

Document: EB 2015/115/R.12
Agenda: 6(b)(iii)
Date: 12 August 2015
Distribution: Public
Original: English

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President's report

Proposed loan to the Republic of the Philippines for the Fisheries, Coastal Resources and Livelihood Project (FishCORAL)

Note to Executive Board representatives

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Executive Board — 115th Session
Rome, 15-16 September 2015

For: Approval

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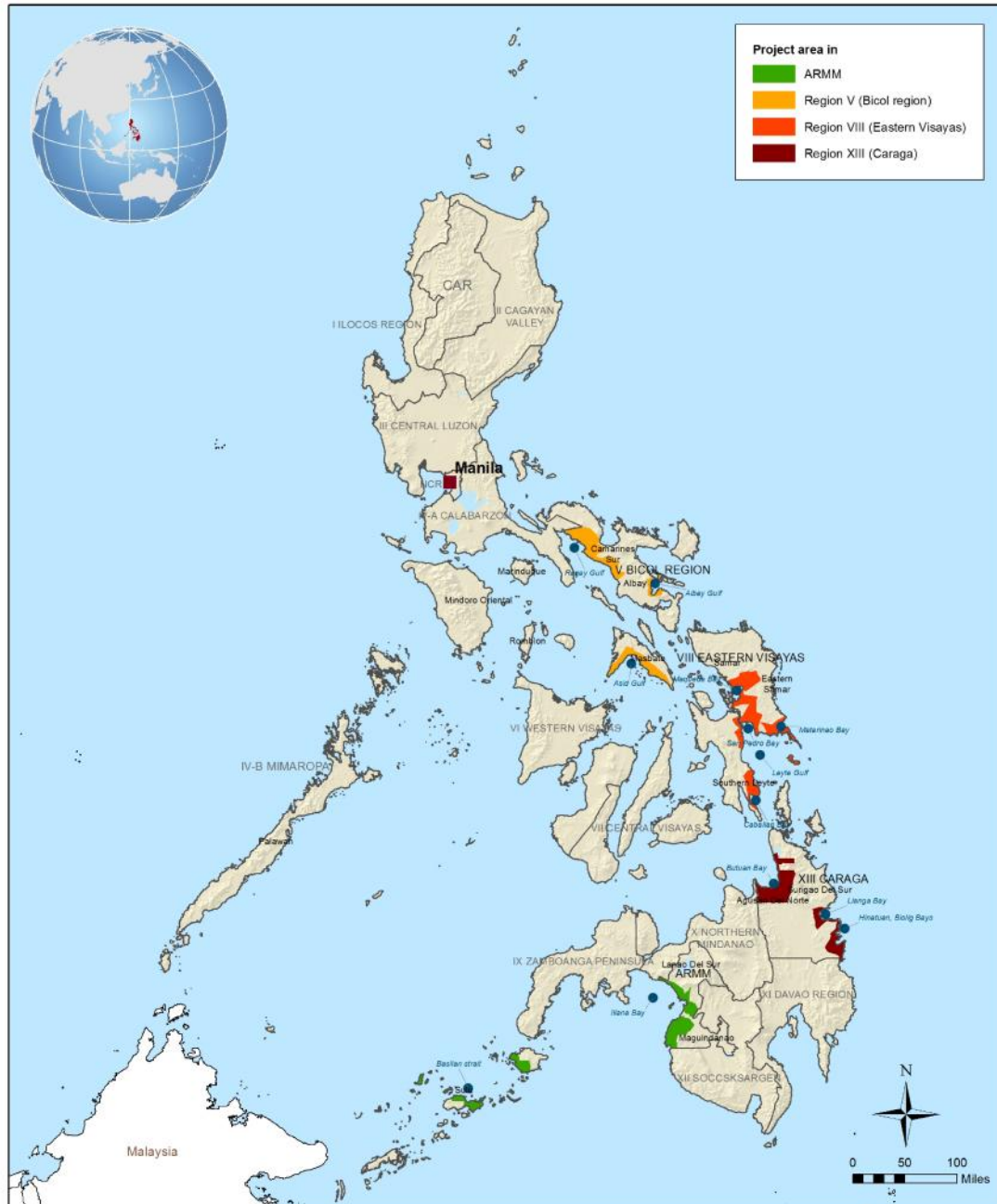
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|-----------|--|
| ARMM | Autonomous Region in Muslim Mindanao |
| AWP/B | annual workplan and budget |
| BFAR | Bureau of Fisheries and Aquatic Resources |
| BMC | bay management council |
| FishCORAL | Fisheries, Coastal Resources and Livelihood Project |
| FLET | fishery law enforcement team |
| IFARMC | integrated fisheries and aquatic resource management council |
| IPs | indigenous peoples |
| LGU | local government unit |
| M&E | monitoring and evaluation |
| MPIU | municipal project implementing unit |
| M/CPMO | municipal/city project management office |
| PDP | Philippines Development Plan |
| PO | people's organization |
| PSC | project steering committee |
| PSCO | project support and coordination office |
| RCSC | regional coordination and support committee |
| RIMS | Results and Impact Management System |
| RPMO | regional project management office |

Map of the project area

Republic of the Philippines

Fisheries, Coastal Resources and Livelihood Project (FishCORAL)

President's report



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 21-10-2014

Republic of the Philippines

Fisheries, Coastal Resources and Livelihood Project (FishCORAL)

Financing summary

| | |
|---------------------------------------|--|
| Initiating institution: | IFAD |
| Borrower: | Republic of the Philippines |
| Executing agency: | Bureau of Fisheries and Aquatic Resources, Department of Agrarian Reform |
| Total project cost: | US\$43.05 million |
| Amount of IFAD loan: | EUR 27.31 million (equivalent to approximately US\$29.96 million) |
| Terms of IFAD loan: | Ordinary: Maturity period of 15-18 years, including a grace period of 3 years, with an interest rate per annum equal to 100 per cent of the IFAD reference interest rate |
| Contribution of borrower: | US\$11.76 million |
| Contribution of beneficiaries: | US\$1.33 million |
| Appraising institution: | IFAD |
| Cooperating institution: | Directly supervised by IFAD |

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of the Philippines for the Fisheries, Coastal Resources and Livelihood Project (FishCORAL), as contained in paragraph 34.

