IFAD
Investing in rural people

Republic of the Philippines

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

Design completion report

Main report and appendices

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Asia and the Pacific Division
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Currency equivalents

Currency Unit	=	Philippines Peso (PHP)
US$1.0	=	PHP 43.5

Weights and measures

1 kilogram	=	1000 g
1 000 kg	=	2.204 lb.
1 kilometre (km)	=	0.62 mile
1 metre	=	1.09 yards
1 square metre	=	10.76 square feet
1 acre	=	0.405 hectare
1 hectare	=	2.47 acres

Abbreviations and acronyms

ADSDPP	Ancestral Domain Sustainable Development and Protection Plan
ARB	agrarian reform beneficiary
ARC	Agrarian Reform Community
ARC-VIP	Agrarian Reform Cluster-Value-chain Investment Plan
ADB	Asian Development Bank
AFMA	Agriculture and Fisheries Modernization Act
ALDA	ARC Level of Development Assessment
AMAS	Agricultural Marketing Assistance Service
APP	Annual Procurement Plan
AWPB	Annual Work Plan and Budget
B:C R	Benefit Cost Ratio
BTr	Bureau of Treasury (Department of Finance)
CADC	Certificate for Ancestral Domain Claim
CADT	Certificate for Ancestral Domain Title
CAR	Cordillera Administrative Region
CARP	Comprehensive Agrarian Reform Programme
CHARMP-2	Second Cordillera Highland Agricultural Resource Management Project
CLOA	Collective Certificates of Landownership Award
CIP	Communal Irrigation Project
CIS	Communal Irrigation Scheme
COSOP	country strategic opportunities programme for 2010-2014
CRS	Catholic Relief Services
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DF	Development Facilitator (DAR)
DOF	Department of Finance
DTI	Department of Trade and Industry
DOST	Department of Science and Technology
DPWH	Department of Public Works and Highways
FAO	Forward Obligation Authority
FMR	farm to market road
GDP	Gross Domestic Product
GWPB	Global Work Plan and Budget
HDI	Human Development Index
INREMP	Integrated Natural Resource Management Project
IPs	Indigenous Peoples
IPRA	Indigenous Peoples Rights Act
IRR	Internal rate of Return
I-SHARED	Integrated Smallholders Agricultural and Rural Enterprise Development
LGU	local government unit
MAO	Municipal Agriculture Office
MARO	Municipal Agrarian Reform Officer
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
M&E/KM	Monitoring and Evaluation/Knowledge Management
MFI	microfinance institution
MinDA	Mindanao Development Authority
MIS	management information system
MIT	Municipal Development Team
MoA	Memorandum of Agreement
MoU	Memorandum of Understanding
NCA	Notice of Cash Allocation
NIA	National Irrigation Authority
NCI	National Convergence Initiative

NCIP	National Commission on Indigenous Peoples
NEDA	National Economic and Development Authority
NGO	Non-Government Organisation
NMCIREMP	Northern Mindanao Community Initiatives and Resource Management Project
NPMO	National Project Management Office
NPSC	National Project Steering Committee
NSCB	National Statistics Coordination Board
ODA	Official Development Assistance
OMA	Organisation Maturity Assessment
OPAPP	Office of the Presidential Adviser on the Peace Process
OPIF	Organisational Performance Indicator Framework
PADCC	Philippine Agricultural Development Commerce Corporation
PBAS	performance-based allocation system
PCT	Provincial Convergence Team
PDP	Philippine Development Plan, 2011-2016
PIM	Project Implementation Manual
PO	People’s Organisation
PPMO	Provincial Project Management Office
RaFPEP	Rapid Food Production Enhancement Programme
RB-COSOP	results-based country strategic opportunities programme
RbME	Results-based M&E
RCT	Regional Convergence Team
RIMS	Results Impact Management System
RPMO	Regional Project Management Office
RuMEPP	Rural Microenterprise Promotion Programme
SAFDZ	Strategic Agriculture and Fisheries Development Zones
SARO	Special Allotment Release Order
SOE	Statement of Expenditure
SSO-FAP	Support Services Office- Foreign Assisted Projects (DAR)
SUC	State University and College
TOR	Terms of Reference
UMFI	Upland Market Foundation
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WA	Withdrawal Application
WMCIP	Western Mindanao Community Initiatives Project

Map of the CONVERGE area

Republic of the Philippines

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25-8-2011

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.

IFAD *Map compiled by IFAD*

Executive Summary

Introduction

1. In pursuit of the poverty reduction and agricultural development thrusts of the Government, the Department of Agrarian Reform (DAR), with technical assistance from the International Fund for Agricultural Development (IFAD), formulated and submitted to the National Economic and Development Authority (NEDA), the Project CONVERGE to help improve productivity and income of ARBs in 11 ARC Clusters in Regions 9, 10 and Caraga. On 29th November 2012, the NEDA Board during its 9th meeting, approved Component A of Project CONVERGE or the Participatory Analysis and Planning to Link Smallholder Farmers to Existing Value Chain Systems Component and authorised DAR to use regular funds under the 2013 General Appropriations Act for the preparation of investment plans that will serve as basis for decision by the NEDA Board to provide funds for the implementation of the investment projects.

2. On 20th May 2013, the Department of Budget and Management (DBM) approved the request of DAR to use a portion of its Program Beneficiaries Development (PBD) funds under FY 2013 Budget for PHP 27.29 million for the implementation of Component A. Hence, DAR engaged the services of eligible and qualified consultants to provide technical assistance to prepare feasibility studies and investment plans and for nine priority commodities in the 11 Agrarian Reform Community (ARC) clusters. DAR submitted the completed feasibility studies and investment plans to NEDA on 14th January 2014.

3. This revised project proposal contains investment plans for 11 commodities/agribusiness projects prepared with the active participation of the target beneficiaries and with technical assistance from value-chain consultants and the Department of Trade and Industry (DTI). The target beneficiaries themselves identified the weaknesses and gaps and proposed appropriate packages of activities to intensify production, improve productivity and identified the facilities and infrastructure required. The resulting feasibility studies were the result of a participatory process involving value-chain assessment and planning, community consultations, site and stakeholders' validation, research and discussions with private sector companies.

Background

4. The Government has long recognised that asset reform is a key to improving agricultural productivity and reducing rural poverty and the Comprehensive Agrarian Reform Programme (CARP) has been the Government's principal comprehensive rural development programme for over twenty years. The challenge is now how to optimise, scale up and sustain the gains made in the 2,116 ARCs, with about 1.3 million agrarian reform beneficiaries (ARBs), and to extend the benefits to ARCs that have yet to receive much development assistance so that they all can become part of the mainstream rural economy. In search of a broad-based approach to reduce rural poverty, the government is pursuing the National Convergence Initiative (NCI) to maximise resources available and synchronize the initiatives of the three departments engaged in rural development: DAR, the Department of Agriculture (DA), and the Department of Environment and Natural Resources (DENR). The NCI is seen as a strategic development approach that can contribute to sustainable development in the rural areas. Among the objectives are to: (i) promote sustainable agriculture and preserve the land resource base; (ii) enhance the investment climate for agribusiness; and (iii) initiate climate change adaptation and mitigation measures.

Rationale

5. The rationale for IFAD to help finance the project includes: (i) making use of the opportunities to support the agrarian reform process and to help meet the needs of the underserved and un-served ARBs through adopting a value-chain approach to enhance agricultural growth and agribusiness development to maximise the benefits from the land distribution programme; (ii) support the harmonization of the rural development efforts of DAR, DA and DENR and other agencies engaged agri-business development to maximise the impact on rural poverty reduction; (iii) support the DAR approach of clustering ARCs to realise economies of scale for production, access to markets and service provision to benefit from value-chain development.

Alignment with Government Priorities and IFAD Country Programme

6. The project will contribute to the PDP's goals for a competitive and sustainable agriculture and fisheries sector through improved food security and increased rural incomes and supports the government's CARP. The project is part of the government's NCI) which seeks to synchronize the initiatives of the three departments engaged in rural development: DAR, DA and DENR and optimise the use of resources available to support sustainable rural development. Linkages will be built with the Department of Trade and Industry (DTI) under the Rural Micro Enterprise Promotion Programme, DA under the Second Cordillera Highland Agricultural Resource Management Project and DENR under the new Integrated Natural Resource Management Project, which was submitted to the IFAD Executive Board in 2012. Lessons learned in the on-going and previous projects have been incorporated in the design.

Project Area, Target Group and Targeting

7. The project will target Regions IX, X and Caraga, located in the west, north and northeast of Mindanao which are among the six poorest regions of the country. Within these three regions the project will target 10 provinces selected using criteria that included incidence of poverty, presence of organised ARC clusters, agricultural and agri-business development potential and availability of services. Within these ten provinces the project will target 11 ARC clusters, including 93 ARCs in 715 barangays 48 municipalities. Selection criteria for the ARC clusters included a potential for further agricultural and agribusiness development, availability of markets, availability of an ARC Cluster Development Plan, commitment of the participating ARBs and availability of support services.

8. The total size of the target group is an estimated 35,000 agricultural households including non-ARC *barangays* and Indigenous People's (IP) households of whom 30% are women headed households. The major crops cultivated include coconut, rice, maize, coconut, rubber, banana, high value vegetables, oil palm, coffee and cassava. Total area of crops in 2010 was about 216,000 ha. Only about 7% of the land is irrigated within the ARC areas and only 5.8% of families have access to irrigation. Many of the ARCs also have significant numbers of livestock and in particular, poultry. DAR data indicates an average of 12 head of poultry per household overall and 1.6 head of other livestock. Based on 2009 data the weighted average household income of the target ARCs was PHP 115,300 (equivalent[1] to USD 490 per capita), of which PHP 73,500 was from Agriculture, PHP 17,000 was off farm income and PHP 24,800 was non-farm income. This total is about 30% above the 2009 poverty threshold for these three regions (PHP 87,500 p.a.), however, for 29% of the ARCs average income was below the poverty line.

9. Within the ARC clusters, the target beneficiaries will come from the above groups who are involved in the value-chains selected, and willing and able to participate in project interventions. The project will also target business development partners, including eligible farmers' cooperatives and associations (People's Organisations or POs). This latter group can help take a leading role as innovators in improving the returns from the existing and emerging value-chains in an enterprise-oriented development approach.

Project Strategic Focus and Strategy

10. The strategic focus of the project is rural poverty reduction through participatory value chain development with the aim of helping improve the profitability of household farm enterprises in a sustainable manner. The project strategy is to cluster a group of ARCs with similar agro-climatic and socio-economic conditions to encourage business interactions among ARCs, disseminate better technology, improve and consolidate production and marketing of commodities and establish agribusiness so that farmers and farmers' organisations can obtain the best prices for their products. The objective is to enable the ARBs to become highly productive and competitive entrepreneurs and to achieve broad-based rural economic growth. Within a cluster, development starts from the existing ARCs where substantial development works have been implemented and expands to include other ARCs and the non-ARC areas to spread the benefits of ARC development to greater number of ARBs and other farmers. There exist opportunities to: (i) improve the quantity and quality of crop production and the phasing of production to meet market demands in order to exploit comparative advantage and earn increased profits at the farm level; (ii) add value to existing farm production through post-harvest management; (iii) develop links within selected value chains between producers and buyers and input

[1] Based on an exchange rate of PHP 43.5 per USD 1 and for 5.4 people per household.

providers to enhance the profitability of the farm enterprises; and (iv) diversify incomes and minimize risks for smallholders including women and IPs.

11. Specifically, the project will focus on the following commodities which were identified and prioritised by the POs themselves and for which investment plans and feasibility studies have been prepared:

Province	ARC Cluster	Name of Proposed Project
Zamboanga del Norte	Zamboanga del Norte Resettlement Cluster	Integrated Rubber Enterprise
Zamboanga del Sur	Salug Valley Cluster	Intensified Rice Production and Marketing
Zamboanga Sibugay	Salipyasin ARC Cluster	Rubber Agribusiness Project
Bukidnon	South Bukidnon ARC Cluster	Muscovado Sugar Production and Marketing
	North Bukidnon ARC Cluster 1	Cassava Production and Processing Enterprise
Misamis Oriental	MISORET ARC Cluster	Coconut Sugar Production
Camiguin	LABACO	Abaca Fibre Production and Marketing
Agusan del Sur	VETREBUNS ARC Cluster	Rice Production Processing and Marketing
Agusan del Norte	TUJAKITSAN ARC Cluster	Abaca Fibre Production
Surigao del Norte	CLAGIBAPLA ARC Cluster	Coconut and Bio fertilizer Production and Marketing
Surigao del Sur	BATA ARC Cluster	Coffee Production Processing and Marketing

Gender Strategy
12. The gender strategy includes: (i) the conduct of gender-responsive value chain analysis to ensure that gender needs and issues will be identified during the preparation of the ARC-Value Chain Investment Plans (VIPs); (ii) preparation of local gender action plans in collaboration with the government agencies supporting CONVERGE and the local government units; (ii) advocate for the incorporation of the gender action plans into the existing Gender and Development budgets of the agencies; (iii) specific targets that 30% of the project beneficiaries and the members of the management committees (POs etc.) will be women; (iv) promotion of equal opportunities for men and women; and (v) M&E data and analysis is to be disaggregated to show the participation of men and women and to show the roles of men and women in particular activities.

Development Objective
13. The overall goal of the project is to contribute to reducing the incidence of poverty in the ten target provinces of Regions IX, X and Caraga, while the project's development objective is that the target group vulnerability reduced through crop diversification and increased farm income. The expected impact and outcome indicators for the 35,000 households and 100 POs in the 11 ARC clusters include: (i) average annual income increased; (ii) increased farm income derived from new farming activities; (iii) increased ownership of household assets; and (iv) reduced prevalence of child malnutrition.

Ownership, Alignment and Harmonization
14. The proposed project design is consistent with the Philippines Development Plan (PDP) 2011-2016, the IFAD's strategic framework (2011-2015) and the IFAD country strategy (COSOP) for the Philippines 2010-2014. The project supports the government's CARP. The project is part of the government's NCI, which seeks to synchronize the initiatives of the three departments engaged in rural development, DAR, DA and DENR and optimise the use of resources available to support sustainable rural development and for an improved policy environment and governance. Project

design complies with key IFAD policies relating to targeting, gender, Indigenous Peoples, private sector and rural financial services. The project will complement other donors working in the same sector, such as the Asian Development Bank, the Japan International Cooperation Agency and the World Bank, to increase the impact of the investment from IFAD on poverty reduction and policy dialogue with the government and other stakeholders. The project will explore different types of partnership arrangements between the project beneficiaries and the private sector ensuring that such arrangements are fair to farmers and ARC communities. Private sector organisations and business development partners can help take a leading role as innovators in improving the returns from the existing and emerging value-chains in an enterprise-oriented development approach.

Components and Outcomes

15. The project has three components; (i) Participatory Value-Chain Analysis and Planning; (ii) Integrated Smallholders Agricultural and Rural Enterprise Development; (including the subdivision of Collective Certificates of Landownership Award (CLOA)); and (iii) Project Management, Monitoring and Evaluation and Knowledge Management.

Component A: Participatory Value-chain Analysis and Planning

16. **Component A: Participatory Value-chain Analysis and Planning**. The expected outcome of this component will be that the value chain business development plans for selected crops are validated and implemented resulting in improved farm income. This component will provide in each of the 11 ARC clusters: (i) Validation of the proposals for value chain development as identified by the feasibility studies; (ii) Identification of the gaps and inefficiencies in the value-chains and solutions and investments required; (iv) Identification of POs (associations, cooperatives) and private sector organisations wishing to participate and capable of participating in the value-chain development; and (v) Updated ARC Value-chain Investment Plans (ARC-VIPs).

Component B: Integrated Smallholders Agricultural and Rural Enterprise Development

17. **Component B: Integrated Smallholders Agricultural and Rural Enterprise Development.** The expected outcome of this component is improved production, value addition and marketing of the selected agricultural commodities. Following the validation and selection of the priority value-chains and locations, the project will facilitate and finance the development of the value-chains, with two sub-components: (i) Support for Farm and Enterprise Development; and (ii) Investment in Rural Infrastructure. Based on the ARC-VIPs, interested and eligible implementing agencies (POs, private sector companies, NGOs and academic institutions) will prepare proposals for investment and/or service provision that will support the development of the selected value chain. There will be no specific fund allocation for each participating ARC cluster for either of the two sub-components. Funds up to specified ceilings will be provided by DAR to finance eligible proposals. In addition, Local Government Units (LGUs) will be responsible for proposing rural infrastructure investments that meet agreed eligibility criteria and are critical to develop the selected value chain(s). The project will mobilise partnerships involving private sector enterprises to develop the chains and provide the business development services required and private sector management of these value-chains is essential. Whenever required, the project will facilitate the subdivision of collective CLOAs as necessary to facilitate credit provision to make the agribusiness project work. DAR will absorb the cost of subdivision survey using its regular funds as its counterpart to the project.

Component C: Project Management, Monitoring and Evaluation and Knowledge Management

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

Project Implementation

19. The key elements of the overall project approach are the following: (i) use of participatory value chain development approach to enable the target beneficiaries to optimise production of their chosen commodities, improve the profitability of household farm enterprises in a sustainable manner, improve their market access and competiveness and generate greater profits; (ii) use of an approach of convergence in implementing its activities under the leadership of DAR, to enhance the investment

and opportunity climate for agribusiness; (iii) use of the ARC clustering approach developed by DAR for the provision of support to the ARCs for value chain development; (iv) implementation through the DAR structure at national, regional, provincial and municipal levels, with the participation of the other convergence agencies, e.g. DTI, Department of Science and Technology (DOST) and National Commission on Indigenous Peoples (NCIP) as well as the LGUs; and (v) an emphasis on knowledge management and learning to ensure that the experience and lessons learned are available to improve project performance and for up-scaling and wider dissemination.

20. The project implementation period is six years. The implementation strategy will include: (i) Geographic targeting to identify the project areas and provide a preliminary list of target commodities based on the 11 feasibility studies and investment plans already prepared; (ii) Selection of private sector organisations to provide marketing and/or other services that meet the proposed eligibility criteria during the initial participatory value chain analysis and planning phase; (iii) Self-targeting by members of the target group based on their interest in participating in project activities; (iv) Non-poor households will be targeted through their inclusion in the POs or other types of organisations formed; and (v) Provision of public goods, such as improved farm to market roads, rehabilitated Communal Irrigation Scheme (CIS), post-harvest facilities, etc. Consultations were held with the NCIP, the organisation charged with supporting the integration of IPs in the mainstream. The approach to working with IPs as a sub-group of the target group will work within the framework of the NCIP's Ancestral Domain Sustainable Development and Protection Plan, as a way of involving the community members with the local government agencies and a vehicle to strengthen capacities of IPs in the process. This approach involves practicing the principle of free and prior informed consultation/consent on all project activities through the provision of adequate information.

21. DAR will be the lead agency for the project implementation under the NCI. Under the leadership of DAR, the project implementation will extend the convergence approach in implementing its activities to involve other agencies with a potential role to play in project implementation, including DTI, DOST and NCIP as well as the LGUs, with the aim of providing a more comprehensive and integrated support to the rural population, including those assisted under the government's agrarian reform programme. Project implementation involves essentially two phases.

22. The Project Steering Committee (PSC), chaired by the Secretary of DAR, will be the project's policy making body. Other members will be senior officials of oversight agencies i.e. the Department of Finance (DOF), Department of Budget Management (DBM) and NEDA, the agencies involved in the expanded national convergence initiative as well as the Mindanao Development Authority, the Department of Interior and Local Government (DILG) and a representative from the private sector. The DAR will assume full supervision responsibility through a Central Project Management Office (CPMO) based in one of the three project regions in Mindanao and part of the DAR Central Office. There will be a Regional Multi-Stakeholders' Committee (RMSC) in each of the three regions chaired by the DAR's Regional Director, to advise the regional project implementers on major policy considerations, technical and operational issues, approve investment proposals and will ensure participation of the region-based agencies in project implementation. There will be a Provincial Project Management Office (PPMO) in every target province to coordinate the implementation of the project activities in the ARC cluster. In the ARCs, a Cluster Project Operations Team (CPOT) will be established, responsible for the implementation of the project activities at the field level. DAR will execute a memorandum of agreement (MOA) with each of the partner implementing agencies at the national, regional and provincial levels to specify what services and support to be provided by each agency and how the services and support will be financed by the project. The LGUs will enter into a MOA with DAR covering their participation in project implementation, the provision of counterpart funds for infrastructure investment as required by the project's financing agreement and provision of services. The private sector (companies and firms, business organisations, financing institutions, non-government organisations, state universities and colleges and individual entrepreneurs) will be encouraged to participate under MOA with DAR. Private sector organisations may act as the consolidator/integrator, business development service providers, value-chain managers or facilitators, or financiers.

Risks

23. There are three risks associated with the NCI at the operational level. The first is that ensuring effective coordination among the three NCI agencies in the field will be more difficult than at national level. Project design counters this risk with: (i) all the agencies with a role to play in the project

implementation will be members of the PSC which is the project's policy making body and able to resolve inter-agency coordination issues; (ii) all implementing agencies will have a "Project CONVERGE" Focal Point at national level through whom the project will interact with that agency at national level; (iii) the three RMSCs with representation from all the relevant agencies to ensure effective coordination of implementation in the regions and ARC clusters; and (iv) within the ARC clusters, there will be CPOTs which will include the staff involved in the day to day project implementation.

24. The second risk concerns the willingness of the private sector to be involved in the implementation of Component B, I-SHARED which is essential for the success of the project. This risk is addressed through: (i) component A and the participatory analysis and planning process, which will include all potential participants, including the representatives of the private sector agencies involved in the particular value chains under analysis; and (ii) during the value chain analysis and planning process, publicising the availability of grants for value-chain development to match investments from the private sector, the size of the grants available and the terms and conditions of the grants for different interventions.

25. The third risk is associated with the weak capacity of the poorer LGUs to provide the required counterpart funds for rural infrastructure investment. The project design counters this risk by reaching an agreement with the government on a financing plan for the rural infrastructure investment based on the financing ratio of 80% for the IFAD loan; 5% for the national government counterpart funds; 12% on average for the LGUs; and 3% for the beneficiary contributions. This arrangement will reduce the risk to the minimum that the poorer LGUs would not be able to benefit from the rural infrastructure investment financed by the project. Investments in additional road construction will only take place after firm funding has been secured from participating LGUs. In addition, the capacity of the LGUs to fund and undertake maintenance of the roads will be closely monitored.

Project Costs, Financing and Benefits

26. The proposed project would cost about USD 52.53 million or about PHP 2,285 million. The proposed project financing includes IFAD loan of USD 25.0 million (47.6%) and a Government counterpart contribution of around USD 6.11 million (11.6%). The IFAD loan will be on Intermediate Terms and Conditions. Beneficiary counterpart contributions (including the LGUs and participating organisations) would account for the remaining 40.7% (USD 21.41 million). Retroactive financing of up USD 500 000 from the IFAD loan may be available to finance the costs of the following key preparatory activities, undertaken after 3rd November 2011: (i) Preparation and finalisation of the Project Implementation Manual (PIM); (ii) Preparation of bidding documents for procurement in PY1; and (iii) Establishment of the CPMO, RPMOs and PPMOs.

27. The project's target is to raise the incomes and quality of life of about 35,000 rural households in the 11 target ARC clusters covering both ARBs and non-ARBs. The project target is that 30% of the beneficiaries will be women (30% of the ARBs are women), and 15% IPs. Both the financial and economic analysis show that the projects investments should provide sound benefits to the participating households and overall an acceptable economic rate of return, of 44.6%, Net Present value of PHP 5.2 billion and a Benefit Cost Ratio of 1.57 using a discount rate of 15%. Average target group benefits are estimated to be an increase in real incomes of 11% and 52% compared to the 2009 levels by 2020 and 2030 respectively.

Sustainability

28. The following elements are built into the project design to help ensure that the proposed investments and benefits are sustainable: (i) by devoting the first year of project implementation to analysis, identification and planning of the project's investments in priority value chains involving famers, their organisations and the private sector will help ensure the proposed investments will be sustainable; (ii) the experience and lessons learned from the three small value chain pilots in PY1 should contribute to ensuring that the subsequent investments are sustainable; (iii) the project has a strong focus on the involvement of the private sector on a long-term basis to enhance the sustainability of the investments and benefits; (iv) the project will support contractual and other types of arrangements linking smallholders with the private sector to enable the smallholders to move up the supply chain and receive more value addition; (v) the beneficiaries and LGUs will be involved in providing counterpart funds for infrastructure facilities and be responsible for their operation and maintenance; (vi) project design takes into account the knowledge, systems and practices of the IPs,

which will also help ensure the sustainability of project interventions in areas where IPs are present; and (vii) 18 months before the completion date, the CPMO will work closely with all stakeholders at the national, regional, provincial and municipal levels and with ARCs and *barangays* to finalise an exit strategy and sustainability plan, which should contain specific mechanisms to ensure sustainability of the investment after the end of the project.

Logical Framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
Goal			
Contribute to reducing the incidence of poverty in the ten target provinces of Regions IX, X and Caraga.	• 35,000 households and 70 People's Organisations in the 11 ARC clusters: • **Increased ownership of household assets (household asset index)* increased by 30% from baseline survey to xx by end of project (EOP).** • **Prevalence of child malnutrition* reduced by 30% at EOP from baseline survey.**	• NSCB report. • RIMS baseline, mid-term and completion surveys.	
Development Objective			
Target group vulnerability reduced through crop diversification and increased farm income.	• 35,000 direct beneficiaries of which 50% are women and 15% IPs. • *Average annual income (in constant 2009 prices) increased from PHP 17,582 in 2009 to about PHP 21,267 at EOP.* • Farm income derived from new farming activities increased by10% at MTR and by 30% at EOP.	• Consolidated annual RIMS reports, baseline, mid-term and completion surveys. • Annual participatory monitoring studies/ outcome assessments. • DAR ALDA report.	• Peace and Order in the areas covered by the target ARC clusters • No major financial shocks, a stable inflation rate and purchasing power of smallholders/ producers maintained or increasing. • No major climate shocks. • Key policy environment improved for competitiveness of the agri-business sector.
Outcomes and Outputs			
Outcome Component A: Value chain business development plans for selected crops validated and implemented resulting in improved farm income.	• 70 participating POs and other entities in the ARC clusters validated and implemented their value-chain investment plans from PY2 -7. • At least 10% of increased farm income derived from new farming activities by MTR and 30% by end of project.	• Project MIS and annual outcome assessments. • Annual RIMS report. • Supervision Mission (SM) reports.	• Government remains committed to value-chain development.
Outputs: Market demand analysis and value chain analysis undertaken and ARC cluster value chain investment plans prepared.	• 11 updated ARC cluster prioritised value-chain investment plans (ARC-VIPs) prepared in PY1. • 11 ARC cluster value-chain investment plans (ARC-VIPs) updated each year during PY2-7.	• Project MIS and annual outcome assessments. • Annual RIMS report. • SM reports.	• Highly competent value-chain staff and consultants appointed.
Outcome Component B: Improved production, value addition and marketing of the selected agricultural commodities.	In the 11 ARC clusters: • *Gross value of agricultural production of 35,000 HHs increased by 15 % at MTR and 30% at EOP.* • 8,000 HHs have entered into contractual marketing arrangements with buyers at MTR and 16,000 HHs at EOP. • Traffic count on project financed roads increased by 20% at MTR and by 40% at EOP. • Average farm-gate prices in real terms for the commodities selected by the target group members increased from baseline survey by 5% at MTR and by 10% at EOP. • *Participating business enterprises have generated additional employment for 3,000 households by EOP and 1,000 by the MTR.* • *40,000 (90% of the total target group) households have improved access to*	• Project MIS and annual outcome assessments. • Annual RIMS report. • SM reports.	• Government remains committed to value-chain development. • Businesses willing to work with farmers', POs etc. • Sufficient competition allows farmers, POs, etc. choices. • LGUs and local communities assume responsibility for infrastructure O&M.

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
	rural infrastructure and production/processing facilities by EOP, 20% by MTR. • **90% of project financed infrastructure and equipment is operating and being well maintained at end of project**		
Outputs: Services provided to improve the production, value addition and marketing of the selected agricultural commodities.	• **Target group smallholders receiving project services, increases from 5,000 in PY2 to 35,000 by EOP.** • No. of business organisations/associations formed and/or assisted. • No of contract farming agreements. • No. of marketing agreements. • No. of private service providers contracted. • Around 136 km of road upgraded[2] • About 150 ln.m. bridges constructed. • Around 150 ha of irrigation rehabilitated/restored. • Around 3 units of water supply schemes constructed. • > 30% of the members of the management committees (POs etc.) are women PY1-6. • > 15% of the members of the management committees (POs etc.) are IPs PY1-6.	• Project MIS and annual outcome assessments. • Annual RIMS report. • SM reports.	• Levels of trust in ARCs adequate for establishing effective POs, binding contracts etc. • Adequate TA is provided.
Outcome Component C: Project implementation is completed on time, within the agreed budget and to the satisfaction of the beneficiaries.	• Project implementation is completed within 7 years and all accounts are closed within 6.5 years. • *At least 90% disbursement of IFAD Loan and Grant after 6.5 years of project implementation.* • *95% of the financial and physical targets achieved, without cost overruns.* • Annual expenditures are >90% of the AWPB estimates, PY1-6. • >75% of target households from PY3-6satisfied with the services provided.	• Project MIS and annual outcome assessments. • SM reports.	• Effective coordination through the NCI. • All implementing partners adhere to the financing agreements, project implementation guidelines as specified in the MOAs
Outputs: Project managed in a timely, cost effective, transparent and a gender and culturally sensitive manner.	• Complete, accurate financial records prepared and audited annually beginning PY1. • Adherence to planning and reporting procedures and formats PY1-6 • M&E activities are timely, efficient and gender and culturally responsive PY1-6. • Annual dissemination of lessons learned/knowledge from project implementation PY4-6. • 46 contract and 239 DAR regular staff are in post with qualifications and experience appropriate for their terms of reference PY1-6. • At least 30% of the project staff are female PY1-6.	• Project progress reports. • SM reports. • M&E reports. • Audit reports.	• Timely fund flows from the Loan and Grant Accounts through the DAs to the Project Accounts at all levels. • Government and LGU counterpart funds and beneficiary contributions provided in a timely fashion.

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

I. Strategic context and rationale

A. Country and Rural Development and Poverty Context3

Country Background, Economy and Poverty

1. The Philippines is an archipelago of over 7,100 islands with a total land area of about 300,000 km2 and is located 800 km from the Asian mainland between the islands of Taiwan and Borneo. In 2009 the population was 92.2 million and growing at 2.04% p.a., with 21.9 million or 23.8% living in Mindanao (National Statistics Office 2009), the second largest island with a land area of about 95,000 km2.

2. Since 1981 the growth in Gross Domestic Product (GDP) has averaged 3.1% p.a., but only 2.3% p.a. between 2001 and 2010. These rates of growth compare unfavourably with the growth rates of several high performing Asian economies. With strong external payments performance, due in part to the growing remittances from overseas workers, international reserves had risen to USD 62.4 billion in December 2010, sufficient to finance 10.3 months of imports of goods and services. As a result of the strong external liquidity position, the value of the PHP has remained broadly stable in recent years and the exchange rate to the USD was about PHP 43.5 (During the Project Design). Over the period 2004-2010, the headline inflation rate averaged 5.6%. In 2010, Gross National Income per capita was USD 4,002 (Purchasing Power Parity in 2008 USD).

3. The Human Development Index (HDI) places the country in the medium HDI category. In 2010, the HDI for the Philippines was 0.638, whereas in 1998 the HDI was 0.744, which shows that over those 12 years, development efforts were unable to improve the human development status of the country. In terms of HDI, the Philippines ranks 97th among 169 countries. The country's Gender Development Index decreased from 0.768 in 2005 to 0.742 in 2008. Likewise, the Gender Empowerment Measure fell from 0.590 in 2005 to 0.560 in 2008[4].

4. The poverty incidence decreased slightly from 21.1% of families in 2006 to 20.9% in 2009, but with population growth, the number of poor families rose from 3.67 million to 3.86 million in the same period. Poverty incidence and the numbers of poor people are now higher than in 2003. The northern and western part of the island of Mindanao consists of three of the six poorest regions in the country (out of 17) and accounts for 18% of all those living below the national poverty line. Farmers and fishermen were the poorest groups in the country with a poverty incidence of 44% and 50% respectively in 2006. In 2008, 32% of children less than five years old were stunted and nearly 7% were wasted. The failure to reduce poverty in recent years reflects underinvestment and the slow growth of per capita incomes, high population growth and dependency rates, natural disasters and inflationary pressures mainly from rising fuel and food prices. In addition, nationally income inequality remains high with a Gini Coefficient of 0.448. Despite the recent lack of progress in reducing the incidence of poverty, the Philippines Development Plan (PDP) 2011-2016 envisages that the country can still achieve the Millennium Development Goal (MDG) poverty reduction targets by 2015.

Agriculture and Natural Resources Sector

5. From 2004 to 2010, the agriculture and fisheries sector contributed an average of 18.4% to GDP and the sector grew at an average rate of 2.6% p.a. This performance was significantly below the target of the Medium-Term Philippine Development Plan, 2004-2010. The sector employs about 11.8 million people, or about 35% of the total work force. Including the whole agricultural value chain, the sector contribution to GDP and total employment rises to 35% and 50% respectively. According to the 2002 agricultural census, there are 4.8 million farms covering 9.7 million ha. In 2010, the crop sub-sector accounts for 45% of the agricultural sector, followed by fisheries (27%), poultry (15%) and livestock (13%). In order of value of production, paddy, coconut, maize, bananas, mango, sugar cane and pineapple are the seven most important crops. Others important crops include rubber, cocoa, coffee and vegetables. Paddy, maize and coconut together account for the majority of the land use (including double cropping) covering 10.4 million hectares in 2010.

[3] Data on GDP, poverty etc. is taken from the Philippine Development Plan 2011-2016 prepared by National Economic and Development Authority (NEDA).
[4] The source is the UNDP, Human Development Report, 2010.

6. Between 2004 and 2010, the exports of the agriculture and fisheries sector rose from USD 2.5 to 4.1 billion but even so, the Philippines is the only net agricultural importer among comparable ASEAN members. The country has a revealed comparative advantage not only for the exported agricultural commodities such coconut oil, fresh bananas and pineapples but also for sugar, abaca, papaya, dried tropical fruits and fresh vegetables. Major agricultural imports are cereals, including rice and agricultural inputs (fertilizers and machinery).

7. The growth of total factor productivity in agriculture has remained at a low level 0.2% p.a. over the last two decades compared with 1.0 p.a. in Thailand, 1.5% p.a. in Indonesia and 4.7% p.a. in China. Despite positive growth and gains in productivity in some sub-sectors, there has been no change in the welfare of almost 6.4 million farmers and others engaged in the sector. Rising productivity and efficiency in the sector are critical to maintaining the affordability of food and purchasing power, especially among the poor. Therefore, the sector's development is vital for achieving inclusive growth and poverty reduction as well as attaining the MDG targets. In addition, development efforts need to focus on ensuring that the sector is not only highly profitable but also resilient to climate change, environmentally friendly and sustainable.

Policies and Development Plans

8. National planning and policy making is based on five-year Development Plans and the PDP was published in late May 2011. The PDP's goals for a competitive and sustainable agriculture and fisheries sector include: (i) improved food security and increased rural incomes; (ii) increased sector resilience to climate change risks; and (iii) an enhanced policy environment and governance.

9. Key elements of the first goal of the PDP strategy for improved food security and increased rural incomes are threefold. First, to diversify production, improve rural infrastructure and facilities, develop markets, strengthen extension services and improve the sector's credit access. Secondly, to increase investments and employment across efficient value-chains, through measures that include market development, localised agricultural promotion and development, increased value addition, horizontal and vertical integration of production and marketing and focus resources on high value crops. Finally, to transform the Agrarian Reform Beneficiaries (ARBs) into viable entrepreneurs by providing assistance to improve land productivity, adding value to their production, engaging in off-farm enterprise development, strengthening their organisations to develop and manage agricultural enterprises, providing access to credit and providing physical infrastructure, e.g., farm to market roads and irrigation facilities.

10. The second goal of the PDP is the promotion of environmentally friendly and sustainable production systems including: (i) use of the farming systems approach; (ii) promoting good agricultural practices and varieties that can tolerate climate variability; and (iii) ensuring that extension staff are able to raise farmers' knowledge and capacity to adopt climate sensitive technologies.

11. The third goal of the PDP is an improved policy environment and governance, which includes the National Convergence Initiative (NCI), which aims to rationalize and improve the provision of agricultural services to farmers. Under the NCI in which the Department of Agrarian Reform (DAR), the Department of Agriculture (DA) and the Department of Environment and Natural Resources (DENR) are the key agencies, although other agencies are expected to participate in line with their mandates.

12. Favourable factors exist to make for the country to break out of its perennial condition of widespread rural poverty, inequity and lagging human development. These factors include a healthy external payments situation, years of trade reform leaving an industrial sector fairly undistorted by subsidies and heavy protection, a stable currency, low inflation and positive political developments.

National Convergence Initiative

13. In search of a more broad-based approach to reduce rural poverty, the government is pursuing the NCI to maximize resources available and synchronize the initiatives of the three departments engaged in rural development: DAR, DA, and DENR. The NCI is seen as a strategic development approach that can contribute to sustainable development in the rural areas. Through the NCI, the three rural development agencies are undertaking joint planning, programming and budgeting as well as monitoring and evaluation. The objectives are to: (i) accelerate the completion of the Comprehensive Agrarian Reform Programme Extension with Reforms in 2014; (ii) rationalize land use policies and strengthen the system of land property rights; (iii) promote sustainable agriculture and preserve the land resource base; (iv) enhance the investment climate for agribusiness; (v)

promote sustainable upland development and forest management; and (vi) initiate climate change adaptation and mitigation measures.

Comprehensive Agrarian Reform Programme

14. The Government has long recognized that asset reform is a key to improving agricultural productivity and reducing rural poverty. The Comprehensive Agrarian Reform Programme **(**CARP) has been the Government's principal comprehensive integrated, area based rural development programme for over twenty years. By June 2010, DAR had launched 2,116 Agrarian Reform Communities (ARCs), covering about 1.3 million agrarian reform beneficiaries. Of this total, 1,279 ARCs or 60% had been provided with basic infrastructure, capacity building, agricultural improvement and livelihood support through various foreign assisted projects covering some 852,000 ARBs. Resources mobilized by DAR amount to a total of PHP 76.6 billion (equivalent to USD 1.78 billion at the current exchange rate) in loans and in grants, from bilateral and multi-lateral sources from 60 foreign-assisted projects. DAR has confirmed that while the land distribution programme led by the agency will end in 2014, the support services to the ARBs will continue beyond 2014 in accordance with the Section 21 of Republic Act (RA) 9700.

15. Various impact studies for DAR foreign-assisted projects show that the ARC Development strategy has contributed to the development of ARBs. These studies cited increases in household income levels ranging from 22-43%. As a result, poverty levels were also reduced by about 3-7%. Output per hectare of *palay* increased by 42-61%. However, the challenge is how to optimize, scale up and sustain the gains made in these ARCs and to extend the benefits to other ARCs so that they all can become part of the mainstream economy.

16. As a strategy to include more ARBs in the development process, DAR has adopted the ARC clustering approach, with one or more clusters established in a province. An ARC cluster includes a group of ARCs with similar agro-climatic and socio-economic conditions and the area between and surrounding these groups of ARCs. The aim is to encourage business interactions among ARCs, disseminate better technology, improve and consolidate production and marketing of commodities and establish agribusiness so that farmers and farmers' organisations can obtain the best prices for their products. The objective is to enable the ARBs to become highly productive and competitive entrepreneurs and to achieve broad-based rural economic growth. Within a cluster development starts from the existing ARCs where substantial development works have been implemented and expands to include other ARCs and the non-ARC areas to spread the benefits of ARC development to greater number of ARBs and other farmers.

B. Rationale

17. The rationale for IFAD to help finance the project includes: (i) making use of the opportunities to support the agrarian reform process and to help meet the needs of the underserved and un-served ARBs through adopting a value-chain approach to enhance agricultural growth and agribusiness development to maximise the benefits from the land distribution programme; (ii) support the harmonization of the rural development efforts of DAR, DA and DENR and other agencies engaged agri-business development to maximise the impact on rural poverty reduction; (iii) support the DAR approach of clustering ARCs to realise economies of scale for production, access to markets and service provision to benefit from value-chain development.

18. As part of the NCI, in late May 2011, NEDA endorsed a project proposal of Convergence on Value-Chain Enhancement for Rural Growth and Empowerment – "Project CONVERGE" prepared jointly by the DAR, DA and DENR for IFAD financing. There is a strong rationale for IFAD to support the proposed project. First, the project can assist DAR by investing in selected ARC clusters where there has been limited investment, the incidence of poverty is still high, but where there is a potential to improve the livelihoods of the ARBs and other smallholders. At present, only about 65% of the ARBs have received substantial assistance and only 49% of the estimated development requirements based on the individual ARC Development Plans have been addressed so far. The investment gap for support services in ARCs alone is an estimated PHP 87 billion (USD 2.0 billion). In this regard, IFAD assistance can support agrarian reform by adopting a value-chain approach to enhance agricultural growth and agribusiness development to maximise the benefits from the land distribution programme. The underserved and un-served ARBs, including the new farmer beneficiaries, require support services to provide more opportunities for sustainable economic growth that is resilient to climate variability, increase the productive capacities and competitiveness of ARBs, and improve the living

conditions in the rural areas. Such an approach supports the strategy of the PDP for the twin goals of improved food security and increased rural incomes and increased sector resilience to climate change risks.

19. Second, the project provides an opportunity for IFAD to support the harmonization of the rural development efforts of DAR, DA and DENR and so to pave the way to rationalise the division of work among the three rural development agencies as proposed under the NCI. The proposed project also provides an opportunity for IFAD to assist in developing and operationalizing the NCI concept further by including other agencies e.g. Department of Trade and Industry (DTI), Department of Science and Technology (DOST) and the National Commission on Indigenous Peoples (NCIP) in agri-business development. IFAD already has experience of working with DTI under the Rural Micro Enterprise Promotion Programme (RuMEPP).

20. Third, the project can assist DAR in providing support services to the ARBs by supporting DAR's approach to the clustering of ARCs. This clustering of ARCs is designed to realise economies of scale for production and marketing in support of a value-chain approach and enables the inclusion of non-ARB smallholders and builds on the experience gained from two previous IFAD assisted projects, i.e. the Northern Mindanao Community Initiatives and Resource Management Project (NMCIREMP) and the Western Mindanao Community Initiatives Project (WMCIP), which both supported earlier phases of the agrarian reform programme in the project area.

Policy Alignment

21. The proposed design is consistent with PDP's concept of inclusive growth, a major element of which is the reduction of mass poverty and the focus on improving profitability at the household level in ways that are sustainable also aligns well with the focus of the PDP.

22. The proposed project design supports two of the three strategic objectives of the IFAD country strategy (COSOP)[5], i.e. to improve sustainably the livelihoods of poor upland households, including Indigenous Peoples' (IPs) communities and ARBs in the 20 poorest provinces; and to enable the entrepreneurial poor in selected areas, including the project's three target regions, to improve the value chains of agribusiness systems for the benefit of poor rural farmers. The project design also supports the key crosscutting issues from the COSOP, including: (i) gender mainstreaming in development programmes; (ii) policy dialogues; and (iii) support for decentralization. The COSOP also supports the Government's policies for NCI.

23. In addition, the proposed project design aligns well with IFAD's strategic framework (2011-2015). IFAD will pursue its goal of improving food security and reducing the incidence of rural poverty by concentrating on eight thematic areas of secure access to natural resources; climate change adaptation and mitigation; improved agricultural technologies and effective production services; more comprehensive financial services; integration into value chains through competitive agricultural input and produce markets; rural enterprise development and off-farm employment opportunities; technical and vocational education and training; and empowerment of rural poor people through effective and sustainable rural producers' organisations.

24. The IFAD policies relevant to the project include: Targeting – Reaching the Rural Poor; Gender Plan of Action; Engagement with Indigenous Peoples; Rural Enterprise, Private Sector Development and Partnership; Climate Change; and Rural Finance; and Prevention of Fraud and Corruption. The project design has reflected these policies and lessons learned in the IFAD country programme.

25. Through the Foreign Assisted Projects Support Office (FAPsO), DAR has the experience and capacity to coordinate the development assistance provided by various multilateral and bilateral development agencies. It has several on-going foreign assisted projects and has benefitted from over 60 such projects.

IFAD's Comparative Advantage

26. IFAD's comparative advantage comes from the experience gained in the Philippines from the following activities that remain relevant for the proposed project:

[5] The third strategic objective relates to the management of coastal resources, which is not the focus of this project.

- Targeting poor and vulnerable groups dependent on highly fragile ecosystems in Mindanao, including IPs and women and using participatory and innovative approaches to promote their livelihood improvement.
- Investing in rural development (agriculture, infrastructure, rural finance and enterprise development) which meet local needs and facilitates economic development.
- Working in close partnership with the convergence agencies (DA, DAR and DENR) and other government agencies, e.g. the National Economic and Development Authority (NEDA), Department of Finance (DOF), Department of Budget Management (DBM), NCIP, DTI, DOST and the participating Local Government Units (LGUs).
- Building institutional partnerships with other external development agencies to increase the impact of the investment from IFAD on poverty reduction and policy dialogue, e.g. with ADB for the Second Cordillera Highland Agricultural Resource Management Project (CHARMP-2) and the new Integrated Natural Resource Management Project (INREMP), which will be submitted to the IFAD Executive Board in April 2012.

