Document of
The World Bank

Report No 19639-PH

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$27.5 MILLION EQUIVALENT

AND A

GLOBAL ENVIRONMENT FACILITY GRANT OF SDR1.0 MILLION

TO THE

REPUBLIC OF THE PHILIPPINES

FOR A

MINDANAO RURAL DEVELOPMENT PROJECT (APL)

November 8, 1999

Rural Development and Natural Resources Sector Unit
East Asia and Pacific Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective November 3, 1999)

Currency Unit = Peso
1 Peso = US$0.025
US$1 = Peso 40.10

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AFMA	Agriculture and Fisheries Modernization Act
APL	Adaptable Program Loan
ARMM	Autonomous Region for Muslim Mindanao
BDC	Barangay Development Council
BFAR	Bureau of Fisheries and Aquatic Resources
BLGF	Bureau of Local Government Finance
BWSA	Barangay Waterworks and Sanitation Association
CADC	Certified Ancestral Domain Claim
CADTEC	Cotabato Agribusiness Development Technology Center
CARP	Comprehensive Agrarian Reform Program
CBRMP	Community-Based Resource Management Project
CF	Community Fund
CIDPII	Second Communal Irrigation Development Project
CIDSS	Comprehensive Institutional and Delivery of Social Services
CIS	Communal Irrigation System
CMBC	Coastal Marine Biodiversity Conservation
COA	Commission on Audit
DA	Department of Agriculture
DENR	Department of Environment and Natural Resources
DILG	Department of Interior and Local Government
DOF	Department of Finance
DOH	Department of Health
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
ECC	Environmental Compliance Certificate
ERR	Economic Rate of Return
FRR	Financial Rate of Return
FMIPs	Financial Management Improvement Programs
FMR	Farm-to-Market Road
IAs	Irrigators' Associations
IPs	Indigenous Peoples
IRA	Internal Revenue Allotment
ISF	Integrated Social Forestry
LB-ES	Labor Based-Equipment Supported
LBP	Land Bank of the Philippines
LDCs	Local Development Councils
LGC	Local Government Code of 1991
LGUs	Local Government Units
MBN	Minimum Basic Needs

MDC	Municipal Development Councils
MDF	Municipal Development Fund
MDFO	Municipal Development Fund Office
MEO	Municipal Engineer's Office
M&E	Monitoring and Evaluation
MIS	Management Information System
MOA	Memorandum of Agreement
MPDC	Municipal Planning and Development Council
MPDO	Municipal Planning and Development Office
MRDP	Mindanao Rural Development Program
NGAs	National Government Agencies
NCIP	National Commission for Indigenous Peoples
NEDA	National Economic and Development Authority
NGOs	Non-Government Organizations
NIA	National Irrigation Administration
O & M	Operation and Maintenance
ODA	Official Development Assistance
OSCC	Office of Southern Cultural Communities
PCO	Program Coordination Office
PEO	Provincial Engineer's Office
PGB	Policy Governing Board of the MDF
PIAs	Project Implementing Agencies
PIO	Provincial Irrigation Office
PMB	Program Management Board
PMC	Provincial Monitoring Committee
PMR	Project Management Report
PPDC	Provincial Planning and Development Council
PPDO	Provincial Planning and Development Office
PPIU	Provincial Project Implementation Unit
PRME	Process and Results Monitoring and Evaluation
RFU	Regional Field Unit (of DA)
SA	Special Account

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Philippines
Mindanao Rural Development Project
(Adaptable Program Loan)

CONTENTS

Philippines
Mindanao Rural Development Project

Project Appraisal Document

East Asia and Pacific Region
Philippines Country Department

Date: **November 8, 1999**	Task Team Leader/Task Manager: **Rahul Raturi**
Country Director: **Vinay Bhargava**	Sector Director: **Geoffrey Fox**
Project ID: **PE-58842** Sector: **Rural Development**	Program Objective Category: **Rural Development/Poverty**
Lending Instrument: **Adaptable Program Loan**	Program of Targeted Intervention: [X] Yes [ ] No

Program Phasing	**Total Cost**	**External Financing**		**Processing**	
		Bank Loan	**GEF**	**Appraisal**	**Bank Approval**
APL 1 January 2000-June 2003	US$41.0m	US$27.50m	US$1.25m	June '99	Nov. 99 (Board)
APL2 January 2003-Dec. 2006	US$150m	US$90m	US$3.50m	Apr. '02	Oct. '02 (RVP)
APL3 July 2006-June 2010	US$200m	US$100m	US$4.75m	Oct. '05	March '06 (RVP)
APL4 January 2010-June 2013	US$160m	US$72m	US$4.50m	Apr. '09	Oct. '09 (RVP)
Total	**US$ 550m**	**US$ 290m**	**US$ 14.0m**		

Project Financing Data [X] **Loan** [ ] **Credit** [ ] **Guarantee** [X] **Grant**

Amount (US$m): US$27.5 IBRD Loan SDR 1.0m (US$1.25m equivalent) GEF Grant
Proposed terms (Loan): [ ] Multicurrency [X] Single currency (US Dollar)
Grace period (years): 5 [ ] Standard Variable [ ] Fixed [X] LIBOR-based
Years to maturity: 20
Commitment fee: 0.75%
Service charge: 0.0%

Financing plan (US$m):

Source	Local	Foreign	Total
National Government	5.9	0.3	6.2
Local Governments	3.7	2.0	5.7
Beneficiaries	0.5	0.1	0.6
IBRD	17.6	9.6	27.2
GEF	1.2	0.1	1.3
Total	**28.9**	**12.1**	**41.0**

Borrower: Republic of the Philippines
Responsible agency: Department of Agriculture

Estimated disbursements IBRD Loan (Bank FY/US$M):	2000	2001	2002	2003
Annual	1.0	6.0	9.5	11.0
Cumulative	1.0	7.0	16.5	27.5

Estimated disbursements GEF Grant (Bank FY/US$M):	2000	2001	2002	2003
Annual	0.10	0.30	0.40	0.45
Cumulative	0.10	0.40	0.80	1.25

Project Implementation Period: January 1, 2000 to June 30, 2003

A: Program Purpose and Project Development Objective

1. Program purpose and program design

Program Objectives. Poverty alleviation is a key objective of the Government's development plan for the medium term. Rural poverty accounts for nearly two thirds of the country's total poor, and Mindanao, the second largest island in the Philippines, accounts for nearly a third of the country's rural poor. Since the early 1980s, the island has seen an increase in the incidence of rural poverty. Fourteen of the countries 20 poorest provinces (based on minimum basic needs) are in Mindanao; and 72 percent of the island's 437 municipalities belong to the 4th to 6th LGU (local government unit) class using the DOF's classification based on income. Consequently, the government's development strategy places particular importance on supporting growth initiatives in Mindanao. With many of the rural poor relying on the agriculture sector (fisheries is considered as part of the sector) for their livelihood, the intensification and better management of the sector is seen to be extremely important for reducing rural poverty and conserving terrestrial, aquatic, and marine natural resources.

The Rural Development Strategy[1] which was recently completed in close consultation with Government, highlights the constraints (policy, design and efficiency of existing investment programs, and institutional) faced in realizing the potential which exists in the agriculture sector; and outlines a variety of measures needed to address these constraints. The proposed Adaptable Program Loan (APL) program is set against the background of this analysis of constraints, and the fact that Mindanao, which despite the considerable potential for increasing agriculture production, has witnessed an increase in the incidence of rural poverty since the early 1980s.

- Accordingly, the APL program is designed as a targeted poverty reduction program for the rural poor and indigenous communities of Mindanao, aimed specifically at improving incomes and food security in the targeted rural communities within the 24 provinces of Mindanao. This would be achieved from the implementation of better targeted agricultural and fisheries-related rural development and biological diversity conservation programs, and improved LGU institutional, management and financial systems.

At the same time, given the long history of conflict on the island of Mindanao, the realization of sustained rural growth and visible benefits to conflict-affected populations, will directly contribute to reinforcing the Government's efforts at consolidating the peace initiatives for the island.

Program Design (see Annex 1): Past experience has shown that an effective program of poverty alleviation requires a sustained long-term commitment and involvement, which is often difficult to ensure through a single investment operation. Consequently, a phased long-term program involving a series of four Adaptable Program Loans (APL), supplemented by a GEF grant, each covering a period of between 3 to 4 years, is proposed, so as to effectively realize the above objectives, and secure sustainability in institutional capacity building and poverty alleviation. APL1, which is the subject of this appraisal document, would focus on a few selected provinces (see Map), to test out the approach, and initiate the process of engaging LGUs and rural communities in designing and implementing a rural development and coastal resources conservation program, in close association with concerned national government agencies (NGAs). The Government has confirmed the objectives and scope of the overall program in a letter to the Bank (Annex 1a), and agreed on key triggers for moving onto APL2, which would include:

[1] Philippines: Promoting Equitable Rural Growth, Report No. 17979-PH, May 29, 1998.

- APL2 Project Preparation to be initiated once about 60 percent of the APL1 Loan has been disbursed. Implementation evaluation of APL1 to be carried out; social assessment of an initial group of eligible APL2 provinces to be carried out.
- Institutional arrangements for implementation tested out and adapted based on experience in APL1; multisectoral committees for the Community Funds operating satisfactorily.
- Overall satisfactory performance of APL1, using the mid-term evaluation as a basis for assessment.
- APL2 Loan to be approved once 80 percent of APL1 Loan is disbursed, and the balance is substantially committed.

2. Project development objective and key performance indicators (see Annex 1):

The project development objectives reflect the larger program goals, and aim to increase incomes and improve the food security of targeted agricultural and fisherfolk communities in around 32 municipalities within 5 provinces of Mindanao (North Cotabato, Sultan Kudarat, Agusan del Sur, Compostela Valley, Maguindanao). Together, these provinces cover an area of about 30,400 km2 (30 percent of Mindanao), and have a population of about 3.0 million; based on recent estimates of poverty, approximately 55 percent fall below the poverty line. It is expected that about 20 percent of this population will benefit from this first phase project. The project would also promote the participation of indigenous peoples (IPs), who represent a large part of the population of some municipalities, and of women, who play a key role in both agriculture and family nutrition.

A social assessment was carried out in the first two provinces (North Cotabato and Sultan Kudarat) where program implementation will commence in Year 1, to ascertain the main constraints faced by rural communities, and guide the project design. Based on the survey and focus group discussions conducted (see Section E 6), rural infrastructure was identified as the highest priority by all communities, regardless of typologies, gender and ethnicity. Within infrastructure, the construction of access roads and bridges (especially in the rolling and mountainous areas where sitios are not even accessible from the barangay poblacion), and repair/rehabilitation of existing barangay roads, was considered most important. Potable water supply ranked second, while the construction/rehabilitation of irrigation systems and electricity followed in the infrastructure category. Agricultural inputs and other support services came next in priority, with post-harvest facilities, credit, government support price for goods and marketing assistance, farm inputs and extension services identified as most needed. IP communities, however, indicated farm animals (carabaos) and other farm implements as their highest priority. While sharing the communities' perception that roads are most essential to facilitate development within their areas, women consider potable water supply, livelihood opportunities, health and quality education services as priority needs.

Despite the enactment of the Local Government Code (LGC) in 1991, the key challenge faced in the Philippines is how to implement the complementary roles seen for national government agencies (NGAs) and LGUs to efficiently deliver programs for rural/agricultural development, which effectively address the above mentioned constraints faced by rural communities. Responding to this challenge, APL1 would aim to test out community-based systems for supporting rural development, as well as approaches for improving LGU capability for agricultural development planning and implementation in partnership with the concerned NGAs. The experience and lessons from APL1 will help scale up the program under APL2 to other provinces in Mindanao which meet eligibility criteria. APL1 would realize these objectives by:

- Meeting community needs for essential rural infrastructure, to foster increased agricultural productivity and access to potential markets; facilitate the introduction of sustainable agricultural production systems and diversification of present cropping systems; improved access to financial resources and agricultural inputs; and more effective technical support services. In doing so, the project would be ***supporting the Government in the implementation of the Agriculture and Fisheries Modernization Act (AFMA)***.

- Enhancing devolution and local autonomy, by ***reinforcing the implementation of the LGC,*** as it relates to aspects concerning agricultural and fisheries development and improved natural resources management. The first phase project would aim to strengthen rural development planning and implementation capacity of the different levels of LGUs, in partnership with concerned NGAs; improve monitoring and evaluation of ongoing rural development initiatives; and strengthening community participation in LGU planning for rural development.

A strong participatory approach, using a program of social assessments, and involving the rural community, the LGUs, and local representatives of national government agencies (NGAs) would be a central feature of project implementation.

Global Environmental Objective and Key Performance Indicators. The objectives of the proposed GEF-assisted component are to conserve and restore globally important coastal habitats and related marine biodiversity in Mindanao by mainstreaming biodiversity and marine ecosystem conservation in community development and in the coastal fisheries sector. Many coastal regions of Mindanao have received little international, national, and local attention to conserving natural marine resources. The proposed GEF-assisted component would help in creating sanctuaries and protected habitats for endangered species found in the area, including species of dugong and sea turtle. This project will also help to advance a model with broader applicability for mainstreaming biodiversity considerations in a sector with crucial social, economic, and environmental dimensions throughout Mindanao (including the ARMM), the Philippines, and tropical regions. Through the implementation of the proposed MRDP, the lessons learned from first phase activities would be applied to arrest degradation and restore coastal and marine biodiversity in subsequent phases. The subsequent phases would expand project implementation to include additional qualifying sites in the coastal provinces of Mindanao included under the project. The key performance indicators for this component are provided in Annex 1.

Key Performance Indicators. These (including those for the GEF component) are given in Annex 1, and will be monitored under a strong M&E system, which includes community-based monitoring mechanisms, already being developed under the project. It is important to emphasize, however, that addressing the institutional issues in the Philippines is complex, with decentralization offering both a challenge and an opportunity. No easy solutions are necessarily there, and expectations from this first phase APL, which will be making a start on addressing some of the key institutional issues, should be modest. However, in the long term context, the experience in implementing APL1 will guide adaptations for the succeeding phases.

B: Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project (see Annex 1):

CAS document number: Report No. 19137-PH **Date of latest CAS discussion**: May 4, 1999

In supporting the above development objectives, the proposed program is consistent with the Bank's Country Assistance Strategy, which has as its overarching objective, the restoration of sustainable economic growth with more poverty reduction and greater equity. For the sector, the CAS aims to support the Government's goal of accelerating environmentally sustainable agricultural growth and alleviating poverty in the rural areas. In doing so, the Bank's program is directed at alleviating the main constraints of low volume and impact of private and public investments and weak institutional capacity. Based on the outcomes of the social assessment, and what rural folk view as the principal constraints to income growth and food security, the proposed MRDP APL program is seen as part of the Bank's program to address these constraints and support poverty alleviation. The APL1 project is the first phase of this program, and will aim to address these constraints in 5 provinces and around 32 municipalities in Mindanao.

2. Main sector issues and Government strategy:

Sector Performance and Issues

About half of the Philippine population is rural, of which 64 percent is involved in agriculture. Agriculture accounted for about 17 percent of the country's GDP in 1998, and about 40 percent of the employed work force. In the high performing Asian countries, there has been a strong positive correlation between the rate of agricultural growth and the growth experienced in the non-agricultural sector. This linkage has been weak in the Philippines, where agricultural sector performance has been sluggish and uneven since the early 1980s. Excluding forestry, which has been declining consistently since the 1970s, the average annual rate of growth of agriculture decelerated from 5.8 percent in the 1970s to 2.1 percent in the 1980s, and a mere 1.3 percent during the period 1993-98. While some of the factors which have slowed sector growth after the 1980s were beyond the control of Government, such as the overall downward trend in international commodity prices of the country's traditional export crops, deterioration of intersectoral terms of trade, and a series of natural calamities, there are others on which the Government could exercise control. Among the latter, was a serious under-investment in the rural sector by the Government, which was reflected in inadequate infrastructure and support services (other such factors included a slowdown in varietal improvements, particularly in paddy, marking a near completion of the green revolution by the early 1980s, and a poor macroeconomic environment). Low growth in the agricultural sector, high growth in the rural labor force (over 3 percent per annum in the 1990s), and limited employment opportunities in non-farm activities, have resulted in high underemployment (21 percent) in the rural economy and a high rural poverty incidence (44 percent in 1997). The rural poor account for over two thirds of the poor in the country.

Linked to reviving agriculture sector growth, the improved management of the critical natural resource base in the upland areas, as well as the coastal resources, is the other major development challenge for the country, and has important implications for ensuring the sustainability of rural growth, and for rural poverty alleviation. Many of the poor rural people live in the upland and coastal areas: the former are characterized by low-input shifting agriculture, with a high incidence of severely degraded areas; while the coastal and fishery resources are being depleted due to illegal and over exploitation.

Finally, the enactment of the LGC in 1991, and the resulting devolution of responsibilities and fiscal resources to local government units, has resulted in major changes in the institutional arrangements for supporting agriculture sector growth, and more broadly for rural development. As of mid-1997, about 70,000 national government employees had been devolved to LGUs; the devolved responsibilities cut across sectors, with agriculture and fisheries, infrastructure, social services and health being the main ones. Key issues which need to be addressed include: greater clarity and complementarity in the roles being played by the DA and the LGUs in supporting rural growth; strengthening of technical and administrative capability of LGUs to facilitate more effective planning and implementation of rural development programs; and closer involvement of local communities, NGOs and peoples organizations in program design and implementation.

For Mindanao, the Government's development framework has identified a number of issues, key among which are the following: the high incidence of poverty; lack of livelihood and employment opportunities especially for the poor in the rural areas, and for those involved with agri-based occupations; inadequate access to basic infrastructure and services, particularly in the depressed areas and communities; and limitations in institutional capacity.

Government Strategy to Address Sector Issues

The Government's strategy for securing sustained agriculture sector growth include: (i) deepening policy reforms to make the sector internationally more competitive; (ii) increased public investment in infrastructure, especially irrigation facilities, farm-to-market roads (FMR) and post-harvest facilities, to support intensive farming technologies; (iii) increased research and development investments, in partnership with the private sector; (iv) increased funding for agrarian reform, and making it more effective and less costly; (v) improving natural resource management through policy reform, institutional strengthening, greater community participation, and development of appropriate tenurial and market-based instruments; (vi) streamlining the agriculture-related bureaucracy, including the interface between central and local governments; and (vii) making devolution more effective through improvement in the institutional capabilities of LGUs and channeling of adequate resources for devolved rural development activities.

3. Sector issues to be addressed by the program/project and strategic choices:

The proposed program is closely aligned to the Government's strategic priorities as identified above. More specifically, the program would focus on strengthening local institutional capacity, following devolution, since the LGUs are key to securing sustained long-term rural growth. It would facilitate an increase in public investment for the agriculture and natural resources sectors in Mindanao, which the Government has identified as the major focus for agricultural and fisheries production due to its still largely untapped potential for development. It would focus particularly on rural infrastructure, which is viewed as a major bottleneck for increasing rural growth; strengthen the delivery of inputs, credit and technical support services to the smaller and more disadvantaged groups within farming community; and reinforce the implementation of the Local Government Code, by supporting measures which strengthen LGU rural development planning and implementation capacity, and ensure the more effective involvement of communities in programming of investments and their implementation.

In reviewing alternative approaches while designing the proposed program, key considerations have included the following: (i) since responsibilities for most of the activities related to supporting rural development having been devolved (for example, rural infrastructure -- roads, communal irrigation, water supply, extension support services, etc.), a targeted approach, which takes the province as the basic unit for planning, is likely to be more effective in addressing the needs of the poorer rural communities; (ii) sustainability of the productive investments for such activities, and effective O&M arrangements, can be best assured with strong local government initiative and participation, and by seeking their long term commitment to the program; and (iii) demand-driven and participatory approaches need to be at the core of the project planning and implementation process.

C: Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

The design of the project has been guided by a social assessment carried out in selected municipalities of the first two program provinces of North Cotabato and Sultan Kudarat (see Map for year participating LGUs). Based on criteria developed in consultation with the heads of national agencies (DA, NEDA, DILG) from the six regions of Mindanao, as well as the Autonomous Region of Muslim Mindanao (ARMM), 3 additional provinces have been selected for inclusion in APL1 – Agusan del Sur, Compostela Valley and Maguindanao, and a similar program of social assessments is being initiated in these new provinces. The thrust of the program is on meeting the key needs of rural communities for supporting rural/agricultural development, and on strengthening the process of devolution and local capacity building.

Rural Infrastructure (Annex 2a): The project will rehabilitate ***rural roads*** (an estimated 40 kms of provincial, and 460kms of farm market roads), from within the designated provincial and municipal/barangay farm-to-market roads (FMR) network, which are the direct responsibility of the relevant LGUs. Taking a network approach (with the province as the unit for planning purposes), the key principles underpinning the design of the proposed component are: adoption of least cost approaches for the FMRs (municipalities will be allocated lump sums, and the use of lower cost designs and options, will allow for the implementation of longer road lengths); contracting as opposed to implementation by force account; and emphasis on labor-based, equipment-supported (LB-ES) approaches. The selective improvement of provincial roads will ensure that all project supported rural roads meet an essential criteria that they link up with an existing all-weather road. The project will seek a commitment to undertake routine maintenance from the participating LGUs, with sanctions for non-performance (LGUs not fulfilling this commitment, will not be eligible for the following year's program). In supporting ***communal irrigation,*** APL1 will facilitate transition arrangements for LGUs to take over greater responsibility for communal irrigation developments, as envisaged under the LGC. Given the limited role of LGUs in irrigation development so far, NIA will take the lead role in APL1 (but closely involve LGU staff), in designing and implementing the program; LGU capacity will be strengthened in communal irrigation management, focusing particularly on supporting IAs in effective operation and maintenance of the schemes. The project will rehabilitate about 4,350 ha of existing communal irrigation systems (CIS), and selectively construct new projects (CIPs) in targeted poverty areas (about 850 ha, none to be implemented in year 1). Selection criteria for the schemes would follow those already in force under the ongoing Bank-financed Communal Irrigation Development Project II (CIDP II). In response to the priority placed by rural communities, particularly women, on the provision of ***safe potable water,*** the project will support rehabilitation and construction of Level I (point source) and II (communal faucet) spring development projects; provision has been made within APL1 for the rehabilitation of around 140 units in 5th and 6th class municipalities. The establishment of Rural/Barangay Water and Sanitation Association and certification from the Department of Health on satisfactory water quality will be pre-conditions for supporting rural water supply sub-projects within a community.

Community Funds for Agricultural Development (Annex 2b): To address the diverse priorities of communities (varying also on account of their respective agro-ecological situation – coastal, marshland, lowland, mountainous), Community Funds for Agricultural Development (CF) will be set up at municipality level. Initially, a fund of PhP2.5 million would be available for each municipality, with contributions from the municipal LGU (PhP0.5m), DA (PhP0.5m), and the Loan proceeds (PhP1.5m). The CF will finance demand-driven sub-projects which are consistent with DA's programs and priorities for supporting agricultural and fisheries development. Poor communities will be targeted, and preference will be given to women and indigenous peoples groups. Multisectoral committees established at municipal level, with private sector/NGO representation, will manage the sub-project selection process[2]. Selection criteria for the sub-projects would be kept simple (maximize beneficiaries per sub-project, projects are cooperatively owned, least cost per beneficiary, consistent with AFMA, size of counterpart contribution), given that these are going to be inexpensive and small in size. Overall, the objectives of CF are to: i) strengthen decision-making capacity at community level for design and implementation of sub-projects; ii) ensure that programs financed from DA's budgetary resources better reflect community needs; and iii) ensure that resource allocation for development projects at the LGU level better reflect community priorities. Together, these will reinforce the implementation of the LGC.

[2] The mulitsectoral committees, which would include representatives from the rural community, would also facilitate the prioritization of roads from among those within a municipality which meet selection criteria.

LGU Institutional/Implementation Support: Initiatives to strengthen local capacity will include the following: (i) Support for ***microfinance institutions (Annex 2c)***, given the limited access to financial services by small borrowers for both. farm and non-farm purposes; (ii) Support for enhancing ***rural development planning and resource allocation capacity at the LGU level*** through TA and on-the-job training, and by bringing about a closer linkage with the DA at the regional level ***(Annex 2d;*** and (iii) linked to building rural development capacity, the project would provide implementation support and thereby enhance local government capacity in financial management, and monitoring and evaluation; in addition, the project would support the Program Coordination Office (PCO), which would also be responsible for providing implementation support to LGUs, and for preparing the next phase APL2 ***(Annex 2d).***

Coastal/Marine Biodiversity Conservation (Annex 2e): Complementing the above initiatives, and as an integral part of the overall program, a proposal for funds totaling US$1.25 million has been approved by the GEF Council (as earlier endorsed by DENR), to finance the incremental costs of promoting coastal and marine biodiversity conservation and sustainable use in the coastal waters of Mindanao. Two sites have been selected where the program would be implemented in APL1: Paril-Sangay Protected Seascape, Kalamansig, Sultan Kudarat Province; and Bongo Island, Parang, Maguindanao Province.

Component	Category	Cost Incl. Contingencies (US$M)	% of Total	Bank/GEF financing (US$M)	% of Bank/GEF -financing
A. Rural Infrastructure Improvement		**27.4**	**66.3**	**21.0**	**76.6**
• Rural Roads/Access	Physical	16.9	40.9	13.1	77.8
• Communal Irrigation	Physical	8.5	20.6	6.7	79.2
• Rural Water Supply	Physical	1.4	3.4	1.1	80.4
• Infra. Mgt. Capacity Building	Instn. Bldg.	0.6	1.4	0.1	17.5
B. Community Funds for Agric. Dev.	Physical	**6.5**	**15.7**	**3.7**	**57.1**
C. Institutional/Implementation Support		**5.4**	**13.1**	**2.5**	**46.3**
• Rural Finance/Credit	Instn. Bldg.	0.4	0.9	0.1	18.4
• Rural Development Planning	Instn. Bldg.	1.3	3.2	0.6	46.3
• Financial Management	Instn. Bldg.	0.4	1.0	0.3	61.0
• Monitoring and Evaluation	Instn. Bldg.	0.5	1.2	0.4	84.0
• Program Coordination	Instn. Bldg.	2.8	6.9	1.1	39.9
D. Coastal Biodiversity Conservation -GEF	Phy./Instn.	**1.7**	**4.2**	**1.3**	**75.1**
Total Project Costs		**41.0**	**99.3**	**28.5**	**69.4**
Front-end fee		0.3	0.7	0.3	**100.0**
Total Financing Required		**41.3**	**100.0**	**28.8***	**100.0**

*Total financing includes a GEF grant of US$1.25 million and Bank loan of US$27.5 million; the front-end fee is included in the latter.

Implementation Schedule. APL1 will be implemented over three and a half years, from January 1, 2000 to June 30, 2003. Since most of the infrastructure activities proposed under APL1 can be implemented primarily during the dry season, which generally runs from around February to May, this will enable the program to be implemented over four dry seasons. Program implementation will commence in 2 provinces and 11 municipalities where all the necessary preparatory work has been undertaken, in close partnership with the LGUs as well as the potential beneficiary communities. A detailed program of procurement has been prepared, which aims to ensure that year 1 works contracts are awarded soon after effectiveness. Detailed preparatory work is being initiated to finalize the program for year 2, and initiate the key project start up activities in the additional 3 provinces and 21 municipalities (in particular the

Social Assessment, and firming up the physical programs); the additional municipalities were selected by representatives of concerned Mindanao based NGAs (DA, DILG, NEDA), and the relevant participating provinces, and confirmed prior to negotiations. It is planned that by early in year 2, the 3 additional provinces and all the remaining 21 municipalities which will participate in APL1, will be engaged in project implementation. Assurances were given at negotiations that commencing in the year 2000, and each year thereafter, the PCO will prepare a consolidated annual work plan for the physical and financial implementation targets to be achieved in the following year, including the requirements for counterpart budgetary resources from the national and local governments respectively, to be completed by March 31 each year. It was agreed that LGUs which do not meet their commitments (particularly in terms of allocating sufficient counterpart funds, and undertaking routine maintenance on roads), or are unable to successfully meet physical targets for implementation, will be excluded from the project, and replaced by new LGUs which meet the criteria for project participation.

2. Key policy and institutional reforms supported by the project:

The proposed program is designed to strengthen the implementation of institutional reforms already put in place by the Government. It will build on the existing framework provided under the LGC (which transferred responsibility for certain sectors to local governments, as well as fiscal resources known as Internal Revenue Allotments, or IRA), and strengthen the devolution of responsibilities to LGUs, and enhance participatory planning and local autonomy in designing and implementing development programs. Presently, annual development plans of many LGUs are often listings of resolutions and requests for interventions to be funded out of the 20 percent Development Fund. This often results in projects being financed which are not always the most beneficial for the community, but possibly have persuasive local promoters, or are supported by local vested interests. In addition, the lack of sufficient funds with LGUs has adversely impacted allocation for rural capital investment, given the "lumpiness" of capital expenditures such as for roads, small-scale irrigation and rural water supply. The project will aim to bring about more efficient allocation of LGU resources in financing rural infrastructure, among others, (particularly on rural roads, and also seek their financial contribution in supporting small-scale irrigation), and a greater commitment from LGUs towards financing a program of routine maintenance of the rural/FMR road network. A related issue which will be addressed is the role of the NGAs, and how that needs to change with decentralization, from one of being providers and implementers of programs, to becoming facilitators providing technical support to LGUs.

Taking the above into account, the project will endeavor to strengthen institutional capacity, bring about greater clarity in the respective roles of LGUs and NGAs, and work with particularly the DA, on how best to effect the transfer of additional financial resources for viable and pressing programs (and seek out ways to ensure greater complementarity in the programs financed from various sources).

3. Benefits and target population:

National Benefits: The project would contribute to an increase in overall value added in the rural economy, incomes and employment, and thereby result in an improved quality of life for some 105,000 poor rural families (involving more than 600,000 individuals), which represents nearly 20 percent of the population of the 5 participating provinces. The direct benefits would come from increased agricultural production and crop diversification, as well as savings in vehicle operating costs and from safer water supply to rural communities. Subprojects financed under the community fund component would provide some of the poorer rural families with investment and income enhancing opportunities, and also facilitate ownership of assets at the local level. Significant institutional and social benefits should accrue from the focus on improving rural development planning, implementation and M&E capacity of LGUs, better allocation of available resources made available from both local government and national levels to support rural development, as well as from increasing the role of rural communities and the participation of project beneficiaries in the decision making processes. The latter will directly contribute to fostering the creation of social capital. Nearly 85 percent of the project resources support productive investment and community-based investments, and will flow directly to the target populations in the rural areas.

Global Benefits: The areas considered for biodiversity protection host three species of marine turtles and dugongs whose distribution range have been shrinking due to habitat destruction. The project sites will become an important and substantial addition to their natural distribution range. The project will reap significant benefits on the conservation of this globally important areas with its host of rare species of seagrasses (*Thalassodendrum ciliatum*) and highly diverse corals.

Target Population: The proposed program is part of the Bank's program of targeted interventions, and will support provinces in Mindanao with high levels of poverty incidence and a largely agricultural base. The primary beneficiaries will be the rural poor, being mainly the small farmers and fisherfolk, those who live in the coastal and highland communities, the agrarian reform communities, and indigenous peoples. Criteria have been agreed with government (focusing on poverty and agriculture profiles) for selecting and prioritizing the participation of provinces in the program (see Annex 1a). The targeting of communities and areas would be pursued using the following approach:

- *Geographical targeting:* Selection of the municipalities where the project would be implemented is based on: scale of poverty incidence and magnitude; importance of agriculture and fisheries in the local economy (in line with the objectives of the Government's Anti-Poverty legislation); and absence of other similar rural development donor-supported programs. Income class was taken into account in selecting the first 11 municipalities (with guidance from NEDA), but this criteria is not being considered for the remaining 22 municipalities, given the lack of correlation between income class and poverty.

- *Beneficiary targeting:* The program is designed to target the less well-off communities, for example, existing agrarian reform communities, as well as indigenous communities and women living within the participating provinces. Women and IP communities would be specially targeted under the CF, with 40 percent of the funds earmarked to support their subproject proposals. The emphasis on community involvement in selecting location and type of interventions (in the case of the CF subprojects) aims to ensure maximum impact on the rural communities.

Social assessments being done of the rural communities (already completed in the initial two provinces of North Cotabato and Sultan Kudarat) allow for better targeting of communities and areas under the project.

4. Institutional and implementation arrangements:

Overall, the program would fall under the Department of Agriculture (DA), and directed by a Program Management Board (PMB), chaired by the Secretary DA, which has already been established under Executive Order no. 474 dated March 24, 1998 signed by the President. A senior official in DA's RFU in each of the participating Regions will be responsible for overseeing and facilitating MRDP implementation from the DA's perspective. Given the Mindanao wide context of the program, the Program Coordination Office (PCO) staffed by the DA, which has also been established by virtue of EO 474, would coordinate and support the implementation of the program. Direct project planning and implementation responsibility would be vested in the LGUs. Within this framework, the respective responsibilities at the different levels are outlined below.

The **Program Coordination Office** would be responsible for overall implementation coordination; and promoting the project to secure expansion to new provinces and municipalities across Mindanao. It will be the secretariat to the Program Management Board (PMB), and be responsible for putting together proposals for approval by the Board – annual work program and budget; schedule of sub-projects requiring PMB approval. Together with DA-RFU (and where relevant, involving the multi-sectoral committees at the municipal or community level for the CF component), it would be responsible for appraisal/approval of subprojects for implementation under the program. It would ensure that environmental and social guidelines are followed in both developing proposals, and in implementation; and it would support provinces and municipalities in ensuring the Bank guidelines and procedures are followed on procurement, disbursements, auditing and overall financial management. It would consolidate total program accounts, have them audited and facilitate overall program financial management. It would be responsible for overall Program MIS and Monitoring and Evaluation; TA to provinces; and putting together periodic monitoring reports, and implementation evaluation at the end of year 2. Periodically, it will bring together implementation staff from the participating LGUs, to review progress and identify bottlenecks, if any, being experienced in implementing the project. The PCO would have no direct implementation related responsibilities. Prior to negotiations, key staff of the PCO were appointed, including the PCO Head; Heads of the Technical Services, Infrastructure, and Administration and Finance Sections, and staff of the Institutional Development and M&E Units.

Provincial and Municipal Offices. At the provincial level, a Provincial Project Implementation Unit (PPIU) would be established within the Provincial Planning and Development Office (PPDO); existing LGU offices will be used in supporting project implementation. At the municipal level, which is expected to take the lead in implementation, coordination responsibility would lie with the Municipal Planning and Development Office (MPDO). Broadly, responsibilities at respective LGU levels would be the following:

- *Provincial Level:* Supporting LGU capacity building, and overall Rural Development Program Planning; mobilizing the Provincial Development Council (PDC) and concerned municipal mayors around the MRDP initiatives, and linking with RFUs for technical backstopping; working with municipalities in consolidating subproject proposals, for which MRDP support is being sought for the province, for submission to the PCO; linking with participating municipalities, and preparing annual workplans and budgets for the overall provincial program, and later ensuring implementation coordination, and overall program M&E; using the network approach for guiding the selection process for road-related investments; linking with NIA on irrigation related investments; supporting the procurement process, and overall accounting and financial management of the program. MRDP Coordinators for the provinces of North Cotabato and Sultan Kudarat, and all staff responsible of provincial level implementation (in the Planning, Institutional Development, M&E, Financial Management and Infrastructure Units) in these two provincies were appointed prior to negotiations.

