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Investing in rural people

President's memorandum

Proposal for additional financing to the Republic of the Philippines for the Second Cordillera Highland Agricultural Resource Management Project (CHARMP2)

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing in the form of a loan to the Republic of the Philippines for the Second Cordillera Highland Agricultural Resource Management Project, as contained in paragraph 19.

President's memorandum

Proposal for additional financing to the Republic of the Philippines for the Second Cordillera Highland Agricultural Resource Management Project (CHARMP2)

I. Background

1. This memorandum seeks approval for additional financing in the form of a loan of US\$10.35 million for the Second Cordillera Highland Agricultural Resource Management Project (CHARMP2), approved by the Executive Board in April 2008 (EB 2008/93/R.11/Rev.1). The original IFAD financing consisted of a loan of SDR 16.15 million on highly concessional terms and a loan component grant of SDR 341,000. The loan is currently 91 per cent disbursed and the grant is 97 per cent disbursed; both are on track for full disbursement by 31 December 2016.
2. To date, CHARMP2 has directly reached an estimated 45,000 poor households – exceeding the original target of 13,050 households – and strengthened more than 1,000 rural people's organizations. A midterm outcome survey found a 45 per cent reduction in the number of households with composite assets that would have classified them among the poorest 20 per cent at baseline. The incidence of acute child malnutrition declined from 11.1 per cent in 2009 to 8.5 per cent in 2012 for boys, and from 11.1 per cent to 7.1 per cent for girls. Rural infrastructure investments have resulted in a 66 per cent reduction in travel time, safer travel conditions and year-round accessibility. Approximately 12,900 households have benefited from improved access to water for irrigation and domestic use. Farmer groups have improved the marketing of both traditional and cash crops, resulting in greater access to markets, reduced marketing costs and greater returns for farmers.
3. The additional IFAD financing will support the scaling up of CHARMP2 to 18 new barangays (districts); and the consolidation of results achieved in the 170 barangays already covered by the current financing. While the original financing aimed to reach 13,000 households and has now benefited 45,000 households, the additional financing will allow the project to reach 14,000 more households.
4. The proposed additional financing responds to a request by the Government of the Philippines to scale up project outreach and results in the Cordillera Administrative Region. CHARMP2 comprises a successful model for community-driven development in mountainous areas. To scale up project results, the additional financing includes an extension of the current project completion and loan closing dates by two years, to 31 December 2018 and 30 June 2019 respectively.

II. Justification for the additional financing

5. The agricultural sector remains critically important to the livelihoods of vulnerable rural people in the Philippines, especially in mountainous areas where there is greater incidence of poverty. CHARMP2 has been recognized as one of the most relevant interventions in the Cordillera Administrative Region. The project's participatory development approach has proved an effective model for spurring rural development in mountainous areas. CHARMP2 combines strong local ownership garnered through participatory planning, implementation and monitoring of project investments with technical solutions that improve the sustainable use and productivity of natural resources and reduce transaction costs in hard-to-reach mountain areas.
6. The proposed additional financing aims to leverage the successful experiences and institutional capacities built through CHARMP2's participatory, community-driven approaches in order to expand, improve and scale up the IFAD-supported investment. The aim is to:
 - (i) Expand the project's reach to an additional 14,000 households in 18 new barangays within the same project area;
 - (ii) Support the Department of Agriculture in improving and consolidating achievements in 170 existing project barangays in order to mainstream the project's participatory approaches to project planning, implementation and monitoring, and strengthen community groups; and
 - (iii) Draw on important lessons and evidence from this community-driven development model to strengthen the Government's policy and programming among other disadvantaged communities in mountain areas of the Philippines.