II. Project description

A. CONVERGE area and target group

Project Area, Poverty and Targeting

27. Mindanao is the second largest of the 7,100 islands of the Philippines with a total land area of 101,998 km^2 and a population of 21.9 million or 25% of the Philippine population. The island has a range of tropical and sub-tropical climates depending on the altitude and latitude, but fortunately lies outside the typhoon belt. The climate change predictions for the period 2020-2050 foresee a decreasing trend in terms of extreme rainfall in Mindanao and widespread warming in most parts of the country with an increase in the number of days with maximum temperatures in excess of 35°C in all parts of the country, and a decline in the number of cold days. Projected mean seasonal temperatures are expected to rise by 0.5-0.9°C by 2020 and 1.2-2.0°C by 2050. In the last six decades the annual mean temperature has increased by 0.57°C with many extreme weather events recorded. The island of Mindanao has a wide range of soil types depending on the underlying geology. Mindanao is a major supplier of the country's food and raw materials. It produces the following proportions of the country's agricultural production100% of the rubber, 88% of pineapples, 81% of bananas, 75% of coffee, 60% of coconut and 53% of corn. The other crops (paddy, mango and sugarcane, etc.) account for less than 50% of the production from Mindanao's agriculture sector.

Regions

28. The project will target three Regions of IX, X and Caraga (XIII), located in the west, north and northeast of Mindanao. The three target regions are among the six poorest regions of the country with the following 2009 incidence of poverty: Caraga (39.8%) which is the poorest region in the country, while Region IX (36.6%) is ranked third and Region X (32.8%) sixth. In total, these three regions account for 18% of the nation's poor families. Using other measures of income poverty, namely the income gap, poverty gap and severity of poverty, these three regions all have values that are worse than the national average.

Provinces

29. Within these three regions, the project will target 10 provinces. The selection criteria included incidence of poverty, presence of organised ARC clusters, agricultural and agri-business development potential and availability of services. The selected provinces are as follows: Zamboanga del Norte, Zamboanga del Sur and Zamboanga Sibugay (Region IX); Misamis Oriental, Camiguin and Bukidnon, which is divided into two operational divisions of North Bukidnon and South Bukidnon, (Region X); and Agusan del Norte, Agusan del Sur, Surigao del Sur and Surigao del Norte in Region Caraga. All the selected provinces selected have poverty rates higher than the national average and five are among the 20 poorest provinces out of a total of 80 in the country and all include a high proportion of municipalities with high levels of poverty.

ARC Clusters and Municipalities

30. All the ARC clusters in the ten provinces were evaluated to identify those suitable for project assistance. The criteria used included potential for further agricultural and agribusiness development,

availability of markets, availability of an ARC Cluster Development Plan, commitment of the participating ARBs and availability of support services. Within each province, the project will target one ARC cluster, whereas one in each of the two operational divisions in Bukidnon of Region X.

31. The 11 clusters selected are as follows: (i) Region IX - Zamboanga del Norte, the Zamboanga Del Norte ARC Settlement Cluster; Zamboanga del Sur, the Salug Valley ARC Cluster, and Zamboanga Sibugay, the Salipyasin ARC Cluster; (ii) Region X - Misamis Oriental, the MISORET ARC Cluster; for Camiguin the LABACO ARC Cluster, for North Bukidnon, the North Bukidnon ARC Cluster; and for South Bukidnon, the South Bukidnon ARC Cluster; and (iii) Region Caraga - Agusan del Norte, the TUJAKITSAN ARC Cluster; Agusan del Sur, the VETREBUNS ARC Cluster; Surigao del Norte, the CLAGIBAPLA ARC Cluster; and Surigao del Sur, the BATA ARC Custer.

32. The total population is about 770,000 within the ARC clusters and nearby non ARC *barangays*, comprising a total of 144,000 households (average size 5.4 people). Allowing for IPs households not included in these figures, the total number of households is an estimated 150,000. The ARC clusters are predominately agricultural with about 90% of households being farmers, or landless employees whose livelihoods depend largely on agriculture. Thus about 35,000 rural households will be in a position to benefit from the project of which 31% are headed by women, other smallholders and landless households and 5,000 IPs households not included in the other categories[6].

33. In the target clusters there are 48 municipalities of whom 32 (64%) recorded poverty levels in excess of 50% in 2009, while the range was from 27-68%. In terms of their internal revenue allocations, 16% are in Class 1 (the highest category), 20% in each of Classes 2 and 3, 24% in Class 4, 16% in class 5 and 4% in Class 6.

34. In addition, the target clusters contain 93 ARCs located in 715 *barangays*. DAR uses the ARC Level of Development (ALDA) ranking to assess the stage of the development of the ARCs. The majority, 49 (53%), of the ARCs in the 11 clusters are in Class 5, the highest development category, with a further 23 (25%) in Category 4.

35. Based on 2009 data the weighted average household income of the target ARCs was PHP 115,300 (equivalent[7] to USD 490 per capita), of which PHP 73,500 was from Agriculture, PHP 17,000 was off farm income and PHP 24,800 was non-farm income. This total is about 30% above the 2009 poverty threshold for these three regions (PHP 87,500 p.a.), however, for 29% of the ARCs average income was below the poverty line.

People’s Organisations

36. There are 238 Peoples’ Organisations (POs), most formed with DAR assistance and with a total membership of 35,671 or 60% of the total number of ARBs. DAR measures the maturity of POs using Organisational Maturity Assessment (OMA), which is a component of the ALDA and gauges the strength of POs. A highly mature PO is rated as 5. Of the 227 POs in the targeted ARC clusters, which had their OMA in 2010, 12% had reached a maturity level of 4 and 30% were categorized as level 5. At the other end of the scale, 30% were assessed as level 1.

37. The average membership of a PO is about 150 families and most are too small to realise any economies of scale in their activities; many are multi-purpose cooperatives. Almost all POs met reported a lack of finance and a significant number are inactive. A significant number of POs have failed due to mismanagement, inappropriate handling of funds and lack of necessary skills for managing the organisation and associated projects. However, there are ARB organisations that have matured and can manage community programmes that meet the needs of their members, but need further assistance to become fully market oriented organisations. In places several POs have banded together to realize the benefits of pooling their resources so as to obtain assistance from outside.

38. The existing ARC development and business plans focus on POs, either associations or cooperatives, as drivers of the ARC development, even though these often lack maturity and capacity. Only a minority currently have the maturity and capacity to participate actively in the management of value-chains. When targeting POs for participation in the project’s activities, the following criteria will apply: a membership that is currently engaged in producing the selected commodity and resident in

[6] A more accurate figure for the number of IPs households should be available in 2012 when the NSO will release the IPs Census conducted in 20. which included ethno linguistic variables in the survey.
[7] Based on an exchange rate of PHP 43.5 per USD 1 and for 5.4 people per household.

the ARC cluster; and an agreement that where relevant project beneficiaries will be 30% women and 15% IPs, a minimum OMA rating of 4 (where POs do not have an OMA rating, a satisfactory record of capital build-up), no outstanding loan repayments and a capacity to repay any new loan and sustain their business.

ARC Cluster Development and Agribusiness Development Plans

39. To arrive at a preliminary list of the value-chains that the project could target in each ARC cluster, several criteria were used, namely[8]: future production capacity, market potential, the availability of suitable technologies and potential impact (food security and employment). Depending on the ARC cluster, the selected commodities were as follows: Region IX - coconut, maize, rice and rubber; Region X - maize, cassava, vegetables, coconut, banana, abaca, rice, *lanzones* and sugarcane; and Region Caraga - banana, coconut, rice, maize, rubber, oil palm, *nipa* and rice, *abaca* and coffee.

Target Group

40. Overall the target group is estimated to be 150,000 households. The target beneficiaries will be those involved in the value-chains selected and willing and able to participate in project interventions. This group includes the ARBs, other smallholders, unemployed or underemployed rural youth, IPs, women and business development partners, including eligible POs. This latter group can help take a leading role as innovators in improving the returns from the existing and emerging value-chains in an enterprise-oriented development approach. Participatory household wealth ranking is one of the methods to be used during the project implementation. The logframe indicators focus only on the direct beneficiaries. Overall the target is that least 30% of those benefiting from project activities will be women and 15% IPs. Project monitoring will ensure that there is a fair distribution of benefits to the rural poor.

i. Agrarian Reform Beneficiaries

41. Under the Agrarian Reform Programme, the ARBs have received land. The major crops cultivated include coconut, rice, maize, rubber, banana, high value vegetables, oil palm, coffee and cassava. Total area of crops in 2010 was about 216,000 ha. Only about 7% of the land is irrigated within the ARC areas and only 5.8% of families have access to irrigation. Many of the ARCs also have significant numbers of livestock and in particular, poultry. DAR data indicates an average of 12 head of poultry per household overall and 1.6 head of other livestock.

42. However, their average annual household income in 2009 was 30% above the poverty line. When shocks come in terms of death, sickness, crop failure, etc., their incomes are insufficient as the typical ARB has no savings to draw upon to meet unexpected expenses. Even in normal times, this level of income is insufficient to provide any collateral for any borrowing needed prior to harvest so the ARBs become indebted to the local private money lenders and traders. ARBs are heavily involved in community-related activities. Although they may have attended skills training sessions, they are unable to adopt improved technologies because of a lack of dispensable income for investment. However, some have demonstrated an entrepreneurial aptitude and will be a focus for the proposed project to enable them to attain a higher level of economic development.

ii. Other Smallholders

43. The second target sub-group are the smallholders who are not recipients of the government's land distribution programme but are located within the ARC Cluster, in both lowland and upland areas. Some are tenants, but others are owners of small areas of land, with holding sizes of less than five hectares. This group is very similar to the ARBs in terms of income, sources of livelihood etc.

iii. Rural Youth

44. The third target sub-group is the under-employed or unemployed rural youth, who work as agricultural or other wage labourers. Some have become members of existing community organisations. This group has been neglected but recently there have been appeals to encourage the youth not to leave the agricultural areas as many of the farmers are old and younger farmers need to be trained.

[8] Annex 2 has the results of the analysis while Working Paper 2 provides further details.

iv. Indigenous Peoples

45. The IPs are the fourth sub-group to be assisted by the project and most of them located in their ancestral domains where their Certificates of Ancestral Domain and Ancestral Land Titles have been or are being processed by NCIP. Most IPs are from the Subanen, Manobo, Higaonon, Mamanua and Mandaya tribes. There are 18 municipalities in the target ARC clusters where the NCIP reported the presence of IPs. Working Paper 1 lists the municipalities where the IPs live. IPs depend mainly on upland cultivation, mostly rubber, abaca, upland and traditional rice varieties, banana and highland vegetables and collection of non-timer forest products. Livestock such as pigs, goats and chickens are reared for home consumption, tribal festivities and rituals. IPs have established tribal organisations with the support of government agencies such as the NCIP, DENR, DA and DAR. The IPs are now asserting their rights and privileges, reviewing the Indigenous Peoples Rights Act (IPRA) which protects them and embarked on the process of formulating their Ancestral Domain Sustainable Development and Protection Plans (ADSDPP). Some of these plans have been agreed with NCIP, while the others are still in the process of being drafted. There are now concerted efforts to recognize the IPs' traditional systems of governance and cultural practices. Assistance to an IPs group cannot be sustainable, if it is not channelled through their traditional system of governance. The free, prior and informed consent (FPIC) is an empowering process for the IPs groups especially for projects which are externally-oriented.

46. During the beneficiary consultations in the nine ARC clusters visited during the project design, the discussions focussed on current production activities, existing issues and problems, suggestions and recommendations for future development, validation of data, possible project roles and gathering additional information.

47. NCIP and DAR are in the process of identifying the overlaps between the land distributed to the Agrarian Reform Beneficiaries and that claimed by the IPs within the target ARCs. DAR and NCIP will incorporate their existing streamlined guidelines for FPIC into the Project Implementation Manual. This process includes dissemination of the IPRA.

v. Women

48. Women are a target sub-group. Women have demonstrated success in handling funds and managing organisations and are 30% of the ARBs. In terms of land distribution, there is a growing trend for DAR to make women the recipients of the land distributed. Women have become increasingly involved in development. Many community organisations have women members and leaders and women are often elected to positions of trust e.g. as treasurers and are the most active in community-related activities. Women need to gain more skills to become better managers.

Gender Strategy

49. The gender strategy includes: (i) the conduct of gender-responsive value chain analysis to ensure that gender needs and issues will be identified during the preparation of the ARC-VIPs; (ii) preparation of local gender action plans in collaboration with the government agencies supporting CONVEREGE and the local government units; (ii) advocate for the incorporation of the gender action plans into the existing Gender and Development budgets of the agencies; (iii) specific targets that 30% of the project beneficiaries and the members of the management committees (POs etc.) will be women; (iv) promotion of equal opportunities for men and women; and (v) M&E data and analysis is to be disaggregated to show the participation of men and women and to show the roles of men and women in particular activities.

B. Project Strategy

50. The strategic focus of the project is rural poverty reduction through participatory value chain development with the aim of helping improve the profitability of household farm enterprises in a sustainable manner. The project strategy is to cluster a group of ARCs with similar agro-climatic and socio-economic conditions to encourage business interactions among ARCs, disseminate better technology, improve and consolidate production and marketing of commodities and establish agribusiness so that farmers and farmers' organisations can obtain the best prices for their products. The objective is to enable the ARBs to become highly productive and competitive entrepreneurs and to achieve broad-based rural economic growth. Within a cluster, development starts from the existing ARCs where substantial development works have been implemented and expands to include other ARCs and the non-ARC areas to spread the benefits of ARC development to greater number of ARBs

and other farmers. There exist opportunities to: (i) improve the quantity and quality of crop production and the phasing of production to meet market demands in order to exploit comparative advantage and earn increased profits at the farm level; (ii) add value to existing farm production through post-harvest management; (iii) develop links within selected value chains between producers and buyers and input providers to enhance the profitability of the farm enterprises; and (iv) diversify incomes and minimize risks for smallholders including women and IPs.

C. Development objective and impact indicators

51. The overall goal of the project is to contribute to reducing the incidence of poverty in the ten target provinces of Regions IX, X and Caraga. The expected impact indicators for the 35,000 households and 70 People's Organisations in the 11 ARC clusters include: (i~~ii~~) ownership of household assets (household asset index) increased by 30% from baseline survey at end of project (EOP); and (ii) Prevalence of child malnutrition reduced from baseline survey by 30% at EOP.

52. The project's development objective is that the target group vulnerability reduced through crop diversification and increased farm income. The relevant indicators are: (i) 35,000 direct beneficiaries of which 50% are women and 15% IPs; (ii) Average annual income (in constant 2009 prices) increased from PHP 17,582 in 2009 to about PHP 21,267 at EOP; and (iii) Increased farm income derived from new farming activities increased by10% at MTR and by 30% at EOP.

D. Outcomes/Components

53. The project has three components: (i) Participatory Value-Chain Analysis and Planning; (ii) Integrated Smallholders Agricultural and Rural Enterprise Development; and (iii) Project Management, Monitoring and Evaluation. Capacity building and gender mainstreaming will be an integral part of project-financed activities.

Component A: Participatory Value-Chain Analysis and Planning

54. The expected outcome of this component is that value chain business development plans for selected crops validated and implemented resulting in improved farm income. The outcome indicators include: (i) 70 participating POs and other entities in the ARC clusters validated and implemented their value-chain investment plans from PY2 -7; and (ii) At least 10% of increased farm income derived from new farming activities by MTR and 30% by end of project. The major expected outputs are (i) 11 updated ARC-VIPs prepared in PY1; and 11 ARC-VIPs updated each year during PY2-7.

55. This component will serve as the building block for the succeeding value chain and rural enterprise investments in the target ARC clusters. This component will provide for each of the ARC clusters: (i) Validation of priority commodities and market analysis of the potential of the major commodities for future value chain development based on the 11 feasibility studies already undertaken (one for each ARC cluster); (ii) Prioritisation of the commodities for project support and identification of the "anchor value chain" and the "secondary" enterprises; (iii) Identification of the gaps and inefficiencies in the value-chains and solutions and investments required; (iv) Identification of POs (associations, cooperatives) and private sector organisations wishing to participate and capable of participating in the value-chain development; and (v) Preparation of updated Agrarian Reform Cluster Value Chain Investment Plans for review and inclusion in the global/annual work plans and budgets by the PPMOs and RPMOs.

56. There are also some value chain studies of "regional champion commodities" such as rubber, banana, seaweeds and cacao, which can be used to help develop appropriate site-specific ARC cluster business plans. The existing ARC development and business plans focus on POs, either associations or cooperatives, as drivers of the ARC development, even though they often lack the maturity as measure by their OMA scores[9] and capacity needed. Only a minority have the maturity and capacity to participate actively in the management of value-chains at present.

57. Plan preparation will involve representatives from the target group, the POs and private sector organisations that could subsequently support the value-chain developments (e.g. through contract

[9] OMA gauges the strength of people's organizations on a score 1-5, with a highly mature PO being rated as 5. Working Paper 1 includes the data from 227 POs in the targeted ARC clusters: the classification in percentages was: 1-30%, 2-12%, 3-16%, 4-12% and 5- 30%.

farming, joint ventures, management contracts etc.). The following key elements will guide the participatory approach to preparing the value chain investment plans.

58. First, the proposed interventions to develop the value chains must meet market requirements (local, national and/or international[10]) with the resources available and be profitable to the participants. The activities must not compromise the environment or gender equity. Second, a participatory approach to value chain development is designed to ensure sustainability and involvement of target groups and key partners from within and outside the ARC clusters. Third, while the proposed approach is inclusive and geared towards poverty alleviation, the potential to generate and sustain economic benefits will determine the selection of target value chains and groups. Fourth, capacity building will receive emphasis to ensure that small-scale producers/processors can adapt to market changes. Finally, the value chain approach should become “mainstreamed” into the strategic planning process of the target groups, POs, and the ARC cluster.

59. This component will strengthen the capacity for value-chain analysis and planning of the implementing agencies and partners, including the private sector organisations, and mature and capable POs and will prepare Agrarian Reform Cluster Value Chain Investment Plans (ARC-VIPs).

60. **Component Implementation**: Implementation will require some short-term consultancy support, including possible involvement of research and development institutions who have the required expertise in selected commodities and value chain analysis, and support from DA, DTI and the private sector to undertake these tasks and provide “on the job” training to the project’s value-chain facilitators and the implementing agencies and to lead the analysis and preparation of the ARC-VIPs. In addition, DA and its regional offices will provide technical support for investment planning for the selected value chain developments, while DENR and its regional office would help ensure that the value chain developments will be in line with good practices for environmental and natural resources management. DOST and DTI will provide support in new technology development and rural microenterprise development. The feasibility studies should help ensure a more sustainable implementation of component B as well as making the project adhere more closely to the convergence framework and strategy. Implementation of this component involves the following steps: (i) Recruitment of the project’s value chain staff (central, regional and provincial) and short-term value chain consultants: (ii) A training needs and institutional capacity assessment for the staff of the implementing agencies, including DAR, DA and DENR (mainly for managing conflicts between environment and natural resource management and value chain development) and their counterparts at the regional, provincial and municipal levels, followed by the provision of necessary training; (iii) Validation of the proposals contained in the 11 feasibility studies and conduct additional studies when needed; (iv) Conduct a market analysis and value-chain analysis for other commodities/chains (secondary crops or enterprises) if required; (v) Conduct multi-stakeholder validation-planning workshops for priority chain/s; and (vi) Develop the updated ARC-VIPs. Annex 4 provides further details, while Working Paper 4 includes draft terms of reference (TOR) for the consultants and value chain facilitators.

Component B: Integrated Smallholders Agricultural and Rural Enterprise Development (I-SHARED)

61. The expected outcome of this component is improved production, value addition and marketing of the selected agricultural commodities. The outcome indicators are that: (i) Gross value of agricultural production of 35,000 households increased by 15 % at MTR and 30% at EOP; (ii) 8,000 households have entered into contractual marketing arrangements with buyers at MTR and 16,000 households at EOP; (iii) Traffic count on project financed roads increased by 20% at MTR and by 40% at EOP; (iv) Average farm-gate prices in real terms for the commodities selected by the target group members increased from baseline survey by 5% at MTR and by 10% at EOP; (v) Participating business enterprises have generated additional employment for 3,000 households by EOP and 1,000 by the MTR; (vi) 40,000 (90% of the total target group) households have improved access to rural infrastructure and production/processing facilities by EOP, 20% by MTR; and (vii) 90% of project financed infrastructure and equipment is operating and being well maintained at EOP.

62. The outputs are that services are provided to improve the production, value addition and marketing of the selected agricultural commodities. The relevant indicators include: (i) Target group smallholders receiving project services, increases from 5,000 in PY2 to 35,000 by EOP; (ii) Number of

[10] Using IFAD’s global knowledge as well as updating domestic market information.

business organisations/associations formed and/or assisted; (iii) number of contract farming agreements; (iv) Number of marketing agreements; (iii) Number of private service providers contracted; (v) About 136 km of road upgraded[11]and 150 ln.m. bridges constructed; (vi) About 150 hectares of irrigation rehabilitated/restored; (vi) 3 units of water supply schemes constructed; (viii) > 30% of the members of the management committees (POs etc.) are women PY1-6; and (ix) 15% of the members of the management committees (POs etc.) are IPs PY1-6.

63. The component has two linked sub-components: (i) Farm and Value Chain Enterprise Development; and (ii) Investment in VC Related Rural Infrastructure. Investments in Farm and Value Chain Enterprise Development will be financed by the project on a cost sharing basis with the private sector. Project funds will be provided to match the contribution from private sector participants to finance eligible proposals on a first come, first served basis. There will be no specific fund allocation for each of the participating ARC clusters for either of the two I-SHARED sub-components. Annex 4 has further details. In addition, the project will assist project beneficiaries to access funds from the banking and micro-finance sectors.

i. Sub-component: Farm and Value Chain Enterprise Development

64. Following the selection of the value-chains and locations as described above, the project will facilitate and finance, on a cost sharing basis with the private sector, the development of the selected value-chains[12]. The project will support activities to facilitate the creation of appropriate business models and the institutional structures required to enable the smallholders and their organisation to engage in value addition and enterprise development. Private sector management of these value-chains is essential. “Commodity champions” can help in developing these commodities with the support from government agencies e.g. DA, DTI, DOST. The aim is to enable the target beneficiaries to optimise production of their chosen commodities, improve their market access and competiveness and generate greater profits. The use of dilapidated and antiquated equipment is one reason for the low value addition through processing, quality improvement and product differentiation. DAR will also cause the subdivision of collective CLOAs when and where necessary, as determined by the farmer beneficiaries to be important to make production and agribusiness work.

65. **Farm Production**. As part of the development of the selected value chains, opportunities exist to improve the quantity and quality of production at the farm level, and the phasing of production to meet market demands. The project will finance the initial costs of inputs (seeds, seedlings[13], fertilizers etc.), tools and equipment, as grants on a cost sharing basis, capacity building for the farmers and the provision of technical and farm management advice on a continuing basis and other services, including product testing, soil analysis etc. Farmer training measures could involve farmer field schools, use of village-based farmer technicians, farm study visits, demonstrations and field days, provision of brochures and use of radio programmes. Subject matter will include production technologies and management, adaptation to the threats from climate change (e.g. use of crop varieties that are resistant to floods or drought, higher average temperatures, changes in rainfall patterns etc.), environmental awareness raising and good agricultural practices.

66. This approach could involve the private and/or public sector agencies. Private sector involvement could come from the extension personnel employed by the buyers or consolidators. Public sector involvement could include the DAR Development Facilitators (DFs), the technical staff of the Local Government Units (e.g. agriculture and environment) and the Agricultural Training Institute. The project will prepare a directory of extension workers during the project start-up period to facilitate the provision of these services.

67. **Value Addition and Diversification**. Most of the commodities produced in the ARC clusters are traditional crops with limited value addition. Thus, the returns at the farm level are low. The project aims to add value to the farmers’ share in the value-chains through product differentiation, value addition and diversification. Project financed interventions will be through the provision of matching grants when there is a clear opportunity to improve profitability for target group members based on the

[11] Assumption: Of the total allocation of USD 10.66 million for Investments in VC Related Rural Infrastructure, 60% will be invested in farm to market roads; 20% in rehabilitation of irrigation schemes; 10% in storage; 5% in drying pavement and 5% in water supply.

[12] Working Paper 2 explains why it is likely that the project rather than a private sector enterprise(s) will act as the value chain facilitator(s).

[13] Purchased from existing nurseries or from farmer owned nurseries established with project finance (matching grant).

value-chain analysis that includes an assessment of the profitability of various market options or a mix of options.

68. Opportunities exist to build on existing enterprises such as coco-sugar, coffee hulling, and rubber processing and to develop other enterprises to augment and diversify incomes and minimize risks especially where significant numbers of women and IPs are involved. For example, rubber has been selected as the anchor commodity in Salipyasin cluster in Sibugay Province.

69. Vertical, horizontal and other upgrading strategies to enhance value addition include the provision of project assistance for product development, branding, packaging, logistics, certification/accreditation, technology upgrading including equipment upgrading and organisational development through training (including post-harvest handling and storage, food safety and product quality). All these activities will focus on meeting market requirements. The project will also finance equipment associated with the provision of post-harvest facilities such as solar driers and other types of processing equipment, which meet the eligibility criteria as matching grants.

70. **Market and Investment Facilitation**. In addition to value addition and diversification, there are opportunities whereby smallholders can link directly with agribusiness firms without engaging in value addition, such as the vegetable contract farming operations of Norminveggies or the smallholders involved with Cavendish banana and palm oil industries. Where the value chain analysis identifies opportunities, the project will develop linkages within the value chain particularly between producers and buyers and input providers that will enhance the profitability of the farm enterprises. Assistance in consolidating supplies to meet volume and frequency requirements of buyers and investors is a part of this process.

71. Assistance provided under this sub-component will include support for improving and/or extending the existing market information systems[14], conduct of trade fair, business and investors' forum and assistance in negotiations with buyers and investors for leasehold, contract growing, joint venture or marketing arrangements.

72. Various agencies involved in enterprise development such as DA (e.g. Agribusiness Lands Investments Centre), DTI, DENR, and DOST have initiated activities in market and investment facilitation. The project will make use of their expertise, as part of the Convergence Initiative, to avoid overlaps, augment limited resources and provide a more integrated package of services in the priority chains to be developed.

73. **Provision of Finance**. Agricultural production, rural enterprise expansion and agri-business development all require capital investment, while the ARBs, other smallholders and POs all lack funds for investment in either fixed or working capital. The project will adopt a combination of approaches to address this need depending on the location, the commodity involved, availability and accessibility of funds and agreements between the lenders/buyers/sellers. First, the private sector enterprises involved in the value-chain may provide the funds required to finance the farmers' inputs and working capital. Second, the project will provide matching grant funds to farmers, POs and private sector organisations that meet strict eligibility criteria for investment required in production, post-harvest facilities, enterprise establishment and/or marketing. Third, the project can assist eligible farmers and POs to access grant funds from other sources, e.g. government agencies and other projects. Fourth, the project will help develop the capacity of viable farmers' organisations, so they can access finance from the formal banking sector, government's finance institutions, e.g. the Land Bank of the Philippines, the Development Bank of the Philippines, and micro-finance institutions (MFIs). Finally, the project will work with the financial institutions to develop appropriate financing packages and products for the value-chain initiatives of the ARC clusters, including those undertaken by the smallholders. These tasks will require the assistance of a rural financial services consultant.

(i) Sub-component: Investment in Value Chain Related Rural Infrastructure

74. High post-harvest losses are due to poor post-harvest infrastructure facilities, while the poor condition of many rural roads increases transport costs and reduce the prices received by the farmers. A further factor that reduces the returns to the farmers is the lack of functioning irrigation schemes. Together, these factors combined and low yields result in low farm incomes. In view of this,

[14] The texting of the world-market rubber prices weekly by DTI seems to work effectively and assists the cooperatives when requesting bids from the traders. Market information systems must be simple and accessible to the farmers.

to support strategic and critical value chains, the project will invest in rural infrastructure sub-projects that meet the eligibility and prioritisation criteria. All project investments in rural infrastructure will be to support value chain development. The identification and selection of the rural infrastructure investment will be based on participatory planning process in consultation with the target ARCs and target group members.

75. The eligible infrastructure are farm to market roads (including where necessary bridges and drainage crossings), the rehabilitation/restoration of Communal Irrigation Systems (CIS), including investments in water harvesting and management[15], provision of post-harvest facilities – storage, auction centres etc., and the provision of water supplies required by the processing of local produce for value chain development. Eligibility criteria include location within the target ARC cluster, the use of design criteria that conform to national standards, compliance with agreed unit cost ceilings, availability of counterpart funds from the local governments and beneficiaries as specified in the project financing plan and project financing agreement and appropriate arrangements for operation and maintenance of the completed infrastructure. Irrigators' Associations and farmer groups/associations respectively will operate and maintain the CIS and post-harvest facilities, e.g. storage, while LGUs will maintain the farm to market roads. Working Paper 3 has further details.

76. **Component Implementation**. Project staff, including the DAR Development Facilitators, the project's value chain specialists and other staff, and staff from the other convergence agencies and partner organisations will require training in value chain facilitation prior to the start of implementation. The training will include the principles and practices of facilitating and coordinating effective implementation of value chain interventions and how to effectively facilitate links between the ARBs and other organisations involved in the chains. Training will be preceded by a training needs analysis based on their roles in the project and their background on value chain development facilitation. Working Paper 4 has further details including the scope of work for the consultants who will undertake the needs assessment and training.

77. Based on the ARC-VIPs to be prepared during PY1, interested and eligible implementing agencies (POs, private sector companies, NGOs and academic institutions) will be invited to prepare proposals for investment and/or service provision in the 11 ARC clusters. The eligibility criteria for financing non-infrastructure value-chain development, e.g. farm and enterprise development and value chain equipment proposals include: (i) Consistency with the value chain investment plan priorities; (ii) Provision of counterpart investment from eligible partner organisation; and (iii) Promotion of equal opportunities for men and women. The project value chain specialists from the Provincial Project Management Offices (PPMOs) will facilitate this process and work with interested parties to prepare the necessary proposals/feasibility studies for submission to the Regional Project Management Offices (RPMOs). Formats for these proposals will be included in the PIM.

78. Pending a new government policy on the cost sharing arrangements between the national and local governments after the temporary suspension of the policy on 19th September 2011 through the Office of the President of the Republic of the Philippines under a Memorandum Order No. 24, the agreed financing plan for the rural infrastructure (civil works) investment for the project is based on the financing ratio of 80% for the IFAD loan; 5% for the national government counterpart funds; 12% for the LGUs; and 3% for the beneficiary contributions. This arrangement will reduce the risk to the minimum that the poorer LGUs would not be able to benefit from the rural infrastructure investment financed by the project. Investments in additional road construction will only take place after firm funding has been secured from participating LGUs. In addition, the capacity of the LGUs to fund and undertake maintenance of the roads will be closely monitored.

79. The Integrated Natural Resources and Environmental Management Programme (INREMP) to be implementation by DENR will cover the provinces of Bukidnon and Misamis Oriental in Region 10, which would provide investment in rural infrastructure similar to this project. It is important that the Central Project Management Office (CPMO) and the RPMO in Region 10 and the PPMOs in the two provinces will closely coordinate with DENR/INREMP to avoid duplication in this regard and also seek complementarity with the ADB financed Capacity Development Technical Assistance in the two provinces. In addition, LGUs will be responsible for proposing the rural infrastructure investments that are critical for the development of the selected value-chains. Implementation of the infrastructure sub-

[15] The maximum area for a CIS is 1,000 hectares; for irrigation development, the project could support investments in water harvesting and management.

projects will use the existing procedures followed by the LGUs. Annex 5 includes the eligibility criteria for POs, private sector companies, NGOs, and academic institutions[16] and Annex 4 the details of the proposed financing arrangements for the non-infrastructure and infrastructure investments. Specialists at the RPMOs will undertake an initial review of the non-infrastructure and infrastructure proposals which will be submitted to the Regional Multi-Stakeholder Committee (RMSC) for approval. Annex 5 includes the composition of the RMSCs and their two sub-committees, one for infrastructure and one for non-infrastructure investments. The project will enter into a memorandum of Agreement (MOA) with the implementing organisations. Working Paper 2 includes an example of a MOA between DAR and Catholic Relief Services for a value chain investment proposal.

Component C: Project Management, Monitoring and Evaluation and Knowledge Management

80. The expected outcome of this component is that the project is completed on time (i.e. six years and with all accounts closed within 7.5 years) and within the agreed budget (USD 45.2 million) and to the satisfaction of the beneficiaries (>75% satisfaction rate). The relevant outcome indicators are: (i) Project implementation is completed within six years and all accounts are closed within 6.5 years; (ii) At least 90% disbursement of IFAD Loan and Grant after 6.5 years of project implementation; (iii) 95% of the financial and physical targets achieved, without cost overruns; (iv) Annual expenditures are >90% of the AWPB estimates, PY1-6; and (v) >75% of target households from PY3-6 satisfied with the services provided.

81. The output is that the project is managed in a timely, cost effective, transparent manner and a gender and culturally sensitive manner. The relevant indicators include: (i) Complete, accurate financial records prepared and audited annually beginning PY1; (ii) Adherence to planning and reporting procedures and formats PY1-7; (iii) M&E activities are timely, efficient and gender and culturally responsive PY1-6; (iv) Annual dissemination of lessons learned/knowledge from project implementation PY4-6; (v) 46 contract and 239 DAR regular staff are in post with qualifications and experience appropriate for their terms of reference PY1-6; and (vi) At least 30% of the project staff are female PY1-6.

82. This component will finance the costs of project management and coordination, compilation, reporting and monitoring and evaluation activities at national, regional and provincial levels. This component will also finance the costs of the contracted project staff based in the Central Project Management Office (CPMO) in Mindanao, the three Regional Project Management Offices (RPMOs) and in the 11 Provincial Project Management Offices (PPMOs), honorariums for the DAR regular staff assigned to the project, the costs of equipment, vehicles, short-term consultants, training and operating costs, preparation of project manuals and contracts for studies etc. Further, the project will finance policy/case studies and stakeholders' consultations related to the planning and implementation of the value-chain approach to agro-enterprise development, mechanisms for convergence, and any other relevant studies. The studies envisaged could include those related to: (i) ways of consolidating the production of smallholders to achieve economies of scale in production and marketing, appropriate business models, contractual and legal arrangements; and (ii) innovative ways of engaging the private sector in the provision of rural infrastructure to support value-chain development. The project will support innovative approaches, replication of good practices and documentation of lessons learned from the project based on effective monitoring and evaluation (M&E), including baseline and impact studies, and mid-term and project completion reviews.

83. With pilot investment activities in PY1, the hiring and/or secondment of the project staff, including the value chain specialists and the procurement process for the recruitment of the team of consultants who will conduct the value chain analysis and planning and capacity building should start before project effectiveness to avoid implementation delays (see Annex 14).

E. Lessons learned and adherence to IFAD policies

84. The lessons learned that are most relevant to the design of the project come from the following sources: (i) two IFAD financed projects that DAR implemented in the proposed project area namely WINCIP and NMCIREMP; (ii) the two phases of CHARMP, in the Cordillera Autonomous Region implemented by DA, the second of which is on-going; and (iii) an IFAD thematic study of the experience of 22 pro-poor value chain development projects of which IFAD funded ten.

[16] Section III. B includes the proposals for partnerships with the private sector.

85. These IFAD projects in the Philippines have focused on the poor and vulnerable sectors of the society and have shown that with appropriate strategies, improvement of the lives of these people is possible even in a short period of time. Project interventions should give special emphasis to developing technical and managerial know-how, providing market access and access to production capital for poor households. Therefore, project support should not be limited only to institutional support, technology and inputs for demonstrations and trials. The projects show that active participation by the beneficiaries and their continuous interactions with the implementing agencies (national line agencies, NGOs and LGUs) were key to project success. In communities where strong sense of ownership is built, technologies are replicated and expanded and infrastructure is properly maintained. As a result, the project will involve the target beneficiaries from the planning phase and throughout the whole project cycle. Regular community planning, review and updating will enable the communities to continuously update and address their development priorities.

86. The Ancestral Domain Sustainable Development and Protection Plan (ADSDPP) preparation process has proved to be useful in the planning and implementation of IPs community projects. The project can make use of this process in those areas with IPs that have yet to complete the ADSDPP preparation process. It is a good way of involving the community members with the local government agencies and a vehicle to strengthen capacities of IPs in the process.

87. A key lesson is that rural development interventions will be effective if the agencies involved adopt a convergence strategy for implementation. Convergence can elicit greater community participation and ownership. As the project sites cut across areas and sectors under the responsibility of various agencies, e.g. DENR (upland and forest areas), DAR (ARCs and ARBs), DA (agricultural technology development), NCIP (IPs), LGUs (rural infrastructure), convergence will be needed for effective project intervention.

88. Based on the experience of CHARMP, the role of NGOs should focus on community mobilisation, training and monitoring and evaluation.

89. LGU involvement in past project implementation has contributed to greater efficiency and effectiveness of the project interventions. Their involvement will continue in the proposed project as co-financiers for the rural infrastructure investments. This practice provides a promise for sustainability of the project benefits after the end of the project since the LGUs will then be responsible for the operation and maintenance of the sub-projects.

90. Functional coordinating mechanisms facilitate project implementation and will be a feature of the proposed project. The meetings of the existing *Barangay* Development Teams, and the project's proposed coordination arrangements at central, regional and ARC cluster levels are mechanisms for sharing knowledge, providing feedback to the implementers and for resolving problems. In addition, it also facilitates the participation of stakeholders at various levels.

91. Supporting farming households that become entrepreneurial requires funding. The self-help approach has limitations when it comes to providing the larger amounts of capital needed for entrepreneurial activities. As a result, the project design focuses on providing matching grants for investments and helping this group to become good potential clients of MFIs and the formal banking sector. The project design also includes some assistance to MFIs and the rural banks to develop financial products that are suitable for these farming households.

92. Project design includes mechanisms that would enable the benefits of the project to be sustained and takes into account and builds on indigenous knowledge, systems and practices. These elements come respectively from the experience of WINCIP and NMCIREMP and CHARMP.

93. The IFAD thematic study[17] found that there are four essential elements that need to underlie the design of pro-poor value-chain projects and which the project design incorporates namely: (i) Good governance; (ii) Realising higher farm-gate prices; (iii) establishing strong, inclusive farmers' organisations; and (iv) An effective outreach to women and the poorest. The approach and processes included in the design of this project incorporates the relevant best practices identified by the IFAD thematic study (Annex 3). In this way the project can contribute to reducing the incidence of poverty among the ARBs and other members of the rural communities living in the target ARC clusters (e.g. non ARB smallholders, IPs, women and rural youth).

[17] Pro-Poor Rural Value-Chain Development, Thematic Study; Vineet Raswant and Ravi Khanna with the assistance of Tamara Nicodeme, Policy and Technical Advisory Division, Programme Management Department, IFAD, July 2010.

94. Project design complies with key IFAD policies in relation to targeting, gender, IPs, private sector participation and rural finance as described in Annex 12.

III. Project implementation

A. Approach

95. This project will use a convergence approach in implementing its activities under the leadership of DAR. The NCI combines the efforts of three national government agencies involved in the agriculture, agrarian reform and natural resource sector, namely DA, DAR and the DENR with the aim of providing more comprehensive and integrated support to smallholders and others in the rural areas. The project implementation will extend the concept of convergence to involve other agencies with a potential role to play in project implementation, including DTI, DOST and NCIP as well as the LGUs.

96. The project implementation involves essentially two phases. In the first year, the project will use the 11 feasibility studies as well as existing World Bank value chain analysis (banana, maize and rice) as the basis for validating beneficiaries' interest. Activities in the crops validated by the beneficiaries will start in those communities expressing interest in them. In tandem with the canvasing of participants and the feasibility studies, the project will identify an appropriate package of activities to intensify production, improve productivity, and to determine the need for access to markets, roads, irrigation and other marketing infrastructure to support these crops. Once experience has been gained with activities pertaining to the selected crops, the project can consider adding other crops/farming activities of interest to the beneficiaries. This process will involve a simple market demand analysis and if found that there is ample demand, followed (if necessary), by a simplified value chain analysis to consider what support should be provided to points along the selected chains for which the project will provide investment funds. PY2-6 will be the main investment phase of the project in developing the selected value-chains with project support, winding down during the last year of the project.

97. The key elements of the overall project approach are the following: (i) Implementation through the DAR structure at national, regional, provincial and municipal levels, with the participation of the other convergence agencies using existing government staff to the maximum extent possible; (ii) Use of the ARC clustering approach developed by DAR for the provision of support to the ARCs for value chain development[18]; and (iii) An emphasis on knowledge management and learning to ensure that the experience and lessons learned are available to improve project performance and for wider dissemination.

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

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

B. Organizational framework

Overall Framework

100. DAR will be the lead agency for the project implementation under the NCI which will also involve DA, DENR as well as other agencies including DTI and DOST. DAR, through the Support

[18] Section II. A includes the criteria for the selection of the 11 ARC clusters and their locations.

Services Office Foreign Assisted Projects (SSO-FAP), has the necessary institutional capacity and structure to undertake this role, as well as the experience gained from implementing over 60 externally funded projects, including two recently completed IFAD projects that were implemented satisfactorily in Mindanao. DAR has staff at all levels of government, down to the municipal level with the Municipal Agrarian Reform Officers (MARO), and a Development Facilitator (DF) assigned to each ARC within the 11 ARCs. These staff are available and has the capacity to work with the beneficiaries given necessary orientation in terms of the project's approach and capacity building support.

101. DA and DENR should have the capacity to provide technical backstopping to support field level implementation. The same applies to DTI and DOST etc. The responsibility for agricultural extension services has been devolved to the municipalities. The staffing and capacity of the Municipal Agriculture Office (MAOs) varies with the higher category LGUs having the greatest capacity. The MAOs could have a role in project implementation as agricultural technicians in support of the DAR DFs, who have expertise in community development. Similarly, the municipalities have a Municipal Environmental Officer and infrastructure engineers. All these staff will work as and when needed as members of the Cluster Project Operations Teams (CPOTs). Annex 5 includes the management structure, the roles, responsibilities of the project management units, an Agency Capability and Training Needs Matrix, while Working Paper 4 includes the scope of work of key staff.

National Level

102. The Project Steering Committee (PSC), chaired by the Secretary of DAR, will be the project's policy making body. Other members will be senior officials of oversight agencies (DOF, DBM and NEDA), the other agencies involved in the expanded national convergence initiative: DA, DENR, DTI, DOST and NCIP as well as other agencies, the Mindanao Development Authority, the Department of Interior and Local Government (DILG) and a representative from the private sector. The members of the PSC will be responsible for providing support and coordination to the project implementation under their respective mandates. The PSC will also approve the project's Annual Work Plans and Budgets (AWPBs), Annual Procurement Plans (APP) and the project implementation guidelines (PIM). The CPMO will submit the draft PIM to IFAD for review.

103. The DAR, as the project's lead agency, will assume full supervision responsibility through a Central Project Management Office (CPMO) based in one of the three project regions in Mindanao and part of the SSO-FAP in the DAR Central Office. The SSO-FAP already has a liaison officer responsible for liaising with IFAD for the IFAD supported projects, the oversight agencies and national government agencies involved in the national convergence initiatives. The CPMO will coordinate with other implementing agencies and partners. It will prepare implementation guidelines and consolidate regional AWPBs, procurement plans, physical and financial reports, withdrawal applications and audits. The CPMO will serve as the PSC secretariat and the National Project Director will act as the Committee's secretary.

104. The CPMO will provide overall direction and directly supervise project implementation in Regions IX, X and Caraga. A competent and experienced Project Director will head the CPMO, and a finance officer, both DAR staff members, will have full signing authorities and other responsibilities delegated by the DAR Central Office. The Project Director will be accountable to the PSC Chair or his/her designate and will be assisted with day to day operations by a Project Manager. The CPMO will have nine staff, including the following contract staff: Project Manager, Value Chain Specialist, M&E/KM Officer, MIS and Finance and Administration Assistant. In addition, all implementing agencies will have a "Project Converge" Focal Point at national level through whom the project will interact with that agency at national level.

Regional Level

105. There will be a Regional Multi-Stakeholders' Committee (RMSC) in all three regions covered by the project. The RMSC will be chaired by the DAR's Regional Director with representation from DA and DA agencies, Philippines Coconut Authority (PCA), Fibre Industry Development Authority (FIDA), DENR, NEDA, DTI, DOST, NCIP, Department of Public Works and Highways (DPWH), DILG, National Irrigation Authority (NIA) and from the private sector and the beneficiaries. LGUs will serve as resource persons when the RMSC is reviewing their proposals prior to approval. The RMSC will advise the regional project implementers on major policy considerations, technical and operational issues, and will ensure participation of the region-based agencies in project implementation. Two subcommittees, one for infrastructure and the second for value chain development, will review and approve the infrastructure and value chain proposals and the investments. To ensure continuity of

committee membership, members of the RMSC should be senior staff, with permanent alternates nominated and designated as the agency's representatives.

106. The DAR Regional Director will head the Regional Project Management Office (RPMO) established in Regions IX, X and Caraga. Together with the Regional Director, one finance staff from the DAR regional office will have signing authorities. The RPMO will supervise and provide technical support to project implementation in the ARC clusters in the region. It will prepare the regional AWPBs, manage project funds, undertake procurement for the region, handle monitoring and evaluation/knowledge management (M&E/KM) activities in the region and submit the required reports and audits to the CPMO. Each RPMO will have 12 staff including the following specialists: value-chain, rural infrastructure, institutions/gender, M&E/KM and finance and administration.

Provincial Level

107. There will be a Provincial Project Management Office (PPMO) in every target province with nine staff and including the following specialists: value chains, M&E/KM and finance and administration. Under the leadership of the DAR Provincial Agrarian Reform Officer II, the PPMO will coordinate the implementation of the project activities in the ARC cluster. The PPMO will prepare the ARC cluster AWPB and procurement plans, and be responsible for project monitoring and reporting of progress to the RPMO.

ARC Cluster Level

108. In the ARCs, a Cluster Project Operations Team (CPOT) will be established, responsible for the implementation of the project activities in the ARC clusters. A MARO will head the CPOT with membership from the DAR's Development Facilitators (DFs), LGUs (e.g. Municipal Agriculture Officer, Municipal Engineer, Municipal Planning and Development Officer, Municipal Environment and Natural Resources Officer), NCIP Service Centre's Officer, DENR's Community Environment and Natural Resources Officer (CENRO), the private sector, and other implementing agencies as necessary. Composition of the CPOT will depend on the types of project activities and investments in the ARC clusters and there may be more than one CPOT working in an ARC cluster.