- *Municipal level*: Engaging communities in identifying priorities; specific component-related investment planning and implementation; facilitating the work of multi-sectoral committees in approving CF sub-projects; contracting with private sector contractors and communities; mobilizing communities in supporting implementation where appropriate; implementing agreed O&M arrangements for infrastructure; maintaining financial records; regular monitoring of implementation progress and maintaining records for the M&E system.

Procurement (Annex 6). Procurement of works for the rural roads/access and rural water supply sub-components will be undertaken by the respective LGUs; while that for the communal irrigation sub-component will be undertaken by the NIA. Procurement of works and goods for small community infrastructure under the communal funds component will be undertaken by the beneficiary communities, with the involvement of the multisectoral committees and LGUs. The PCO will undertake procurement of goods and consultants services to be provided at the PCO level and made available to the respective LGUs for their institutional development and capacity building. Procurement arrangements, which will follow Bank guidelines, are detailed in Annex 6. Overall, the project will be used as a vehicle to encourage more efficient contracting arrangements at the LGU level, rather than the present system of force account which often encourages the purchase of large equipment by LGUs which are not always utilized to their full potential. It will also look to increased community-based contracting in the implementation of the different components, wherever appropriate.

Flow of Funds (Annex 6). The World Bank funds for the rural infrastructure and community funds for agriculture development components will be channeled through the Municipal Development Fund Office (MDFO) to the Project Implementing Agencies (PIA), i.e. Provincial LGUs and central Government agencies such as the NIA. The funds for the LGU Institutional Support component will be channeled through the Department of Agriculture, while those for the CMBC component through DENR. The MDFO will maintain the Bank's Special Account for funds channeled through it. On authorization of budget allotment by DBM, funds not exceeding three months of estimated expenditures will be advanced by MDFO out of its own resources to the participating PIAs; this would be subject to the normal MDFO-Policy Governing Board approval process. The PIAs will request replenishment of funds from MDF from time to time based on submission of Statement of Expenditures. MDFO will be responsible for submission of Withdrawal Applications to the Bank for replenishment of the Special Account. A separate Special Account will be opened by the Department of Agriculture for the Institutional Support Component for which, submission of withdrawal applications will be the responsibility of the DA. Finally, a separate Special Account will be opened by the DENR, for the CMBC component.

Financial Management (Annex 6). An analysis of the financial management capacity of the two initial provinces and selected municipalities has been completed prior to appraisal. The objective of the financial management review was to assess whether the systems in place at PIAs do meet the minimum requirements as required by the Bank's OP/BP 10.02. Overall, it is considered that the financial management systems at the *municipal level* presently *do not meet* the minimum requirements for Bank projects. At the *provincial level*, the accounting systems were considered adequate and *do meet the Bank's minimum requirements*; however, they are considered ineligible for PMR-based disbursements due to weaknesses in their budgeting and reporting systems. Consequently, till such time that municipal financial management capabilities are significantly improved, all financial management activities for the project will be carried out by the Provinces.

As the proposed project is an APL, and provinces and municipalities will be joining the project as implementation proceeds, it was not be feasible to carry out financial management assessment for all prospective participating units at the beginning of the Project. The PCO Head of Finance, in close collaboration with the MDFO and the relevant BLGF regional offices, shall be responsible for carrying out financial management assessments of the participating provinces, based on the FMS assessment models developed for the two initial provinces, and certifying their eligibility to receive project funds before any loan proceeds are disbursed. In case of Provinces with weak financial management systems, the PCO head will develop a time-bound action plan to improve the systems. Similarly, the PCO with the Finance staff of the respective provinces, also , in close collaboration with the MDFO and the relevant BLGF regional offices, will carry out FMS assessments of participating municipalities and develop Financial Management Improvement Programs (FMIPs) as a condition of including the municipalities in the Project. An action plan to complete the FMS assessments of the eleven municipalities identified to participate in the first year of the Project was agreed at appraisal. The Bank will review annually the effectiveness of the FMS assessment and the progress in implementing FMIPs for Provinces and Municipalities.

The funding for the Community Fund for Agricultural Development will be released by the MDFO directly to the participating municipalities. The municipalities will be responsible for maintaining separate project accounts to account for the expenditures under these funds. The PCO and the Provincial finance staff will be responsible for monitoring the management of these funds by the municipalities.

Project accounts for recording the LGU Institutional/Implementation Support expenditures will be the responsibility of DA/PCO.

The PCO shall be responsible for consolidation of audited project financial statements from LGUs, DA and other PIAs. The MDFO, DENR and the PCO will be responsible for submission of annual financial statements for their respective Special Accounts for audit by COA. Consolidated audited financial statements shall be submitted to the Bank no later than six months after the end of the fiscal year.

Monitoring and Evaluation. The proposed program aims to build a strong system for monitoring and evaluation to: enhance the capacities of involved local and national institutions, as well as rural communities; and to provide a mechanism for assessing the program's efficiency in delivering its interventions, as well as the effectiveness of realizing desired objectives. The proposed M&E structure will be integrated into the various levels (national, program, provincial, municipal and community) of MRDP implementation. Beginning at the community level, beneficiary monitoring will be an important element of the structure. At the municipal level, the Municipal Planning and Development Office (MPDO) will be the focal point for M&E, in close coordination with the offices of the municipal agriculturist, municipal engineer, and the financial staff. At the provincial level, an M&E unit will be developed and strengthened within the Provincial Planning and Development Office (PPDO), which will coordinate M&E activities among the offices of the Provincial Agriculturist, the Provincial Engineer and the Provincial financial staff. The MRDP's PCO, through its Monitoring, Evaluation and Social Assessment Unit would consolidate all M&E reports, for submission to DA Central and Regional Field Offices, the World Bank, as well as other concerned oversight agencies.

Evaluation studies will be done in the midyear implementation and last year of each APL phase. For APL1, evaluation studies will be conducted at the end of Year 2. As a support to evaluation, baseline studies will be conducted prior to sub-project implementation. Evaluation studies will be done by independent institutions (such as local universities, private research groups, etc.) in order to ensure impartiality of study results.

D: Project Rationale

1. Project alternatives considered and reasons for rejection:

In designing the proposed project, various alternative approaches were considered. These included the following options: (i) single commodity-based projects, such as the Small Coconut Farms Development Project; (ii) sub-sectoral interventions, such as Communal Irrigation; Research and Extension; (iii) social funds or community-based initiatives; and (iv) area-based rural development projects targeted at the poor. While the first three approaches could support the overarching objective of poverty alleviation, two important considerations have guided the decision towards the last mentioned approach. Firstly, under the Local Government Code, most of the responsibilities for agricultural development have been devolved to local governments; and secondly, in the absence of effective transition arrangements having been in place at the time of enacting the Local Government Code, the institutional weaknesses of many LGUs are posing to be the principal bottlenecks for effective and sustainable rural development, despite a clear commitment towards this objective at those levels. In addition, there continues to be lack of clarity in the respective roles and responsibilities of LGUs vis-a-vis national government agencies, in the context of supporting rural development programs. Within the context of devolution, the LGUs need to be the focal point for setting priorities, and be responsible for designing and implementing development programs. The proposed approach will allow for a holistic approach to poverty alleviation within the farming and fishing communities; with the province being the largest feasible geographical/political unit, around which project initiatives for both physical investments as well as capacity building can be planned. The use of the Adaptable Program Loan instrument would allow for longer term perspective being taken in addressing the development issues (particularly on the institutional side), and will enable a sustained commitment of both the Bank and the Government to the proposed program.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned):

Sector issue	Project	Latest Supervision (Form 590) Ratings (as of June 1999) (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed			
* Local Institutional Capacity; Operation and Maintenance	Second Rural Roads Project (closed; ICR completed)	S	S
* Beneficiary participation in irrigation development and management	Second Communal Irrigation Development	S	S
*Realigning role of DENR, LGU capacity building, community involvement in natural resources mgt.	Environment and Natural Resources Sector Adjustment Loan	S	S
*Water resources planning and management; watershed management	Water Resources Development Project	S	S
*Targeted poverty reduction	Agrarian Reform Communities	S	S
*Emergency Post-Conflict Recovery; poverty alleviation	SZOPAD Social Fund Project	S	S
*Tackling the nexus between poverty and natural resources management	Community-Based Resource Management	U	S
Other development agencies			
*Targeted Area Development; poverty focus, micro-project financing	European Union: Southern Mindanao Agricultural Programme	n.a.	n.a.
*LGU Institutional Capacity	CIDA: Local Government Support	n.a.	n.a.
*LGU Capacity building	USAID: Governance and Local Democracy (GOLD) Project	n.a.	n.a.
*Farmer linkage with Agri-business; enterprise development	USAID: Growth with Equity in Mindanao (GEM) Project	n.a.	n.a.

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

There are lessons from a variety of sources which have been taken into account, first in defining the manner in which project preparation would be undertaken, and later in designing the proposed program. A review of the Bank's experience with rural development projects in the past has highlighted the following lessons: (i) commitment and ownership to the program is vital, not just by Government, but by implementing agencies and the rural people directly affected; (ii) project design should draw upon proven technologies; and the goals must be realistic and precise; (iii) project design must be flexible; (iv) beneficiary participation, at both the planning stage and during implementation, is necessary; (v) credit and farm inputs are often critical to success; (vi) arrangement for infrastructure maintenance have to be in place from the start; (vii) social preparatory activities such as community organization and build up should precede infrastructure development. A review (by QAG) of selected poverty reduction projects in East Asia, undertaken in 1998, has also highlighted some important conclusions: the need for greater focus on addressing the long term institutional implications of a project to ensure sustainability; need for simplifying and increasing flexibility in the Bank's procurement procedures; need for greater analytical focus in monitoring the project's long term impact, which needs to be built into the project design; importance of local contribution to financing the project, both from Government and communities, to ensure ownership and commitment.

Experience with projects in the Philippines reinforce the above conclusions. The Bank has supported numerous projects in agricultural development, irrigation and rural infrastructure, with varying degrees of success. The overriding lesson from this experience is that centrally planned and executed investments in rural infrastructure tend to receive secondary attention from the line ministries at the center. As a result, delays are endemic, monitoring of quality is limited and sustainability in terms of maintenance and operation is uncertain at best. The conclusion is that active local participation and responsibility from planning to design to implementation is essential. This approach is consistent with the Government's thrust on substantial fiscal decentralization.

4. Indications of borrower commitment and ownership:

As outlined below, the borrower (including agencies at national and LGU levels) has been closely involved in project preparation, providing a strong indication of borrower commitment and ownership.

- The proposed project is the result of the work done in close cooperation with the Government in articulating the Rural Development Strategy, which was discussed with a variety of stakeholders.
- At identification, the project concept was endorsed by the national level Rural Development Steering Committee, which was chaired by NEDA, and included representation from the Departments of Finance, Budget and Management, Agriculture, Environment and Natural Resources, and Agrarian Reform. DA played an active role in facilitating project preparation (PHRD legal documents were signed within a week). In briefings by the Bank for the new Government in July 1998, the incoming Secretary of DA expressed strong support for the project.
- During Consultative Group Meetings in the last three years, the Government appealed to donors to focus development efforts on Mindanao.
- Project preparation has been led from Mindanao, with the establishment of the overall Program Management Office (PMO), in Kidapawan (Mindanao), which was authorized by an Executive Order signed by the President of the Philippines (EO No. 474) in April 1998. The PMO (which is being converted into a Program Coordination Office to support implementation) was established by the DA in August 1998, prior to start of project preparation.
- Local Governments in the two initial provinces expressed strong interest in participating in the project. The Governors of North Cotabato and Sultan Kudarat established Provincial Task Forces (some members of which received training in project preparation in Manila in July 1998), which supported the consultant team, as well as the PCO, in preparing the feasibility study.
- A Social Assessment was completed in the initial two provinces, in which LGU and PMO staff participated actively. There was strong interest in discussing the findings of the Social Assessment among the cross section of LGU officials, at municipality level workshops held during October and November 1998.
- The heads of the agencies (NEDA, DILG, DA) from the six regions of Mindanao, and ARMM and MEDCO representatives met in November 1998, together with PMO staff, and Bank team members, and agreed on criteria for selecting the first group of provinces in which the program would be initiated in APL1. It was agreed that in addition to the two initial provinces, Agusan Sur, Maguindanao and Compostela Valley would be added to APL1; this would involve 4 regions, and consequently, institutionally facilitate the subsequent geographic expansion of the program. Importantly, it was agreed that if certain LGUs do not perform, and APL1 implementation performance as a whole suffers as a result, other provinces can be brought into the program.

- The MRDP Program Management Board, chaired by the Secretary of DA, met in Kidapawan in November 1998, even prior to completion of project preparation, and confirmed the above recommendations.

CF Pilots prior to Project Start up. Highlighting the considerable local commitment to the program, and also to provide an opportunity to better prepare for implementation of the Community Fund component, two municipal LGUs (Sen. Ninoy Aquino in Sultan Kudarat and Libungan in North Cotabato), together with the respective provinces, agreed during appraisal to initiate pilot activities, and have since committed IRA resources from their existing budget totaling Php1.0 million each, to test out implementation arrangements for the component. The DA Secretary confirmed that the Department will match the LGU contribution. Implementation of these pilots has been initiated, with the early activities focusing on information dissemination, community organizing in the barangays, establishment of the multisectoral committees, seeking subproject proposals from communities, and the selection process, to be carried out between August and December 1999.

5. Value added of Bank support in this project:

The Bank's close involvement in articulating the Rural Development Strategy, which provides the underpinnings for the project's design, and the experience it has in supporting community-based rural development and resource management projects in the Philippines, provides the comparative advantage for the Bank vis-a-vis the proposed project. A number of bilateral donors have supported capacity building initiatives for LGUs since 1992. However, in most instances, there have been no funds to adequately complement training received with real sector investment programs to enable more effective on the job training. MRDP is designed to overcome this weakness. In addition, over the years, the Bank has built up considerable experience with projects and programs dealing with rural poverty alleviation related issues and rural development projects. The lessons from this experience, both positive and negative, can be brought to bear in designing the proposed program. The use of the Adaptable Program Loan instrument provides a potentially effective means for ensuring flexibility in project design, and continuity of a program which needs a long-term approach. Finally, concerning the coastal and marine biodiversity conservation component, a strong leadership role is required given the magnitude of issues and the number of donors working in the sector and the impact of investments of other sectors on coastal resources and marine biodiversity. The Bank is in a unique position to play that role given its experience in the sector, particularly in the East Asia region, and its understanding of what is needed to manage the sector.

E: Summary Project Analyses (Detailed analysis are in the project file, see Annex 8)

1. Economic (supported by Annex 4):

ERR= 22 percent

The economic benefits of the project would result from (i) the rehabilitation of provincial and farm to market roads and the subsequent savings in vehicle operating costs; (ii) rehabilitation and investment in communal irrigation schemes which will generate an increase in farm productivity; (iii) investments in improving the supply of potable water resulting in increased time-saving from collecting water and reduced incidence of water-borne related sickness and disease; and (iv) community-based development through the availability of community funds. In addition, as indicated earlier, investments to support local government and other institutional capacity building, as well as to strengthen decentralized and community-based decision making, will facilitate better implementation of rural development programs, help foster the creation of social capital, and strengthen staff skills of all implementing agencies at the local level, with resulting efficiency gains.

Methodology: Given the programmatic nature of the project's design, and the fact that local communities will be driving the choice of sub-projects in many instances (for example on the CF component, as well as the selection of rural roads, and water supply sub-projects), the analysis is based on a modular approach, taking the projects prepared for the Year One program as the basis for estimating the expected economic benefits for the project as a whole. A strong monitoring and evaluation component is being supported under the project, which will facilitate a better evaluation of projects put forward for consideration, using the baseline information being collected, and the actual experience of implementation as a basis for later analysis. In the case of the community funds for agricultural development, it is not possible to know *a priori* which micro-projects will be financed, given the demand-driven nature of the component. Nonetheless, a variety of small-scale community development projects are analyzed in anticipation of the actual needs of a given barangay as conveyed through responses in the social assessment.

Overall, the proposed project yields an ERR of 22 percent, a net present value of $11.5 million and a benefit-cost ratio of approximately 1.4 (using a discount rate of 12 percent), over a 20-year period of analysis. At the component level, the farm-to-market roads investment yields an ERR of 15%; the proposed investments in communal irrigation development generate an ERR of 39 percent; communal spring development are expected to result in ERRs of around 11 percent (the estimate excludes significant social and health benefits to be derived, which are difficult to quantify); and finally, using a range of possible investments which the communities may undertake under the Community Fund component as a basis, the ERR for the component is estimated at 31 percent.

Sensitivity Analysis: Switching values were calculated for each component and for the project in its entirety, and the results confirm that the ERRs are relatively robust to changes in revenues and costs. Overall, total project costs would need to increase by 26 percent or benefits to reduce by 20 percent, for the overall ERR to drop down from 22 percent to 12 percent, suggesting that the program is more sensitive to changes in project benefits than to project costs. As discussed in more detail in the annex, the respective analyses for different components shows greater sensitivity to changes in revenues than to costs; to a large extent, this reflects the conservative bias in the assumptions underpinning the analysis.

2. GEF Component - Incremental Cost Analysis (Annex 2e: Attachment 1)

This project will also help develop a model with broader applicability for mainstreaming coastal and marine biodiversity considerations in a sector with crucial social, economic, and environmental dimensions in Mindanao, and more broadly in the Philippines. Under the GEF scenario, substantial information, capacity, and experience will be developed to promote the mainstreaming of marine biodiversity conservation and sustainable use within the fisheries sector, particularly at the community level. The GEF approach relies on removing barriers for successful mainstreaming through demonstration, capacity building, enhancement of the information base for sound decision making, and policy development in Mindanao as part of the project, where little attention has been paid in the past to marine resource and biodiversity conservation. The GEF component will support the piloting of community-based marine sanctuaries to benefit both fishing resources and marine biodiversity; enhance local capacity for addressing coastal ecosystem management issues; and improve the knowledge base for sound ecosystem management and decision-making. It would assist in the demarcation and protection of marine areas with habitats and species of global importance and assist in their sustained management and protection. Without the CMBC component, these marine biodiversity conservation-related activities would not be implemented in the project area. The incremental costs are calculated as the difference between the GEF scenario ($6.05m) and the baseline scenario ($4.8m) and total US$1.25 million.

3. Financial (see Annex 5)

Fiscal Impact: The fiscal impact of the project results from various sources. Firstly, the program will result in an increase in national and LGU fiscal resources being allocated to support rural development in the initial group of 5 provinces. Over the life of the project, the DA will be required to commit an estimated US$5.9 million, by way of counterpart funds, while the 5 provinces and 32 municipalities will, together, be required to provide an estimated US$6.0 million towards the financing of the project. In taking a programmatic approach, and by supporting ongoing DA programs, it is proposed that the project's demands on national level counterpart funds should largely be absorbed within the annual budget envelope. On the part of the LGUs, the demand for counterpart resources would arise in financing all of the components. The analysis of LGU fiscal resources shows that, at a global level, and taking into account projects increases in IRA resources, LGUs should be able to meet their financial commitments towards the project. Their ability to do so in a timely manner, will provide an indication of their commitment to the program.

In addition to the above, a significant positive fiscal impact can be expected from the project as a result of improved rural development planning, increased community participation, and new and better ways of allocating fiscal resources by LGUs while supporting rural development priorities viewed as important by rural communities. In addition, based on experience elsewhere, greater efficiency in resource use can be expected with the implementation of the $16.8 million rural roads components by contract rather than force account. Similarly, given that community-based setting of priorities and execution of project should be more efficient, the implementation of the CF component should generate significant efficiency gains in the use of DA and LGU fiscal resources. These benefits should multiply exponentially, as more LGUs join in implementing the program.

4. Technical:

The project's design has benefited from a detailed review of key technical issues related to the principal components being supported under the project. In addition, implementation/operations manuals have been drafted, which will guide the procedures and arrangements to be followed during implementation. The manuals will continue to be refined, as lessons of experience build up with implementation.

- For the roads/access component, a detailed review of the roads network of the first two provinces has been completed, and the year 1 program identified in close consultation with the LGUs. Detailed designs and related procurement documents for virtually all of the year 1 program of works have been prepared, with the emphasis being on: adopting low cost designs; encouraging the use of labor-based equipment-supported road construction; designing contracts so as to seek out an increased participation of women. Selection criteria for the roads to be included under the program have been confirmed with the participating LGUs; communities will be involved in prioritizing investments among roads which meet criteria. Commitments will be sought from the LGUs that they will allocate adequate resources for regular road maintenance, and the implementation agreements would stipulate that grants provided to LGUs under this project by the national government would be converted into loans if this commitment is not met.

- For communal irrigation, the criteria for selecting schemes have been agreed (being largely in line with the ongoing CIDP II); and the key technical requirements which would need to be confirmed in the feasibility studies have been outlined (for example, dealing with the availability of water, suitability of soils, land holding patterns, and the absence of water-borne diseases). While NIA will continue to be responsible for the technical aspects of design and implementation management, APL1 will aim to develop local capacity by seeking involvement of designated LGU staff to work alongside NIA during implementation.

- For rural water supply, water quality issues and satisfactory community-based institutional arrangements (RWSA/BWSA) will underpin decisions on individual projects.

Institutional arrangements have been designed, and necessary technical assistance provided under the project, to ensure the technical soundness of proposals which will be brought forward for financing by local governments and communities, during the implementation phase of the program.

5. Institutional:

a. Executing agencies: Department of Agriculture, Department of Environment and Natural Resources and participating Local Government Units.

b. Project Management: The detailed implementation arrangements outlined earlier, are guided by the objective of using MRDP to reinforce the implementation of the LGC; and bring the DA Regional Field Units' (RFUs) technical backstopping role better into focus with the LGU's direct planning and implementation role. As mentioned earlier, this is a challenging task in the Philippines, and the ability to realize these objectives depends on the commitment of local institutions. In the Letter of Sector Development Objectives, the DA Secretary has reaffirmed DA's commitment to pursue these objectives (Annex 1a); furthermore, participating provinces will be required to provide a similar commitment, as already done by the first two participants (North Cotabato and Sultan Kudarat) in their respective Letters of Development Objectives submitted to the Bank prior to negotiations. In this context, an important feature of the proposed project management arrangements is that, firstly the Program Coordination Office was established in Mindanao (and not Manila) even prior to the start of detailed project preparation, and hence has been involved in the entire process. Secondly, staff from the local governments too worked with the project preparation team, and also participated in the social assessment work; this has contributed to building local capacity and ownership of the project, and will facilitate overall project management once implementation commences.

6. Social:

During project preparation, a wide ranging Social Assessment was carried out in the first two project provinces (Annex 1b); it is now being initiated in the three additional APL1 provinces. The Social Assessment in North Cotabato and Sultan Kudarat Provinces conducted a total of *1,350 household surveys* from 90 barangays in 20 municipalities, and *120 focus group discussions* from 60 barangays involving some 2,000 rural community residents. Barangays were selected such that they represented the various types of agro-ecological systems found in Mindanao: mountainous, rolling, lowland, marshlands, and coastal. The Social Assessment was conducted with the active involvement of the LGUs, which provided the counterpart resources and staff. The latter worked effectively with the two area-based institutions which implemented the Social Assessment: a non-government organization, CADTEC, which was responsible for conducting the focus group discussions, and the University of Southern Mindanao, which was responsible for the household surveys. A series of *participatory planning workshops* were conducted in various municipalities where the key findings of the Social Assessment were presented to municipal and barangay management and legislative officials.

As indicated earlier, the main priorities of most people were for infrastructure, followed by agricultural inputs, and lastly by other basic social services. Women in general, mentioned health services and water and sanitation facilities as their more important priorities. Indigenous peoples households were concerned about physical accessibility, draft animals and their children's education. The findings from the social assessments in the two provinces provide the underpinnings for the design of the project.

Indigenous Peoples. Indigenous People's policy guidelines have been developed for the Program which will guide the participation of the indigenous population in Mindanao. This part of the Philippines is home to many IP groups, many of whom are poor and will be eligible for program funding, particularly under the Community Fund component. The Indigenous People's policy guidelines for MRDP closely follows the program developed by Cotabato Province known as "Integrated Provincial Management Assistance and Policy Support Program for the Indigenous People..." which conforms to the Bank's OD 4.20. The IP guidelines are included in the Operations Manual, and have been endorsed by the DA; project staff, particularly those in the Community Fund component unit, will be provided orientation on Bank OD 4.20 and training on development for indigenous populations.

Land Acquisition and Resettlement. Given the nature of the components, land acquisition and demolition of houses/structures and displacement of persons are not anticipated in MRDP. All roads will follow current alignments, thus minimizing potential environmental impacts and land acquisition. Should these be necessary, e.g., in rehabilitation of infrastructure (including any minor right of way adjustments for roads or irrigation canals), they would be kept to a minimum; for new communal irrigation projects, the lands required for the canal system will be acquired in consultation with the benefiting communities and will be consistent with existing practice under CIDP II. A Policy Framework for Land Acquisition, Resettlement and Rehabilitation of Project Affected Persons (Policy Framework) has been prepared for MRDP and it lays out the guidelines to be followed in the event of land acquisition necessitated and resettlement and rehabilitation of persons affected by subprojects under MRDP. However, a recently issued Administrative Order No. 50 (AO 50) limits the Government's ability to initially offer compensation to landowners at zonal value of the land plus ten percent, which amount may or may not equal replacement cost of the land. Landowners that do not accept the offer may request court adjudication. Notwithstanding AO 50, and for the purposes of MRDP, the Government has it to establish a procedure that would ensure that Project Affected Persons (PAPs) are compensated at replacement costs for their land prior to the displacement of such persons by project works. To reflect this agreement, the Government has adopted a revised the Policy Framework which sets out the procedure by which the difference, if any, between zonal value plus ten percent and replacement cost will be paid to project affected persons accepting the Government's offer prior to their displacement.

7. *Environmental assessment:* Environmental Category [ ] A **[X]** B [ ] C

The project is assigned a "B" environmental classification. MRDP will focus primarily on the rehabilitation of small rural infrastructure, and other than the small component proposed for new communal irrigation projects (covering an estimated 850 ha), will not enter into any substantial new construction. Environmental assessment will be undertaken on all infrastructure projects, although given the nature and small-size of sub-projects, no significant adverse environmental impacts are anticipated. Road improvements would largely follow existing alignments, and irrigation works would usually benefit areas where rice is already grown. Environmental Impact assessments with mitigation plans, where relevant, would be submitted for review and clearance by DENR. Institutional arrangements to ensure that environmental compliance is followed during the implementation phase have been incorporated in the Operations Manual. For the first-year program, an environmental assessment has been undertaken for the roads and water supply sub-components, through the PCO; NIA will complete a similar assessment for the proposed irrigation component. The assessment for roads indicate that most of the impacts are not significant, and that the impacts during the implementation stage will be temporary. Similarly, for the water supply activities, there are small or no adverse impacts. Where appropriate, mitigation measures have been recommended and will be acted upon during project implementation.

8. Participatory approach:

Primary beneficiaries and other affected groups:

A strong participatory approach has been taken in preparing the project, which will also be pursued during the implementation of the project; in order to get the communities engaged in the process, the program of social assessments will continue with the new provinces and municipalities. The preparation process endeavored to get rural communities involved in identifying the key issues and constraints which they face, and which need to be tackled to improve the livelihood of rural people. Importantly, the findings were then discussed at workshops involving officials from LGUs (municipal and provincial), so as to engage them in the design of the program. Overall, the design of the program aims to reinforce the role of key stakeholders in guiding the allocation of resources for rural development; in particular, the Community Fund component will bring together rural communities, LGUs and the DA in a manner which will strengthen participation/consultation in supporting rural development, and in the implementation of the LGC. In addition, it is envisaged that other stakeholders, such as NGOs, local technical and academic institutions, etc. will get involved in guiding the implementation of some components, in particular the CF, as well as in supporting initiatives aimed at enhancing agricultural productivity.

F: Sustainability and Risks

1. Sustainability:

Sustainability of the proposed operation is being pursued from various fronts. Firstly, and most importantly, institutional sustainability is being pursued through the highly consultative process followed during the project preparation, which has confirmed LGU commitment and interest in the program (they have set up local teams, and contributed staff and other resources to project preparation), and has also involved local communities. This will be reinforced during implementation, with the implementation of local capacity building measures, both at the technical level, as well as in rural development planning. Secondly, institutional ownership to the program can be expected to be strong, since LGUs and the benefiting communities will be contributing towards the cost of the different components, either from the LGU's IRA resources, or as equity contribution from the beneficiaries. Finally, at a technical level, the project will be supporting the involvement of appropriate technical institutions available locally, as well as national government agencies, to work with the LGUs, in implementing measures aimed at the better and more efficient management of land and water resources, including improved natural resources management in the uplands.

2. Critical Risks (reflecting assumptions in the fourth column of Annex 1):

While the program's design is not complex, the proposed implementation period of three and a half years is ambitious, for a program of this size. The principal reason for opting for this shorter timeframe is that good preparatory work has already been done, both at the LGU level, as well as at the level of the communities. As outlined earlier, project preparation has been carried out locally in Mindanao following a highly participatory process, involving DA representatives from the RFUs, the LGUs and the communities; in addition, the Program Coordination Office is already in place. Given the nature of the program, involving NGAs (DA and DENR), LGUs, rural communities, it will be important for the Bank to commit supervision resources beyond existing norms, particularly during the first 18 to 24 months, in order to facilitate an effective start up of this program. Risks which need to be managed from the Government's side are discussed below.

Risk	Risk Rating	Risk Minimization Measure
From Outputs to Development Objective		
Inadequate LGU and beneficiary commitment to O&M.	M	Continued support under the program would be conditional on provision of LGU resources to ensuring satisfactory O&M.
Poor technical or engineering support forthcoming locally.	N	Generally, for the types of investments being proposed, skills are available in the LGUs. These will be further enhanced through implementation support, on-the-job capacity building, and needed TA provided under the project.
Communities are not fully brought into the planning/implementation process; political establishment does not actively participate in the process.	M	The social assessment process, and the subsequent workshops held at municipal level, have demonstrated the willingness of the political establishment to pursue a participatory approach involving communities. Project design, in terms of making year 2 allocations for the community funds focus on getting communities involved with LGUs.
Escalation of civil strife in Mindanao, should there be a breakdown of the peace agreement.	M	There is provision for making changes to the participating LGUs, to enable project to move to areas where implementation is possible. However, a major breakdown will adversely impact ability to realize development objectives.
From Components to Outputs		
Inadequate demand from LGUs for subprojects; willingness to borrow from the national government.	M	The substantial consultation process during the preparation phase has confirmed strong LGU interest; and Year 1 program is firm. Given poverty incidence and low class of the LGUs, it is proposed that most of the Loan funds should come as grants (the percentage can be changed during implementation, based on experience).
Counterpart funding from both national government, and the LGUs is not provided on an adequate and timely manner.	M	Project funding as part of the draft FY00 budget has been confirmed; LGUs will be required to contribute upfront before accessing funds from the MDF. Bank will also need to be pro-active, together with other stakeholders, to secure budget resources in later years.
Changes in elected officials in LGUs (possible every 3 years), reducing capacity and commitment to the program	M	Project supports capacity building at both LGU and community level, to enhance institutional sustainability; Bank will need to be pro-active in securing continued political ownership at the LGU level.
PMO does not have competent staff	M	Satisfactory staffing of the PCO is a condition of negotiations.
Overall Risk Rating	M	As part of an APL, proposed project intends to test out approaches, before scaling up program geographically across Mindanao. M&E is being designed to support adaptations and changes, as implementation proceeds. Overall, successful implementation, with more effective LGU roles, and more efficient and community-based use of DA budgetary resources has potentially very significant pay off.

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

3. Possible Controversial Aspects:

None.

G: Main Loan Conditions

1. Effectiveness Conditions:
For the *Loan Agreement*, the conditions of effectiveness include the following: (i) The DA shall have concluded Implementation Agreements covering the year 1 programs with the provinces of North Cotabato and Sultan Kudarat; (ii) a Memorandum of Agreement shall have concluded between the Department of Finance and the DA; (iii) endorsement/adoption of revised sections of the Operations Manual dealing with the Community Fund, Financial Management, and the Resettlement Policy Framework.
For the *GEF Grant Agreement*, the conditions of effectiveness include the following: (i) The Loan Agreement will have been declared effective; (ii) a Memorandum of Agreement shall have concluded between the DENR and DA, setting forth their cooperating and coordinating arrangements; (iii) the Implementation Manual should have been adopted and put into effect.

2. Assurances obtained at Negotiations:
Program Implementation: (i) Overall program implementation to be in line with the provisions in the Operations Manuals, which includes criteria and process for sub-project selection; (ii) Project affected persons coming under the purview of OD4.30 (involuntary resettlement) due to a proposed subproject, shall have been resettled, compensated and/or rehabilitated, prior to the concerned subproject being implemented; (iii) Each LGU to allocate funds and other resources, and then carry out a program of routine maintenance on agreed sections of roads; (iv) LGUs to disseminate information (including maintaining bulletin boards) on all CF sub-project proposals (both approvals and rejections) submitted within its jurisdiction, and on status of implementation; (v) Provincial LGUs, in association with MDFO/BLGF, to carry out financial management assessment of participating municipal LGUs within their province, within 12 months of joining the program.
Project Management: (i) Project Management Board, chaired by the Secretary DA, and a Program Coordination Office within DA, and located in Mindanao, to be maintained throughout the implementation period of the project. (ii) PCO to prepare annually, not later than March 31, an annual work plan, including the allocation of counterpart budgetary resources from the national and local governments. (iii) Participating provinces will establish and maintain a Provincial Project Implementation Unit (PPIU), while the Municipal Planning and Development Office (MPDO) will be responsible for coordinating implementation at the municipal level. (iv) For supporting the implementation of the CF component, as well as to prioritize the road rehabilitation program, each municipality shall establish and maintain a multisectoral committee.
Monitoring and Reporting: (i) Each LGU to monitor and evaluate on an ongoing basis, the implementation and achievements of the projects, in line with agreed performance indicators. (ii) The PCO will submit semi-annual reports for the periods January to June, and July to December, on progress on implementation, to be submitted to the Bank by September 30 and March 31 following the respective periods each year. These will be based on separate reports prepared by each participating LGU. (iii) The PCO will ensure that a detailed evaluation of program implementation is undertaken, and a consolidated report submitted to the Bank by March 31, 2002; the report to be jointly reviewed with the Bank by June 30, 2003. (iv) ICR to be prepared by the Borrower six months prior to closing of the project.
Financial Reporting: (i) A financial management system shall be maintained, including records, accounts, and financial statements, involving all LGUs and other implementation units (such as the PCO and NIA); consolidated for the project as a whole, and together with the Special Accounts, audited annually; certified copies of financial statements to be forwarded to the Bank not later than six months after the end of each fiscal year.

