered globally in 2007/2008. IRPEP's objective is to improve the production of irrigated paddy on selected irrigation schemes, with a focus on rehabilitating communal irrigation schemes and strengthening irrigators' associations (IAs). The target is a 5-per-cent increase in real household incomes of paddy farmers, a minimum 10-per-cent increase in overall rice production and a 10-per-cent increase in rice yield per hectare.
3. The programme is scheduled to be completed by 31 December 2017. As of 18 September 2012, the programme has disbursed 90 per cent of the IFAD loan and 81 per cent of the EC grant. According to the annual portfolio review, programme performance is satisfactory.
4. On 16 December 2011, the north of Mindanao Island was hit by the severe tropical storm Sendong (international name Washi). The storm caused widespread damage, primarily due to flooding, with significant loss of life, especially in Region 10. There was substantial damage to agricultural infrastructure, including irrigation structures, and loss of crops. More than 1.14 million people were affected by Sendong, and 1,257 people died. The estimated cost of damages to infrastructure, agriculture and school buildings amounted to 4,989 million Philippine Pesos (about US\$115 million). Northern Mindanao (Region 10), which is part of the programme area of RaFPEP/IRPEP, was among the worst hit areas.

5. On 31 January and 18 May 2012, the Government of the Philippines, through the National Economic and Development Authority and the Department of Finance, respectively, requested that IFAD use the balance of the country allocation for the Philippines from the performance-based allocation system (PBAS) cycle of 2010-2012 as supplementary financing for RaFPEP/IRPEP. The financing will assist the Government in restoring and rehabilitating key agricultural infrastructure damaged by Sendong in Region 10.
6. This memorandum seeks approval for supplementary financing for the Irrigated Rice Production Enhancement Project under the Rapid Food Production Enhancement Programme in the form of a loan on intermediate terms of US\$2.36 million and a grant of US\$1.30 million.

II. Justification and rationale

7. The provision of supplementary financing, as part of the coordinated government response to the emergency caused by the tropical storm, will enable repair and rehabilitation of two national irrigation schemes (NISs) in Region 10: the Pulangi River Irrigation System (PRIS) and the Bubunawan River Irrigation System (BRIS). The investment in these schemes will be in addition to the planned rehabilitation of communal irrigation schemes already under way under RaFPEP. In both schemes, critical parts of the irrigation infrastructure were damaged by the floods caused by the storm's heavy rains. In one scheme, the damage has resulted in loss of irrigation water to several parts of the scheme, and in the second, it threatens continued operation of the entire scheme itself. Without prompt action, the damage will have a negative long-term impact on the livelihoods of farmers in affected areas, who depend on the water for irrigation, mostly for rice, but also for some high-value crops (e.g. bananas, papaya and pineapple).

III. Programme costs

8. With the additional IFAD and government resources, total RaFPEP programme costs will increase from US\$41.24 million to US\$45.63 million. Table 1 shows the cost summary for the supplementary financing. The proposed IFAD supplementary financing, US\$3.66 million, is within the total country allocation for the Philippines for the 2010-2012 PBAS cycle.
9. Expenditure categories for the IFAD and government supplementary financing will be: (i) civil works, 86 per cent; (ii) equipment, 1 per cent; (iii) training and studies, 4 per cent; (iv) salaries and allowances, 3 per cent; and (v) National Irrigation Administration (NIA) management costs, 6 per cent (financed 100 per cent by the Government).

Table 1
Rapid Food Production Enhancement Programme – Components top-up cost summary

	<i>(Philippine Pesos '000)</i>			<i>(US\$ '000)</i>			<i>% foreign exchange</i>	<i>% total base costs</i>
	<i>Local</i>	<i>Foreign</i>	<i>Total</i>	<i>Local</i>	<i>Foreign</i>	<i>Total</i>		
1. Repair and rehabilitation of irrigation schemes	120 826.0	30 013.8	150 839.8	2 685.0	667.0	3 352.0	20	86
2. Strengthening of irrigators' associations	10 745.0	775.0	11 520.0	238.8	17.2	256.0	7	7
3. NIA management	12 258.5	-	12 258.5	272.4	-	272.4	-	7
Total baseline costs	143 829.5	30 788.8	174 618.3	3 196.2	684.2	3 880.4	18	100
Physical contingencies	13 156.1	3 030.6	16 186.7	292.4	67.3	359.7	19	9
Price contingencies	6 305.5	378.1	6 683.6	140.1	8.4	148.5	6	4
Total supplementary financing costs	163 291.0	34 197.6	197 488.6	3 628.7	759.9	4 388.6	17	113