109. The Municipal Engineers and Municipal Planning and Development Officers will prepare the infrastructure proposals and undertake the feasibility studies as required, with the Rural Infrastructure Engineers in the RPMOs providing the technical assistance needed. If the Regional Engineers are unable to provide the assistance need by the LGUs, the RPMOs can hire the engineering services needed on a short-term basis. The Development Facilitators (DFs) from DAR are already working directly with people's organisations (POs) in the ARCs to strengthen these organisations. The Gender/Institutional Development Specialists from the RPMOs will train the DFs and provide the necessary technical guidance required by the DFs.

Memoranda of Agreement with Other Agencies and LGUs

110. DAR will execute a memorandum of agreement (MOA) with each of the partner implementing agencies at the national, regional and provincial levels to specify what services and support to be provided by each agency and how the services and support will be financed by the project. The LGUs where investment in rural infrastructure will occur will enter into a MOA with DAR covering their participation in project implementation and the provision of counterpart funds as required by the project's financing agreement[19]. The MOA between DAR and the LGUs will include a general provision to cover project investments, including provision of services and other support, but not limited only to rural infrastructure. The LGUs may also enter into agreements with concerned national agencies such as the DPWH and the NIA, among others, for the provision of technical assistance for design and implementation of rural infrastructure sub-projects.

Partnerships with the Private Sector

111. For this project private-public partnerships are essential for value-chain development; thus the private sector (companies and firms, business organisations, financing institutions, non-government organisations, state universities and colleges and individual entrepreneurs) will be encouraged to participate under MOA with DAR. Private sector organisations may act as the consolidator/integrator, business development service providers, value-chain managers or facilitators, or financiers. The

[19] The cost sharing arrangements between national government and LGUs has been suspended and a new proposal is due by 30th November 2011. In the event that there is a new cost sharing agreement the Financing Agreement can be revised during the Mid-Term Review to reflect the changes.

project will explore different types of partnership arrangements between the project beneficiaries and the private sector ensuring that such arrangement are fair to farmers and ARC communities. Selection of private sector organisations involved in the implementation of the component will be on the basis of complying with the eligibility criteria, submission of an expression of interest and a proposal to provide investment funds which the project will match in line with the proposed financing arrangements. Annex 5 includes the criteria for selecting business enterprises, POs, NGOs and academic institutions that wish to participate in implementing the project.

Links with other initiatives

112. The project will complement other external development agencies working in the same sector, such as the AsDB, the Japan International Cooperation Agency and the World Bank, to increase the impact of the investment from IFAD on poverty reduction and policy dialogue with the government and other stakeholders. IFAD will also work with government programmes, such as the NCI, for an improved policy environment and governance. The project will explore different types of partnership arrangements between the project beneficiaries and the private sector ensuring that such arrangements are fair to farmers and ARC communities. Private sector organisations and business development partners can help take a leading role as innovators in improving the returns from the existing and emerging value-chains in an enterprise-oriented development approach. Linkages will be built with, e.g. with DTI under the Rural Micro Enterprise Promotion Programme (RuMEPP), ADB for the Second Cordillera Highland Agricultural Resource Management Project (CHARMP-2) and the new Integrated Natural Resource Management Project (INREMP).

Policy engagement

113. The project will finance policy/case studies for policy dialogues and consultations with the relevant national and local institutions and other stakeholders related to the planning and implementation of the value-chain approach to agro-enterprise development, mechanisms for convergence and any other relevant studies. The studies envisaged could include those related to: (i) ways of consolidating the production of smallholders to achieve economies of scale in production and marketing, appropriate business models, contractual and legal arrangements; and (ii) innovative ways of engaging the private sector in the provision of rural infrastructure to support value-chain development.

C. Planning, M&E, learning and knowledge management

Planning

114. At start-up, the project will review the logical framework drafted during the project design process and prepare a multi-year plan, the Global Work Plan and Budget (GWPB) for achieving project objectives and targets. Those participating in this process will be the project staff and stakeholders (representatives of beneficiaries, private sector etc.) from the national and regional levels. The PSC will approve the GWPB.

115. Preparation of the Annual Work Plans and Budgets (AWPBs) will be participatory and start at the ARC cluster level, involving representatives from the ARCs, CPOTs and PPMOs. The starting point for the AWPBs will be the GPWB, ARC-VIPs, results of the annual project assessments, the reports of supervision missions and the project's regular M&E reports. However, as the formulation of the ARC-VIPs will occur in PY1, the first AWPB will be based on the GWPB.

116. The RPMOs will consolidate the provincial AWPBs into a Regional AWPB. Subsequently, the CPMO will consolidate the Regional AWPBs into a National AWPB. The consolidated AWPB will be submitted to IFAD for endorsement and no objection and subsequently to the PSC for approval.

117. Working Paper 5 includes appropriate formats for planning and budgeting, which are aligned with the government's planning and budgeting formats, while the time table for preparing the AWPBs is aligned with the government's annual budgeting process.

Monitoring and evaluation

118. **M&E System**. The project will have a results-based M&E system, which will include a management information system (MIS), and will report the status of project implementation and progress in terms of: (i) outputs; (ii) outcomes; and (iii) impact. The computer-based MIS which will include the project's M&E and financial databases will be installed at the PPMOs, RPMOs and CPMO. The software and MIS will be linked to DAR's MIS. The M&E system will be based on the logical

framework and aligned with the Department of Budget and Management's (DBM) Organisational Performance Indicator Framework (OPIF), NEDA's Results-based M&E (RbME) and IFAD's RIMS. The project will adhere to the prescribed procedures and forms instituted by the Regional Project Monitoring and Evaluation System of the Regional Development Council.

119. The overall M&E system will consist of regular reports and process monitoring by the CPMO based on data provided by the regional and provincial project management offices and implementing agencies, and based on the project's physical progress data and financial accounts maintained by the CPMO and regional/provincial offices. Indicators to be monitored will include those in the project's logical framework, IFAD RIMS, and the other indicators as required by the DBM's OPIF and NEDA's RbME. The M&E system will be gender and IPs responsive not only in terms of participatory data gathering, but will include also a gender and culture responsive data analysis and reporting of results. A crucial factor for the analysis will be that the data is disaggregated to show the participation of men and women and to show the roles of men and women in particular activities, e.g. how are women and men participating and managing projects, what are the benefits to men and women, how are the needs of men and women being addressed, the extent of gender equality and indicators that measure women's empowerment.

120. At project start-up the SSO-FAP will recruit a consultancy to design the results-based monitoring system and MIS, including a GIS-based system, for mapping the commodities and other relevant data in target ARC clusters. Also during PY1, the SSO-FAP will hire consultants to undertake a baseline survey to cover all indicators of the logical framework, including the RIMS indicators. Subsequently, the project will undertake mid-term impact survey[20] and completion impact survey to cover all indicators of the logical framework, including the RIMS indicators. There is no data at this stage for the absolute numbers for household assets index and child malnutrition. Therefore, these indicators should be converted into absolute numbers once the baseline results are available. The same will apply to farm gate prices for specific crops.

121. IFAD and the government will conduct a mid-term review to assess the performance and progress of the project, the achievements, constraints and initial impact of the project in relation to the expected project objective and continued validity of the project design; make necessary design changes; and recommend amendments to the Project Financing Agreement. A project completion review (PCR) will be conducted before project completion.

122. **Monitoring and Evaluation and Knowledge Management Units** (M&E/KM) will be established in each of the CPMO, RPMOs and PPMOs, with responsibility for the M&E and KM in their respective areas. The CPMO M&E/KM unit will have overall responsibility for the project's M&E and KM. The M&E/KM units will collaborate with the M&E units or M&E focal persons of the implementing agencies and partners.

Learning and knowledge management

123. The project's M&E/KM Units will also take charge of knowledge management. Project knowledge will be mainly generated through the M&E system. These regular M&E activities will be complemented with studies on the special features of the project. These may take the form of case studies, documentation of systems, photo and video documentation, field stories, etc. Results from these studies will be disseminated to project management, the implementing agencies at all levels, community participants, and other project stakeholders. Knowledge sharing will be undertaken by the project during the annual assessments and planning *fora*, through publications, the project website and other appropriate forms of communication. In this respect, the project will prepare a knowledge management cum communication plan as part of the M&E plan. Working Paper 5 has further details.

124. At the country programme level, the project will participate in knowledge sharing platforms managed by the IFAD Philippines Country Office, including Annual Country Programme Review, Knowledge and Learning Market and "virtual" information sharing through the IFAD Country Programme Facebook page and the IFAD-Asia Philippines portal. Annex 6 has some further details.

125. **Information Flows**. The information gathering and reporting flow will follow the project's management structure. At the ARC clusters, the DAR DFs with the assistance of a team of ARC

[20] There is a possibility that annual RIMS outcome surveys will replace the mid-term survey. Conduct of annual outcome surveys would not be a new exercise for DAR which has used this methodology to measure outcomes of their foreign-assisted projects, including the IFAD assisted NMCIREMP.

monitors will have responsibility for data gathering and reporting to the M&E staff in the PPMO. The private sector value chain enterprises participating in the project will report on the progress of their engagement in the ARC clusters using reporting forms prescribed by the project and referred to in their MOA. These enterprises will submit their reports to the MARO, heading the CPOT, who will forward the report to the PPMO. The PPMOs will consolidate the M&E reports and submit them to the M&E staff in the RPMOs who will consolidate the provincial reports and will submit the reports to the M&E staff in the CPMO. The CPMO M&E officer will consolidate the regional reports and prepare a unified project report. Working Paper 5 has further details.

126. **M&E Plan**. After the project design completion mission, the SSO-FAP will start preparing an M&E plan. The plan will show, among others: (i) how M&E system will support decision making and learning/knowledge management; (ii) how the project's M&E will link with the OPIF, RbME, and RIMS; (iii) the performance indicators: outputs, outcomes, impact; (iv) what data/information to gather (as indicated in the logical framework, with data related to the selected value-chains); (v) who will gather and consolidate the data; (vi) what formats to use; (vii) what type of reports to prepare for different users; (viii) the timing and frequency of reporting; and (ix) roles and responsibilities of all key stakeholders involved in M&E and learning/knowledge management. Working Paper 5 has further details and Annex 6 includes further details of the OPIF, RbME and RIMs.

D. Financial management, procurement and governance

127. The Department of Finance will be the Representative of the Borrower, i.e. the Republic of the Philippines and the signatory to the Project Financing Agreement. The financial management of the project will follow the government systems, rules and regulations on receipts and disbursements of proceeds from loans and grants in so far as it is consistent with IFAD's standard disbursement procedures. The Philippine New Government Accounting System uses a standard chart of accounts, adopts the one fund concept with one set of books of accounts and appropriate ledger accounts for a specific project using the project or the responsibility centre code, and produces financial reports which conform to International Accounting Standards. Separate fund accounting will be applied to the project funds. The Bureau of Treasury (BTr) through DAR will maintain two Designated Accounts (one for the loan and one for the grant) to which funds from the IFAD Loan and Grant will be transferred upon receipt of Notice of Cash Allocation (NCA) from the DBM. The NCA is an advice that cash is credited to the accounts of the DAR.

128. The DAR through the CPMO will be responsible for overall management of project funds which includes the oversight of project operations, finance and procurement, providing implementation support to the project implementers; review and consolidation of project annual work plans and budgets (AWPB); physical and financial reports and audits; and consolidation of Statement of Expenditures (SOEs) and withdrawal applications. The RPMOs and the PPMOs will in turn be responsible for project funds that they will receive for the implementation of the project within their respective offices/jurisdictions and in accordance with the AWPB.

129. The CPMO will formulate project guidelines based on the Project Implementation Manual (PIM) for the preparation and implementation of the AWPBs and procurement plans; preparation of financial reports; proper documentation of financial transaction; accounting and safekeeping of records; preparation and submission of withdrawal applications through the SSO-FAP, receipt and disbursement of project funds, etc. Such guidelines will be consistent with the Government's and IFAD policies, systems and procedures.

130. The Regional and Provincial Project Managers will prepare and implement their AWPBs and disburse project funds within the limits of their delegated authorities. They will exercise signing authorities delegated to their respective positions/offices under DAR General Memorandum Order No. 1-2011, i.e. region PHP 5.0 million (USD 115,000) and province PHP 2.0 million (USD 46,000). There will be cases where the authorized limit particularly at the Regional Level is insufficient to cover the cost of proposed contracts; when requested and justified, the DAR Central Office will provide a waiver or delegate authority for the Regional Director to approve such contracts.

131. The project has been included in DAR 2012 budget. The project has also been included in the DAR Budget Strategy for the entire project period submitted to the DBM which will receive approval once the Investment Coordination Committee approval process is complete. Annex 7 includes the details of the Fund Flow and disbursement procedures.

Audit

132. The project audit will follow the IFAD's "Guidelines on Project Audits (Borrowers' Use)". Annual financial reports for the project funds will be prepared following the usual accounting and auditing rules and regulations. Auditors from the Commission on Audit assigned to the disbursing offices will conduct the annual audit of project accounts and transactions as prescribed in auditing rules and specified in the financing agreement with IFAD. The audit report will be made available to IFAD and Government within six months after the end of each fiscal year. Annex 7 includes the draft Audit TOR.

Procurement

133. The project will follow the government's procurement regulations (RA 9184) using the latest Implementing Rules and Regulations to the extent that they are consistent with IFAD's Procurement Guidelines. The RA 9184 and its Implementing Rules and Regulations have been harmonized with the procurement procedures of most foreign funding institutions and are acceptable to IFAD. Generally, the RA and IFAD Procurement Guidelines have the same methods of procurements, although some procurement thresholds differ. When there are divergences between the RA and the IFAD Procurement Guidelines, the IFAD Guidelines will take precedence. Annex 8 includes details of the proposed procurement methods.

134. The CPMO will take the lead in procuring most of the bulk items of the required goods and services. Other items will be procured at the Regional Offices. DAR has undertaken many foreign assisted projects and has an advanced level of capability as far as procurement is concerned. Bids and Awards Committee are established in the Central and Regional offices following the procedures prescribed in RA 9814 and the associated Implementing Rules and Regulations.

135. To avoid delays in implementing the pilot value chain interventions and the value chain analysis and planning activities, there is a particular need to fast track the hiring and/or secondment of the project staff and recruitment of consultants.

Governance

136. IFAD has a zero-tolerance policy in respect of fraudulent, corrupt, collusive or coercive actions. Where an investigation performed by IFAD, the borrower or another competent entity, has determined that fraudulent, corrupt, collusive or coercive actions have occurred in projects financed through its loans and grants, and IFAD will enforce sanctions in accordance with the provisions of applicable IFAD rules and regulations and the Financing Agreement. Project implementation will follow the PIM, which will have provisions for address the potential risks for corruption by implementing agencies.

137. In addition, the design incorporates the following "demand side" measures for good governance. The first set relates to disclosure provisions: (i) Making publicly available all key documents; (ii) Notifying promptly all bidders of the contract awards and the summary of the evaluation of all bids; (iii) Allowing representatives of the end-users to attend the public bid openings; (iv) Making available the details of all contracts awarded; and (v) Making available the date of request for all contract payments and the date of each payment, with explanation of the reason for any delays. The second set of measure is the standardisation of certain items, e.g. (i) Use of standard wording in advertisements; (ii) Agreement on the newspapers in which specific advertisements will be placed; (iii) Use of standard bidding and contract documents and request for proposals (for consultancy service), with no further changes to be made without IFAD's prior approval; and (iv) Publication of prices paid for items in different locations. The third set of measure is a complaints handling mechanism (and the use of sanctions), whereby ARBs and others can channel complaints or inquiries e.g. through the use of mobile phone text messaging. Complaints and inquiries will be systematically recorded and answered. The project will also post complaints on the project's website so that case processing will be more transparent. Designated staff at the CPMO, RPMOs and PPMOs will handle complaints and respond in a timely manner.

138. The arrangements for IFAD's direct supervision, the M&E, financial management, disbursement and procurement systems and audit are all designed to ensure that corruption in any form does not occur. Annex 15 is the Project's Good Governance Framework.

E. Supervision

139. Project supervision during the first 12-18 months will focus on ensuring that there are no delays in project start-up and address any bottlenecks that may occur. Supervision will focus specifically: (i) The various aspects of overall project management to ensure that the GWPB is prepared and approved and that the PY1 AWPB is operational; (ii) The PIM, which will be prepared by the CPMO following the design completion mission and before project start-up is in use; (iii) Assessment of the project institutional arrangements and project management and coordination related issues; (iv) Assessment of the results of the validation of the priority crops of interest to the POs and review of the need for market demand and value chain analysis for additional crops; (v) Assessment of the implementation of the pilot value chains to gain lessons, as a failure to undertake these activities in a timely fashion will delay project implementation and/or lose the benefits learned from the initial stages of the pilots; (vi) Review of terms of reference of the project value-chain staff and consultants and making and agreeing changes, if necessary; (vii) Re-examining the need for subsidies and review options for cost recovery through the use of guarantees for bank loans to participating enterprises and the ability of famers to obtain production credit; (viii) The project accounting and internal controls are in place at central, regional, provincial levels and within the ARC clusters; (vi) The bank accounts have been opened and the initial deposit received from IFAD; (ix) A functioning M&E/KM system has been set up; (x) The initial procurement of goods and services, especially that of the project management staff and value-chain consultants, is completed in a timely fashion; and (xi) The training relating to various aspects of project management, e.g. financial management, procurement, physical and financial reporting, etc. is being implemented. By concentrating on these subjects, the delays that often affect the start-up of IFAD projects can be avoided or addressed before they lead to significant delays.

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

F. Risk identification and mitigation

141. There are three key government policies that are essential for project implementation. The first is the policy that supports value chain development as an element of the government's strategy for improving food security and farm incomes. The second is the NCI. The third is the National Government and LGU Cost Sharing Policy. The first two policies are prominent elements of the PDP and as such unlikely to change in the foreseeable future. In addition there is a high level of political commitment to the NCI. Therefore, the project should not face risks at the policy level for the first two policies.

142. However, there are three risks associated with the NCI at the operational level as envisaged in the project design. The first is that the three NCI agencies will be unable to provide the type of coordinated approach that is needed to make the NCI effective. While the policy may be in place at the national level, ensuring effective coordination in the field will be more difficult. This risk is compounded by the fact that the convergence envisaged under this project includes agencies other than DAR, DA and DENR, e.g. DTI, DOST, NCIP etc. Project design counters this risk with several measures. First, all the agencies with a role to play in the project implementation will be members of the PSC which is the project's policy making body and able to resolve inter-agency coordination issues. In addition, all implementing agencies will have a "Project Converge" Focal Point at national level through whom the project will interact with that agency at national level. Second, the design includes the three RMSCs with representation from all the relevant agencies to ensure effective coordination of implementation in the regions and ARC clusters. Third, within the ARC clusters, there will be CPOTs which will include the staff involved in the day to day project implementation, namely the MARO and the DAR DFs, and the staff of the relevant LGU offices, Planning, Engineering and Agriculture as and when needed.

143. The second risk concerns the willingness of the private sector to be involved in the implementation of Component B, I-SHARED which is essential for the success of the project. This risk

is addressed in the project design in two ways through component A and the participatory analysis and planning process, which will include all potential participants, including the representatives of the private sector agencies involved in the particular value chains under analysis. During the value chain analysis and planning process, publicising the availability of grants for value-chain development to match investments from the private sector, the size of the grants available and the terms and conditions of the grants for different interventions. This process depends on the appointment of suitable key staff and consultants.

144. As for the National Government and LGU Cost Sharing Policy, the major risk is associated with the weak capacity of the poorer LGUs to provide the required counterpart funds for rural infrastructure investment. On 19th September 2011, the Office of the President of the Republic of the Philippines issued a Memorandum Order No. 24 to temporarily suspend the Cost Share Policy. Pending a new government policy on the cost sharing arrangements between the national and local governments, the project design counters this risk by reaching an agreement with the government on a financing plan for the rural infrastructure (civil works) investment based on the financing ratio of 80% for the IFAD loan; 5% for the national government counterpart funds; 12% on average for the LGUs; and 3% for the beneficiary contributions. This arrangement will reduce the risk to the minimum that the poorer LGUs would not be able to benefit from the rural infrastructure investment financed by the project.

IV. Project costs, financing, benefits and sustainability

A. Project costs

145. Estimated project costs, including contingencies are shown in the table below and further elaborated in Annex 9 and Working Paper 6. Overall, the proposed project would cost about USD 52.53 million (PHP 2,285 million) over a six year implementation period. This figure includes taxes and duties estimated at USD 5.96 million or 11% of total costs.

Components	(PHP Million) Local	Foreign	Total	(USD Million) Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
A. Participatory Value-Chain Analysis and Planning	30.2	7.8	38.0	0.70	0.18	0.87	20	2
B. Integrated Smallholders Agricultural and Rural Enterprise Development1								
1. Farm and Value Chain Enterprise Development	1,006.6	348.0	1,354.6	23.14	8.00	31.14	26	63
2. Value Chain Related Rural Infrastructure	350.4	206.9	557.3	8.05	4.76	12.81	37	26
Subtotal	1,357.0	554.9	1,911.9	31.19	12.76	43.95	29	89
C. Project Management, M&E and Knowledge Management								
1. M & E and Knowledge Management	61.6	12.3	74.0	1.42	0.28	1.70	17	3
2. Project Management	90.2	31.4	121.6	2.07	0.72	2.80	26	6
Subtotal	151.9	43.7	195.6	3.49	1.00	4.50	22	9
Total BASELINE COSTS	1,539.1	606.4	2,145.5	35.38	13.94	49.32	28	100
Physical Contingencies	53.9	21.2	75.1	1.24	0.49	1.73	28	4
Price Contingencies	45.7	18.7	64.4	1.05	0.43	1.48	29	3
Total PROJECT COSTS	1,638.7	646.3	2,284.9	37.67	14.86	52.53	28	106

146. Price contingencies have been included at 3% as agreed with NEDA. Physical contingencies have been computed at 3.5% of base cost on all items. In USD terms, physical contingencies amount to USD 1.73 million and price contingencies to USD 1.48 million, resulting in total contingencies of USD 3.21 million (6.5% of Total Base Costs).

B. Project financing

147. Proposed project financing in USD is set out in the table below.

Components	IFAD Loan Amount	%	Government Amount	%	LGUs Amount	%	Beneficiary/Prop Amount	%	Total Amount	%	For. Exch.	Local (Excl. Taxes)	Duties & Taxes
A. Participatory Value-Chain Analysis and Planning	0.58	63.5	0.34	36.5	-	-	-	-	0.92	1.8	0.19	0.65	0.09
B. Integrated Smallholders Agricultural and Rural Enterprise Development1													
1. Farm and Value Chain Enterprise Development	11.78	35.6	1.72	5.2	2.01	6.1	17.56	53.1	33.07	63.0	8.49	20.63	3.95
2. Value Chain Related Rural Infrastructure	10.86	79.0	1.05	7.6	1.47	10.7	0.37	2.7	13.74	26.2	5.10	7.01	1.62
Subtotal	22.63	48.3	2.77	5.9	3.48	7.4	17.93	38.3	46.81	89.1	13.60	27.64	5.58
C. Project Management, M&E and Knowledge Management													
1. M & E and Knowledge Management	0.93	50.9	0.90	49.1	-	-	-	-	1.83	3.5	0.31	1.41	0.11
2. Project Management	0.86	29.0	2.10	71.0	-	-	-	-	2.96	5.6	0.76	2.01	0.18
Subtotal	1.80	37.4	3.00	62.6	-	-	-	-	4.80	9.1	1.07	3.43	0.30
Total PROJECT COSTS	25.01	47.6	6.11	11.6	3.48	6.6	17.93	34.1	52.53	100.0	14.86	31.71	5.96

148. Financing comprises: (i) IFAD loan of USD 25.0 million (47.6%); (ii) National Government counterpart of around USD 6.11 million (11.6%); (iii) LGU financing of USD 3.48 million (6.6%); and

(iv) funds or contributions in kind from proponents and beneficiaries of about USD 17.93 million or (34.1%). The estimated average cost per actual beneficiary (189,000) is around USD 300 per person, or around USD 1,615 per household, including all investment and recurrent costs. The IFAD loan will be on Intermediate Terms and Conditions.

149. The project has been included in DAR 2014 and 2015 budget. The project has also been included in the DAR Budget Strategy for the entire project period submitted to the DBM which will receive approval once the Investment Coordination Committee approval process is complete, which will be an assurance in the Project Financing Agreement.

150. **Retroactive financing** of up USD 500 000 from the IFAD loan will be available to finance the costs of the following key preparatory activities, after 3rd November 2011: (i) Preparation and finalisation of the PIM; (ii) Preparation of bidding documents for procurement in PY1; and (iii) Establishment of the CPMO, RPMOs and PPMOs. The government will provide funds to pre-finance the costs of these activities prior to the Date of Effectiveness. These activities and associated detailed budget should be included in the draft AWPB for 2015.

C. Summary benefits and economic analysis

151. The objective of the project is to raise incomes within the project area through improvement of value chains for those products that can be profitably and sustainably produced in the area by the targeted beneficiaries. There are about 150,000 rural households in the 11 target ARC clusters comprising ARBs, other smallholders, rural youth and IPs. Participation in the project is potentially open to all rural households in the 11 clusters, while the actual numbers participating will depend on both the demand for project services by rural households and the capacity of the project to deliver, given its resources. It is estimated that about 35,000 rural households will benefit directly from the project, including 3,000 jobs to be generated by the project in the value adding sub-sector. Additional benefits will come from the project's capacity building programme, e.g. strengthened capacity to participate in value chain and rural enterprise development and improved capacity of the implementing agencies to target and manage poverty reduction and rural development programmes in a gender sensitive and participatory manner. The project's road investments are also likely to benefit some additional households i.e. households who would not also benefit from the value chain improvements.

152. The main incremental outputs following project investment in the target ARC clusters would come from the priority products selected by the feasibility studies (coconut sugar, rice, rubber, coffee, abaca, muscovado sugar, coconut and bio fertilizer and cassava.). The likely benefits at the farm level would stem from increased production, more value added at the farm level and higher prices as a result of both quality improvement and more efficient marketing.

153. The likely magnitude of the financial and economic impact of the project has been assessed by the 11 feasibility studies. All the studies give attractive financial benefit cost ratios to rural household and show sound economic returns. Based on these feasibility studies, the amount of funding available and the estimated cost of implementing the project, the overall economic rate return is 44.6%, and the Net Present Value @15% PHP 5,218 million. This rate of return is well above the NEDA hurdle of 15%.

154. Based on the feasibility studies, net project financial benefits will be about PHP 747 million per year by 2020 and peak at nearly PHP 3,470 million ten years later when the full income from the rubber planted under the project will be realised. It is not clear what proportion of the households living in the project area are likely to share in the net benefits or what proportion of the net benefits will accrue to these rural households, as some of the net benefits will accrue to non-project participants, including road users not engaged in value chain development and the various agribusiness participants. If 60% of the benefits accrue to the rural households and 35,000 benefit, the annual income impact on these households in real terms would be average of about PHP 12,800 per year by 2020 and peak at about PHP 59,500: a real income increase of about 11% by 2020 and 52% by 2030 over the 2009 levels.

D. Sustainability

155. The following elements are built into the project design to help ensure that the proposed investments and benefits are sustainable. First, the completion prior to project approval of 11 detailed and participatory feasibility studies for investment in the priority commodity of each ARC cluster will help ensure the proposed investments will be sustainable and avoid delays in project implementation. Secondly, the project design has a strong focus on the involvement of the private sector on a long-term basis to enhance the sustainability of the investments and benefits. With such an involvement, there is a much greater chance of the investments made by the project being sustainable, especially, if these project investments are matched by investment from the private sector. Thirdly, the project's support for farmers' organisations (POs, cooperatives and associations) with the required management and financial capacity will enable them to enter into contractual arrangements with the private sector. At the same time, the project would support new types of arrangements that can link smallholders with the private sector to enable the smallholders to move up the supply chain and receive more value addition. This approach is designed to help existing farmers' organisations become sustainable and significant players in their chosen value chains as well as creating new types of links between smallholders and the private sector. Such an approach should benefit all the smallholder members of these various organisations. Fourthly, the beneficiaries and LGUs will be involved in providing counterpart funds for infrastructure facilities and be responsible for their operation and maintenance. Participatory planning involving the beneficiaries, LGU financial contributions to the investment costs and beneficiary responsibility for the O&M of the CIS/CIP are all parts of this approach. LGUs that have not maintained farm to market roads financed under other projects will not be eligible for project assistance. Fifthly, project design takes into account the knowledge, systems and practices of the IPs, which will also help ensure the sustainability of project interventions in areas where IPs are present. Finally, 18 months before the completion date, the CPMO will work closely with all stakeholders at the national, regional, provincial and municipal levels and with ARCs and *barangays* to finalise an exit strategy and sustainability plan for review by IFAD, which should contain: (i) Specific mechanisms to ensure sustainability of the investment after the end of the project; (ii) Summary of benefits from the project investment, major policy and operational issues and lessons learned; and (iii) Recommendations for policy support (e.g. requirement for budgetary support from agencies or LGUs), technical support required and administrative arrangements after the end of the project.

Innovation and Scaling Up

156. The project will be the first foreign assisted project under DAR to support the NCI. The project's investment is quite small when compared to the growth needed to make a serious dent in rural poverty in Mindanao. However, the project could be catalyst for improving household incomes and attracting further investment for scaling up to fully realise the potential benefits from the comparative advantage that Mindanao has in key agricultural commodities.

Appendix 1: Country and rural context background

I. POLICY ENVIRONMENT

Philippine Development Plan 2011-2016

1. National planning and policy making is based on five-year Development Plans and the Philippine Development Plan (PDP) 2011-2016. The focus of the PDP is inclusive growth, which is defined as *"growth that is enough to matter given the country's large population, geographical differences and social complexity. It is substantial growth that creates jobs, draws the majority into the economic and social mainstream and continuously reduces poverty"*. Low growth, weak employment generation and persistently high inequality are the immediate reasons for the failure of inclusive growth in the country to date. The underlying structural causes include: (i) inadequate infrastructure: (ii) major gaps and lapses in governance; and (iii) inadequate levels of human development. Factors that provide a good opportunity to break out of its perennial condition of poverty, inequity and lagging human development, include a healthy external payments situation, years of trade reform leaving an industrial sector fairly undistorted by subsidies and heavy protection, a stable currency and low inflation and positive political developments.

National Convergence Initiatives

2. A Joint Memorandum Circular signed by the three agencies in December 2010 adopted a shared Policy and Implementation Framework for the NCI. This enables the three agencies (DA, DAR and DENR) to collectively respond to the common mandate of increasing income, improving productivity and generating employment in rural communities through the "ridge-to-reef" development approach towards inclusive growth and sustainable rural development.

3. Priority convergence sites and prospective agro-enterprise projects have been identified to improve agriculture and facilitate agri-business investments in the three target regions (and elsewhere) involving the three agencies in cooperation with local government units (LGUs), non-government organizations (NGOs), People's Organizations (POs) and the private sector.

Agriculture and Fisheries Modernization Act and Strategic Agriculture and Fisheries Development Zones

4. The Agriculture and Fisheries Modernization Act (AFMA) of 1997 (Republic Act 8435) aims to modernize the agricultural and fishery sectors by promoting a technology-based industry to enhance profitability by ensuring equitable access to assets, resources and services, and promoting higher-value crops, value-added processing, agribusiness activities, and agro-industrialization. It also seeks to empower people's organizations, cooperatives and NGOs.

5. AFMA provides trade and fiscal incentives to qualified enterprises engaged in agriculture and fisheries (including cooperatives, associations and consolidators) by granting exemption from payment of tariff duties on all types of imported agricultural and fishery inputs, equipment and machinery until December 2015 (RA 9281).

6. Implementation of the AFMA is now being made operational in the Strategic Agriculture and Fisheries Development Zones (SAFDZ). DA has prepared regional and provincial SAFDZ plans and maps delineating production, agro-processing and marketing zones within the network of protected areas for agricultural and agro-industrial development at the regional, provincial and municipal levels. SAFDZ Plans include the agrarian reform areas and define the role and contribution of Agrarian Reform Communities (ARCs) in the overall strategy to jumpstart agriculture development in the various municipalities and provinces.

II. COMPREHENSIVE AGRICULTURAL REFORM PROGRAMME (CARP)

7. The Government has long recognized that asset reform is a key to improving agricultural productivity and reducing rural poverty. As a response, the Comprehensive Agrarian Reform Programme (CARP) was adopted in June 1988 to address asset inequities by redistributing about 5.1 million hectares of agricultural lands to three million beneficiaries. The area of land distributed to date,

is about 4.1 million hectares benefitting some 2.4 million farmers, who can form the base for a more dynamic agriculture sector and provide an incentive for others to invest in agriculture.

Agrarian Reform Communities Development Strategy

8. Provision of CARP support services has been primarily through ARC development, a strategy adopted first in1993, which aims to increase productivity and incomes through a comprehensive, integrated, area-based approach to building rural communities. ARC development aims to provide a package of services to empower people’s organizations, improve basic infrastructure and social facilities, improve the agricultural technology used, and promote agribusiness development and rural enterprises. This area focused approach involved support services delivery in priority areas to improve farm productivity and develop the capability of farmers to become efficient agricultural producers and entrepreneurs as well as land distribution.

Financial Assistance for ARC Development

9. Since 1992, Official Development Assistance (ODA) has been a major source of finance for the support services programme for ARCs and ARBs. Resources mobilized by DAR total PHP 76.6 billion (equivalent to USD 1.78 billion at the current exchange rate) for 60 foreign-assisted projects (FAPs) in loans and in grants, from bilateral and multi-lateral sources (e.g. Asian Development Bank, European Union, International Fund for Agricultural Development, United Nations Development Programme, World Bank and bilateral agencies including the governments of Belgium, Canada, Italy, Japan, and Sweden. In the ten years up to 2009 the agriculture, agrarian reform and natural resources sector has accounted for 18% of the average net loan commitments, the second highest after infrastructure, 63%. In terms of grants the sector accounted for 18% of the total, third behind social reform and community development (39%) and governance and institutional development (32%).

10. Through ODA, about 60% of the ARCs have experienced socio-economic improvement and more opportunities for economic growth. However, considering the huge development requirements of the ARCs, only about 65% of the ARBs have received substantial assistance and only 49% of the estimated development requirements based on ARC Development Plans have been addressed so far. The underserved and un-served ARBs, including the new farmer beneficiaries require support services to open more opportunities for economic growth, increase the productive capacities and competitiveness of ARBs, and improve the living conditions in the rural areas. Based on estimates, the investment gap for support services in ARCs alone stands at about PHP 87 billion.

PHILIPPINES COUNTRY DATA

Land area (km2 thousand) 2008 1/	298	**GNI per capita (USD) 2008 1/**	1 890
Total population (million) 2008 1/	90.35	**GDP per capita growth (annual %) 2008 1/**	2
Population density (people per km2) 2008 1/	303	**Inflation, consumer prices (annual %) 2008 1/**	9
Local currency Philippine Peso (PHP)		**Exchange rate: USD 1 = 43.50** PHP as of June 2011	

Social Indicators		**Economic Indicators**	
Population growth (annual %) 2008 1/	1.8	GDP (USD million) 2008 1/	166 909
Crude birth rate (per thousand people) 2008 1/	25	GDP growth (annual %) 1/	
Crude death rate (per thousand people) 2008 1/	5	2000	6
Infant mortality rate (per thousand live births) 2008 1/	26	2008	3.8
Life expectancy at birth (years) 2008 1/	72		
		Sectoral distribution of GDP 2008 1/	
Total labour force (million) 2008 1/	37.88	% agriculture	15
Female labour force as % of total 2008 1/	38	% industry	32
		% manufacturing	22
Education		% services	53
School enrolment, primary (% gross) 2007 1/	112		
Adult illiteracy rate (% age 15 and above) 2008 1/	6	Consumption 2008 1/	
		General government final consumption expenditure (as % of GDP)	10
Nutrition		Household final consumption expenditure, etc. (as % of GDP)	77
Daily calorie supply per capita	n/a	Gross domestic savings (as % of GDP)	13
Malnutrition prevalence, height for age (% of children under 5) 2008 1/	28		
Malnutrition prevalence, weight for age (% of children under 5) 2008 1/	28	**Balance of Payments (USD million)**	
		Merchandise exports 2008 1/	49 025
Health		Merchandise imports 2008 1/	59 170
Health expenditure, total (as % of GDP) 2007 1/	3.9	Balance of merchandise trade	-10 145
Physicians (per thousand people) 1/	n/a		
Population using improved water sources (%) 2006 1/	93	Current account balances (USD million)	
Population using adequate sanitation facilities (%) 2006 1/	78	before official transfers 2008 1/	-11 884
		after official transfers 2008 1/	3 897
Agriculture and Food		Foreign direct investment, net 2008 1/	1 144
Food imports (% of merchandise imports) 2008 1/	11		
Fertilizer consumption (hundreds of grams per ha of arable land) 2007 1/	1,412.4	**Government Finance**	
Food production index (1999-01=100) 2007 1/	127	Cash surplus/deficit (as % of GDP) 2008 1/	-1
Cereal yield (kg per ha) 2008 1/	3 334	Total expense (% of GDP) [a/] 2008 1/	17
		Present value of external debt (as % of GNI) 2008 1/	37
Land Use		Total debt service (% of GNI) 2008 1/	7
Arable land as % of land area 2007 1/	17		
Forest area as % of total land area 2007 1/	23	Lending interest rate (%) 2008 1/	9
Agricultural irrigated land as % of total agric. land 2007 1/	n/a	Deposit interest rate (%) 2008 1/	4.5

a/ Indicator replaces "Total expenditure" used previously.

1/ World Bank, *World Development Indicators* database CD ROM 2010-2011

Appendix 2: Poverty, targeting and gender

1. The three target regions are among the six poorest regions of the country with the following incidence of poverty: Caraga (39.8%) which is the poorest region, while Region IX (36.6%) is ranked third and Region X (32.8%) sixth. In total, these three regions account for 18% of the nation's poor (families). Using other measures of income poverty, namely the income gap, poverty gap and severity of poverty these three regions all have worse values than the national average[21].

Table 1: 2009 Official Poverty Statistics

Region	Poverty Incidence	No. of Poor Families	% Share to Total Poor
	2009	**2009**	**2009**
PHILIPPINES	20.9	3,855,730	100
Caraga	39.8	187,278	4.9
Region IX	36.6	242,285	6.3
Region X	32.8	275,433	7.1
Zamboanga del Norte	52.9	109,745	2.8
Agusan del Sur	51.2	57,189	1.5
Surigao del Norte	47.9	50,404	1.3
Zamboanga Sibugay	43.2	40,067	1.0
Camiguin	36.4	8,793	0.2
Surigao del Sur	36.3	42,269	1.1
Bukidnon	33.0	70,072	1.8
Agusan del Norte	27.3	37,416	1.0
Misamis Oriental	26.3	73,239	1.9
Zamboanga del Sur	26.2	88,154	2.3

Source: 2009 Official Poverty Statistics of the Philippines', National Statistical Coordination Board (NSCB).

2. All the provinces selected by DAR for the proposed project have poverty rates higher than the national average and five are among the 20 poorest provinces in the country (out of a total of 80). Of the target provinces Zamboanga del Norte (Region IX) with a poverty incidence of 52.9% is both the province with the highest incidence of poverty and the one with the highest number of poor families. Agusan del Sur (51.2%) and Surigao del Norte (42.9%) both located in Caraga Region have the second and third highest incidence of poverty, while Zamboanga Sibugay in Region IX (43.2%) ranks sixth and Camiguin (36.4%**)** in Region X ranks nineteenth.

3. A review of the NSCB 2009 Philippine Poverty Statistics for the three regions shows that in Agusan del Sur 93% of the municipalities has a poverty incidence of 50% or more, while in Zamboanga del Sur and Zamboanga Sibugay the figure is 89%. Of the other target provinces the figures are: Surigao del Norte and Surigao del Sur, 79%; Zamboanga del Norte, 63%; Camiguin, 60%; Agusan del Norte, 58%; and Bukidnon, 50%. In Misamis Oriental only 20% of the municipalities have a poverty incidence above 50%; however the target project area is in the uplands where poverty incidence is higher than in the lowlands. Working Paper 1 provides further details.

I. TARGETING

Provinces

4. In addition to a poverty incidence above national average (based on NSCB 2009), the following criteria were used to confirm the suitability of the ten target provinces; (i) presence of organized ARC Clusters; (ii) identified potential for enhanced agricultural and agribusiness development; (iii) availability of public and/or private agribusiness service providers; (iv) commitment

[21] These three regions are those with the highest income gap: Region IX, 30.8%; Caraga, 30.5%; and Region X, 29.9%, while the national average is 25.7%. The same trend is also seen in the poverty gap data, where the same regions have the highest ratios; Region Caraga, 12.1%, Region IX, 11.3% and Region X, 9.8%, while the national average is 2.7%. In terms of the severity of poverty, the same trend is observed: Caraga, 5.0%; Region IX, 4.8%; and Region X, 4.1% where the national average is 2.0%.

of participating LGUs to cost share in the project investment; and (v) availability of support services of the involved implementing agencies at the provincial level.

Agrarian Reform Community (ARC) Clusters

5. All the ARC clusters in the ten provinces were evaluated using the following eligibility criteria to identify those suitable for project assistance: (i) identified potential for enhanced agricultural and agribusiness development; (ii) accessibility and availability of local market centres; (iii) availability of ARC Cluster Development Plan, with an agribusiness development plan; (iv) commitment of the participating ARBs to contribute equity to the project investment, in cash or in-kind; (v) availability of implementing agencies to provide support services at the municipal and ARC levels.

6. Based on this analysis 11 ARC Clusters in 10 provinces meet the eligibility criteria. These clusters cover 92 ARCs, 50 municipalities and 510 *barangays.* The total population is 773,106 in 144,732 households; 59,217 are ARB households of which 18,500 are households where a woman is the ARB. In addition, there are an estimated 76,912 IPs (about 15,000 households) from sixteen tribes in the ARC clusters[22]. Working Paper 1 includes the breakdown of population by ARC cluster.

Criteria for Assessing Agribusiness Potential of Value-chains

7. To arrive at a preliminary list of the value-chains that the project could target in each ARC cluster several criteria were used[23]. First, Production Capacity: (i) the area must be suitable for expanding production and remain suitable in the event of anticipated changes in climate; and (ii) the commodity must be a priority for the ARC Cluster, municipality and province. Second, Market Potential; (i) the existence of forward and backward linkages to maximize the marketability of the commodity; and (ii) good production growth relative to the municipal, provincial, regional and national rates. Third, Sustainability: the products or technologies must be available and environmentally-friendly to ensure sustained production and sales. Fourth, Potential Impact in terms of job creation and food security. Table 2 below show the proposed ARC Clusters and the priority crops.

Table 2: ARC Clusters and Priority Crops

Project Sites	Proposed ARC Clusters	Municipalities Covered	Priority Crops
Region IX	**3 ARC Clusters**	**17 Municipalities**	**4 Major Crops**
Zamboanga del Norte	Zamboanga del Norte ARC Resettlement Cluster	Godod, Tampilisan, Salug , Leon Postigo	• Rubber • Corn • Coconut • Rice
Zamboanga del Sur	Salug Valley ARC Cluster	Aurora, Dumingag, Josefina, Mahayag, Molave, Ramon Magsaysay, Tambulig	• Rice • Corn • Coconut
Zamboanga Sibugay	Salipyasin ARC Cluster	Kabasalan, Naga, Ipil,Titay, RT Lim, Tungawan	• Rubber • Rice
Region X	**4 ARC Clusters**	**19 Municipalities**	**9 Major Crops**
Misamis Oriental	MISORET ARC Cluster Dar-DA-DENR – convergence area	Balingasag, Lagonglong, Salay, Binuangan, Sugbongcogon, Kinoguitan	• Coconut • Banana • Corn • Vegetables
Camiguin	Camiguin ARC Cluster	Catarman, Guinsilaban, Mahinog, Mambajao, Sagay	• Abaca • Coconut • Banana • Lanzones
North Bukidnon	North Bukidnon ARC Cluster	Libona, Manolo Fortich	• Cassava • High value crops

22 A more accurate figure should be available in 2012 when the NSO will release the IP Census conducted which included ethno linguistic variables in the survey.

23 Working Paper 2 provides further details.

Project Sites	Proposed ARC Clusters	Municipalities Covered	Priority Crops
			(assorted) • Yellow corn
South Bukidnon	South Bukidnon ARC Cluster	Kadilingan, Damulog, Kibawe, Dangcagan, Kitaotao, Don Carlos	• Sugarcane • Corn • Rice
Region CARAGA	**4 ARC Clusters**	**14 Municipalities**	**9 Major Crops**
Agusan del Norte	TUJAKITSAN ARC Cluster	Tubay, Jabonga, Kitcharao, Santiago	• Abaca • Coconut • Rice • Banana
Agusan del Sur	VETREBUNS ARC Cluster	Veruela, Trento , Bunawan, Sta. Josefa	• Rice • Corn • Rubber • Oil Palm
Surigao del Norte	CLAGIBAPLA ARC Cluster	Gigaquit, Claver, Bacuag, Placer	• Coconut - based • Rice – based • Nipa – based
Surigao del Sur	BATA ARC Cluster	Barobo, Tagbina	• Coffee • Coconut • Abaca
10 Provinces	**11 ARC Clusters**	**50 Municipalities**	**13 Major Crops**

Note: ARC Clusters were evaluated by DAR using eligibility criteria and the major crops similarly prioritized by DAR using a template for assessing agri-business potential of commodity value-chains, July, 2011, (see Working Paper 2).

8. During PY1 a detailed participatory and gender sensitive value-chain analysis and planning exercise will be undertaken in each of the ARC clusters to prioritize chains identified in the ARC cluster development plan for value chain analysis and development. This process will: (i) identify the anchor chain and the “secondary” enterprises based on the results of the assessment of agribusiness potential; (ii) conduct value chain analysis for the priority crop or chain in the cluster; (iii) replicate value chain analysis for other commodities/chains (secondary crops or enterprises); (iv) conduct multi-stakeholder validation-planning workshops for priority chain(s); and (v) develop ARC-Cluster Value chain investment plans (ARC-VIP). Working Paper 2 has further details.