H. Readiness for Implementation

Engineering design documents for year 1 road program, and procurement documents for the proposed works (as well as for goods) were completed prior to negotiations. Engineering design documents for the proposed rehabilitation of communal irrigation schemes will be completed soon after negotiations, using loan funds to be available under retroactive financing. In addition, a pilot for the Community Fund component is being implemented, using LGU and DA resources, which will facilitate the later implementation of the component. At the institutional level, the PCO is already in place (with staffing substantially completed prior to negotiations), and staff from the year 1 participating LGUs, who will be part of the Provincial Project Implementing Unit (PPIU), have been actively engaged in the project preparation process. The Operations Manual for guiding implementation has been endorsed by DA prior to negotiations, which will be adapted from the lessons of experience.

I. Compliance with Bank Policies

This project complies with all applicable Bank policies.

Task Team Leader: Rahul Raturi

Sector Director: Geoffrey Fox

Country Director: Vinay K. Bhargava

Annex 1
Philippines: Mindanao Rural Development Project
Project Design Summary

Narrative Summary	Key Performance Indicators	Monitoring and Evaluation	Critical Assumptions
Sector-related CAS Goal: 1. Poverty Reduction by accelerating Environmentally Sustainable Rural Development.	Implementation of targeted and priority rural poverty alleviation programs. Improved delivery of services in support of better defined rural development goals and targets.	Periodic surveys; midterm and final project evaluations.	**(Goal to Bank Mission)** Political commitment and financial support to actively pursue programs and policies targeted at poverty alleviation.
GEF Operational Program Goal: Conservation and restoration of Coastal, Marine and Freshwater Ecosystems.	Prevalence of species of global importance in the project areas.	Semi-annual assessment of marine ecology at project sites and changes in fisheries productivity and efficiency.	Improved management and conservation of natural marine and fisheries resources would concurrently improve incomes from resultant effects.
Program Purpose: Improved incomes and food security in the targeted rural communities within the 24 provinces of Mindanao, from implementation of better targeted and sustainable agricultural and fisheries-related rural development and marine biodiversity conservation programs, and improved LGU institutional, management and financial systems. **Phase I (APL 1) -** Initiation of program in selected provinces **Phase II (APL 2) -** Geographic expansion across Mindanao **Phase III (APL 3) -** Deepening and	Evidence of a sustainable declining trend in rural poverty incidence within the targeted communities by the end of APL2. Increase in employment opportunities in targeted areas, and in the incomes of participating households. LGU-NGA partnership institutionalized, and increased public funding for LGU/community managed rural development programs, consistent with AFMA/national agricultural development plans. Increased LGU and community involvement in rural development and marine biodiversity conservation program design,	Evaluation Reports from each phase of the program. Baseline information to be generated prior to start of program. NEDA sponsored, periodic and independent reviews of LGU development plans and accomplishment reports. Periodic FIES Reports DENR would coordinate periodic independent reviews of development	**(From Purpose to Goal)** National Government will sustain political and budgetary commitment to supporting devolution; APL approach seen as a vehicle to support programmatic implementation. APL Program developed initially is acceptable to, and can be successfully replicated in other provinces and municipalities. General economic stabilit in the country/regions, anc peace and order maintained in Mindanao. Demonstration effect of community-based management efforts under

Institutionalization **Phase IV (APL 4) -** Securing Program Sustainability	M&E and implementation.	plans, actual physical progress, and verification of reported progress.	APL1 would provide useful examples and lessons learned for replication in other project areas during subsequent Phases.
APL1 – Project Development Objective: Institutional, financial and community-based planning and management systems implemented and refined for supporting rural development within targeted agricultural and fishing communities, in 5 to 6 provinces, covering at least 30 municipalities. Improved LGU capability for agricultural development planning, implementation and M&E, in partnership with national government agencies (DA), and local technical institutions. Responding to community priorities for key rural infrastructure. *Project Global Objective:* To conserve and restore globally important coastal habitats and related marine biodiversity in Mindanao by mainstreaming biodiversity and marine ecosystem conservation in community development and in the coastal fisheries sector.	At least 50 percent of participating LGUs (provincial and municipal) adopt agricultural development plans, which also incorporate outcome of consultation process with communities, and local and national technical agencies. DA budgetary allocations under AFMA/national agric. development plans for the participating LGUs integrated into the latter's respective financial and investment plans. Increase in agricultural productivity – corn and palay yields in target communities; increase in area planted to diversified crops; reduced post harvest losses. Household incomes in targeted communities increased; at least 75 percent of the direct beneficiaries of the project improve incomes by at least 30 percent by the end of APL2. Increased involvement of local stakeholders in partnerships with public sector agencies for planning resource allocation and use, and in conservation of coastal resources and biodiversity through increased (1) number of active locally based planning and development committees; (2) number of households participating in formulating decisions for planning, implementing, monitoring and evaluating local development	Sangguniang Bayan resolutions LGU directives Implementation of specific studies to monitor progress; beneficiary surveys. Baseline information on APL1 communities and areas to be generated prior to start up of project implementation. The project would conduct periodic evaluations of changes to marine ecology (biodiversity) and fisheries productivity and efficiency at and in the vicinity of the project sites that result from project intervention.	**(Objective to Purpose)** No major natural calamities, or drastic changes in weather (such as earthquakes, excessive typhoons, prolonged droughts, el nino. etc.) The financial and fisheries productivity benefits to the communities and individuals that result from marine sanctuary and biodiversity conservation and management would provide the incentive for continued sustainable management of these resources.

	interventions; and (3) amount of community resources (cash and non-cash) being contributed for the construction, maintenance and rehabilitation of local infrastructure facilities.		
Outputs: *Rural Infrastructure:* * improved rural access, through rehabilitation of rural roads, trails and bridges; * improved irrigation for small farmers, from rehabilitated communal irrigation systems; * rural water supply and sanitation systems for targeted communities; * enhanced maintenance of infra by LGUs and communities. *Community Funds for Agric. Development:* * Implementation of economic investments based on community defined priorities, incl. those for supporting	* Rehabilitate about 460 km of rural and 40 km of provincial roads. Will lead to: increased traffic; access to larger number of markets for farm inputs and outputs, located along/near road sectors/bridges being rehabilitated, changes in prices for farm inputs and outputs, reduced travel time from farm to market, and reduced goods/passenger transport costs. * Rehabilitate about 3,500 ha and construct 1,500 ha of new communal irrigation systems. Will result in: increased irrigation service areas in target provinces; higher cropping intensities, and crop yields; increased farm incomes. * Develop around 130 new spring water systems. Will result in increased number of households in project municipalities with access to safe water, lesser incidence of water borne disease, lesser kms walked by water bearers in collecting water * Sustained increase in LGU budgets for maintenance; improved condition of road network (change in proportion of good-fair-bad roads). * Annual disbursement of P2.5m each, in 32 municipalities, to support community-based projects. Increased employment in target	Bi-annual Monitoring Reports Reports of Annual Implementation Progress, for Program Management Board (PMB); Minutes of PMB Meetings Process and Results M&E Reports (PRME) Detailed program evaluation after the end of year 2 of APL. Bank Supervision Mission Reports	**(Outputs to Objective)** Insufficient LGU and beneficiary commitment tc O&M. Poor technical or engineering support forthcoming locally. Communities are not fully brought into the planning and implementation process; political establishment in LGUs does not actively participate in the process. Escalation of civil strife in Mindanao, should there be a breakdown of the peace agreement.

improvements in agricultural and fisheries productivity.	areas, from implementation of rural community initiatives; increase in number of women and IP communities involved in local decision making bodies; increase in the number of households involved in planning, implementing, monitoring and evaluating local community priorities lower rates of unemployment among males and females; LGU incorporates community needs into plans; DA programs more responsive to community needs.		
Institutional Capacity Building: * Enhanced rural development planning, implementation and M&E capabilities within LGUs; closer interaction between DA at national level, and LGUs, and rural communities at local level. Improved interaction between LGUs and local technical/research institutions.	* LGU staff and community leaders trained (formally and informally); technical skills upgraded. Rural development plans adopted and monitored by LGUs, based on community needs, analysis of resource base, and poverty distribution. On farm demonstrations of technology to respond to small farm issues; better linkage with local technical/research institutions. Increasing percent of national budget expenditures within participating LGUs being integrated into the latter's annual plans. MIS system developed; and PRME implemented. Community-based monitoring implemented.		
* Strengthened capacity to meet micro-finance and rural credit needs.	* At least 90 staff from key cooperatives, and 80 from MFIs trained and loan agent scheme piloted in the 5 provinces, one successful coop transformed into a rural people's bank. Improved/increased delivery of rural credit – purpose and maturity diversified in targeted communities.		

* Improved Financial Management, to support more efficient rural development program implementation and monitoring.	* Train LGU staff and develop financial management and M&E capacity. FMIP implemented, and bank reconciliation completed in all participating municipalities. * Data collection and recording system established.		
Conservation of coastal marine biodiversity: *Conduct of a resource assessment survey; *Application of a participatory planning and management process for identification and development of protected areas; *Strengthening of local marine resources surveillance by coastal communities linked to existing enforcement agencies; *Resource monitoring and evaluation program; *Assistance to the development of alternative income generating (AIG) activities	*Direct involvement of local communities and people's organizations in the establishment of protected coastal areas through participatory activities. *Number of incidents of illegal activities reported and consistently acted upon and resolved by enforcement agencies. *Continued collection and evaluation of data on marine ecology and changes in community well-being. *Number of new employment opportunities created that do not have adverse impacts upon marine biodiversity and natural resources.	*Data collected and tabulated for efficient analysis with community participation. Reports of meetings and progress with the establishment of protected areas. *Community and enforcement agency reports of intervention into illegal and destructive activities. *Consultant/NGO/DEN R joint reports on progress with implementation and resultant impacts. *Records of new jobs created.	*Partnerships would be formed and between and capacities of public and private sector agencies (individuals/organizations that would foster improvec marine resource management, and biodiversity conservation.
Program Management: Program Implementation and Coordination mechanisms tested, and adapted for larger program implementation.	* MRDP organizational structure established at all operating levels (PCO, and in LGUs and participating communities); key operations manuals developed, tested and adapted to experience. LGU political establishment fully engaged.		

Project Components/Sub-components: (see Annex 2 for project description)	**Inputs:** (budget for each component)		**(Components to Outputs)**
Rural Infrastructure subprojects:		Quarterly monitoring and Progress Reports Financial Monitoring Reports Bank Supervision Reports	Inadequate demand from the LGUs for the subprojects; insufficient willingness to borrow from the national government.
• Rural access/roads • Small scale irrigation • Rural water supply	US$16.9 million US$ 8.5 million US$ 1.4 million		
Program of targeted Poverty Interventions – Community Fund Program for LGUs/rural communities, to support agricultural development.	US$ 6.5 million		Overall, counterpart funding is not provided on an adequate and timely manner by both national and local governments.
Coastal/Marine Biodiversity Protection (GEF)	US$ 1.7 million		Changes in elected officials (possible every three years), reducing capacity and commitment to the program.
Implementation Support and capability building for LGUs, rural communities, and for improving DA/LGU linkage.	US$ 3.2 million		
Overall Program Management and Coordination.	US$ 2.8 million		Program Management Office is not fully operational and staffed with appropriate staff.

Annex 1 (a)
Philippines: Mindanao Rural Development Project
Letter of Development Program

Republic of the Philippines
DEPARTMENT OF AGRICULTURE
Office of the Secretary R. 117.290 |62999
Elliptical Road, Diliman, Quezon City

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June 22, 1999

VINAY K. BHARGAVA
Country Director, Philippines
East Asia and Pacific Region
23rd Floor, Taipan Place,
Emerald Avenue, Ortigas Center
Mandaluyong City

Subject: Letter of Sector Development Objectives
Mindanao Rural Development Program

Dear Mr. Bhargava

The Government's Medium Term Philippine Development Plan (MTPDP) for 1999-2004 highlights the following objectives: alleviating poverty; modernizing agriculture; improving the delivery of basic social development services; infrastructure development, particularly in the rural areas; the pursuit of privatization, deregulation, liberalization and globalization, while maintaining economic stability; and reforming governance. Within the context of the MTPDP, the Estrada administration accords a particularly high priority to agriculture and rural development, which is viewed as critical to realizing the Government's objectives of reducing poverty, generating viable employment and ensuring food security. This task is particularly challenging in Mindanao, which accounts for just over a third of the total land area of the country, has a population of 16 million (24 percent of the country's total in 1995), and which has a very high incidence of rural poverty (61 percent in 1994). Seventeen of the island's 24 provinces rank among the country's poorest, and over 70 percent of the island's 437 municipalities fall within the 4th and 6th class under DOF's classification based on income. In relative terms, the region has been less successful in bringing down the levels of poverty over the past two decades, when compared with the other regions of the country and the rural sector in Mindanao has remained in a state of stagnation. Yet, with its climatic and geographic advantages, Mindanao holds tremendous potentials and has distinct comparative advantages for agriculture and fisheries sector growth, which if developed, could serve as a strong foundation for sustainable growth of the national economy.

The above situation has arisen due to many factors. Historically, government expenditure in Mindanao has been low as compared to its population and land area. Infrastructure expenditure in Mindanao averaged only 20 percent of the total country's outlays during the period between 1982 to 1993, resulting in poorer availability of, among others, rural feeder roads and irrigation facilities. Apart from inadequate expenditures on rural infrastructure, the major constraints to development in rural Mindanao are poorly functioning rural markets and insufficient post-harvest support and facilities, limited reach of agricultural development services, difficulty in accessing production credit, particularly by smallholders and those not having title to land, and ill-prepared LGUs for rural development planning and implementation. In addition, the Department of Agriculture has not always been effective in providing technical support to LGUs, and communities have not been integrated into the decision-making processes of the LGUs and the DA while identifying priorities for investment.

cc: VB/PF
RA/OFN

Agrikulturang
MakaMASA
Makapagpabagong Programa Tungo sa Maunlad at Masaganang Agrikultura at Pangisdaan

The Philippine Government attaches high priority to the development of Mindanao as part of the peace process, and to realize its potentials and contributions to the national economy.

In addressing the above issues, the Government recognizes that poverty alleviation and rural development are long drawn processes that require sustained support. And while most of the responsibilities for agricultural and rural development have been devolved to LGUs under the Local Government Code, the institutional weaknesses of LGUs continue to be the principal bottlenecks for effective and sustainable rural development. Building institutional capacity at the local level, and ensuring sustainability also requires nurturing over a long period. The Adaptable Program Loan facility of the World Bank offers an opportunity to meet the specific, unique and long term requirements of rural development and institutionalization; and the Government would like to avail of this facility for the Mindanao Rural Development Program. Phase I of the program has already been endorsed by ICC Technical Board, as well as the Cabinet Committee for Investment Coordination and the NEDA Board.

The design of the proposed MRDP responds to the key findings and recommendations in the recently completed Rural Development Strategy for achieving rural growth and poverty alleviation, on which there is agreement between the Government and the World Bank, and which also benefited from consultations with members of civil society. A long term approach is necessary for securing sustained growth in the agriculture sector, focused on strengthening rural public investment programs (supporting the implementation of the Agriculture and Fisheries Modernization Act), improving the institutional framework which supports rural development (reinforcing the implementation of the Local Government Code), and ensuring that rural communities are closely involved in the design and implementation of public investment programs intended for improving their livelihood. Taken together, these initiatives aim to support the Government's key objectives of tackling poverty and ensuring food security. The program responds to the priority placed by the Government on Mindanao, which accounts for nearly a third of the country's rural poor, and has comparative advantages and an untapped potential for increasing agricultural sector growth; traditionally, the island is viewed as the food and raw material supplier for the country.

In preparing the program, an effort has been made to seek the direct input of the participating local governments and communities from an early stage. The Government identified the first two provinces and 11 municipalities, based on agreed criteria (which emphasize LGU class, its poverty profile, and the relative importance of the agriculture sector to the provincial economy), on the basis of which project preparation has been conducted; additional provinces are being added to the program following criteria detailed below. A wide ranging Social Assessment has been completed in the initial two provinces which has highlighted community concerns and priorities and which has guided the design of the program. Project preparation has been led from, and carried out entirely within Mindanao (with the establishment of the Program Management Office prior to start of preparation work; this will change to Program Coordination Office once implementation commences). In addition, the provincial LGUs established counterpart teams which, together with staff from the municipal LGUs, have worked on project preparation.

Recognizing that poverty alleviation requires sustained long term involvement, as does institutional capacity building, the MRDP is designed as a long term APL Program, covering 12 to 15 years, involving 4 APLs (each covering between 3 to 4 years). At the end of the second year of each APL (or once 60 percent of the Bank Loan for that APL is disbursed, if earlier), a detailed mid-term evaluation of implementation would be carried out, with a view to making adaptations if necessary, and for guiding the design of the next APL. A strong focus on M&E is an integral part of the APL's design, and a component to strengthen local LGU capacity, as well as to support community based M&E, is included in APL1. This approach emphasized learning by doing, which will allow for continuous adjustments to project design based on lessons learned from implementation, early identification of problems and risks, and the implementation of corrective measures as geographic coverage expands. In addition, its is proposed that participating provincial/municipal LGU would receive a declining percent of the Bank Loan on grant terms (i.e. increasing costs to be borne by the LGU), as it continues its involvement in succeeding APLs. The proposed design of the program is set out in the attached annex.

We believe that the MRDP, as we have designed it in close consultation with the rural communities, participating LGUs and the World Bank, would provide excellent opportunities for both the national government agencies and the LGUs, for reinforcing the intent and implementation of the 1991 Local Government Code, and for alleviating poverty in the rural areas within the overall context of enhancing agricultural and fisheries productivity in Mindanao. It is then imperative that the development efforts we are currently doing in Mindanao be immediately supported by the poverty targeted interventions of the MRDP.

Very truly yours,

EDGARDO J. ANGARA
Secretary

Annex To Letter of Sector Development Program

APL 1: Would initiate the program in a relatively small group of about 5 provinces, for testing out and initiating a process of engaging LGUs and rural communities in designing and implementing a rural development program, in close association with the concerned national government agency, developing an implementation strategy, and establishing a mechanism for scaling up the program in the succeeding APLs.

APL 2: Would provide for expanding the geographic coverage of the program across Mindanao, to provinces and municipalities which meet eligibility criteria; the program would be deepened in the APL1 provinces by enlarging the scale, and also ensuring that all eligible municipalities are included. Consideration could be given to including a rural communities health component.

Triggers for moving on to APL2:

- Project Preparation to be initiated once 60 percent of the APL1 Loan has been disbursed. Social Assessment of the next group of provinces, which express interest in participating and meet eligibility criteria, to be completed.
- APL2 Loan to be approved by the Bank once 80 percent of APL1 Loan is disbursed, and the balance is substantially committed.
- Institutional arrangements for implementation tested out and adapted based on experience; multisectoral committees for the CF operating satisfactorily.
- Overall satisfactory performance, using the mid term evaluation as a basis for assessment (key elements for assessment will include adequacy and timeliness in providing counterpart funds in APL1 LGUs; improved arrangements for routine road maintenance sourced from increased budgetary allocations by LGUs; completion of at least 60 percent of proposed infrastructure program in a particular province for its continued involvement in APL2; improved rural development planning and allocation of budgetary resources by LGUs, with community involvement; greater integration of DA programs into LGU RD plans, synchronized through the regular planning and budgeting process and schedules).

Criteria for selecting new provinces where project preparation can be initiated for APL2 are given below:

APL 3: Would continue support for all provinces covered under APL2, and complete the coverage across Mindanao, to the extent that some provinces or municipalities remain outside the program due to their inability to meet eligibility criteria. It would focus on deepening the program by ensuring that all eligible municipalities are fully engaged.

APL 4: Would focus on reinforcing the key thrusts underpinning the overall program, and in securing both program and more importantly, institutional sustainability of the developments undertaken in support of increasing agricultural production and alleviating rural poverty.

Triggers for moving on to APLs 3 and 4:

- Project Preparation to be initiated once 60 percent of the ongoing APL Loan has been disbursed. Social Assessment in eligible provinces and municipalities to be completed.
- Bank approval of new APL Loan to be done once 80 percent of the ongoing APL Loan is disbursed, and the balance is substantially committed.

- Acceptance by LGUs already participating in the program, of increased cost sharing on project supported activities (as reflected in proposed or approved budgets, etc.); increased share of RD activities funded from central DA budget integrated into LGU financial and investment plans.
- Overall satisfactory performance, using the mid term evaluation as a basis for assessment of key performance indicators (similar to those mentioned above, plus, more importantly, degree of initiative by LGUs for instituting concrete mechanisms for sustainability of institutional arrangements initiated under the MRDP).
- Provincial LGUs already participating in the program (under APLs 1 and 2) should have rural development plans in place (see component on Strengthening LGU RD Planning), which are linked to annual budgetary allocations. This should provide the basis for designing continued program support for these LGUs.

APLs	Impln. Period	Estim. Cost	Bank Loan	GEF
APL 1	January 2000 – June 2003	US$41.0m	US$27.5m	US$1.25m
APL 2	January 2003 – December 2006	US$150m	US$90m	US$3.50m
APL 3	July 2006 – June 2010	US$200m	US$100m	US$4.75m
APL 4	January 2010 – June 2013	US$160m	US$72m	US$4.50m
Total		US$550m	US$290m	US$14.0m

Note: The proposed timing and amounts for APLs 2 to 4 are tentative, and will be subject to a full appraisal process. In preparing the above projections, it is assumed that 18 provinces and 218 municipalities will participate in APL2, and 24 provinces and 315 municipalities in both APLs 3 and 4. Share of Bank Loan financing in total project costs is assumed to decline from an average of around 70 percent in APL1, to 60 percent in APL2, 50 percent in APL3, and 45 percent in APL4.

Eligibility Criteria for LGU Participation

The initial group of LGUs shown below (provinces, and respective municipalities), which formed the basis for project preparation, and where program implementation will commence in Year 1, were selected by the DA and NEDA, primarily on the basis of: firstly, the province having an agriculture sector of sufficient diversity to represent Mindanao (including having coastal municipalities); and secondly, the municipalities selected, as shown below, were Class 4 to 6 LGUs.

- **North Cotabato Province**: Aleosan, Banisilan, Antipas, Libungan, Arakan
- **Sultan Kudarat Province**: Kalamansig, Sen. Ninoy Aquino, Lutayan, Lambayong, President Quirino, Columbio.

The regional heads of national government agencies (NEDA, DILG, DA) from the six regions of Mindanao, as well as from ARMM and MEDCO, met in November 1998, and agreed on criteria while selecting the following additional three provinces for inclusion in APL1: Agusan Sur, Maguindanao and Compostela Valley. This would result in four regions participating in APL1, and consequently, at an institutional level, facilitate the geographic expansion of the program in subsequent APLs. If certain LGUs do not perform, and APL1 implementation performance suffers as a result, other provinces and municipalities can be brought in to replace the original LGUs; this would require the endorsement of the Program Management Board.

The criteria for bringing in additional provinces (and municipalities) into APL 1 (and establishing a ranking, if necessary for project preparation purposes, among provinces expressing interest in participating in APL2) include the following:

- Preferably allow for one province per Region, which will facilitate quicker replication within each Region.
- Provincial LGUs should be willing to allocate financial, staff and other resources for undertaking project preparation; and commit themselves to facilitating, and participating in carrying out a Social Assessment.
- Within a Region, preference would be given to the province with the highest levels of poverty, as evidenced by rural poverty incidence and rural poverty magnitude.
- Preference would be given to provinces with a higher potential in agriculture and fisheries, and with very limited or no similar externally financed project as MRDP.
- Ability to service debt – projected annual debt service for next 3 years is less than 50 percent of development fund.

Assessing Implementation Performance

The program will implement a strong M&E system, closely linked to enhancing LGU capacity in this area, and putting in place an effective mechanism for assessing performance within the context of the proposed APL program. In terms of capacity building, training courses, workshops as well as technical assistance for LGUs will be provided. The key areas to be monitored includes the following:

- Rate of implementation progress (eg., no. of kilometers of roads rehabilitated within a period of time, increase in the no. of irrigated areas irrigated, etc.)
- Processes which result in increased involvement of communities in the decision making process (eg., description of the mechanisms in which village level decision making is arrived at in determining investment priorities and in managing community-based resources at the village level, etc.)
- LGU plans becoming more responsive to broad community priorities (eg., greater level of satisfaction among communities in the delivery of devolved agricultural and fisheries support services, etc.)
- DA programs and budgets being integrated into LGU plans (eg., increasing yearly DA budgets which are incorporated into devolved agricultural and fisheries support services, increasing role of LGUs in performing and delivering devolved activities, etc.)
- Direct impacts on beneficiaries from different components (eg., increase in on- and off-farm incomes among targeted communities, improvement on access to basic services and markets, etc.)

Independent evaluation studies would be conducted at specific program milestones in order to assess effects and impacts of interventions, as well as to consider adaptations to the program. Baseline data would be collected at the provincial, municipal and community levels prior to implementing the various program components in order to provide the basis for assessing the effectiveness of program interventions.

Annex 1 (b)
Philippines: Mindanao Rural Development Project
Social Assessment

1. Social Assessment (SA) led MRDP preparation activities. The Social Assessment was implemented to ensure that project areas were appropriately selected, project objectives and strategies were responsive and acceptable to the intended beneficiaries, and feasible within the subject areas' social, political and institutional contexts. Further, the Social Assessment examined the experiences of the various communities in their own development activities to see where the Project can build upon. Social Assessment data collection focused on two provinces for project preparation and will be conducted in the three additional provinces for their participation in APL 1. The first Social Assessment in Cotabato Province (population 862,666) and Sultan Kudarat Province (population 522,187) conducted a total of *1,350 household surveys* from 90 barangays in 20 municipalities and *120 focus group discussions* from 60 barangays involving some 2,000 community residents. Barangays were selected such that they represented the various types of agro-ecological systems found in Mindanao: mountainous, rolling, lowland, marshlands, and coastal. Municipalities selected for the Social Assessment came from both 4th to 6th class (50%) and from 1st to 3rd class (50%). Secondary data was also used. Similar Social Assessment with improved questionnaires and smaller sample size are being initiated in the three additional provinces (Agusan del Sur, Compostela Valley and Maguindanao) in APL 1.

2. The Social Assessment was conducted with the active involvement of the local government units (LGUs), which provided counterpart resources and staff. The latter worked effectively with the two area-based institutions which implemented the Social Assessment: a non-government organization, CADTEC, which was responsible for conducting the qualitative focus group discussions, and the University of Southern Mindanao which was responsible for the quantitative household surveys. A series of *participatory planning workshops* were conducted in various municipalities where the key findings of the Social Assessment were presented to municipal and barangay management and legislative officials. The close partnership with LGUs in the conduct of the Social Assessment has generated a strong sense of local ownership for the Project.

Social Assessment Key Findings.

3. In 1997, Cotabato and Sultan Kudarat (SK) were classified as among those with the highest poverty incidence in the country with 52.9% and 50.6% respectively as against the country's 32.1% poverty incidence. The two provinces are similar in terms of manpower and natural resources Their geography is mainly mountainous and rolling plains with 80% in Cotabato and 53% in SK. Agriculture is the main occupation of more than half the population.

4. Corn is the main crop planted across all ecosystems, especially in the rolling and mountainous areas, while rice is widely planted in the irrigated lowlands. In SK, farmers are increasingly growing coffee in the rolling terrain. SK farmers in the coastal areas plant coconut trees and augment their income through fishing. According to the study, more than 60% of farmers cultivate less than half of their entire farm.

5. Inadequate infrastructure services cited as a major concern by communities, include the virtual absence of access roads in the rolling and mountainous areas (especially those connecting the sitios to the barangay poblacion), farm to market roads (55% are earth roads) which become unpassable during the rainy season, and the poor condition of existing ones in the lowlands. The poor road conditions contribute to high transport costs for the farm produce and create problems for women and children in accessing health and school facilities and services. In both provinces, less than 50% of the population have access to potable water. This contributes to infant morbidity rates caused by diarrhea and other

water and sanitation-related diseases. Irrigation facilities in both provinces are mostly concentrated in the lowlands. About 55% of the total irrigable area of the two provinces, covering some 113,566 hectares, have untapped agricultural potential in the absence of irrigation facilities. Electricity is available only to 46% and 26% of the total households in Cotabato and Sultan Kudarat respectively.

6. Farmers cite the lack of capital to adopt technology packages and improved farm inputs (seeds). The adoption of more productive and efficient technology is further hindered by other factors such as inadequate post-harvest facilities, farm tools, draft animals (carabao) and the high cost of credit. To acquire capital for farm inputs and tools, farmers depend on traders and usurers charging exorbitant interest rates of 17%-20% a month. They are unable to access loans from formal lending institutions like banks because of the stringent requirements of these institutions; whereas traders/usurers offer them credit lines without any collateral requirements. Further, traders send their agents (locally called "snipers") directly to the farms, making them the most accessible source of credit in the remote areas.

7. Coastal communities, considered one of the poorest among agricultural communities, indicate the need for undertaking measures for improving their incomes from fishing and other coastal activities. This in turn suggests the need for improved coastal and marine resources management with emphasis upon community-based conservation of critical habitats, and introduction of sustainable fisheries management and control in coastal waters, which should lead to improving the availability of fish resources in local waters.

8. Many communities in the rolling and mountainous areas have very limited access to basic health services as reflected by the leading causes of morbidity and mortality rates (diarrhea, bronchitis and pneumonia). These ailments are supposedly preventable diseases but the acute lack of health personnel and other medical services, particularly in the mountainous areas compound health problems. Education offered is mostly primary level, except in the lowlands where secondary schools can be found. In the rolling and mountainous areas, the multi-grade system is practiced, wherein one teacher simultaneously handles two or more grade levels in one classroom. Schools in these areas are oftentimes inaccessible during the rainy season, when bamboo bridges are destroyed by floods. Further, facilities are acutely lacking, with 1 table being shared by 5-7 children while 1 book is shared by 8 children.

Table 1: Cotabato Community Priorities
MRDP Survey 1998

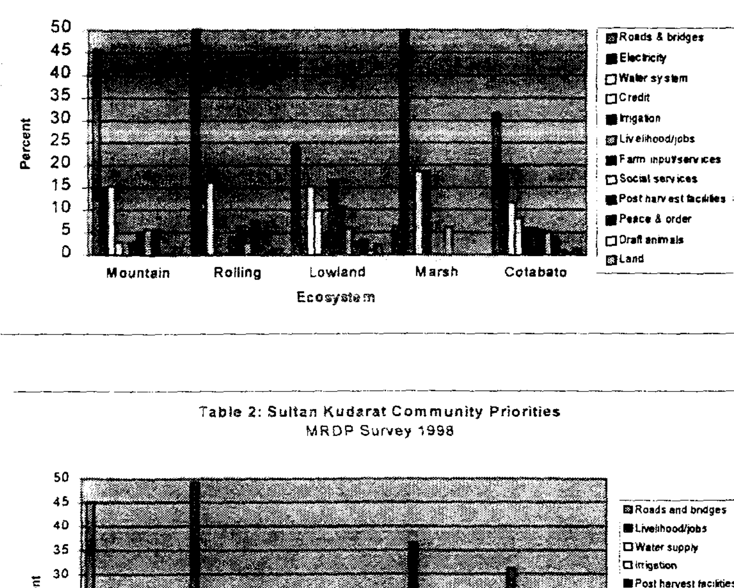
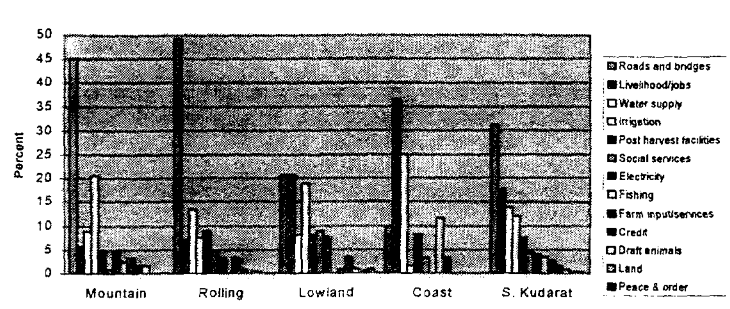


Table 2: Sultan Kudarat Community Priorities
MRDP Survey 1998



9. Indigenous Peoples. Among all ecosystems, the communities in the mountainous areas have the least access to all infrastructure, agricultural inputs and other support services and basic social services Among all

ethnic groups, the Indigenous Peoples (IP), living in the rolling and mountainous areas, are evidently the poorest. The tribes verbalize feelings of inferiority as compared to their non-IP neighbors, and indicated fears of gradually losing control over their ancestral lands.

10. Women Concerns. Women assume multiple burdens (reproductive and economic production roles) and are the most stressed during periods of low income, food scarcity and occurrence of natural and man-made calamities. Income-generating opportunities for women are few and projects not sustainable; livelihood projects such as dressmaking and stuffed toys reach as far as the training stage only. Compared to other livelihood projects, women consider animal production as most beneficial and with the greatest potential for generating additional income. Women raise hogs and goats not so much for their meat and milk but as a source of cash for paying school fees, family health care, and general family expenses.

11. Community Priorities (refer to charts on previous page). Based on the survey and focus group discussions conducted, rural infrastructure is the number one priority of all communities, regardless of typologies, gender and ethnicity. On top of the infrastructure needs is the construction of access roads and bridges (especially in the rolling and mountainous areas where sitios are not even accessible from the barangay poblacion), and repair/rehabilitation of existing barangay roads. Potable water supply ranks second, while irrigation systems construction/rehabilitation, and electricity follow suit.

92. Agricultural inputs and other support services are second priority, under which, post-harvest facilities, credit, government support price for goods and marketing assistance, farm inputs and extension services are identified as most needed. IP communities, however, indicated farm animals (carabaos) and other farm implements as first priority. While sharing the communities' perception that roads are the most essential project inputs to facilitate development within their areas, women consider potable water supply, livelihood opportunities, health and quality education services as priority needs to be addressed.

103. Community Collective/Development Experience. The lowland and coastal communities are more exposed to development projects, as shown by the number of community projects implemented in their areas. As a result, their participatory development experience is much wider as compared to their counterparts in the rolling and mountainous areas. Among all government projects implemented, solar dryers and multi-purpose payments are appreciated across all ecosystems. Some weaknesses in the delivery process have been noted, among which are the inappropriate location of some constructed facilities, absence of clear-cut guidelines relative to its utilization, operation and maintenance, and poor quality of construction work. Hogs and cattle dispersal, seeds/seedlings distribution are likewise appreciated, although negative perceptions associated with the projects' "biased" distribution system and the poor quality of some animals/seedlings which are provided greatly affected project success/sustainability. As indicated in the focus group discussions, the number of development projects thin out as one goes up to the rolling and mountainous areas. People's participation in these community projects is mostly limited to the projects' implementation phase with no participation in planning and design. They contribute labor, food, sites for project facilities, locally available materials (bamboo, gravel, sand, coconut trunks/lumber) and allocate time for meetings.