Proposed loan to the Republic of the Philippines for the Fisheries, Coastal Resources and Livelihood Project (FishCORAL)

I. Strategic context and rationale

A. Country and rural development and poverty context

1. The Philippines is a middle-income country, and in 2013 the GDP reached an annual growth rate of 7.2 per cent. However, the recent increase in GDP has not translated into a reduction of the incidence of poverty, indeed there has been little change from 2009 to 2012; 22.9 per cent (2009) and 22.3 per cent (2012) of families in those two years were living below the poverty line. The failure to reduce poverty during the previous decade reflects underinvestment, slow growth of per capita incomes, a high population growth rate, high dependency rates, inequitable distribution of income, natural disasters and inflationary pressures, mainly from rising fuel and food prices. Nationally, income inequality remains high, with a Gini coefficient of 0.44. Despite the recent lack of progress in reducing the incidence of poverty, the Philippines Development Plan (PDP) 2011-2016 envisages that the country could still achieve the Millennium Development Goal poverty reduction targets by 2015. In 2011, the Human Development Index for the Philippines was 0.644, ranking 112th among 187 countries. The country's Gender Inequality Index improved to 0.427 in 2011, ranking 75th in the world.
2. Fishers were among the poorest groups in the country, with a poverty incidence of 41.4 per cent in 2009, higher than the 35 per cent in 2003. Municipal fishers¹ and their families remained poor due to: (i) low coastal productivity owing to habitat and watershed degradation; (ii) fish stock depletion due to illegal fishing practices, pollution and overfishing; (iii) lack of access to basic services and institutional support; (iv) high population density in coastal areas; (v) poor post-harvest handling and distribution systems; (vi) lack of alternative income-generating activities; and (vii) weak political will on the part of local leaders to enact and/or enforce fishery laws.

B. Rationale and alignment with government priorities and RB-COSOP

3. The rationale for investing in the fisheries sector is that: (i) fishers, especially municipal fishers, are among the poorest groups in the country; and (ii) the fisheries sector is very important to the fishing communities as it is the source of their livelihoods and a major source of dietary protein for the population as a whole, and the main source of foreign exchange earnings for the national economy. The project includes investments and activities to address the key issues that have impoverished many fishing communities, such as coastal habitat degradation, use of illegal fishing practices, overfishing, lack of enforcement of fishery ordinances, pollution and a lack of viable livelihood activities alternative to fish capture. It will adopt the ecosystem approach to fisheries and coastal resource management, and a bay-wide approach to enabling the municipalities and fishing communities to

¹ Those who fish within 15 km of the shoreline, 12 km in the Autonomous Region of Muslim Mindanao.

improve the productivity and sustainable management of their fishery and coastal resources. The project will link the livelihood enterprises it supports to the market economy to help ensure their sustainability. It will assist the Bureau of Fisheries and Aquatic Resources (BFAR) in improving its institutional capacity to support the fisheries and coastal resources sector. The project is in line with the priorities defined in the PDP 2011-2016 for the fisheries sector in the areas of inclusive growth, poverty reduction, improving the economic status of poor coastal communities, building the capacity of communities and local administrations to better manage their coastal resources, improving the productivity of inshore waters, exploring the export potential of fisheries, improving food security and nutrition, and overall GDP growth. It also contributes to attainment of the goals and targets of existing sectoral plans, such as the Agrikulturang Pilipino (AgriPinoy), the Agricultural and Fisheries Modernization Programme (AFMP) and the Fisheries Road Map. Investment in livelihood development supports the Agribusiness Road Maps for the fisheries sector and the regional development plans.

4. The project is complementary to and supportive of the Government's Reconstruction Assistance to Haiyan and the Department of Agriculture's rehabilitation plan for the agriculture sector. These initiatives will help rebuild fishing communities and rehabilitate coastal resources affected by Typhoon Haiyan in the Eastern Visayas Region, through rehabilitation of the coastal and fishery resources and recovery of the livelihoods of fishing communities – contributing to increasing community resilience to natural disaster and climate change risks. The project is consistent with the strategic objectives of the country strategic opportunities programme (COSOP) 2010-2016 in: (i) improving fisheries and coastal resource management and the livelihoods of poor coastal communities; and (ii) managing natural resources within the context of climate change, gender mainstreaming, policy dialogue and support for decentralization.

II. Project description

A. Project area and target group

5. The project will target 11 bays/gulfs from Regions 5, 8 and 13 in Luzon and Visayas, and the Autonomous Region in Muslim Mindanao (ARMM). The targeted bays are located in 14 provinces, with 103 municipalities or cities bordering the bays/gulfs and 1,098 coastal villages/barangays. Approximately 724,000 poor people or 188,000 households live in these coastal villages, of which 90,596 are fishing households with an estimated 38,050 of them living below the poverty line, including households headed by women and/or out-of-school youth. The main criteria for selection of project beneficiaries will be based on the socio-economic conditions of fishing households, using up-to-date lists of poor households from the Department of Social Welfare and Development. The project will identify potential beneficiaries by targeting existing, eligible registered people's organizations (POs) and their fishing community members. Members of the target group will include memberships of the POs, either self-selected or based on their interest in the proposed livelihood enterprise(s) or through participatory wealth ranking. The project will also establish new POs in response to demand from the target group.

B. Project development objective

6. The overall goal of the project is to contribute to reduction of poverty in the target coastal communities of the targeted bays/ecosystems by 5 per cent from the mean poverty incidence of 42 per cent. The development objective is to realize (a) annual income of participating fishing community households increase by 10 per cent from baseline; and (b) employment of women engaged in income generating activities increased to 40 per cent from the baseline of 20 per cent.