III. Details of proposal for additional financing

7. The additional financing will retain the goal, objectives, activities and expected outcomes of the original IFAD financing. The overall goal is to reduce poverty and improve the livelihoods of poor rural women and men in indigenous communities within the upland areas of the Cordillera Administrative Region. The objective is to increase the incomes of poor farming households through sustainable agricultural development. The project components focus on improved food security, market access and watershed conservation.
8. Component 1: Social mobilization and participatory investment planning will ensure the inclusion of poor people and women in planning, implementation and monitoring activities. An estimated seven new rural people's organizations will be organized and strengthened in each additional barangay to serve as partners in project implementation. The free, prior and informed consent of target communities will be obtained prior to beginning each activity. Expected outputs include: (i) the establishment of participatory project investment plans for the 18 new barangays and updating of plans for at least nine existing barangays; (ii) group mobilization in the 18 new barangays; and (iii) training and coaching of civic groups and local government units on implementation and monitoring.
9. Component 2: Community watershed conservation, forest management and agroforestry will support the: (i) monitoring of ongoing reforestation and agroforestry plantations; (ii) establishment of agroforestry plots; (iii) training and planning for project sustainability, and watershed management plan development; and (iv) establishment of agroforestry farmer field schools in the 18 new barangays.
10. Component 3: Agriculture, agribusiness and income-generating activities will continue assisting productive poor households willing to engage in livelihood activities. Five local interest groups will be organized in each new barangay, with the goal of increasing sales and incomes. This will be achieved through the three

sub-components: (i) commodity-driven planning, in which priority value chains will be selected for strengthening and upgrading; (ii) livelihood development, including extension of business development services, joint development of business plans and access to investment capital through the Livelihood Assistance Fund; and (iii) outcome monitoring.

11. Component 4: Rural infrastructure development will provide financing for farm-to-market roads, footbridges, footpaths, tramlines, communal irrigation systems, domestic water supply systems and other community assets. Priority will be given to assets that improve access to agricultural fields, markets, services and drinking water.
12. Component 5: Project management and coordination will support project interventions in the new 18 barangays while consolidating results and mainstreaming institutional arrangements in the 170 existing barangays. The existing project support office (PSO) will continue coordinating all interventions covered by the additional financing and capture evidence of the of project interventions' effectiveness.

IV. Project costs and financing

13. The total project cost for the additional financing is estimated at US\$ 13.1 million, from: (i) the additional IFAD loan equivalent to US\$ 10.35 million, corresponding to 78.7 per cent of additional project costs; (ii) government financing, estimated at US\$2 million, representing 15 per cent of costs; (iii) local government units' contributions of US\$ 0.7 million , representing 5.6 per cent of costs; and (iv) beneficiary contributions of US\$ 0.1 million, representing 0.7 per cent of project costs. The funding arrangements related to this additional financing are summarized in the tables below.

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

| Component | IFAD loan | | Local government units | | Beneficiaries | | Government | | Total Amount |
|--|---------------|-------------|------------------------|------------|---------------|------------|--------------|-------------|---------------|
| | Amount | % | Amount | % | Amount | % | Amount | % | |
| 1. Social mobilization and participatory investment planning | 940 | 90.0 | - | - | - | - | 105 | 10.0 | 1 045 |
| 2. Community watershed conservation forest management and agroforestry | 1 100 | 90.0 | - | - | - | - | 120 | 10.0 | 1 220 |
| 3. Agriculture, agribusiness and income-generating activities | 1 020 | 91.8 | - | - | - | - | 90 | 8.2 | 1 110 |
| 4. Rural infrastructure development | 6 240 | 72.5 | 736 | 8.6 | 87 | 1.0 | 1 539 | 17.9 | 8 602 |
| 5. Project management and coordination | 1 050 | 90.0 | - | - | - | - | 117 | 10.0 | 1 167 |
| Total | 10 350 | 78.7 | 736 | 5.6 | 87 | 0.7 | 1 972 | 15.0 | 13 144 |

Table 2
Project costs by expenditure category and financier
 (Thousands of United States dollars)

| <i>Expenditure category</i> | <i>IFAD loan</i> | | <i>Local government units</i> | | <i>Beneficiaries</i> | | <i>Government</i> | | <i>Total</i> |
|-------------------------------|------------------|-------------|-------------------------------|------------|----------------------|------------|-------------------|-------------|---------------|
| | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> | <i>Amount</i> |
| 1. Civil works | 5 900 | 71.7 | 736 | 8,9 | 87 | 1.1 | 1 502 | 18.3 | 8 225 |
| 2. Equipment, materials | 350 | 90.0 | - | - | - | - | 38 | 10.0 | 388 |
| 3. Training | 1 770 | 75.5 | - | - | - | - | 196 | 10.0 | 1 966 |
| 4. Advisory services | 1 330 | 90.0 | - | - | - | - | 148 | 10.0 | 1 478 |
| 5. Livelihood Assistance Fund | 210 | 100.0 | - | - | - | - | - | - | 210 |
| 6. Allowances | 200 | 90.0 | - | - | - | - | 22 | 10.0 | 222 |
| 7. Operation and maintenance | 590 | 90.0 | - | - | - | - | 65 | 10.0 | 655 |
| Total | 10 350 | 78.7 | 736 | 5.6 | 87 | 0.7 | 1 972 | 15.0 | 13 144 |