114. Community Willingness to Participate. The Social Assessment found that all groups were willing to contribute for projects to be implemented in their areas. Their contribution can be in the form of some free labor, reduced daily rates for paid labor, locally available material, some right-of-way, food during construction, time to accompany project staff, clearing proposed road routes and data gathering. According to the IPs and Muslim communities, there is nothing in their culture or traditions, which may affect their successful participation in any project which will benefit their communities. IP communities value consensus, engage in communal activities, sharing of resources and are generous (which, they say,

lowlanders, take advantage of). Contrary to popular beliefs, IPs are currently slowly moving into crop production farming systems.

Conclusions and Recommendations

125. In response to the key issues highlighted by communities and LGUs during the Social Assessment consultation process, MRDP has proposed the following three components for the design of the first phase, APL 1. *Rural Infrastructure*: This will include support for (i) rural and farm-to-market roads, taking a network approach for the province as a whole in the definition of the component; (ii) rehabilitation of communal irrigation systems; and (iii) rural water supply schemes. *Community Funds*: Given the variety of needs and demand expressed by communities during the Social Assessment, and the fact that these differ between communities within a municipality and a province, it is proposed that community funds be made available at the municipal level to finance sub-projects identified by communities themselves, which fall within an agreed menu of investment and services related to agricultural development. From within the community funds, a specified share will be earmarked for supporting targeted groups and communities, such as rural women and IPs. *Institutional Development*: This component is expected to provide implementation support for LGUs, and improve their capacity in managing decentralization and local autonomy. In addition to these three components, a *Coastal and Marine Biodiversity Conservation Component* of the program is being supported using a grant from GEF.

136. *Other Recommendations*. The Social Assessment findings indicate that the poor in both provinces totally depend mainly on corn for their subsistence. There is an urgent need to address their continuing marginalization, while taking into consideration the observation that the high soil erosion rates noted in both provinces is attributable to corn production in the rolling and mountainous areas. Alternative crops and sustainable farming systems must be developed, with the close collaboration among the agricultural research institutions, non-government organizations, the LGU agricultural staff and the target communities. Another specific intervention which can have greater impact on the poor is in improving fish production, processing and marketing in the coastal areas of Sultan Kudarat. Some aspects of community needs can be supported by the community funds (e.g., dryers and storage) but other aspects cannot be tackled piecemeal but require systematic interventions in an integrated manner.

17. Given the negative feedback relative to community projects implemented in their areas, MRDP, as a policy, must promote accountability, transparency and openness during implementation, and demand political participation for all stakeholders. Setting up mechanisms to ensure operationalization of these implementation policies will prevent occurrence of such negative perceptions and build support for the gradual internalization of new behavioral processes which the Project hopes to institutionalize.

18. The Community Fund has a strategic importance to poverty alleviation in the long term. The guiding principles underpinning the project's design, aim to ensure the meaningful participation of target beneficiaries in decision-making activities all throughout the project design/execution stages; this should eventually lead to "enabled" communities capable of pursuing other projects basic to their development. Towards this end, the LGUs must partner with support institutions, such as NGOs, the tribal associations, peoples organizations, the religious and academic institutions skilled in community mobilization and leadership development. Using the results of the Social Assessment, these groups must continue the momentum gained in community mobilization, and enable communities to plan rationally the priority projects, organize and mobilize sub-groups for the project implementation activities, and develop plans for the subsequent operation, maintenance and expansion of the services they will derive, as a result of accessing the Community Funds. The quality of the organization work implemented by the partnership will eventually spell the difference between failures and successes.

Annex 2 (a)
Philippines: Mindanao Rural Development Project
Rural Infrastructure Component

The table below outlines the scope, in physical terms, of the proposed rural infrastructure component (US$27.4 million). In addition, the project will selectively provide for capacity building of local institutions, linking it closely to physical implementation.

Component	Estimated Quantity	Maximum Unit Cost	Number of LGUs	US$ million
A. Rural Roads/ Access				**16.9**
Provincial roads	40 km	$75,000	5 provinces	
Provincial 2-lane bridge	100 lm	$6,250	5 provinces	
Routine maintenance		$1,250/km	5 provinces	
Municipal FMR	460 km	$20,000	32 municipalities	
Municipal FMR 1-lane bridge	750 lm		32 municipalities	
Municipal FMR routine maintenance		$750/km	32 municipalities	
B. Rural Water Supply	140 units	$8,750	32 municipalities	**1.4**
C. Communal Irrigation				**8.5**
CIP (new schemes)	855 ha		5 provinces	
CIS (rehabilitation)	4,350 ha		5 provinces	
D. Capacity Building				**0.6**
Total				**27.4**

The rural infrastructure component targets 32 municipalities, in the 5 provinces of **Cotabato, Sultan Kudorat, Maguindanao, Agusan Sur, and Compostela Valley**. The Year 1 program has been designed within the initial two provinces of Cotabato and Sultan Kudarat. The 11 municipalities involved in Year 1 (selection based on guidance provided by NEDA in the earlier stages of processing) are the following:

- **North Cotabato:** Aleosan, Banisilan, Antipas, Libungan, Arakan
- **Sultan Kudarat:** Kalamansig, Senator Ninoy Aquino, Lutayan, Lambayong , President Quirino, Columbio

A. Rural Roads/Access (Base Cost-US$15.68 million)

Strategy for rural roads The Social Assessment in the project target area indicated the high priority given to rural roads by rural communities as is often the case in poor rural areas. Given this clearly articulated need, the project includes rural roads, even though presently there is no explicit national government strategy for rural roads in the Philippines. The NEDA has requested the World Bank to assist with the development of a strategy for rural roads, and this work is ongoing, and results will feed into the subsequent phases of the APL. Since the project team recognizes that some of the sector issues are contributing to the low quality of the rural roads, the project aims to utilize several aspects which are considered to be good practice in development of a sustainable rural roads sector, and will be able to test some aspects of the proposed strategy as it develops.

An important objective of the project is to facilitate implementation of the Local Government Code which designates *inter alia* responsibility for farm-to-market roads to the LGUs. With a large share of funding for farm-to-market roads presently coming from a variety of national government sources, particularly Department of Agriculture (DA), the current method of implementing farm-to-market roads is essentially a centralized government implementation approach sometimes utilizing DPWH which does not always fully involve the relevant LGUs. These central agencies then typically hand-over the completed project to the LGU for maintenance. This disconnect between the implementer of the works and the agency responsible for maintenance leads to lack of commitment to undertake maintenance. The project will implement in line with the Local Government Code which designates authority for rural roads to the LGUs.

The table below outlines how the project moves from the current situation to improved aspects of infrastructure management.

CURRENT SITUATION	WITH PROJECT
* Centralized management and implementation by national government agencies such as DPWH and NIA	* Decentralized management and Implementation by the responsible local government unit
* By Force Account	* By Contract
* By Equipment	* By labor based equipment supported
* Heavy equipment purchased by LGUs	* No equipment purchase for road works
* No Routine maintenance	* Project setting up routine maintenance structure
* Limited Planning; Prioritization	* Selection criteria; network approach
* Ownership not designated	* Ownership being clarified: provincial, municipal, community

Description of component The proposed rural roads component will rehabilitate designated i) Provincial roads and ii) "Municipal/barangay farm-to-market roads (FMR)", both of which are the direct responsibility of the relevant Provincial and Municipal Local Government Units (LGUs) respectively. Farm-to-market roads are defined as designated roads below the Provincial roads leading from the farm-gate to Provincial, National or Municipal town roads. National and sub-national roads, which are under DPWH responsibility and supported through other programs, and the municipal town roads are not included in the project. The community footpaths and footbridges which fall beyond the designated network will be financed under the Community Fund component of the project, based on community expressed demand.

As outlined in the table above, the project would provide support for an estimated minimum of 40 kms of provincial roads (and around 40 linear meters of bridges); and around 460 kms of municipal roads (together with about 750 linear meters of bridges) covering 5 provinces. Upper unit cost limits are indicated. The project aims to encourage LGUs to implement at lower cost by giving a fixed amount of funds thereby allowing a greater length to be implemented if done at lower unit cost. Importantly, the project will adopt a network approach (taking the province as the unit for planning purposes), and strengthen local capacity in doing so, while prioritizing the proposed investments on farm to market roads. The selective improvement of provincial roads will ensure that all project supported FMRs meet an essential criteria that they link up with an existing all weather road. There will be no new road construction but rather rehabilitation and maintenance, and in the case of provincial roads, upgrading to bituminous surfacing where justified. The provincial roads will be 6 m wide and farm-to-market roads 4 m wide.

Selection criteria The year 1 works were proposed by the LGUs at workshops held in January 1999 and satisfy the criteria set out below. The program of works for future years will be selected by a local committee to be established by the LGU (possibly use a subset of members from the multisectoral committee to be established for the Community Funds component), which will include representatives from the private sector – farmers, transporters, civil society, to ensure that planning of investments serve the real needs of the users. The selection criteria include:

- FMR must link into an existing all weather road;
- It must be a vital link from existing or potential key production areas in target municipalities; for provincial roads, it must lead to target municipalities;
- They must have sufficient traffic: for provincial roads proposed to be upgraded from gravel to asphalt (or concrete), minimum 200 vpd to be considered; for municipal/barangay farm-to-market roads, minimum 50 vpd to be considered (may convert pedestrians, etc to pcu);
- Must have minimum Economic Rate of Return ERR of 15% (NEDA requirement);
- Unit cost must not exceed the following amounts:
    * Provincial roads : PhP 3,000,000/km (US$75,000/km)
    * Municipal/barangay farm-to-market road: PhP 800,000/km (US$20,000/km).

Environmental Impact and Land Acquisition and Resettlement All roads will follow current alignments thus minimizing potential environmental impacts and land acquisition. An Environment Impact Statement has been prepared for the year 1 roads. A Land Acquisition and Resettlement Policy Framework, which has been prepared, clearly lays out the conditions and compensation entitlements in accordance with the Bank's OD 4.30. The guidelines and forms for required information will be in the Operation Manual of the Program. Inventories for the first year infrastructure program have been collected by the PCO.

Implementation arrangements The specific arrangements are given in the implementation manuals, and can be summarized as follows:

Provincial roads - Provincial LGU:

Detailed engineering and preparation of bidding documents	Provincial Engineer (PE)
Bidding Process and award of contract	PPDO and PBAC
Supervision of contract	PE

Municipal/barangay farm-to-market roads - Municipal LGU:

Detailed engineering and preparation of bidding documents	Municipal Engineer (ME)
Bidding Process and award of contract	ME & MPDO
Supervision of contract	ME

The detailed engineering, bidding and supervision will be done by the LGUs. Where capacity is limited at the Municipal LGU, they may call on the assistance of the Provincial LGU or on the services of a consulting firm to be on recruited on a retainer basis through the Program Coordination Office (PCO). The average size of a contract is expected to be about US$100,000. with a 5 month implementation period, preferably in the dry season (February to July).

Labor The minimum regional wage is PhP 120 per day (US$ 3 per day equivalent), thus making use of labor-based methods economic (the threshold is normally US$ 4 per day, below which labor-based is considered economically viable). Given that high levels of unemployment and under-employment prevail in Mindanao, the design of the project will encourage the use of labor-based road construction. The roads will be designed to encourage a greater use of labor by the contractors (trapezoidal drains rather than V shaped drains are specified), and the size of the contracts which are generally less than USD$100,000 per contract will encourage smaller contractors who find labor preferable to hiring equipment. The decentralized implementation should ensure faster payments than centralized implementation, and this is important for encouraging small contractors. The percent of labor in the cost of works is targeted at 50 percent (currently it is about 35 percent). The option of imposing labor-based construction was not considered to be workable; there have been several such projects in the past in Philippines which remained as donor driven pilots and were never successfully mainstreamed. Thus this proposal of designing the project to make use of labor-based the most economic solution was chosen. A public information campaign will also be used to highlight to contractors and implementing agencies the benefits of labor-based construction. If it is determined that after the first year contracts these targets are not being met then the contract structure will be reviewed and specific requirements may be considered.

Gender impact The social assessment indicates that the lack of income opportunities constrains women, and they emigrate to seek menial employment in town centers. The project will include a public information campaign in the beneficiary community, once the contract has been signed and before the recruitment of labor is started, to inform women of the contract and when to apply for the jobs. Current legislation specifies that of the labor required for a contract, 70 percent be recruited from the beneficiary community. The target for participation by women is 25 percent of the labor. If it is determined that after the first year contracts this target is not being met, then the contract structure will be reviewed and specific requirements or quotas may be considered.

Economic impact All year 1 municipalities have completed traffic counts on the proposed farm-to-market roads. The traffic counts included all Non-Motorized Transport i.e. pedestrians and animal drawn carts. Indications are that the traffic levels are high enough to justify the proposed interventions. Further economic analysis is discussed under the Annex 4.

Operations and Maintenance The project emphasizes routine maintenance, seeking a commitment to undertake routine maintenance from the participating LGUs, with sanctions for non-performance (LGUs not fulfilling this commitment will not be eligible for the following years program). The cost of routine maintenance is included in the project cost and will be financed by the LGUs. Currently, the LGUs have little experience with routine maintenance, but rather use their funds to respond to rehabilitation and emergency maintenance needs. They are however committed to the routine maintenance but have little understanding of what it actually is. Therefore the project will work with demonstration sections assisted by technical assistance to demonstrate the positive benefits.

The cost of routine maintenance of those roads currently in good condition are included in the project costs from Year 1 at a unit cost of PhP50,000 /km/year (US$1,250/km/year) for provincial roads and PhP30,000/km/year (US$750/km/year) for farm-to-market roads in the target municipalities. Each LGU will be required to identify a 2-3 km test stretch per year. This will be audited to determine that the maintenance was undertaken. Each year another stretch will be added thus increasing the stock of roads under routine maintenance by the end of the project. Each LGU has on average 50 km of roads, thus the project will ensure maintenance of about up to 25 percent of the road stock and also will show a demonstration effect with the idea that the LGU may add to this stock voluntarily. The project will test out different approaches for introducing routine maintenance. A technical assistance component will be used to assist the LGUs; the options of developing Small and Medium Enterprises or using the "length man" system will be explored.

Monitoring and evaluation

Indicator	*Measurements to be done "before" and "after"*	*Unit*	*Responsibility*
Increase in traffic levels	Traffic count	ADT	PE/ME
Reduction in travel time	Travel time survey over length of road	Km/hr	PE/ME
Reduction in passenger fares	Review of fares on skylabs and jeepneys *	Pesos/ trip	PE/ME
Reduction in goods transport costs	Review of charges for an item of produce e.g. rice *	Pesos/ ton	PE/ME
Condition of road network in target areas	Condition survey to determine % good, fair and bad	Percent %	PE/ME

Note: * In these cases a non-project road in the vicinity will also be monitored since transport fares can change due to outside influences as well.

B. Rural Water Supply (Base Cost - US$ 1.29 million)

Description The provision of safe potable water was identified in the social assessment as a major concern for rural communities. A number of communities have been provided with schemes through the national and local government units. The project will support continued rehabilitation and construction of Level I (point source) and II (communal faucet) spring development projects. There are on average 18 barangays per municipality. Some have existing water supply systems which need rehabilitation work of less than P 350,000 (US$ 8,750). Some barangays have no potential spring source and will be provided with artesian wells possibly under the Community Fund component. These point source Level I artesian well costs about PhP 100,000 (US$2,500) per unit and will be targeted in Class 5 and 6 municipalities.

Implementing arrangements: These will be implemented by Municipal LGUs with community labor input, as is currently the case. Rural/Barangay Waterworks and Sanitation Associations (RWSAs/BWSAs) are currently the beneficiaries of the LGU water supply projects, and water charges are levied by then for the operations and maintenance of the systems. The establishment of such committees will be a pre-condition of support to the rural water supply and sanitation sub-projects.

Selection criteria

- Class 5 and 6 municipality; or high incidence of poverty.
- Proposed sites must have a reliable water supply throughout the year.
- Water sample must be free from any contamination and certified safe by the Department of Health or local health officer etc..

C. Communal Irrigation (Base cost US$6.68 million)

Description The project, under APL 1, will support the rehabilitation of the community owned and managed run-of-river communal irrigation schemes (CIS), as well as, the construction of a few new communal irrigation projects (CIP). The priority shall be given to the CIS. The CIP shall be limited to relatively smaller schemes where sufficient water is available in close proximity of the proposed service area, where long canals from the source are not required and where there are no difficult right of way acquisition problems. The Provincial Irrigation Office (PIO) of the National Irrigation Administration (NIA) will be responsible for implementation.

Selection criteria

- The project would exclude the rehabilitation of the irrigation systems which were completed or rehabilitated within the past five years, except those damaged by natural calamities, and where the work involves completion of remaining works which could not be implemented due to shortage of funds.

- The schemes with more than 20% land still eligible for redistribution under the land reform program would be included only after emancipation patents had been issued.

- The scheme should serve at least 20 farmers. The largest scheme would be not more than 500 ha. For larger schemes, Irrigation Associations (IAs) will be required to engage full-time professional management. The upper limit for professionally managed schemes would be 1,000 ha.

- As the project targets small-holders, the average farm size in the scheme should not exceed 3 ha.

- The farmers should be actively involved in preparing the proposals and concur with the provisions in the feasibility study. The concerned Province and Municipality should concur with the inclusion of the scheme under the project, and the works proposed in the feasibility study.

- The expected cropping intensity should be more than 150%.

- The service area of the scheme should have soil and slopes suitable for the proposed irrigated crops.

- For CIS, the IA should not be in default on payment of the amortization.

- For CIP, there should be no quarrying of gravel from the source stream within one Kilometer downstream of the dam.

- CIS: the average cost not to exceed P40,000/ha (US$1,000/ha)
  ceilings of P75,000/ha (US$ 1,875/ha) for individual schemes;
  in areas of high value crops, ceiling of P100,000/ha (US$ 2,500/ha)

- CIP: the average cost not exceed P90,000/ha (US$ 2,250/ha)
  Ceiling of P130,000/ha (US$ 3,250/ha) may be considered;
  in areas of high value crops, ceiling of P160,000/ha (US$ 4,000/ha)

The economic rate of return (EIRR) not less than 15%,

Schemes which conform with the above criteria have been identified for all five provinces, and their inclusion in the project agreed by NIA Head Office and the provincial LGUs subject to the results of feasibility studies. The Year 1 implementation program is based on the completion of feasibility studies by NIA.

Main Technical Requirement for CIS Proposals. Though these are existing schemes, the proposals would confirm:

(a) the availability of water from the source to meet the requirements of the cropping intensity proposed after intervention under the project, and
(b) the suitability of soils for the crops proposed, specially for those CIS where water is

insufficient and explore possibilities for switching to crops necessitating less water.

The basic technical requirement would be not to treat the rehabilitation as an operation for repairs to damage. The objective of the rehabilitation shall be to improve the system fully to be able to transport water efficiently and to distribute over the service area (specially during dry years). The instruction issued by NIA Administrator for modality of operation for the World Bank-funded Second Communal Irrigation Development Project (CIDP II) schemes shall be complied with, and the feasibility studies shall specifically demonstrate what decision has been taken by IA with regard to the structures for control of water level in the canals and to supply water through each turnout only to an extent which would fulfill the requirements of its area served. Lining of canals would be permissible only in bad reaches where heavy seepage losses have been noted (and are demonstrated by tests) or where the canals pass through residential areas. The rehabilitation measures could include extension of the canal system to additional areas (provided water is not a constraint), when details for the extension area will be provided as required for CIP, and the existing Irrigators' Association (IA) concerned would certify that the farmers of the extension area have confirmed willingness to become IA members. IA shall also certify that the farmers who are likely to lose a part of their land from the canal extensions have agreed to donate their land to the IA.

Main Technical Requirement for CIP Proposals. The main technical requirements would be the same as for CIS. The objective of an efficient transport of water and its equitable distribution shall be fully met in the designs, by providing long-crested weirs for water level control and proportional dividers at turnouts or laterals for uncontrolled distribution in accordance with the area served by the turnout or the lateral. The misconception that the long-crested weirs and structures for proportional dividers could not be constructed in small canals, shall not be allowed to justify continuing with the old designs. Use of gates (if provided) at lateral heads and at turnouts shall be envisaged only for totally closing the flow and not for regulation.

Preparation of Feasibility Studies. The preparation of feasibility studies for CIS and CIP proposals shall continue to be the responsibility of the National Irrigation Administration (NIA). NIA is however, having problems with providing its Provincial Engineers (PE) adequate funds for preparation of feasibility studies to pursue a long range investment program. PE has thus been able to carry out the necessary surveys for only a few of the requests received. Only limited number of feasibility studies are available, most of which need to be updated. In case of CIS, updating requires a fresh assessment of the remedial measures since further system deterioration could occur. This project would therefore provide for funding the surveys and investigation for the feasibility studies. The preparation of the proposals for the CIS and CIP shall be carried out with continuous consultation with IA or with the group of farmers (in case of CIP where IA would not exist), and LGU kept informed. The feasibility study submitted by the PE to the Regional Manager of NIA and to Manager, Communal Irrigation Department at NIA head quarters shall have the following certification:

a) By the PE that the proposals contained in the feasibility study cover the full improvement requirements for efficient transport of water and equitable distribution over the entire service area. The mode of discharge control through turnouts and water level control adopted for system improvement or new system shall be clearly specified.
b) By the IA that it agrees with the proposals. In case of CIP and any extension proposal in CIS, IA would certify that the farmers who are likely to lose some of their land have agreed in writing to donate their lands.
c) By the concerned LGU that there is full agreement with the proposals.
The approval of the feasibility studies for implementation of works would follow the same procedures as currently followed for CIDP II. NIA central office shall forward to Bank for concurrence a summary of each feasibility study.

Implementation arrangements The implementation of the schemes would be governed by the Department of Agriculture guidelines for Poverty Alleviation Projects issued in 1996.

No.	Action	Responsibility
1	Feasibility study approved	NIA CO
2	Detailed surveys, detailed designs and drawings and submission of the Program of Works (POW), sanction and allocation of funds	PIO, RIO and CO of NIA; and LGU
3	Action to constitute the IA (CIPs) and ensure necessary training to the IA management and accelerate IA fulfilling other requirements for getting registration (CIS)	PIO of NIA and LGU
4	Memorandum of Understanding (MOA) to be signed between NIA, LGU, IA, using the formats already in use for on-going schemes.	NIA, LGU and IA
5	Implementation	NIA

Implementation mode Mostly by force account utilizing local labor and Irrigator Association participation to generate jobs, except for major works for which award of contracts to the contractor would be cost effective and faster. The procurement of contracts shall follow the Bank guidelines for "Small Contracts." The procedures for community participation contracts will apply to Irrigator Association contracts. The responsibility for quality control of works shall be exercised by NIA; LGUs will designate staff who will work closely with NIA during the design and implementation phases. The rehabilitated or constructed systems shall be turned over to the Irrigators Associations within six months of the completion of works after making trial runs to confirm proper functioning of the system including resolution of problems, if any.

Operations and Maintenance Irrigators Associations (IAs) shall be fully responsible for managing the system after turn-over, NIA providing technical assistance as well as strengthening of IA. IA shall take necessary action to maintain the work properly and operate the system to assure equity of distribution. The designated staff from the provincial LGUs (PAOs and MAO staff) would work closely with the IAs, and monitor the O&M of the communal schemes; where appropriate, they will work with the IAs in strengthening maintenance.

Financial Arrangement Funds for the implementation of the scheme would be transferred from the DA budget to MDF. At the concerned LGU request, MDF shall transfer the funds needed to NIA Central Office. The funds so received by NIA would then be passed on to PIOs concerned through Advice of Allocations and cash releases, a standard procedure in NIA. The LGU's contribution (10%) would be used to meet part of the costs, in accordance with its MOA with NIA. NIA shall determine the amount of amortization payment by each IA, and collect the amounts due, in accordance with its MOA with LGU.

Monitoring and Evaluation NIA remains in continuous contact with IA after turnover through the Institution Development Officers (IDO). Data is collected on the crops grown and yields in each crop season. No monitoring is carried out for the status of maintenance or IA activities to keep the system in good shape and to properly distribute the water. NIA's monitoring of a communal irrigation system stops when IA has completed its amortization payments. The Municipality has the role of providing agriculture extension only. Under the project, institutional strengthening is envisaged in the LGU (see below), to carry out the function of monitoring and evaluation of O&M by IAs and providing assistance for IA carrying out remedial actions to improve O&M whenever deficient.

D. Capacity Building and Technical Assistance (Base Cost US$ 0.49 million)

The assessment of the LGUs and the experience in the project preparation indicates that the LGUs have sufficient technical capacity to undertake detailed engineering, to procure contracts and to supervise the implementation of the works. Nevertheless to facilitate the implementation, in particular with regards to the implementation of routine maintenance of the rural infrastructure facilities, the program stakeholders and various implementors shall be provided with the following capacity building interventions:

Rural Infra Development Planning and Prioritization Workshop	To develop the community and LGU capacity in rational road network planning, project identification and prioritization.
Detailed Engineering (D.E.) preparation workshop	To enhance LGU capacity in the conduct of field survey works and preparation of D.E. plans, specifications and Programs of Work (P.O.W.) for rural infrastructure sub-projects.
Training in Contract Management and Procurement	To enhance LGU capacity in preparing bidding documents, conducting procurement for goods and work according to World Bank guidelines and management of sub-project implementation by contract.
Training in labor based/ Equipment supported (LB/ES) method of Construction and Maintenance or rural infrastructure	To develop the capacity of the community to participate in project implementation and maintenance as labor contractor thru the enhancement of the LGUs' skills in LB/ES technology.
Infra Physical and Financial monitoring and evaluation seminar	To enhance LGU and PCO capacity in the conduct of physical and financial monitoring and evaluation of rural infrastructure project implementation.
Training in communal Irrigation Operation and Maintenance	To enhance LGU and community capacity to operate and maintain the completed communal irrigation facilities.
Public Information Campaign	To promote the use of labor-based construction and the employment of women in road works

Annex 2 (b)
Philippines: Mindanao Rural Development Project – APL1
Community Funds for Agricultural Development
Component (Base Costs US$6.06 m)

The Community Funds for Agricultural Development (CF) aim to address the diverse priorities expressed by communities during the Social Assessment. Specific objectives of CF are: i) to strengthen decision-making capacity at community level for design and implementation of sub-projects; ii) to ensure that the Department of Agriculture's programs better reflect community needs; and iii) Local Government planning and technical assistance will reflect community priorities. CF will finance sub-projects which fall within an agreed menu of investments and services which are consistent with selected thrusts of the Agriculture and Fisheries Modernization Act of 1997 (AFMA). For APL1, the CF will be made available to 32 municipalities in the five APL 1 provinces subject to satisfactory performance, it will be made available to all municipalities in subsequent APLs, provided they meet eligibility requirements of certain poverty indicators and targeting of poor barangays. From within the CF, 40% will be earmarked for supporting communities such as indigenous peoples, and rural women.

The component would be implemented in the first year of the project in 11 municipalities. Assistance would be provided to the municipalities in setting up the systems and procedures for the component. The remaining municipalities would be covered in the second year provided they meet the eligibility criteria.

Fund Contribution:
The structure of contribution to the fund on an annual basis is as follows:
PhP 500,000 (approx. $12,500) minimum from municipality
PhP 500,000 (approx. $12,500) matching fund from DA
PhP 1,500,000 (approx. $37,500) from loan proceeds

If a municipality can raise its contribution above the minimum it will be matched equally by the DA. Beneficiaries would be required to put up a minimum of 10% of sub-project cost as equity in kind (labor and/or materials).

Funds from DA would be channeled through the Municipal Development Fund (MDF) to the municipalities account, which participating municipalities would be required to open in a depository bank using their annual contribution as initial deposit. Funds from the loan proceeds would be released against each sub-project. Funds would be disbursed on a quarterly basis following an approved CF disbursement program and actual disbursement performance. Fund releases would only be made upon certification by the Provincial Program Coordinator, the DA's Regional Field Unit Coordinator and the PCO Head.

Sub-Projects

During APL-1 implementation, CF would finance sub-projects from communities with a minimum cost of PhP 50,000 (approx. $1,300) and a maximum cost of PhP 150,000 (approx. $3,950) with some exceptions to accommodate sub-projects such as trails and hanging bridges. To be eligible, community members have to be organized as a group and present proposals which fall within the priorities of DA's national agricultural development program. Proposals which fall within a negative list will not be funded. Communities will receive the funds in the form of grants, with the scale of community contributions depending on the proposed sub-project activities. *Detailed information on project preparation, selection and implementation including project menu, negative list, etc. is contained in the Operations Manual.*

The eligibility and selection criteria shall ensure that sub-projects are demand driven and meet community preferences, and that they meet essential technical, economic, financial and social parameters outlined in the Operations Manual. The majority of the sub-projects are expected to be small and well within the technical and management capacity of the community. Where sub-projects are more technically complex (e.g., a hanging bridge), and these will be few, technical assistance will be provided by the Fund. TA at 5-6% of sub-project costs will be available.

Poor communities will be targeted and preference will be given to indigenous peoples and women. For the former, selection of community priorities and implementation approaches will be guided by the Operations Manual which will incorporate the Indigenous People's Development Guidelines prepared for the project. Preference will also be given to women in that for every two proposals a year permitted a barangay, the second must come from a women's group. Additional technical assistance will be provided to these two groups from the Fund. One of several lessons learned from previous Bank projects is that few women will participate in projects unless special arrangements are made for them.

Management

CF management will be at the municipal level. For the first year, financial management will be at the provincial level and this will gradually be moved to the municipal level based on pre-defined performance indicators. Each municipality would be required to open a CF Trust account in the nearest depository bank with current account facilities. A satisfactory financial management system covering the establishment of CF trust account with municipal contributions deposited, accounting system, provision for audit and financial monitoring will be established for each participating municipality. The institutional capacity strengthening component of MRDP will provide for capacity building of CF management by the various levels of LGU.

A Municipal Multisectoral Committee will be established for sub-project appraisal and approval. The Committee shall be composed of a maximum of 11 representatives from the government and non-government Sector. Government representatives would come from the RFU, and from the provincial/municipal LGUs. Non-government representation would come from a variety of sources: respected citizens such as religious and civic leaders, teachers and private sector persons; representatives from women's associations, cooperatives, MAFC, IP Councils, Chamber of Commerce/trades, a local University, the MDC Social Services Committee, transport operator's associations, etc.

Technical Assistance

TA will be provided by the Fund, if needed, in the preparation and implementation of sub-projects. It will follow existing practices where assistance will be first sourced from the LGU's own technical pool and then from DA and other national government agencies when sub-projects are more technically complex. Supporting institutions and NGOs will be encouraged to help communities plan and implement their sub-projects. There will be an amount of 4-6% of total sub-project cost allowed for the preparation of proposals on contract basis. Payments would be made only for approved sub-projects.

Transparency

Transparency is an important aspect of the CF component and information will have to be easily accessible by everyone. The Project information and brochures will have to be widely disseminated. The Municipal Multisectoral Group will have to ensure fair and unbiased selection of sub-projects which meet community demands and provide benefits to a large group of beneficiaries. The Project will set up mechanisms to ensure all municipalities, barangays and beneficiaries are kept informed of decisions on sub-project selections. Monthly balance statements and sub-project progress prepared by the municipality will be provided to the barangay leaders and beneficiary groups. Beneficiaries will participate in monitoring their own sub-projects. The Barangay Working Groups will post sub-project information in public places in the barangay center and in each sitio.

Review and Evaluation

In the third year of APL1, the CF Component would be reviewed to determine more appropriate mechanism and magnitudes of the component. The key areas for evaluation would cover: a) size of municipal CF allocation; b) project menu and caps; c) implementation arrangements; d) possible expansion of scope of CF at the municipal level; and e) expansion of CF for municipal and provincial levels to cover inter-barangay and inter-municipal facilities and services.

Annex 2 (c)
Philippines: Mindanao Rural Development Project
Capacity Building for Improving Microfinance Access (Base Costs US$0.33 m)

Background and Rationale. Drawing upon past experience in the Philippines, an increase in farm production alone is not sufficient to absorb the net addition to the labour force, and secure rural growth. Expansion in employment in non-farm activities is essential. A growth of microenterprises is important because of their contribution to poverty alleviation without imposing an excessive fiscal burden, by making better use of private sector initiatives and market mechanisms. The limited access to financial services by small borrowers, farm or non-farm, has constrained productive investments in these sectors in Mindanao, as in the rest of the Philippines. The results of the Social Assessment (see Annex 1b) indicated that access to institutional credit is a key constraint to investments by "small men with small causes". This conclusion was reinforced by an IFC study of microenterprises in Metro Manila and Davao City, which revealed that a significant number accessing financial resources, (37%) has borrowed from money lenders, a small number (19%) from cooperatives, and an insignificant number from the commercial banks and private development banks.

The existing microfinance institutions - cooperatives, rural banks (RBs), cooperative rural banks (CRBs), and credit-granting non-government organizations (NGOs) are in most cases characterized by poor financial performance, weak management and lack of technical skills. Credit delivery is thus hampered not only by borrowers' difficulties in meeting voluminous paper work and collateral requirements, but also by the poor performance of the formal lending institutions. Cooperatives have found it increasingly difficult to access loans from the Land Bank. A recent survey of cooperatives in North Cotabato commissioned by CADTEC indicated that about 36% of the cooperatives were able to obtain loans from the Land Bank and only 11% claimed that their members had fully repaid their loans. To reverse this trend, the Land Bank has launched a cooperative improvement program known as "key" cooperative (KC) scheme, in which a successful cooperative is identified in a municipality and assistance is provided to potential key cooperatives (PKCs) to raise them to the level of KCs. This scheme deserves support. RBs/CRBs have gone through a period of financial distress and some have weathered the storm with the benefit of a government supported rehabilitation program. Most RBs/CRBs still operate with traditional banking practices which tend to discourage new financial technology and modern market development; a majority of them have not been exposed to best international practices which would be both cost-effective and helpful in mobilizing deposits and lending profitably. NGOs have demonstrated their ability in selecting borrowers based on close monitoring and on information about their activities rather like what informal lenders do.

Commercial banks have not been active in this process voluntarily for various reasons including higher costs and greater risks in small lending. They do not offer financial services that are appropriate to small borrowers, since their minimum loan size is too high, and requirements for collateral and documentation too tough to be met by these "small men with small causes". In contrast, MFIs enjoy a comparative advantage in providing financial services to small borrowers in rural areas because of their rural location and ownership, as well as their familiarity and experience with rural communities.

The heterogeneity of the socio-economic status of the rural people and diverse nature of their economic activities would imply that the demand for financial services may not be fully met by a unique financial institution or by a uniform approach. The program will therefore support a mix of rural institutions encompassing cooperatives, RBs/CRBs, and NGOs, and will test new approaches to credit delivery.

Objectives and components. A key objective of the component is to upgrade the institutional capacity of eligible cooperatives and other MFIs in the project provinces to be able to increase their outreach, improve service quality and enhance financial sustainability. In addition, two new credit delivery approaches will be tested on a pilot scale within the project area. To achieve these objectives, the proposed program will have four principal elements:

- Support to the key cooperative scheme of the Land Bank;
- Strengthening the institutional capacity of other MFIs;
- Support to a Pilot Rural Peoples Bank (RPB); and
- Introduction of a loan agent scheme.