IV. Programme financing

10. With the proposed supplementary financing, total revised RaFPEP programme costs amount to US\$45.63 million. Sources will be: (i) IFAD, with financing of US\$19.56 million, of which US\$18.26 million is a loan (including US\$2.359 million supplementary loan financing) and US\$1.30 million a grant (under the proposed supplementary financing); (ii) the European Commission, with a grant contribution of EUR 9.60 million (equivalent to approximately US\$13.15 million, as previously); (iii) the Government of the Republic of the Philippines with a contribution of US\$10.54 million; and (iv) local government units and farmer beneficiaries, with a contribution of US\$2.36 million (as previously). The Philippines is eligible to receive loans on intermediate terms. Table 2 shows the breakdown for the supplementary financing.

Table 2
Rapid Food Production Enhancement Programme – Components top-up, by financier
 (Thousands of United States dollars)

	<i>IFAD loan</i>		<i>IFAD grant</i>		<i>Government</i>		<i>Total</i>		<i>Foreign exchange</i>	<i>Local (excl. taxes)</i>	<i>Duties and taxes</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>			
1. Repair and rehabilitation of irrigation schemes	2 359.0	62.0	1 040.6	27.3	407.9	10.7	3 807.5	86.8	741.6	2 658.0	407.9
2. Strengthening of irrigators' associations	-	-	265.5	93.6	18.0	6.4	283.6	6.5	18.4	247.2	18.0
3. NIA management	-	-	-	-	297.6	100.0	297.6	6.8	-	265.7	31.9
Total supplementary financing costs	2 359.0	53.8	1 306.1	29.8	723.6	16.5	4 388.6	100.0	759.9	3 170.8	457.9

11. Retroactive financing: In order to expedite preparatory work for and execution of the proposed irrigation scheme rehabilitation, withdrawals not exceeding in the aggregate the equivalent of US\$1.4 million may be made from the loan and grant accounts in respect of eligible project expenditures for loan- and grant-financed NIS civil works; equipment, materials and vehicles; training, studies and advisory services; and salaries and/or allowances to be financed by the proposed supplementary financing and incurred after 7 September 2012, i.e. after the date of the IFAD technical review. All procurement carried out under retroactive financing

will be subject to provisions of IFAD's Project Procurement Guidelines and schedule 4 of the financing agreement.

12. **Implementation arrangements.** The organizational and management structure of the RaFPEP/IRPEP will remain unchanged, as will the responsibilities and arrangements for planning and budgeting, reporting, fund flow and disbursements, and monitoring and evaluation (M&E). IRPEP implementation, including the repair and rehabilitation of PRIS and BRIS, will remain the responsibility of the Department of Agriculture (DA) and NIA. In Region 10, the Regional Coordination Team headed by the DA regional director will have responsibility for overseeing NIS repair and rehabilitation and the IA strengthening activities. The RaFPEP Programme Coordination Office will oversee implementation of all IRPEP activities, while the NIA-National Project Coordinating Unit will provide implementation support and M&E, and will ensure timely and proper planning, reporting and audit. The NIA-Bukidnon Irrigation Management Office (IMO) will implement the project activities proposed in addition to the ongoing IRPEP activities, with NIA-Region 10 providing direct technical assistance. NIA-Bukidnon IMO will prepare system improvement plans, conduct engineering surveys, and prepare detailed engineering designs, technical specifications and a programme of works. NIA has the capacity to undertake the additional tasks associated with the rehabilitation of these two schemes.
13. **Fiduciary controls.** The same arrangements for fiduciary controls as for existing RaFPEP/IRPEP procedures will be adopted for the proposed supplementary funds, including maintaining the provisions for financial management, audit, procurement, and financial and physical reporting and the programme operational manual. Thresholds for statement of expenditures and procurement prior reviews will be maintained to ensure consistency with the relevant provisions of the financing agreement and letter to the borrower for RaFPEP. Advances from the loan funds will be channelled to the same special account established under IRPEP. A separate special account for the IFAD grant funds will be opened for the top-up financing.

V. Proposed modifications to the financing agreement

14. Upon approval by the Executive Board, the existing financing agreement will be amended to reflect the supplementary financing. The proposed modifications to the agreement will imply a revision of the allocation of the IFAD financing to include the supplementary loan and grant financing. The supplementary financing does not imply any modification to the programme's implementation arrangements.

VI. Recommendation

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

RESOLVED: that the Fund shall provide a loan on intermediate terms to the Republic of the Philippines in an amount equivalent to one million five hundred and thirty thousand special drawing rights (SDR 1,530,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of the Philippines in an amount equivalent to eight hundred and fifty thousand special drawing rights (SDR 850,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President