Targeting People’s Organizations

9. The total number of POs which are either cooperatives or rural-based organizations is 238. These organizations have a total of 21,354 men and 14,309 women members. Working Paper 1 lists these organizations. Some of these organizations have matured and with the assistance of various government agencies can provide some services. However, others have failed due to mismanagement, inappropriate handling of funds, and lack of necessary skills for managing the organization and associated projects. As a result these organizations have varying levels of organizational maturity as expressed by their Organizational Maturity Assessment (OMA) ranking with 42% being in Categories 4 and 5, the two highest categories. Similarly, the ARCs were these POs are situated have varying levels of development (ARC Level of Development Assessment or ALDA). Working Paper 1 includes further details.

10. When targeting POs for participation in the project’s activities the following eligibility criteria will apply: (i) the members have their farms and residences in the ARC cluster; (ii) members are currently engaged in production of the prioritized commodity; (iii) an agreement that when relevant and appropriate project beneficiaries will be 30% women and 15% Indigenous Peoples (IPs); (iii) an OMA rating of 4 or 5 but where POs do not have an OMA rating a satisfactory capital build-up; (v)

outstanding loans being repaid with sources of funds available to pay these loans; and (vi) a demonstrated capacity to repay new loans and sustain their business.

11. The targeting mechanism will have to be monitored and evaluated during the life of the project; hence the monitoring and evaluation system of the project will have to incorporate this concern.

II. TARGET GROUP

12. In the eleven ARC clusters, in ten provinces, the target group are the ARBs, other smallholders, IPs, unemployed rural youth, rural women and their organisations working in partnership with entrepreneurs and other market players. Targeting will take place during the value-chain analysis and planning phase in the first year of implementation. Table 3 below presents a summary of the composition of the target group, while Working Paper 1 provides further details of the groups that make up the target group.

Table 3: Target Group

Region	*Barangays*	Population	Households	ARBs	Women-Headed ARB Households	Other Agricultural Households	No. Of IP Households[24]
Region IX	243	299,017	55,141	23,301	6,070	17,645	3,500
Region X	138	234,817	47,160	14,513	5,502	15,091	5,000
Region Caraga	134	239,272	46,444	21,404	6,928	14,862	6,500
Total	515	773,106	144,372	59,217	18,500	47,598	15,000

III. GENDER MAINSTREAMING

13. The rural women consulted during the design mission raised the following points. First, women are no longer the women of the past who just stayed at home uninvolved in community development or livelihood activities. In most *barangays*, around 80-90% of women is involved in micro-finance schemes, livelihood activities, participates in community development and is involved in leadership roles in various capacities. Only around 10% of the women are socially excluded by reason of age, health, remoteness of their location and who are the very poor or destitute needing welfare services rather than participating in development activities.

14. Second, women are ready and seek more involvement in development activities. Third, women request equal treatment with men. Life is hard and women need to be treated fairly. Interaction with women needs to be increased and the standards of their business activities improved to enable them to meet the demands of the market. These findings highlight the need for the project to mainstream gender concerns throughout the project's activities.

15. As a result women will be involved in all phases of project implementation. Gender concerns will no longer be a soft accommodation of women but a professional responsibility of those managing all aspects of project implementation. M&E will provide evidence-based reporting of the benefits and other impacts on women. Gender needs and issues need to be part of the value-chain analysis and planning activities under Component A.

[24] Assumes five people per household and is an approximate estimate as the number of IPs is a rough estimate pending the availability of more precise data in 2012.

16. The Government has mandated a gender budget in all agencies and identified gender focal persons in these agencies. However, it has been widely observed, that the use of the gender budget does not address gender needs properly and the gender focal persons have not been properly trained. Since the project will have a strategic focus on convergence, the project will establish a gender network among the government's gender focal persons in the convergence agencies so that the effort in tracking the milestones in achieving the MDG goals can be a shared responsibility and efforts to ensure gender-responsiveness of the project can be a focus of the network.

17. Gender mainstreaming is now a professional responsibility ensuring that women and men relate fairly and justly to each other as equals in matters concerning project implementation. It will be made clear that there will be gender equitable allocation of project resources, gender-balance in the participation in project activities and gender-fair involvement and participation in project structures at all levels. The project staff assigned for mainstreaming gender concerns will be middle to senior managers; it will no longer be a token assignment. Project resources will be made available to equip the women and build their skills for a more dynamic participation in project implementation. Overall the Project will have a target that 30% of the beneficiaries will be women and 15% IPs.

Annex 1: Targeting Criteria

Provinces

1. Poverty incidence above national average (based on NSCB 2009 data).
2. Presence of organised ARC Clusters.
3. Identified potential for enhanced agricultural and agribusiness development.
4. Availability of public/private agribusiness service providers.
5. Commitment of participating LGUs to cost share in the project investment.
6. Availability of support services of the involved implementing agencies at the provincial level.

Agrarian Reform Community (ARC) Clusters

1. Identified potential for enhanced agricultural and agribusiness development.
2. Accessibility and availability of local market centres.
3. Availability of ARC Cluster Development Plan, with an agribusiness development plan.
4. Commitment of the participating ARBs to provide equity in cash or in-kind in the project investment.
   Availability of support services of the involved implementing agencies at the municipal and ARC levels.

LGUs which have not maintained properly the roads that were turned over to them for maintenance will be unable to access project funds for investment in farm to market road improvements.

Commodities for Value Chain Development

1. Production Capacity
   - Area
   - Priority level of the crop in the cluster, municipality and province
   - Yield/productivity
2. Market Potential
   - Extent of forward and backward linkages
   - Production growth relative to municipal, provincial, regional and national rates
3. Sustainability (Products or Technologies available are environment friendly)
4. Impact
   - Job generation
   - Food security

Appendix 3: Country performance and lessons learned

1. IFAD started its operations in the Philippines in 1978. As of June 30th 2011, IFAD had provided loans and grants to 12 government projects, of which nine have closed and three are ongoing. The total IFAD commitment (loans and grants) to the government is about USD 168.90 million.

2. Two of the closed projects operated in parts of the target regions proposed for this project. These projects were the Western Mindanao Community Initiatives Project (WMCIP), which operated in Region IX (Zamboanga del Norte, Zamoanga del Sur and Zamboanga Sibugay), and the Northern Mindanao Community Initiatives and Resource Management Project (NMCIREMP), covering parts of Region X (Misamis Oriental and Bukidnon) and Caraga Region (Agusan del Sur, Agusan del Norte, Surigao del Norte, Surigao del Sur and Dinagat Islands).

3. The three ongoing projects are Rural Micro Enterprise Promotion Programme (RuMEPP – IFAD Loan No. 661-PH and IFAD Grant No. 782-PH); the Second Cordillera Highland Agricultural Resource Management Project (CHARMP-2 IFAD Loan No. 749-PH and IFAD Grant No. 1030-PH); and Rapid Food Production Enhancement Programme (RaFPEP - IFAD Loan No. 767-PH and EC Contribution Agreement DCI-FOOD/2009/209-973).

4. The following paragraphs describe the recent performance of the country programme[25] compared to the targets included in the COSOP (2009).

5. **Strategic Objective 1: Access to land and water resources in the poorest 20 provinces for poor upland households, especially for IPs and ARBs**. Two of the ongoing IFAD projects directly support the upland poor: (i) CHARMP-2, which covers six provinces with a high concentration of IPs; and (ii) RaFPEP, which has enabled paddy farmers in upland areas to access better quality seed. The new Integrated Natural Resource Management Project (INREMP) which will be submitted to the IFAD Executive Board in April 2012, and to be co-financed with the Asian Development Bank, will target nine poor provinces covering 82 municipalities where 75% of the 224,000 households are IPs.

6. The NCIP's lack of technical capacity to implement the Indigenous Peoples Rights Act and boundary conflicts are the major risks. CHARMP-2 has used NGOs to help strengthen the NCIP and operates in areas where boundary conflicts have been resolved. There is also a risk of shortage of irrigation water for the Communal Irrigation Schemes. RaFPEP and INREMP both include mitigating measures for watershed management and soil and water conservation.

7. **Strategic Objective 2: Access to markets and rural financial services for the poor to improve the value-chains of agribusiness systems**. RuMEPP has so far assisted 22,395 individual micro entrepreneurs in 19 poor provinces. It has provided: (i) business development services; and (iii) microfinance resources through the Small Business Guarantee and Finance Corporation for on-lending to Micro-finance Institutions (MFIs) and rural micro-enterprises. CHARMP-2 has so far trained 2,324 rural households for livelihood/value chain activities in six provinces in CAR. RaFPEP has provided better quality seed to over 200,000 families in the provinces covered by the Government's Rice Self Sufficiency Plan 2009-2013.

8. The risks of supporting micro-finance and micro-enterprise development include: (i) possible policy reversals on issues like the removal of the caps on interest rates; (ii) possible over liquidity in some areas and under funding in others e.g. for the rural poor; (iii) institutional re-alignment when the Land Bank of the Philippines entered the micro-finance sector, while the privatisation of the Peoples' Credit and Finance Corporation remains unresolved; and (iv) Government unwillingness to use loan funds for the promotion of micro-enterprises and capacity building for micro-entrepreneurs. RuMEPP and CHARMP-2 include policy dialogues in their interventions to provide an enabling environment for growth of micro-enterprise and micro-finance in the rural areas.

[25] Philippines - County Programme Issues Sheet, May 2011.

9. A major risk in the implementation of rural infrastructure sub-projects that support the attainment of Strategic Objective 2 has been the cost sharing arrangements between the National Government and the LGUs which was suspended in September 2011. Many, LGUs, especially the lower class ones were unable to provide their share of the investment costs, thereby delaying project implementation and loan disbursement. IFAD carried out a review of the National Government-LGU cost sharing arrangements to support changes in the policy and the Government is due to propose new arrangements for cost sharing between the national and local governments by 30th November 2011.

10. The third Strategic Objective relates to the management of coastal resources, and a project related to this objective will be formulated in 2012.

11. In May 2011 the rating in terms of the programme's contribution to the COSOP results management framework was assessed as 5, or satisfactory, for all four subject areas: (i) increased incomes; (ii) improved food security; (iii) empowerment; and (iv) aid effectiveness agenda.

LESSONS AND INSIGHTS FROM IFAD ASSISTED PROJECTS[26]

12. **Targeting Mechanism**. The projects have focused on the poor and vulnerable sectors of society. Empowering this group is a big challenge for the implementing agency, but the projects have shown that with appropriate strategies improvement of the lives of these people is possible even in a short period of time, transforming some smallholders from subsistence farmers to entrepreneurs. Since institutional credit only caters for the enterprising poor, project interventions should give special emphasis on developing technical and managerial know-how, providing market access, and access to production capital for poor households. Project support should not be limited to institutional support, technology and inputs for demonstrations and trials.

13. **Participatory Approaches**. The projects show that active participation by the beneficiaries and their continuous interaction with the implementing agencies (national line agencies, NGOs and LGUs) were keys to project success. These approaches strengthened the efforts of all stakeholders in the development process. The participatory approach was initiated by identifying priority sub-projects that address actual needs and problems and their subsequent inclusion in *barangay* and municipal development plans. This approach enhanced the sense of ownership of the sub-projects initiated. In communities where strong sense of ownership is instilled, technologies are replicated and expanded and infrastructure is properly maintained.

14. Future projects should, therefore, involve the target beneficiaries from the planning phase and throughout the whole project cycle. Regular community planning, review and updating enable the communities to continuously update and address their development priorities.

15. In terms of IP participation, the ADSDPP preparation process has proved to be useful in the planning and implementation of community projects. Project experiences highlight the importance of respecting indigenous traditions and practices, while ensuring the long term protection of their ancestral lands and the natural resources. The ADSDPP preparation process is good way of involving the community members with the local government agencies and a vehicle to strengthen capacities of IPs in the process.

16. **Convergence Strategy**. The various needs of the sites targeted by both WMCIP and NMCIREMP highlighted the need for convergence. The regular face-to-face project coordination meetings involving the implementing institutions at the regional, provincial and municipal levels developed inter-agency relationships built on trust, confidence and accountability, and are an important practice for other projects to follow.

17. Rural development interventions will be more effective if the rural development agencies adopt a convergence strategy for implementation. Convergence can elicit greater community participation and ownership. As the project sites cut across areas and sectors under the responsibility

[26] This section and the following one are based on an analysis undertaken by DAR and included in their proposal for Project CONVERGE.

of various agencies e.g. DENR (upland and forest areas), DAR (ARCs and ARBs), DA (agricultural technology development), NCIP (IPs), LGUs (rural infrastructure), convergence will be needed for effective project interventions.

18. **NGO Participation**. NGOs helped achieve the objectives of NMCIREMP by strengthening the capacities of the community organizations and institutions. Contributions from NGOs were in two areas: (i) community mobilization and organizational development; and (ii) facilitation of technical services for the preparation of project proposals, and business development services. These have resulted in stronger social cohesion and improved capacities in planning, management and implementation of community-based and household projects, and in training community development volunteers who would continue assistance to the community after project termination.

19. As experienced in CHARMP, the engagement of NGOs in facilitating community participation was productive but *“their role may be limited to community mobilization, training and monitoring and evaluation”*.

20. **LGU Participation**. For several reasons, the participation of LGUs is a crucial part of the participatory development approach: (i) providing counterpart funds for infrastructure investments; (ii) providing local offices for technical support; (iii) monitoring and evaluation; and (iv) ensuring the sustainability of project interventions.

21. The establishment of local project offices helped project implementation and provided the opportunity to enhance the skill and competence of local government personnel in the management of development projects. LGU involvement in project implementation has contributed to greater efficiency and effectiveness of the project interventions. This practice provides a promise for sustainability of the project benefits after the end of the project since the LGUs will now bear the responsibility for the looking after the sub-projects.

22. Functional coordinating mechanisms facilitate project implementation. Regular meetings of the *Barangay* Development Teams, Municipal Development Teams and Provincial Coordination Committees are mechanisms for sharing knowledge, providing feedback ad resolving problems and concerns. Likewise, it also facilitates the participation of stakeholders at various levels.

23. **Sustained Availability and Accessibility of Credit Support**. Supporting farming households that become entrepreneurial requires funding. The self-help approach has limitations when it comes to providing the larger amounts of capital needed for entrepreneurial activities.

24. **Mainstreaming Development Projects for Sustainability**. Both WMCIP and NMCIREMP were successful in improving the productivity of the beneficiaries. Like any development project, the IFAD projects are time-bound, hence the need to ensure that sustainability mechanisms are in place in the respective agencies that would enable the benefits of the project to be sustained.

25. **Use of Indigenous Knowledge, Systems and Practices**. Project design should take into account and build on indigenous knowledge, systems and practices. Under the CHARMP, the Indigenous Knowledge, Systems and Practices of the various tribes in Cordillera Autonomous Region proved to be appropriate models for the implementation of the natural resource management under the reforestation sub-component.

26. **Value Chain Development**. The thematic study[27] identified “best practices” which suggest that closer attention to a number of critical aspects could contribute to reducing rural poverty, the goal of this project, through pro-poor value-chain development by: (i) selecting chains/products in which the poor already participate; (ii) analysing the chains with a view to identifying policy issues that may impede the development/marketing of that particular commodity; (iii) incorporating a suitable targeting strategy that seeks to achieve the social objectives and yet meet the commercial objectives of mutually beneficial arrangements; (iv) selecting the most appropriate governance option; (v) selecting appropriate partners when working with the private sector or service providers; (vi) enhancing chain

[27] Pro-Poor Rural Value-Chain Development, Thematic Study; Vineet Raswant and Ravi Khanna with the assistance of Tamara Nicodeme, Policy and Technical Advisory Division, Programme Management Department, IFAD, July 2010.

efficiency to secure sustainability; (vii) facilitating access to price information and promoting trust-building; (viii) monitoring closely the impact on the designated target group(s); (ix) paying adequate attention to sustainability issues; and (x) identifying risks and addressing them. In addition, for value-chain projects to be sustainable, the commodities produced and sold need to be those demanded by the markets, and the principal governing institutions, well managed and financially strong.

IMPACT OF IFAD ASSISTED PROJECTS

27. Results from NMCIREMP and WMCIP monitoring and impact assessments show that these two projects have had significant impacts on the lives of the households living in the marginal areas in three regions of Mindanao. A total of 74,500 households benefited, including ARBs, fishing households, other upland farmers and IPs living in unproductive and inaccessible areas which lack social and economic facilities.

28. Both projects brought about increases in annual household incomes ranging from 50-75% for WMCIP beneficiaries. For NMCIREMP, the average increase in annual income was around 19% from PHP 60,319 in 2004 to PHP 71,778 in 2009.

29. Empowerment of men and women, including IPs, made the realization of the projects' goal possible. Specifically, for WMCIP, around 81 cohesive and gender sensitive communities, 103 LGUs and 129 community-based organizations were able to engage in programme and project planning and the mobilization of resources for their priority projects. Around 7,950 farming households adopted improved farming technologies and natural resource management systems. A total of 7,533 households engaged in on –and off – farm enterprises and 4,486 households engaged in other enterprises. All these project undertakings enabled the beneficiaries to improve their productivity, hence, increase their income.

30. NMCIREMP which had a wider geographical coverage with a greater number and mix of beneficiaries was able to realize its objectives in terms of land tenure and education for the IPs. Specifically, the receipt conversion of the Certificate for Ancestral Domain Claim (CADCs) into Certificate of Ancestral Domain Title (CADT) has provided land tenure security to the 3,725 IP inhabitants in 14 CADCs. This process has also empowered the IPs to prepare their ADSDPP, develop and maintain good working relationships with their respective local governments.

31. Another significant benefit from the project was the increase in attendance in primary education specifically in non CADC areas where the SIKAT education was introduced. Those who had some elementary education increased from 35-53 % between 2004 and 2009.

32. Likewise, the CHARM projects of DA have yielded positive impacts in terms of rural poverty reduction with increases in the communities' physical assets following land titling. In addition, improvements to roads, irrigation and water supply schemes, have provided a greater availability of food due to higher yields from irrigation, access to markets because of road improvements and social benefits from improved or new water supply schemes.

33. Project results indicate that participatory approaches, skills and individual capacity development, productivity improvements and technology dissemination are all important and must be improved further when designing poverty reduction projects including the need to formulate more sustainable approaches and schemes for strengthening of POs, promotion of enterprises and linking them to markets.

LESSONS HIGHLIGHTED BY ODA PORTFOLIO REVIEWS 2009 AND 2010

34. NEDA undertakes annual reviews of the ODA portfolio of loans and grants[28]. Key findings of the 2009 and 2010 reviews which are relevant for the proposed project are the following. First, delays in project start-up due to a delay in hiring project management personnel, the lack of a project

[28] During discussions with the project design mission senior NEDA officials recommended that IFAD should not engage in co-financing arrangements with other external development agencies as this increased delays in project processing and implementation. The ongoing experience of INREP supports the NEDA recommendation.

implementation manual (PIM) and the lack of budget and positions for the projects' technical staff. Second, budget and fund flow bottlenecks. Third, a prolonged procurement process. Fourth, problems related to LGU participation due to difficulties with the application of the national LGU cost sharing arrangements and weak LGU project management capacity. Fifth, low utilization of credit facilities as the demand for credit has been lower than expected and because of the difficulties in complying with the conditions of the financing institution. Finally, other problems have included weak project management, changes in key personnel, poor participation and cooperation by the stakeholders and poor cooperation between the implementing agency and the financing agency.

35. The proposed project design process will seek to address these issues, where relevant, by instituting appropriate action during the design phase. The project design does not include a line of credit, but does involve the target group in the planning and implementation processes. Government is due to propose new arrangements for cost sharing between national government and LGUs (see above).

36. During implementation the IFAD Country Project Office will ensure that there is good cooperation between IFAD and DAR and the other implementing agencies, and assist project management by providing appropriate implementation support.

Appendix 4: Detailed Project description

INTRODUCTION

1. Based on the DAR proposal and the priorities identified during visits to the regions, provinces and ARC clusters in 2011 the project will have the following three components: (i) Participatory Value-Chain Analysis and Planning; (ii) Integrated Smallholders Agricultural and Rural Enterprise Development (I-SHARED); and (iii) Project Management, Monitoring and Evaluation and Knowledge Management. Capacity building, environment and natural resource management, and gender mainstreaming will be an integral part of project-financed activities.

2. This Annex describes the three components and the proposed implementation arrangements. The Annex was prepared prior to the allocation of funds by the NEDA Board to implement the initial value chain development planning and the commissioning of the 11 feasibility studies, one per ARC cluster. As a result some of the activities for Component A – Participatory Value Chain Analysis and Planning has already been carried out, or are currently being implemented. As the process of planning and implementing value chain development is a continuous one no attempt has been made to revise this Annex and exclude the activities already completed.

COMPONENTS

Participatory Value Chain Analysis and Planning

3. This component will prepare plans for priority value-chains using a participatory and gender-responsive approach and train a core of value chain analysts. It will involve the following steps.

Step1: Validation and prioritize chains identified in the cluster plan for market demand and value chain analysis and development

4. DAR regional and provincial offices have prioritized the value chains identified in the ARC cluster plans. Some of the criteria used for prioritizing clusters also assess the agribusiness potential such as access and presence of business development service providers and level of LGU support. Table 2 in Annex 2 includes the list of priority commodities for each of the 11 target ARC clusters. Working Paper 2 has the details of this analysis.

5. In the first year (12-18 months), the project will use the existing World Bank value chain analysis covering banana and corn along with rice as the basis for validating beneficiaries' interest. Activities in the crops validated by the beneficiaries will start in those communities expressing interest in them. In tandem with the canvasing of participants, the project will identify an appropriate package of activities to intensify production, improve productivity, and to determine the need for access to markets, roads, irrigation and other marketing infrastructure to support these crops. The aim is to validate and review the preliminary analysis of potential priority commodities prepared during the project design and identify the champion and secondary value chains in each of the 11 target ARC clusters in ten provinces for which the project will provide investment funds. In addition, the project will implement three pilot value chain development activities (vegetables, coco-sugar and coffee) to gain experience which can guide project implementation in the following years. The next five years will be the main investment phase of the project in developing the selected value-chains with project support, winding down during the last year of the project (PY7).

Step2: Identify the anchor chain and the "secondary" enterprises based on the results of the assessment of agribusiness potential

6. While it is important to focus the development of the "anchor or champion commodity", it is also essential to identify secondary commodities/crops in order to diversify sources of income thereby minimizing risks brought about by variability in prices, weather and seasonality of crops.

7. Secondary enterprises may include: (i) a major crop/enterprise other than the proposed anchor commodity/crop; (ii) crops that are intercropped with the anchor crop; (iii) rural based enterprises for increasing household incomes (e.g. processed pineapple in Misamis Oriental and South Bukidnon or processed *calamansi* in Sibugay province).

Step 3: Conduct market demand and value-chain analysis for additional priority crop or chain in the cluster

8. Once experience has been gained with activities pertaining to the initially selected crops, the project will consider adding selectively other crops/farming activities of interest to the beneficiaries as expressed in the cluster development plans. Prior to doing so, the project will conduct a simple market demand analysis and if found that there is ample demand, this will be followed (if necessary) by a simplified value chain analysis to consider providing support to other immediate points along the selected chains for which the project will provide investment funds.

9. A team of consultants will be hired to conduct market demand and value-chain analysis for the additional priority chains in each cluster identified in steps 1 and 2 in close coordination with the value chain specialists assigned at the Central Project Management Office (CPMO) and at the Regional Project Management Offices (RPMOs). The output of the value-chain analysis will be presented in multi-stakeholder workshops for validation and planning with the stakeholders in the chain. These include separate workshops with producers and buyers/input providers and a convergence (multi-stakeholder) workshop involving all actors in the chain such including producers, buyers, input providers, government, NGOs, IPs and women's groups. Working Paper 4 includes the terms of reference for the analysis and planning consultants.

Step 4: Train a core of value-chain analysts and planners

10. Project staff and those from the other convergence agencies will receive on the job training to conduct value chain analysis and to apply this knowledge when analysing the secondary value chains in each ARC cluster.

11. The same team of consultants who conduct the value-chain analysis for the "anchor or champion" commodities will train project staff and those from the other convergence agencies to conduct the value-chain analysis, facilitate the multi-stakeholder workshops to validate analysis and consult with key actors of the chain and develop the value-chain investment plan.

12. Participants in this training will include: (i) PMO staff (value chain specialists and monitoring and evaluation (M&E) specialists) at the national, regional and provincial levels, representatives from the DAR at the national, provincial and municipal offices particularly from the Beneficiaries Development and Coordination Division; (ii) other members of the convergence team at the national, regional, provincial and municipal levels (DAR, DA, DENR, Department of Trade and Industry (DTI), Department of Science and Technology (DOST), etc.), NCIP; and (iii) others e.g. representatives of POs, NGOs, women group, etc.). The training provided would be preceded by a training needs analysis,

13. The participants in this training will form the core group for value-chain planning, coordination and evaluation for each cluster (provincial level). This core group will: (i) assist the team of consultants in conducting the workshops (validation/planning multi-stakeholder workshops) for the "anchor or champion" chains; (ii) conduct the value chain analysis and planning for the secondary value chains and incorporate this analysis into the cluster value chain investment plan; (iii) coordinate implementation of the subsequent investment in the value chains ; (iv) monitor and evaluate the results; (v) feed evaluation results or the lessons learned that include gaps and opportunities to improve the chain to the target producer groups (ARBs) and update value chain development and investment plans.

Step 5: Replicate value-chain analysis in other commodities/chains (secondary crops or enterprises)

14. The participants when trained will replicate the value chain analysis and planning exercise for the secondary chains. The time needed to conduct this analysis and planning should not divert the focus of the staff from facilitating the investment in the anchor or champion commodities. If investment in the anchor or champion commodity requires much staff time, then the analysis and planning for the secondary chains should be postponed until the second year of project implementation.

Step 6: Conduct multi-stakeholder validation-planning workshops for priority chain/s

15. The results of the all value chain analysis will be presented to multi-stakeholder workshops. These workshops aim to: (i) provide feedback from the key actors in the value chain on the results of

the value-chain analysis particularly the strategic issues and proposed strategies; (ii) develop the strategies and action plans together with the key actors in the value chain particularly members of the main target group (ARBs, other smallholders, IPs, women and rural youth) in order to foster ownership of the value-chain development and investment plan; (iii) integrate value-chain plans into the strategic planning process of producer organizations.

16. Participants of this workshop will be those from within the cluster and outside the cluster involved in the value chain, namely the producers, buyers, input providers, and government and NGOs. Workshops can be designed to manage conflicting interests of these participants. For example, it can start with a workshop with buyers, input providers and investors followed by producers, NGOs and government group on a different day. A multi-stakeholder workshop to include all groups can be held subsequently.

Step 7: Develop ARC-Cluster Value-Chain Investment Plans

17. Based on the analysis and consultation-validation workshops, the consultants and project staff will prepare ARC-cluster value-chain investment plans (ARC-VIPs) and prepare proposals to access project funds as matching grants. Proposals for M&E of the implementation of the plans will also be developed.

Integrated Smallholders Agricultural and Rural Enterprise Development (I-SHARED)

Discussion of the Approach

18. The ARC-VIP outlines the interventions to develop the value chains in the ARC cluster. The value chain facilitator coordinates implementation and facilitates efficient and effective implementation of interventions in the chain. The decisions are made by the key actors in the chain – the private sector which includes the producers, input providers and the buyers. A key role of the facilitator is to ensure that the interventions link producers to profitable markets and include developing an environment conducive to doing business. In some cases, an industry champion from the private sector has spearheaded the development of value chains and this approach will be examined, to assess whether it is appropriate in the context of developing the target ARC clusters. While this approach reinforces partnership with the private sector, there are few “champions” who have the time to lead the development of clusters involving a multitude of small-scale producers and it is likely that the project will have act as the value-chain facilitator.

19. An alternative strategy is for the project to explore possible partnership arrangements particularly in terms of the provision of technical assistance for production and for market linkages. Existing examples of this type of approach include: (i) Norminveggies for vegetables which employs a cluster strategy to organize production and buys or links producers to markets that include both wet and institutional markets; (ii) Catholic Relief Service (CRS) (vegetables, rice, coffee, etc.), which also employs a cluster strategy and links producers to institutional markets; (iii) Manok Mabuhay which provides a package of services (including finance) for broiler contract growing from production to market; and (iv) Cocoaphil (cacao) which provides technical assistance and buys cacao. These types of partnership would involve a contract or a memorandum of agreement (MOA).

20. In the likely absence of adequate private sector facilitators to link producers to markets, the project will recruit a core of value chain facilitators and staff at national, regional and provincial levels. The CRS approach cluster approach (small groups of farmers about 8-10 per group) has shown some degree of effectiveness in terms of strengthening capacity of farmers to make engage in profitable ventures. The project can recruit service providers who have proven track record in linking small-scale producers with profitable markets to provide the training and technical support needed. The advantage of the proposed value chain approach is that the first phase involves a full blown value chain analysis with data to back up profitability of market options (channels/chains).

21. Working Paper 2 includes further details of these arrangements and as an example, an MOA between CRS and DAR for acting as a value-chain facilitator.

Value Addition and Diversification

22. Vertical, horizontal and other upgrading strategies to enhance value addition include assistance with the following: product development, branding, packaging, logistics (post-harvest),

certification/ accreditation, technology upgrading including equipment upgrading and organizational development through training (including post-harvest handling and storage, food safety and product quality) and provision of business advisory services.

23. The ARC-VIPs will identify opportunities where investment can add value to and/or diversify income sources for the priority chains (anchor and secondary chains). This analysis will identify the relative profitability of supplying the various markets assessed. Market requirements in terms of product quality (grades, varieties, etc.), packaging, etc. will also be specified. In order to meet these requirements, the project can provide matching grant funds to finance activities identified as viable investments with benefits accruing to the target group. The project can also leverage funds from the other government agencies. For example, the DTI and DOST support the development of organic rice in Salug ARC cluster in Zamboanga Norte. However, the types of activities that can be funded by the project are discussed below.

Product Development

24. The project will fund initial product development activities to meet market requirements. The products can be both existing and potential products. The project will fund existing products that need improvement in terms of quality. These may include new product designs or product formulation (e.g. new flavours for *calamansi* concentrate) and training to improve quality, or upgrade technology, etc. The project can also assist the development of new products. These activities may include product testing, market studies, provision of some inputs and supplies/small equipment (less than PHP 10,000) to produce the initial processed products, etc. Business development service providers or individual consultants will be hired for these activities.

Branding and Packaging

25. Based on the results of the value chain analysis, branding and packaging for existing and potential products can be supported. These include cases when existing products are being positioned to tap new markets and require branding e.g. for supplying supermarkets, or other retail outlets, or for new product such as organic rice in Salug ARC cluster or processed pineapple products from South Bukidnon and MISORET ARC clusters. The project will: (i) hire marketing and product specialists on a short-term basis to support brand development; (ii) purchase the labels and packaging materials for the initial batch of branded products; and (iii) provide training on how to use/pack the new packaging materials and labels.

Certification and Accreditation

26. To tap new markets, certification and accreditation are necessary. However, before certification is implemented as a strategy, it is important to assess how it can improve profitability. For example, in the case of organic certification (e.g. rice in Salug ARC cluster), it would be important to ensure that the organic rice from this cluster will have a market that is willing to pay a higher price and that this is profitable for the producers, in view of the additional costs and/or potentially lower yields. In addition, the project can finance further studies if the details from the value chain analysis are inadequate. Assistance to secure Bureau of Food and Drugs accreditation for processed food products can also be assisted. These activities would include training on good manufacturing practices and other activities to meet accreditation/certification requirements, production lay-out, etc. The project will hire the consultants required.

Technology and Equipment Upgrading

27. Producers are often unable to take advantage of market opportunities because of the lack of access to efficient technology or equipment. Production of muscovado sugar in South Bukidnon ARC cluster did not succeed because of several factors which included inadequate technology and equipment. The mechanical rice dryer in the Salug ARC cluster is defective with low quality rice and a low percentage recovery, the result. The project can support repairs of existing equipment if feasible compared to buying a replacement with a cost not exceeding USD 1,000. The project will finance feasibility studies to assess any proposed large capital investments recommended to develop a chain (e.g. rubber processing). While capital investment is minimized when using a low level of technology e.g. in the case of muscovado sugar in MISORET ARC cluster, the quality and volume requirements of the supermarkets where such products are usually sold require a medium scale technology such as that used by producer organizations in Sultan Kudarat and Bacolod.

Business Advisory Service and Organizational Development

28. Improving the capacity of organizations undertaking value-adding activities may be needed to meet market requirements and maintain competitiveness. Planning based on the results of the value chain analysis could involve existing organizations engaged in producing processed products such as coco-sugar in Misoret cluster or semi-processed rubber and processed *calamansi* products in Salipyasin ARC cluster. The ARC-VIP process will identify priority interventions that include training covering business processes and organizational development e.g. financial and marketing management (e.g. product costing and pricing, sales management), and post-harvest management. The project will finance these activities including the engagement of business development service providers.

29. In addition, there may be a need to organize producer groups for processing. The project will support organizational development activities to ensure that the processing enterprise becomes competitive including studies, meetings and workshops to map out details of the process of group processing. Subjects to be covered include protocols on the supply of raw materials (volume, frequency, responsible producers/suppliers, schedule/timing, incentives and disincentives, sharing of benefits/ income in group processing) and marketing of processed products (pricing, contracts, etc.).

Market and Investment Facilitation

30. The majority of the farmers in the ARC clusters lack a clear understanding of market requirements particularly beyond that of the agents and traders who buy their produce. Farmers have limited information about alternative market options, prices, costs, profitability and risks involved. In some cases farmers know the requirements of the market and could increase profitability but do not have the resources to address the gaps to meet these requirements. For example, the producers of coco-sugar could meet the demand of the exporter if they had enough working capital to pay for their raw materials or the cassava farmers can double their net price (less transport cost), if there was a good farm to market road.

31. In addition, there are opportunities where producers in the ARC clusters can link with large multinational and agribusiness firms and palm oil industries. While the existing leasehold arrangements maybe the best option given the lack of access to working capital, inadequate infrastructure facilities and in some cases, aging ARBs, it is important to provide opportunities for improving the contractual terms in favour of the farmers. In addition, there are cases where leasehold arrangements can provide greater benefits to farmers compared with their existing farm enterprises. However, transaction costs are high for large companies to deal with individual producers.

32. Market and investment facilitation is one of the key functions of the value chain facilitator and Working Paper 2 describes examples of this type of activity e.g. Norminveggies (vegetables), CRS (vegetables, coffee, rice, cassava, *calamansi*), PDAP (rice and seaweeds), Manok Mabuhay, KFI (rubber) and Upland Marketing Foundation (UMFI) (coco-sugar, muscovado and rice), COCOPhil (cocoa in Zamboanga del Norte), Davao Agricultural Ventures Corporation/Del Monte Philippines (pineapple production in Bukidnon), and Alter Trade/Dole Philippines/Sumifru (Cavendish banana for export in Surigao del Sur). Some of these groups have already been involved in the target ARC clusters.

33. Various agencies involved in enterprise development such as the DA (e.g. Agribusiness Lands Investments Centre), DTI, DENR, and DOST have initiated activities in market and investment facilitation. Effective coordination of these agencies by the project is important to minimize overlaps, augment limited resources and provide a more integrated package of services in the priority chains to be developed.

34. Based on these issues and opportunities, this activity aims at developing and enhancing linkages between actors in the chain particularly between producers and buyers and input providers. Market and investment facilitation interventions will be based on the results of the value-chain analysis to ensure that they are implemented to meet market requirements and enhance profitability of enterprises.

35. Assistance provided under this component can include improving market information systems, holding trade fairs, organising market matching activities, business and investors' forum, and providing assistance to farmers in negotiations with buyers and investors for leasehold, contract growing, joint venture or marketing arrangements. Most often the problem related to market facilitation relate to the volume of production. If farmers cannot be clustered around a particular commodity, they will not have the volume of production that the buyers need and will lack any power to negotiate.

Market Information Services

36. The ARC cooperatives in Zamboanga use the world market price of rubber sent out by SMS by DTI when agreeing the weekly sales prices with the buyers and this system seems to work effectively. Market information systems must be simple and accessible to farmers. Initial market information for this type of system will come from a variety of sources e.g. international sources, wholesale and retail markets, buyers, government agencies etc. However, timely dissemination (via SMS or fax where email is not available) of market information should be a feature of market information systems. The project can support the hiring of a short-term consultant to review the existing market information services, the needs of the smallholders and update the existing systems that can support the development of the ARC priority chains. The value-chain specialists at the CPMO and RPMOs will work with the consultant to develop the system and ensure updating of information.

Market Matching

37. The DA has identified an eight-step process for providing market matching services as follows[29]: (i) Survey/listing of potential seller groups: identification of prospective farmers' cooperatives/ associations in the target municipalities and the volume and type of agricultural products and agro-based processed products they can supply – producers' groups supported by the project could be used; (ii) Survey/listing of potential buyer groups: identification of potential buyers (i.e. wholesalers, processors, exporters, etc. who are already in *barangays*) and the volume, type and quality requirements for raw and processed agricultural products; (iii)Table-matching of buyer and seller groups: initial parings of compatible buyer and seller groups prior to the actual buyer-seller meetings and forming forward contracts; (iv) Implementation arrangements of market encounters: final consultation with both the buyer and seller groups regarding detailed arrangements such as time, venue and detailed information required for formulating contracts; (v) Actual conduct of market-encounters: information exchange, initial bidding workshop, and preliminary discussion for possible contract arrangement; (vi) Facilitation of market-matching forward contract arrangement: ironing out of the details of the contract and acceleration of the signing of the contract; (vii) Monitoring of and mediation on market-matching forward contract implementation: monitor the progress of the implementation on a regular basis, and serve as the mediator between the two groups; (viii) Documentation and evaluation of market-matching contract outcomes: prepare reports to include volume, value, type and quality of products traded, deviations from the contract agreement, recommendations on how to improve succeeding contracts.

38. The Agribusiness Marketing Assistance Service (AMAS) of the DA can help in market-matching activities, as can DTI which also conducts market-matching activities particularly for processed food and handicrafts. The project will assist the entire process of market-matching including providing funding for the conduct of trade fairs and market *fora* at the regional and national levels.

Investment Facilitation

39. The ARC-VIPs will outline the requirements to develop the chains in the 11 ARC clusters that will require capital from both the private sector and government agencies. Theoretically, transaction costs and risks faced by investors without intervention from development agencies are higher. This is because small farmers and enterprises have limited assets, are fragmented and face various inefficiencies in the production and marketing of their products since they are unable to achieve economies of scale in their operations. Thus, there is an incentive for the private sector to invest in the

[29] Source: Department of Agriculture, Cordillera Highland Agricultural Resource Management Project (CHARMPP) General Manual of Operation (Agribusiness and Marketing).

11 ARC clusters when there are associated development interventions in place. The key is effective facilitation.

40. To support investment facilitation, the project will finance the preparation of investment proposals for investment identified in the ARC-VIPs to attract investors (using project staff and/or short-term consultants). In addition, value chain specialists in the CPMOs and RPMOs will make an inventory of the various types of contractual arrangements in use e.g. contract growing, joint ventures, leasehold arrangements, marketing contracts, etc. for various crops particularly those relevant to the priority chains identified.

41. The Philippine Agricultural Development and Commercial Corporation (PADCC) will also be used to help facilitate investment into the 11 ARC clusters. PADCC is the agribusiness investment and corporate development arm of DA. Their mandate involves promotion of business partnership and acts as a facilitator of investors engaged in agribusiness-production, processing and marketing. The value chain specialists at CPMO and RPMOs will work closely with PADCC in forging partnerships with private and other development agencies to support the investment requirements as specified in the value chain investment plans. These include the conduct of investment *fora*, development of investment proposals, etc.

Financing Value Chain Investment

42. Financing of value chain investments under the project would be based on a set of rules to be detailed in the Project Implementation Manual (PIM). Broadly this will involve 100% financing of studies, and technical preparation work. For farm or local level investments, the whole cost is counted as a project cost, with the financing shared, 80% coming from the proceeds of the IFAD Loan and 20% from the beneficiaries, proponent or LGU. For larger scale activities undertaken by integrators, which are not at the village level, with the financing shared 50% from the proceeds of the IFAD loan and 50% from the proponent. The maximum total investment per sub-project would be the equivalent of USD 1,500 per household with the proportions from the project and private sector dependent of the type of investment. Appendix 1 has more details.

43. The first supervision mission will re-examine the need for subsidies and review options for cost recovery through the use of guarantees for bank loans to participating enterprises and the ability of famers to obtain production credit.

Investment in Rural Infrastructure

Accessibility seems to be the priority for investment in infrastructure to support value-chain developments. Other infrastructure required, include the rehabilitation/restoration of existing communal irrigation schemes (CIS) and the construction of post-harvest facilities. Issues identified with past foreign assisted infrastructure investments have included: (i) the problem of LGUs providing their counterpart contributions for infrastructure investment under the previous national government and LGU cost sharing arrangements; (ii) the poor maintenance of some roads financed under previous foreign assisted projects in the target LGUs; and (iii) changes in the development priorities with changes in the municipal and provincial leadership during project implementation. The project will not finance sub-projects where the

44. LGU has not maintained roads for which they are responsible.

45. Specific criteria for farm to market roads (FMR) include: (i) all rehabilitated roads must connect to another all-weather road of equal or superior standard, and serve agri-business establishments or areas of high value crop production, or link to a market site; (ii) maximum cost of USD 145,000 per road sub-project; and (iii) a maximum costs per bridge sub-project shall not exceed USD 275 per household served.

46. For irrigation schemes the criteria include: (i) the potential irrigable area must be at least 30 ha and the system must serve a minimum of 15 farming households from the ARC; (ii) a CIS must have the potential of achieving a cropping intensity of 175%; (iii) organizational deficiencies within the

Irrigation Association (IA) must be addressed prior to any investment in CIS infrastructure improvements and the socio-cultural and organizational aspects taken into account; (iv) the National Irrigation authority (NIA) must provide written approval where the CIS has amortization payments owing and a tripartite Memorandum of Agreement (MOA) between the NIA, the Project and the concerned LGU formulated, prior to the start of work; (v) all irrigation sub-projects must obtain or renew their a water permit from the National Water Resources Board; (vi) investment in water harvesting and water management structures can be included; (vii) the beneficiaries and their IA will operate and maintain the rehabilitated scheme with their agreement to this a prerequisite for the receipt of project assistance; and (viii) the maximum development cost will be USD 1,850 per hectare for the rehabilitation or expansion of existing facilities.

47. For post-harvest facilities criteria include: (i) new buildings or structures will be financed, but the repair, completion or extension of unfinished buildings/structures can be considered only where they were originally financed without support from government or an NGO; (ii) the facilities must benefit at least 25 farming households and serve a minimum of 50 hectares of land producing rice, corn and/or high value crops; (iii) existing solar dryers will not be repaired/rehabilitated although extensions will be considered providing that existing sections are repaired/rehabilitated to the same standard using community funds (that will not be considered as sub-project equity); (iv) the facilities will be located close to an all-weather road leading from the production area to a marketing centre; (v) community buildings and structures (other than post-harvest facilities) will have the potential to benefit a minimum of 50 households in the ARC: (vi) all buildings and structures must be located on public land or on land owned by the PO or donated by a private landowner with no cost included as part of the cost sharing; (vii) the maximum development cost will be USD 13 per m2 for solar dryers and USD 172 per m2 of floor area for multi-purpose buildings; and (viii) the famers' organization will manage these facilities and operate an appropriate maintenance system.

48. For rural infrastructure, 70% of the cost would come from the IFAD loan, about 10% from the National Government (the tax element) and about 20% from the LGU (normal for roads) or beneficiaries or both (normal for irrigation). Appendix 1 has more details.

49. Investments in additional road construction will only take place after firm funding has been secured from participating LGUs. In addition, the capacity of the LGUs to fund and undertake maintenance of the roads will be closely monitored.

50. Working Paper 3 includes the design specifications for FMRs, irrigation schemes, and post-harvest facilities. The sub-project development process is consists of ten stages or phases that will be common to all types of infrastructure sub-projects: (i) sub-project identification; (ii) validation of the sub-project request; (iii) issuance of notice to conduct feasibility study/detailed engineering; (iv) pre-engineering works; (v) sub-project document packaging; (vi) pre-implementation; (vii) implementation; (viii) completion/financial reconciliation; (ix) turn-over and acceptance; and (x) operations and maintenance.

Project Management, Monitoring and Evaluation and Knowledge Management

51. Implementation and coordination will be consistent with the DA-DAR-DENR Convergence initiatives to ensure a positive impact and the sustainability of the proposed interventions (see Annex 5).

Appendix 5: Institutional aspects and implementation arrangements

I. CONVERGENCE

1. In line with the National Convergence Initiatives[30] (NCI), this project will use a convergence approach in implementing its activities. The NCI combines the efforts of three national government agencies involved in the agriculture, agrarian reform and natural resource sector, namely the Department of Agriculture (DA), the Department of Agrarian Reform (DAR), and the Department of Natural Resources and Environment (DENR). One of the NCI objectives is to *"enhance the investment and opportunity climate for agribusiness"*, which is the focus of this project.

2. DAR will have overall responsibility for implementing the project and will use its existing structures at national, regional, provincial and municipal levels to implement project activities. Together with DAR, the DA and DENR will have responsibilities both in policy direction and implementation, and will be members of the Project Steering Committee (PSC) and the Regional Multi-Stakeholders' Committee (RMSC).

3. Initially, the following DA agencies have been identified as having a role in project implementation: (i) the Agricultural Training Institute; (ii) AMAS; (iii) PADCC; and (iv) specific commodity related agencies such as the Philippine Coconut Authority and the Fibre Industry Development Authority. The DENR will be involved in project investments related to agro-forestry, nursery and plantations establishment, and in providing technical advice related to climate change.

4. Other agencies also support the development of agrarian reform communities (ARCs) and will have a role in project implementation as part of the project's convergence approach. The agencies are: (i) DTI, e.g. for product packaging and market/private sector linkage; (ii) DOST, e.g. provision of technical support in processing of agricultural products; (iii) NCIP, for handling IP concerns; (iv) NIA, for providing technical assistance for the rehabilitation of communal irrigation systems; and (v) the Department of Public Works and Highways (DPWH), for the construction of farm to market roads. Other government agencies identified which may possibly contribute to implementing the project are: the Mindanao Development Authority (MinDA), Office of the Presidential Adviser on the Peace Process (OPAPP) and the Department of Social Welfare and Development.