C. Components/outcomes

7. The project has three components: (i) coastal resource management; (ii) livelihood development; and (iii) project management and coordination. The expected outcomes for components 1 and 2 are: component 1: fishing communities adopt sustainable management of fishery and coastal resources that increase overall stocks; and component 2: fishing households in the target coastal communities constantly engaged in diversified sources of income.
8. Component 1 will:
 - (a) Assess governance and legislation by the bay management councils (BMCs), and facilitation of the formation, reactivation and management of the operations of the BMCs, including the adoption of bay-wide fisheries ordinances. The project will encourage the creation of integrated fisheries and aquatic resource management councils (IFARMCs) where no such organization exists, and will support their operation and that of the existing IFARMCs, including capacity-building. It will also facilitate the participation of local fishing communities in the management of municipal fisheries and coastal resources, together with local government units (LGUs), by incorporating pre-existing fisheries management systems. It will assist LGUs in introducing and/or completing registration of municipal fishers, their motorized and non-motorized fishing vessels and gear and the introduction of a municipal licensing system for fishers, fishing vessels and gear, as well as collection of associated licensing revenues and their use to support enforcement of fisheries ordinances.
 - (b) Help control overfishing caused by illegal fishing and high population density along the coastline and will support law enforcement and regulatory activities of LGUs to manage fishing efforts and provide alternative marine and land-based livelihood opportunities to contribute to a reduction in overfishing. It will address the lack of landing, catch and effort statistics by having fishing households record data to enable BFAR to propose policy measures to appropriately address overfishing based on reliable and timely information. The project will support a review of existing relevant legislation, including municipal fishery ordinances, in consideration of the proposed changes in the Fisheries Code.
 - (c) Reinforce fishery law enforcement teams (FLET) at village or community and LGU levels. BFAR will organize and strengthen law enforcement teams composed of coast guard and police personnel to apprehend violators. The project will assess the types and social and economic characteristics of illegal fishing, propose ways to address this complex issue, and provide equipment and training as required. The project will assist LGUs in improving coordination functions with BFAR and other relevant agencies; the fisheries database and reporting system; and revenue generation from registration fees, fines, and fees for resource use, etc. These steps will help institutionalize the arrangements for funding law enforcement activities and fisheries coastal resources management.
 - (d) Update coastal resource management plans through a participatory process involving local communities, people's and private-sector organizations and local governments. They will become coastal resource management and investment plans and will be part of a comprehensive land and water use plan and of the municipal development plans of LGUs. All subprojects proposed for financing and included in the municipal development plans will reflect the need to address the expected impacts of climate change and to reduce the risks of natural disasters. Assistance will be provided to help LGUs settle disputes on municipal boundaries to establish clear municipal waters delineation.

- (e) Manage mangroves, sea grasses, coral reefs and beaches using an ecosystem approach. New and existing fish sanctuaries and other types of protected areas will be established and managed. The project will help protect, enhance and rehabilitate resources, e.g. stock enhancement in protected areas using juvenile and adult fish from hatcheries.
 - (f) Support coastal resource management – the project will finance the infrastructure and equipment required, including delineation markers for identified fish sanctuaries within targeted bays. LGUs will be fully responsible for the operation and maintenance of the infrastructure and equipment provided by the project – during and after the implementation period – with the support of IFARMCs.
9. Component 2 will:
- (a) Support/reactivate suitable existing POs and form new groups/POs as needed, giving particular attention to the participation of women. Key elements of the training modules will be group organization and management, basic entrepreneurship, business management, value chain concepts and approaches, coastal resource management and gender mainstreaming.
 - (b) Promote environmentally friendly livelihood enterprises identified in the approved coastal resource management plans, for example fisheries-related enterprises, sustainable tourism and other appropriate enterprises. There will be no project support for increasing fishing activities or for provision of fishing gear. Mitigation measures for identified feasible livelihood enterprises will be put in place to prevent further environmental degradation, waste generation and overexploitation of resources. Project-financed inputs for livelihood enterprises will be provided as a package, combined with the provision of training for the members of POs, including both technical skills and the business development aspects of operating livelihood enterprises. Subsequent cycles will be financed from the income earned, while successful enterprises can access microfinance institutions or NGO sources to finance future expansion.
 - (c) Finance the following: infrastructure facilities to support seaweed production; access improvements, connecting coastal communities to the nearest all-weather road for transport of marine products; improvements of selected BFAR hatcheries; and, where needed and justified, construction of fish-landing facilities; provision of mini ice plants with cold-storage facilities, smoke houses, store houses and dryers. It will also assist in the identification of potential private investors and the preparation of feasibility studies. POs will be fully responsible for the operation and maintenance of the infrastructure and equipment provided by the project – during and after the implementation period.
10. Component 3 will assist BFAR in implementing its reorganization plan in the four regions and will finance the project management and coordination structures and associated monitoring and evaluation (M&E) mechanisms at national, regional, bay-wide and city/municipality levels.

III. Project implementation

A. Approach

11. The key elements of the project's implementation approach include: (i) use of the ecosystem approach for fisheries management; (ii) financing of activities identified by coastal communities and municipal/city authorities and included in the LGU development/investment plans; (iii) implementation arrangements that will follow the Government's procedures and mandate at all levels and will operate within the government framework for decentralization and as part of the National

Convergence Initiative; and (iv) consultation with the National Commission on Indigenous Peoples, if indigenous peoples (IPs) are found to live in any of the target coastal communities – following the approach and procedures for engaging IPs in development. The phasing of project implementation will be based on the readiness of POs, LGUs, BMCs and regional agencies. The livelihood development subprojects will be aligned with the priority commodities identified by the BFAR Regional Roadmaps to ensure their suitability for the target locations and thus contribute to their sustainability.