(a) Support to the key cooperative scheme: Training and follow-up on-site technical assistance will be provided to potential key cooperatives whose staff have participated in the training courses. The program will finance a local consultant (15 person months), a vehicle, as well as costs of training materials and cross visits. The consultant will be assigned to perform his/her tasks over three years, each year consisting of 5 continuous months. A total of 160 participants are expected to undergo training.

(b) Strengthening institutional capacity of other MFIs: The program will support training and follow-up on-site technical assistance to qualified MFIs whose staff have participated in the training courses. A local consultant (12 person months) will be assigned over three years to carry out his/her tasks in three slices, each consisting of 4 continuous months in a year. The program will also finance a vehicle, in addition, costs of training materials and cross visits will be funded. A total of 130 participants are expected to undergo training.

(c) Pilot RPB: The program will support grooming and capacity building in a successful cooperative for the first two years of the program, and transforming it in the third year into a rural peoples bank. Staff training and systems development will be undertaken with the help of a consultant during the preparatory period. The consultant will also assist in the transformation of the cooperatives into a RPB in the third year. A key element in this process is the upgrading of the cooperative's financial services capacity. This will include diversification of the cooperative's credit activities into profitable microenterprise lending so that it will be able to offset loan losses from agricultural lending against profits made from microenterprise financing. By broadening cooperatives membership to include microentrepreneurs and bringing it within the family of the financial system including the supervision, the rural financial system will be strengthened and be able to contribute to rural development efforts and enhance and diversify customer services. There is already a successful precedent with an NGO which has recently been transformed to a rural bank. A local consultant (6 person months) will be financed to carry out this task. She/he will carry out preparatory tasks in the first year over a continuous period of three months and actual transformation of the cooperative over three months in the third year. The program will also fund a vehicle, as well as computers for the proposed RPB.

(d) Loan Agent Scheme: The program will support creation of a new credit line in each of the five participating Rural Bank/Land Bank branches located in the project provinces to assist informal lenders, on a pilot scale, for on lending to small farmers and fishers and others under well defined criteria. These include: selected agents must be respected and of good credit standing in their operational area; they are limited by shortage of funds to expand outreach; area commanded by the agents has no active cooperatives or organized groups or NGOs; average loan size will not exceed P15,000 and average maturity not more than 12 months; interest spread not to exceed 10-20%; collateral will be provided by the loan agent to the satisfaction of the lending bank; the credit line should start from small beginnings to larger loans not exceeding P500,000 depending on success of previous operations.

Monitoring and Evaluation. Key indicators for monitoring the progress of training and technical assistance will include:

- Number of staff trained by category, institutions and location;
- Number of MFIs given on-site technical assistance by type of training course institutions and location—Cooperatives, RB, CRBs, and NGOs;
- Number and type of loans disbursed, average loan size by purpose, total loans disbursed and amount outstanding in each participating institution-RB, CRB and NGO;
- Number of loan agents assisted together with the names of borrowers, amount, purpose and maturity period of the loans and also the name of agent, amount of loan approved, purpose and maturity period.

The Land Bank, with the assistance of the two consultants (Cooperative Specialist and Microfinance Specialist), will carry out an evaluation of the training and technical assistance programs in terms of financial viability of the participating institutions, their outreach and service quality. The impact of the pilot program will be carried out by the Land Bank using external agencies.

Annex 2 (d)
Philippines: Mindanao Rural Development Project
Institutional/Implementation Support (Base Costs US$4.34m)

1. **Background/Key Institutional Issues.** The results of the social assessment and experiences learned from the implementation of the Local Government Code highlight the need to address key institutional issues which will improve the capacities of various stakeholders and institutions involved in rural development. Both the national and local government units did not have adequate preparation, and more importantly, appropriate mechanisms in place, for the implementation of the LGC.

2. With varying capacities among LGUs, the effectiveness of agricultural and fisheries extension service suffered. Furthermore, involvement of local communities have not been mainstreamed in the development planning process; hence local and national development plans have not accurately reflected the needs and priorities of local communities. For their part, national government agencies, have not also been very effective in supporting LGUs in building capacities for devolved agricultural and fisheries extension functions. Criticisms are also being made on the supply-driven nature of agricultural and fisheries research. In addition, there is a perceived disconnect between the results of research activities of DA and local universities and colleges and with what goes down at the field level through extension services which have been perceived as ineffective in most cases.

3. **Design/Objectives.** Under the MRDP, institutional capacity building support various stakeholders involved in the broad spectrum of activities in rural development planning. Such capacity building, in all instances, would be designed towards achieving certain end results or products which would help stakeholders realize their potential in fulfilling their respective roles under the devolution. Intervention will be closely linked to the investment component, thereby re-enforcing the concept of "learning by doing".

4. Capacity building activities are designed to address needs of the different rural stakeholders. For communities and barangays, their roles and capacities will be strengthened to enable them to better identify, prioritize, design, implement, monitor and evaluate local sub projects (as components of the overall municipal development plans). As such, communities and barangays will be extensively involved in participatory planning processes facilitated through social assessment exercises. For municipal and provincial LGUs, their capacities for rural development planning, implementation, monitoring and evaluation, financial management, as well as resource allocation, will be enhanced. This will be done through technical assistance and closer linkage with the DA at the regional level through building on on-going work for assessing agricultural potentials and constraints. For regional DA field units, and local research institutions, their role as providers of technical assistance to LGUs (particularly among devolved LGU extension workers at the municipal level) will be strengthened. As such, project funds will be allocated for provision of TA and for forging effective linkages between agricultural and fisheries research efforts of the DA and local research institutions with the extension efforts of the LGUs and the perceived priority needs of the targeted communities.

5. **Forms of Interventions.** For communities, social assessment exercises will be done by locally based institutions to enable them to be actively involved in participatory planning.

6. *TA for Rural Development Planning and Resource Allocation*. Building on existing activities, this would provide assistance to LGUs in formulating their respective rural development plans as inputs to the overall provincial Development Plan and the Provincial Agriculture and Fisheries Modernization Plan. Designed to provide hands-on/the job training for the PPDOs and MDCs, this intervention would build on current efforts of the provinces and municipalities in such areas as assessment of agricultural potentials and constraints; provincial poverty mapping; inventory and evaluation of on-going rural

development programs (foreign nationals, or LGU supported); and the routine preparation of 3-5 year investment programs. This participatory exercise would stretch over two to three months and involve the following processes: identification of potentials/opportunities and strengths/weaknesses of LGUs; identification of feasible options given the opportunities; and, the rational allocation of resources effectively reflecting municipal development priorities with inputs from barangays and communities.

7. *Skills Upgrading for Agricultural and Fisheries Technicians.* This series of seminars workshops and hands-on activities would aim at keeping the municipal and provincial agricultural and fisheries technicians abreast of the latest technologies and re-orienting their perspectives in the context of the LGC, AFMA and the requirements of MRDP. Technicians across 32 municipalities and five provinces of APLI are targeted for skills upgrading in this area. Depending upon the emerging needs of LGU workers and their clients, other skills training courses would also be provided under the Program. These would focus on raising their technical/technological expertise levels such that they become more effective providers of extension services to the Program beneficiaries. Technological skills training would give premium to technologies that promote agricultural livelihood diversification, thus minimizing the risks associated with mono-cropping. The latter continues to characterize the production system in a large number of communities in Mindanao. Premium would also be accorded to training courses in technologies that promote soil fertility regeneration, soil conservation and agro-forestry and other environmental friendly technologies , with a view to contribute to efforts at arresting the continuing degradation of the environment in many parts of Mindanao. Targeted to undergo training under this category in the first APL are municipal technicians and provincial field staff in 32 municipalities and five provinces.

8. *Mini-Demonstration Projects for Improving the Linkage Between Research and Extension.* This would enable LGU technicians to put into use their new/enhanced skills, in partnership with the farming communities in response to their priorities for crop diversification. The project would provide funding for mini-demonstration projects; these will be spearheaded by LGU technicians in close collaboration with local universities and colleges and local research stations in order to demonstrate to farming and fishing communities the applicability of new technologies borne out of activities being done by local research institutions. About 25 farms should be involved in each municipality and a maximum amount of P10,000 per participating farm will be available to support each demonstration activity.

9. *Skills Upgrading for Support Institutions.* Training courses for the field staff of the DA-RFUs and other support institutions would be provided by the Program, in fulfilling their role as defined in the Local Government Code, to deliver direct technical assistance to LGUs and the communities. Examples of courses to be offered would include trainors' training on Program/Project Planning to enable DA to help build up resource mobilization capabilities among LGUs; and Program/Project Implementation and Management to develop DA's role in assisting LGUs to build up their internal capability to effectively implement, manage and monitor agricultural and fisheries projects.

10. *Local and Foreign Study Tours.* To complement various training programs in local governance and further broaden the rural development perspective of LGUs, local and foreign study tours would be provided under the Program. The provision of study tours would be linked to performance in implementing the program at municipality level; better performances will stand to gain more from undertaking a foreign study tour. Participants would be required to prepare re-entry plans intended to improve and streamline the systems and delivery of rural development services in their respective LGUs, as adopted from best practices observed in these cross visits.

11. *Provision of Support Facilities/Equipment.* Equipment and vehicles would be provided under the Program to support the mobility and efficiency of the LGUs, particularly the municipal and provincial agricultural technicians and engineering personnel. To each of the engineering offices of five provinces, the first APL would provide field testing equipment and survey instruments. Thirty-two municipalities.

on the other hand, shall be provided with drawing instruments, computers with printers, agricultural extension kits and motorcycles. The motorcycles would be provided to technicians on similar higher purchase terms as presently practiced.

Monitoring and Evaluation

12. **Introduction and Objectives.** The Mindanao Rural Development Program (MRDP) is designed using the Bank's Adaptable Program Lending (APL) instrument, which allows more flexibility and continuity in the provision of long-term investments in support of poverty alleviation; and also importantly, allows for the phasing of program support based on absorptive capacities of involved institutions and local communities. These APL features and the nature of the proposed long-term engagement in rural development, necessitate a strong system for monitoring and evaluation. In this context, the MRDP's monitoring and evaluation (M&E) component is being designed to achieve the following objectives:

- Enhance the capacities of involved local and national institutions, as well as targeted communities, in monitoring and evaluation; and
- Provide a mechanism for assessing the Program's (a) efficiency in delivering its various interventions; and (b) effectiveness and impacts in achieving its desired objectives and goals.

The M&E component will provide the necessary tool for assessing the fulfillment of key performance indicators for the Program (See Annex 1: Program Design Summary).

13. **M&E Framework and Structure.** Based on the above objectives, the overall M&E framework is shown in Figure 1. As can be seen, the whole process of planning, implementation, monitoring and evaluation are interconnected and must feed into each other. The results of the M&E exercise must ultimately feed into planning and implementation in order for the Program design to be further fine tuned to more effectively deliver on MRDP goals and objectives. With the advent of devolution in 1991, the critical link between local level M&E efforts have been disconnected from the national agricultural and fisheries planning and implementation goals. Under the MRDP, it is envisioned that a framework to facilitate the linkage of local monitoring and evaluation efforts, to planning and implementation activities aimed at realizing the national goals of poverty alleviation, agricultural/fisheries development, and food security would be established.

14. To operationalize the over all M&E framework, the proposed M&E structure will be integrated into the various levels (national, program, provincial, municipal and community) of MRDP implementation. Beginning at the community level, beneficiary monitoring will be an important element of the structure. At the municipal level, the Municipal Planning and Development Coordinator (MPDC) will be the focal point for M&E, in close coordination with the offices of the municipal agriculturist, municipal engineer, and the financial staff. At the provincial level, an M&E unit will be developed and strengthened within the Provincial Planning and Development Office (PPDO), which will coordinate M&E activities among the offices of the Provincial Agriculturist, the Provincial Engineer and the Provincial financial staff. The MRDP's Program Coordination Office (PCO), through its Monitoring, Evaluation and Social Assessment Unit would consolidate all M&E reports, for submission to DA Central and Regional Field Offices, the World Bank, as well as other concerned oversight agencies.

15. ***System Definition***. Two systems are being planned for the M&E component of the MRDP.

(i) A Management Information System (MIS) will be designed and installed in each of the participating municipalities (community-based M&E will be linked to this level) and provinces as well as in the PCO and the DA Central and Regional Field offices. The system will be designed to provide accurate and timely information to enable program management at all levels to make effective and timely decisions for maximizing the use of program resources towards the desired objectives of the Program. The MIS provides a facility for a periodic and systematic monitoring of implementation progress (through its Operations sub-system) and financial management (through its Financial Operations sub-system) of the Program. Data collection, processing, analysis and dissemination comprise the various functions under this system. In view of the varying capacities of LGUs, a simple Excel-based program will be designed which can be either computerized or implemented manually.

(ii) A Process and Results Monitoring and Evaluation (PRME) System will be put in place in order to provide a mechanism for assessing (a) the effectiveness of mechanisms and processes involved in service delivery; and (b) the resulting impacts of program interventions to intended and unintended beneficiaries.

16. *Support for Institutional Capacity Building.* Activities for improving and enhancing the capabilities of institutions and human resources involved in monitoring and evaluation are built around the following desired outcomes/products:

(i) Institutionalization and integration of national and local M&E systems within the framework of the Local Government Code;
(ii) Formulation, collection and analysis of critical indicators which would truly reflect the LGUs' and communities'/beneficiaries' desired impacts and effects out of the MRDP;
(iii) Integration of M&E outputs/results into various levels of development planning and project development exercises; and
(iv) Preparation of periodic evaluation studies to gauge impacts and effectiveness of the MRDP, and using these as a basis for seminars and workshops at LGU and community level.

17. In order to achieve the above mentioned desired outcomes for capacity building, workshops, orientation seminars, technical assistance, hands-on/on-the-job training for M&E staff at all program levels will be given. In addition, equipment (such as computers, communication and transport facilities, etc.) will be provided to facilitate M&E work.

18. Collection of Baseline Data for Various Program Components. Future assessments of the Program require that a sound database of critical baseline information is created and generated from various sources prior to start up of Program and sub-projects implementation. The results of MRDP's social assessments prior to full engagement of provinces in the Program, as well as secondary data from the compendium of various LGU databases provide an excellent source of baseline information. For specific information which cannot be generated from the social assessments and other published databases, baseline surveys will be conducted. Examples of baseline information required for each participating province and municipality would include indicators on poverty, agriculture, community participation, food security, LGU capacities, effectiveness in allocation of LGU fiscal resources, credit access, emphasis on infrastructure maintenance, integration of national programs in local plans, etc.

19. Periodic Evaluation. Evaluation studies will be done in the midyear implementation and last year of each APL phase. For APL 1 , evaluation studies will be conducted at the end of Year 2. As a support to evaluation, baseline studies will be conducted prior to sub-project implementation. Evaluation studies will be done by competent and independent institutions (such as local universities, private research groups, etc.) in order to ensure impartiality of study results. Emphasis of the studies would be on determining (1) efficiency of the manner by which the Program is able to deliver its interventions to intended beneficiaries; and (2) intended and unintended results/impacts derived from the implementation of the Program. The Project Design Summary contains a list of the key performance indicators (among other relevant indicators) for the Program which would be assessed during periodic evaluation studies.

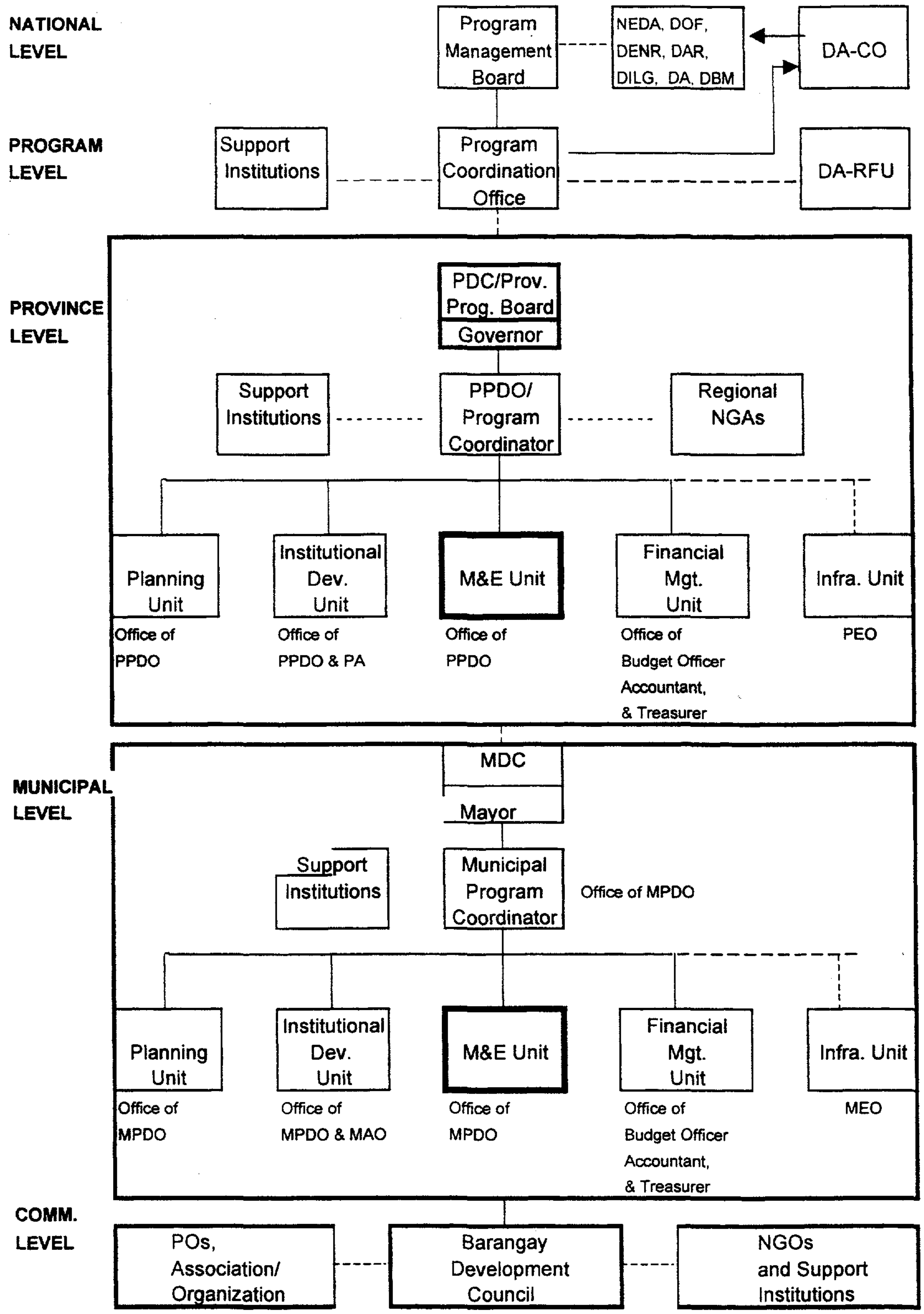
Financial Management Improvement Program

A primary objective of the project is the capacity building at the LGU level, for both the provinces and municipalities. As the project is part of a long term APL, with four phases spanning over an implementation period of twelve years, an ultimate objective shall be to develop the capacity at municipality level for project planning, implementation and financial management. The project provinces are therefore required to develop well defined financial management improvement programs for the participating municipalities with a view to graduating each municipality to receive and manage funds directly.

In developing the FMIP, the Provincial FMO should carry out a financial management assessment of the participating municipalities based on a agreed Financial Management Review Checklist. The review should determine the adequacy of financial management systems and controls for the whole of the municipality operations. The review should result in agreeing with the municipality an action plan to address the deficiencies of the financial management system identified during the assessment. The action plan should list each weakness or issue/problem, remedial action, responsible officer for implementing the remedial action and the planned completion date. The action plan should result in improvements to the financial management system over a reasonable period of time leading on to the graduation of the municipality to an acceptable financial management capability that would allow direct receipt of future project fund allocations. The PCO shall be responsible for reviewing the performance of each province in developing and implementing FMIPs for the municipalities. The FMIPs shall be modeled on those developed for the provinces with suitable modifications to take into account the needs/capabilities of each municipality.

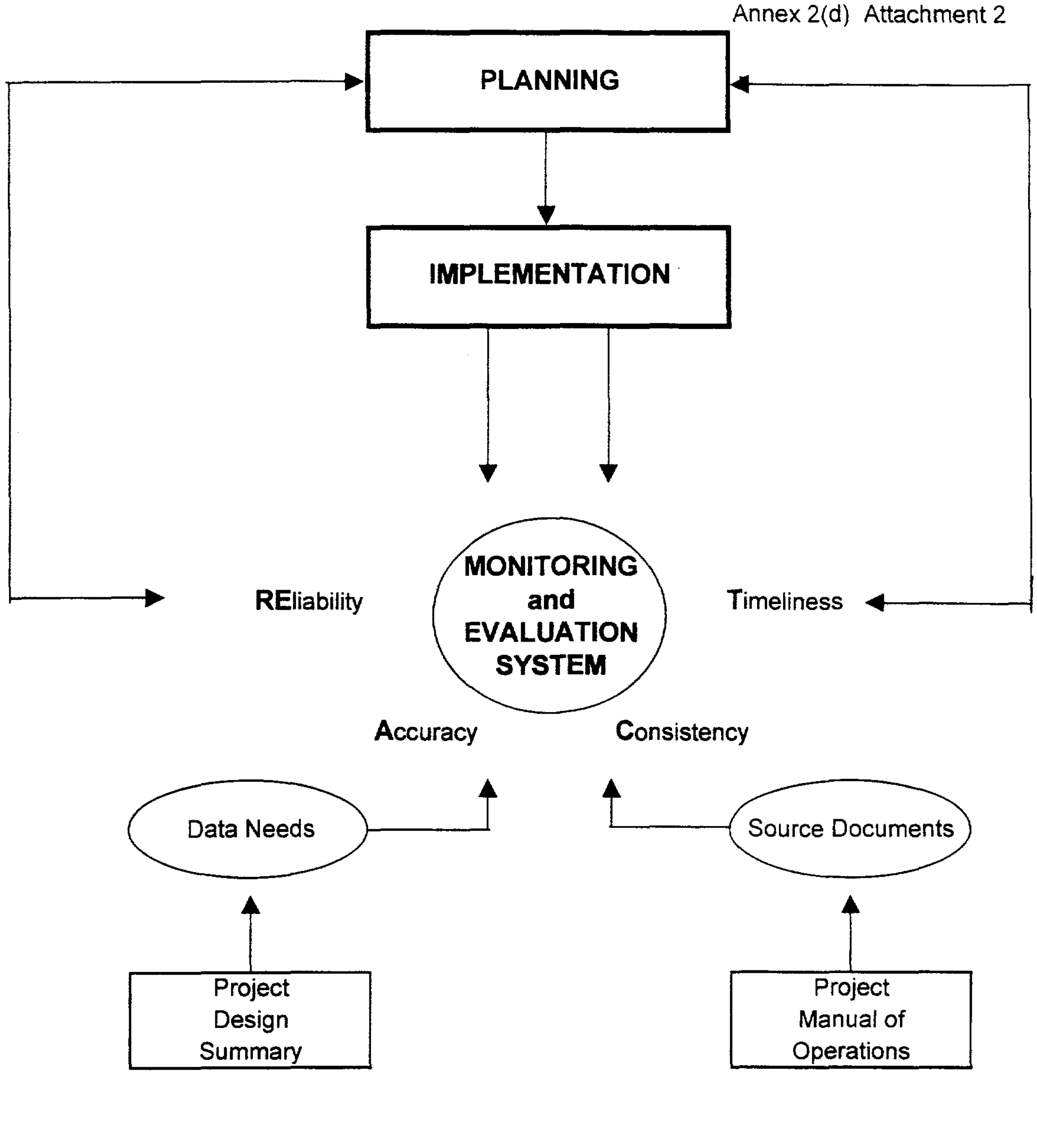
MRDP- Organizational Structure

Annex 2(d)- Attachment 1



Annex 2e
Proposed Mindanao Rural Development Program

Annex 2(d) Attachment 2



MRDP Conceptual Framework for M&E

Coastal and Marine Biodiversity Conservation Component (US $1.25 million)

The Coastal and Marine and Biodiversity Conservation Component (CMBC) of the proposed Mindanao Rural Development Project (MRDP) would aim to finance the incremental costs of promoting coastal and marine biodiversity conservation and sustainable use in the coastal waters of Mindanao, Philippines. Mindanao has received little attention to date with regard to conservation of its marine biodiversity resources. The component would be financed by the GEF, and a full report is being prepared for by its council. It would remove the barriers to mainstreaming marine and coastal biodiversity conservation in coastal zone development by: (a) establishing community-based management of marine sanctuaries; (b) strengthening local capacity to address marine ecosystem management issues; (c) enhancing the knowledge base for sound ecosystem management and decision- making, including monitoring and evaluation for sustainable long-term marine ecosystem management; and (d) developing policy and action plans for marine biodiversity conservation and mainstreaming it into coastal development plans. The basic concept underlying the component is derived the experiences that show that good marine and coastal resources management can simultaneously conserve and protect biodiversity and increase fisheries productivity. These activities would have considerable replication potential in Mindanao as part of the MRDP. The lessons learned during the first three-year phase would be applied to subsequent phases when additional coastal provinces would be included under the MRDP. The cumulative experience would be applied to implementation of the CMBC throughout the MRDP. These lessons would also have applicability in other regions of the Philippines and other tropical countries.

Detailed Features – Phase 1 of MRDP

The design of this component for the first phase of the APL is to focus on assisting activities in two provinces in Mindanao, Sultan Kudarat and Maguindanao, where other project activities would also be implemented and could support coastal management. The first phase of the APL would also be used to work with communities at two sites that were selected via consultation during preparation of the component to formulate management plans for the protected areas. The selected sites are: (i) Paril-Sangay Protected Seascape, Kalimansig, Sultan Kudarat Province; and (ii) Bongo Island, Parang, Maguindanao Province. Development of these sites under the component would begin during for the first year of phase 1 of the APL, community consultation would continue with training conducted, and resource assessment and monitoring initiated at the two selected sites. Lessons learned from these Phase 1 sites would be applied at qualifying sites selected for inclusion under Phase 2 with the cumulative experience applied in subsequent Phases of the MRDP.

- *Resource assessment survey of selected conservation sites (Total Cost US$0.87 Million; GEF US$0.66 million)*. This would be one of the first activities to be undertaken where resource profiling would include the collection and compilation of all relevant information on the biophysical features of the area, inventory of flora and fauna, and the determination of endangered and threatened species, in addition to those already identified (Annex D). An initial area plan would be developed that includes the demarcation of protected area and delineation of the different management zones (e.g. strict protection zones, sustainable use zones, restoration zones, habitat management zones, multiple use zones and buffer zones). Under this plan, initial management measures based on the resource inventory would be recommended. These community-based initiatives may include, but not be limited to, the imposition of closed fishing periods for certain fish species, particularly during spawning season, the adjustments/replacement of certain fishing gears, and/or fishing techniques to conform to environmentally friendly fishing strategies. These assessments and plans would be coordinated by the Ecosystem Research and Development Sector (ERDS) of the DENR with assistance from national and international consultants. During this phase, identification of additional sites for mangrove reforestation is among the activities that would be included.

- *Application of a participatory planning and management process for identification and development of protected areas (Total Cost US$0.12 million; GEF US$0.09 million)*: It is expected that local NGOs would be recruited to work toward awareness building about the threats to marine biodiversity and resultant adverse impacts to fishers' livelihoods. For the first phase of the project, the two sites noted above that were selected through stakeholder consultation would be planned in detail, developed and managed through continued community participation. For additional qualifying sites that would be selected for assistance during subsequent phases of the project, the planned strategy under Phase 1, with adjustments from lessons learned during that phase, would involve all stakeholders being consulted and involved in the identification, planning, development, and subsequent operation to enhance biodiversity conservation and optimal coastal resource use. To augment local knowledge and experience, representatives from Peoples Organizations (PO) in other areas in the country (e.g., Bais Bay of Dmaguete, Apo Island, Palompon Leyte, etc.), where successful coastal marine management and marine protected area experience has concurrently led to improved biodiversity conservation and greater returns from fishing, would be invited to visit the POs at the project sites to share their experiences and how obstacles were overcome. Some representatives from the MCBC sites would also visit the areas of the Philippines where community-based good management practices have been demonstrated.

- *Strengthening of local marine resources surveillance by coastal communities linked to existing enforcement agencies (Total Cost US$0.10 million; GEF US$0.06 million)*: Two activities may be undertaken, the training of stakeholders in community-based surveillance to complement existing agencies and the reorientation of the existing enforcement agencies on newly passed laws (NIPAS, Local Government Code, Fisheries Code, etc.) and regulations. Strengthening of the capabilities of enforcement agencies is expected with the installation of a community-based radio communications network in the protected area and the procurement of a chase boat (equipped with binoculars and cameras with telephoto lenses) to guard each of the two selected areas.

- *Resource monitoring and evaluation program (Total Cost US$0.27 million; GEF US$0.17 million)*: Under this component, monitoring would be undertaken by the Ecosystem Research and Development Sector (ERDS) of the DENR on a yearly basis. Assistance would be provided to the ERDS by national and international consultants. Basic key indicators would be identified, and data would be collected to monitor the progress of the conservation area in terms of biodiversity and to monitor the recovery of damaged habitat. The acquisition of monitoring equipment built into the project would improve the monitoring capability of the ERDS. Also, during the latter part Phase 1, monitoring of other livelihood components like mariculture of seaweed, shellfish, and cage fish culture (independently or in combination) may also be undertaken. Impacts upon water quality would also be assessed and assisted by the project.

- *Assistance to the development of alternative income generating (AIG) activities (Total Cost US$0.23 million; GEF US$0.14 million):* This component would be specifically targeted to benefit those involved in livelihoods that are particularly destructive to the marine environment. It would also be complemented by *Community Funds for Agricultural Development Component* mentioned above. In this component, the selected NGO (who would be identified in close consultation with the concerned community and LGUs) would help fishing communities in the identification and development of mostly water-based alternative livelihood activities. The main target group would be those poor coastal fishers who practice destructive fishing techniques. Opportunities for AIG activities include crab fattening, seaweed culture (possible improvement of existing culture techniques and technology), combination of fish cage with seaweed and/or bivalve culture and the transplantation of giant clams (*Tridacna* sp.) Similarly, developmental skills in fish processing may improve products and, therefore, give value added to the fish produced. Bee keeping is another option that can be conducted, particularly in the vicinity of mangroves. For all activities proposed for grant assistance under this component, an environmental analysis would be conducted by the DENR/NGO in advance of approval and implementation, showing each activity would be environmentally benign. Ecotourism, though considered, may not be a demand-driven option during the first three-year phase of the project due to instability in the area. The NGO would also assist their respective communities with the preparation of proposals for grant support from the CFAD of the MRDP, following the general guidelines for the project.

- *Training of DENR/BFAR officers, LGU/NGO/PO staff, and schoolteachers as trainers in sustainable marine and fisheries management (Total Cost US$0.17 million; GEF US$0.13 million).* Those trained would be educators for fisherfolk, school age children, community leaders, and other stakeholders in the vicinity of sites selected for assistance under the project. This component would involve educating all levels of the community in the benefits of marine biodiversity conservation, sustainable fisheries, and optimal marine resource use. The training of the trainers would be conducted at one of the higher level education institutions and institutes that have a suitable curriculum on coastal resources management. Those trained through these sessions would subsequently conduct workshops and lead classes on the information learned. These workshops would be conducted after the trainer consults with the communities on the condition of their respective coastal resources. From this knowledge base, the trainer would apply the technical information obtained from his/her training courses on marine biodiversity conservation and coastal resource management. This training could also include on-site investigations including diving at the project sites.

Annex 2e: Attachment 1
Coastal and Marine Biodiversity Conservation Component
Incremental Cost Analysis

Overview

The Philippines has important coastal resources and globally significant marine biodiversity. Indeed, the coastal waters of the Philippines archipelago support the greatest marine biodiversity in the world. Many of these resources have been seriously degraded and marine biodiversity serious threatened particularly in near-shore areas. This GEF-assisted component complements the proposed IBRD-assisted Mindanao Rural Development Project and aims at promoting marine biodiversity conservation mainly by mainstreaming it within local fishing communities and Local Government Units (LGU) in the Philippines.

Context and Broad Development Goals

The GOP has recognized the ecological, economic, and financial importance of preserving its marine resources. Toward achieving this objective a number of Government Acts and Executive and Administrative Orders has been formulated and specifically aimed at conserving marine biodiversity and improving fisheries management. In addition the Coastal Environment Program under the DENR has been established to specifically address these issues in conjunction with related activities of the Department of Agriculture's Bureau of Fisheries and Aquatic Resources Management

Baseline

Under the baseline scenario, it is expected that the stakeholders and fishing communities in the coastal areas will continue to overexploit coastal resources using destructive methods that will further threaten marine biodiversity. With the current financial crises confronting the country, the GOP will have direct, higher priorities of addressing immediate social issues confronting its people. Without external assistance, the long-term impacts of continued mismanagement by coastal communities could lead to irreversible damage and permanent losses to the country's endowment of marine resources and biodiversity, particularly in Mindanao. Under the MRDP, the Community Funds for Agricultural Development Component (CFAD) would assist in reducing overexploitation of natural resources through providing financial and technical assistance toward the development of new occupations or significantly increasing the income from existing activities. The focus would primarily be upon the rural populace engaged in agricultural activities with few resources going to fishing communities. In the case of the latter, it would help to reduce pressure on the exploitation of marine resources.

Global Environmental Objectives

The global environmental objectives of the GEF components of this project are to conserve globally important marine biodiversity and to sustainably manage coastal resources in the Philippines by mainstreaming marine biodiversity and coastal resource conservation within coastal communities and LGUs in Mindanao. Importantly, this project will also help develop a model with broader applicability for mainstreaming biodiversity considerations in a sector with crucial social, economic, and environmental dimensions in Mindanao and more broadly in the Philippines.

GEF Alternative

Under the GEF scenario, substantial information, capacity, and experience will be developed to promote the mainstreaming of marine biodiversity conservation and sustainable use within the fisheries sector, particularly at the community level. The GEF approach relies on removing barriers for successful mainstreaming through demonstration, capacity building, enhancement of the information base for sound decision making, and policy development in Mindanao as part of the proposed MRDP, where little attention has been paid in the past to marine resource and biodiversity conservation. The GEF components will support the piloting of community-based marine sanctuaries to benefit both fishing resources and marine biodiversity; enhance local capacity for addressing coastal ecosystem management issues; and enhance the knowledge base for sound ecosystem management and decision-making, including monitoring and evaluation for sustainable long-term marine ecosystem management. It would further assist in the demarcation and protection of marine areas with habitats and species of global importance and assist in their sustained management and protection. Without the CMBC, these marine biodiversity conservation-related activities would not be implemented in the project area.