5. Inclusion of additional government agencies into expanded convergence teams will be subject to the agency meeting the following selection criteria: (i) ability to provide support for the development of the value-chain as required by the ARC cluster value chain investment plans (ARC-VIPs); (ii) availability of expertise and resources required at the regional or provincial levels; (iii) a signed memorandum of agreement (MOA) between DAR and the concerned agency covering the support to be provided.

6. The project will have convergence teams at the regional and ARC levels. The RMSC is part of the project's management structure, while the Cluster Project Operations Teams (CPOTs) will serve as the coordinating mechanisms for the delivery of government services to the ARC clusters (Appendix 1 shows the project management structure).

II. PARTNERSHIP WITH THE PRIVATE SECTOR, NGOs AND ACADEMIC INSTITUTIONS

7. For this project, private-public partnerships are essential for value-chain development; thus the private sector (companies and firms, business organizations, financing institutions, non-government organizations, state universities and colleges, people's organizations and individual entrepreneurs will be encouraged to participate. Private sector organizations may act as the consolidator/integrator, business development service providers, value-chain managers, or financiers. The project will explore different types of partnership arrangements between the project beneficiaries and the private sector ensuring that such arrangement are fair to the farmers and ARC communities.

[30] In December 2010 DA, DAR, DENR signed a joint memorandum circular (JMC) adopting a shared policy and implementation framework for the NCI.

8. Selection of private sector organizations involved in the implementation of the component will be on the basis of complying with the eligibility criteria, and submission of expression of interest and a proposal.

9. Eligibility Criteria for Business Firms/Companies will include the following:

(i) Filipino registered, or for joint venture companies, with Filipinos as the majority shareholders;
(ii) Agriculture, agricultural processors or agribusinesses;
(iii) Availability of the expertise required with sufficient capacity to carry out the assigned tasks;
(iv) Familiarity with the project sites;
(v) A minimum of five years of operations, with products or services directly related to the value chain concerned;
(vi) Availability of sufficient, reliable and well maintained machinery and equipment, for the assigned tasks;
(vii) A sound financial position as reflected in its audited balance sheets and profit and loss accounts for the last five years;
(viii) Reputation for fair dealing and empathy with poor smallholders, IPs and women;
(ix) Sound and well regarded company management with established structure and procedures for quality control, and with qualified and experienced individuals in key managerial positions;
(x) Familiarity with the use of gender-sensitive approaches and a commitment to a gender-balance when selecting staff for the assigned tasks;
(xi) Ability to pass the eligibility standards during the technical evaluation of bids;
(xii) Complies with the relevant environmental regulations as required by the government and recognized international control bodies.

10. Eligibility criteria for POs will include the following:

(i) Members have farms and residences in the ARC cluster;
(ii) Members are currently engaged in the production of the prioritized commodity;
(iii) An Organizational Maturity Assessment (OMA) rating of 4 or 5, but where POs do not have an OMA rating evidence of a satisfactory capital build-up;
(iv) Any loans are being repaid and there are sources of funds available to pay these loans;
(v) A demonstrated capacity to repay any new loans and sustain their business; and
(vi) An agreement that when relevant and appropriate, project beneficiaries will be 30% women and where applicable, 15% Indigenous Peoples (IPs).

11. Eligibility Criteria for NGOs will include the following:

(i) Registration with the Philippine government securities and exchange commission (SEC) or other recognized government bodies;
(ii) Services offered are related to agriculture and/or enterprise development;
(iii) A minimum of five years experience in areas directly related to agriculture and/or enterprise development;
(iv) A minimum of five years work experience with poor smallholders, IPs, and women;
(v) Sound operations and financial management as reflected in the list of previous (last five years) and current personnel, and financial statements for the last five years; and
(vi) Availability of certificates from previous partners demonstrating a satisfactory contract performance.

12. Eligibility Criteria for academic institutions will include the following:

(i) Registration with the appropriate government authority/body;
(ii) Services offered are related to agriculture and/or enterprise development;
(iii) Research and training activities during the previous five years and currently ongoing are related to agriculture and /or enterprise development; and

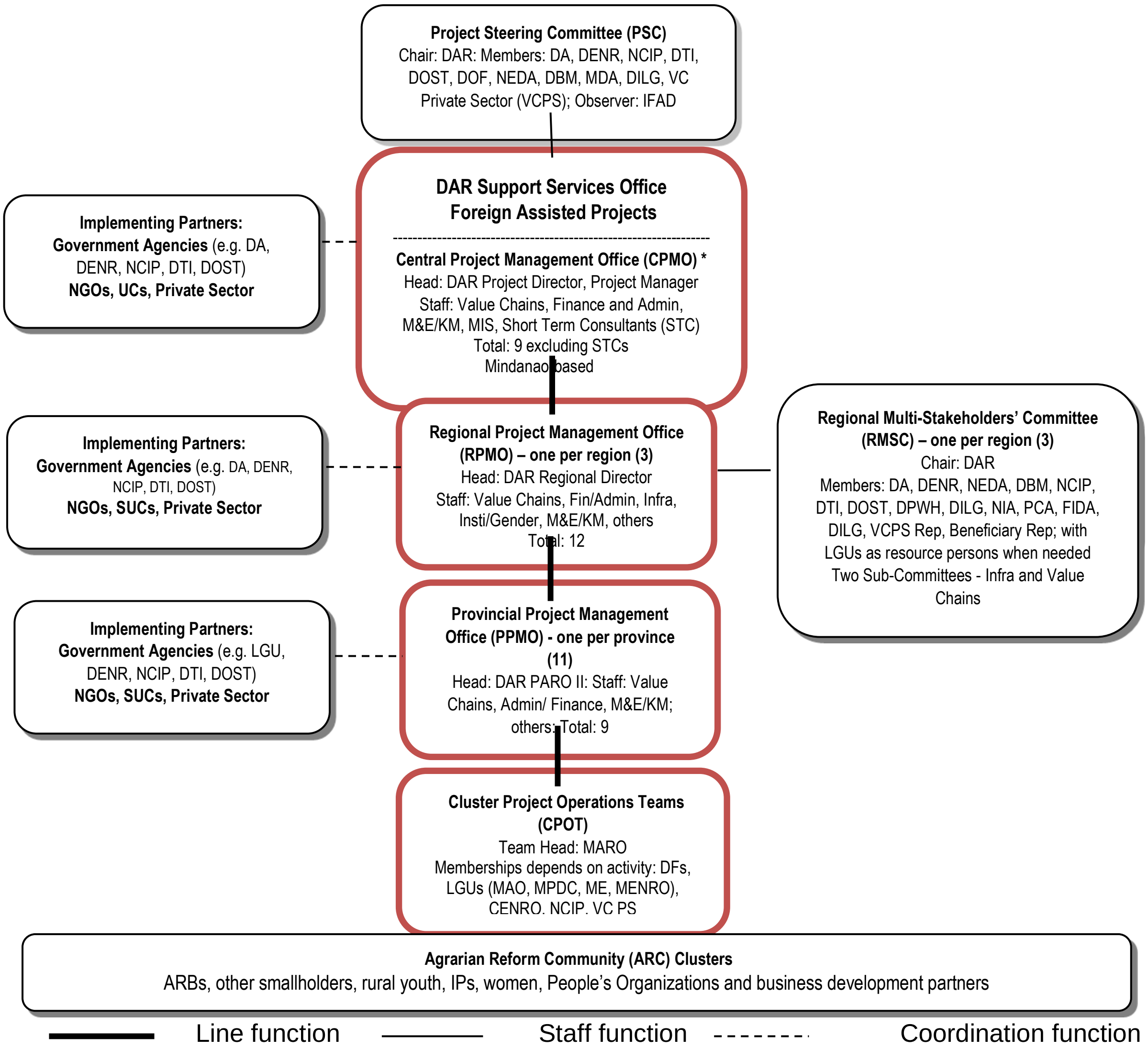
(iv) Availability of researchers with applied knowledge and practice related to agriculture and/or enterprise development, and with experiences of working with poor smallholders, IPs and women.

III. MANAGEMENT STRUCTURE, ROLES AND RESPONSIBILITIES AND CAPACITY BUILDING

13. Appendices 1, 2 and 3 show the project’s management structure, roles and responsibilities of each level of the project’s management structure, and number of staff required (seconded and on contract). Working Paper 4 includes the staff TOR.

14. Based on the initial training needs identified by the NCI agencies (Appendix 4), the project will hire consultant(s) to conduct a capability/training needs assessment of project management personnel. The consultant will prepare a capability building plan for project and other staff of the NCI agencies for activities related to value-chain development. The project will use the IFAD grant funds for this capacity building.

Annex 1: Project CONVERGE Management and Implementation Structure



Note: VC PS = firms/organizations from the private sector participating in the project's value chain development activities.

Annex 2: Management Roles and Responsibilities

Level	Organizational Unit	Summary of Roles/Responsibilities
Central	Project Steering Committee **(PSC)**	• Provide policy guidance • Approve project implementation guidelines, global and annual work plans and budgets and procurement plans • Review and approve proposals regarding adjustments to plans, budgets, etc. • Resolve implementation issues that cannot be resolved by implementing agencies
	Central Project Management Office **(CPMO)**	With the assistance of DAR FAPsO: • Coordinate with IFAD, oversight agencies • Serve as PSC secretariat • Submit required documents to IFAD and oversight agencies • Facilitate fund withdrawal and transfer to the implementing agencies • Prepare budget for integration into DAR's annual budget for Government approval
		• Coordinate with other implementing agencies • Give overall guidance on project implementation (e.g. preparation of implementation guidelines, financial guidelines, procurement guidelines, etc.) • Oversee operations, finance and procurement, and provide implementation support to project implementation • Review and consolidate project annual work plans and budgets, physical and financial reports and audits • Consolidate and process withdrawal applications • Provide overall M&E and KM function
Regional	Regional Multi-Stakeholders' Committee **(RMSC)**	• Review, approve and ensure quality of infrastructure and value-chain sub-project proposals: ***Review and approve*** (technical feasibility, financial viability, etc.); (i) Infrastructure sub-projects committee composed of NEDA, DENR, DA, DILG, and DAR as chair, other agencies (DPWH, NIA, NCIP) as necessary (ii) Value-chain sub-projects committee composed of NEDA, DENR, DA, VC PS, DAR as chair, other agencies (DTI, DOST, FIDA, PCA, etc.) as needed • Provide technical advice to RPMO ***Note: LGU representatives serve as resource persons during proposal approvals*** ***Note: Membership in the RSMC to be designated permanent (regular and alternate)***
	Regional Project Management Office **(RPMO)**	• Oversee project implementation in the provinces under the NCI • Coordinate with the NCI agencies and others as necessary • Review and recommend VC, infrastructure and other investment subprojects for approval by RMSC • Consolidate provincial annual work plans and budgets and procurement plans • Approve and manage funds use and procurement at the regional level (within limits of RD authority) • Oversee and supervise M&E/KM at the provincial level • Coordinate with PPMOs, ARC-clusters, regional implementing agencies and the other NCI agencies • Consolidate PPMO/ARC cluster reports • Facilitate internal audit

Level	Organizational Unit	Summary of Roles/Responsibilities
Provincial	Provincial Project Management Office **(PPMO)**	• Oversee project implementation in the ARC cluster • Arrange technical support for project implementation in the ARC clusters in the region from the NCI agencies and others as necessary • Review/prepare VC, infrastructure and other investment subprojects for submission to RPMO • Prepare annual work plans and budgets and procurement plans • Approve and manage funds use and procurement at provincial level (within limits of PARO authority) • Manage M&E/KM • Coordinate activities in the various ARCs • Consolidate ARC reports (physical/financial) • Facilitate internal audit
ARC Cluster	Cluster Project Operations Teams **(CPOT)**	• Mobilize concerned LGU departments and units (e.g. MPDC, MAOI, ME, Budget) responsible for implementing the project under the partnership with LGUs • Ensure that the ARC value-chain and other investment plans are prepared and submitted as required • Ensure that project services are delivered in a timely fashion to target ARBs, IPs, women and youth in the ARCs within the cluster • Monitor project implementation and prepare ARC reports within the cluster and submit on time as required • Assist the PPMOs with project assessments and studies (e.g. OMA of POs, economic benefit studies, etc.) and IFAD missions ***Note: Membership in CPOT is dynamic, depending on the activities in the ARC cluster. There can be more than one CPOT in a cluster. CPOT is headed by the MARO.***

Annex 3: Project Management Staffing

Management Unit	Staffing Requirement	No. of DAR Staff	DAR Staff % of Time	No. of Contract Staff	Total
Central Project Management Office (CPMO)	DAR Project Director	1	40%	-	1
	Project Manager			1	1
	National Value Chain Specialist	-		1	1
	M&E/KM Officer	-		1	1
	Finance/Admin Officer	1	100%	-	1
	MIS Specialist	-		1	1
	Finance/Admin Assistant	-		1	1
	Drivers	1	100%	1	2
Subtotal		***3***		***6***	***9***
Regional Project Management Office: Region IX, X, Caraga (RPMO)	Regional Director	1(3)	40%	-	3
	Project Coordinator	1(3)	100%	-	3
	VC Specialist	-		1(3)	3
	Institutional/Gender Specialist	-		1(3)	3
	M&E/KM Specialist	-		1(3)	3
	Rural Infra Specialist	-		1(3)	3
	Finance/Admin Officer	-		1(3)	3
	Accountant	1(3)	60%	-	3
	Planning/Budget Officer	1(3)	40%	-	3
	Cashier	1(3)	60%	-	3
	Bookkeeper	-		1(3)	3
	Driver	1(3)	100%	-	3
Subtotal		***18***		***18***	***36***
Provincial Project Management Office: 11 Provinces (PPMO)	Provincial AR Officer (PARO)	1(11)	40%	-	11
	Project Coordinator	1(11)	100%		11
	VC Staff			1(11)	11
	M&E/KM Staff			1(11)	11
	Accountant	1(11)	50%		11
	Admin Assistant	1(11)	50%		11
	Cashier	1(11)	60%		11
	Bookkeeper	1(11)	70%		11
	Driver	1(11)	100%		11
Subtotal		***77***		***22***	***99***
Cluster Project Operations Teams: number dynamic (CPOT)	Municipal Agrarian Reform Officers (MAROs)	50	60%	-	50
	Development Facilitators (DFs)	91	80%	-	91
	LGU Counterparts: Municipal Planning and Development Officers, Municipal Engineers, etc.	TBD		TBD	TBD
	Other counterparts: NCIP Service Centre Officer, CENRO, etc.	TBD		TBD	TBD
Subtotal		***141***		***0***	***141***
TOTAL		***239***		***46***	***285***

* Not included in the totals are the NCI Liaison Officers, members of the PSC, RMSC, and staff of other implementing agencies and partners that may be assigned to implement project activities.

Annex 4: Assessment of the Organizational Capability and Training Needs

Organisation	Strengths	Weaknesses	Possible Contribution to Project CONVERGE	Training Needed to Implement Project CONVERGE
1. Department of Agrarian Reform (DAR)	• Lead implementing agency the Comprehensive Agrarian Reform Programme Extension with Reforms (CARPER), RA 9700 • ARC development strategy. • Supportive management and competent staff from the national down to municipal offices • Functional organizational structures and mechanisms at the national, regional, provincial, municipal and *barangay* levels • Strong partnership and coordination with partner agencies, LGUs, NGOs, POs, etc. • Capability to organize and mobilize ARBs in ARCs • Established performance-related organization and management systems, e.g. ALDA, OMA	• Implementation of land **Assessment of the Organizational Capability and Training Needs** distribution under CARPER will end in 2014; continuation of support services functions will need to continue • Implementation of the government's rationalization plan may result in deletion of some permanent positions	• Participatory planning and social preparation • Capability building and social mobilization training for beneficiaries. • Conduct/implementation of Results M&E, i.e. participatory monitoring • Setting up and strengthening of convergence mechanisms at the cluster, provincial and regional levels • Organizing ARBs and other smallholders for enterprise development and capacity building • Contract facilitation, including legal advice, with LGUs, POs and civil society at the municipal and provincial levels • Establishing agricultural extension system at the municipal and provincial levels • Monitoring, evaluation and quality assurance	• Value chain analysis/studies and business planning • Skills training on enterprise-based organizing/business development services • Agribusiness and post-harvest management training programme for extension staff and farmers operators • Facilitation and negotiation skills • Data base management • Procurement Guidelines (RA 9184 and IFAD guidelines) • Quality assurance principles, procedures, and guidelines for infrastructure and agricultural enterprise facilities • Value-chain-based M&E • Financial and economic analysis of projects for the RMSC Sub-Project Approval Committee
2. Department of Agriculture (DA)				
2.1.Agricultural Training Institute (ATI)	• Training and extension arm of DA • Strong partnership with IRRI and Telecom Service Providers, NGOs, SUCs, other NGAs and LGUs at the national and regional levels • Modules for training on production, processing and social technologies • Available training centres and trainers in every region • Institutionalized national Techno Gabay Programme • Assistance to LGUs for Farmers Information and Technology Centres: web information accessibility.	• Difficulty in harmonizing extension services from other bureaus of the department • Lack of manpower due to DBM's Circular on freezing the hiring of new personnel and not filling up of vacant positions • Low budget allocation	• Technical assistance through training, farm business advisory services, techno demonstrations and social technologies • Regional Training Centre staff as resource person, facilitators and trainers • Counterpart personnel to implement the project • Extension methods such as: training of trainers; farmers' field schools; school on the air; farmers' contact centre; on line courses; rice nutrient management; farmers' farm school	• Updated capability building trainings related to: Value Chain; Project Management; M& E; Entrepreneurial Training; Marketing and Agro-Ecotourism
2.2.Agribusiness	• Strong links with the private sector	• Limited qualified personnel	• Agribusiness advisory and market	• Value Chain Analysis/Studies

Organisation	Strengths	Weaknesses	Possible Contribution to Project CONVERGE	Training Needed to Implement Project CONVERGE
and Marketing Assistance Service (AMAS)	(agribusiness firms) • Wide experience and network in market promotion of agricultural products • Direct interaction with farmers and fishermen at the *barangay* level through *Barangay* Food Terminals	to conduct supply/value chain analysis • Lack of personnel to handle the Agriculture and Fishery Modernization Act, and of well-trained staff to perform various tasks, i.e. data collection, computer processing and analysis, M&E	information and development services to agribusiness entrepreneurs • Market/product promotion, links • Market facilities, i.e. Agri-pinoy Trading Centre, *barangay* and municipal food terminals • Investment matching and enterprise development and industry consultations	• Market Research (basic and advanced analytical tools in market research) • Strengthening market information system – for farmers and fishermen efficient and timely access of market information services
2.3. Philippine Agricultural Development and Commercial Corporation (PADCC)	• Government's lead promotion agency for agricultural/ agribusiness investment • Expertise in agribusiness land investment promotion, servicing project and business development, trade marketing, contract facilitation and project negotiation • Wide network of business development service providers, private investors and national/international investment promotion agencies • Focal point for the NCI for sustainable rural development	• Scarcity of human and financial resources to implement, facilitate and monitor agribusiness projects • No direct regional counterpart • Need to course through the Regional Field Units	• Technical assistance for agribusiness investments, project/business development, trade marketing arrangement, marketing contract negotiations • Providing complementary human resources for agribusiness projects • Matching agricultural producers with market players/investors	• Enhancement of business development services trainings of focal persons • Higher versions of ARC-GIS for central and regional GIS focal persons • Orientation and more advanced training for agricultural value chain development and management among Project CONVERGE implementers • Enhancement of customized M&E Framework for Project CONVERGE • Market analysis, evaluation of market partners/players and development of upstream value chains for sustainable agribusiness economies
3. Department of Environment and Natural Resources (DENR)	• Primary agency for environment and natural resources with mandate to formulate policies and implement programmes, including licensing and regulation of all natural resources • Organizational structure which invests in commercial development of innovative use of natural resources, marketing business ventures, and financing of private sector implemented	• Ineffective and inappropriately allocated human, information and financial resources • Ineffective distribution, management, if not, non-availability of information • Lack of appropriate allocation and effective management of buildings,	• Conduct environmental assessments • Implement the National Greening Programme which streamlines DENR's initiatives • Development of upland farms e.g. rubber • Reforestation of grasslands etc. and rehabilitation of coastal and mangrove areas in community-managed areas • Rehabilitation of degraded priority	• Project orientation • Training managing conflicts between environment and natural resource management and value chain development to understand better the institutional contributions to convergence

Organisation	Strengths	Weaknesses	Possible Contribution to Project CONVERGE	Training Needed to Implement Project CONVERGE
	natural resources development projects • One of the largest government agencies with presence down to the community level • Responsible for all policies, tenure arrangements and guidelines of community-based forestry projects	offices, vehicles, computers, etc. • Lack of an effective overall policy for the environment • Lack of appropriate legislation and effective enforcement of the existing laws	watersheds and protected areas • Maintenance and protection of trees and established plantations	

Appendix 6: Planning, M&E and learning and knowledge management

1. The PSC will approve the project's AWPB and APP and will submit them to IFAD for review and issuance of no objection 45 days before the start of the calendar year of implementation.
2.

I. MONITORING AND EVALUATION

3. The DBM uses OPIF[31] in the context of public expenditure management, which covers all levels of the public sector from the national government to the local government level. In this framework, the DBM uses the budget as an instrument for ensuring the desired results. The three convergence agencies, DA, DAR and DENR, have agreed their results-based organizational performance frameworks with the DBM.

4. NEDA, as an oversight agency, monitors and evaluates the contribution of foreign assisted projects in achieving the objectives of the government's medium term development plans, currently the PDP 2011-2016. NEDA uses RbME[32] in the conduct of its M&E oversight function. Every foreign assisted project is required to submit ODA reports (in 10 forms) on a quarterly basis. To improve the capacity of government agencies to implement the RbME, IFAD has provided a grant to NEDA (Grant Number: 1235-NEDA PH) to finance technical assistance and institutional strengthening for NEDA and the implementing agencies.

5. The IFAD RIMS requires the reporting of three levels of results reporting: level 1 (outputs), level 2 (outcomes) and level 3 (impact). Level 1 and level 2 results are reported annually, while every project conducts a RIMS impact survey (level 3) at the start (baseline), mid-term and at the end of the project. RIMS is not new to DAR since its previous IFAD-assisted project, NMCIREMP submitted RIMS reports annually and conducted a RIMS impact survey at the mid-term and end of the project.

6. At project start-up the Foreign Assisted Projects support Office (FAPsO) of DAR will hire consultants to design the results-based monitoring system and MIS, including a GIS-based system, for mapping the commodities and other relevant data in target ARC clusters (Working Paper 4 includes the TOR). Also during PY1, the FAPsO will hire consultants to undertake a baseline survey to cover all indicators of the logical framework, including the RIMS indicators. It is expected that the assignment will take six months, with the procurement process starting prior to the date of effectiveness. Subsequently, the RIMS mid-term impact survey[33] and completion impact survey will be part of the project's mid-term and project completion surveys. The RIMS has a standard set of questions, methodology, software and required reporting format. In addition, special studies to measure lessons learned, outcomes and impact will be also conducted (see the section on learning and knowledge management). There is no data at this stage for the absolute numbers for household assets index and child malnutrition, before the baseline survey is done at project year 1. Therefore, these indicators should be converted into absolute numbers once the baseline results are available. The same will apply to farm gate prices for specific crops.

7. The OPIF's indicators are based on the department's logical framework (Working Paper 5 includes the logical frameworks for DA, DAR, and DENR as agreed with the DBM), while NEDA's RbME indicators are based on the project's logical framework approved by the government's Investment Coordinating Committee (ICC), chaired by NEDA during the project design process. The RIMS and RbME focus more on outputs, outcomes and impact, while OPIF has a greater emphasis on input/activity and output indicators.

8. The computer-based MIS which will include the project's M&E and finance databases will be installed at the PPMOs, RPMOs and CPMO. The software and MIS will be linked to DAR's MIS. Developing the project MIS will be contracted to a consultant at project start-up. A MIS staff in the CPMO will be assigned to manage the system.

[31] DBM. 2007. The Organizational Performance Indicator Framework (OPIF). http://www.dbm.gov.ph/OPIF_2007/OPIF.pdf

[32] RbME is being implemented through NEDA Board Resolutions Nos. 3 & 7, Series of 1999. It is an instrument for development managers at the project-level, as well as at the implementing and oversight agencies, to monitor and evaluate project performance based on results/outcome/impact of project performance.

[33] There is a possibility that annual RIMS outcome surveys will replace the mid-term survey. Conduct of annual outcome surveys would not be a new exercise for DAR who used this methodology to measure outcomes of their foreign-assisted projects, including the IFAD assisted NMCIREMP.

II. LEARNING AND KNOWLEDGE MANAGEMENT

9. In addition to its regular M&E functions, the project's Monitoring and Evaluation/Knowledge Management (M&E/KM) units will also take charge of knowledge management. Knowledge management will be an essential part of the TOR of the staff responsible for M&E. Project knowledge will be mainly generated through the M&E system. Regular reports, especially six-monthly and annual progress reports, will include details of the problems encountered, solutions implemented, lessons learned and the way forward. These reports are important for supporting project management in making management decisions.

10. Regular M&E activities to generate lessons learned will be complemented with studies on the special features of the project. These may take the form of case studies, documentation of systems, photo and video documentation, field stories, etc. Since this is the first value-chain project undertaken by IFAD and the government using the convergence approach, topics of special interest may include: (i) convergence; (ii) ARC clustering for value-chain development; (iii) the value-chains of traditional and emerging crops; and (iv) arrangements for linking producers with markets. Results from these studies will be disseminated to project management, the implementing agencies at all levels, community participants, and other project stakeholders.

11. The project will ensure that there are mechanisms and platforms for generating, capturing and sharing of knowledge within the project. Knowledge sharing will be undertaken by the project during the annual assessments and planning *fora*, through publications, the project website etc. In this respect, the project will prepare a knowledge management cum communication plan to be prepared as part of the M&E plan at the start of the project (Working Paper 5).

12. At the country programme level, the project will participate in two knowledge sharing platforms managed by the IFAD Philippines Country Office. First, is "face-to-face" interaction through the: (i) Annual Country Programme Review which is a sharing of project implementation problems, solutions and lessons between IFAD projects; and (ii) Knowledge and Learning Market, which is a national gathering of all IFAD partner agencies and other national development agencies focused on thematic issues and concerns and held from time to time. Second, is "virtual" information sharing through the IFAD Country Programme Facebook page and IFAD-Asia Philippines portal.

13. The project should contribute articles to the IFAD Asia-Pacific newsletter, and participate in regional gatherings where the project can learn from others and contribute its own experiences.

Appendix 7: Financial management and disbursement arrangements

I. FLOW OF FUNDS

1. Following IFAD Designated Account procedures, the DOF (BTr) through the DAR will open and maintain two Designated Accounts (DAs) in USD with a government financial institution acceptable with IFAD, one to receive the proceeds from the loan and another for the grant proceeds. The DBM will issue authority to BTr (upon receipt of the Certification on the receipt/deposit from IFAD issued by BTr based on the Credit Advice from the depository bank) to incur obligations and to disburse, namely the Special Allotment Release Order (SARO), and the Notice of Cash Allocation (NCA), to transfer funds to the DAs. The Authorised Allocation of the DAs for the IFAD loan and grant will be up to six months of IFAD's share of the eligible project expenditures according to the approved AWPBs.

2. In addition to the two DAs, DAR will open and operate 34 project bank accounts in PHP as shown in the flow of funds chart (Appendix 1) as follows (all accounts to be interest bearing current accounts to be operated on the basis of two signatories):

- **DAR's Central Office (3)**: Three (3) Pass-Through Accounts, one for the IFAD Loan, one for the IFAD Grant and one for the National Government Counterpart Funds, to be operated by DAR's FAPsO – Administrative and Finance Department. DAR's FAPSO – Administrative and Finance Department will transfer funds from the Designated Accounts to the Pass-Through Accounts in equivalent PHP and effect full funds transfer without additional documentary requirements, by way of sub-allotment to the Project accounts at the CPMO and subsequently from the CPMO to the RPMOs and from the RPMOs to the PPMOs.
- **CPMO (3)**: Three accounts, one for the Loan, one for the Grant and one for the National Government Counterpart Funds. The CPMO will transfer funds to the three RPMOs. The CPMO will also disburse funds in accordance with the AWPB for costs of staff, technical assistance, training, operating costs, special studies, capacity building and investments. It may also disburse funds either as direct payment or in the form of advances as provided in the MOA entered into with implementing agencies and partners.
- **RPMOs (6)**: Two accounts for each of the three RPMOs, one for the Loan and one for the National Government Counterpart Funds. The RPMOs will transfer funds to the 11 PPMOs. The RPMOs will also disburse funds in accordance with the AWPB for costs of staff, technical assistance, training, operating costs, special studies, capacity building and investments. It may also disburse funds either as direct payment or in the form of advances as provided in the MOA entered into with implementing agencies and partners.
- **PPMOs (22)**: Two accounts for each of the 11 Provinces, one for the Loan and one for the National Government Counterpart Funds. The PPMOs will also disburse funds in accordance with the AWPB for costs of staff, technical assistance, training, operating costs, special studies, capacity building and investments. It may also disburse funds either as direct payment or in the form of advances as provided in the MOA entered into with implementing agencies and partners.

3. Disbursements from these PHP project accounts will follow government policies and procedures and according to the approved AWPBs. Disbursements from these PHP accounts by the DAR/CPMO will follow the procedures of the DBM and in accordance with the Government's accounting and auditing rules and procedures and will be included in the PIM. Appendix 1 is the Funds Flow Chart.

4. DAR Central Office through the SSO-FAP will ensure that the project AWPB is included in the Department's budget proposal submitted to the DBM for the preparation of the annual budget appropriations by filling up the required DBM Budget Preparation forms. The costs included in the project AWPB must be within the ceiling provided in the Forward Obligation Authority (FOA) approved for the project. If a special budget is necessary, DAR Central Office will likewise prepare and submit the necessary documents to the DBM. The AWPB will include both the foreign and counterpart funds.

5. The SSO-FAP will coordinate with IFAD on the timely submission of withdrawal applications, Statement of Expenditures (SOE) and the required supporting documents and accordingly release of funds by IFAD. It will monitor the receipt of funds by the depository bank and notify BTr to facilitate issuance of the required Certification for the release of funds by the DBM and the transfer of funds to the DAs.

6. The SSO-FAP will facilitate transfer of the funds from the DAs to Pass-through Accounts and from the Pass-Through Accounts to the Project Accounts of the CPMO following the prescribed national accounting and auditing regulations.

7. Funds will be released by the CPMO to the three RPMOs, which in turn will release funds to the PPMOs in accordance with the AWPB and upon submission of liquidation/disbursement reports and supporting documents of previously released funds. Release of funds will be through the issuance of sub-allotment advice/notice of transfer of cash and/or funding cheque, as may be applicable following the prescribed national accounting and auditing regulations.

8. Funds for activities to be undertaken by other implementing agencies, e.g. DA, DENR, DTI, DOST and LGUs, will be the subject of a MOA with DAR CPMO, RPMO or PPMO depending on the scope of the activities according to the AWPB and their authority limits. The MOA will specify the considerations, activities and conditions for the payment or release of funds including the documentary requirements for the provision and liquidation of advances. Payments will be made by DAR through the issuance of check from the appropriate project account.

II. DISBURSEMENT OF PROJECT FUNDS

9. The project will use mainly IFAD's Designated Account disbursement procedures. If necessary it may also use the other methods of disbursement like the Direct Payment or Reimbursement. IFAD's standard disbursement procedures as prescribed in its Loan Disbursement Handbook will be followed in the disbursement and replenishment of loan and grant proceeds in the DAs. In case of direct payment, corresponding national procedures on such method of disbursements will be followed, that is the issuance of Non-cash Availment Authority by DBM.

10. The project will use the following disbursement methods under the transaction based disbursement procedure:

- **Reimbursement:** IFAD may reimburse the Borrower for expenditures eligible for financing in accordance with the Financing Agreement (eligible expenditures), as retroactive financing, that the Borrower has pre-financed from its own resources for the Project Start-up Costs.
- **Advance:** IFAD may advance loan proceeds into a Designated Account (DA) operated by the Borrower through DAR to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date. Replenishment of the DA will be by way of withdrawal applications (WAs) submitted regularly by DAR.
- **Direct Payment:** IFAD may make payments at the borrower's request, directly to a third party e.g. supplier, contractor and consultant for eligible expenditures.
- **Special commitment:** This modality is used for eligible project expenditures related to items imported by project implementing agencies under a letter of credit requiring the issuance of guarantees for reimbursement to negotiating banks by IFAD.

11. Disbursements relating to activities undertaken by or at the central level will be the concern and responsibility of the CPMO. Disbursements for local activities will be administered by the concerned RPMO or PPMO provided that amounts are with the limits of their authorities.

12. Statements of Expenditure (SOEs) will cover all categories of expenditure, for amounts not exceeding USD 100 000. SOEs will be prepared by the disbursing offices. Provincial SOEs will be submitted to and consolidated by their respective RPMO and the SOEs of RPMOs will be consolidated by the CPMO.

13. The Borrower through DAR should apply for replenishment of the DAs on a quarterly basis or once the amount withdrawn reaches at least one third of the amount advanced, if this occurs sooner. The Withdrawal Applications should be submitted promptly once the monthly and/or quarterly statement is received from the bank in which the DAs are held and bank fund balance is reconciled. The replenishment applications documenting the expenditures from the DAs must be submitted regularly and any ineligible amounts must be promptly refunded to the DAs or otherwise justified through the submission of evidence that other eligible expenditures have been financed from the Borrower's own resources. The CPMO will submit the SOEs and withdrawal applications to the DAR-FAPSO for onward submission to IFAD.

14. Each WA will be supported by copies of supporting documents or SOEs and DA Account Reconciliation Statement. The CPMO, RPMO and PPMO will:

- Make payment from their respective accounts for all eligible Project expenditures according to the approved Project AWPBs.
- Obtain and keep receipts for all Project expenditures.
- Prepare and maintain accounts and records of all Project expenditures, reflecting all Project expenditures by Project component/activity and disbursement categories.
- Consolidate and process, on a timely basis, records of eligible Project expenditures and withdrawal applications for submission to DAR-FAPSO for forwarding to IFAD for reimbursement or replenishment of the DAs.
- Record properly and keep in safe condition details of all transactions relating to the Project to be made available to the supervision missions and independent auditors.

15. For reporting eligible expenditures paid from the designated account and requesting for reimbursement, the following Supporting Documents for Disbursement will be required:

- **SOEs** will be accepted for eligible project expenditures less than USD 100,000 or its equivalent.
- **Full documentation** including records evidencing eligible expenditures (e.g. signed contract, invoices) are required for any expenditure exceeding the above limit.
- **WA for direct payments**. Purchase records providing evidence of eligible expenditures (such as copies of contracts, purchase orders, supplier's invoice and receipts, etc.) will be submitted together with withdrawal applications setting out clear payment instructions.
- **WA.** Based on the disbursement reports prepared and submitted by the Finance staff of each of RPMO and PPMO, withdrawal application will be prepared and consolidated by the finance staff of CPMO and submitted to the SSO-FAP for the final signature and onward submission to IFAD.
- For such SOE withdrawals, the relevant supporting documents need not be submitted to IFAD, but will be retained by the Borrower for inspection and review by representatives of IFAD during supervision missions, who will report specifically in the Supervision Report their findings subsequent to such inspection. All original records providing evidence of the expenditures will be retained by the Borrower and/or the Implementing Agencies until ten years after the closing date for withdrawals.
- Should the IFAD's supervision missions find that certain disbursements have been made which are not justified by the supporting documentation, or are ineligible, IFAD will have the right to withhold further advances to the DAs. IFAD may exercise this right until the Borrower/Recipient has refunded the amount involved or (if IFAD agrees) has submitted evidence of other eligible expenditure that offset the ineligible amounts.
- Minimum withdrawal from the Loan and Grant Accounts: The minimum size of each withdrawal application is USD 20,000 for the Loan and USD 20,000 for the Grant or its equivalent.

16. The control of soft expenditures is related to how controls of fuel, training, per diems etc. should operate. The purpose is to ensure that all such expenses are properly authorized and that appropriate documentary evidence is available to support the expenditures. The controls related to soft expenditures shall include but not be limited to:

- Procedures and controls for Budgeting and Acquitting of Expenditures for Workshops. This will include, for example, selection criteria for participants, controls on attendance, controls against budgeted expenditures, and the Finance Section undertaking verification (including where applicable spot checks).
- Procedures for controls of fuel and vehicle log books.
- Maintenance and monitoring of advance records.

17. Expense items under the various components of project will be incurred and disbursed as follows:

No.	Component/subcomponent/Items of Expenditures	Office Concerned	Conditions/Remarks
1.	Participatory Value Chain Analysis and Planning		As per AWPB
1.a	Technical assistance (national consultants) and related expenses	CPMO	
1.b	Regional workshops	RPMO	Within their signing authorities
1.c	Local surveys/interviews/meetings	PPMO	
1.d	Special Studies	CPMO/RPMO	
2.	Integrated Small Holder Agriculture and Rural Enterprise Development (I-SHARED)		
2.1	Support to Farm and Enterprise Development	RPMO/PPMO	As per AWPB
2.1a	Technical Assistance (national/regional)	CPMO/RPMO	
2.1.b	Information Materials	PPMO	
2.1.c	Gender Strategic Activities	CPMO	
2.1.d	Value-chain related Capability Building (To be applied for and availed by proponents/ stakeholders in the approved value-chain)	CPMO/RPMO	Based on plan approved by the RMSC
2.1.e	Investment in Farm and Enterprise Development (To be applied for and availed by proponents/ stakeholders in the approved value-chain)	CPMO/RPMO	Approved by RMSC
2.2	Investments in VC related Rural Infrastructure and Equipment		
2.2 a	Investment in Rural infrastructures (to be applied for and availed/undertaken by LGUs	CPMO/RPMO	Approved by the RMSC; Subject NG-LGU cost sharing scheme, national policy/rules
2.2.b	Investment in Value-chain Equipment (to be availed POs, LGUs and other proponents)	CPMO/RPMO	Approved by RMSC; subject to guidelines to be formulated during implementation
3.	Project Management		
3.a	Policy studies and development (in-house by service providers)	CPMO	As per AWPB
3.b	Project staff training and capacity building (assessment and activities)	CPMO	Approved by the Steering Committee
3.c	Vehicles and ICT Equipment	DAR CENTRAL OFFICE BAC	Subject to existing government rules on acquisition of vehicles and equipment
Recurrent costs: Salaries and operating expenses			As per AWPB
A.	National Project Staff and related operating expenses	CPMO	
B.	Regional Project Staff and related operating expenses	RPMO	
C	Provincial Project Staff and related operating expenses	PPMO	

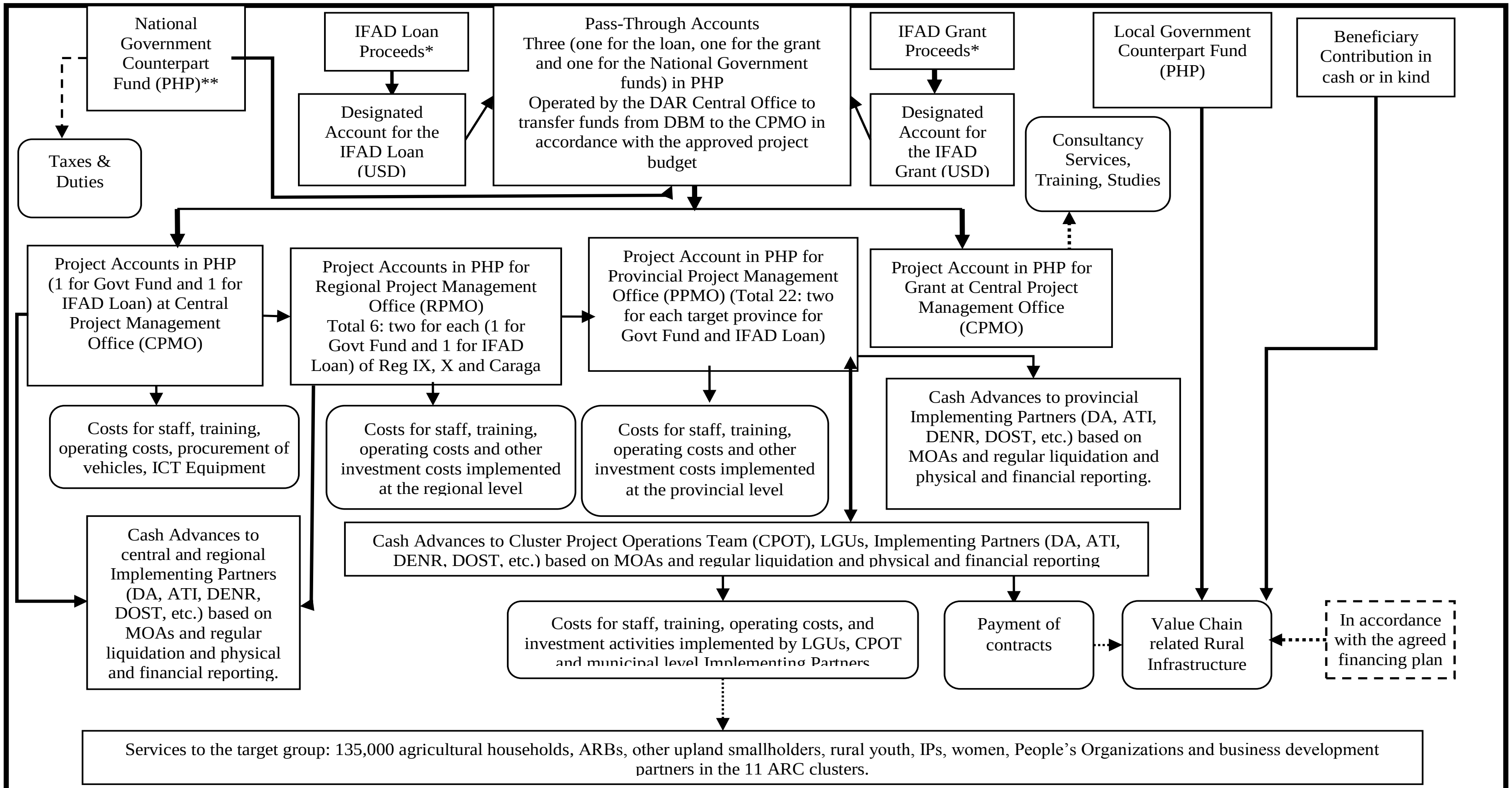
III. FINANCIAL ACCOUNTING AND AUDITING

18. The project will be audited annually. The auditors will be required to visit the project areas, review the procedures used and check sample transactions to confirm that: (i) goods and services were obtained locally or from the Fund's Member States; (ii) they were within the project and category description defined in the Financing Agreement; (iii) they were procured in accordance with the provisions of the Financing Agreement; (iv) payments were made or due for goods, works and services that were provided after the date of signing the Financing Agreement or any date specified for retroactive financing and before the grant closing date; and (v) withdrawal applications were in an acceptable form and accompanied by satisfactory supporting documentation. TOR for the annual audit is attached.

19. The project audit will follow the IFAD's "Guidelines on Project Audits (Borrowers' Use)". Within 90 days after the Effective Date, the CPMO will appoint, with the prior approval of IFAD, an independent and external auditor selected by the CPMO (Commission on Audit) in accordance with the procedures and criteria set forth in the IFAD's "Guidelines on Project Audits (Borrowers' Use)", as may be amended from time to time, to audit the Consolidated Financial Statements relating to the Project for the first Fiscal year

covering the period from the date of effectiveness of the Loan until 31st December. Thereafter, as soon as practicable but in no event later than 90 days after the beginning of each succeeding fiscal year, the CPMO, with the prior approval of IFAD, will confirm such auditor' appointment or so appoint a new independent and external auditor for each succeeding fiscal year. The CPMO will have the Consolidated Financial Statements relating to the Project audited each Fiscal Year by such auditor in accordance with the International Standards on Auditing until the Loan Closing Date, in accordance with Section 9.03 of the IFAD's General Conditions. In addition to the audit report on the Consolidated Financial Statements, the auditors will provide a separate opinion on each of: (i) the operations of the certified statements of expenditure; (ii) the operations of the Designated Accounts for the IFAD loan and grant; (iii) the operations of Project Accounts; and (iv) the operations of the government counterpart funds. The auditor will provide a management letter, addressing the adequacy of the accounting and internal control systems. The CPMO will submit to IFAD through DAR-FAPSO the reply to the management letter of the auditor within one month of receipt thereof. The CPMO through DAR-FAPSO will deliver the above-mentioned items to IFAD within six months of the end of each such Fiscal Year.

Annex 1: Funds Flow Chart



* Through Bureau of Treasury and Department of Budget and Management.
** Guidelines will be provided in the Project Design Report.

Total 36 bank accounts:
Designated Accounts: **2**, one for the IFAD loan and one for the IFAD grant.
Pass-Through Account: **3** (one for the loan, one for the grant and one for the National Government Counterpart Funds) operated by the DAR Central Office.
Project accounts for the IFAD loan: Total **15** (one for CPMO, one for each of the three RPMOs, one for each of the 11 PPMOs.
Project account for the IFAD Grant: **1** for the CPMO.
Project Accounts for the Government Financing: Total **15**, one for CPMO, one for each of the three RPMOs, one for each of the 11 PPMOs.

Annex 2: Draft Letter to the Borrower

LETTER TO THE BORROWER
Draft

<u>This Draft Letter to the Borrower (LTB) summarises the main methods and procedures governing loan administration as well as those related to the supervision of the project activities by IFAD. This draft LTB needs to be agreed upon at the wrap-up meeting of the Appraisal Mission. The agreed draft will be issued by the Fund to the Government of the Philippines after execution of the Loan / Grant Agreement.</u>

Excellency
Authorized Representative of the Borrower/Recipient
Insert the address here

[Date]

Mr. Secretary,

Subject: Letter to the Borrower

Country: Philippines
IFAD Financing: Loan number ------ and/or Grant number --------
Project: Project Converge

1. Reference is made to the Project Financing Agreement (hereinafter referred to as the Loan Agreement) between the Government of the Republic of the Philippines (hereinafter referred to as "the Borrower") and the International Fund for Agricultural Development (IFAD) dated -------------. This letter provides additional instructions on the methods and procedures for Disbursement, Procurement, Financial, and other reporting, and Audit, related to the above Financing.