B. Organizational framework

12. BFAR will be the project's lead implementing agency, with full responsibility for project administration and management, and will use its existing structures at national, regional, and provincial levels to implement project activities. The municipalities and cities are responsible for managing municipal waters and coastal zones. A high-level inter-agency project steering committee (PSC) at the national level will provide policy guidance; approve project implementation guidelines, annual workplan and budgets (AWP/Bs) and procurement plans; and resolve implementation issues that cannot be decided at the regional level. A regional coordination and steering committee (RCSC) will serve as the policy and institutional advisory committee for project implementation at that level, and will facilitate effective and efficient delivery of various agencies' services in support of the project. A bay coordination and support committee will coordinate project activities within each bay. A project support and coordination office (PSCO) at BFAR central office will be responsible for supporting, coordinating and monitoring project implementation, coordinating within BFAR and with government oversight agencies, LGUs, project management teams at regional, municipal and bay/gulf levels, and IFAD. Regional project management offices (RPMOs) will be established in each target region. Municipal/city project management offices (M/CPMOs) will be based at the municipal or city LGU in Regions 5, 8 and 13, while in ARMM a municipal project implementing unit (MPIU) will be based at the BFAR Provincial Fisheries Office under the leadership of the provincial fisheries officer. The project will operate as part of the National Convergence Initiative, with assistance from other government agencies as needed.

C. Planning, monitoring and evaluation, and learning and knowledge management

13. Planning. AWP/Bs will be prepared through a participatory process, starting at the community level and involving representatives of POs, the CPMO/MPMO/MPIU and the bay/gulf alliance. RPMOs will consolidate the provincial AWP/Bs into a regional document. PSCO will consolidate the regional AWP/Bs into a national AWP/B for IFAD review and subsequent PSC approval.
14. Monitoring and evaluation. Project M&E will be in accordance with the Government's harmonized, national Results-based Performance Management System and IFAD's Results and Impact Management System (RIMS). It will report on project implementation status and progress in terms of outputs, outcomes and impact. The RCSC and RPMO will provide regular reporting on accomplishments regarding policy and major operational issues to regional development councils, LGUs and other stakeholders. The project will conduct baseline and completion impact studies. A rapid participatory resource and socio-economic assessment will be conducted in each bay at project start-up and completion.
15. Learning and knowledge management. The project will generate and manage knowledge in order to: improve implementation; contribute to BFAR's body of knowledge; aid in raising awareness of stakeholders; and enhance future policy development and project/programme implementation. It will support innovative approaches, document lessons learned and organize knowledge-sharing among project staff, BFAR and other implementing agencies. It will also share knowledge

with other IFAD-assisted projects across the country and the region.

D. Financial management, procurement and governance

16. Financial management. BFAR, through the PSCO, will be responsible for overall financial management of the project, including AWP/Bs, procurement, flow of funds, disbursements, internal control, accounting, financial reporting and audit. The project will follow the government's financial systems, rules and regulations under the New Government Accounting System, consistent with IFAD's standard disbursement procedures, for receipts and disbursements of proceeds from the IFAD loan and government counterpart funds. RPMOs will be responsible for management of funds at the regional level. BFAR will execute a memorandum of agreement with each LGU and other implementing agencies at national, regional, provincial and municipal levels to detail responsibilities, required services and their financing. In order to reduce fiduciary risks arising from insufficient experience and capacity, the financial management capability of the central and regional offices of BFAR and of LGUs will need to be strengthened through staff training and close supervision.
17. Flow of funds. The Department of Finance, through the Bureau of the Treasury, will open a designated account in United States dollars, in the central bank or another bank acceptable to IFAD, exclusively for the loan. Project accounts in the Philippine peso will be opened at central and regional levels.
18. Procurement. BFAR will undertake major procurement packages in line with the annual procurement plans through the PSCO and RPMOs supported by their respective BAC and Finance and Administrative Services Division. Procurement will follow the Implementing Rules and Regulations of the Government Procurement Reform Act (RA 9184) to the extent that they are consistent with IFAD's Project Procurement Guidelines. Smaller items, as defined in the procurement plans, will be procured by regional offices.
19. Audit. Project consolidated financial statements will be audited annually by the Commission on Audit in accordance with IFAD's Guidelines on Project Audits. The annual audit reports will be submitted to IFAD within six months of the end of each fiscal year.
20. Governance. IFAD will apply a policy of zero-tolerance in respect of fraudulent, corrupt, collusive or coercive action.

E. Supervision

21. IFAD and the National Economic Development Authority will jointly conduct annual supervision and implementation support missions, and IFAD will conduct a post-supervision mission 6-9 months later, depending on the project's progress.

IV. Project costs, financing, benefits

A. Project costs

22. Total project costs are estimated at US\$43.05 million over a five-year implementation period, as shown in table 1. This includes taxes and duties estimated at US\$3.72 million or 8.8 per cent of total costs, which will be covered by the Government's contribution. Base costs were estimated at 2013 prices, with price contingencies of 3 per cent per annum for pesos and dollars, and physical contingencies of 3.5 per cent of base cost for all expenditures except staff costs. Physical contingencies amount to US\$1.14 million and price contingencies to US\$1.43 million, yielding total contingencies of US\$2.57 million (6 per cent of total baseline costs). The estimated average cost per target beneficiary household is US\$274 per household.

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

| | IFAD loan | | Government | | LGUs | | Beneficiary/ proponent | | Total | |
|--|-----------------|-------------|----------------|-------------|----------------|-------------|---------------------------|------------|-----------------|--------------|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| 1. Coastal resources management | 18 751.2 | 77.7 | 2 537.4 | 10.5 | 2 725.8 | 11.3 | 128.3 | 0.5 | 24 142.6 | 56.1 |
| 2. Livelihood development | 10 988.2 | 72.7 | 1 721.1 | 11.4 | 1 199.8 | 7.9 | 1 199.8 | 7.9 | 15 109.0 | 35.1 |
| 3. Project management and coordination | 216.4 | 5.7 | 1 866.1 | 49.2 | 1 710.5 | 45.1 | - | - | 3 793.0 | 8.8 |
| Total project costs | 29 955.7 | 69.6 | 6 124.6 | 14.2 | 5 636.1 | 13.1 | 1 328.1 | 3.1 | 43 044.6 | 100.0 |

B. Project financing

23. Project financing comprises: (i) an IFAD loan of US\$29.96 million (69.6 per cent); and (ii) a Government contribution of US\$11.76 million (27.3 per cent), consisting of the national government counterpart contribution of US\$6.12 million (14.2 per cent) and LGU financing of US\$5.64 million (13.1 per cent); and (iii) contributions in cash or in kind from proponents and beneficiaries of about US\$1.33 million (3.1 per cent).