V. Financial management

14. Financial Management. The current PSO for CHARMP2 will be responsible for financial management (FM) of the funds. The most recent assessment in July 2016 rated the FM risk as low. The PSO's FM performance was found acceptable and in line with legal frameworks and IFAD's guidelines; finance staff is adequate, internal controls are in place, with appropriate segregation of duties, expenditure authorization processes and bank reconciliation procedures. Residual FM risk will be mitigated by: (i) increasing finance staff capacity at the field level; (ii) strengthened monitoring of advances to implementing entities; and (iii) optimizing the use of electronic systems to improve financial reporting and monitoring.
15. Flow of funds. Project funds from the additional loan will flow from IFAD to the existing designated account denominated in United States dollars at the Land Bank of the Philippines. Funds for day-to-day expenditures will be transferred to the existing programme account in local currency at the Bank of the Philippine Islands.
16. Audit. The Government's Commission on Audit (COA), as supreme audit institution, is responsible for carrying out annual audits of CHARMP2 accounts. The financial year 2015 audit was unqualified, and submitted to IFAD with only a minor delay. Management letter issues are being monitored and are in the process of being resolved. CHARMP2 is also subject to internal audit .
17. Procurement. IFAD has rated the project's procurement performance as satisfactory. Procurement is undertaken in accordance with the provisions of Republic Act 9184 and is consistent with IFAD's Procurement Guidelines. The PSO also provides a compliance assessment of all rural infrastructure works undertaken by the local government units and maintains detailed documentation.

VI. Proposed modifications to the project financing agreement

18. Subject to the approval of the Executive Board, the project financing agreement will be amended to include the provisions for additional loan financing. The amendment will be carried out through an exchange of letters. The additional financing will be available for implementation upon amendment and signature of the financing agreement by IFAD and the Government of the Philippines. The main changes in the project financing agreement relate to: (i) provision of the additional loan, which will be under ordinary instead of highly concessional terms and will have a separate repayment schedule; (ii) the revised Schedule 2, which integrates the additional loan; and (iii) a two-year extension of the project completion and loan closing dates.

VII. Recommendation

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

RESOLVED: that the Fund shall provide an additional loan on ordinary terms to the Republic of the Philippines in the amount of ten million three hundred and fifty thousand United States dollars (US\$10,350,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Logical Framework