2. As referred to in the General Conditions for Agricultural Development Financing dated 30 April 2009 (hereinafter called "the General Conditions") the Loan account will be credited with Special Drawing Rights (SDR) ----- amount in words ----- (SDR ---- figure ----) upon the date of entry into force of the Loan Agreement, and the Grant account will be credited with Special Drawing Rights (SDR) ----- amount in words ----- (SDR ---- figure ----) upon the date of entry into force of the Financing Agreement, in accordance with the provisions of the Financing Agreement and Section 4.01 of the General Conditions.

3. This letter summarises the main methods and procedures governing loan administration as well as those related to the supervision of the project activities by IFAD. We enclose IFAD's Loan Disbursement Handbook (LDH)[34], which includes standard information, model forms and instructions, as more fully described therein, to facilitate the withdrawal of financing proceeds and maintenance of appropriate project records.

Disbursement Procedures

4. There are four standard procedures which may be used for withdrawal of financing proceeds based on approved AWPBs :

(i) Advance Withdrawal or replenishment to the Designated Account
(ii) Direct Payment
(iii) Special Commitment
(iv) Reimbursement

[34] Copy available on IFAD's website www.ifad.org.

The forms, instructions, information and explanatory notes on their preparation and operation are provided in the LDH.

5. Eligible Expenditures shall be incurred during the Project implementation period, which expires on the Project Completion Date), the ---- the anniversary of the date of entry into force of the Financing Agreement, except for a limited amount of expenditures to meet the costs of winding up the Project which may be incurred after the Project Completion Date but before the Loan/ Grant Closing Date. The Loan/Grant Closing Date for receipt of withdrawal requests is six months after the Project Completion Date.

6. Disbursement Conditions are provided in Section E.3 of the Financing Agreement and are as follows:

(i) The Government will have opened the Designated Account-Loan and Designated Account-Grant with the Central Bank or any other bank acceptable to IFAD.
(ii) DAR will have opened their Operational Project Accounts.
(iii) DAR would have appointed the Project Director and established the Central, Regional and Provincial Project Management Offices and appointed key project staff.
(iv) DAR will have prepared an AWPB (including Procurement Plan for the first 18 months) for the first year of project operation, and obtained IFAD's approval for this AWPB.

7. The Financing Proceeds shall not be used to finance taxes or duties of any kind whatsoever, as stipulated under Section 11.01 of the General Conditions. If the Fund determines at any time that financing proceeds have been applied towards paying for taxes, the same shall be refunded to the Fund by the Borrower/ Recipient, in compliance with Section 11.02 of the General Conditions.

Designated Accounts

8. (a) Section 4.04 (d) of the General Conditions, provides that designated accounts should be protected against set off, seizure or attachment on terms and conditions proposed by the Borrower/ Recipient and accepted by the Fund. In accordance with the approved project design document, the Borrower/Recipient has agreed the following designated accounts be opened as soon as possible after entry into force of the Financing Agreement, to be utilised for project operations:

a. Designated Account denominated in US Dollars, referred to as the 'Designated Account-Loan', to be opened and maintained in the Central Bank or any other Bank proposed by the Borrower and accepted by the Fund, for the purpose of financing the Project;

b. A Designated Account denominated in US Dollars, referred to as the 'Designated Account-Grant', to be opened and maintained in the Central Bank or any other Bank proposed by the Borrower and accepted by the Fund, for the purpose of financing the Project;

c. Operational Project Accounts (referred to as Project Accounts) denominated in Philippine Peso (PHP), to be maintained by DAR in a bank acceptable to the Fund;

d. The ceiling agreed to be the Fund's reasonable limit for the Designated Account-Loan is US Dollars 2.5 million and for the Designated Account-Grant is US Dollars 200,000). Under exceptional circumstances, based on a request from the Borrower, the Fund may revise the agreed ceilings and communicate to the Borrower accordingly. The Fund may advance all or any part of this ceiling as an initial advance to the Designated Accounts, based on a Withdrawal Application from the Borrower, within a reasonable time from the execution of the Financing Agreement. Such initial advance shall be transferred by the Department of Budget Management to the operational accounts maintained by DAR, at central and regional levels, within 15 days of receipt thereof, in the ratio of donor funding to each account. However, no transfers shall be made to the operational accounts until the operational accounts are opened and the Central, Regional and Provincial Project Management Offices established.

(e) The Department of Budget Management, on behalf of the Borrower, shall be fully authorized to operate and manage the Designated Accounts in 8 (i) and (ii) above;

(f) Additionally, counterpart funding as provided in Section B. 6 of the Financing Agreement shall be deposited by the Borrower/Recipient directly into the Designated Accounts in 8 (iii) above in accordance with customary national procedures for development assistance. For such purpose, the Borrower /Recipient shall make budgetary allocations, annually in advance for each Fiscal year, equal to the counterpart funds committed for the relevant year in the AWPB.

Instructions for Withdrawal

9. Explanatory notes and forms to be used for the preparation of the withdrawal application for disbursement procedures are provided in the LDH.

10. Article IV, Section 4.04(b) of the General Conditions requires that, before withdrawal can commence, IFAD receive from the Ministry of Finance exact title of the Borrower's designated official representative, a letter designating the name(s) of official(s) authorised to sign withdrawal applications, together with their authenticated specimen signature/s. A sample form of the authorization letter is provided in the LDH. If there are changes with respect to the authorised signatories, IFAD should receive a new authorisation, in the same format, inclusive of the date from which such change has effect. This will ensure uninterrupted processing and expeditious payment of withdrawal applications. It is agreed that the Project Director of the Central Project Management Office (CPMO) authorised by the Undersecretary of DAR for Support Services shall be the authorized signatory for Withdrawal Applications and the alternate signatory will be the Finance Officer of the CPMO authorised by the Assistant Secretary for Finance, Management and Administrative Office of DAR. Withdrawal Applications will be compiled by DAR based on inputs received from the other Implementing Agencies.

11. The minimum size of each withdrawal application is US Dollars twenty thousand for the Loan (USD 20,000.00) and US Dollars twenty thousand for the Grant (USD 20,000.00) or its equivalent, or such other amount as IFAD may designate from time to time.

12. Withdrawal application are to be prepared in the English, duly completed and signed, as prescribed in the LDH, together with all required supporting documentation, should be sent to :

International Fund for Agricultural Development (IFAD),
Via Paolo Di Dono 44,
00142 Rome, Italy
Attn.: Country Programme Manager

13. A copy of the withdrawal application without supporting documents should be sent to the Loans and Grants Section of Financial Services Division, IFAD, Via Paolo di Dono 44, 00142 Rome – Italy. It is recommended that withdrawal applications and necessary supporting documents be sent by the Borrower to IFAD by courier post in order to expedite the withdrawal process. Queries regarding a particular withdrawal application should be directed to IFAD, Country Programme Manager, Programme Management Department (PMD). Once approval of the PO has been provided by the PMD Regional Division, queries regarding payment status and value date of payments should be directed to IFAD, Loans and Grants Section of the Financial Services Division.

Statement of Expenditure

14. The LDH provides details on the use of the Statement of Expenditure (SOE) facility for withdrawals of certain types of expenditures from the loan account. For such SOE withdrawals, the relevant supporting documents need not be submitted to IFAD, but shall be retained by the Borrower for period inspection by representatives of IFAD during supervision missions, who will report specifically within the Supervision Report, their findings subsequent to such inspection. All original records evidencing the expenditures shall be retained by the Borrower/Recipient and/or the Implementing Agencies until 10 years after the closing date for withdrawals. It shall be the

responsibility of the Borrower/ Recipient to produce these records for verification whenever called for by the Fund.

15. The Borrower and the Fund have agreed that for presentation of SOE, thresholds as follows, are to be applied:

(i) For all categories of expenditures for amounts not exceeding US Dollars one hundred thousand only (USD 100,000.00).

16. Threshold above may be amended during the course of project implementation, subject to prior agreement between the Borrower/Recipient and the Fund, and under communication by IFAD to the Borrower/Recipient.

17. In accordance with Annex III, Para 8 of the "IFAD Guidelines on Project Audits (for Borrowers' Use)", all expenditures disbursed on the basis of SOEs should be audited annually by an Independent Auditor, and a separate opinion of the Auditor in respect of the SOEs must be included in the certified audit report which must be submitted to IFAD**.**

The Annual Work Plan and Budget (AWPB) and Procurement Plan

In accordance with provisions of Section 7.01 (a) (iv) and (b) of the General Conditions, the lead implementing agency [DAR] shall be responsible for providing the Fund with a consolidated and approved Draft AWPB, which includes an 18-month Procurement Plan. The AWPB and Procurement Plan shall be a consolidation of the individual AWPBs and Procurement Plans prepared by each of the three Regions and at central level. The AWPBs shall be in line with the approved Global AWPB. Such consolidated and approved Draft AWPB shall be submitted to the Fund for review and comment no later than 45 days prior the beginning of the relevant project year. If the Fund does not comment on the Draft AWPB within 30 days of receipt, the AWPB shall be deemed acceptable to the Fund and the AWPB shall be adopted in the form accepted by the Fund. Adjustments may be proposed by the Implementing Agencies through the Project Steering Committee during the project year with acceptance criteria following the same procedure as for the Draft AWPB above. The AWPB shall be processed following the Borrower's normal legislative procedures for externally funded projects.

Allocation of Financing Proceeds

18. Paragraph 1 of Schedule 2 of the Loan Agreement and Schedule 1 of the Financing Agreement set forth the categories of eligible expenditures to be financed out of the proceeds of the Financing, as well as the allocation of amounts per category and the percentages of expenditures to be financed by the IFAD financing under Loan and Grant respectively.

Procurement of Goods, Civil Works and Consulting Services

19. Procurement will follow the Philippine Government's Procurement Reformed Act (GPRA) or RA 9184 as implemented following the latest Implementing Rules and Regulations to the extent that they are consistent with IFAD's Procurement Guidelines. Where there are differences, the IFAD Guidelines will take precedence. It is important to note that Procurement shall be undertaken only during the Project Implementation Period. We enclose for your use a copy of IFAD's Procurement Guidelines. A current list of IFAD member states as eligible sources of procurement is provided in the LDH.

Procurement Methods

20. As provided in Appendix I, paragraph 1 of IFAD's Procurement Guidelines, each procurement plan shall include the proposed contracts, methods of procurement and related IFAD review procedures. The methods of procurement to be used for this Project are discussed in detail in Attachment to this Letter.

Review of Procurement Decisions by IFAD

21. For the purposes of Appendix I, paragraph 2. of IFAD's Procurement Guidelines, the Borrower and IFAD have agreed that the following shall apply:

(i) The award of any contract for goods and works estimated to cost more than USD 250 000 and for consulting services estimated to cost more than USD 100,000 shall be subject to prior 1

(ii) review by IFAD.

(iii) The aforementioned may be modified from time to time as notified by the Fund to the Borrower / Recipient.

22. With respect to any contract for goods, civil works and consulting or other services valued at over US Dollars twenty Thousand Only, the Borrower shall furnish two certified or conformed copies of such contract to IFAD for the Attention of the IFAD Country Programme Officer, together with the analysis of the respective bids and the recommendations for award, promptly after its signing and prior to the submission to IFAD of the first application for withdrawal of funds from the Loan/Grant Accounts in respect of such contract. For all contracts for goods, works and services valued at over USD 20,000.00, two certified or conformed copies of the relevant contracts shall be submitted to support the respective WA and SOE.

23. Before agreeing to any material modification or waiver of the terms and conditions of any contract for procurement or granting an extension of the stipulated time for the performance of such contract, or issuing any change order under such contract (except in cases of extreme urgency) that would increase the cost of the contract by more than 10% of the original price, the Borrower shall have the renewed terms concurred to by the CPMO.

24. All contracts should be listed in the Register of Contracts, to be maintained by each Implementing Agency, with the dates of approvals as provided by the CPMO. Please ensure the Register is updated and submitted to the IFAD Country Programme Manager on a monthly basis, as this report facilitates the review and approval of payment requests on contracts. The sample form to be used and instructions are detailed in the LDH. In addition, a copy of the CPMO's approval, to the contract award together with the Contract Monitoring Record, sample of which is provided in the LDH is required as supporting documentation to each relevant withdrawal application.

Programme Reviews, Periodic Assessments and Reporting

25. IFAD will communicate with you regarding the timing of the Project Start-up Mission. During project start-up IFAD will address issues related to all financial, administrative, technical and other issues, including arrangements required for starting the Project activities. In addition, the mission, together with the Project Staff, will review the proposed Annual Work Plan and Budget (AWPB), updated Procurement Plan, as well as schedules of projected expenditures and disbursements. Recommendations will be made regarding the responsibilities of each party, i.e. the Borrower/Recipient, the Project Coordinating Agency (namely the Department of Agrarian Reform) and the other two main Implementing Agencies (namely, the Department of Agriculture and the Department of Environment and Natural Resources) and IFAD, and the required actions to be taken. The mission will discuss in detail the practical aspects of loan and grant administration matters with the Project Staff directly involved in disbursements and procurement as well as provide explanations on the practices that will be followed during the project supervision.

26. Periodic technical field reviews and assessments will be undertaken by IFAD Supervision Missions at intervals agreed with the Borrower. The main purpose of these missions is to assess the project implementation status, review fiduciary aspects, identify operational problems and propose corrective actions. The Supervision Missions will prepare and submit to the Borrower/ Recipient issue-oriented technical supervision reports on project progress, implementation problems and loan and grant administration matters.

27. The Borrower/Recipient and the Fund agree to the following timelines for installation of systems reviews and reports during implementation.

(i) In pursuance of Section 8.02 (a) of the General Conditions, each Implementing Agency shall install, not later than 180 days from the date of execution of the Financing Agreement, and maintain an appropriate information management system in accordance with the Fund's Guidelines for Project Monitoring and Evaluation, to continuously monitor the Project during its life.

(ii) In pursuance of Section 8.03 of the General Conditions, the Project Coordinating Agency shall submit to the Fund, a six monthly Consolidated Progress Report, in a format acceptable to the Fund. These reports shall contain quantitative, qualitative and financial information stipulated by the Fund from time to time and shall be submitted not later than 31 August and 28 February for the semesters ending on 30 June and 31 December respectively, of each Project Year. The Consolidated Progress Report shall draw information from Progress Reports received by the Project Coordinating Agency from each Implementing Agency.

(iii) In pursuance of Section 9.04 of the General Conditions, the Project Coordinating Agency shall prepare and submit to the Fund, a six monthly Consolidated Financial Statements, in formats acceptable to the Fund. These reports shall contain shall be submitted not later than 31 August and 28 February for the semesters ending on 30 June and 31 December respectively, of each Project Year.

Financial Reporting and Auditing

28. Article IX of the General Conditions references financial requirements for separate financial reporting and records for the project, financial statements, auditing and other financial reports and information, inclusive of timeframes for submission to the Fund as follows:

i. The Borrower/Recipient shall deliver yearly financial statements within three months of the end of each fiscal year.

ii. The Borrower/ Recipient shall have the financial statements relating to the project audited by the Commission on Audit as the Supreme Audit Institution of the Philippine Government and submitted to IFAD within six months of the end of each fiscal year. The audit shall be conducted according to International Auditing Standards or other auditing standards acceptable to the Fund. The auditor shall express clear opinions on the Project Financial Statements, eligibility of expenditure claimed from the Fund through Withdrawal Applications, adequacy of supporting documentation for expenditure claimed through SOEs, adequacy and timeliness of counterpart funding, adherence of procurement transactions to the relevant national regulations and to IFAD's Procurement Guidelines, operation of the Designated Accounts, ownership, condition and usage of Project Assets. The Auditors shall also submit a Management Letter, which identifies weaknesses, if any, in internal control systems suggests measures to improve these systems. The Borrower's response to the Management Letter of the Auditor is required to be submitted to the Fund, within one month of receipt thereof.

29. Apart from reference in the LDH detailed requirements are provided in the "IFAD Guidelines on Project Audits (for Borrower's Use)"[35] and the "IFAD Operational Procedures for Project Audit"[36], as both may be amended from time to time.

30. Each Implementing Agency will maintain basic accounting records for the Project including Cash Books, Ledgers, Advance Register etc., as per Government of the Philippines Regulations. They will also maintain adequate supporting documentation for all project related expenditure. The CPO will have full access to these records and these records will also be subject to scrutiny by internal/ external auditors and IFAD Supervision Missions.

31. As you may be aware the Fund has adopted a zero-tolerance policy[37] towards fraudulent, corrupt, collusive or coercive actions which have occurred in projects financed through its loans and/or grants. Where it determines through an investigation that such practices have occurred, the

[35] Copy available on IFAD's website www.ifad.org
[36] Copy available on IFAD's website www.ifad.org
[37] "IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations" is available on IFAD's website www.ifad.org

Fund has a range of sanctions at its disposal in accordance with the provisions of applicable IFAD rules and regulations and legal instruments. “Zero tolerance” means that IFAD will pursue all allegations falling under the scope of this policy and that appropriate sanctions will be applied where the allegations are substantiated. This policy applies to IFAD-funded activities whether supervised directly by the Fund or by a cooperating institution. The Fund will continue to improve its internal controls, including controls inherent in or pertaining to its project activities, so as to ensure that it is effective in preventing, detecting and investigating fraudulent, corrupt, collusive and coercive practices. The Fund shall take all possible actions to protect from reprisals individuals who help reveal corrupt practices in its project or grant activities and individuals or entities subject to unfair or malicious allegations. This policy is in line with the policies adopted by the other international financial institutions.

32. A copy of this letter is being sent for information to the Implementing Agencies and concerned government offices. If you have any queries regarding matters detailed in the foregoing, please do not hesitate to contact.

Accept, Mr. Secretary, the assurances of our highest consideration.

Kevin Cleaver
Assistant President
Programme Management Department

Attachment: Procurement Methods

The project will follow the Philippine Government's Procurement Reformed Act (GPRA) or RA 9184 as implemented following the latest Implementing Rules and Regulations to the extent that they are consistent with IFAD's Procurement Guidelines. When there are divergences, the IFAD Guidelines shall precede.
The method of procurement must be mentioned in the Procurement Plan, and approved by IFAD in advance. Any change in the method of procurement must be approved by IFAD.
Procurement of Goods: Each contract for goods estimated to cost USD 25,000 or more shall be procured through National Competitive Bidding and for each contract for goods to cost less than USD 25,000 procurement shall use National Shopping procedures.
Procurement of Works: Each contract for works estimated to cost USD 25,000 or more shall be procured through National Competitive Bidding and for each contract for works to cost less than USD 25,000 procurement shall use National Shopping procedures.
Direct Contracting will be limited to the following scenarios and will require IFAD's concurrence for each case:

(i) Where an extension to an existing contract for goods or works is required under 25% of the existing contract in value.
(ii) Where the equipment required is proprietary, there is only one source and no alternative exists.
(iii) Where there is a need to standardise upon existing equipment and to achieve compatibility in spare parts.
(iv) In cases of emergency, where urgent delivery is required.

Procurement involving community participation: In accordance with the IFAD Procurement Guidelines, procurement with community participation is not a distinct method of procurement and therefore requires the same adherence to all principles and standards set out in the IFAD Procurement Guidelines. Under the term "community participation", the community may play one or more of the following roles during project implementation: (i) as a provider of goods, works or services directly to the project; and (ii) as the implementing agency undertaking procurement for the project.
Procurement of Services: For each contract for the selection of consultancy services estimated to cost: (i) USD 20,000 equivalent or more will use Quality and Cost Based Selection (QCBS); and (ii) USD 20,000 equivalent or below will follow Selection Based on Consultants Qualification method. The selection of individual consultants will follow Selection Based on Consultants Qualification method.
Sole Source Selection will be limited to the following scenarios and will require IFAD's concurrence for each case. The scenarios are: (i) for tasks that are a natural continuation of previous work carried out by the consultant; (ii) where rapid selection is essential (for example, in an emergency situation); (iii) for very low value assignments costing less than USD 2,000; and (iv) when only one firm is qualified or has the necessary experience for the assignment.

Review of Procurement Decisions: The award of any contract for goods and works estimated to cost more than USD 250 000 and for consulting services estimated to cost more than USD 100,000 shall be subject to prior review by IFAD where IFAD will issue a No Objection Letter. The prior review procedure is detailed in IFAD's Procurement Guidelines and will be undertaken directly by IFAD.

Annex 3: Audit - Draft Terms of Reference

I. BACKGROUND[38]

1. Project Converge is funded by IFAD through a loan amounting to USD 32.2 million and a grant worth USD 0.8 million with financial contributions from the Government of the Philippines of USD ... million, the LGUs of USD ... million and beneficiaries of about USD ... million. The Project Financing Agreement became effective on ____________________ with a project completion date on ______ ____________ and a loan closing date on _________________.

2. The Financing Agreement provides that within 90 days of the Effective Date, the Borrower through the Lead Agency, the DAR, will appoint independent auditors, in this case, the Commission on Audit (the National Supreme Audit Institution) to audit the Financial Statements relating to the Project for the first Fiscal Year. The first Fiscal Year audit will cover the period from the date of effectiveness of the Loan until 31st December of that year. The Borrower will submit to the IFAD the audit reports within six (6) months from the end of each fiscal year.

3. In addition to the annual audit reports on the financial statements, the auditors shall provide: (i) an opinion on the certified statements of expenditures and the operation of the Designated Accounts (DAs) and Project Accounts (PAs); and, (ii) a separate management letter, addressing the adequacy of the accounting, reporting and internal control systems.

4. The objective of the audit is to enable the auditor to express a professional opinion on:

- The financial position of the at the end of each fiscal year (31st December) and of the funds received and expenditures incurred for the same period as reported in the Project Financial Statements (PFS), including an opinion on the statements of expenditure (SOE) and the DAs and PAs.
- The project books of accounts and records provide the basis for the PFS and have been adequately maintained.

5. The audit will be carried out in accordance with International Auditing Standards and tests and reviews will cover the following, with reference to their alignment to the financing agreement: (i) use of external and counterpart funds; (ii) procurement of goods, services and consultancies; (iii) adequacy of supporting documentation, records and accounts; (iv) operation of the DAs and PAs; and (v) that project accounts have been prepared consistently reflecting a true and fair view of the financial state of the project at the year end.

6. The PFS which the auditor will finalize will include: (i) source and disposition of funds statement and balance sheet; (ii) yearly and cumulative SOEs by withdrawal application and expenditure category; (iii) reconciliation of the DAs and PAs; and (iv) consolidated financial statements of CMPO, RPMOs and PPMOs.

7. There will be a reconciliation showing the amounts shown as being received by the Project and those shown as being disbursed by IFAD.

8. The audit will review the eligibility of expenditures claimed under SOEs and used as a basis for the WAs. Any ineligible expenditure amounts that have been reimbursed will be noted. A referenced listing of individual SOE withdrawal applications will be attached to the PFS and total withdrawals under SOE procedures will be part of the reconciliation statement.

9. The audits of the DAs and PAs will cover deposits, replenishments, interest and the balances at the year end. Specifically, the Auditor must form an opinion on the compliance with IFAD procedures and the financing agreement – specifically examining: (i) eligibility of withdrawals; (ii) operation of the accounts; (iii) adequacy of internal controls; and (iv) the use of correct conversion rates from USD to PHP.

[38] The detailed long version of the audit TOR will be included in the PIM.

10. As part of the opinion on the project's financial statements, the audit report will also include an opinion on the SOEs and the DAs and PAs indicating the extent to which these procedures can be relied upon as a basis for disbursements under the project.

11. The Auditor will provide a Management Letter which will identify any deficiencies in the projects procedures and systems and make recommendations for improvement; it will also include any other matters that might materially impact project implementation.

Terms of Reference - External Audit (Long Version) [39]

A. BACKGROUND

1. Project Converge is funded by IFAD through a loan amounting to USD 32.2 million and a grant worth USD 0.8 million with financial contributions from the Government of the Philippines (GOP) of USD x.x million, LGU counterpart of USD x.x million and Beneficiaries of about USD xx.x million. The Project Financing Agreement became effective on _____________________ with a project completion date on ______ ____________ and a loan closing date on __________________.

2. The Financing Agreement provides that within 90 days after the Effective Date, the Borrower through the Lead Agency DAR shall appoint independent auditors in this case the Commission on Audit (as the National Supreme Audit Institution) to audit the Financial Statements relating to the Programme for the first Fiscal Year. The first Fiscal Year audit will cover the period from the effectivity of the Loan until The Borrower shall submit to the IFAD the audit reports within six (6) months from the end of the each financial year covering 1 January to 31 December.

3. In addition to the annual audit reports on the financial statements, the auditors shall provide: (i) an opinion on the certified statements of expenditures and the operation of the Special Accounts; and (ii) a separate management letter, addressing the adequacy of the accounting, reporting and internal control systems.

4. The Project's overall goal is to contribute to reducing the incidence of poverty in the ten target provinces of Regions IX, X and Caraga. The project's development objective is that the target group benefits from profitable and sustainable investments in producing, adding value to and marketing of selected agricultural products. The project has three components: (i) Participatory Value-Chain Analysis and Planning; (ii) Integrated Smallholders Agricultural and Rural Enterprise Development; and (iii) Project Management, Monitoring and Evaluation. Capacity building and gender mainstreaming will be an integral part of project-financed activities.

Component A: Participatory Value-chain Analysis and Planning

5. The expected outcome of this component will be that the implementing agencies, private sector organisations, and mature and capable POs can analyse value-chains and plan value-chain development that can benefit the target group.

Component B: Integrated Smallholders Agricultural and Rural Enterprise Development

6. The expected outcome of this component is the effective participation of the target group in the selected value chains (production, value addition and marketing) where opportunities exist to exploit comparative advantage and improve profitability sustainably.

7. Following the selection of the value-chains and locations, the project will facilitate and finance the development of the value-chains, with two sub-components: (i) Support for Farm and Enterprise Development; and (ii) Investment in Rural Infrastructure and Equipment. The project will mobilize partnerships involving private sector enterprises to develop the chains and provide the business development services required; private sector management of these value-chains is essential.

Component C: Project Management and Policy Development

8. The expected outcome of this component is that the project is completed on time and within the agreed budget.

9. This component will finance the costs of project management and coordination, compilation, reporting and M&E activities at national, regional and provincial levels. In addition, the project will finance policy studies, stakeholders' consultations and other events related to the planning and

[39] The Detail Long Version of the TOR- External Audit will be included in the Project PIM

implementation of the value-chain approach to agro-enterprise development, mechanisms for convergence, and any other relevant policy studies.

10. The 10 targeted provinces using criteria that include incidence of poverty, presence of organised ARC clusters, agricultural and agri-business development potential and availability of services are as follows: Zamboanga del Norte, Zamboanga del Sur and Zamboanga Sibugay (Region IX); Misamis Oriental, Camiguin and Bukidnon, divided into two operational divisions of North Bukidnon and South Bukidnon, (Region X); and Agusan del Norte, Agusan del Sur, Surigao del Sur and Surigao del Norte in Region Caraga. All the selected provinces selected have poverty rates higher than the national average and five are among the 20 poorest provinces in the country (out of a total of 80) and all include a high proportion of municipalities with high levels of poverty.

11. The 11 clusters selected as follows: (i) Region IX - Zamboanga del Norte, the Zamboanga Del Norte ARC Settlement Cluster; Zamboanga del Sur, the Salug Valley ARC Cluster, and Zamboanga Sibugay, the Salipyasin ARC Cluster; (ii) Region X - Misamis Oriental, the MISORET ARC Cluster; for Camiguin the Camiguin ARC Cluster, for North Bukidnon, the Libona-Manolo Fortich ARC Cluster; and for South Bukidnon, the South Bukidnon ARC Cluster; and (iii) Region Caraga - Agusan del Norte, the TUJAKITSAN ARC Cluster; Agusan del Sur, the VETREBUNS ARC Cluster; Surigao del Norte, the CLAGIBAPLA ARC Cluster; and Surigao del Sur, the BATA ARC Custer.

12. The total population in the 11 clusters is 773,106 in 144,372 households; 59,217 households of these are ARB households of which 18,500 are households where a woman is the ARB. In addition, there are 40,456 other smallholders and an estimated 14,250 IP households from sixteen tribes in the ARC clusters, giving total number of 113,923 (about 113, 900) target group households, equal to 79% of the population in the 11 ARC clusters.

13. In the target clusters there are 50 municipalities of whom 32 (64%) recorded poverty levels in excess of 50% in 2009, while the range was from 27-68%. In terms of their internal revenue allocations, 16% are in Class 1 (the highest category), 20% in each of Classes 2 and 3, 24% in Class 4, 16% in class 5 and 4% in Class 6.

14. In addition, the target clusters contain 92 ARCs located in 469 out of the total of 515 *barangays*. DAR uses the ARC Level of Development (ALDA) ranking to assess the stage of the development of the ARCs. The majority, 49 (53%), of the ARCs in the 11 clusters are in Class 5, the highest development category, with 23 (25%) in Category 4.

Project Implementation

15. DAR, through the Foreign Assisted Projects Support Office, is the lead agency for project implementation and has the necessary staff at all levels of government, down to the municipal level to implement the project. Implementation occurs under the NCI, which will also involve DA, DENR as well as other agencies including DTI and DOST, with project coordination mechanisms at all levels, which also involves the oversight agencies e.g. the National Economic and Development Authority (NEDA) and Department of Budget Management (DBM) at national and regional levels.
Planning, budgeting and reporting follows a bottom up processes with consolidation at provincial, regional and national levels. Project knowledge is mainly generated through the M&E system. Regular M&E activities is complemented with studies on the special features of the project, with knowledge disseminated through various appropriate mechanisms

5. **Financial Management**

16. The project's financial management follows the Government of the Philippine's systems, rules and regulations on receipts and disbursements of proceeds from loans and grants in so far as it is consistent with IFAD's standard disbursement procedures. The project follows the Philippine Procurement Law (RA 9184) as implemented following the latest Implementing Rules and Regulations (provided they are not inconsistent with IFAD's Procurement Guidelines (September 2010). The Philippine Procurement Law and its Implementing Rules and Regulations has been harmonized with

the procurement procedures of most foreign funding institutions and has been deemed acceptable by ADD, WB and IFAD.

6. Disbursement Arrangements

In line with the Government's budgeting system, receipts from the IFAD loan and grant will be deposited in Designated Accounts (one for the Loan and one for the Grant) for the project in the Bureau of Treasury (BTr), Department of Finance (DOF). Project Accounts is set up at the national, regional and provincial levels, with budget advances to the implementing agencies, clusters and LGUs, to receive the proceeds of the loan, the grant and the government counterpart funds. Utilization of project funds, including the proceeds from the IFAD loan and the IFAD grant and the Government counterpart contribution, requires that they are covered or within the Executing Agency's appropriation for the year.

B. SCOPE OF WORK AND OBJECTIVES OF THE AUDIT

17. The auditor will audit the project financial statement (PFS) covering the period from effectivity date of the loan until 31 December _______________, including all project expenditures and records of transactions, and review the financial management system and internal controls of the project implementation at the national, regional and provincial levels. The project books of accounts and records provide the basis for preparation of the PFS and have been maintained to reflect all financial transactions in respect of the project . The Audit will be conducted in accordance with International Standards on Audit, the "Guidelines on Project Audits" (for Borrowers' Use)" of IFAD and relevant national standards.

18. The objectives of the audit are to verify the project financial statement, identify weaknesses in financial management systems and internal controls, review compliance with loan covenants relating to financial matters, make recommendations for improvement of accountability.

19. This audit report will be shared with internal and external parties, including relevant government executing and implementing agencies at the national, regional and provincial levels and other parties involved in monitoring the accountability of the Project Converge implementation.

Guiding Principles of Audit

20. The auditor will compile audit technical guideline before execution of audit. The guideline covers standardization of audit methodology, procedures and working paper such as questionnaire and audit schedules.

21. The reference documents to be used for the audit include the following:

- IFAD's General Conditions for Agricultural Development Financing of 1998.
- The Project Financing Agreement dated __________________.
- The IFAD Guidelines on Project Audits (for Borrowers' Use) of 2003.
- The IFAD Guidelines on Procurement.
- Project Appraisal Documents
- Draft Programme Implementation Manual.

C. Terms of Reference

22. The audit will cover the period from the date of Effectiveness of the IFAD Financing to 31 December ___________________.

23. The appointed auditor will undertake the following terms of reference:

- Express a professional opinion on the financial position of Project Converge at the end of the fiscal year and on the funds received and expenditures incurred for the fiscal year ending 31 December ________________, as reported in the PFS, including an opinion on the certified statements of expenditure (SOEs) and the operation of the Special Accounts (SA), Project Accounts (PA) and the Borrower's counterpart funds, with a separate management letter, addressing the adequacy of the Project's accounting and internal controls systems.

- Special attention will be paid to establishing that:
  - All external funds have been used in accordance with the conditions stipulated in the Project Financing Agreement, with due attention to economy and efficiency, and solely for the purposes for which the financing was provided.
  - Counterpart funds have been provided by the government (Department of Agrarian Reform) and used in accordance with national or organizational financial regulations, with due attention to economy and efficiency, and solely for the purposes for which they were provided.
  - Goods, services and civil works financed out of project funds have been procured in accordance with provisions of the Financing Agreement and/or government regulations.
  - All necessary supporting documents, records and accounts have been kept in respect of all project expenditures, including expenditures reported via SOEs.
  - Consistency should exist between the project books of accounts and the reports presented to the auditor and IFAD.
  - The SA and PA have been used in accordance with the provisions of the Financing Agreement.
  - The government counterpart funds have been used in accordance with the regulations of the government.
  - Project records and accounts have been prepared in accordance with consistently applied Generally Accepted Accounting Principles and relevant national standards and give a true and fair view of the financial status of the programme at the end of the fiscal year.

24. The auditor will conduct a review of the following:

- Economy, efficiency and effectiveness in the use of project resources, including IFAD financing and government counterpart funds.
- Achievement of planned project targets and results.
- Legal and financial obligations and commitments of the project and the extent of compliance or non-compliance with the Financing Agreement and relevant government regulations.
- System and procedures such as improvements in accounting, information technology or computer systems, and operations that may be under development on which the auditor's comment are necessary to ensure effective controls.
- Other activities on which an auditor may consider it appropriate to report.

Project Financial Statements

25. The PFS will include the following:

- A consolidated statement of Receipts and Payments (expenditures) which should disclose separately IFAD's funds, government counterpart funds, beneficiary contribution and other sources of funding for each of the executing and implementing agencies at the national, regional and provincial levels.
- Balance sheet showing as a minimum accumulative disbursement of funds from all sources, bank balances and other assets.
- Yearly and cumulative SOEs by withdrawal application and category of expenditures.
- Reconciliation of the SA and PA.
- A summary of the accounting policies and all explanatory notes needed for a clear presentation of the project financial statements at the end of the reporting period.
- Reconciliation between the amounts shown as received by the project and those shown as being disbursed by IFAD should be attached as an annex to the PFS. As part of that reconciliation, the auditor will indicate the procedure used for disbursement. SA and PA funds, letters of credit, special commitments, reimbursement or direct payment and indicate whether the expenditure is fully documented or uses the SOE format.

Statements of Expenditure (SOEs)

26. In addition to the audit of the PFS, the audit will include a review of SOEs used for submitting withdrawal applications. The auditor will carry out sample tests and reviews of the SOEs. Expenditures under SOEs will be carefully compared for eligibility with the Project Financing Agreement and the Letter to the Borrower (loan and grant disbursement handbook) and with reference to the Project Appraisal Documents for guidance when necessary. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, auditors will note these separately. A schedule listing individual SOEs under each withdrawal application by reference number and amounts should be attached to the PFS. The total withdrawals under the SOE procedure should be part of the overall reconciliation of IFAD disbursements described above.

Special Accounts (SA) and Project Accounts (PA)

27. The auditor is also required to audit the activities of the SA and PA associated with the programme, including the Authorized Allocation or Initial Deposit, replenishments, interest that may accrue on the outstanding balances and the year-end balances. The auditor will provide an opinion on the degree of compliance with IFAD procedures and the balances of the SA and the PA at year end. The audit should examine: (i) the eligibility of withdrawals from the SA and the PA during the period under review; (ii) the operation of the SA and the PA in accordance with the Project Financing Agreement; (iii) the adequacy of internal controls within the project management appropriate for this disbursement mechanism; and (iv) the use of correct exchange rate(s) to convert local currency expenditures to United States dollars and vice versa.

Field Audit

28. In order for the Project Converge Managements to get engaged in the process of the audit, the auditor regional office will assign an audit team consisting of a team leader and two team members for each Project Regional and Provincial Office.

29. The audit procedures will cover review of internal control procedures, observation, confirmation for all transactions and analysis on financial transactions and physical observation.

30. The audit will be implemented simultaneously at all levels of implementation, starting at the National down to Regional and Provincial Offices. Based on samples, audit should also be implemented at the field level to clarify findings that is related to project beneficiaries. The audit of beneficiaries' accounts will include also verification of efficiency and effectiveness of the actual physical outputs in terms of cash, civil works or other benefits accrued to the beneficiaries and their use.

31. The management audit review is measured by the expenditures and activity of staff in the Project Management at all levels. The use of human resources, goods and services procured by the staff will be assessed with a cost-benefit analysis taking in consideration the principles of efficiency, effectiveness and social equity and in terms of the achievements made by the beneficiaries facilitated by the Project.

Quality Assurance

32. The auditor will guarantee that team designation is referred to International Standards on Audit. COA will develop quality assurance by providing weekly progress reports through emails and arranging field visit to two sample locations to confirm that there would not be any unsolved problem.

Consultation on the Draft Audit Opinions

33. The auditor will arrange consultations on the draft audit opinions at national, region and province levels with authorized Project Management officers to discuss Project's responses to the draft management letter and recommendations. The recommendations prepared by the auditor should

be discussed prior to final statement including method and follow up action schedule to be included in the audit report and management letter.

Population and Samples

34. The audit is implemented through desk and field reviews of accounts, statement of expenditures, financial records and other documentation, through physical observation of the documentation maintained by the project offices for all transactions at national, regional and provincial offices and field level and interviews to establish adequacy of accounting and internal controls, including the internal audit mechanism for monitoring expenditures and other financial transactions and enduring safe custody and appropriate utilization of Project assets. Analysis of secondary data incorporated in financial reports and progress reports of the Project Management.

Audit Procedures

35. In reviewing the programme accounts and financial statements, the auditor will:

- Verify that generally accepted accounting standards have been consistently applied and indicate any material deviation from these standards and the effect of such deviation on the annual financial statements.
- Assess the adequate financial management systems, accounting systems and internal controls for monitoring and reporting expenditures and other financial transactions (commitments, reviews, approvals, payments and accounting) and ensure safe custody and optimal use of the programme financed assets and document any instances where controls are lacking or need strengthening.
- Determine whether the project management has maintained adequate documentation for all transactions; e.g. procurement documents, contracts, suppliers invoices, letters of credit and evidence of payment and ascertain that expenditures were properly authorised and in compliance with legal requirements.
- Verify the numerical accuracy of statements and accounts.
- Verify that disbursement requests for expenditures submitted to IFAD are eligible for financing under the loan agreement and identify clearly any ineligible expenditures.
- Carry out a physical verification of any significant assets (vehicles, computers, software etc.) purchased and confirm their existence and use for exclusive programme purposes.

Corrupt, Fraudulent, Collusive and Coercive Practices

36. In preparing audit planning and implementation activities, the auditor will identify any serious weaknesses of internal controls which caused discrepancies. When the audit takes place, and when the auditor identify any corrupt, fraudulent, collusive and coercive practices which requires IFAD's and government's due attention immediately, the auditor will submit report concerning their findings on any of such activities in a separated report. In the matter, the auditor will engage the concerned authorities to clarify, investigate and undertake appropriate actions.

37. In addition to the above, the auditor will identify any misappropriation of funds or fraudulent actions with are not in consistent with the relevant Financial Rules and Regulations and Acts as defined by the Government of the Philippines.

38. "Corrupt practices" means the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence the actions of a public official in the procurement process or contract execution.

39. "Fraudulent practices" means a misinterpretation or omission of facts in order to influence a procurement process or the execution of the contract.

40. "Collusive practices'' means a scheme or arrangement between two or more bidders, with or without the knowledge of Government of the Philippines designated to establish bid prices artificially, non-competitive levels.

41. “Coercive practices’’ means harming or threatening to harm directly or indirectly, persons or their property to influence their participation in a procurement process, or to affect the execution of the contract.

42. Examples of conditions which required immediate IFAD and government consideration are findings of illegal or rule breaking practices such as activities to obtain personal commercial interest, immoral behaviour, disorder financial transaction, fake invoices or fake documents, activities to lose documents, or practices which intentionally mislead.

Audit Schedule

43. The Implementation of Audit will take place from xx to xx 20____ or xx workings days as follows:

	Activity	Time	Institution Involved			Location
		Working Days	COA HQ	COA Regional Office	Project	
1	Schedule and Methodology	**5**	√			Quezon City
2	Design Tentative Audit Manual	**5**	√			Quezon City
3	Workshop of Audit Manual and Audit preparation	**3**	√	√		Quezon City and region______
4	Field Audit	**25**		√	√	Project area
5	Quality Assurance from COA HQ		√			Project area
6	Exit Conference	**3**		√	√	Project area
7	Field Team Review & Reporting	**5**		√		Project area
9	Report Consolidation & Translation	**7**	√			Quezon City
10	Draft Final Report	**3**	√			Quezon City
11	Final Report	**5**	√			Quezon City
	Total Works Days	**58**				

D. OUTPUT

44. The Output of Audit on Financial Statement of the Project Converge is an Independent Auditor Report and a management letter as follows:

Independent Audit Report

45. The Independent Audit Reports will include the auditor’s certification and opinion, signed by the auditor and dated on the letterhead of Commission on Audit (COA). The audit report - addressed to the Project Director of the Project Converge with a copy to the DAR FAPSO. The Auditor’s opinion will be a clear and definite and should identify what accounting principles have been applied (International Accounting Standards or Generally Accepted Accounting Principles or relevant national standards) in the preparation and presentation of the financial statement.

46. The Auditor will review, inter alia, eligibility of expenditures under the IFAD financing, compliance with financial reporting requirements, comparison of the results shown in the financial statements with the targets set in the annual work plan and budget and financial covenants in the Project Financing Agreement and its amendments, overall project’s financial performance i.e. actual versus budgeted, adequacy of internal control mechanisms of the Project, presentation with respect to the use of IFAD funds versus funds from the government and other sources, satisfactory use of funds and eligibility of expenditure items under the statement of expenditures (SOE) procedures for disbursements, compliance with loan covenants, maintenance of SA and PA, reconciliation and use of the SA and PA, follow up on actions noted in the previous year’s recommendations of the Auditor, if any, compliance with procurement procedures as stipulated in the Programme Financing Agreement and treatment of payment for taxes and duties.

47. The Independent Audit Reports on Financial Statement of the Project Converge should be presented in Quezon City in English versions including separated opinion on adequacy of financial statement as follows:

- Consolidated Annual and Actual Project Expenditures and Sources by component and category.
- Consolidated Cumulative Project Expenditure and Financing and Summary of Sources by component and category including counterpart funds.
- The operation and the utilisation of the Special Account and the Grant Bank Account.
- The operation and the utilisation of the government counterpart funds.
- The operation of the IFAD financing and government counterpart funds through the treasury accounts for the operations of READ at national, provincial and district levels.
- The verification of the Statement of Expenditures (SOE), substantiated by supporting documentation and adequate accounting records.
- Procurement action undertaken by the Programme at all levels.
- Balance - Sheet.

48. The Auditor's report should point out any problems and irregularities identified during the audit and make recommendations for improvement.

Audit Opinion

49. As part of the opinion on the PFS, the audit report will include an opinion an opinion on the certified statements of expenditure (SOEs) and the operation of the Special Account (SA), Project Account (PA) and the Borrower's counterpart funds.

Management Letter

50. The auditor will provide a separate management letter which will identify deficiencies in the programme accounting records, procedures, financial management systems and internal controls and make appropriate recommendations for improvement. The management letter will also include any other significant matters that come to the auditor's attention and might have material impact on project implementation. The central Project Management Office will submit to the IFAD the reply to the management letter of the auditors within one month of receipt thereof. Management letter will describe the following information:

- Records of transactions, financial management system, procedures and internal controls maintained by Project offices at national, regional and provincial levels.
- Verify fixed-asset data maintained by the Project, including changes such as increasing and decreasing assets. The audit will verify the frequency of fixed asset verification.
- Assessment on Financial Management of the Project, including their accounting system, financial management and internal controls.
- Assessment on special accounts and project accounts transaction, such as (i) correctness of special account and/or withdrawal if any and account of counterpart fund from GOP; (ii) Transaction of Loan Withdrawal implemented based on Statements of Expenditure (SOE) including auditor opinions; (iii) transfer period from IFAD account to Special Account (loan); (iv) Detailed Cumulative and Annual Withdrawal Application by withdrawal application and category including proposed withdrawal application, received withdrawal application and its methodology; (v) Interest existed due to outstanding balances; (vi) adequacy of internal control based on disbursement mechanism; and (vii) accurate exchange rate applied from PHP to USD.
- Review of procurement actions undertaken by the Project and documentation in this regard.
- Verify physical inventory and assets against contracts for procurement of goods and good delivered.
- Opinions towards adequacy of accounting system and internal control to monitor expenditure transactions and other transactions, and security of program assets.

- The implementation of Project in accordance with the implementation arrangements outlined in the IFAD-reviewed Project Implementation Manual (PIM) and also operational changes which was not presented therein, but requires the amendments to the PIM.
- The activities undertaken are part of the approved AWPB and the approved Procurement Plan.
- Procurements actions which have not complied with in prior review requirements as outlined in Schedule 4 of the Financing Agreement.
- on availability and/or changes of key personnel at all levels which has a material impact on the operations of the Project

51. The Management letter will covered reviewed in Project Management at all level on:

- Overall performance of Project Management at all levels.
- Accountabilities of Project Implementers.
- Feasibility of the Project's organization structure at every level.
- Adequateness and optimization of personnel and working facilities.
- Working relationship among organizations related to the project, Project management, and other implementing institutions.
- Implementation of the duties and function of personnel in every organization unit.
- Implementation of the Project's ME system, project reports and documentation.
- Review and verification of previous observation status and follow-up actions taken by Project including outstanding observation and follow-up taken.