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

| | IFAD loan | | Government | | LGUs | | Beneficiary/ proponent | | Total | |
|---------------------------------------|-----------------|-------------|----------------|-------------|----------------|-------------|---------------------------|------------|-----------------|--------------|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| 1. Works | 1 726.8 | 80.3 | 230.4 | 10.7 | 193.4 | 9.0 | - | - | 2 150.6 | 5.0 |
| 2. Equipment, materials, and supplies | 17 734.0 | 76.4 | 2 486.1 | 10.7 | 1 735.9 | 7.5 | 1 247.4 | 5.4 | 23 203.4 | 53.9 |
| 3. Consultancies | 10 494.9 | 89.5 | 1 071.2 | 9.1 | 80.8 | 0.7 | 80.8 | 0.7 | 11 727.7 | 27.2 |
| 4. Government staff | - | - | 367.1 | 16.1 | 1 915.5 | 83.9 | - | - | 2 282.6 | 5.3 |
| 5. Operation and maintenance | - | - | 1 969.8 | 53.5 | 1 710.5 | 46.5 | - | - | 3 680.3 | 8.5 |
| Total project costs | 29 955.7 | 69.6 | 6 124.6 | 14.2 | 5 636.1 | 13.1 | 1 328.1 | 3.1 | 43 044.6 | 100.0 |

C. Summary benefit and economic analysis

24. About 724,000 poor people or 188,000 households living in the 1,098 coastal villages in the 11 targeted bays/gulfs will benefit directly from the project, of which about 90,596 are fishing households, with an estimated 38,050 (146,495 people) living below the poverty line. Project interventions are expected to improve the productivity of municipal waters and coastal zones and generate livelihood benefits for the members of coastal communities. Project benefits are expected to be generated through: (i) effective law enforcement and regulatory activities with respect to municipal fisheries; (ii) improved protection and management of coral reef, mangrove, sea-grass ecosystems and other coastal resources; and (iii) implementation of sustainable community-based livelihood enterprises.

D. Sustainability

25. To help ensure sustainability, the following are included in project design: (i) assisting LGUs in developing sustainable sources of local revenues to finance FLETs and provide funds for investment in the management of municipal fisheries and coastal resources; (ii) ensuring the participation of POs and their members in identifying and planning proposed livelihood activities; (iii) involving the private sector on a long-term basis to enhance sustainability of the investments in

alternative sources of livelihoods for members of coastal communities and their organizations; (iv) requiring beneficiaries, municipalities and cities to share in the costs of the project's investments; and (v) after the midterm review, preparing an exit strategy and sustainability plan.

E. Risk identification and mitigation

26. The current lack of technical and management capacity within BFAR is a risk. It is addressed by the inclusion of sufficient contract staff to manage the project together with the assigned staff of BFAR. The project will support BFAR's reorganization plan through provision of the capacity development needed to improve the technical capacities of BFAR's offices in the target regions. A second risk is unsustainability of project activities after the project ends, thereby repeating the experience of many previous project interventions in various bays/gulfs. The project design tackles this issue by focusing on the generation of sustainable sources of local revenues to finance the necessary law enforcement activities and investment in resource management. Another risk is that agencies concerned may be unable to provide the coordinated approach needed at the local level. The design counters this risk through the use of memorandums of agreement between BFAR and all agencies engaged in project implementation to specify roles and responsibilities, costs and sources of finance. It also includes all agencies with a role in project implementation as members of the regional coordination and steering committees; and indicates that all implementing agencies will have a FishCORAL focal point at the national level. An associated risk concerns the willingness of the private sector to be involved in supporting the development of alternative livelihood enterprises for the members of fishing communities. This is addressed by involving the private sector from the initial planning stages through to the processing and/or marketing of the products, and by the availability of some initial project finance for livelihood development production activities to match investments from the private sector for processing, drying and marketing.

V. Corporate considerations

A. Compliance with IFAD policies

27. The project design is consistent with the third strategic objective of the COSOP² and aligns well with the IFAD Strategic Framework 2011-2015, which focuses on: secure access to natural resources; climate change adaptation and mitigation; improved agricultural technologies and effective production services; more comprehensive financial services; integration into value chains through competitive agricultural input and produce markets; rural enterprise development and off-farm employment opportunities; technical and vocational education and training; and empowerment of rural poor people through effective and sustainable rural producers' organizations. In this context, agriculture includes fisheries. Under the Philippine Environmental Impact Statement System, the project is classified both as Category C and Category D, as it is intended to directly enhance the quality of the environment or address existing environmental problems in coastal areas; and the rural infrastructure components are small-scale and do not fall under other categories.

B. Alignment and harmonization

28. The project objective is aligned with the PDP's goal of a competitive and sustainable agriculture and fisheries sector. It will complement and coordinate with existing and planned projects of the Department of Agriculture and others (e.g. the Philippines Rural Development Project (World Bank), Integrated Environment and Natural Resource Management Project (AsDB/IFAD) and Ecosystems Improved for

² "Selected marginalized and poor communities dependent on coastal resources in Bicol, eastern Visayas, northern Mindanao and ARMM have sustainable access to fisheries and other productive coastal resources, use sustainable management practices and diversify livelihood opportunities to meet their basic needs (in particular, food)."

Sustainable Fisheries (ECOFISH – USAID). IFAD will also work with government programmes for an improved policy environment and governance. The project will explore diverse types of partnership arrangements between project beneficiaries and the private sector. Private-sector organizations and business development partners will take a leading role as service providers in improving the returns from livelihood enterprises.

C. Innovations and scaling up

29. Despite the relatively small investment in relation to the scale of the issues involved, the project could be a catalyst for improving household incomes and attracting further investment in scaling up. This in turn could realize the potential benefits from good, sustainable management of city/municipal fisheries and other coastal resources. A key innovation for scaling up will be the sustainable financing systems to be developed and introduced at the municipal level to: (i) effectively enforce the fisheries ordinances for municipal fisheries and coastal resources; and (ii) improve conservation and management of fisheries and coastal resources by local governments and fishing communities.