A sub-component of the Coastal and Marine Biodiversity Conservation Component (CMBC) would provide resources for some alternative income generating activities to coastal fishers but would particularly target those who are presently engaged in destructive fishing practices, providing them with alternative and more beneficial livelihood options. In particular, assistance would be provided for coastal communities to make application for funds for demand-driven activities that would be available under the CFAD of the MRDP. This will enable coastal communities to change from destructive fishing practices to more conservation-orientated coastal activities or opt for alternative livelihoods that decrease pressure on marine resources. It is expected that these pilot activities will have substantial multiplier effects and provide the foundation for mainstreaming biodiversity considerations within Mindanao's important coastal resource and fisheries sectors. This would be facilitated by the replication of lessons learned and best practice models of community management of marine resources in subsequent phases of the proposed MRDP.

Incremental Costs

The incremental costs are calculated as the difference between the GEF scenario ($6.05m) and the baseline scenario ($4.8m) and total US$1.25 million.

Incremental Cost Matrix for GEF Funding

Component	Cost Category	Cost US$ Million*	Domestic Benefit	Global Benefit
MRDP IBRD/GOP Community Funds for Agricultural Development Component estimated for Maguindanao and Sultan Kudarat Provinces only (From total MRDP project $40m)	Baseline	3.20	Increased agricultural production and profitability, creation of additional, diversified employment	
	GEF Alternative	3.20	Increased agricultural production/coastal communities livelihoods improved	Access to alternative livelihood opportunities for fishermen, decreased pressure on global biodiversity
Institutional Capacity Building and Program Development Component (Total overall project estimate for this component is US$4 million)	Baseline	1.60	Improvement in the government's capacity to manage rural development, reduce poverty.	
	GEF Alternative	1.60	Improved government capacity to conserve natural resources and marine biodiversity.	Mainstreaming marine biodiversity conservation into rural and coastal development planning
Coastal and Marine Biodiversity Component	Baseline	0	Current fishery harvesting levels maintained, probably unsustainable	
	GEF Alternative	1.25	Sustained increase in fisheries production at project sites in 2 provinces. Improved access of coastal communities to alternative livelihoods.	Enhancement and improvement of coastal habitats for threatened and non-threatened marine species of local and global significance
	Baseline	4.80		
	GEF Alternative	6.05		
	Incremental	1.25		

Annex 3
PHILIPPINES: MINDANAO RURAL DEVELOPMENT PROJECT
Estimated Project Costs
Components Project Cost Summary
Table 1

	(PhP '000)			(US$ '000)			% Foreign Exchang e	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
A. Rural Infrastructure Improvements								
1. Roads/Access & Bridges	359,157.6	236,731.8	595,889.4	9,451.5	6,229.8	15,681.3	40	43
2. Communal Irrigation	192,878.0	61,126.0	254,004.0	5,075.7	1,608.6	6,684.3	24	18
3. Rural Water Supply	29,400.0	19,600.0	49,000.0	773.7	515.8	1,289.5	40	4
4. Capacity Building	14,709.8	3,795.3	18,505.0	387.1	99.9	487.0	21	1
Subtotal Rural Infrastructure Improvements	596,145.3	321,253.1	917,398.4	15,688.0	8,454.0	24,142.1	35	66
B. Community Funds for Agricultural Development (CFAD)	198,522.3	31,712.8	230,235.0	5,224.3	834.5	6,058.8	14	17
C. LGU/Project Institutional Support								
1. Rural Finance/Credit Strengthening	9,429.0	2,991.0	12,420.0	248.1	78.7	326.8	24	1
2. LGU RD Planning	39,759.1	3,626.9	43,386.0	1,046.3	95.4	1,141.7	8	3
3. Financial Mgmt Capacity	6,342.0	7,038.0	13,380.0	166.9	185.2	352.1	53	1
4. M&E	12,350.7	3,664.1	16,014.8	325.0	96.4	421.4	23	1
5. Implementation Support	53,862.3	38,408.6	92,270.8	1,417.4	1,010.8	2,428.2	42	7
Subtotal LGU/Project Institutional Support	121,743.1	55,728.5	177,471.6	3,203.8	1,466.5	4,670.3	31	13
D. Coastal & Marine Biodiversity Conservation (GEF)	56,143.6	2,749.7	58,893.3	1,477.5	72.4	1,549.8	5	4
	972,554.3	411,444.1	1,383,998.3	25,593.5	10,827.5	36,421.0	30	100
Physical Contingencies	53,979.6	18,452.5	72,432.1	1,420.5	485.6	1,906.1	25	5
Price Contingencies	190,898.2	81,121.5	272,019.7	1,859.0	789.4	2,648.4	30	7
	1,217,432.0	511,018.1	1,728,450.1	28,873.1	12,102.5	40,975.5	30	113

Annex 3
PHILIPPINES: MINDANAO RURAL DEVELOPMENT PROJECT
Estimated Project Costs
Project Components by Year -- Base Costs
Table 2

	Base Cost (PhP '000)				Base Cost (US$ '000)			
	2000	2001	2002	Total	2000	2001	2002	Total
1. Roads/Access & Bridges	90,381.2	218,443.6	287,064.6	595,889.4	2,378.5	5,748.5	7,554.3	15,681.3
2. Communal Irrigation	77,334.0	119,610.0	57,060.0	254,004.0	2,035.1	3,147.6	1,501.6	6,684.3
3. Rural Water Supply	7,000.0	21,000.0	21,000.0	49,000.0	184.2	552.6	552.6	1,289.5
4. Capacity Building	8,580.0	5,667.5	4,257.5	18,505.0	225.8	149.1	112.0	487.0
	183,295.2	364,721.1	369,382.1	917,398.4	4,823.6	9,597.9	9,720.6	24,142.1
	34,663.5	98,954.5	96,617.0	230,235.0	912.2	2,604.1	2,542.6	6,058.8
1. Rural Finance/Credit Strengthening	6,140.0	2,720.0	3,560.0	12,420.0	161.6	71.6	93.7	326.8
2. LGU RD Planning	10,096.0	15,700.0	17,590.0	43,386.0	265.7	413.2	462.9	1,141.7
3. Financial Mgmt Capacity	4,740.0	4,900.0	3,740.0	13,380.0	124.7	128.9	98.4	352.1
4. M&E	4,378.0	4,641.8	6,995.0	16,014.8	115.2	122.2	184.1	421.4
5. Implementation Support	38,932.3	29,385.3	23,953.3	92,270.8	1,024.5	773.3	630.3	2,428.2
	64,286.3	57,347.1	55,838.3	177,471.6	1,691.7	1,509.1	1,469.4	4,670.3
	15,679.4	20,081.1	23,132.8	58,893.3	412.6	528.5	608.8	1,549.8
	297,924.4	541,103.8	544,970.2	1,383,998.3	7,840.1	14,239.6	14,341.3	36,421.0
Physical Contingencies	22,936.8	31,229.3	18,265.9	72,432.1	603.6	821.8	480.7	1,906.1
Price Contingencies								
Inflation								
Local	25,591.0	72,377.6	92,929.6	190,898.2	673.4	1,904.7	2,445.5	5,023.6
Foreign	3,841.9	10,691.2	15,464.2	29,997.4	101.1	281.3	407.0	789.4
Subtotal Inflation	29,432.9	83,068.8	108,393.8	220,895.5	774.6	2,186.0	2,852.5	5,813.0
Devaluation	7,921.7	18,760.6	24,441.9	51,124.2	-453.5	-1,213.3	-1,497.8	-3,164.6
Subtotal Price Contingencies	37,354.6	101,829.4	132,835.7	272,019.7	321.0	972.8	1,354.6	2,648.4
	358,215.8	674,162.5	696,071.8	1,728,450.1	8,764.8	16,034.2	16,176.6	40,975.5
Taxes	-	-	-	-	-	-	-	-
Foreign Exchange	110,967.8	193,128.3	206,922.0	511,018.1	2,711.7	4,588.6	4,802.1	12,102.5

Annex 3
PHILIPPINES: MINDANAO RURAL DEVELOPMENT PROJECT
Estimated Project Costs
Expenditure Accounts Project Cost Summary
Table 3

	(PhP '000)			(US$ '000)			% Foreign Exchange	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
I. Investment Costs								
A. Civil Works								
1. Roads & Bridges	347,790.0	231,860.0	579,650.0	9,152.4	6,101.6	15,253.9	40	42
2. Irrigation	192,878.0	61,126.0	254,004.0	5,075.7	1,608.6	6,684.3	24	18
3. Rural Water Supply	29,400.0	19,600.0	49,000.0	773.7	515.8	1,289.5	40	4
Subtotal Civil Works	570,068.0	312,586.0	882,654.0	15,001.8	8,225.9	23,227.7	35	64
B. Goods								
Vehicles	6,329.0	16,646.2	22,975.2	166.6	438.1	604.6	72	2
Engineering Equipment	740.0	3,060.0	3,800.0	19.5	80.5	100.0	81	-
Office/Other Equipment	5,126.3	11,310.8	16,437.1	134.9	297.7	432.6	69	1
On-Farm Demonstrations	8,000.0	-	8,000.0	210.5	-	210.5	-	1
Subtotal Goods	20,195.3	31,017.0	51,212.3	531.5	816.2	1,347.7	61	4
C. Community Fund	182,377.5	31,252.5	213,630.0	4,799.4	822.4	5,621.8	15	15
D. Training								
1. Workshops & Seminars	20,102.0	1,155.8	21,257.8	529.0	30.4	559.4	5	2
2. Study Tours	1,439.2	1,792.8	3,232.0	37.9	47.2	85.1	55	-
3. LGU Cross Visits	441.6	294.4	736.0	11.6	7.7	19.4	40	-
Subtotal Training	21,982.8	3,243.0	25,225.8	578.5	85.3	663.8	13	2
E. Technical Assistance								
1. Consultants	80,963.6	5,420.5	86,384.1	2,130.6	142.6	2,273.3	6	6
2. Studies	8,028.0	892.0	8,920.0	211.3	23.5	234.7	10	1
3. Project Preparation	11,998.5	631.5	12,630.0	315.8	16.6	332.4	5	1
Subtotal Technical Assistance	100,990.1	6,944.0	107,934.1	2,657.6	182.7	2,840.4	6	8
F. Incremental Operating Costs								
1. Personnel	53,409.7	12,735.0	66,144.7	1,405.5	335.1	1,740.7	19	5
2. Office Operating Expenses	9,912.0	5,688.0	15,600.0	260.8	149.7	410.5	36	1
3. Vehicles Operating Expenses	2,251.2	3,106.8	5,358.0	59.2	81.8	141.0	58	-
4. Routine Road Maintenance	11,367.6	4,871.8	16,239.4	299.1	128.2	427.4	30	1
Subtotal Incremental Operating Costs	76,940.5	26,401.6	103,342.1	2,024.8	694.8	2,719.5	26	7
Total BASELINE COSTS	972,554.3	411,444.1	1,383,998.3	25,593.5	10,827.5	36,421.0	30	100
Physical Contingencies	53,979.6	18,452.5	72,432.1	1,420.5	485.6	1,906.1	25	5
Price Contingencies	190,898.2	81,121.5	272,019.7	1,859.0	789.4	2,648.4	30	7
Total PROJECT COSTS	1,217,432.0	511,018.1	1,728,450.1	28,873.1	12,102.5	40,975.5	30	113

Annex 4
Philippines: Mindanao Rural Development Project
Economic Analysis

Overview

The economic benefits of the project would result from (i) the rehabilitation of provincial and farm to market roads and the subsequent savings in vehicle operating costs; (ii) communal irrigation schemes which will generate an increase in farm productivity; (iii) improvements in the supply of potable water resulting in increased time-saving from collecting water and reduced incidence of water-borne related sickness and disease; and (iv) community-based development through the availability of community funds. In addition, investments to support local government and other institutional capacity building, as well as to strengthen decentralized and community-based decision making, will facilitate better implementation of rural development programs, help foster the creation of social capital, and strengthen staff skills of all implementing agencies at the local level. Given the programmatic nature of the project's design, and the fact that local communities will be driving the choice of sub-projects in many instances (for example on the CF component, as well as the selection of rural roads, and water supply sub-projects), the analysis is based on a modular approach, taking the projects prepared for the year one program as the basis for estimating the expected economic benefits for the project as a whole. A strong monitoring and evaluation component is being supported under the project, which will facilitate a better evaluation of projects put forward for consideration, using the baseline information being collected, and the actual experience of implementation as a basis for later analysis.

Overall Economic Rates of Return (ERR)

Overall, the proposed project yields an ERR of 22 percent, a net present value of $11.5 million and a benefit-cost ratio of approximately 1.4 (using a discount rate of 12 percent), over a 20 year period of analysis. At the component level, the farm-to-market roads investment yields an ERR of 15 percent; the proposed investments in communal irrigation development generate an ERR of 39 percent; communal spring development are expected to result in ERRs of around 11 percent; and finally, using a range of possible investments which the communities may undertake under the Community Fund component as a basis, the ERR for the component is estimated at 31 percent.

Sensitivity analysis was carried out for each project component to assess how robust the results were against possible changes to assumptions of key variables. Switching values were calculated for each component and for the project in its entirety, and the results confirm that the ERRs are relatively robust to changes in revenues and costs. Overall, total project costs would need to increase by 26 percent or benefits to reduce by 20 percent, for the overall ERR to drop down from 22 percent to 12 percent, suggesting that the program is more sensitive to changes in project benefits than to project costs. As discussed in more detail below, the respective analyses for different components shows greater sensitivity to changes in revenues than to costs; to a large extent, reflects the conservative bias in the assumptions underpinning the analysis. Set out below is a summary of the analysis undertaken for each component, outlining the assumptions underpinning the analysis and the results. More details are available in a working paper in the project files.

Rural Roads/Rural Access Improvements

Road Selection Methodology: A multi-criteria approach is used to select sub-project roads to be rehabilitated under MRDP. Proposed roads will be subject to selection criteria that include (i) poverty targeting; (ii) network approach; (iii) cost-effectiveness criteria; and, (iv) economic analysis. Each one is briefly discussed below.

- **Poverty Targeting .** The rural road selection methodology combines social and economic criteria and relies on a participatory method which involves constituents in the selection process. The participatory mechanism is outlined in the Operational Manual. The average poverty incidence across the 5 participating provinces exceeds 50 percent, with the province of Agusan del Sur being an extreme with poverty incidence in excess of 70 percent.

- **Network Approach.** MRDP adopts a roads *network approach* which aims to ensure that rehabilitated project roads will be connected to an all-weather road, thereby maximizing benefits of the intervention. By ensuring that there are appropriate links between farm to market roads (usually connecting the *poblacion* to the barangay center) and larger rural roads (usually connecting the barangay center to the provincial or national road system), the benefit from improving a particular road improves the overall use value of the rural road network. Improving the network generates benefits which reduce the cost of (1) transporting people; (2) transporting agricultural produce to market; and, (3) transporting non-agricultural goods. In adopting the network approach, the project focuses on rehabilitating approximately 460 kilometers of farm to market roads. A smaller number of provincial roads, 40 kilometers, will be rehabilitated to ensure the entire *network* is passable. Year 1 works were proposed by the LGUs at workshops held in January 1999 and satisfy the selection criteria outlined in Annex 2. Future roads will be selected by a beneficiary committee using the selection criteria.

- **Cost-Effectiveness.** In order to ensure that maximum benefits are accrued for a given sub-project, a cost-effectiveness approach is used. A maximum unit cost of US$20,000 (PhP 760,000/km) equivalent for the farm-to-market roads has been set. However, the project aims to encourage LGUs to implement at lower cost by giving a fixed amount of funds thereby allowing a greater km length to be implemented if at a lower unit cost. Actual cost-effectiveness for a sample of roads selected for Year 1 works is presented in Table 1 (Cotabatu) and Table 2 (Sultan Kudarat). Using this method, the selection committee will readily see which roads give maximum benefit per beneficiary (US$/ beneficiary equivalent). Cost-effectiveness, therefore serves as a tool in helping to select sub-project roads to be rehabilitated. Overall, each LGU participatory committee will submit proposals which rank roads on the basis of cost-effectiveness, taking poverty class, cost/population and unit cost into account (see selection criteria defined in Annex 2).

Table 1
Cost-Effectiveness of Selected Year 1 FMR in N. Cotabato

Municipality	Aleosan	Banisilan	Banisilan	Antipas	Antipas	Libungan
Road #:	1	2	3	4	5	6
$Cost/Km	20,000	20,000	20,000	20,000	20,000	20,000
Length (km)	6	4	4	6	4.5	12
$ Cost	120,000	80,000	80,000	120,000	90,000	240,000
Motorized Traffic Count	67	7	28	82	153	39
Tot. Beneficiaries	2015	1500	825	2100	1650	4640
Condition	Very bad	Very bad	Very Bad	Bad	Bad	Very Bad
US$/Beneficiary	**60**	**53**	**97**	**57**	**55**	**52**

Table 2
Cost-Effectiveness of Selected Year 1 FMR in Sultan Kudarat

Municipality	Kalamansig	Lutuyan	Lutayan	Pres Quirino	Pres. Quirino
Road #:	1	4	5	8	9
$Cost/Km	20,000	20,000	20,000	20,000	20,000
Length (km)	10	3	3	4	3.5
$ Cost	200,000	60,000	60,000	80,000	70,000
Motorized Traffic Count	0	20	N/A	21	26
Tot. Beneficiaries	3000	4365	1625	2520	3055
Condition	V. bad	V. bad	V. bad	Bad	Bad
US$/Beneficiary	**67**	**14**	**37**	**32**	**23**

- **Economic Analysis.** Roads selected by the beneficiary committee using the selection criteria and a cost-effectiveness approach are subject to economic analysis. The threshold for selection has been set at a minimum economic rate of return of 15 percent (taking into account both quantifiable and non-quantifiable benefits).

Methodology for Economic Analysis

The methodology for evaluating rural roads is a subject of ongoing debate in the Bank as well as other organizations. In completing the analysis, the team has drawn on the findings from several other projects and reports on the subject, to come up with a satisfactory model. It was necessary to ensure that the model is easy to use in practice and transparent, given the decentralized methods of implementation and the use of it locally by participatory committees. In all instances very conservative assumptions are used and it is likely that the benefits are underestimated.

The decision to use the *consumer surplus* approach over the *producer surplus* approach is taken given the practical difficulties of applying the producer surplus approach which often result in overestimation of benefits and difficulty in monitoring results. Traffic counts used in the consumer surplus method are (i) easy to collect; and (ii) a direct indicator of the level of economic activity in a defined area. An increase in traffic on a rehabilitated road clearly indicates the economic benefit from the improvement. The benefits to new users of the improved road can be approximated by an increase in traffic and therefore an outward shift in the demand curve for transport with respect to price.[3]

As a general rule, the method of economic analysis undertaken is based on the overall condition of the road in addition to the traffic count. Given the roads being considered for rehabilitation under the project, two likely scenarios were found to exist: (1) roads passable by 4-wheeled motorized vehicles; and, (2) roads **not passable** by 4-wheel motorized vehicles, but with some existing motorized traffic. Under scenario 1, quantified benefits are assessed by using the vehicle operating costs (VOC) methodology. Under scenario 2, where moderate traffic exists on a non-passable road to 4-wheeled vehicles, but at levels below 60 motorized vehicles per day (vpd)--the rule of thumb cut-off point for economic viability using the VOC methodology—a generated traffic assumption is made (a minimum

[3] Alternatively, the *producer surplus* modeling approach measures total value-added as a result of road improvement. While CS and PS models should theoretically derive the same economic benefit per kilometer of road rehabilitated, greater measurement errors in the PS approach make it less attractive than the CS alternative. This is in part due to a lack of sufficient data on road density per unit area, population and/or production volume within the area of road influence. Since VOC per kilometer for each form of transport is readily available from the National Economic Development Authority (NEDA), and traffic counts were conducted in the project area, the consumer surplus model is adopted.

shift of 10 percent draft animals to motorized transport).[4] A second option, incorporating VOC and the additional quantifiable benefits that arise from increased savings in time for pedestrian commuters who after rehabilitation works are able to take motorized transport (MT) was also used to assess roads falling under scenario 2, yielding comparable results. The shift method was chosen in favor of time saving benefits because of its agricultural context.

Economic Analysis

Using the assumptions set out below, the economic analysis carried out yields the following economic rates of return: 15 percent (NPV=$1.36 million at 12 percent discount rate) for the entire roads component; 16 percent (NPV=$0.5 million at 12 percent) for the provincial roads sub-component; and 15 percent (NPV=$1.02 million at 12 percent) for the farm to market road sub-component.

Provincial Roads Model. Economic analysis of the proposed rehabilitation of 40 km of provincial roads, with a maximum unit cost of $75,000/km, is based on benefits accrued from savings in Vehicle Operating Costs (VOC). Based on locally available information, a minimum of 150 vpd; and a traffic mix of 25% Car/Van; 25% Jeepney; 25% Truck; and, 50% Skylabs was assumed, resulting in an ERR of 16 percent. There are no provincial roads identified for rehabilitation in Year 1. Economic analysis for actual proposed provincial road improvements will be undertaken using Philippine's Department of Public Works & Highways (DPWH) model which has been reviewed by the Bank in the context of the proposed National Roads Improvement and Maintenance Project (NRIMP). DPWH regularly updates the set of standard vehicle operating costs broken down between (i) distance related costs; and, (ii) time related costs. Furthermore, the model develops a series of traffic generators which relate the volume of non-agricultural traffic and passenger traffic to population and road quality. The DPWH method is not applied to the provincial road sub-component analysis since selection of these roads has not yet taken place by the participatory roads selection committees.

FMR/ Farm Access Roads Model. Economic analysis of the FMR/Barangay roads improvements is undertaken using the Farm Access Roads Model described below. It is based on benefits from savings in both Vehicle Operating Costs (VOC), and in special cases, includes a generated traffic mix assumption. A maximum unit cost of $20,000/km (Php 760,000/km) for rehabilitation and $700/km (Php 26,600/km) for routine maintenance is used. The overall EIRR for this sub-component is 15 percent.

1. Vehicle Operating Costs (VOC) Savings: Where roads are currently passable by 4 wheeled motorized transport, benefits are estimated on the basis of savings in Vehicle Operating Costs (VOC). However, two cases exist: (i) where motorized traffic exceeds the rule of thumb minimum count necessary to achieve an ERR of 15 percent; and (ii) where motorized traffic falls short of that minimum. The table below summarizes the cut-off Average Annual Daily Traffic (AADT) levels needed to achieve a minimum ERR of 15 percent under various traffic mix assumptions, given a per kilometer investment cost of $20,000 (Models 1-3). In cases such as Model 3A, where the traffic is insufficient to justify the intervention at the maximum unit cost, it is expected that the per kilometer cost will be reduced by revising specifications or applying lower cost spot-rehabilitation. This provides an efficient and more cost-effective outcome, where access is restored to a sufficient level, but at a reduced cost that takes into account the actual existing use of the road. For the purpose of project road selection and for this analysis which assesses the economic viability of selected year 1 roads, actual traffic count and traffic mix data is used. The economic returns for a selection of Year 1

[4] A statistical test was conducted using data from 17 proposed roads under the project. The data includes the traffic count of mechanized and non-mechanized traffic, the number of pedestrians and the condition of the road (passable or non-passable to motorized 4-wheel transport). A positive and significant correlation was found to exist which suggests that as roads become more passable, there is a greater use of motorized traffic and less non-motorized (carabao sled and draft animal) traffic. The Pearson correlation coefficient was found to be 0.63 and significant at 10 percent for draft animals and 0.66 and highly significant for pedestrians.

FMR roads show that traffic counts of 67 vehicles per day (vpd) yield an ERR 16 percent; 82 vpd (ERR of 21 percent) and 153 vpd (ERR of 37 percent) in North Cotabato; 79 vpd (ERR of 20 percent); 64 vpd (ERR of 21 percent); and 80 vpd (ERR 26 percent) in Sultan Kudarat, with the range of ERRs attributed to the variations in the actual mix of traffic.

Economic Look-up Table for Economically Viable Investments on FMR (15% EIRR) Farm Access Roads Model for Passable FMR

Scenario	Traffic Mix	Maximum Unit Cost	Cut-Off AADT
Model 1: VOC	Skylab 25%; Jeepney 25%; Car/Van 25%; Truck 25%	$ 20,000 (Php 760,000/km)	55
Model 2: VOC	Skylab 50%; Jeepney 20%; Can/Van 20%; Truck 10%	$ 20,000 (Php 760,000/km)	62
Model 3: VOC	Skylab 80%; Jeepney 10%; Car/Van 10%; Truck 0%	$ 20,000 (Php 760,000/km)	70
Model 3A: VOC	Skylab 80%; Jeepney 10%; Car/Van 10%; Truck 0%	$ 10,000 (Php 380,000/km)	40

2. Vehicle Operating Costs (VOC) & Traffic Shift Savings: Where FMRs are currently **not** passable to 4 wheeled motorized transport, as expected, motorized traffic counts are low. The use of VOC savings alone, therefore, does not reflect the full benefit of opening the road. The traffic counts on these roads show a high proportion of draft animal/agricultural goods haulage traffic relative to those roads where the road is currently passable to 4 wheeled, mostly jeepney, traffic. For the purpose of the analysis, it is assumed that for currently non-passable roads, there will be some transfer of non-motorized animal load traffic to a motorized mode of transport resulting in a VOC savings due to a more economical mode of transport. Essentially, this results in a traffic mix change from high cost non-motorized forms of traffic to lower cost motorized forms of traffic.

The models are based on the following assumptions:

- Road Condition: The model indicates the likely costs and benefits from rehabilitating a "typical" project road. As per project selection criteria, the typical farm to market or Barangay road identified by the project has a gravel or packed earth surface and is in *very bad/bad* condition. Moreover, several project roads have stretches that are impassable and therefore require major reconstruction. It is assumed that rehabilitation of rural roads under the project will bring the typical project gravel road to a *good* condition.
- Rehabilitation/Routine Maintenance: The maximum estimated cost of rehabilitating a FMR gravel road from *very bad/bad* to *good* condition is US$ 20,000/km (PhP 760,000/km), with the annual routine maintenance cost assessed at US$ 700/km (PhP 26,600/km). The project aims to build local capacity to ensure routine maintenance, and it is assumed that, once rehabilitated, the rural roads will be maintained at *good* condition.
- Investment Period: A 20 year life-span for a rehabilitated road maintained regularly by labor-based methods (see the Operations Manual for details) is assumed. Road rehabilitation investments commence in year 1 and routine maintenance in year 2. Benefits accrue from the time when the project road is rehabilitated.
- Traffic Count: Traffic counts (including pedestrians, bicycles and draft animals) have been completed on the selected Year 1 roads: 11 FMR in North Cotabato province and 17 FMR in Sultan Kudarat province in January 1999. The counts were undertaken from 6:00 AM to 6:00PM on a market day and a non-market day. On average, on a market day there were 89 vehicles per day (vpd) in North Cotabato and 78 vpd in Sultan Kudurat. On non-market days there were 51 vpd in North Cotabato and 56 vpd in Sultan Kudurat (see the project files for an overview of

traffic counts by province). While an annual increase in traffic of 5 percent is assumed here for the Year 1, the actual traffic growth rate in the province will be used in assessing the viability of future roads investments.

- Weighted Average Day: Given the fact that traffic numbers vary between market and non-market days weighted averages were used by assigning a weight of ($1/7^{th}$) for the weekly market day and ($6/7^{th}$) for an ordinary non-market day, the six remaining days of the week. The weighted average was found to be approximately the same in each province, namely, 56 vehicles per day on the typical project road in North Cotabato and 59 vehicles per day on the typical project road in Sultan Kudarat.[5]
- Traffic Mix (FMR): From the existing traffic count, the proportion of each vehicle type travelling during daylight hours on a market day and non-market day was determined and weighted to give an average mix. In North Cotabato, approximately 34 percent of the daily traffic was draft animals on market day. Of the motorized traffic, approximately 84 percent was motorized tricycle or skylab, 8 percent was passenger jeepney, 3 percent was jeep/car/van, and 5 percent was some form of truck (pick-up, tractor-trailer). In Sultan Kudurat, approximately 59 percent of the daily traffic was draft animal (carabao). Of the motorized traffic, approximately 66 percent was motorized tricycle or skylab, 3 percent was passenger jeepney, 7 percent was jeep/car, and 24 percent was some form of truck (pick-up, tractor-trailer). While it is likely that there may be a change in traffic mix thus resulting in increased benefits from more cost-effective forms of transport, this benefit has not been included in the analysis. No benefits have been assigned to savings in VOC for NMT.
- Vehicle Operating Cost (VOC): Analysis of the per kilometer cost associated with operating each type of motorized and non-motorized vehicle travelling on rural roads in the Philippines is conducted by Department of Public Works and Highways (DPWH) and tabulated by the National Economic Development Authority (NEDA) on a regular basis. The model therefore uses the DPWH/NEDA assessed costs, denoted in 1998 Pesos per kilometer (see project files).
- Traffic Shift (Mix) Change: A statistical analysis of 17 proposed roads under the project was undertaken. It shows a positive and significant correlation was found to exist which suggests that as roads become more passable, there is a greater use of motorized traffic and less non-motorized (carabao sled and draft animal) traffic (Pearson correlation coefficient was found to be 0.63 and significant at 10% level). While this result does not prove causality, it is likely that after rehabilitation, there would at least be a modest 10% shift from non-motorized transport to motorized transport. In later project years, it will be possible to measure actual shifts in the project supported roads, which will then provide the basis for the analysis.
- Standard Conversion Factor (SCF): To convert financial investment costs and VOCs to economic costs, the standard conversion factor of 0.8 is adopted. A conversion factor of 0.60 is used to estimate the economic value of labor; and 0.75 to determine the economic cost of routine maintenance.

Results. The model yields an ERR greater than 15 percent for all road interventions. This estimate is conservative as it does not take into account economic and social benefits, which are more difficult to quantify. The additional economic and social benefits enjoyed by populations inhabiting areas along or near rehabilitated roads fall into the following categories: (i) improved access to both input and output markets; (ii) reduced transport time in hauling agricultural produce to market; (iii) reductions in accidents and deaths; and, (iv) wider development benefits (i.e. usually measured in terms of increased agricultural production).

Sensitivity Analysis. The analysis for the overall roads component suggests that benefits would need to be lower by 14 percent, or costs 16 percent higher for the ERR to drop to 12 percent. More detailed switching value analysis of the farm to market road component indicates that for the ERR to fall to 12 percent, benefits from (i) VOC savings would have to be 22 percent lower; or (ii) projected traffic

[5] This excludes pedestrians and bicycles travelling on the typical project road.

shift/mix changes would have to decrease by 34 percent. On the cost side, road rehabilitation and routine maintenance costs would need to increase by 18 percent and 95 percent, respectively for the component to become economically unattractive, keeping other factors constant. Given the project design to encourage municipalities to adopt least cost approaches to roads rehabilitation, a 25 percent reduction in the per kilometer cost of FMR rehabilitation (from $20,000 to $15,000) would result in an ERR of 22 percent. It is important to note that the base case analysis takes the most conservative assumptions, both in terms of adopting the higher unit costs for investments and the lowest possible benefit stream. Importantly, a delay in completing the rehabilitation works by one year (and a subsequent delay in the respective benefits by one year) would reduce the ERR to 12 percent; any further delay would make the component economically not viable. The likelihood of this occurring is extremely low, given the considerable preparatory work done up front, and the fact that the procurement processing for the year 1program is already well underway prior to negotiations.

Communal Irrigation Improvements

The project will support small scale communal irrigation by: (i) rehabilitating existing gravity schemes which are no longer functional or are inefficient (4,350 ha); and (ii) selectively, constructing new run-of-river communal irrigation projects (855 ha). Overall, the rehabilitation of existing schemes will enable farmers to shift from unimproved irrigation (and in some cases, allow for bringing additional rainfed areas into the service area) to improved irrigation, generating an increase in cropping intensity as compared to the present situation. The construction of new schemes would enable farmers to shift from lower value corn production to higher value paddy; and shift from rainfed paddy with minimal yields to irrigated paddy with substantially higher yields per hectare. Based on estimations presented in the feasibility studies prepared for each of the 35 schemes to be supported under the project, the average farm size per scheme was found to be 1.56 hectares; the average number of households served per scheme is 114 (684 individuals), with approximately 6 members per household. Moreover, approximately 75 percent of the farmers to benefit from the project operate on land holdings of less than 2 hectares. The project, therefore, targets the smallest, and consequently the poorest farmers in the region.

Quantified & Non-Quantified Benefits. The impact of the proposed irrigation improvement interventions is estimated using a simple model. The model examines the benefits that arise from: (i) an overall increase in the area of land under irrigated crops (i.e. an overall increase in cropping intensity); (ii) more reliable and timely availability of water which would have a positive impact on yields; and (iii) a shift in the cropping pattern, from crops of lesser value (i.e. corn) to those of higher value (i.e. rice). It is likely that progressive farmers that benefit from the shift from non-irrigated to irrigated land would diversify their crop portfolio and grow higher value crops such as vegetables. However, these benefits are not taken into account in the analysis.

Methodology. Key assumptions of the model are outlined below:

- Model structure: Only benefits accrued to the farm area brought from unimproved irrigation to improved irrigation are considered under the analysis that focuses on project rehabilitation; yield increases in other parts of the scheme are not taken into account. All agricultural area falling within the influence area of a newly constructed scheme is considered in the assessment of new construction.
- Investment cost for construction/rehabilitation: The estimated financial cost ceiling for constructing new communal irrigation schemes is PhP 100,000 per hectare; the cost ceiling for rehabilitating existing schemes is PhP 75,000 per hectare.
- Cropping intensity: The model assumes that *with* project (WiP) there will be 100% cropping in the wet season and 100% cropping in the dry season; in the *without* project (WoP) scenario, the cropping intensity is assumed to be 70% in the wet season and 60% in the dry season. Presently,

cropping intensities of 75% in the wet season and 60% in the dry season are not uncommon in the influence area of the project.

- Full development benefits: The analysis assumes that full development benefits for newly constructed communal irrigation systems occur in the third year for those areas likely to move from rain-fed paddy to irrigated paddy; fourth year for those areas likely to move from corn to irrigated paddy. Full development benefits for rehabilitated systems are accrued in the year immediately following rehabilitation works. These assumptions are based on a review of the operation of other irrigation interventions in the region.
- Conversion factors (ECF): The SCF for the Philippines is 0.80. It is used to translate the financial cost of the two types of intervention, namely construction of new schemes and rehabilitation of existing schemes to the economic cost. Moreover, it is used to adjust the financial prices of key inputs to economic prices. For paddy, corn and fertilizers, economic farmgate prices have been estimated, based on projected world market prices. For agricultural labor and threshing, a shadow wage was estimated;[6] based on that, an average conversion factor of 0.60 is used for the analysis.

Results of the Analysis: Based on the above assumptions, the ERR for the irrigation component is estimated at 39 percent (NPV of US$8.2 million, at a discount rate of 12 percent). The component for rehabilitation is estimated to generate returns of nearly 40 percent, while the construction of new schemes is expected to yield an ERR of 26 percent.

Sensitivity Analysis: The switching values for this component suggest that the ERR is robust to wide changes in revenues and costs for both rehabilitation and new construction of communal irrigation schemes. The economic value of paddy production would need to fall by 39 percent, or investment costs would need to rise by 65 percent, for the ERR of this component to drop to 12 percent.