| Narrative Summary | Key Performance Indicators | | | | | Means of Verification | | | Assumptions |
|--|---|----------|------------------|---------------------|-------------------|---|---|---|--|
| | Indicator | Baseline | Original target* | Achieved (Dec 2015) | Revised AF Target | Source | Frequency | Responsibility | |
| Goal: Reduced poverty and improved nutrition in poor rural indigenous communities in the upland areas of CAR. | Prevalence of child malnutrition (chronic) | 58% | 29% | 47% (2012 data) | 36% | NSCB report, RIMS Survey report, | Completion | PSO | |
| Project Development Objective: Increase income of 59 000 farming households | <ul style="list-style-type: none"> ▪ Households with annual average income (in real terms): PHP20,000 - PHP40,000 ▪ Direct project beneficiaries (households) | 41% | 25% | Not yet measured | 25% | <ul style="list-style-type: none"> ▪ National survey ▪ Annual outcome studies | <ul style="list-style-type: none"> - Gov Survey (2017) - Annual | <ul style="list-style-type: none"> - Phil Stat Agency - PSO | No major market or climate shocks |
| Component 1 Outcomes: Social Mobilization and Land Security | | | | | | | | | |
| IP/community organizations actively managing community sub-projects. | New People's Organizations and user groups that are administering and monitoring community projects | 0 | 170 POs | 662 POs | 792 | ODM, Thematic studies | Annual | SMPIP | Participatory processes adequately channel priorities of poor households |
| IPOs sustainably manage Ancestral Domains | Ancestral Domain Titles secured to IPs in 8 ancestral domain areas | 0 | 8 | 1 | 8 | LGU reports | | NCIP | |
| Component 1 Outputs: | | | | | | | | | |
| Mobilize/strengthen COs and Groups in 18 new barangays | People's Organization (PO), Irrigators Associations, BAWASAs, LIGs and BPMETs formed & trained | 0 | 170 | 1021 | 1210 | Registration, LGU resolutions, trainer report | Annual | SMPIP, LGUs | Gov. institutions responsive to participatory processes |
| ADSDPP formulated in ancestral domains & CADTs approved | ADSDPPs formulated, CADTs approved | 0 | 28 | 7 | 28 | LGU reports, NPIC resolutions | Annual | NCIP, LGUs | No political interference |
| Component 2 Outcomes: Agroforestry and Watershed Management | | | | | | | | | |
| Communities adopting improved watershed practices | Communities with increased vegetation | 0 | 170 | 164 | 170 | Satellite imagery, MLGU report | Annual | ENRO, PSO | Good practices sustained and replicated |
| Households practising sustainable agroforestry | HH with increased productivity of agroforestry plots | 0 | 5,100 | 5,212 | 5640 | Outcome surveys | Annual | PSO | |

| Narrative Summary | Key Performance Indicators | | | | | Means of Verification | | | Assumptions | |
|--|---|----------|------------------|---------------------|-------------------|--|---------------------------|----------------|--|---|
| | Indicator | Baseline | Original target* | Achieved (Dec 2015) | Revised AF Target | Source | Frequency | Responsibility | | |
| Component 2 Outputs: | | | | | | | | | | |
| Community watersheds reforested | Watershed reforested (ha) | 0 | 8,500 | 8,565 | 8,565 | Reforestation Committee | Annual | PSO | Consistent application of protocols with NCIP and IP communities | |
| Agroforestry plots established on idle land | Agroforestry plots established (ha) | 0 | 2,005 | 2,166 ha | 2,275 | Reforestation Committee | Annual | PSO | | |
| Component 3 Outcomes: Agriculture, Agribusiness & Income-generating Activities | | | | | | | | | | |
| Farmer groups have increased sales income | No. of farmer groups with increased net income | 0 | 507 | 160 | 597 | Outcome/assessment surveys | Annual | AAIGA/PMEU | | |
| Component 3 Outputs: | | | | | | | | | | |
| Livelihood Interest Groups (LIG) access financial and related support services | Farmers receiving LAF, BDS, FBS coaching and mentoring | 0 | 7,605 | 17,197 | 18,547 | LIG business plan & staff reports | Monthly | AAIGA | LIGs continue to expand in membership and scope | |
| Component 4 Outcomes: Rural Infrastructure | | | | | | | | | | |
| Households in 188 barangays have better access to agricultural areas, markets, services and drinking water | Travel time reduced | | | | | Walking: 30 mins. Hauling: 45 mins. | | | | |
| 18 MLGUs operate & maintain community access infrastructure | Barangays allocating adequate budget for O&M | 0 | 170 | 137 | 155 | Walking: 18 mins. Hauling: 30 mins. Roads:-25% | Outcome Survey | Annual | PMEU | Prices of local produce stable or improving |
| Component 4 Outputs: (original targets reduced by ADB financing gap) | | | | | | | | | | |
| Roads, footpaths, footbridges, tramlines, domestic water supply and community infrastructure constructed/rehabilitated | Access roads & footpaths rehabilitated/constructed (km) | 0 | 368 | 432 | 559 | | Barangay Annual Inv. Plan | Annual | PSO | No major natural disasters |
| | Community infrastructures constructed | 0 | 46 | 78 | 137 | | LGU reports | Annual | PSO/BPMET | |
| Communal irrigation schemes rehabilitated | Communal irrigation schemes rehabilitated (ha) | 0 | 943 | 902 | 1,384 | | BPMET & LGU reports | Annual | PSO/BPMET | |

* As revised at MTR