D. Policy engagement

30. The project will support policy/case studies for policy dialogue and consultation with the relevant national and local institutions. Such communication will concern the management by LGUs of municipal/city fisheries and coastal resources and development of alternative livelihood enterprises for coastal communities. The project will provide support in reviewing existing relevant legislation, covering the parts of the Local Government Code related to: municipal fisheries; the Coastal Zone and Fisheries Code of the Philippines; possible duplication between the roles and responsibilities of the BMCs and IFARMCs; and the future management role of pre-existing fisheries management systems. The project will also provide support to review other relevant legislation such as the Agriculture and Fisheries Management Act. After the midterm review, it would pilot proposed changes to the codes with respect to municipal fisheries in selected locations.

VI. Legal instruments and authority

31. A project financing agreement between the Republic of the Philippines and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as appendix I.
32. The Republic of the Philippines is empowered under its laws to receive financing from IFAD.
33. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on ordinary terms to the Republic of the Philippines in an amount equivalent to twenty-seven million three hundred and ten thousand euros (EUR 27,310,000) (equivalent to approximately US\$29.96 million), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement:

"Fisheries, Coastal Resources and Livelihood Project (FishCORAL)"

(Negotiations concluded on 16 June 2015)

Loan Number: _____

Project Title: Fisheries, Coastal Resources and Livelihood Project

(the "Project")

The Republic of the Philippines (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is twenty-seven million three hundred ten thousand Euro (EUR 27 310 000).
2. The Loan is granted on ordinary terms and shall have a rate of interest per annum equivalent to one hundred per cent (100 per cent) of the variable reference interest rate, as determined annually by the Fund, and a maturity period of eighteen (18) years, including a grace period of three (3) years.
3. The Loan Service Payment Currency shall be the United States Dollar (USD).
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and interest shall be payable on each 1 May and 1 November.

6. Proceeds from the Loan shall be deposited in the account of the Treasurer of the Philippines, in the Designated Account for this Project, in the Bangko Sentral ng Pilipinas.

7. The Borrower shall provide counterpart financing for the Project in the amount of approximately six million one hundred and twenty thousand United States Dollar (USD 6 120 000). Additional counterpart funds for approximately five million six hundred and forty thousand United States Dollar (USD 5 640 000) is expected to be mobilized during the Project Implementation Period by the Local Government Units (LGUs).

Section C

1. The Lead Project Agency shall be the, Department of Agriculture - Bureau of Fisheries and Aquatic Resources (DA – BFAR) or any successor thereof.

2. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

1. The following is designated as an additional condition precedent to withdrawal: a Project Implementation Manual shall have been submitted to the Fund.

2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

The Secretary of Finance
Department of Finance
DOF Building
Roxas Boulevard
Manila, Philippines

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

This agreement, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

REPUBLIC OF THE PHILIPPINES

Name and title of Authorized Representative

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Project Area and Target Population. The Project shall contribute to reducing the incidence of poverty of approximately 724,000 people or 188,000 households, and their organisations in the Project Area. The Project shall target around 1,098 coastal villages in 14 provinces, with 103 municipalities or cities bordering 11 bays/gulfs in Bicol Region (Regions 5 - 3 bays of Ragay Gulf (Bicol side), Asid Gulf and Albay Gulf), Eastern Visayas (Region 8 - 4 bays of Leyte Gulf, Matarinao Bay, Maqueda Bay and Silago-Cabalian Bay), Caraga (Region 13 - 2 bays of Butuan Bay and Lianga/Hinatuan/Bislig Bays) and the Autonomous Region in Muslim Mindanao (ARMM - 2 bays of Illana Bay and the area between Basilan and Sulu) of the Borrower's territory (the "Project Area"). The 14 provinces of the Project Area include Masbate, Camarines Sur, Sorsogon and Albay in Region 5; Eastern Samar, Western Samar, Leyte and Southern Leyte in Region 8; Agusan del Norte and Surigao del Sur in Region 13; and Lanao del Sur, Sulu, Maguindanao and Basilan in ARMM.

2. The Project aims to reduce poverty in the target coastal communities of the target bays/ecosystems by 5 (five) percent from the mean poverty incidence of 42 percent.

3. Objective. The Project envisions that the following specific development results will be realized by the end of the Project: (a) Annual income of participating fishing community households increase by 10 percent from baseline; and (b) Employment of women engaged in income generating activities increased to 40 percent from the baseline of 20 percent.

4. Components. The Project shall consist of the following Components:

4.1 Component A: Coastal Resource Management (CRM)

This component aims to restore and protect the coastal resources in the target areas, primarily through: (i) enhancement of local law enforcement by strengthening LGUs, conducting trainings and providing necessary equipment; (ii) updating of the CRM plans in the target areas to consider the complexity and interaction between environmental, biological, geophysical, institutional and socioeconomic aspects; (iii) rehabilitation of resources, such as mangroves, sea grasses, coral reefs and beaches, as well as the establishment of fish sanctuaries, by financing related sub-projects; and (iv) establishment of support infrastructure (e.g., delineation markers for fish sanctuaries, watch tower with guard house, office building).

4.2 Component B: Livelihood Development

This component seeks to address the desired outcome of encouraging fisherfolk households to engage in diversified sources of income. This will be realized by way of (i) organizing them into viable groups/organizations; (ii) conduct of trainings that would increase both technical and entrepreneurial skills; (iii) provision of start-up capital to eligible sub-projects; and (iv) construction of communal post-harvest facilities and improvement of infrastructure in the target areas.

4.3 Component C: Project Management and Coordination

This component will support the DA-BFAR in implementing the DBM-approved reorganization plan in the four (4) target regions that will serve as manpower support to the implementation of the project. Further, this component also covers the management and coordination activities relevant to the Project, as well as the monitoring and evaluation mechanisms both at the national, regional, bay wide and city municipality levels.