52. The auditor will prepare follow up actions which will be implemented by coordinators as response to findings of previous year's audit report and management letter, including the recommendations and programme progress report.

53. The format of management letter will follow the outline below:

- Executive Summary.
- Introduction.
- Background.
- Objectives and Scope of Audit.
- Evaluation on internal control.
- Evaluation on program performance.
- Findings, recommendations and responses (including improvement and implementation schedule).

E. Financing

54. The implementation of the audit will be financed by the Project Budget FY 20_____. The estimated budget is PHP____________________________ with detailed as follows:

No	Description	Amount (PHP)
1	Formulation of Project Converge Audit Operating Guidelines	
2	Socialization of Project Audit Operating Guidelines	
3	Implementation of Project Audit Operating Guidelines	
	Total:	

F. Sample Audit Report

(FOR AN UNQUALIFIED OPINION)

Auditor's report to:

a) ***Certification of Statement of Expenditure***

We have audited the accompanying Statement of Expenditure (SOE) IFAD Project Converge with project number _________ for the period ____________________ to 31 December _________________ .

We conducted our audit in accordance with International Standards of Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the SOE is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the SOE. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the SOE. We believe our audit provides a reasonable basis for our opinion.

In our opinion, **the SOE presents fairly (unqualified (positive audit opinion),** in all material respects the expenditure of __________ [*insert amount in US$]* incurred by the project and audited by us for the period __________________ to 31 December _________ in accordance with Philippine Government and IFAD accounting requirements.

Or **(qualified - a negative audit opinion)**

In our opinion, **the SOE**, **except for** the reasons indicated above in paragraphs (1), (2), (3), etc., presents fairly in all material respects the expenditure of __________[*insert amount in US$]* incurred by the project which we have audited for the period _____________ to 31 December _____________ in accordance with the Philippine Government and IFAD accounting requirements. The total **net financial impact** of this qualified opinion is _________ [*insert amount in US$].*

Or **(disclaimer - a negative audit opinion)**

We were **unable to obtain sufficient appropriate audit evidence** and accordingly are unable to express an opinion on the statement of expenditure of __________ [*insert amount in US$]* incurred by the project and audited by us for the period _________________ to 31 December________. The total **net financial impact** of this disclaimer opinion is_______ [*insert amount in US$]. **Note**: The total amount indicated should be the amount of the SOE.*

Or **(adverse - a negative audit opinion)**

We noted material differences between _________ and the statement of expenditure. As such, we **do not express an opinion** on the statement of expenditure, of __________ [*insert amount in US$]* incurred by the project and audited by us for the period _________________ to 31 December ________________. The total **net financial impact** of this adverse opinion is_______ [*insert amount in US$].*

b) Certification of Statement of Uses and Application of IFAD Funds

We have audited the accompanying Statement of Uses and Application of IFAD Funds ("the statement") of the IFAD project number _________ as at 31 December ______________. The statement is the responsibility of the management of the project. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with International Standards of Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the Statement presents fairly (unqualified (positive audit opinion), in all material respects the Fund balance of the project amounting to ____________ [*insert amount in US$*] as at 31 December ______________ in accordance with IFAD requirements.

Date of issuance:__________________________

AUDITOR'S NAME (Please print): __________________

AUDITOR'S SIGNATURE: ________________________

STAMP AND SEAL OF COA: _________________________

Note: Audit opinions must be one of the following: (a) qualified, (b), unqualified, (c) adverse, or (d) disclaimer. If the audit opinion is other than "unqualified" the audit report must describe both the nature and amount of the possible effects on the financial statements (**NET FINANCIAL IMPACT).**

II. Definition of Audit Opinions

Unqualified (Clean or positive) Opinion

An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

Qualified Opinion – a negative audit opinion

A qualified opinion should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being 'except for' the effects of the matter to which the qualification relates.

Disclaimer of opinion – a negative audit opinion

A *disclaimer of opinion* should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.

Adverse – a negative audit opinion

An *adverse opinion* is expressed by an auditor when the financial statements are significantly misrepresented, misstated, and do not accurately reflect the expenditure incurred and reported in the financial statements.

An *adverse opinion* is expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

II. Classification of possible causes of Audit Findings

1. Lack of/or inadequate policies/procedures/guidelines
2. Lack of/or inadequate guidance/supervision a the project level
3. Inadequate guidance/monitoring at IFAD country office level
4. Lack of/or insufficient resources (specify: financial, human or, technical resources)
5. Inadequate planning
6. Inadequate training
7. Human error
8. Intentional overriding of internal controls
9. Inadequate management structure

Appendix 8: Procurement

I. INTRODUCTION

II. The Philippine Government's Procurement Reformed Act (RA 9184) and its Implementing Rules and Regulations set public bidding as the standard method of procurement for amounts exceeding PHP 500,000 (or USD 11,000) for national government agencies (with different thresholds for LGUs of different income classes). For PHP 500,000 or less, National Government Agencies can procure goods and services through shopping or small value procurement under certain circumstances and conditions. Under circumstances specified in the rules and regulations, procurement may be through alternative methods, which include the following: (i) limited source bidding; (ii) direct contracting; (iii) repeat order; (iv) shopping; or (v) negotiated procurement.

III. IFAD Procurement guidelines on the other hand requires International Competitive Bidding (ICB) for procurement of Goods for more that USD 200,000; USD 1.0 million for Civil Works; and USD 100,000 for Services. For amounts less than these thresholds, the national thresholds or amounts specified in the Project Financing Agreement will apply. PROJECT PROCUREMENT

IV. **Procurement of Goods**. For this project, each contract for goods estimated to cost USD 25,000 or more will be procured through National Competitive Bidding and for each contract for goods to cost less than USD 25,000 procurement will use National Shopping procedures.

V. **Procurement of Works**. For this project, each contract for works estimated to cost USD 25,000 or more will be procured through National Competitive Bidding and for each contract for works to cost less than USD 25,000 procurement will use National Shopping procedures.

VI. **Direct Contracting** will be limited to the following scenarios and will require IFAD's concurrence for each case:

(i) Where an extension to an existing contract for goods or works is required but with a value of less than 25% of the value of the existing contract.
(ii) Where proprietary equipment is required, there is only one source and no alternative exists.
(iii) Where there is a need to standardise upon existing equipment and to ensure compatibility in terms of spare parts.
(iv) In emergencies where urgent delivery is required.

VII. **Procurement involving community participation**. In accordance with the IFAD Procurement Guidelines, procurement with community participation is not a distinct method of procurement and it therefore requires the same adherence to all principles and standards set out in the IFAD Procurement Guidelines for the method of procurement involved. To follow procurement involving community participation in this project, the CPMO will ensure the following:

(i) Ensure that all documents and records are available in English as may be required for purposes of audit and review.
(ii) Provide appropriate procedures for regular monitoring and audit of community procurement activities, including the retention of relevant records by the CPMO, RPMOs and PPMOs.
(iii) Define the relationships, roles and responsibilities between the CPMO, RPMO and PPMO and the community, including a clear exit strategy for the completion of the project interventions.
(iv) Ensure proper handover of assets to the community.

VIII. Under the term "community participation", the community may play one or more of the following roles during project implementation:

As a provider of goods, works or services directly to the project

IX. Communities are permitted to undertake works or provide goods or services to the project where community participation is: (i) either part of the implementation arrangements described in the Project Design Report; (ii) or it is agreed with IFAD that this represents a cost-effective and practical alternative to external procurement, even if not part of the implementation arrangements described in the Project Design Report. IFAD will also consider factors such as fostering ownership, the sustainability of project activities, effective operation and maintenance of a project financed investments, and the overall risk/reward equation.

X. Generally, agreement will only be granted where it can be demonstrated that such goods, works or services have been or could be successfully provided or produced by the community. As a provider of goods, works or services, a community may act either on a commercial basis under contract, or as a provider of part or all of the beneficiary community's contribution to the project.

As the implementing agency undertaking procurement for the project

XI. Communities or informal groups may be brought together to act as implementing agencies to undertake project-procurement. Where this is the case, their role will include:

(i) Competitive contracting using any of the agreed procurement methods; and
(ii) Supervision of a contracted provider of works, goods or services.

XII. **Procurement of Services**. For each contract for the selection of consultancy services estimated to cost: (i) USD 20,000 equivalent or more will use the Quality and Cost Based Selection (QCBS) method; (ii) USD 20,000 equivalent or below will follow the Selection Based on Consultant Qualification (CQ) method. The selection of individual consultants will follow the Selection Based on Consultant Qualification (CQ) method.

XIII. Sole Source Selection will be limited to the following scenarios and will require IFAD's concurrence for each case. These scenarios are: (i) for tasks that are a natural continuation of previous work carried out by the consultant; (ii) where rapid selection is essential (for example, in an emergency situation); (iii) for very low value assignments costing less than USD 2,000; and (iv) when only one firm is qualified or has the necessary experience for the assignment.

XIV. **Review of Procurement Decisions**. The award of any contract for goods and works estimated to cost more than USD 250,000 and for consulting services estimated to cost more than USD 100,000 shall be subject to prior review by IFAD where IFAD will issue a No Objection Letter (NOL). The prior review procedure is detailed in IFAD's Procurement Guidelines and will be undertaken directly by IFAD.

XV. In the implementation of the Project, IFAD funds, loan and grant, will be used to hire contractual project staff, procure consultancy services, and service providers for training and workshops. The Project will also procure 16 vehicles, desktop computers and laptops; and the usual goods for operation and maintenance. The procurement of 16 vehicles, desktop computers and laptops will be undertaken at the DAR Central Office through its Bids and Awards Committee.

XVI. Prior to procurement of vehicles, DAR needs to submit to DBM for its concurrence and assessment of the status of its existing vehicles at the national, regional and provincial levels: number of vehicles, condition of the vehicles and justification for the required vehicles to be used exclusively for the project at the Central, Region and Province levels. The Government Counterpart Funds will finance taxes and duties and honoraria for the government staff working for the project by way of Executive Orders issued by DAR. The two tables below provide a summary of the project's proposed procurement arrangements and procurement accounts by year.

(USD Million)

	Procurement Method						
	National Competitive Bidding	Consulting Services: QCBS	Local Shopping	Direct Contracting	Sub-Borrower's Equipment [End User's Preference]	N.B.F.	Total
A. Civil Works	12.2 (9.8)	-	-	-	-	-	12.2 (9.8)
B. VC Facilities & Equipment	2.0 (1.1)	-	0.9 (0.5)	-	0.5 (0.3)	-	3.4 (1.9)
C. Agricultural & Processing Inputs	2.7 (0.8)	-	16.3 (4.9)	-	8.2 (2.5)	-	27.2 (8.2)
D. Local Services	-	-	1.0 (0.9)	-	-	0.8	1.8 (0.9)
E. Studies	-	-	0.3 (0.1)	-	-	-	0.3 (0.1)
F. Technical Assistance	-	0.9 (0.8)	-	-	-	-	0.9 (0.8)
G. Training & Capability Building	-	-	1.7 (1.3)	-	-	-	1.7 (1.3)
H. Vehicles & Office Equipment	0.5 (0.2)	-	0.0 (0.0)	-	-	-	0.5 (0.2)
I. Workshops	-	-	0.1 (0.0)	-	-	-	0.1 (0.0)
J. Contracted Project Staff	-	-	-	2.0 (2.0)	-	-	2.0 (2.0)
K. Assigned Government Staff	-	-	-	-	-	0.8	0.8
L. Operation & Maintenance	-	-	-	-	-	1.5	1.5
Total	17.5 (11.9)	0.9 (0.8)	20.3 (7.6)	2.0 (2.0)	8.7 (2.7)	3.1 -	52.5 (25.0)

Note: Figures in parenthesis are the respective amounts financed by IFAD Loan

(USD Million)

	Totals Including Contingencies						
	2015	2016	2017	2018	2019	2020	Total
1. Civil Works	-	1.7	5.5	4.8	0.2	-	12.2
2. VC Facilities & Equipment	2.4	0.6	0.3	0.0	0.0	0.0	3.4
3. Agricultural & Processing Inputs	1.9	17.4	3.0	1.8	1.6	1.5	27.2
4. Local Services	0.3	0.5	0.5	0.2	0.1	0.2	1.8
5. Studies	0.1	0.1	0.0	0.0	0.0	0.0	0.3
6. Technical Assistance	0.2	0.2	0.2	0.1	0.1	0.0	0.9
7. Training & Capability Building	0.5	0.5	0.3	0.2	0.2	0.1	1.7
8. Vehicles & Office Equipment	0.5	-	-	-	-	-	0.5
9. Workshops	0.1	-	-	-	-	-	0.1
10. Contracted Project Staff	0.2	0.4	0.4	0.3	0.3	0.3	2.0
11. Assigned Government Staff	0.1	0.2	0.1	0.1	0.1	0.1	0.8
12. Operation & Maintenance	0.1	0.3	0.3	0.3	0.3	0.3	1.5
Total	6.7	21.8	10.5	8.0	2.9	2.7	52.5

(v) PROCUREMENT PLAN FOR FIRST 18 MONTHS

XVII. The Draft Procurement Plan for the first 18 months from 1st July 2015 to 31st December 2016 in USD ('000) is attached and will be submitted by DAR together with the AWPB for PY1 as a condition precedent to the first withdrawal of funds as provided in the Financing Agreement.

No.	Planned Procurement Activities	Unit	No.	Unit cost USD'000	Estimated Base Cost USD'000	Procurement Method	IFAD Review Type	Responsible Agency	Procurement Process			
									Bid Prep. from/to	Bid Opening & Evaluation from/to	Contract Sign Date	Delivery Date
1	Vehicles and Equipment:											
	Vehicles	No.	11	26.44	396.6	NCB	NOL	SSO-FAP/ CPMO	2 Jul- 31 Aug 15	2- 29 Sept 15	12-Oct-15	12-Dec-15
	Desktop Computer	No.	16	1.38	22.1	NCB	Post Review	SSO-FAP/ CPMO	2- 31 Jul 15	1- 7 Aug 15	17-Aug-15	31-Aug-15
	Laptop	No.	32	1.03	33.1	NCB	Post Review	SSO-FAP/ CPMO	2- 31 Jul 15	1- 7 Aug 15	17-Aug-15	31-Aug-15
	Other Equipment	No.	4	3.52	14.1	LCL	Post Review	CPMO/ RPMO	2- 31 Jul 15	1- 7 Aug 15	17-Aug-15	31-Aug-15
	Sub-Total Vehicles and Equipment				**465.8**							
2	Investment in VC Related Infrastructure(rural roads, , irrigation, public water supplies) 1/	ls	-	-	1,655.2	NCB	NOL/PR	RPMO/ PPMO	1 Apr 13 - 31 May 16	3 Jun 13 - 31 Jul 15	10-Aug-16	14-Dec-16
3	Investment in VC Equipment transport, packaging equipment, drying equipment, handling equipment for coco sugar, rubber processing facility 1/	ls	-	-	2,875.5	NCB 60%, LCL 25% SBP 15%	NOL/PR	CPMP/ RPMO	2 July 13 - 31 Aug 15	3 Oct 13 – 30 Nov 15	10-Dec-15	10-Oct-16
	Investment in agricultural equipment/inputs(seeds, fertilizers, chemicals, tools, harvesting equipment, fencing and cultivators)	ls	-	-	18,274.1	NCB 10%, LCL60% SBP 30%	NOL/PR	RPMO/ PPMO	2 July 13 - 31 Aug 15	3 Oct 13 – 30 Nov 15	10-Dec-15	10-Oct-16
	Sub Total Value Chain Development				**22,804.8**							
4	**Technical Assistance &**											

No.	Planned Procurement Activities	Unit	No.	Unit cost USD'000	Estimated Base Cost USD'000	Procurement Method	IFAD Review Type	Responsible Agency	Procurement Process			
	Local Services											
	Technical Assistance Secondary Crop Value Chain Planning	Person-Day	120.0	0.30	36.0	QCBS	Post Review	PPMO	2- 31 Oct 15	1- 30 Nov 15	17-Dec-15	29-Nov-16
	Travel Expenses	Person Trip	22.0	0.303	6.7	QCQS	Post Review	PPMO	2- 31 Oct 15	1- 30 Nov 15	17-Dec-15	29-Nov-16
	Consultants in Training of VC Facilitation & Implementation	Person Day	120.0	0.3	36.0	QCBS	Post Review	RPMO/ PPMO	2- 31 Oct 15	1- 30 Nov 15	17-Dec-15	29-Nov-16
	Expenses for VC Training Consultants	Person-Month	5.0	1.471	7.4	QCBS	Post Review	RPMO/ PPMO	2- 31 Oct 15	1- 30 Nov 15	17-Dec-15	29-Nov-16
	Technical Consultants Manila based for VC implementation	Person Month	30.0	4.598	138.0	QCBS	Post Review	RPMO/ PPMO	2- 31 Jul 15	1- 31 Aug 15	31-Aug-15	31-Dec-16
	Economic & Business Consultants	Person-Month	25.0	4.598	115.0	QCBS	Post Review	RPMO/ PPMO	2- 31 Oct 15	1- 30 Nov 15	17-Dec-15	31-Oct-16
	Consultant in Value Chain Financing Facilitation	Person-Month	6.0	4.598	27.6	QCBS	Post Review	RPMO/ PPMO	2- 31 Oct 15	1- 30 Nov 15	17-Dec-15	31-Mar-16
	Consultant in Value Chain M&E	Person-Month	8.0	4.598	36.8	QCBS	Post Review	RPMO/ PPMO	1- 31 Sep 15	1- 31 Oct 15	17-Nov-15	30-Apr-16
	Operating Expenses of Consultants	cons moth	69.0	0.759	52.3	QCBS	Post Review	RPMO/ PPMO	1- 31 Sep 15	1- 31 Oct 15	17-Nov-15	31-Dec-16
	Professional services for RI Investigations	ls	-	-	204.6	QCBS	Post Review	RPMO/ PPMO	1- 31 Sep 15	1- 31 Oct 15	17-Nov-15	31-Mar-16
	Detailed Preparation of RI Designs	ls	-	-	341.0	QCBS	Post Review	RPMO/ PPMO	1- 31 Sep 15	1- 31 Oct 15	17-Nov-15	30-Jun-16
	Support to Value Chain Implementation (facilitation etc.)	ls	-	-	442.4	LCL	Post Review	RPMO/ PPMO	2- 20 Jul 15	21- 31 Jul 15	31-Jul-15	31-Dec-16
	VC-Gender Needs Assessment	Cluster	11.0	2.211	24.3	QCBS	Post Review	RPMO/ PPMO	2- 31 May15	1- 30 June15	15-Jul-15	29-Nov-15
	VC Gender Mainstreaming Workshops	Cluster	11.0	2.437	26.8	QCBS	Post Review	RPMO/ PPMO	2- 31 May15	1- 30 June15	15-Jul-15	29-Nov-15
	VC Gender Studies	Cluster	11.0	4.023	44.3	QCBS	Post Review	RPMO/ PPMO	2- 31 May15	1- 30 June15	15-Jul-15	29-Nov-15
	National Project Manager	Person-		2.177		Direct Hire	Post Review	SSO-FAP	1- 30	1- 31 May	17-Jun-	31-Dec-

No.	Planned Procurement Activities	Unit	No.	Unit cost USD'000	Estimated Base Cost USD'000	Procurement Method	IFAD Review Type	Responsible Agency	Procurement Process			
		Month	18.0		39.2				Apr 15	15	15	16
	MIS Specialist	Person-Month	18.0	1.177	21.2	Direct Hire	Post Review	SSO-FAP	1- 30 Apr 15	1- 31 May 15	17-Jun-15	31-Dec-16
	Finance/Administrative Assistant	Person-Month	18.0	0.687	12.3	Direct Hire	Post Review	SSO-FAP	1- 30 Apr 15	1- 31 May 15	17-Jun-15	31-Dec-16
	Driver	Person-Month	18.0	0.308	5.5	Direct Hire	Post Review	SSO-FAP	1- 30 Apr 15	1- 31 May 15	17-Jun-15	31-Dec-16
	National Value Chain Specialists	Person-Month	24.0	1.862	44.7	Direct Hire	Post Review	CPMO	1- 30 Apr 15	1- 31 May 15	17-Jun-12	31-Dec-16
	M&E/KM Specialist	Person-Month	18.0	1.379	24.9	Direct Hire	Post Review	CPMO	1- 30 Apr 15	1- 31 May 15	17-Jun-15	31-Dec-16
	Value Chain Analysis Staff	Person-Month	22.0	1.172	25.8	Direct Hire	Post Review	RPMO	1- 30 Apr 15	1- 31 May 15	17-Jun-15	30-Jun-16
	Value Chain Analysis Staff	Person-Month	66.0	1.011	66.6	Direct Hire	Post Review	PPMO/	1- 30 Apr 15	1- 31 May 15	17-Jun-15	30-Jun-16
	Institutional/Gender Staff	Person-Month	22.0	1.011	22.2	Direct Hire	Post Review	RPMO/ PPMO	1- 30 Apr 15	1- 31 May 15	17-Jun-15	31-Dec-16
	Finance/Admin Officer	Person-Month	54.0	0.867	46.8	Direct Hire	Post Review	RPMO/ PPMO	1- 30 Apr 15	1- 31 May 15	17-Jun-15	31-Dec-16
	Bookkeeper	Person-Month	54.0	0.411	22.2	Direct Hire	Post Review	RPMO/ PPMO	1- 30 Apr 15	1- 31 May 15	17-Jun-15	31-Dec-16
	Provincial M&E/KM Specialists	Person-Month	198.0	0.460	91.1	Direct Hire	Post Review	RPMO/ PPMO	1- 30 Apr 15	1- 31 May 15	17-Jun-15	31-Dec-16
	Special Studies on VC crops	Study	13.0	5.747	74.7	LCL	Post Review	RPMO/ PPMO	1- 30 Apr 15	1- 31 May 15	17-Jun-15	31-Dec-15
	Sub-Total Technical Assistance & Local Services				**2,036.4**							
5	Training and Workshop											
	Capacity and Training Needs Assessment - Senior Project Participants	Lump sum	1.0	11.034	11.0	LCL	Post Review	SSO-FAP	1- 30 June 15	1- 31 July 15	17-Aug-15	31-Oct -15
	Training - DAR Project Staff	ls	2.0	28.414	56.8	LCL	Post Review	SSO-FAP	1- 30 June 15	1- 31 July 15	17-Aug-15	31-Oct-15

No.	Planned Procurement Activities	Unit	No.	Unit cost USD’000	Estimated Base Cost USD’000	Procurement Method	IFAD Review Type	Responsible Agency	Procurement Process			
	Training - DA Project Staff	ls	2.0	28.138	56.3	LCL	Post Review	SSO-FAP	1- 30 June 15	1- 31 July 15	17-Aug-15	31-Oct-15
	Training - DENR Project Staff	ls	1.0	12.690	12.7	LCL	Post Review	SSO-FAP	1- 30 June 15	1- 31 July 15	17-Aug-15	31-Oct-15
	Region 9 – VC survey, meetings, workshops for secondary crop	Crop/ Cluster	4.0	2.703	10.8	LCL	Post Review	PPMO	1- 30 June 15	1- 31 July 15	17-Aug-15	31-Oct-15
	Region 10 - VC survey, meetings, workshops for secondary crop	Crop/ Cluster	8.0	2.703	21.6	LCL	Post Review	PPMO	1- 30 June 15	1- 31 July 15	17-Aug-15	31-Oct-15
	Region Caraga - VC survey, meetings, workshops for secondary crop	Crop/ Cluster	8.0	2.703	21.6	LCL	Post Review	PPMO	1- 30 June 15	1- 31 July 15	17-Aug-15	31-Oct-15
	VCA and Planning Workshops for Secondary Crops Region 9	Work-shop	2.0	3.586	7.2	LCL	Post Review	PPMO	1- 30 June 15	1- 31 July 15	17-Aug-15	31-Oct-15
	VCA and Planning Workshops for Secondary Crops Region 10	Work-shop	4.0	3.586	14.3	LCL	Post Review	PPMO	1- 30 June 15	1- 31 July 15	17-Aug-15	31-Oct-15
	VCA and Planning Workshops for Secondary Crops CARAGA	Work-shop	4.0	3.586	14.3	LCL	Post Review	PPMO	1- 30 June 15	1- 31 July 15	17-Aug-15	31-Oct-15
	Policy studies	ls	-	-	46.0	LCL	Post Review	PPMO	1- 30 June 15	1- 31 July 15	17-Aug-15	31-Oct-16
	Sub-Total Training, Policies and Workshop				**272.6**							
	1/ It depends on the outcome of value chain studies											
	Abbreviations:											
	NCB=National Competitive Bidding											
	LCL= Local Shopping											
	QCBS = Quality and Cost-Based Selection											
	PR = Post Review											

No.	Planned Procurement Activities	Unit	No.	Unit cost USD'000	Estimated Base Cost USD'000	Procurement Method	IFAD Review Type	Responsible Agency	Procurement Process
	SSO-FAP = Support Services Office – Foreign Assisted Projects DAR								
	CPMO= Central Project Management Office								
	RPMO= Regional Project Management Office								
	PPMO= Provincial Project Management Office								

Appendix 9: Project cost and financing

I. PROJECT COSTS

1. Estimated project costs, including contingencies, and the phasing, are shown in the two tables below and are further elaborated in Working Paper 6. Overall, the proposed project would cost about USD 52.53 million (PHP 2,285 million) over a six year implementation period. This figure includes taxes and duties estimated at USD 5.96 million or 11% of total costs.

(USD Million)

Component	Base Cost						
	2015	2016	2017	2018	2019	2020	Total
A. Participatory Value-Chain Analysis and Planning	0.43	0.28	0.10	0.03	0.02	0.01	0.87
B. Integrated Smallholders Agricultural and Rural Enterprise Development1							
1. Farm and Value Chain Enterprise Development	4.75	17.53	3.50	2.00	1.80	1.55	31.14
2. Value Chain Related Rural Infrastructure	0.17	2.15	5.62	4.55	0.23	0.10	12.81
Subtotal	4.91	19.68	9.12	6.56	2.04	1.65	43.95
C. Project Management, M&E and Knowledge Management							
1. M & E and Knowledge Management	0.27	0.23	0.24	0.38	0.23	0.35	1.70
2. Project Management	0.78	0.45	0.39	0.39	0.39	0.39	2.80
Subtotal	1.05	0.68	0.63	0.77	0.62	0.75	4.50
Total BASELINE COSTS	6.39	20.64	9.85	7.36	2.67	2.41	49.32
Physical Contingencies	0.22	0.72	0.34	0.26	0.09	0.08	1.73
Price Contingencies							
Inflation							
Local	0.03	0.31	0.23	0.23	0.12	0.13	1.05
Foreign	0.01	0.11	0.11	0.12	0.04	0.04	0.43
Subtotal Inflation	0.04	0.42	0.33	0.35	0.16	0.18	1.48
Devaluation	-	-	-	-	-	-	-
Subtotal Price Contingencies	0.04	0.42	0.33	0.35	0.16	0.18	1.48
Total PROJECT COSTS	6.66	21.78	10.53	7.97	2.93	2.67	52.53
Taxes	0.76	2.55	1.20	0.90	0.29	0.26	5.96
Foreign Exchange	1.94	5.62	3.36	2.66	0.66	0.63	14.86

(USD Million)

Component	Base Cost						
	2015	2016	2017	2018	2019	2020	Total
A. Participatory Value-Chain Analysis and Planning	0.43	0.28	0.10	0.03	0.02	0.01	0.87
B. Integrated Smallholders Agricultural and Rural Enterprise Development1							
1. Farm and Value Chain Enterprise Development	4.75	17.53	3.50	2.00	1.80	1.55	31.14
2. Value Chain Related Rural Infrastructure	0.17	2.15	5.62	4.55	0.23	0.10	12.81
Subtotal	4.91	19.68	9.12	6.56	2.04	1.65	43.95
C. Project Management, M&E and Knowledge Management							
1. M & E and Knowledge Management	0.27	0.23	0.24	0.38	0.23	0.35	1.70
2. Project Management	0.78	0.45	0.39	0.39	0.39	0.39	2.80
Subtotal	1.05	0.68	0.63	0.77	0.62	0.75	4.50
Total BASELINE COSTS	6.39	20.64	9.85	7.36	2.67	2.41	49.32
Physical Contingencies	0.22	0.72	0.34	0.26	0.09	0.08	1.73
Price Contingencies							
Inflation							
Local	0.03	0.31	0.23	0.23	0.12	0.13	1.05
Foreign	0.01	0.11	0.11	0.12	0.04	0.04	0.43
Subtotal Inflation	0.04	0.42	0.33	0.35	0.16	0.18	1.48
Devaluation	-	-	-	-	-	-	-
Subtotal Price Contingencies	0.04	0.42	0.33	0.35	0.16	0.18	1.48
Total PROJECT COSTS	6.66	21.78	10.53	7.97	2.93	2.67	52.53
Taxes	0.76	2.55	1.20	0.90	0.29	0.26	5.96
Foreign Exchange	1.94	5.62	3.36	2.66	0.66	0.63	14.86

II. PROJECT FINANCING

2. The proposed project financing is shown overleaf.

Expenditure Accounts by Financiers
(USD Million)

	IFAD Loan		Government		LGUs		Beneficiary/Prop		Total		For.	Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Exch.	Taxes)	Taxes
I. Investment Costs													
A. Civil Works	9.79	80.0	0.61	5.0	1.47	12.0	0.37	3.0	12.24	23.3	4.89	5.87	1.47
B. VC Facilities & Equipment	1.87	55.0	0.34	10.0	0.51	15.0	0.68	20.0	3.40	6.5	1.02	1.97	0.41
C. Agricultural & Processing Inputs	8.17	30.0	0.68	2.5	1.50	5.5	16.88	62.0	27.23	51.8	6.81	17.16	3.27
D. Local Services /a	0.85	47.3	0.95	52.7	-	-	-	-	1.80	3.4	0.48	1.10	0.22
E. Studies	0.10	30.0	0.23	70.0	-	-	-	-	0.32	0.6	0.06	0.22	0.04
F. Technical Assistance /b	0.75	80.0	0.19	20.0	-	-	-	-	0.94	1.8	0.28	0.55	0.11
G. Training & Capability Building	1.29	75.0	0.43	25.0	-	-	-	-	1.72	3.3	0.52	1.00	0.21
H. Vehicles & Office Equipment													
1. Vehicles	0.14	35.0	0.27	65.0	-	-	-	-	0.41	0.8	0.29	0.07	0.05
2. Office Equipment	0.03	35.0	0.05	65.0	-	-	-	-	0.07	0.1	0.05	0.02	0.01
Subtotal	0.17	35.0	0.32	65.0	-	-	-	-	0.49	0.9	0.34	0.09	0.06
I. Workshops	0.03	25.0	0.09	75.0	-	-	-	-	0.12	0.2	0.02	0.08	0.01
Total Investment Costs	23.02	47.7	3.83	7.9	3.48	7.2	17.93	37.2	48.26	91.9	14.43	28.05	5.79
II. Recurrent Costs													
A. Contracted Project Staff													
1. Salaries & Allowances - CPMO	0.56	100.0	-	-	-	-	-	-	0.56	1.1	-	0.56	-
2. Salaries and Allowances RPMO and PPMO staff													
Salaries & Allowances RPMO	1.02	100.0	-	-	-	-	-	-	1.02	1.9	-	1.02	-
Salaries & Allowances PPMO	0.42	100.0	-	-	-	-	-	-	0.42	0.8	-	0.42	-
Subtotal	1.43	100.0	-	-	-	-	-	-	1.43	2.7	-	1.43	-
Subtotal	1.99	100.0	-	-	-	-	-	-	1.99	3.8	-	1.99	-
B. Assigned Government Staff /c													
1. Honoraria CPMO Staff	-	-	0.14	100.0	-	-	-	-	0.14	0.3	-	0.14	-
2. Honoraria Regional & Provincial Staff													
Honoraria RPMO staff	-	-	0.22	100.0	-	-	-	-	0.22	0.4	-	0.22	-
Honoraria PPMO staff	-	-	0.44	100.0	-	-	-	-	0.44	0.8	-	0.44	-
Subtotal	-	-	0.65	100.0	-	-	-	-	0.65	1.2	-	0.65	-
Subtotal	-	-	0.80	100.0	-	-	-	-	0.80	1.5	-	0.80	-
C. Operation & Maintenance													
1. CPMO Operating Expense	-	-	0.33	100.0	-	-	-	-	0.33	0.6	0.09	0.20	0.04
2. RPMO Operating Expense	-	-	1.15	100.0	-	-	-	-	1.15	2.2	0.34	0.68	0.13
Subtotal	-	-	1.48	100.0	-	-	-	-	1.48	2.8	0.43	0.88	0.17
Total Recurrent Costs	1.99	46.6	2.27	53.4	-	-	-	-	4.26	8.1	0.43	3.67	0.17
Total PROJECT COSTS	25.01	47.6	6.11	11.6	3.48	6.6	17.93	34.1	52.53	100.0	14.86	31.71	5.96

\a Includes studies, training, facilities hire etc.
\b Includes both nationally sourced and international TA.
\c Government support staff working on the Project for a significant part of their time get an honorarium equivalent to 25% of their gross salary

3. The table below shows the financing by year and includes the budget costs for 2013 and 2014 that were approved by the NEDA Board in May 2012.

Overall Funding by Year - PHP millions					
Year	**Foreign Loan**	**Philippines**	**Total**		
2013		27.90	27.90		
2014		41.00	41.00		
2015	133.92	155.58	289.50		
2016	359.60	587.85	947.44		
2017	283.91	174.18	458.09		
2018	217.86	128.62	346.49		
2019	51.70	75.64	127.34		
2020	40.99	75.08	116.07		
Total	1,087.98	1,265.85	2,353.82		
Notes: (i) Philippine funds include those funds approved in May 2013 by					
	the NED Board for project related expenditures in 2013 and 2014.				
(ii)	Philippines includes NG, LGUs and beneficiaries in 2015-2020.				

4. **Financiers**. The various financiers for the total costs of CONVERGE are:

- IFAD, which will provide USD 25.0 million in the form of a loan, will finance a proportion of each of the investment expenditure categories. IFAD will not finance the cost of any duties or taxes. In particular, the IFAD loan will finance: (i) an average of 55% of the cost of value chain related, facilities and equipment; (ii) 80% of the costs of the rural infrastructure investments; (iii) an average of 30% of the cost of farm inputs and enterprise development; (iv) 35% of project vehicles and office equipment; (v) 100% of costs of the contract staff required to manage and implement the project but which are unavailable in the current complement of DAR personnel in the central, regional and provincial offices; (vi) 85% of the costs of technical assistance; and (vii) 75% of the costs of training and capability training.

- The National Government will finance the honoraria of existing DAR staff participating in the management and operation of the project. The Government will provide an honorarium of 25% of the salaries of the personnel who will be significantly involved in project implementation. This will be incremental Government expenditure and so it is treated as part of project cost. The Government will also finance incremental operation and maintenance costs. They will also pay honoraria to the members of the Project Steering Committee and the Regional Convergence Teams. The computation of staff cost is based on the salary rates effective from July 2012. The National Government will also finance the project's operating and maintenance costs and a varying proportion of the other costs e.g. workshops 75%, studies 70%, vehicles and office equipment 65%, value chain facilities and equipment 10% and civil works 5%.
- The costs of local services will be financed 47% by IFAD and 53% by the national Government.
- The LGUs using project funds for value chain related infrastructure will provide counterpart funding. In the absence of a new policy on cost sharing it is assumed that LGUs will provide 12% of the cost of public infrastructure (mainly farm to market roads) and of irrigation schemes and 15% of the costs of value chain facilities and equipment as well as a small percentage of the costs of agricultural and processing inputs (5.5%).
- Farm level beneficiaries and participating private sector firms will contribute towards investments in inputs, buildings and equipment that will be used for production, processing or marketing and distribution within project supported value chains, an average of 20% of the costs of value chain facilities and equipment and overall 62% of the costs of agricultural and processing inputs. Guidelines on cost sharing for private sector value chain investment are set out in Chart B below.
- Possible cost sharing arrangements (project and proponent) for the various types of investment are shown in Chart B below.

Cost Sharing Arrangements for Value Chain Investments

TYPE OF INVESTMENT ACTIVITY	TYPE OF SUPPORT	OPERATING RULES
Small scale local value adding for existing crops e.g. coffee hulling, solar drying, coco-sugar, village level storage	• Assistance in design, provided directly by the project using own or hired in resources e.g. consultants, PCA, DA etc. Paid 100% by Project • Grant support for investment in local facilities and equipment at 80% of cost • Up to two years TA/facilitation provided through project, either directly or under sub contract	• Activity undertaken by a group of ARB entrepreneurs or an ARB based agency e.g. PO. If PO, it must have OMA 4 or 5. • Funding to require that the investment is consistent with the VC analysis and includes: (i) detailed design which shows sound benefits; (ii) ARB or beneficiary PO to be sound *ex ante*; (iii) beneficiary or LGU contribution of **20% is available (in cash or kind - but kind would not include land value or ROW).** Items funded – buildings and equipment – 80%. • Initial working capital for marketing may require a link to an FI. This would be facilitated by project. • Accounting: Equipment cost, depreciation etc. to be accounted for based on gross cost with grant element explicitly shown in POs P&L and balance sheet over 5 -10 years.
Promotion of Specific Crops and Marketing	• Assistance in design – project resources + hired in	• Needs detailed design in line with VC analysis (anchor or secondary) including

TYPE OF INVESTMENT ACTIVITY	TYPE OF SUPPORT	OPERATING RULES
***Systems** requiring* VC investment – e.g. Oil palm, rubber, vegetables.	consultants if needed. Hired in consultants funded 100% • Facilitation at farm level 100% • Grant support for cluster specific investment based on an MOU 80% • Grants for farm level capital investment based on standard cost • Material elements of first round inputs provided • Cost sharing with agribusiness promoter	identification of willing competent partner(s) – details of arrangements to be covered by a binding MOA. • Farm or ARC level investment in marketing infrastructure funded 80% • Would also fund 100% of contracted facilitation costs • On-farm tree crop investment (new/re planting) to be funded at 80% for 3 years *based on standard costs, including labour* – disbursement geared to tree establishment meeting technical standards. • Initial working capital for the first cycle of annual crops or shorter period crops, e.g. vegetables would be provided in kind as a grant for materials. • Incremental extension/management costs of co-operating agribusiness to be funded at 50% over a maximum of three years, based on budget and monitorable outputs • Incremental working capital for marketing would be responsibility of commercial partner – project would facilitate to the extent possible, including through grant supported feasibility study preparation.
Integrating ARCs with the Market System Covers support for facilities only partially relating to ARC cluster – e.g. cold storage facilities and refrigerated transport used only partially for ARB cluster.	• Assistance in design – project resources + hired in consultants if needed. Hired in consultants funded 100% • ARC level infrastructure or VC equipment (80%) • Grants to support incremental investment related to ARC clusters but built outside ARCs (50%) • Grants for facilitation (100%).	• Needs detailed design in line with VC analysis (anchor or secondary) including identification of willing competent partner(s) – details of arrangements to be covered by a binding MOA. • Farm or ARC level investment in marketing infrastructure funded 80% as above. • Contracted facilitation costs at the farm level funded at 100%. • Incremental working capital would be responsibility of commercial partner – project would facilitate to the extent possible, including through grant supported feasibility study preparation.

Appendix 10: Economic and Financial Analysis

I. BACKGROUND

1. The proposed project will be implemented over six calendar years with the "pre-implementation activities" occurring during the first year to determine the priority value-chains for investment in each of the 11 ARC clusters, which cover 50 municipalities and 91 ARCs. In total it is estimated that there are about 150,000 households living within the area to be covered by the project, of which about 135,000 are poor rural households. These include ARB households, other small holders and IP households, about 30% of these households are headed by women.

2. Most ARBs and other smallholders have small areas of land of 1-5 ha with the cropping patterns reflecting the agro-climatic situation in that particular ARC cluster. Depending on the location the major crops cultivated include coconut, rice, corn, rubber, banana, high value vegetables, oil palm, coffee and cassava. Total area of crops in 2010 was about 216,000 ha or 1.6 ha per household. Only about 7% of the land is irrigated and only 5.8% of families have access to irrigation.

3. Based on 2009 data from DAR's annual ALDA survey of all its ARCs, the weighted average income of those ARCs to be included under the project was PHP 115,300 per household - (equivalent[40] to USD 490 per capita for an average family of 5.4 people), of which PHP 73,500 was from Agriculture, PHP 17,000 was off farm income and PHP 24,800 was non-farm income. These figures together represent an average total income of just above the 2009 poverty threshold for these three regions which was equivalent to PHP 87,500 per annum. Average household income was below the poverty line in 29% of the ARCs.

II. PROJECT DESIGN

4. The aim of the project is to raise incomes within the project area through improvement of value chains for those products that can be profitably and sustainably produced in the area by the targeted beneficiaries. The first component, Participatory Value Chain Analysis and Planning, involves a planning process in each of the ARC clusters for the key commodities/ crop(s) identified in the feasibility studies for each ARC cluster. As a result of this, the types of investment required and the facilitation needed to implement improved value chains will be determined and agreed.

5. Implementation of the selected investments is the second Project Component, Integrated Smallholders Agricultural and Rural Enterprise Development (ISHARED). Enhancement of the value chains within this component will involve facilitation, training and investment in several elements of different value chains including investment in: (i) Production (irrigation, tree crops, livestock, first round working capital); (ii) Improved crop handling at the farm level - harvesting systems, post-harvest facilities, storage, local level grading and packing, organization of bulking and transport; (iii) Processing or value adding at the farmer group or village level (e.g. coco sugar manufacture, drying and hulling coffee, ribbed rubber sheet production); (iv) Enhancing marketing infrastructure, including rehabilitation of farm to market roads, investment in transport facilities, improved systems of market information and buyer seller matching.

6. The choice and locations for actual ARC investments will be made based on demand, with specific investments being financed by the project, following an approval process, that would require the proposed investment: (i) To be economically and financially viable, taking account of its whole cost; (ii) To be technically feasible; and (iii) To have realistic proposals for a sound management system with acceptable agreements between the various participants in place.

III. PROJECT BENEFITS

7. The main incremental outputs following project investment in the target ARC clusters would come from the priority crops selected as a result of the feasibility studies undertaken for each ARC cluster. The likely benefits at the farm level would stem from increased production, more value added at the farm level and higher prices as a result of both quality improvement and more efficient marketing.

[40] Based on an exchange rate of PHP 43.5 per USD 1.00.

8. Participation in the project is potentially open to all rural households in the 11 clusters; actual numbers participating will depend on both the demand for project services by rural households and the capacity of the Project to deliver, given its resources. It is estimated that about 35,000 rural households will benefit directly from the project, including 3,000 jobs to be generated by the project in the value added sub sector. Additional benefits will come from the project's investment in rural infrastructure (e.g. farm to market roads, public water supply schemes) that are not part of the investments identified by the 11 feasibility studies, capacity building, (e.g. strengthened capacity to participate in value chain and rural enterprise development) and improved capacity of the implementing agencies to target and manage poverty reduction and rural development programmes in a gender sensitive and participatory manner.

IV. FINANCIAL AND ECONOMIC EVALUATION

9. The likely financial and economic benefits have been assessed by: (i) Preparing detailed feasibility studies for the value chain investments proposed by each of 11 ARC clusters that the project will target covering, the technical, financial, management and economic aspects of the proposal; and (ii) Analysing the likely economic returns from investments as part of the project. The analyses focus on the financial and economic rates of return and the benefit cost ratios calculated using a 15% discount rate as the assumed opportunity cost of capital. The results of these analyses were included in the submissions prepared by DAR/NEDA for review by the Investment Coordination Committee and were part of the project document approved by ICC and subsequently the NEDA Board. The detailed Excel files are in the Project File (see Annex 13) and are summarised in the tables following[41].

Financial and Economic Analyses – Rates of Return and Benefit Cost Ratios

ARC Cluster	Commodity	Financial Analysis			Economic Analysis		
		FIRR %	NPV@ 15% PHP m	B:C Ratio	EIRR %	NPV@ 15% PHP m	B:C Ratio
Zamboanga del Norte Resettlement Cluster	Integrated Rubber Enterprise	36.2	1,441.7	1.42	43.3	1,584.4	1.49
Salug Valley Cluster	Intensified Rice Production and Marketing	49.7	72.0	1.55	38.4	48.0	1.37
Salipyasin ARC Cluster	Rubber Agribusiness Project	71.4	3,527.0	1.91	79.7	3,602.2	1.95
North Bukidnon ARC Cluster 1	Cassava Production and Processing Enterprise	73.4	27.0	1.16	58.7	17.3	1.11
South Bukidnon ARC Cluster	Muscovado Sugar Production and Marketing	24.8	4.0	1.18	33.5	7.1	1.38
LABACO	Abaca Fibre Production and Marketing	33.1	2.6	1.14	34.1	2.0	1.11
MISORET ARC Cluster	Coconut Sugar Production	79.5	220.8	1.28	65.1	140.1	1.18
TUJAKITSAN ARC	Abaca Fibre Production	32.8	3.7	1.08	33.9	3.6	1.08

[41] During the initial project design phase in 2011 and subsequently in the revisions made in 2012 crop production and 51marketing models was prepared to support the project proposals and these were included in the original version of Working Paper 7. The analysis in the feasibility studies has superseded those analyses as project approval has been based on those analyses. From a review of the analyses in the feasibility studies it is not clear that where relevant what allowances have been made for the without project situation.