Improvement of Water Supply Systems

The project will support improvements in rural water supply in both upland and lowland communities in the participating LGUs. The expected impact of the component is assessed using a simple model developed below. The analysis is based on benefits generated from avoided costs with the project, and the following assumptions:

- Benefits: The benefits estimated for spring development are derived from: (i) savings in time for fetching potable water, and (ii) avoidance of waterborne diseases. Both these will result in additional income generating work days for beneficiary households. Non-quantified benefits include increases in beneficiary household productivity as a result of the availability of water as an input for household activities and other social benefits.

- Costs: The capital cost of Level 1 (point-source) spring development is estimated at approximately PhP 350,000 per facility. Under the project guidelines, unskilled labor required for annual operation & maintenance (O&M) of spring rehabilitation will be provided by the beneficiary barangay. Moreover, it is proposed that the cost of materials required for routine and annual maintenance of the spring be borne by the barangay. Each beneficiary barangay will form a user group to assess the unit water charge applicable to each of the 60 beneficiary households per unit spring development. The estimated imputed annual O&M cost of Php 2000 per unit, and initial construction costs for a spring facility of Php 350,000 is used in this analysis: the SCF of 0.80 is used to restate financial/imputed costs in economic terms.

Based on the above, an economic rate of return of approximately 11 percent is estimated.

[6] For the purpose of this analysis, the shadow wage for agricultural labor was taken as the number of days per year that labor is fully employed in the area, multiplied by the daily wage rate at those times, and divided by the number of working days per year.

Community Fund Sub-projects

As outlined earlier in this report, the CF will finance demand driven sub-projects which are consistent with DA's program and priorities for supporting agricultural and fisheries development, to address the diverse priorities of communities. Sub-projects under the CF would comprise of a broad spectrum of activities to be undertaken with the direct participation and financial contribution of beneficiaries. The demand driven nature of the component implies that communities will determine the scope of each subproject funded. Accordingly, neither benefits nor costs can be accurately identified *ex ante*. Based on experience with ongoing DA programs, as well as the outcome of the social assessment, the core sub-projects for which demand can be expected include: small works, such as multi purpose pavements, trails, hanging bridges, nurseries, hatcheries, etc.; small equipment, material and supplies to support farming activities; small ruminants for cattle fattening and poultry; plants, seed, and local technical support. Each of the 32 municipalities identified under APL1 will be involved in implementing this component; for the purpose of the analysis, a few likely sub-projects are analyzed in some detail.

Methodology and Results: Using a modular approach, the impact of four likely CF interventions is estimated, which include (i) a tree crop nursery, (ii) post-harvest facilities (solar drier, small storage facility), (iii) a tilapia hatchery, and (iv) a tilapia pond. The overall CF model examines the cost (not exceeding the maximum amount allotted for a given community) and the benefits that arise from each subproject, individually, and then collectively as an entire component. Using the results of these models as a basis, the economic analysis suggests that given investment resources of PhP 2.5 million per municipality and the accompanying technical assistance needed to support the CF component, the overall EIRR *with project* scenario would be 31% (NPV=$2.6 million at a 12 percent discount rate).

Sensitivity Analysis: Switching values calculated for the CF component shows that benefits would need to drop by 15 percent and costs to increase by 18 percent for the ERR to fall below 12 percent.

Annex 5
Philippines: Mindanao Rural Development Project
LGU Fiscal Analysis

The Fiscal Analysis examines the sources that finance rural infrastructure development activities in LGUs, and analyzes the fiscal impact of the project on the national government and Mindanao LGUs.[7]

Sources of Funds for Rural Infrastructure Development

Rural development activities in LGUs are supported from several funding sources, often under different terms and conditions: (i) the LGUs own internal revenue allotments (IRA), and more specifically, the 20% Development Fund (DF), which is directly controlled by LGUs; (ii) the Department of Agriculture (DA), using national government budgetary allocations, to support rural infrastructure development in LGUs, with allocations controlled by the DAs Office of the Secretary (OSEC) and to a smaller degree, the Regional Field Units (RFUs)[8]; (iii) Similarly, the National Irrigation Authority (NIA) budgetary funds are used for supporting investments on irrigation schemes (and connecting farm-market roads, if necessary) and are controlled by each province's Provincial Irrigation Office (PIO); (iv) DA and NIA funds, and subsequently any RID investment projects at the local level financed from these sources, are not currently devolved to the LGUs.

The fiscal analysis found that between 85-90% of expenditures rural infrastructure within an LGU are presently being financed by the national government (mainly, DA, NIA) budget. This suggests that at least in the context of rural development, devolution has been sluggish. Under the Local Government Code, most of the responsibilities for agricultural development have been devolved to local governments. However, the absence of effective transition arrangements made at the time of enacting the Local Government Code, and the institutional weaknesses of many LGUs, effective and sustainable rural development has been impeded.

Portfolio of Rural Infrastructure Development Investments in Mindanao LGUs

It is difficult to assess with accuracy the level of investment on rural infrastructure at the municipal and barangay LGU level due to inadequate record keeping at these levels of government. Analysis of the investment portfolio of rural development activities (i.e. farm to market roads, communal irrigation systems, water supply) in Mindanao provinces and municipalities; the sources of these resources (i.e. LGUs, NGAs); and, the manner in which they are made available to communities yields the following conclusions:

(i) On average, less than 60 percent of investments for the construction and rehabilitation of farm-market roads were financed by provincial LGUs, using their IRA resources (DF); DA's OSEC financed 27 percent; NIA/FAPs financed 15 percent. An important feature of LGU investment in roads is the relatively high allocation for the construction of concrete roads, thereby leaving few resources for supporting the rehabilitation and construction of lower cost gravel farm-market roads; and virtually no resources allocated for routine maintenance.

[7] A comprehensive analysis is found in the project files.
[8] Analysis of the data suggest that DAs Office of the Secretary directly controls approximately 85 to 95 percent of DA program funds, while only 5 to 10 percent is allocated to RFUs and directly under their control.

(ii) Virtually no LGUs allocated resources to support investments in communal irrigation. Presently, NIA sponsors 78 percent of all construction and rehabilitation costs of communal irrigation systems in provincial LGUs, and DA funds represented 21 percent of the total;

(iii) All rural water supply systems developed in each province were financed by provincial LGUs;

(iv) The Department of Agriculture provided around 85 percent of the investment funds for the construction of solar driers/post-harvest facilities in provincial LGUs;

(v) While the level of investment activity in each provincial LGU varies, the share of infrastructure investment by source, however, remains relatively constant. The pattern of investments in rural infrastructure development activities by source at the municipal LGU level follows a similar pattern to that of the Provincial LGUs; although the level of total RID investments in municipal LGUs ($215,000) is approximately 8 percent of those at the provincial LGU ($2.69 million).

Financing Arrangements

Funds for the various projects would flow through the Municipal Development Fund Office (MDFO), which would complement equity contributions from the LGU and from subproject beneficiaries. To th extent that LGUs opt to borrow, to meet their equity commitments, the lending terms and conditions of MDF prevailing at the time of the signing of the sub-loan agreement would apply for the loan component, and the loan would be subject to the approval by the MDFO-PGB[9].

In various ongoing projects, the Government has often used the LGC Economic Class[10] as a proxy to reflect the relative wealth or poverty of an LGU, and the basis for according priority in receiving ODA support. It has also guided the terms on which ODA assistance is made available by the national government (for example, grant or loan). Available data, however, confirms that LGC Economic Class on its own is not a good basis for guiding resource allocation decisions, if the objective is to promote increased rural development and poverty alleviation. Statistical analysis of data for 24 Mindanao provinces confirms that there is no significant correlation between poverty incidence and LGC Economic Class.[11] The table below illustrates the various indices used to assess the economic welfare of inhabitants of the five provincial LGUs included in the first APL. As can be seen, both North Cotabato and Agusan del Sur, while being class 2 LGUs, have a high incidence of poverty (higher than the class 3 provinces of Sultan Kudarat and Maguindanao), being in excess of 70 percent in the case of the latter.

[9] Currently, the lending terms are: a maximum maturity of 15 years, including three years of grace, at an interest of 14 percent.

[10] Economic Class is based almost entirely on a three year average of an LGU's IRA, since the proportion of IRA to total income exceeded 90 percent in Mindanao's provincial and municipal LGUs, on average. As the IRA is determined on the basis of an LGUs land area, population and equal share. it becomes increasingly clear that the LGC Economic Class is not sufficient as an indication of poverty.

[11] The Pearson correlation coefficient was found to be (ρ= 0.18).

POVERTY PROFILE FOR SELECTED APL 1 MINDANAO PROVINCES

Provinces	MBN Index	Philippine MBN Rank	Mindinao MBN Rank	Poverty Incidence (% of Families)	Incidence Rank	Poverty Magnitude ('000 families)	% of Total Families	LGC Economic Class#
North Cotabato	0.428	4	3	52.9	27	60	1.9	2
Sultan Kudarat	0.522	16	13	50.6	33	28	0.9	3
Maguindanao	0.391	2	2	47.7	41	43	1.4	3
Agusan del Sur	0.496	11	9	70.8	7	35	1.1	2
Compostela Valley **	0.598	34	18	47.2	42	NA	NA	1

Notes: a) lower ranking (i.e. 1,2,3) denotes "poorer"; # lower value denotes higher income class; b) Data are unavailable for Compostella Valley as it is a newly demarcated provincial LGU, carved out of Davao del Norte; the data shown above are taken from the records for the old Davao del Norte province.

To guide the proposal for an appropriate mix of loans and grants the above mentioned fiscal analysis was done for the initial two provinces which showed that over 90 percent of the expenditures incurred on rural development within a municipality, and on rural infrastructure more specifically (rural roads, irrigation, post harvest facilities, water supply), are presently being financed from national government budgetary resources, i.e. from the DA. Of the rural infrastructure categories, LGUs are meeting a relatively higher share of FMR related costs, though virtually none of it goes towards regular maintenance; rather than look to these resources to counterpart a higher share of the additional investments under the project, it is proposed that LGUs be encouraged to reallocate these resources towards the maintenance of roads, something which is presently totally neglected. These considerations, together with the prevailing poverty in the participating provinces, their ability to take on significant additional debt obligations, and the commitment of the national government to support targeted programs aimed at poverty alleviation and securing food security for the poorer segments of society, are important factors underpinning proposals on cost sharing outlined below.

Category	Grant/Loan Mix		
	NGA Grant	Loan/ Equity	Benefic.
Roads – Prov. - FMR	10% 80%	90% 20%	
Irrigation	60%	10%	30%
Water Supply	70%	20%	10%
Maintenance – Infra		100%	
Community Fund	45%	45%	10%
Technical Assist.	90%	10%	
Training/Community Support	90%	10%	
Project Management	60%	40%	

The loan/equity share of the LGU will include its share of counterpart resources during implementation, as well as a commitment to take on a part of the Bank Loan. The share of project costs financed by the national government under APL1, should come from within DA's budgetary ceiling. Within the long term APL context, it is proposed that the share of NGA support for the specific components be progressively reduced, with the expectation that the APL1 LGUs should be bearing a substantial share of the total costs by APL 4. For example, their share in financing FMRs could be increased from an average of 20 percent under APL1 (as proposed above), to say 40 percent in APL2, 60 percent in APL3, and 80 percent in APL4. New provinces joining the program in APL2 could follow a similar graduating path.

Fiscal Impact

The fiscal impact of the project will be result from various sources. Firstly, the program will result in an increase in national and LGU fiscal resources being allocated to support rural development in the initial group of 5 provinces. Over the life of the project, the DA will be required to commit an estimated US$5.7 million, by way of counterpart funds, while the 5 provinces and 32 municipalities will, together, be required to provide an estimated US$45.5 million towards the financing of the project. In taking a programmatic approach, and by supporting ongoing DA programs, it is proposed that the project's demands on national level counterpart funds should largely be absorbed within the annual budget envelope. On the part of the LGUs, the demand for counterpart resources would arise in financing all of the components. The analysis of LGU fiscal resources shows that, at a global level, and taking into account projects increases in IRA resources, LGUs should be able to meet their financial commitments towards the project. Their ability to do so in a timely manner, will provide an indication of their commitment to the program. It is possible, that a few poor municipalities may have difficulties in the initial stages, given prevailing commitments to ongoing programs. In such cases, it will be important for the municipal LGUs to work closely with the provincial LGUs in meeting their counterpart fund commitments, and more importantly to look for opportunities to reallocate available IRA resources, away from less efficient and community responsive uses towards the project.

In addition to the above, a significant positive fiscal impact can be expected from the project as a result of improved rural development planning, increased community participation, and new and better ways of allocating fiscal resources by LGUs while supporting rural development priorities viewed as important by rural communities. In addition, based on experience elsewhere, greater efficiency in resource use can be expected with the implementation of the $17.0 million rural roads components by contract rather than force account. Similarly, given that community-based setting of priorities and execution of project should be more efficient, the implementation of the CFAD component should generate significant efficiency gains in the use of DA and LGU fiscal resources. These benefits should multiply exponentially, as more LGUs join in implementing the program.

Annex 6
Philippines: Mindanao Rural Development Project
Procurement and Disbursement Arrangements

PROCUREMENT

Procurement Methods (Table A):

Procurement under IBRD Loans will follow the World Bank guidelines "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995, and revised January and August 1996, September 1997 and January 1999 and the Bank's "Guidelines for the Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised September 1997 and January 1999.

There are several conflicts between the procurement procedures of the Republic of the Philippines and those which are acceptable to the World Bank. These include but are not limited to:

- Bidding opportunities are only advertised in the local press, whereas the Bank's NCB procedures require advertising in the national press;
- Bracketing is used whereas this will not apply, unless specifically agreed by the Bank in advance of bidding;
- Pre-qualification of contractors is practiced whereas the Bank considers pre-qualification only to be necessary for large or complex works and not applicable for small contracts envisaged under this project.

These conflicts are fully addressed in the Supplemental Letter Representations and Assurances on Procurement to the Loan Agreement and are also in the Operations Manual. The Borrower is required to conform with this agreement and waive all procedures unacceptable to the Bank.

Works. Procurement of works for the rural roads/access and rural water supply sub-components will be undertaken by the respective LGUs. Procurement of works for the communal irrigation sub-component will be undertaken by the National Irrigation Authority (NIA). Procurement of works for small community infrastructure under the communal fund component will be undertaken by beneficiary communities with the involvement of the multisectoral committees and LGUs.

Goods and Consultant Services and Training. Procurement of goods and consultants services and training to be provided at the Program Coordination Office (PCO) level will be undertaken by the PCO and made available to the respective LGUs for implementation support, their institutional development and capacity building.

(1) Works. Civil works include rehabilitation and upgrading of rural roads, communal irrigation and levels I and II water supply systems and construction of small community infrastructure. The Operation Manual includes sample bidding documents developed in compliance with the World Bank procurement guidelines and specifically designed for very small works.

International Competitive Bidding There will be no International Competitive Bidding for Civil Works since those works are small - maximum subproject cost is US$ 200,000, scattered geographically and not technically complex and unlikely to be attractive to international bidders (international bidders are however not excluded).

National Competitive Bidding (NCB) (Rural roads, Part A1) Works less than US$1 million equivalent per contract shall be procured with National Competitive Bidding (NCB) procedures acceptable to the World Bank up to an aggregate amount not to exceed US$ 11.9 million equivalent. Average size of contract is US$ 100,000. There are several NCB bidding procedures of the Philippines which are not acceptable to the Bank. These are fully addressed in the Supplemental Letter to the Loan Agreement and are also in the Operations Manual. This will be used for roads.

Procurement of Small Works (Rural roads, Part A1 and water supply Part A3) Works less than US$100,000 equivalent per contract, simplified procurement procedures, of national shopping among registered contractors, may be allowed up to an aggregate amount not to exceed US$ 4.5 million. Quotations would be solicited from at least three registered contractors. This will be used for roads and water supply.

Force Account (Irrigation, Part A2) The National Irrigation Authority (NIA) would also be allowed to undertake the implementation of irrigation works by force account up to US$ 8.2 million in the aggregate. Works are small and scattered in remote locations (in some cases, facing peace and order problems) for which qualified construction firms are unlikely to bid at reasonable prices. NIA has considerable experience with this, using both force account and sub-contracted piece work arrangements with farmers and the local communities (community participation). Approximately 35 schemes are proposed with an average size of scheme of US$ 200,000. NIA shall draw-up a "Pakyaw Agreement" with the winning labor group following its existing systems and procedures in "Pakyaw" contracting and payment will be made against such contracts.

(2) **Goods.** Goods and equipment to be procured under the project's institutional development and capacity building component include agricultural extension kits, materials for on-farm demonstrations, surveying instruments, vehicles, computers and office equipment.

National Competitive Bidding (NCB) Goods less than US$200,000 per contract will be procured according to NCB procedures acceptable to the World Bank up to an aggregate amount not to exceed US$ 0.7 million.

National Shopping Goods less than US$50,000 per contract will be procured according to national shopping procedures acceptable to the World Bank up to an aggregate amount not to exceed US$0.8 million. National shopping should be based on comparing price quotations from at least three suppliers. Requests for quotations should indicate the description and quantity of the goods as well as the desired delivery time and place.

(3) **Community Funds:** (Part B) would comprise a broad spectrum of activities to be undertaken with the direct participation and financial contribution of the beneficiaries. The main purchases to be made would consist of construction material for small works, such as multi purpose pavements, trails, nurseries, etc., small equipment, material and supplies, small ruminants for fattening and poultry, plants and seed, and local technical support. The grouping of these purchases would not be feasible because they involve different operators and scattered beneficiaries in remote areas. Procurement of works, goods and services for individual contracts under this component are expected to be small, given that the total Community Fund allocation for a particular municipality is foreseen to total Peso2.5 million (or about US$65,000); most projects are likely to be less than US$4,000 each. The total cost of this component is estimated at US$ 5.9 million.

Community Participation in Procurement is justified in the interest of project sustainability and to achieve the social objectives of the project. It is desirable to call for the participation of local communities and/or non-government organizations (NGOs), to increase the utilization of local know-how and materials, and employ labor-intensive and other appropriate local technologies. Procurement would be undertaken according to procedures to be defined in the Operational Manual. The World

Bank would not be involved in the approval process for every contract and disbursement at the municipal level.

While Procurement of Smaller Works and National Shopping procedures for goods and services would be applicable, works, goods and services less than US$50,000 equivalent per contract, may be procured by direct contracting to communities and NGOs up to a cumulative maximum of US$ 5.9 million equivalent. As a safe guard, the total value of contracts that can be awarded through direct contracting to any one community or NGO would be limited to US$300,000 equivalent.

(4) **Consultants Services and Training:** About US$ 2.9 million and US$1.6 million would be allocated to consultants services and training, respectively. Consultant services shall be procured in accordance with the Bank's "Guidelines for the Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised September 1997 and January 1999, and using the Bank's Standard Request for Proposal – Selection of Consultants dated July 1997 and revised April 1998. Any contract above $200,000 must be advertised in the Development Business requesting Expressions of Interest prior to developing a shortlist. In view of the unique knowledge of the local environment and communities, there was agreement that local, government owned universities and research institutes could be contracted under the project, to undertake specific tasks, for example related to social assessments and program monitoring and evaluation.

Quality and Cost –Based Selection (QCBS). The selection of firms would be based on quality-cost based selection (QCBS) procedures. This includes technical assistance for rural infrastructure implementation support, amounting to $380,000, the procurement of which will be coordinated through the PCO.

Single source selection. Consultancy services less than $20,000 per contract (for a maximum of US$50,000 for one NGO hired under this procedure) to be provided by accredited NGOs, for very small assignments or assignments in remote areas, would be procured through single source selection. Contracting of NGOs through single source selection is estimated to cost about US$ 475,000 . It includes the following types of assignments in connection with the community fund component: community organizing, and providing services to communities to prepare sub-project proposals.

Individual Consultants The selection of individual consultants would be based on their qualifications for the assignment (Section V of the Guidelines). They may be selected on the basis of references or through comparison of qualifications among those expressing interest in the assignment or approached directly by the Borrower. Examples of individual consultant support include a micro-finance specialist ($104,000), cooperative specialist ($130,000) and rural banking specialist ($52,000).

(5) **Operating Costs:** About US$ 2.2 million would be allocated to cover the incremental operating costs related to managing the project, including staff travel and office utilities. They would be procured according to normal commercial procedures. Salaries and Fees of Personnel would be contributed solely by the National and Local Governments Units who will contract and pay for personnel services estimated at US$ 1.6 million. The procurement of these personnel services, funded by the Borrower, would be done by the Borrower using its own procurement procedures.

Review of Procurement

The project satisfies the World Bank's minimum procurement management requirements.

Prior Review Threshold (Table B):

Each contract for works and goods more than US$100,000 per contract and procured according to National Competitive Bidding (NCB); the first works contract per LGU each year and the first three

(3) goods contracts would be subject to the Bank's prior review. Prior review of works and goods include bidding documents, evaluation reports and draft contracts. Procurement by Force Account and Community Participation is not subject to prior review. Prior review for works and goods would cover about 39 percent of the combined value of civil works and goods.

Individual consultants contracts equal to or larger than US$50,000 equivalent and estimated to total about US$0.2 million equivalent and contracts of firms equal to or larger than US$100,000 equivalent and estimated to total US$1.0 million will be subject to the World Bank's prior review. All terms of reference, sole-source contracts, contracts of a special nature for consultant services final contracts when substantial differences to the original draft are made and would be subject to prior review.

Financial Management Assessment

Accounting in the Philippines. The accounting policies and standards applicable to the government and local government (LGUs) institutions are regulated by the Commission on Audit (COA) which has the statutory authority to determine policy and standards. COA is also responsible for independent audits of government agencies. The Chart of Accounts used is standard across all institutions. The main objective of financial reporting is budget control at various levels of Government. The spending departments submit annual budgets which are reviewed by the Department of Budget Management and incorporated in the annual General Appropriations Act submitted to the Congress. Following approval of the Act, budget authorizations are provided quarterly to individual ministries and LGUs. Cash allocations are provided by the Treasury based on DBM authorization. The accounting system is generally considered adequate.

The principal weaknesses in the system can be summarized as follows: (i) the system does not provide for adequate project financial management; as indicated earlier, primary focus is on budget control; (ii) the financial reporting, particularly at LGU level, is not timely for sound management control; and (iii) many LGU units are staffed by inexperienced accounting staff resulting in weak financial management. In order to address these issues, COA has developed with Bank assistance a Project Financial Management System (FISFAP) under an IDF grant. The system is currently being pilot tested in several central and local government units before its universal introduction for all foreign funded projects. The Bank is also assisting COA to develop a Project Financial Management Training Program to train government accounting staff.

Assessment of Central Government Project Agencies. There are four central government agencies associated with the Project: the Department of Agriculture (DA), the Municipal Development Fund Office (MDFO), the National Irrigation Authority (NIA) and the DENR. The DA, MDFO and DENR will be responsible for providing budgetary allocations, channeling funds to project implementing agencies, management of the Bank's Special Accounts and the general oversight of project implementation. DA is the Lead Implementing Agency responsible for the Project. MDFO is an arm of the Department of Finance mandated to provide facilities for the transfer of resources from the national government to LGUs. NIA will be responsible for the implementation of the community irrigation component. The DENR will be responsible for the implementation of the CMBC component in collaboration with DA/BFAR. All the agencies follow accounting policies and procedures approved by COA as described above. DA, DENR and MDFO are managing the Special Accounts of several on-going Bank-financed Projects, and NIA is also implementing Bank-financed projects.

The financial management systems of all four agencies suffer from the inadequacies generally applicable to the public sector. These are being addressed through the Bank/COA sponsored FISFAP program. In addition, the Bank is financing the restructuring of the MDF through the recently approved Local Government Financial Development (LOGOFIND) Project. Financial management improvement is considered an important element of the restructuring. All four agencies are considered to have accounting systems meeting the minimum requirements of the Bank.

Assessment of Project LGUs. A financial management assessment of two provinces, North Cotabato and Sultan Kudarat was carried out by Bank FMS staff. The assessment included visits to two provincial government offices and nine municipal government offices of the two selected provinces. The organization of the finance departments of both the provincial and municipal governments is standard. The finance function consist of three departments: Treasury, Budget and Accounting. The functions at the Provincial LGUs were better organized and staffed by adequate and qualified staff. In contrast, almost all of the municipal finance functions were considered weak and in many cases not adequately staffed and will require significant improvements before they could be considered eligible to handle project funds. A detailed report of the financial management assessment is in the project files.

Financial Management Arrangements

Financial management capacity building will be an important project objective and the financial management arrangements are designed to achieve this. For APL 1, all financial management for the LGU component of the Project will be centralized at the Provincial level. The FMS assessment of the two initial provinces, North Cotabato and Sultan Kudarat found their accounting systems as meeting the minimum requirements as determined by OP/BP 10.02. An action plan to computerize the accounting system and improve the budget planning and project financial reporting has been agreed. In addition, TA shall be provided to build capacity at the Provincial level to carry out financial management improvement of the participating municipalities within the Province. The three central agencies associated with the Project – DA, NIA and MDF, are similarly subject to financial management capacity building under other Bank financed initiatives.

Certification of participating LGUs. The Program Coordination Office (PCO) will have a finance function headed by a qualified professional and adequate support staff to oversee the financial management of the project implementing agencies. As the proposed project is an APL and provinces and municipalities will be joining the project as implementation proceeds, it will not be feasible to carryout financial management assessment for all prospective participating units at the beginning of the Project. PCO, in collaboration with MDFO/BLGF, will be responsible for FMS assessment of the Provinces that will be joining the project during the remainder of APL 1. The assessment should be modelled on the assessments carried out for Cotabato and Sultan Kudarat. The assessment should result in the PCO certifying the eligibility of the Provinces to receive project funds before any loan proceeds are disbursed. In the case of Provinces with weak financial management systems, the PCO head will develop a time bound action plan to improve the systems. Financial Management Improvement Programs (FMIP) developed for the two pilot provinces will be used as models for developing FMIPs for future provinces. The PCO shall submit the FMS assessments of the Provinces and any FMIPs agreed for Bank review and no objection before authorizing disbursement of Project Funds.

The Provincial Finance Staff, with the assistance of the PCO, and in collaboration with the MDFO/BLGF, will be required carry out FMS assessment of all participating municipalities and agree a FMIP for each municipality. A model FMIP for one of the participating municipalities has been developed. Agreement has been reached to complete FMIPs for the remaining ten municipalities of the two pilot Provinces. Provincial finance staff and the PCO will be responsible for monitoring the implementation of FMIPs. The Bank will review annually the progress in achieving improvements in financial management at both the Provincial and municipal LGUs.

Funds Flow and Accounting. The World Bank funds will be channeled through two conduits, viz. MDF and the DA; the GEF Grant funds would go through DENR. In all the following cases, MDF and DA will advance from its own sources adequate working funds for project disbursement. The Bank funds will be disbursed against claims of reimbursement of sub-project expenditures. The fund flow and the accounting arrangements are structured as follows:

(a) The Municipal Development Fund will be used for channeling funds for the *Rural Infrastructure component* to: the Provincial LGUs which will manage funds and related accounting on behalf of project implementing municipalities; and to NIA, which is responsible for implementing the *community irrigation component.*

(b) The MDF will also channel funds for the *Community Fund for Agriculture Development component* directly to implementing municipalities. Although the municipalities do not have adequate financial management systems, a recommendation is made to channel Bank funds directly for the following reasons. First, the amount of funds involved is modest (less than $40,000 of Bank funding per municipality). Second, and more importantly, the proposal underpins the basic objective of the program of creating capacity at the municipal levels to receive and account for funds, and reinforce the participatory context of the program. The use of these funds will be closely supervised by the Provincial LGU and the PCO, and Bank funds would be disbursed against approved sub-projects.

(c) The funds for *Institutional/Implementation Support* will be channeled through the Department of Agriculture (DA); while the GEF Grant funds for the *CMBC component* will be channeled though DENR.

The MDF, DA and DENR will maintain the Bank's Special Accounts for their respective components. On authorization of budget allotment by DBM, funds not exceeding three months of estimated expenditures will be advanced by the MDF out of its own resources to the participating PIAs. The PIAs will request replenishment of funds from MDF from time to time based on submission of Statement of Expenditures. MDF, DA and DENR will be responsible for submission of Withdrawal Application to the Bank for replenishment of the Special Account.

The PIAs will be responsible for maintaining all accounting records. In case of the expenditure incurred on behalf of municipalities, the Provincial Government will be responsible for all disbursement and accounting for loan funds except for the Community Fund for Agriculture Development which will flow directly to the municipalities. The Provincial Accounting Departments will maintain a separate bank account for each municipality for project receipts and disbursements. The province shall maintain separate books for accounts to record project transactions for each participating municipality as well as its own account. All supporting documents shall be properly filed under a good filing system. The PCO will be responsible for consolidating the project accounts for submission to MDFO and the Bank. The participating municipalities will be responsible for maintaining separate accounts for the community funds. The municipalities will open a separate bank account to deposit funds received from the MDF and account for all disbursements. The municipalities will prepare annual financial statements and submit to the Provinces and PCO.

The accounting for project components to be implemented by DA, NIA and DENR will be maintained by the respective agencies. They will be responsible for maintaining separate bank accounts and separate project accounts. All quarterly and annual financial reports shall be submitted to PCO for consolidation.

Reporting The PIAs (Provincial LGUs and other implementing agencies) will be responsible for preparing annual budgets and quarterly project management reports (PMR) required under the Bank's LACI requirements. Initially, the following reports will be prepared by each PIA: (i) a summary uses and sources of funds (Report 1-A of PMR); (ii) uses of funds by project activity (Report 1-B); and (iii) Procurement Monitoring Reports (Reports 3 A, B, C and D). The PCO will consolidate these reports and in addition produce, annually, a Project Balance Statement of Affairs.

Audit. COA will be responsible for the annual audit of all PIAs and the consolidated financial statements prepared by the PCO, audit of the withdrawal applications and the supporting SOEs and documentation and the operations of the Special Account. The consolidated audited financial statements prepared by the PCO will be submitted to the Bank within six months os the end of the project financial year. To enable the PCO to meet this deadline, the PIAs will submit the audited accounts for their respective areas of responsibility to the PCO within three months of the end of the financial year. The annual audit will be conducted in accordance with the requirements of the Audit Manual for World Bank-Financed Projects issued by East Asia & Pacific Region in July 1998.

Financial Management Improvement Program for the Municipalities

A primary objective of the project is the capacity building at the LGU level, for both the provinces and municipalities. As the project is an APL, with four phases spanning over an implementation period of about fifteen years, an ultimate objective shall be to develop the capacity at municipality level for project planning, implementation and financial management. The project provinces are therefore required to develop well defined financial management improvement programs for the participating municipalities, with a view to graduating each municipality to receive and manage funds directly from MDF for development projects.

In developing the FMIP, the Provincial FMO in collaboration with the BLGF and the MDFO should carry out a financial management assessment of the participating municipalities based on a agreed Financial Management Review Checklist. The review should determine the adequacy of financial management systems and controls for the whole of the municipality operations. The review should result in agreeing with the municipality an action plan to address the deficiencies of the financial management system identified during the assessment. The action plan should list each weakness or issue/problem, remedial action, responsible officer for implementing the remedial action and the planned completion date. The action plan should result in improvements to the financial management system over a reasonable period of time leading on to the graduation of the municipality to an acceptable financial management capability that would allow direct receipt of future project fund allocations.

The PCO shall be responsible for reviewing the performance of each province in developing and implementing FMIPs for the municipalities. The FMIPs shall be modeled on those developed for the provinces with suitable modifications to take into account the needs/capabilities of each municipality.

Disbursement

Allocation of loan proceeds (Table C)
Disbursement of the proceeds of the loan would be made against expenditure categories as shown in Table C.

Use of Statement of Expenditures (SOEs)

For civil works and goods contracts below US$100,000, consulting firm contracts below US$100,000 equivalent, individual consultants contracts below US$50,000 equivalent, grants and all administrative, operational and training expenditures, withdrawal applications will be supported by Statement of Expenditures (SOEs). For civil works and goods contracts over US$100,000 equivalent, consulting firms contracts over US$100,000 equivalent and individual consultants contracts over US$50,000 equivalent, withdrawal applications shall be supported by full documentation and signed contracts.

Special Account (SA)

To facilitate loan disbursements, Special Accounts (SAs) will be established with MDFO, DA, and DENR to finance all project related expenses. The MDFO, DA and DENR will open and maintain separate special deposit accounts, in a commercial bank specifically authorized for this purpose by the Banko Sentral ng Pilipinas, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. The SAto be opened by MDFO which would cover the Bank's share of eligible expenditures in all disbursement categories, would have an authorized allocation of US$1.8 million with an initial withdrawal of US$1.0 million to be withdrawn from the Loan Account and deposited in the respective SA. The balance shall be withdrawn when the amounts disbursed and committed total US$9.0 million. The SA to be opened by DA which would cover the Bank's share of eligible expenditures in all disbursement categories would have an authorized allocation of US$ 200,000; similarly, the SA to be opened by the DENR would cover eligible expenditures covered by the GEF Grant, and would have an authorized allocation of US$100,000. Applications to replenish the SA, supported by appropriate documentation, would be submitted regularly (preferably monthly, but not less than quarterly) or when the amounts withdrawn equal 50 percent of the initial deposit. The SAs shall be audited annually by auditors acceptable to the Bank.

Annex 6, Table A: Project Costs by Procurement Arrangements
(in US$ million equivalent)

Expenditure Category	Procurement Method a/					Total Cost (including contingencies)
	National Competitive Bidding	Small Works	Other	National Shopping	N.B.F e/	
(1) Works	11.9 (9.5)	4.5 (3.6)	9.6 b/ (7.7)		0.5 f/ (0.0)	26.5 (20.8)
(2) Goods	0.7 (0.6)			0.8 (0.7) [0.1]		1.5 (1.3) [0.1]
(3) Community Funds			5.9 c/ (3.2)			5.9 (3.2)
(4) Consultants' Services and Training			2.7 d/ (1.5) [1.15]		1.8 (0.0)	4.5 (1.5) [1.15]
(5) Operating Costs			0.3 d/ (0.3)	0.5 (0.1)	1.8 (0.0)	2.6 (0.4)
(6) Front-end Fee			0.3 (0.3)			0.3 (0.3)
Total	12.6 (10.1)	4.5 (3.6)	18.8 (13.0) [1.15]	1.3 (0.8) [0.1]	4.1 (0.0)	41.3 (27.5) [1.25]

Note: a/ Figures in (...) are the amounts to be financed by the World Bank loan; figures in [...] are the amounts to be financed by the GEF grant.

b/ Includes civil works to be procured through Force Account/Community Participation by National Irrigation Authority U$ 8.2 million (US$ 6.6 million); and water supply US$1.38 million (US $ 1.1 million) to be procured by Community Participation in Procurement methods.

c/ Includes items to be procured for the Community Funds component as outlined under Community Participation in Procurement section.

d/ Consultancy services, services of contracted staff of the project coordination office, training, and incremental operating costs related to (i) coordinating the activities of the project, (ii) and LGU institutional development and capacity building.

e/ N.B.F. = Not Bank-financed includes contributions to the project by the central and local government in terms of staff services, and GEF grant funds

f/ routine maintenance works on roads to be funded by the relevant LGU

Annex 6, Table A1: Consultant Selection Arrangements
(in US$ million equivalent)

Consultant Services Expenditure Category	Selection Method							Total Cost (including contingencies)
	QCBS	QBS	SFB	CQ	Single Source	Other	N.B.F.	
A. Firms	0.5 (0.5)			1.2 (0.6) [0.2]				1.7 (1.1) [0.2]
B. Individual Consultants	0.5 (0.0) [0.5]			1.0 (0.4) [0.5]			1.3 (0.0)	2.8 (0.4) [1.0]
Total	1.0 (0.5) [0.5]			2.2 (1.0) [0.7]			1.3 (0.0)	4.5 (1.5) [1.2]

Note: QCBS= Quality- and Cost-Based Selection
QBS = Quality-based Selection
SFB = Selection under a Fixed Budget
CQ = Selection Based on Consultants' Qualifications
Single Source Selection not to exceed $100,000 per assignment
Other = Selection of Individual Consultants (per Section V of Consultants Guidelines), Commercial Practices, etc.