II. Implementation Arrangements

The Project will mainly be implemented by DA-BFAR, in cooperation with the LGUs of the concerned municipalities and cities. Additionally, other agencies will be tapped for its implementation, especially those that also have jurisdiction over the coastal and marine resources, such as the DENR, NFRDI, PCG, PNP and NAMRIA. The Project shall likewise tap existing Fisheries and Aquatic Resource Management Councils (FARMCs), which is an inter-stakeholder advisory body to the LGUs and bay management councils. It should be noted that there are areas where there already existing FARMCs. Operationally, a Project Steering Committee (PSC) will be established, to be chaired by either the Department of Agriculture Secretary or its Undersecretary for Fisheries, and co-chaired by the Director of DA-BFAR. The PSC shall provide policy guidance to the implementation of the Project and will serve as an approving body for the establishment of project implementation guidelines; and global and annual workplans. Further, it shall act on the resolution of issues that cannot be decided upon at the regional level.

A Project Support and Coordination Office (PSCO) will be established at the DA-BFAR Central Office, primarily to facilitate coordination among the implementing units. Further, the PSCO shall also lead the development of the Project implementing guidelines; conduct relevant analyses and sub-project evaluation for the various components; prepare and submit reports; and oversee the M&E activities relevant to the Project, among others. The PSCO shall be directly accountable to the DA-BFAR Director and will be headed by a Project Director.

At the regional level, a Regional Coordination and Support Committee will be established to serve as a policy and institutional advisory committee for Project implementation. Further, under the chairmanship of the concerned DA-BFAR Regional Directors, the RCSC will review and endorse the Regional Annual Work Plan and Budget (AWPB) and the Annual Procurement Plan for onward submission to the PSCO. Additionally, Regional Project Management Offices will also be established in Regions 5, 8, 13 and ARMM to provide technical and secretariat support to Project implementation in the regions, reporting directly to the PSCO.

Bay Coordination and Support Committees will be organized for each target bay, primarily to coordinate and oversee all activities relevant to the CRM component. This will allow the Project to employ the Ecosystem Approach to Fisheries Management, wherein bays/ecosystems are recognized as a single resource system. On the other hand, for the Livelihood Development component, the municipal/city project management offices (M/CPMOs) are tasked to provide guidance to fishing communities and people's organizations in project development and support the implementation of such projects, including the preparation of necessary reports.

A Memorandum of Agreement will be executed with each of the involved LGUs and other implementing agencies, specifying the tasks and responsibilities of each of the Parties and the financing arrangements. In the case of ARMM, it was agreed that the Office of the Regional Governor (ORG-ARMM) will serve as the executing

party in the MOA with DA-BFAR-Central Office, instead of DA-BFAR-ARMM. This is because the Regional Governor is the one mandated to supervise and control all agencies in the region, including DA-BFAR-ARMM. Additionally, the current regional leadership requires that all programs and projects to be implemented in the region be directly coordinated with the ORG-ARMM.

In view of the signing of the Comprehensive Agreement on Bangsamoro, it was agreed that the proponent establish an institutional set-up in the event that ARMM will be replaced by the resulting government.

5. Annual Work Plan and Budget. The PSCO shall submit to the Fund the consolidated AWPBs and procurement plans no later than 60 days before the beginning of the relevant project year.
6. Project Reviews. The Borrower and the Fund shall conduct annual supervision missions and follow up missions throughout Project implementation period.
7. The Borrower and the Fund shall conduct a comprehensive mid-term review to assess Project implementation progress and to determine appropriate revisions to the Project implementation arrangements and resource allocations in order to ensure successful Project completion.
8. The Borrower shall submit to the Fund: (a) semi-annual progress reports on the implementation progress of the Project; and (b) within three (3) months of Project completion, a comprehensive Project completion report to evaluate Project design, costs, performance, social and economic impact, and other details as agreed with the Fund. The Borrower and the Fund may also conduct post-evaluation of the Project for up to ten (10) years after the Project Completion Date.

Schedule 2
Allocation Table

1. Allocation of Loan Proceeds. The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

| Category | Loan Amount Allocated (expressed in EUR) | Percentage of Eligible Expenditures to be Financed |
|---|--|---|
| 1. Works | 2 070 000 | 100% net of taxes and other contributions |
| 2. Equipment, Materials and Supplies | 15 400 000 | 100% net of taxes and other contributions |
| 3. Consultancies | 9 840 000 | 100% net of taxes and other contributions |
| Total | 27 310 000 | |

2. The category:

- (a) "Consultancies" includes costs associated with development service providers, technical assistance and contract staff; and
- (b) "Equipment, Materials and Supplies" includes vehicles.

3. Start-up Costs. Withdrawals in respect of expenditures for start-up costs for Categories 2 and 3 incurred before the satisfaction of the general condition precedent to withdrawal shall not exceed an aggregate amount of two hundred thousand United States Dollar (USD 200 000).

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project.

1. Private Sector. The Borrower confirms its commitment to engage with the private sector as implementing partners and service providers, in order to ensure that the Project objectives are met.

2. Procurement. The Borrower shall ensure that the Project shall follow the government's procurement regulations, as these may be amended from time to time, using national implementing rules and regulations to the extent that they are consistent with IFAD's Procurement Guidelines.

3. Monitoring and evaluation. The Project shall maintain its own monitoring system to be able to properly evaluate Project implementation, including the socio-economic and environmental impact thereof. The Lead Project Agency shall ensure that the criteria established and required by the Fund under its Results and Impact Monitoring System (RIMS), as communicated by the Fund to the Borrower, shall be incorporated into and form part of the Project's monitoring and evaluation system.

4. Anticorruption Measures. The Borrower shall comply with the requirements under IFAD's Policy on Preventing Fraud and Corruption in Its Activities and Operations, as amended from time to time.