ARC Cluster	Commodity	Financial Analysis			Economic Analysis		
		FIRR %	NPV@ 15% PHP m	B:C Ratio	EIRR %	NPV@ 15% PHP m	B:C Ratio
Cluster							
VETREBUNS ARC Cluster	Rice Production Processing and Marketing	30.6	5.1	1.29	45.7	8.7	1.68
CLAGIBAPLA ARC Cluster	Coconut and Bio fertilizer Production and Marketing	32.8	9.9	1.19	38.9	12.9	1.30
BATA ARC Cluster	Coffee Production Processing and Marketing	69.1	48.1	1.16	77.2	51.2	1.17
TOTAL		**50.8**	**5,362**	**1.60**	**57.0**	**5,477.5**	**1.64**
Various	Rural Infrastructure	-	-	-	19.1	89.2	1.26
TOTAL PROJECT[42]		-	-	-	**44.6**	**5,218.4**	**1.57**

10. Total ex-farm value of agricultural production produced pre project is of the order of PHP 15-20 billion (USD 345 - 460 million) annually. While some will be for family consumption, probably at least half would be sold. Consequently, quite a small percentage increase in output price overall as a result of improved marketing, brought about by the project's focus on value chain analysis would have a large impact on the aggregate amount of income received by farmers. The main incremental benefits from the project would stem from additional production of and value added to agricultural products. Value chain development would also reduce costs in some cases e.g. though better roads and hence lower vehicle operating costs. Benefits from improved quality would generally be reflected in higher prices. Better organized farmer marketing would increase farmers' bargaining power thereby raising the farmers; share of the price paid by the consumer and also reduce the cost of marketing and waste, particularly post-harvest losses.

11. The likely overall financial returns shown by the feasibility studies are attractive as the rates of return and benefit cost ratios are high. For some of the likely investments under the project e.g. planting crops that have a long gestation periods estimating their financial rate of return is a good measure of their likely impact and attractiveness to beneficiaries, but in other cases, particularly where the project's impact is to improve marketing or quality, it is more useful to look at Benefit: Cost Ratios at financial prices (discounted by an 15% (opportunity cost of capital as specified by NEDA). It is clear that with the proposed level of support to value chain development, well run schemes will almost certainly provide sound financial benefits to those involved in them.

12. To undertake an **economic evaluation** the prices in the financial analyses were converted to economic prices, using Economic Conversion Factors. The methodology used is described above.

13. Total ex-farm value of agricultural production produced pre project is of the order of PHP 15-20 billion (USD 345 - 460 million) annually. While some will be for family consumption, probably at least half would be sold. Consequently, quite a small percentage increase in output price overall as a result of improved marketing, brought about by the project's focus on value chain analysis would have a large impact on the aggregate amount of income received by farmers. The main incremental benefits from the project would stem from additional production of and value added to agricultural products. Value chain development would also reduce costs in some cases e.g. though better roads and hence lower vehicle operating costs. Benefits from improved quality would generally be reflected in higher prices. Better organized farmer marketing would increase farmers' bargaining power thereby raising

[42] Includes all project management costs in the calculation of the NPV and IRR.

the farmers; share of the price paid by the consumer and also reduce the cost of marketing and waste, particularly post-harvest losses.

14. The likely overall financial returns shown by the feasibility studies are attractive as the rates of return and benefit cost ratios are high. For some of the likely investments under the project e.g. planting crops that have a long gestation periods estimating their financial rate of return is a good measure of their likely impact and attractiveness to beneficiaries, but in other cases, particularly where the project's impact is to improve marketing or quality, it is more useful to look at Benefit: Cost Ratios at financial prices (discounted by an 15% (opportunity cost of capital as specified by NEDA). It is clear that with the proposed level of support to value chain development, well run schemes will almost certainly provide sound financial benefits to those involved in them.

15. To undertake an **economic evaluation** the prices in the financial analyses were converted to economic prices, using Economic Conversion Factors as described in WP 7. All of the feasibility studies and separate infrastructure investments give sound economic returns (before taking account of project management and other indirect costs) as shown in Table. After taking into account project management and other the indirect costs, the project shows an economic rate of return of 44.6%, a net present value @15% of PHP 5,218.4 million and a benefit cost ratio of 1.57 (discounting benefits and costs at 15%). Based on the sensitivity analysis below, the results are robust. The project would still be viable if all costs increased by 20% and benefits were 20% lower.

Sensitivity Analysis

	Increase in Costs					
Decrease in Benefits		**0%**	**5%**	**10%**	**15%**	**20%**
	0%	*45%*	*41%*	*37%*	*34%*	*31%*
	5%	*41%*	*37%*	*34%*	*31%*	*28%*
	10%	*37%*	*34%*	*30%*	*25%*	*25%*
	15%	*34%*	*31%*	*28%*	*25%*	*22%*
	20%	*31%*	*28%*	*25%*	*22%*	*20%*

16. **Returns to Households**. Based on the feasibility studies, net financial benefits will be about PHP 747 million per year by 2020 and peak at nearly PHP 3,470 million ten years later when the full income from the rubber planted under the project will be realised. It is not clear what proportion of the households living in the project area are likely to share in the net benefits or what proportion of the net benefits will accrue to these rural households, as some of the net benefits will accrue to non-project participants, including road users not engaged in value chain development and the various agri-business participants. If 60% of the benefits accrue to the rural households and 35,000 benefit, the annual income impact on these households in real terms would be average of about PHP 12,800 per year by 2020 and peak at about PHP 59,500: a real income increase of about 11% by 2020 and 52% by 2030 over the 2009 levels.

Appendix 11: Draft Project implementation manual

I. INTRODUCTION

1. To ensure smooth start-up and implementation of the project, DAR (with consultancy assistance) will prepare the Project Implementation Manual (PIM) which will be agreed with IFAD, before the start of PY1 and before any withdrawal applications can be submitted to IFAD. Preparation of the PIM will start after the visit of the design completion mission, with the final modifications made following the financing negotiations between IFAD and the Government. The PIM will be discussed during the start-up workshops. The PIM should be simple but sufficiently informative so that the users can easily follow the procedures. The use of diagrams and flow charts will make the contents easier to understand.

II. OUTLINES

2. The PIM will be in three volumes: Volume 1 Overall Project Implementation; Volume 2 Value Chain Development; and Volume 3 Rural Infrastructure Investment.

3. **Volume 1, Overall Project Implementation**, will include the following topics:

- Introduction and purpose of the manual.
- Summary of the project concepts and principles.
- Detailed explanation of the project components, sub-components, and activities (Annex 4, additional material from the relevant Working Papers in the Project Life File, Annex 13) and to include detailed eligibility criteria for project financing of the investments included in the ARC-VIPs.
- Project organizational structure (from Annex 5).
- Project implementation arrangements at national, regional, provincial, municipal and ARC levels.
- Responsibilities of staff of the project implementing agencies at various levels including: TOR for key programme staff, TA and studies (from the Working Papers).
- Project planning arrangements to include participatory planning at the community level.
- Annual participatory planning processes and procedures.
- Municipal, provincial, regional and national level planning processes and procedures, preparation of AWPB including project activities, budgets and implementation responsibilities, reporting formats and schedules.
- Financial management procedures and reporting (from Annex 7, plus additional information from DAR, DBM etc. and IFAD sources where necessary).
- Procurement procedures, procurement management and reporting (from Annex 8).
- Monitoring and evaluation system and knowledge management including instruments for data collection and analysis (from Annex 6 and Working Paper 5).

4. **Volume 2, Value Chain Development**, will include the following topics:

- Introduction and background to project’s value chain concepts and approaches: clusters, value chain networks and ARC clusters.
- Key elements and principles of the value chain analysis and development approach.
  - ✓ Prioritization of chains for value chain analysis and development.
  - ✓ Identification of anchor chain and the “secondary” enterprises.
  - ✓ Value chain analysis and planning for the priority crop or chain in the cluster.
  - ✓ Training a core of value chain analysts and planners.
  - ✓ Replicating value chain analysis and planning for other commodities/chains (secondary crops or enterprises).
  - ✓ Conducting multi-stakeholder validation-planning workshops for priority chain/s.
  - ✓ Developing ARC-cluster value chain investment plans (ARC-VIPs).
  - ✓ Eligibility criteria for project financing, including environmental safety concerns.
- Implementing value chain development interventions - upgrading strategies.

- Value chain development interventions.
  - ✓ Integrated smallholders' agricultural and rural enterprise development.
  - ✓ Support for Farm and Enterprise Development.
  - ✓ Farm production.
  - ✓ Value addition and diversification.
  - ✓ Market and investment facilitation.
  - ✓ Rural finance facilitation.
  - ✓ Investment in rural infrastructure and equipment.
- Value Chain Development Modes of Implementation.
  - ✓ Modes of implementation.
  - ✓ Contracting business development service provider for value chain development facilitation.
  - ✓ Implementation Arrangements and procedures, including environmental safety concerns.

5. **Volume 3, Rural Infrastructure Investment**, will include the following topics:

- Value chain infrastructure documentation:
  - ✓ Sub-project design specifications, including technical standards for all types of construction.
  - ✓ Technical documentary requirements.
  - ✓ Legal documentary requirements, including MOA covering responsibilities of the beneficiaries (e.g. POs) during identification, design planning, construction and for O&M.
  - ✓ Technical appraisal to review and approval process.
  - ✓ Eligibility criteria for project financing, including environmental safety concerns.
  - ✓ Capacity building required by the IAs and their membership
- Value chain infrastructure execution, completion and turn-over.
  - ✓ Implementation structure, execution and supervision.
  - ✓ Reporting, monitoring and evaluation.
  - ✓ Quality control.
  - ✓ Work suspension and resumption.
  - ✓ Variation orders.
  - ✓ Penalties, sanctions and remedial measures.
  - ✓ Completion, turn-over
  - ✓ Arrangements for O&M.
  - ✓ Defects Liability Period.

Appendix 12: Compliance with IFAD policies

I. COMPLIANCE WITH IFAD POLICIES

1. The IFAD policies relevant to the project include: Targeting – Reaching the Rural Poor; Gender Plan of Action; Engagement with Indigenous Peoples; Rural Enterprise, Private Sector Development and Partnership, Climate Change; and Rural Finance and Prevention of Fraud and Corruption. The project design has reflected these policies and lessons learned in the IFAD country programme.

2. The project's approach to targeting the poor is based first on an area targeting approach i.e. targeting poor regions and provinces and providing a preliminary list of target commodities for value chain development. In addition, the municipalities in the ARC clusters have high levels of poverty, while the average incomes of the ARBs in the 11 ARC clusters is scarcely above the poverty line.

3. Apart from geographic targeting described above which identifies the project areas two other methods of targeting will be employed: (i) selection of private sector organizations to provide marketing and or other services that meet the proposed eligibility criteria; and (ii) self-targeting by members of the target group based on their interest in participating in project activities.

4. The findings of the design mission highlight the need for the project to mainstream gender concerns throughout the project's activities. As a result women will be involved in all phases of project implementation with gender needs included as part of the value-chain analysis and with M&E providing evidence-based reporting on the benefits and other impacts on women.

5. Gender mainstreaming will aim to ensure that women and men relate fairly and justly to each other as equals in matters concerning project implementation. The gender strategy for the project includes: (i) the conduct of gender-responsive value chain analysis to ensure that gender needs and issues will be identified during the preparation of the ARC-VIPs; (ii) preparation of local gender action plans in collaboration with the government agencies and the local government units; (iii) advocate for the incorporation of the gender action plans into the existing Gender and Development budgets of the agencies; (iv) specific targets that 30% of the project beneficiaries and the members of the management committees (POs etc.) will be women; (v) promotion of equal opportunities for men and women; and (vi) M&E data and analysis is to be disaggregated to show the participation of men and women and to show the roles of men and women in particular activities.

6. The project's approach to IPs is also entirely consistent with IFAD's policy on IPs. During the visits to the ARC clusters, the design team's socio-economist consulted with IPs on their needs and the status of the preparation of their ASSDPPs; with some already approved and others still being prepared. There were also consultations with NCIP, the government agency charged with supporting the implementation of the government's policies such as the Indigenous Peoples' Rights Act.

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

8. Project design includes IPs as a target sub-group. Overall IPs account for approximately 10% of the population of the 11 ARC clusters and the target is that IPs should account for 15% of the project's beneficiaries. Project activities involving IPs will take into account their traditional cultural practices and ensure that the principle of free and prior informed consultation/consent is followed for all project activities through the provision of adequate information and consultation.

9. Project implementation will require private sector involvement. Implementation will support investment operations that will support private-sector development in the 11 ARC clusters and partnerships with the private sector that will lever additional investments and knowledge for rural areas. As such these operations are consistent with IFAD's Private-Sector Development and Partnership Strategy.

10. The project's involvement with rural financial services is entirely consistent with IFAD's rural finance policy. The project is not a financial services project and will not include a line of credit for on-lending to the beneficiaries. However, the proposed value chain development activities will assist the members of the target group and their organisations to become eligible as borrowers from the MFI and banking sectors and also to assist the MFI/rural banking sector to be able to provide appropriate financial projects for members of the target group and their organizations.

II. ENVIRONMENT AND SOCIAL REVIEW NOTE

Environmental and Social Issues

11. Increased agricultural production has received priority over environmental protection in the Philippines. Environmental concern for the agricultural resource base has been heightened due to factors such as the inappropriate use of modern farm techniques, deforestation, conversion of prime agricultural land for urban development, cultivation of marginal upland areas, depletion of fishery resources and potential adverse impacts of climate change.

12. In **Region IX** environmental issues are concentrated in the Sibuguey Valley in Zamboanga Sibugay and Salug Valley in Zamboanga del Sur where recurring flooding is a problem damaging/destroying crops, rice land, properties and basic infrastructure facilities. High rural unemployment, poverty and low wealth creation; inefficient and ineffective delivery of services; weak governance; inadequate spatial, physical and economic integration exacerbate the environmental problems.

13. In **Region X** the specific regional challenges are: (i) pockets of poverty; (ii) inadequate socio-economic support systems; (iii) weak administrative support system; and (v) threatened national resources. The region's growing population has been exerting increasing pressure on its natural resources resulting in the depletion of its forest cover and other resources. Greatly reduced natural water-recharge capacities of the watersheds has been leading to the lowering of the water table, the frequent flooding in low lying areas can be traced to the denudation of the forest cover. Logging and mining activities in the upland areas also threaten precious water resources in the lowlands, especially the fishery resources of major bays. Panquil and Murcellagos Bays, two of the most productive bays are threatened by siltation and the dumping of mine tailings.

14. In **Caraga Region** the forest cover decreased by 45% between 1987 and 2003. Reforestation is underway with the private sector as the major player. Social issues include water borne diseases, and security of tenure in the housing sector

15. The target ARC clusters are far from the demand centres for organic products e.g. Metro Manila. Distance increases marketing costs which is compounded by the lack of market information, expensive organic certification and limited access to finance to invest in the development of organic products such as packaging and branding. At the same time some farmers apply excessive amounts of fertilizers that make the soil severely acidic or use excessive applications of pesticides.

16. **Overall**. Cavedish banana, pineapples for export and palm oil are three commodities that can be further developed with project assistance. These products use a plantation system to achieve economies of scale. However, a plantation system can threaten biodiversity and create environmental problems. For example, aerial spraying of Cavendish banana is banned in some areas in Region XI because of its threat to the environment and human health. However, the plantation system promotes efficiency and productivity thereby enhancing competitiveness. Such trade-offs must be carefully considered given the lack of alternative profitable enterprises for some clusters (e.g. BATA-Barobo Tagbina Cluster in Surigao del Sur, CARAGA) and ARBs (e.g. senior citizens).

17. Most ARBs have limited bargaining power even as members of POs. This is a multi-dimensional issue that is rooted in the lack of access to finance, poor infrastructure facilities and limited market information. Traders dictate the price and not market forces because they provide credit to farmers whose produce has been bought even before harvest. Poor infrastructure limits the number of buyers in rural market centres (trading posts) and some collude to dictate prices. Some farmers interviewed have no access to timely market information due to poor communication facilities particularly in remote areas.

Potential Social and Environmental Risks

18. **Rural Infrastructure Investment -** This sub-component poses some environmental risks and calls for safeguards to be incorporated in the design of each development activity. Enumerated below are the respective issues and mitigations for the sub-component.

19. **Communal Irrigation Systems** - Environmental impacts of irrigation improvements are the changes in quantity and quality of soil and water following the provision of irrigation and the ensuing effects on natural and social conditions downstream of the irrigation scheme. The adverse hydrological effects can include: a reduction in the downstream river discharge, an increase in the evaporation in the scheme area and groundwater recharge, a rising water table, and increased drainage flows. The potential adverse effects on soil and water quality are indirect and complex, including water logging and soil salinity, leading to a reduction in agricultural production, whereas the subsequent impacts on natural, ecological and socio-economic conditions can be complex. Adverse health impacts and increased costs due to water borne diseases are an example as is a build-up of nitrate levels in drinking water supplies. Including adequate drainage is a measure to counter these adverse impacts.

20. The reduced downstream river discharge may cause: reduced downstream flooding, disappearance of ecologically and economically important wetlands or flooded forests, reduced availability of industrial, municipal, household, and drinking water, reduced fishing opportunities due to over-extraction of water for agriculture. Fish populations, the main source of protein and overall life support systems for many communities especially in the Caraga Region, may also be threatened reducing discharge into the Agusan Marsh, which may have various consequences.

21. Further, since the project will only support rehabilitation and restoration of Communal Irrigation schemes, which by definition are small, but also may be some small-scale drip irrigation schemes the impact will be minimal and will include adequate measures to counter the potentially adverse impacts (see Working Paper 3) and no further scoping is needed.

22. **Farm to Market Roads**. ARCs often lack adequate road access which is essential for value chain development of the priority commodities and other enterprises in the ARC clusters. There are potential negative physical and biological impacts during the construction phase which require mitigation. However, given the scale of the works proposed negative impact on the surrounding water resources can be avoided by following good construction practices. Any negative biological impacts can similarly be avoided. Indirect socio-economic benefits come from providing some additional local employment opportunities, while any potential negative impacts should be avoidable with good planning and the use of good construction practices. When in use and being properly maintained there are major benefits, both socio-economic and physical. Annex 2 Working Paper 3 has further details.

23. **Post-Harvest Facilities –** Technical specification for the materials to be used shall not threaten endangered timber species for form works, or pose health hazards. A proper waste disposal plan should be incorporated in the design; segregation of biodegradable waste from non-biodegradable waste should also be given utmost emphasis during operation and maintenance. Following construction it is important to salvage the remnants of construction like cement bags, excess steel bars that are prone to rust, nails, formworks, saw dust, etc. These are just few of the activities needed to avoid respiratory illnesses and injury.

24. When making a proposal there is a need to define the ownership of the area where the facilities to be erected. In most cases the farmer organization (e.g. PO or association) will be the owner and responsible for the operation and maintenance of the facilities. Working Paper 3 provides samples of documents to be used in this aspect.

Environmental Category

9. The project is classified as Category "B" for the following reasons and no further data collection is necessary. First, the design provides for investment in small-scale rural infrastructure identified by community empowerment and facilitation processes; including FMR construction, the rehabilitation of CIS, and the construction of scattered, small-scale village post-harvest facilities. Most will have no negative environment impact due to their small-scale and construction that will avoid any negative environmental impact e.g. erosion, pollution of water resources etc. In all cases pertinent laws and government regulations for environmental impact assessments and relevant IFAD guidelines would be followed during the course of investment planning, design, construction and operation and maintenance in order to ensure incorporation of any necessary environmental mitigation measures and their implementation.

10. Second, the project's main emphasis will be on capacity building in poor village and on improved livelihoods and increased incomes by improving product quality and market linkages. Neither of these directly impinges upon the environment. The project's awareness raising activities will increase community consciousness of the need to follow sustainable production practises.

11. Third, the encouragement of intercropping and mixed cropping, together with conservation agriculture techniques, green manuring and composting will improve soil conservation and reduce erosion with beneficial environmental impacts. In addition, the introduction of more intensive methods of animal rearing will improve productivity of the grazing areas and use of concentrates and help return nutrients to the cultivated land through collection and use of manure.

12. Fourth, limiting interventions in marine fisheries to support for obtaining greater value from the existing catch it is hoped that this will not encourage increased capture, rather improve livelihoods obtained from present catch volumes.

Design and Implementation Features

13. Protecting and preserving the environment is an integral part of the value chain approach and overall design of the project. The criteria applied to prioritize chains in the ARC clusters include environmental concerns. A criterion for sustainability is included to ensure that the value chains to be developed will have no adverse effects on the environment to ensure the sustainability of the economic benefits derived from agribusiness ventures. In addition, a criterion on using available environment friendly technologies is also included.

14. The project is designed to provide an integrated package of services to develop the chain. For example, if the chain for organic rice is found to be a profitable venture based on the value chain assessment, a package of interventions will be provided. This includes assistance in production technology, organic certification, branding, packaging and others. There is no incentive for farmers to produce products that help preserve the environment if these products are not profitable. The project is designed to help explore opportunities, help assess profitability of these types of products and provide assistance to promote these products and enhance profitability for adoption of farmers. The design includes mitigation/adaptation measures to reduce vulnerability and risks of climate change and variability, preparation and use of environmental management plans, use of integrated pest management techniques, and support for community environmental education and training.

15. The mitigation measures include value chain development to be resilient to climate change, environmentally friendly and sustainable; training to include management, adaptation to the threats from climate change and environmental awareness; promotion of environmentally friendly and sustainable production systems, e.g. use of the farming systems approach and promoting good agricultural practices and varieties that can tolerate climate variability; and involving DENR and its local offices to ensure value chain development will be in line with good practices for environmental and natural resources management.

Environmental Monitoring

16. The project is focused on community-based implementation, including participatory monitoring aspects. Environmental monitoring will be part of the programme M&E system.

17. Special attention and care will be given to the design, construction, maintenance and monitoring of FMR involving POs and LGUs, and LGUs and Irrigators' Associations for the CIS. These groups will actively participate in implementing, monitoring and sustaining the programme's interventions.

18. Key environmental indicators included in the logical framework and M&E system are: (i) market linkages developed for organic products; (ii) area of land under technologies that promote sustainable agriculture; (iii) number of mature POs participating in value chain development using sustainable agriculture techniques; (iv) improved farm to market roads being maintained; and (v) land under CIS constructed/restored.

Consultations with Beneficiaries

19. The IFAD Design Mission conducted beneficiary consultations across the three regions from the period 9th – 21st June 2011. The purpose of the beneficiary consultations was to elicit the views and

suggestions of the beneficiaries in terms of their current conditions and realities; determine their expressed development needs; validate data and information; and conduct of ocular inspections of proposed areas.

20. There were 13 consultations where 882 beneficiaries and project stakeholders participated consisting of women, 47% and men 53%. Working Paper 1 includes the numbers attending each consultation. The participants where a cross section of ARBs, other smallholders, cooperative officers and members, IPs, product buyers/market outlets and Development Facilitators, Municipal Agrarian Reform Officers and Provincial and Regional Officials of DAR and LGU staff. At each location groups of stakeholders (e.g. ARBs, IPs DAR field staff, LGU officials etc.) interacted separately with a member of the six person design mission.

21. Depending on those present, the consultations revolved around current production activities, existing issues and problems, suggestions and recommendations for future development, validation of data and data collection, possible project roles, and for the rural infrastructure a site inspection to look at their pressing infrastructure needs. In addition some on-going livelihood projects were also visited.

References

1. Zamboanga Peninsula Regional Development Plan (2004-2010), NEDA, Region 9
2. Northern Mindanao Regional Development Plan (2004-2010), NEDA, Region 10
3. Caraga Regional Development Plan (2004-2010), NEDA, Region Caraga
4. Mindanao Strategic Development Framework (2011-2020), NEDA
5. Philippine Development Plan (2011-2016), NEDA
6. Indigenous Peoples/ Ethnic Minorities and Poverty Reduction-Philippines, ADB June 2007.

Appendix 13: Contents of the Project Life File

DOCUMENTS

1. The following project design related documents are available in the Project Life File:

- Revised Project Proposal: Convergence on National Value-Chain Enhancement for Rural Growth and Empowerment (Project CONVERGE), prepared by Department of Agrarian Reform in collaboration with the Department of Agriculture (DA) and Department of Environment and Natural Resources (DENR), May 2011
- Aide-mémoire of the design mission
- Aide-mémoire of the design completion mission
- Programme Design Report (including 15 Annexes)
- Working Papers 1-3 prepared by the project design mission, have been used to help prepare the project design described in the Project Design Report and the Annexes. These Working Papers include much background material but not all the proposals in these Working Papers have been included in the project's design
  - Working Paper 1: Poverty, Targeting and Gender Mainstreaming
  - Working Paper 2: Value-chain and Market Development
  - Working Paper 3: Rural Infrastructure

6. The Addendum to Working Paper 2 and Working Papers 4-7 prepared by the project design completion mission provide information that elaborates the information that is included in the Project Design Report and the Annexes. After the conclusion of the ICC Review Process and subsequent approval of the project by the NEDA Board Working Papers 6 and 7 were revised to reflect the changes made during the government review process.
   - ✓ Addendum to Working Paper 2: Value Chain and Market Development
   - ✓ Working Paper 4: Institutional Aspects and Implementation Arrangements
   - ✓ Working Paper 5: Monitoring and Evaluation and Knowledge Management
   - ✓ Working Paper 6: Project Costs and Financing
   - ✓ Working Paper 7: Financial and Economic Analysis

- Detailed excel files for the economic and financial analysis prepared by DAR/NEDA
- IFAD Financing Agreement
- Letter to the Borrower
- Detailed Audit Terms of Reference

2. Other relevant documents include:

- IFAD Country Strategic Opportunities Programme (COSOP) for the Republic of the e Philippines 2010-2014

Appendix 14: Agreed Action Plan and Timetable for IFAD Financing

Task/Activity	Responsible Agency	Outputs	Schedule
Project Design Review and Approval Process			
Wrap-up meeting of Design Completion Mission	DAR (Central and Regions IX, X and Caraga), DA, DENR, NEDA, DBM, DOF	Aide-Mémoire agreed by all parties, with five Annexes: Organisational Structure, Roles and Responsibilities and Staff Numbers; Proposed Cost Sharing Arrangements for the Value Chain Investments and Flow of Funds; Action Plan Prior to Project Start-up; a Preliminary List of Assurances for Negotiations; and a Draft Letter to the Borrower	2^{nd} November 2011 in Manila
Confirmation of agreement to the Aide-Mémoire	IFAD and DAR in consultation with NEDA, DBM	Letters of confirmation of agreement to the Aide-Mémoire exchanged between the Government and IFAD	By 30^{th} November 2011[43]
Preparation of the Revised Project Design Report	Project Design Completion Mission	Revised Project Design Report submitted to IFAD	Mid-December 2011
Distribute Revised Project Design Report	IFAD and DAR	Revised Project Design Report submitted to government for NEDA/ICC review	Early January 2012
Government review process	NEDA/ICC	Review of the Revised Project Design Report by the government	From second week of January 2012 to October 2014
Quality Assurance Review	IFAD	Any substantive changes agreed will be incorporated into the Project Design Report which will be communicated to the government	26^{th} January to 3^{rd} February 2012
Government approval process	NEDA Board	Project design approved by Government	17^{th} October 2014
Preparation of Report and Recommendation of the President	IFAD	Report and Recommendation of the President submitted to Executive Board (EB) members	By 8^{th} January 2015
Submit draft Project Financing Agreement	IFAD	Draft Project Financing Agreement and invitation to negotiations sent to the Government for review and preparation for Negotiations.	Early January 2015
Negotiations in Manila	Government and IFAD	Negotiated Text of Project Financing Agreement and Minutes of Negotiations initialled and signed	Late January 2015
Submit the project to the Executive Board of IFAD for approval	IFAD	Approval by the EB of IFAD, and DOF, DAR, NEDA and DBM informed of the decision	April 2015
Finalise Project Design Report to incorporate changes agreed during loan negotiations	IFAD	Project Design Report finalised based on the results of the financing negotiations	31^{st} May 2015
Preparation and Approval of the Project Implementation Manual (PIM)			
Prepare Draft Project Implementation Manual	DAR	A draft of the Manual based on the annotated outline in the Draft Project Design Report, including formats for the Memoranda of Agreement (MOA) and submitted to IFAD for review and comment	1^{st} November 2011-29^{th} February 2015
Review of the draft PIM	IFAD	PIM reviewed with comments from IFAD submitted to DAR	15^{th} March 2015
Finalisation of the PIM	DAR	Final version of the PIM prepared with IFAD comments reflected in the final PIM	15^{th} April 2015

[43] If no confirmation received by the deadline, it means that the government or IFAD agrees to the contents of the signed aide memoire.

Task/Activity	Responsible Agency	Outputs	Schedule
Conditions for Effectiveness			
Signing of Project Financing Agreement	DOF and IFAD	Project Financing Agreement countersigned by President of IFAD and authorised representative of the Borrower	By 30th June 2015 in Rome
Conditions Precedent to Withdrawals			
Fulfilling Conditions precedent to withdrawal of the IFAD Financing, as provided in the Project Financing Agreement	DAR, DOF/BTr, DBM, IFAD	All Conditions precedent to withdrawal as provided in the Project Financing Agreement met and evidence submitted to IFAD and accepted	By 30th June 2015
Start Up Workshop	IFAD, DAR	Clear understanding of project strategy, approaches, activities, management structure, institutional and implementation arrangements, planning and budgeting procedures, financial management, procurement and loan disbursement procedures, reporting and M&E/KM (including the RIMS) Agreed project implementation strategy and schedule	July/August 2015 pending fulfilment of conditions precedent to withdrawals
Project Management Staffing and Systems			
Establish the Project Steering Committee (PSC)	DAR	The PSC will have representatives from all national agencies involved in project implementation and chaired by DAR	By 1st June 2015
Establish the Central Project Management Office (CPMO)	DAR	Office established and staff seconded by DAR, who will work full-time on project activities and will stay in position until the MTR	By 1st June 2015
Establish the Regional Multi-Stakeholders' Committees (RMSCs)	DAR in Regions (IX, X and Caraga)	Committees established with a membership from all regional agencies involved in project implementation, including beneficiary representatives and chaired by DAR Two Sub-Committees established: Infrastructure and Value chains	By 1st June 2015
Establish the Regional Project Management Office Coordination Offices (RPMOs)	DAR in Regions (IX, X and Caraga)	Offices established in the three regions under the DAR Regional Directors with 6 staff seconded by DAR in each office who will work full-time on project activities and will stay in position until the MTR	By 1st June 2015
Establish the Provincial Project Management Office Coordination Offices (PPMOs)	DAR in the 10 project provinces with two in Bukidnon (south and north)	11 offices established under the DAR PAROs2 with 7 staff seconded by DAR who will work full-time on project activities and will stay in position until the MTR	By 1st June 2015
Setting up the financial management system	DAR	Sound financial management system, including fund flow procedures, disbursements, internal controls, accounting procedures and physical and financial reporting procedures established at central, regional, provincial, municipal and *barangay* levels	By 31st August 2015
Setting up the systems for M&E, reporting and impact assessment	DAR with IFAD assistance	An effective and functioning system of M&E, physical and financial reporting and impact assessment (including the RIMS) set up with clear procedures and formats; training in the M&E operations provided to the concerned staff	By 1st January 2016
Procurement of Goods, Services and Civil Works			
Prepare the assessment of existing vehicle inventories for approval and specifications for vehicles and major purchases of office equipment	DBM, DAR CPMO and RPMOs	Government approves the procurement of the proposed vehicles and final specifications prepared and approved at regional and central levels for review by IFAD	By 1st June 2015

Task/Activity	Responsible Agency	Outputs	Schedule
Prepare terms and reference for the Value Chain Consultancy	DAR CPMO and RPMOs	Final terms of reference prepared and approved at provincial and central levels for review by IFAD	By 1st June 2015
Prepare bidding documents for major PY1 procurement of goods and services	DAR CPMO and RPMOs	All bidding documents ready for tendering following the procurement procedures in the Project Financing Agreement and submitted to IFAD for prior review and approval	By 1st June 2015
Prepare terms and reference for undertaking baseline/RIMS survey	DAR and IFAD	Final terms of reference prepared and approved at the central level for review by IFAD	By 1st June 2015
Advertising, tendering of procurement of goods, services and negotiation of contracts	DAR CPMO and RPMOs	Procurement process is completed up to the stage of completion of negotiation of contracts	By 30th September 2015
Award of negotiated contracts	DAR CPMO and RPMOs	Contracts awarded	After meeting the conditions precedent to withdrawals
Other Pre-project Activities			
Prepare a proposal for retroactive financing of key project start-up activities	DAR	A proposal for the retroactive financing from the IFAD loan of key activities e.g. preparation and finalisation of the PIM, preparation of bidding documents etc. for procurement in PY1, establishment of the CPMO, RPMOs and PPMOs etc. submitted for inclusion in the Project Design Report	9th November 2011
Clarify the extent to which the land allocated to the ARBs overlaps with that claimed by IP groups	DAR and NCIP	For those clusters where there are IPs prepare maps showing the location of any areas where land allocated to ARBs overlaps that claimed by IPs as part of their ancestral domain.	1st February 2012

APPENDIX 15: Good Governance Framework

In all instances, the Financing Agreements will be the overriding legal document. The Government's procurement policies, procedures and documentary requirements under Philippine Republic Act 9184 will be applicable to the extent that is consistent with the Procurement Guidelines of the IFAD.

No.	Issues/Risks	Action to Mitigate Risks/ Responsible Entity	Targets/Frequency
1a	Risks of corruption and fraud • Collusion during bidding process • Biased bid evaluation • Suppliers/contractors offering incentives for favourable treatment	The Department of Agrarian Reform (DAR) as lead agency will use its Bid and Award Committee – BAC at the Central-, Regional, and Provincial levels to ensure that the procurement process is in accordance with the Government's Standard Operating Procedure and Procurement Guidelines under RA 9184. The BAC will at all stages of the procurement process, invite, in addition to the representative of the Commission on Audit, at least two observers to sit in its proceedings, one from a duly recognized private group in a sector or discipline relevant to that particular procurement, and the other from a NGO with no direct or indirect interest in that contract. The observers will ensure the propriety of the procurement process including documentation and will report to DAR CPMO any deviation and/or irregularities from procurement rules and regulations. Procurement policy and procedures will be provided in the Project Implementation Manual (PIM).	Throughout the duration of the project for every procurement which requires a submission to the BAC for review, evaluation and award.
1b	Ensure transparent and efficient procurement	Procurement financed by the project funds will be undertaken by the CPMO, RPMOs and PPMOs within the authority limits of officials of each office. Each office's BAC will prepare bidding documents, advertise, call and evaluate bids and approve the award. Based on the Procurement Plan, CPMO will request NOL from IFAD for procurement of goods and works valued at USD250,000 or more and of consultants services valued at USD100,000 or more for each procurement reaching this threshold. Procurement: the project will be subject to a higher level and expanded scope of ex-post reviews by IFAD to include checks for indicators of collusion, end-use deliveries, and procedural compliance, among other measures.	Throughout the duration of the project. At least once a year
1c	Strengthen staff capacity at all levels and avoid inadequate or delayed Procurement Plans	CPMO will ensure that the BAC officials are provided with adequate guidance and training for the procurement process in line with RA 9184 and that the staff involved in the project are appointed by an Executive Order and contractual staff and officials of the project are hired timely for the implementation of the Procurement Plan. Prepare and implement procurement training programme for the Regional and Provincial Level in line with the provisions of the Project Implementation Manual. Project to closely monitor and review procurement conducts, and where necessary, take measures to improve procurement procedures based on lessons learnt from each successive procurement activity.	CPMO, RPMO, PPMO and BAC officials involved in the process, appointed under an Executive Order upon effectiveness of the financing agreement. CPMO will conduct procurement training for the Regional and Provincial staff at the inception of the Project. Throughout the project period
1d	Reduce risk of informal payments by contractors, suppliers and consultants	All contractors, suppliers and consultants – firms or individuals – bidding for contracts under the project shall submit a sworn statement attesting compliance to the responsibilities of a Prospective or Eligible Bidder as provided in Section 17.7 of the IRR - Responsibility of Prospective or Eligible Bidder. The details of 17.7.1; 17.7.2; 17.7.3 in the IRR. 17.7.4 states: Before submitting their bids, the bidders are	At all levels during the procurement and payment processes throughout project duration.

No.	Issues/Risks	Action to Mitigate Risks/ Responsible Entity	Targets/Frequency
		deemed to have become familiar with all existing laws, decrees, ordinances, acts and regulations of the Philippines which may affect the contract in any way. However, in cases where the cost of the awarded contract is affected by any applicable new laws, ordinances, regulations or other acts of Government promulgated after the date of bidding, a contract price adjustment shall be made or appropriate relief shall be applied on a no loss-no gain basis, provided such is not covered by the contract provisions on price adjustment. Procurement personnel caught for soliciting and/or accepting bribes can be criminally and administratively penalized under any or all of the following laws: • PD No. 46 – Prohibition against Gifts • RA No. 9184 – Government Procurement Reform Act (Sections 65-71) • RA No. 3019 -Anti-Graft and Corrupt Practices Act (Section 9) • RA No. 6713 – Code of Conduct and Ethical Standards (Section 11) • RA No. 7080 – Plunder Law (Section 2, as amended by R.A. No. 7659) • Revised Penal Code (Articles 210, 211, 211-A, 212) • RA No. 1379 – Law on Unexplained Wealth (Section 2) • RA No. 9184 also provides for the imposition of civil liabilities upon conviction that may either consist of restitution for the damage done or the forfeiture in favour of the government of any unwarranted benefit derived from the act or acts in question or both at the discretion of the courts. All procurement contracts covered by the said law requires the inclusion of a provision for liquidated damages which shall be payable in case of breach thereof.	
1e	Insufficient procedures	The CPMO, RPMO and PPMO staff and officials are to adhere strictly to the procedures and guidelines set forth in the Financing Agreements, the Procurement Guidelines and PIM that covers competitive bidding and national shopping.	Throughout Project duration.
1f	Procurement Plan	Preparation of realistic initial 18 month Procurement Plan, guided by the Procurement Guidelines, as part of the AWPB. Preparation of annual Procurement Plan as part of the AWPB.	An initial 18 month procurement plan prepared by DAR CPMO, Annually thereafter by 15th November
2a	Ensure strong internal controls at central, regional and provincial levels.	Follow the detailed procedures in the PIM, which cover: • financial policies and standards; • elements of internal control; • financial accounting system, ledgers, journals; • bank accounts and credit/grant withdrawals; • Project expenditure, payroll, petty cash, advances; and • Financial Management reports, audit, counterpart funds withdrawals. DAR to second/recruit required staff to strengthen Financial Management and Procurement capacity in	Throughout Project duration.

No.	Issues/Risks	Action to Mitigate Risks/ Responsible Entity	Targets/Frequency
		the Central, Regional and Provincial Level. .	
2b	Strengthen financial management capacity	Staff in all level to receive hands-on training and technical assistance from consultants recruited under the Project. The Government and IFAD Procurement Guidelines will be used under the Project as well as relevant provisions of the Financing Agreement. CPMO to closely monitor and review financial management conduct and make necessary improvements as required. There will be an in-depth and intensive supervision by IFAD in the initial years to ensure the successful implementation of the financial management arrangements and at least one on-site financial management visit either as part of the annual supervision mission or through a separate monitoring mission complemented by desk-based review of Interim Financial Report (IFRs).	CPMO, RPMOs and PPMOs Throughout Project duration. Twice a year during the Supervision and Implementation Support Missions and also during any Post Supervision missions.
2c	Provide internal audit capacity at central, regional and provincial levels.	The DAR is establishing an Internal Audit Office to conduct pre-audit or prior review of financial documentation and adherence to financial policies and procedures. The Internal Audit Office will provide guidance and training to internal audit staff and assist with internal auditing at all levels.	CPMO, RPMOs and PPMOs, throughout Project duration.
2d	External audit.	Adopt the Terms of Reference (TOR) for external audit as provided in the PIM.	CPMO will enter into a MOU with the Commission on Audit (COA) as the supreme audit institution of the Government to undertake the annual project audits.
2e	Minimize cash transactions.	• All progress payments to contractors, suppliers and consultants – firms, individuals, national and international – to be made by cheque or bank transfer. Retain evidence for audit and IFAD supervision and post review missions. • Projects will be permitted to open project accounts in commercial banks for project disbursements.	CPMO, RPMOs and PPMOs throughout Project duration.
2f	Planning of training, workshops and study tours.	Include training and workshop is in the AWPB, including: (i) Detailed costs estimates; (ii) Eligibility rules for attending training, workshops and study tours. Participants must: • be engaged in work relevant to the training; • be competent in the English language; • report on and share their experiences for the benefit of the project. (iii) Evidence that training, workshops, study tours and other similar activities: • are in line with project aims and objectives; • meet identified needs within the sub-component plans; • have budget in line with planned expenditure.	CPMO with RPMOs and PPMOs. Once a year and included in the AWPB.

No.	Issues/Risks	Action to Mitigate Risks/ Responsible Entity	Targets/Frequency
		(iv) Cost guidelines to be established for selected training/workshop activities: • venue rental with refreshments/meals; • sound and projection equipment hire; • stationery/hand-outs ; • project-specific training and workshop materials; • simultaneous translators; • Photocopying, reproduction, translation. (v) Define evidence to be submitted by attendees for reimbursement of expenses which may include: • proof of attendance for period claimed with signed statement by the organizer or host; • proof of travel by air – ticket stubs, travel agent's receipt, airline boarding passes; • receipted hotel bills (for proof of stay); • receipts for incidental travelling expenses; • invoices and receipts for venue rental, food and beverage, sound/ projection equipment, hire of simultaneous translator, stationery and handouts, use of photocopying facilities. • evidence of payments to be kept for attendees' per diem and allowances.	
2g	Delayed or non-existent reconciliation of advances for operating costs and expenses	Project to reconcile operating expenses to staff or field offices within one week of the end of each month. No further advances to be paid until previous advance reconciled and cleared against documentary evidence.	Finance staff in CPMO, RPMOs and PPMOs, once a month Throughout Project duration.
3a	Minimize possible conflict of interest among project staff.	Project staff to disclose in writing any private and public affiliations or personal interest before becoming involved in any project-related transaction, such as contract award or decision making.	CPMO to ask for and retain written disclosure from the staff.
3b	Enhance transparency through greater public disclosure of project information.	A sworn affidavit to be submitted by the bidder of compliance with the Disclosure Provision under Section 47 of the Procurement RA 9184 in relation to other provisions of R.A. 3019 Section 47. Disclosure of Relations In addition to the proposed contents of the Invitation to Apply for Eligibility and to Bid as mentioned under Section 21 of the IRR, all bids shall be accompanied by a sworn affidavit of the bidder that it is not related to the head of the procuring entity by consanguinity or affinity up to the third civil degree. Failure to comply with the aforementioned provision shall be a ground for the automatic disqualification of the bid in consonance with Section 30 of this IRR-A. For this reason, relation to the head of the procuring entity within the third civil degree of consanguinity or affinity shall automatically disqualify the bidder from participating in the procurement of contracts of the procuring entity. On the part of the procuring entity, this provision shall also apply to any of its officers or employees having direct access to information that may substantially affect the result of the bidding, such as, but not limited to, the members of the BAC, the Technical Working Group, the BAC Secretariat, the members of the CPMO, RPMOs and PPMOs and the designers of the project. On the part of the bidder, this provision shall apply to the following persons: a) If the bidder is an individual or a sole proprietorship, to the bidder himself;	BAC to include in the required bid documents. For every procurement throughout project duration. CPMO to arrange disclosure of procurement information on Phil GEPS.

No.	Issues/Risks	Action to Mitigate Risks/ Responsible Entity	Targets/Frequency
		b) If the bidder is a partnership, to all its officers and members; c) If the bidder is a corporation, to all its officers, directors, and controlling stockholders; and d) If the bidder is a joint venture, the provisions of items (a),(b) or (c) of this Section shall correspondingly apply to each of the members of the said joint venture, as may be appropriate.	
3c	Lack of information and transparency	• Disclosure provisions: (i) making publicly available all key documents; (ii) notifying promptly all bidders of the contract awards and the summary of the evaluation of all bids; (iii) allowing representatives of the end-users to attend the public bid openings; (iv) making available the details of all contracts awarded; and (v) making available the date of request for all contract payments and the date of each payment, with explanation of the reason for any delays. • Standardisation of certain items, e.g. (i) use of standard wording in advertisements; (ii) agreement on the newspapers in which specific advertisements will be placed; (iii) use of standard bidding and contract documents and request for proposals (for consultancy service), with no further changes to be made without IFAD's prior approval; and (iv) publication of prices paid for items in different locations.	CPMO, RPMOs, PPMOs staff, throughout Project duration.
4	Provide overall complaints and grievances mechanism covering all aspects of the project.	To be included in the PIM, a well-defined complaints handling mechanisms and procedures with staff of DAR and the provinces designated to handle complaints and inquiries to be systematically recorded and responded to properly in a timely manner. Complaints handling mechanism (and the use of sanctions), whereby ARBs and others can channel complaints or inquiries e.g. through the use of mobile phone text messaging. Complaints and inquiries will be systematically recorded and answered and posted on the project's website.	CPMO, RPMOs, PPMOs staff, throughout Project duration will handle complaints and respond in a timely fashion.
5	Require all project staff to adhere to a Code of Ethical Conduct.	Project to provide copies of the relevant laws and articles on Code of Ethical Standards for Government Officials and Employees (RA 6713) to all Project staff, including contracted staff. Project will maintain signed declaration of receipt of these documents by all Project staff, including contracted staff.	Include all CPMO, RPMO and PPMO staff.
6	Reinforce Code of Ethical Conduct with sanctions for fraudulent and corrupt activity by project staff, contractors, suppliers and consultants.	IFAD to apply sanctions available in its general and project-specific legal agreements, including the IFAD Policy for preventing fraud and corruption adopted in December 2005. Sanctions against unintended recipients of loan/credit/grant proceeds may include: • letter of reprimand, debarment, conditional non-debarment, debarment with conditional release and restitution; • ineligibility, either indefinitely or for a period of time, to receive IFAD loan/grant proceeds or otherwise participate in any IFAD funded projects; • suspension or cancellation of un-disbursed loan amount, or repayment of misused amounts, if a recipient has failed to take timely action to redress fraudulent, corrupt, collusive, coercive or obstructive practices.	CPMO, RPMO and PPMO to disseminate sanctions with the Code of Ethical Conduct. IFAD Throughout project duration.
7	Monitoring of Results Framework.	The project will establish an operational M&E system from the ARC clusters to the national level to monitor and report on project activities and performance across the results chain (including financial and physical progress).	CPMO throughout project duration.