N.B.F. = Not Bank-financed
Figures in (...) are the amounts to be financed by the Bank loan; figures in [...] are the Amounts to be financed by the GEF grant.

Annex 6, Table B: Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value (Threshold)	Procurement Method	Contracts Subject to Prior Review / Estimated Total Value Subject to Prior Review
	US $		US $ million
(1) Works	Less than $ 1 million	National Competitive Bidding (NCB)	All Contracts more than $100,000 (3.2)
	Less than $100,000	Procurement of Small Works – simplified bidding	First Contract per LGU each year (6.0)
	Not applicable	Force Account	No prior review
(2) Goods	Less than $200,000	National Competitive Bidding (NCB)	Contracts more than $100,000 (0.3)
	Less than $50,000	National Shopping	First 3 Contracts including for NCB (0.04)
(3) Community Funds	Less than $50,000	Community Participation direct contracting for communities and NGOs	No prior review
(4) Consultants' Services and Training			
Individual	Less than $50,000 More than $50,000	Single Source Single Source	None All (0.2)
Firm	Less than $100,000 More than $100,000	Single Source QCBS	None All (1.0)
		Total value of contracts subject to prior review:	10.84

Annex 6, Table C1: Allocation of Loan Proceeds
(in US$ million equivalent)

Expenditure Category	Amount in US$million	Financing Percentage
(1) Works	19.9	80
(2) Goods under:		100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 90% of local expenditures for other items procured locally
(a) Rural Infrastructure Component	0.1	
(b) Institutional/Implementation Support	1.1	
(3) Community Funds	3.3	55
(4) Consultants' Services and Training under:		
(a) Rural Infrastructure Component	0.2	100
(b) Institutional/Implementation Support	0.9	100
(5) Incremental Operating Costs for:		
(a) Calendar year 2000	0.2	30
(b) Calendar year 2001	0.2	30
(c) Calendar year 2002	0.1	30
(6) Front-end Fee	0.3	
(7) Unallocated	1.2	
Total	27.5	

Annex 6, Table C2: Allocation of GEF Proceeds

Expenditure Category	Amount (Expressed in SDR Equivalent)	Financing Percentage
(1) Goods	105,000	100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 90% of local expenditures for other items procured locally
(2) Consultant's services	680,000	100
(3) Training, study tours, and workshops	100,000	100
(4) Incremental Operating Costs of DA for:		
(a) Calendar year 2000	3,700	70
(b) Calendar year 2001	3,700	70
(c) Calendar year 2002	3,700	70
(5) Incremental Operating Costs of DENR for:		
(a) Calendar year 2000	3,700	70
(b) Calendar year 2001	3,700	70
(c) Calendar year 2002	3,700	70
(3) Unallocated	92,800	
Total	1,000,000	

Annex 7
Philippines: Mindanao Rural Development Project
Project Processing Budget and Schedule

A. Project Budget (US$000)	Planned (At final PCD stage)	Actual
Bank Budget	US$310,000	US$314,600

B. Project Schedule	Planned (At final PCD stage)	Actual
Time taken to prepare the project (months)	8	9
First Bank mission (identification)	04/20/1998	04/20/1998
Appraisal mission departure	05/10/1999	05/30/1999
Negotiations	07/15/1999	08/23/1999
Planned Date of Effectiveness	01/01/2000	01/15/2000

Prepared by: Staff from the Department of Agriculture (within the Project Management Office in Mindanao), and from Local Government Units (LGUs) in North Cotabato and Sultan Kudarat provinces, with consultant assistance

Preparation assistance: Japanese PHRD Grant

Bank staff who worked on the project included:

Name	Specialty
Rahul Raturi	Team Leader/Economist
Mary Judd	Anthropologist
Sally Burningham	Roads Engineer
Carolina V. Figueroa-Geron	Economist/M&E
Wijaya Wickrema	Financial Management
Ronald Zweig	Agricultural Ecologist
Dominic Aumentado	Procurement
Joseph Reyes	Financial Management
Pawan Patil	Economist/YP
Margaret Png	Legal Counsel
Hung Kim Phung	Disbursement Officer
Uma Lele	Peer Reviewer
Christina Malmberg-Calvo	Peer Reviewer
Matrice Denny	Team Assistant

Annex 8
PHILIPPINES: MINDANAO RURAL DEVELOPMENT PROJECT
Documents in the Project File*

A. Project Implementation Plan
Mindanao Rural Development Program (MRDP): Feasibility Study of APL 1 – Final Report; Prepared by MRDP Team and Consultants, March 1999
Implementation/Operational Manual, covering:

- Rural Infrastructure
- Community Fund
- Monitoring and Evaluation
- Social and Environmental Assessments
- Overall Program Implementation

B. Bank Staff Assessments
Bank Mission Aide Memoires, and related Back to Office Reports

- Identification Mission – April/May 1998
- Post Elections Follow-Up Mission – July 1998
- Preparation Assistance Mission – October/November 1998
- Pre-Appraisal Mission – February/March 1999
- Appraisal Mission – May/June 1999

Power Point/Slide Presentations on Program Design for Consultations/Wrap Ups; Associated with Bank Missions
LGU Financial Management Assessment – Cotabato and Sultan Kudarat LGUs, December 1998
Detailed Project Costs
Working Papers on Fiscal Analysis, Project Economic Analysis

C. Other
Video of Consultations/Workshops on Program Design, Held during July 1998, with DA, and LGU and local leaders in Cotabato and Sultan Kudarat Provinces.
Social Assessment of Sultan Kudarat; Prepared by the University of Southern Mindanao Agricultural Research Center, November 1998
Social Assessment of Cotabato; Prepared by the University of Southern Mindanao Agricultural Research Center, November 1998
Development Challenges Amidst Natural Abundance: The Results of the Social Assessment (Qualitative Component) for the MRDP; Prepared by the Cotabato Agribusiness Development and Technology Center (CADTEC), Inc., December 1998
MRDP: Social Assessment and Analysis for Cotabato and Sultan Kudarat; May 1999; Prepared by Maria Ines Pinat Bagadion (Consultant), in association with the University of Southern Mindanao, and CADTEC

*Including electronic files.

Annex 9
Status of Bank Group Operations in Philippines
Operations Portfolio
As of 12-Jul-99

Project ID	Fiscal Year	Borrower	Purpose	Original Amount in US$ Millions: IBRD	IDA	Cancellations	Undisbursed	Difference Between expected and actual disbursements a/: Orig	Frm Rev'd
Number of Closed Projects: 128									
Active Projects									
PH-PE-39022	1999	PHILIPPINES	LGU URB&WATER SANITA	23.30	0.00	0.00	23.07	-.23	0.00
PH-PE-48588	1999	REPUBLIC OF THE PHILIPPIN	LGU FINANCE AND DEV	100.00	0.00	0.00	100.00	0.00	0.00
PH-PE-56524	1999		BANK'G SYS REF (FSAL	300.00	0.00	0.00	200.00	0.00	0.00
PH-PE-57598	1999	LBP	RURAL FINANCE III	150.00	0.00	0.00	150.00	30.00	0.00
PH-PE-57624	1999	DEVELOPMENT BANK OF THE P	PRIVATE ENT CREDIT	150.00	0.00	0.00	150.00	9.00	0.00
PH-PE-4566	1998	REP OF PHILS	EARLY CHILD DEV.	19.00	0.00	0.00	18.10	1.10	0.00
PH-PE-4576	1998	GOP	WATER DISTRICT DEV.	56.80	0.00	0.00	56.80	17.70	0.00
PH-PE-4595	1998	GOP	COMMUNITY BASED RESO	50.00	0.00	0.00	48.50	5.40	0.00
PH-PE-51386	1998	GOP	SZOPAD SOCIAL FUND	10.00	0.00	0.00	8.22	2.22	0.00
PH-PE-37079	1997	GOP	AGRARIAN REFORM COMM	50.00	0.00	0.00	42.60	5.90	0.00
PH-PE-40981	1997	SUBIC BAY METRO. AUTH.	SECOND SUBIC BAY	60.00	0.00	0.00	57.63	48.62	0.00
PH-PE-4602	1997	REP OF PHILS.	THIRD ELEM EDUCATION	113.40	0.00	0.00	110.33	52.49	0.00
PH-PE-4613	1997	GOP	WATER RESOURCES DEVE	58.00	0.00	0.00	52.64	27.64	0.00
PH-PE-4571	1996	GOP	TRANS GRID REINFORCE	250.00	0.00	0.00	152.67	7.83	0.00
PH-PE-4611	1996	GOP	MNLA 2ND SEWERAGE PR	57.00	0.00	9.00	47.00	42.00	.30
PH-PE-4614	1996	LBP	RURAL FINANCE II	150.00	0.00	0.00	24.07	-19.93	0.00
PH-PE-4567	1995	GOVT OF THE PHILS	WOMENS HEALTH & SAFE	18.00	0.00	0.00	14.66	5.66	0.00
PH-PE-4584	1994	NPC AND PNOC	LEYTE CEBU GEOTHERMA	211.00	0.00	10.97	14.80	25.75	14.78
PH-PE-4607	1994	GOV OF PHILIPPINES	LEYTE LUZON GEOTHERM	227.00	0.00	49.67	27.45	77.09	27.42
PH-PE-4568	1993	GOP	URB HEALTH & NUTRITI	0.00	70.00	0.00	47.28	38.43	0.00
PH-PE-4589	1993	GOP	IRRIG OPER SUPP II	51.30	0.00	0.00	18.72	18.73	0.00
PH-PE-4538	1992	GOP	SECOND VOCATIONAL TR	0.00	36.00	0.00	8.77	7.83	0.00
PH-PE-4592	1992	GOP	MUNICIPAL DEV III	68.00	0.00	0.00	24.74	24.75	3.48
PH-PE-4597	1992	GOP	HIGHWAY MANAGEMENT P	150.00	0.00	0.00	29.83	31.03	4.70
PH-PE-4558	1991	GOVT. OF PHILS.	ENV. & NAT. RES. MGT	158.00	66.00	0.00	14.49	11.21	0.00
PH-PE-4572	1991	ROP	COMMUNAL IRRIG. II	46.20	0.00	6.58	8.56	15.17	-.81
PH-PE-4552	1990	R.P.	COCONUT FARMS DEVT.	121.80	0.00	.85	28.60	29.45	22.05
Total				2,648.80	172.00	77.07	1,479.53	514.84	71.92

	Active Projects	Closed Projects	Total
Total Disbursed (IBRD and IDA):	1,276.74	6,906.49	8,183.23
of which has been repaid:	58.10	3,875.89	3,933.99
Total now held by IBRD and IDA:	2,685.63	3,050.61	5,736.24
Amount sold :	0.00	31.35	31.35
Of which repaid :	0.00	31.35	31.35
Total Undisbursed :	1,479.53	19.98	1,499.51

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Note:

Disbursement data is updated at the end of the first week of the month and is currently as of 30-Jun-99.

Philippines
STATEMENT OF IFC's
Committed and Disbursed Portfolio
As of 31-Jul-99
(In US Dollar Millions)

		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
0/97/98	Far East Bank	70.00	15.00	0.00	50.00	47.36	15.00	0.00	50.00
1967/88	MERALCO	6.90	0.00	0.00	0.00	6.90	0.00	0.00	0.00
1970/86/88/89	PLDT	8.74	0.00	0.00	7.39	8.74	0.00	0.00	7.39
1974/79	Maria Cristina	0.00	.44	0.00	0.00	0.00	.44	0.00	0.00
1979/90	General Milling	0.00	1.73	0.00	0.00	0.00	1.73	0.00	0.00
1980/82/89/90/94/95	AACT	18.22	2.73	0.00	0.00	18.22	2.73	0.00	0.00
1989	H&QPV-I	0.00	.61	0.00	0.00	0.00	.61	0.00	0.00
1990	Avantex Mill	5.63	1.98	0.00	0.00	5.63	1.98	0.00	0.00
1992	Bacnotan	2.80	5.63	0.00	2.00	2.80	5.63	0.00	2.00
1992	Pilipinas Shell	0.00	0.00	10.57	0.00	0.00	0.00	10.57	0.00
1993	H&QPV-II	0.00	2.50	0.00	0.00	0.00	2.40	0.00	0.00
1993	Pagbilao	45.00	10.00	0.00	7.00	45.00	10.00	0.00	7.00
1993/94	Mindanao Power	0.00	4.26	0.00	0.00	0.00	4.26	0.00	0.00
1994	Walden Mgmt	0.00	.05	0.00	0.00	0.00	.05	0.00	0.00
1994	Walden Ventures	0.00	3.75	0.00	0.00	0.00	3.75	0.00	0.00
1995	Sual Power	30.00	17.50	0.00	196.00	26.10	17.50	0.00	157.50
1996	All Asia Growth	0.00	4.00	0.00	0.00	0.00	4.00	0.00	0.00
1996	All Asia Manager	0.00	.04	0.00	0.00	0.00	.04	0.00	0.00
1996	All Asia Venture	0.00	.01	0.00	0.00	0.00	.01	0.00	0.00
1998	Drysdale Food	15.00	0.00	0.00	0.00	8.00	0.00	0.00	0.00
1998	H&Q PV III	0.00	7.50	0.00	0.00	0.00	1.35	0.00	0.00
1998	Pryce Gases	13.00	0.00	0.00	0.00	3.00	0.00	0.00	0.00
1999	TRP	0.00	.05	0.00	0.00	0.00	.05	0.00	0.00
1999	UPPC	30.00	0.00	0.00	0.00	27.50	0.00	0.00	0.00
Total Portfolio:		245.29	77.78	10.57	262.39	199.25	71.53	10.57	223.89

		Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic
1997	BATAAN P/E	30.00	0.00	10.00	163.00
1999	CEPALCO	16.00	0.00	6.00	0.00
1997	MAGSAYSAY LINES	8.00	3.00	0.00	26.50
1967	MANILA ELECTRIC	0.00	0.00	0.00	.36
1998	PRYCE GASES	0.00	0.00	3.00	0.00
1997	PT&T	30.00	5.00	0.00	30.00
1999	UPPC	0.00	0.00	10.00	0.00
1998	2-Feb	0.00	0.00	0.00	15.00
Total Pending Commitment:		84.00	8.00	29.00	234.86

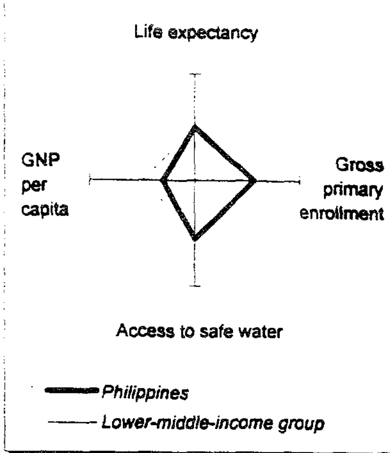
ANNEX 10

Philippines at a glance

9/7/99

POVERTY and SOCIAL	Philippines	East Asia & Pacific	Lower-middle-income
1998			
Population, mid-year *(millions)*	75.1	1,817	908
GNP per capita *(Atlas method, US$)*	1,050	990	1,710
GNP *(Atlas method, US$ billions)*	78.9	1,802	1,557
Average annual growth, 1992-98			
Population *(%)*	2.3	1.2	1.1
Labor force *(%)*	2.7	1.6	1.5
Most recent estimate (latest year available, 1992-98)			
Poverty *(% of population below national poverty line)*	38	..	..
Urban population *(% of total population)*	57	35	58
Life expectancy at birth *(years)*	68	69	68
Infant mortality *(per 1,000 live births)*	35	37	38
Child malnutrition *(% of children under 5)*	30	20	..
Access to safe water *(% of population)*	83	77	75
Illiteracy *(% of population age 15+)*	5	15	14
Gross primary enrollment *(% of school-age population)*	116	117	103
Male	..	119	105
Female	..	118	100

Development diamond*

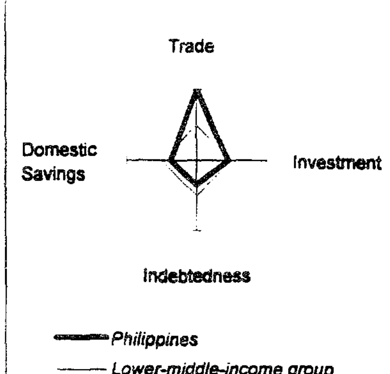


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1977	1987	1997	1998
GDP *(US$ billions)*	19.7	33.1	82.2	65.1
Gross domestic investment/GDP	30.6	17.5	24.9	20.5
Exports of goods and services/GDP	21.1	26.7	49.1	55.7
Gross domestic savings/GDP	27.6	18.0	14.5	16.3
Gross national savings/GDP	..	17.9	20.2	21.7
Current account balance/GDP	-3.8	-1.3	0.4	7.4
Interest payments/GDP	1.1	4.0	2.1	3.0
Total debt/GDP	41.6	89.9	55.3	73.4
Total debt service/exports	15.2	36.0	8.0	10.3
Present value of debt/GDP	..	..	52.7	..
Present value of debt/exports	..	..	76.2	..

	1977-87	1988-98	1997	1998	1999-03
(average annual growth)					
GDP	1.1	3.0	5.2	-0.5	4.8
GNP per capita	-1.6	1.3	3.0	-2.1	2.7
Exports of goods and services	4.7	9.2	17.5	-10.4	6.1

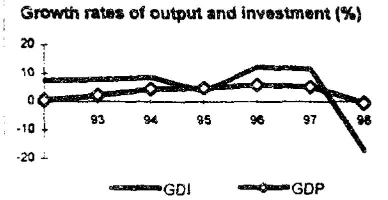
Economic ratios*



STRUCTURE of the ECONOMY

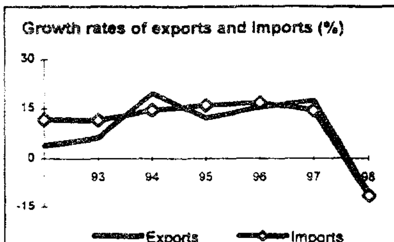
	1977	1987	1997	1998
(% of GDP)				
Agriculture	28.7	24.0	18.7	16.9
Industry	36.3	34.4	32.2	31.6
Manufacturing	25.4	24.8	22.3	21.9
Services	34.9	41.6	49.1	51.5
Private consumption	62.2	73.6	72.5	70.4
General government consumption	10.3	8.4	13.0	13.3
Imports of goods and services	24.1	26.2	59.4	59.9

Growth rates of output and investment (%)



	1977-87	1988-98	1997	1998
(average annual growth)				
Agriculture	1.1	1.5	2.9	-6.6
Industry	-0.6	3.1	6.1	-1.8
Manufacturing	-0.3	2.7	4.2	-1.1
Services	2.7	3.7	5.5	3.5
Private consumption	2.0	3.7	3.0	2.7
General government consumption	-0.7	3.5	1.6	0.8
Gross domestic investment	-4.5	4.8	11.7	-17.1
Imports of goods and services	1.4	10.4	14.4	-11.4
Gross national product	0.8	3.7	5.3	0.1

Growth rates of exports and imports (%)

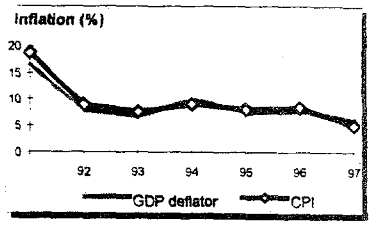


Note: 1998 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

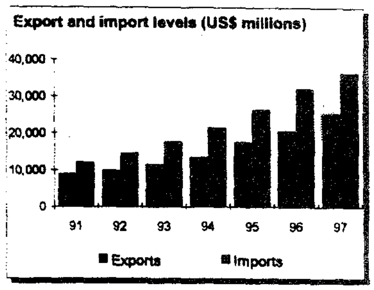
PRICES and GOVERNMENT FINANCE

	1976	1986	1996	1997
Domestic prices				
(% change)				
Consumer prices	9.2	0.8	8.4	5.1
Implicit GDP deflator	8.3	3.0	7.8	6.0
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	13.0	18.9	.
Current budget balance	..	1.4	..	..
Overall surplus/deficit	..	-5.0	0.3	..



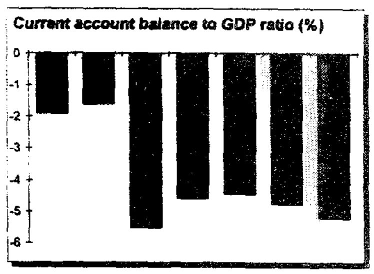
TRADE

	1976	1986	1996	1997
(US$ millions)				
Total exports (fob)	..	4,842	20,543	25,228
Coconut oil	..	333	571	673
Sugar	..	103	136	83
Manufactures	..	2,672	17,106	21,488
Total imports (cif)	..	5,044	31,885	36,355
Food	..	193	1,578	1,435
Fuel and energy	..	869	3,008	3,074
Capital goods	..	839	10,472	14,369
Export price index *(1995=100)*	..	76	100	..
Import price index *(1995=100)*	..	61	101	..
Terms of trade *(1995=100)*	..	124	99	..



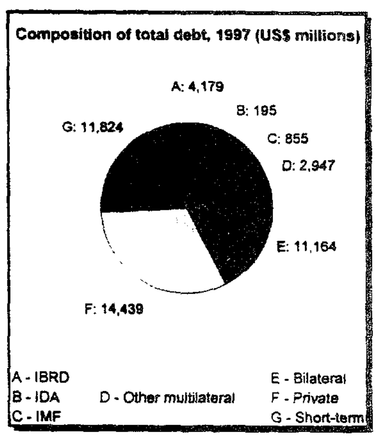
BALANCE of PAYMENTS

	1976	1986	1996	1997
(US$ millions)				
Exports of goods and services	3,262	7,702	27,627	34,359
Imports of goods and services	4,381	5,868	41,371	50,477
Resource balance	-1,119	1,834	-13,744	-16,118
Net income	-253	-1,321	9,202	10,735
Net current transfers	268	441	589	1,080
Current account balance	-1,105	954	-3,953	-4,303
Financing items (net)	1,051	184	8,060	7,666
Changes in net reserves	54	-1,138	-4,107	-3,363
Memo:				
Reserves including gold *(US$ millions)*	..	..	11,745	8,768
Conversion rate *(DEC, local/US$)*	7.4	20.4	26.2	29.5

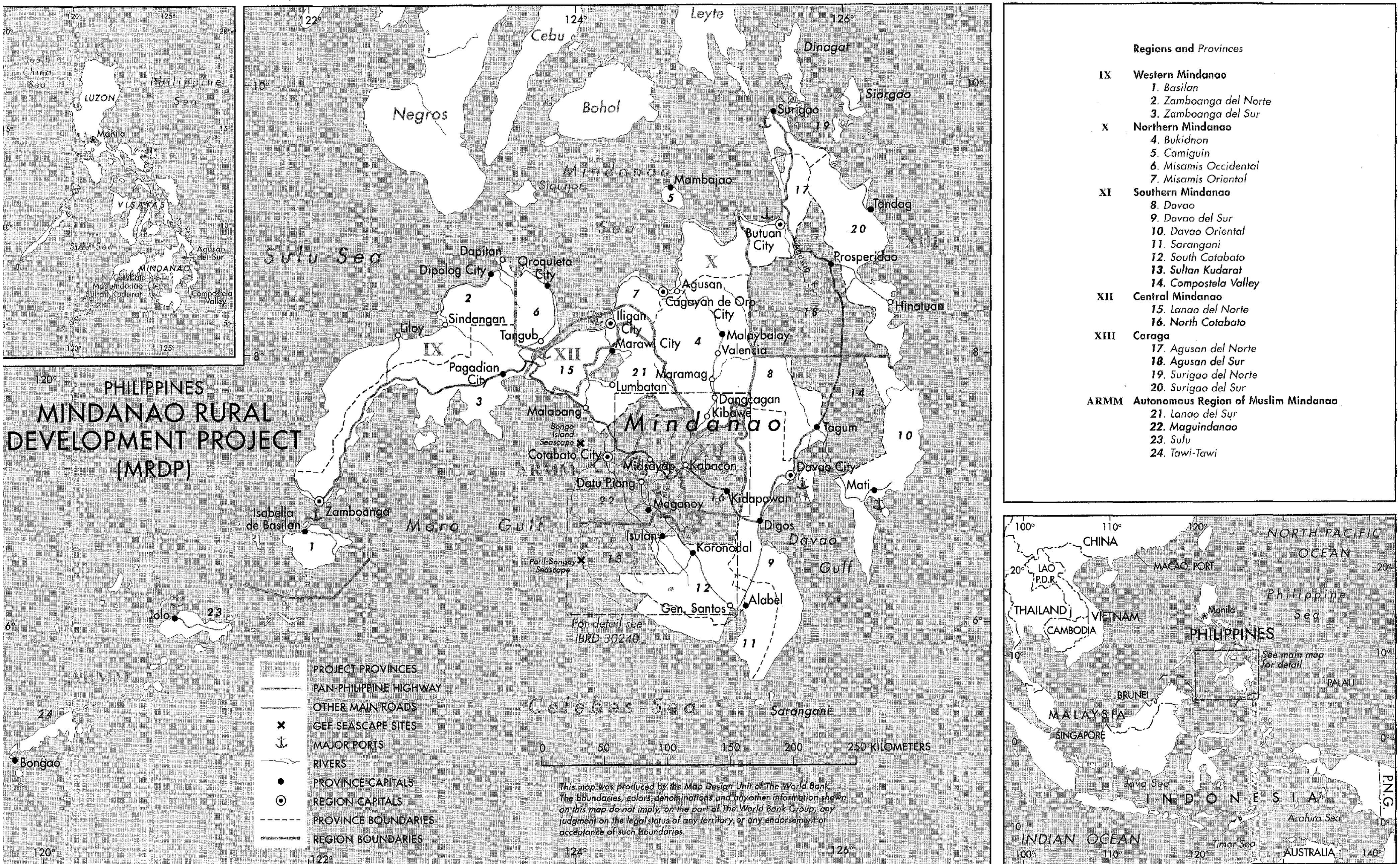


EXTERNAL DEBT and RESOURCE FLOWS

	1976	1986	1996	1997
(US$ millions)				
Total debt outstanding and disbursed	6,039	28,204	41,214	45,603
IBRD	316	3,017	4,666	4,179
IDA	27	92	193	195
Total debt service	571	2,961	5,778	4,463
IBRD	35	406	766	709
IDA	0	1	3	3
Composition of net resource flows				
Official grants	61	401	246	260
Official creditors	212	198	-310	107
Private creditors	883	294	1,859	3,022
Foreign direct investment	132	127	1,408	1,253
Portfolio equity	0	0	1,333	0
World Bank program				
Commitments	226	151	528	60
Disbursements	102	197	457	305
Principal repayments	14	170	426	409
Net flows	88	27	31	-104
Interest payments	20	238	343	303
Net transfers	68	-210	-312	-408

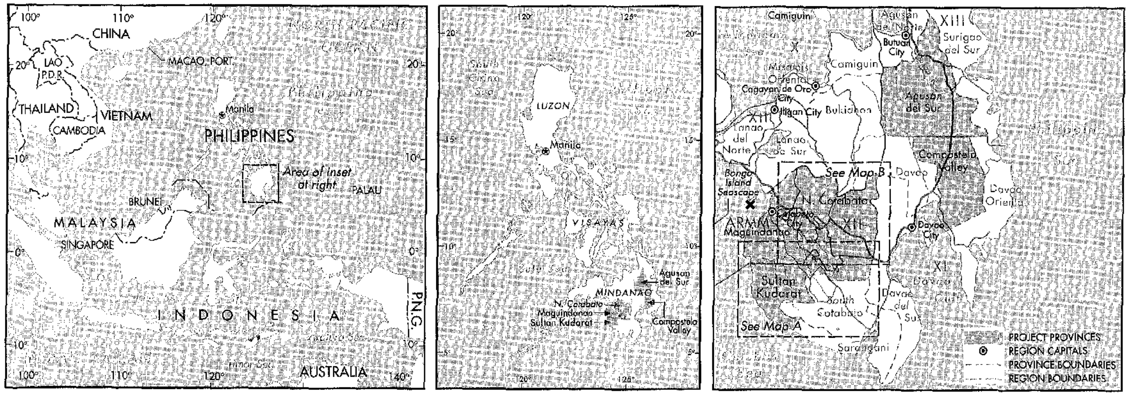


IBRD 30240



SEPTEMBER 1999

IBRD 30241



PHILIPPINES

MINDANAO RURAL DEVELOPMENT PROJECT (MRDP)

YEAR 1 PROJECT PROVINCES: SULTAN KUDARAT AND NORTH COTABATO

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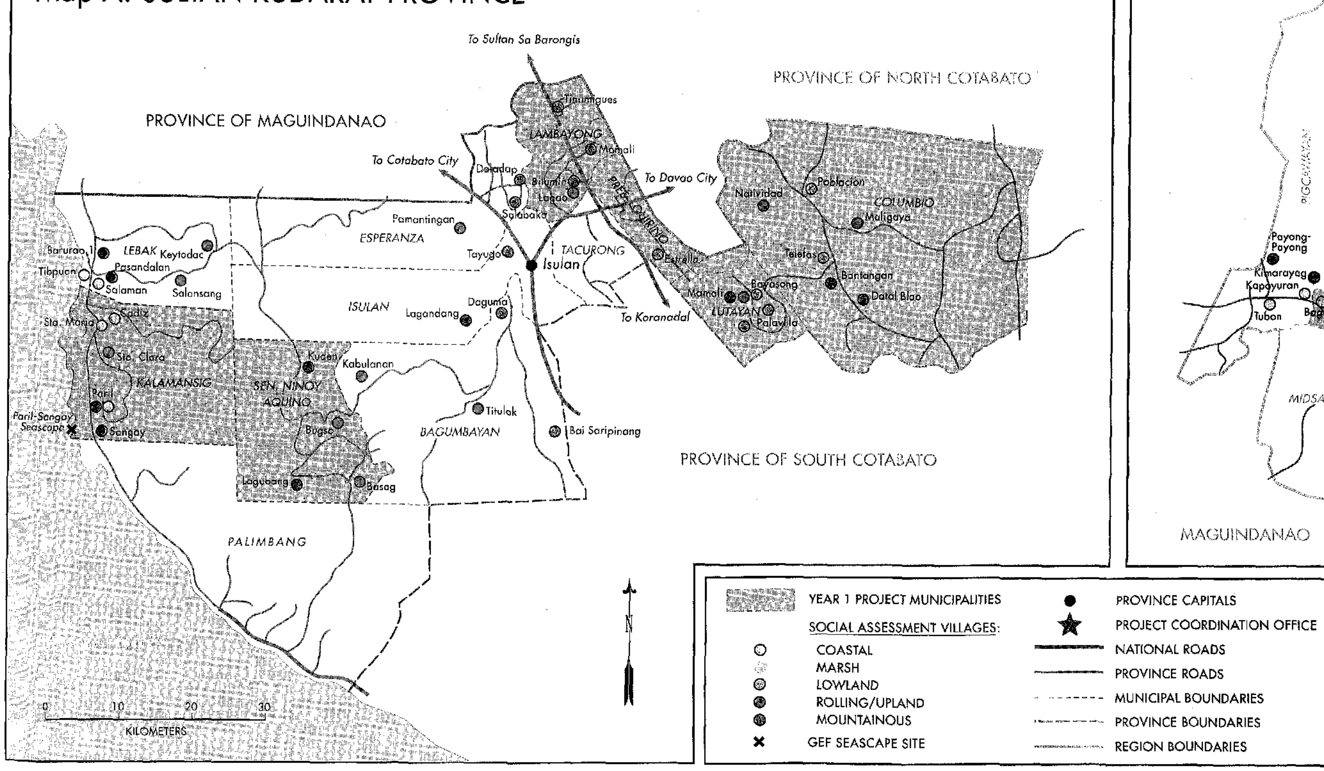
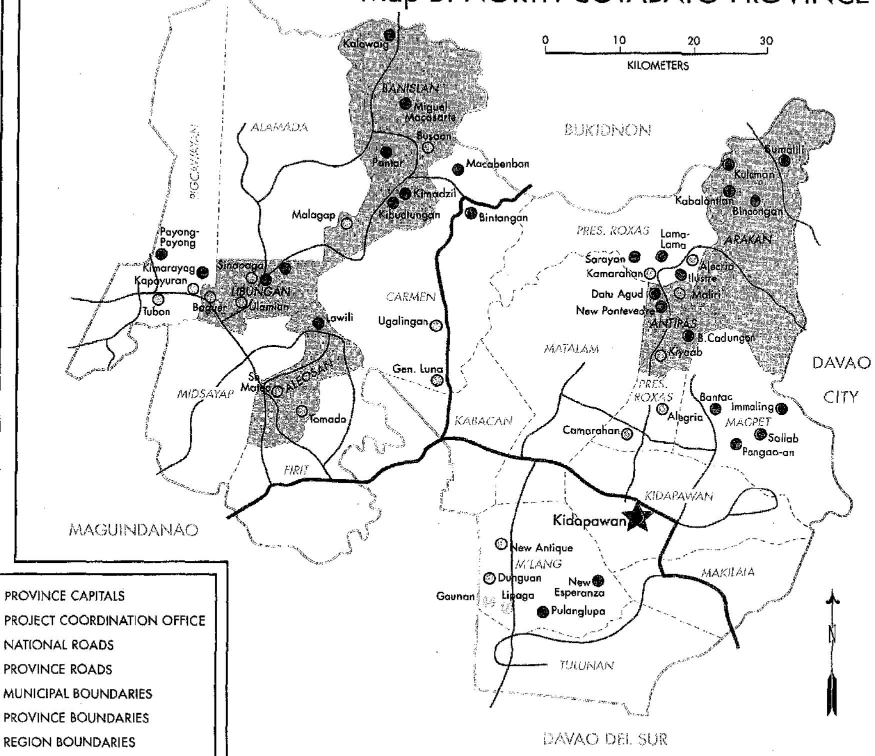
Map A: SULTAN KUDARAT PROVINCE



Map B: NORTH COTABATO PROVINCE



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