Logical framework

| Narrative Summary | Performance Indicators | Means of Verification | Assumptions/Risks |
|---|---|---|--|
| Goal | | | |
| Contribute to reduce poverty in target coastal communities/ ecosystems in Regions V, VIII, XIII and ARMM | By end of project(EOP) in the covered municipalities/provinces: <ul style="list-style-type: none"> Decreased poverty incidence by 5% from baseline of 42% (mean poverty incidence) By EOP 60% of the targeted 90,596 poor households in the Project area: <ul style="list-style-type: none"> Increased ownership of household assets by 20% of baseline. Decreased child malnutrition (ages 0-5 years) by 4% from baseline of 24.4%. | <ul style="list-style-type: none"> RIMS+ Impact survey NSCB FIES survey LPGPMS CBMS | <ul style="list-style-type: none"> Controlled/managed calamity/disaster in the target coastal communities. |
| Development Objective | | | |
| Realize increase in annual income of participating community households and employment of women engaged in income generating activities. | By EOP, in the Project area: <ul style="list-style-type: none"> Annual income of participating fishing community households increased by 10% of baseline Employment of women engaged in income-generating activities increased to 40% from baseline of 20%. | <ul style="list-style-type: none"> RIMS+ Impact survey Outcomes surveys LGU budget/ finance document. LGPMMS | <ul style="list-style-type: none"> Climate variability does not overcome the resilience of subprojects supported by the Project. No major financial shocks, stable inflation rate and purchasing power of fishing households maintained or increasing. |
| Component outcomes and outputs | | | |
| Component 1 Outcome: Fishing communities adopted sustainable management of fishery and coastal resources. | By EOP, in the Project Area: <ul style="list-style-type: none"> Fish density in coral reefs increased by an average of 15% from baseline. Hard coral cover improved in selected sample protected areas where scientific sampling of coral takes place by an average of 15% from baseline. | <ul style="list-style-type: none"> RPRSA result. Project M&E. LGU annual financial report. | <ul style="list-style-type: none"> LGUs, DENR and other agencies are vigilant in protecting and rehabilitating natural resources (ridge to reef). |
| Component 1, Output 1: Capabilities of LGUs and fishing communities to enforce sustainable management of fishery and coastal resources established. | <ul style="list-style-type: none"> 103 municipal/city FLETs and 103 M/C FARMCs formed, strengthened and sustained. 11 bay management councils formed, strengthened and sustained with their bay-wide fishing ordinances implemented. 103 LGUs implementing fisheries and Coastal Resource Management plans and ordinances. 103 LGUs delineated municipal waters with accompanying zoning ordinances. 103 sets of patrol boat equipment for surveillance sustainably operated. 11 climate proofed bay management, multi-purpose buildings constructed and maintained with 103 climate proofed watch towers constructed and maintained. | <ul style="list-style-type: none"> Project M&E. LGU records. NAMRIA record on delineation. Law enforcement records. | <ul style="list-style-type: none"> National/local laws/ordinances favour the protection and rehabilitation off the municipal fisheries and coastal resources. |
| Component 1, Output 2: Municipal/city and bay-wide fishery and coastal resources management and investment plans | <ul style="list-style-type: none"> 103 LGUs formulated/updated multi-year CRM and fishery management/investment plans which are integrated into the CLUP/MDP and AIPs. 11 bay-wide multi-year CRM and fishery management/investment plans | <ul style="list-style-type: none"> Project M&E LGU records LGU Annual Investment Plans | <ul style="list-style-type: none"> LGU leadership support to fishery/CRM development. |

| Narrative Summary | Performance Indicators | Means of Verification | Assumptions/Risks |
|---|---|--|---|
| <p>implemented</p> <p>Component 1, Output 3: Habitats for fishery and coastal resources rehabilitated and established.</p> | <p>adopted by LGUs involved.</p> <ul style="list-style-type: none"> • 1,100 ha of critical mangrove areas rehabilitated and managed sustainably. • 21,456 ha of established and delineated or rehabilitated fish sanctuaries managed sustainably. • 3,814 ha of rehabilitated/protected sea grass beds managed sustainably. • 22 marine species stock enhancement projects implemented. • 5,200 units of supplemental artificial reef deployed. • 5,150 ha of fish sanctuary provided with delineation markers. | <ul style="list-style-type: none"> • Project M&E. • LGU records. | <ul style="list-style-type: none"> • LGU leaderships support fishery / CRM protection and rehabilitation. • Laws/ordinances support protection and the sustainable management of the municipal fisheries/coastal resources. |
| <p>Component 2 Outcome Income of fishing households in target coastal communities increased through sustainable engagement in diversified livelihood activities.</p> | <p>By EOP, in 103 target municipalities and cities:</p> <ul style="list-style-type: none"> • Fishing households involved in fishery enterprises increased to 30% from a baseline of 20%, (30% are women from a baseline of 20%). • One micro-enterprise established per coastal <i>barangay</i> operating. | <ul style="list-style-type: none"> • RIMS + Impact Survey. • Outcome Survey. • Project M&E. • LGU records. | <ul style="list-style-type: none"> • No major financial shocks that affect the growth of livelihood enterprises. |
| <p>Component 2, Output 1: Fishing households organized into livelihood groups</p> | <ul style="list-style-type: none"> • 4,158 groups generating profit from aquaculture and marine enterprises, including seaweed farms, fish culture, fish processing and other fishery-related enterprises (50% of members are women). | <ul style="list-style-type: none"> • Project M&E. • Group/cluster financial records. | <ul style="list-style-type: none"> • Continued willingness of fishing and other poor hhs in coastal communities to work collectively in livelihood groups/clusters. |
| <p>Component 2, Output 2: Livelihood projects (fishery and non-fishery) with corresponding climate-proofed infrastructure/facility support implemented</p> | <ul style="list-style-type: none"> • 1 BFAR fully operational hatchery assisted. • 7 community-based hatchery development and enhancement facilities established. • 515 communal seaweed solar dryer with storage constructed. • 49 mobile ice makers and 294 chest freezers managed sustainably. • 4,825 linear meters of fish-landing facilities constructed. • 50% of the livelihood projects will be implemented by women. | <ul style="list-style-type: none"> • Project M&E. • LGU records. | <ul style="list-style-type: none"> • LGU leadership continuing support to allocate timely counterpart funds. |