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R2017-0125/1

May 22, 2017

Closing Date: Friday, June 9, 2017
at 6 p.m.

FROM: Vice President and Corporate Secretary

Philippines - Inclusive Partnerships for Agricultural Competitiveness

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to Philippines for an Inclusive Partnerships for Agricultural Competitiveness (R2017-0125), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

Document of
The World Bank

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Report No: PAD1278

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$99.31 MILLION

TO THE

REPUBLIC OF THE PHILIPPINES

FOR A

INCLUSIVE PARTNERSHIPS FOR AGRICULTURAL COMPETITIVENESS PROJECT

May 18, 2017

Agriculture Global Practice
East Asia and Pacific Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2017)

Currency Unit	=	Philippine Peso - PhP
PhP50.07	=	US$1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

APCPI	Agency Procurement Compliance and Performance Indicators Assessment
ARB	Agrarian Reform Beneficiary
ARC	Agrarian Reform Community
ARCDP	Agrarian Reform Communities Development Project
ARMM	Autonomous Region in Muslim Mindanao
ASEAN	Association of Southeast Asian Nations
BAC	Bids and Awards Committee
CARP	Comprehensive Agrarian Reform Program
CARPer	Comprehensive Agrarian Reform Program with Reform
CGMU	Central Grants Management Unit
CLOA	Certificate of Land Ownership Award
COA	Commission on Audit
CPO	Central Project Office
CSO	Civil Society Organization
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DOF	Department of Finance
DOST	Department of Science and Technology
DPWH	Department of Public Works and Highways
DTI	Department of Trade and Industry
EA	Environmental Assessment
ECC	Environmental Compliance Certificate
ESMF	Environment and Social Management Framework
ESMP	Environment and Social Management Plan
FAO	Food and Agriculture Organization of the United Nations
FASPO	Foreign-Assisted and Special Projects Office
FBS	Farm Business School
FFS	Farmer Field School
FM	Financial Management
FMR	Farm-to-Market Road
FO	Farmers' Organization
GDP	Gross Domestic Product
GMU	Grant Management Unit
GOP	Government of the Philippines
GPM	Generic Procurement Manuals
GPPB	Government Procurement Policy Board
GRS	Grievance Redress Service

IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IFR	Interim Financial Reports
IP	Indigenous Peoples
IPAC	Inclusive Partnerships for Agricultural Competitiveness (Project)
IPM	Integrated Pest Management Framework
LBP	Land Bank of the Philippines
LGU	Local Government Unit
MARO	Municipal Agrarian Reform Office
M&E	Monitoring and Evaluation
MGP	Matching Grants Program
MOA	Memorandum of Agreement
NCB	National Competitive Bidding
NCIP	National Commission on Indigenous Peoples
NEDA	National Economic and Development Authority
NGAS	New Government Accounting System
NGC	National Grants Committee
NIA	National Irrigation Administration
O&M	Operation and Maintenance
PBD	Philippine Bidding Documents
PDO	Project Development Objective
PDP	Philippine Development Plan
PEISS	Philippine Environmental Impact Statement Systems
PMB	Project Management Board
POM	Project Operations Manual
PPO	Provincial Project Office
PPM	Provincial Project Manager
PRDP	Philippine Rural Development Project
RGC	Regional Grants Committee
RGMU	Regional Grants Management Unit
RPF	Resettlement Policy Framework
RPO	Regional Project Office
SAC	Sub-project Approval Committee
SPA	Subproject Agreement
WB	World Bank

Regional Vice President:	Victoria Kwakwa, EAPVP
Country Director:	Mara K. Warwick, EACPF
Senior Global Practice Director:	Juergen Voegele, GFADR
Practice Manager:	Nathan M. Belete, GFA02
Task Team Leaders:	Frauke Jungbluth/ Maria Theresa G. Quinones, GFA02

PHILIPPINES

Inclusive Partnerships for Agricultural Competitiveness Project

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PAD DATA SHEET

Philippines

Inclusive Partnerships for Agricultural Competitiveness Project(P153042)

PROJECT APPRAISAL DOCUMENT

EAST ASIA AND PACIFIC REGION

Agriculture Global Practice

Report No.: PAD1278

Basic Information			
Project ID P153042	EA Category B - Partial Assessment		Team Leaders Frauke Jungbluth/ Maria Theresa G. Quinones
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 7-September-2017	Project Implementation End Date 30-June-2022		
Expected Effectiveness Date 7-September-2017	Expected Closing Date 31-December-2022		
Joint IFC No			
Practice Manager Nathan M. Belete	Senior Global Practice Director Juergen Voegele	Country Director Mara K. Warwick	Regional Vice President Victoria Kwakwa
Borrower: Republic of the Philippines			
Responsible Agency: Department of Agrarian Reform (DAR)			
Contact: Rafael V. Mariano		Title: Secretary	
Telephone No.: (632) 9293460		Email: seckapaeng@dar.gov.ph	

Project Financing Data(in USD Million)			
[X] Loan	[ ] IDA Grant	[ ] Guarantee	
[ ] Credit	[ ] Grant	[ ] Other	
Total Project Cost:	231,032,910.00	Total Bank Financing:	99,312,910.00
Financing Gap:	0.00		

Financing Source	Amount
Borrower	103,720,000.00
International Bank for Reconstruction and Development	99,312,910.00
Local Beneficiaries	28,000,000.00
Total	231,032,910.00

Expected Disbursements (in USD Million)

Fiscal Year	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Annual	1.00	10.00	20.00	25.00	24.00	19.31291
Cumulative	1.00	11.00	31.00	56.00	80.00	99.31291

Institutional Data

Practice Area (Lead)	Agriculture

Proposed Development Objectives

The project development objectives are to improve access to markets and to enhance the competitiveness of smallholder farmers in the targeted agrarian reform community clusters.

Components

Component Name	Cost (USD Millions)
Support Services for Enhanced Market Linkages	131.06
Investments in Productive Partnerships	81.36
Project Management, Monitoring and Evaluation	18.36

Systematic Operations Risk- Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
OVERALL	Substantial

Compliance	
Policy	
Does the project depart from the CAS in content or in other significant respects?	Yes [ ] No [X]
Does the project require any waivers of Bank policies?	Yes [ ] No [X]
Have these been approved by Bank management?	Yes [ ] No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ] No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X] No [ ]

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04	X	
Forests OP/BP 4.36		X
Pest Management OP 4.09	X	
Physical Cultural Resources OP/BP 4.11	X	
Indigenous Peoples OP/BP 4.10	X	
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37	X	
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

Legal Covenants

Name	Recurrent	Due Date	Frequency
Establishment of the Central, Regional and Provincial Project Offices			Once

Description of Covenant

The Borrower shall establish and thereafter maintain, throughout implementation of the Project, a Central Project Office, Regional and Provincial Project Offices with a mandate, composition and resources satisfactory to the Bank. (Sections I.B, I.C and I.D of Schedule 2 to the Loan Agreement)

Name	Recurrent	Due Date	Frequency
Establishment of the Project Management Board			Once

Description of Covenant

The Borrower shall establish and thereafter maintain, throughout implementation of the Project, a Project Management Board (PMB), chaired by the Secretary of the DAR, with a composition, resources and a mandate satisfactory to the Bank. (Section I.A of Schedule 2 to the Loan Agreement)

Name	Recurrent	Due Date	Frequency
Institutional arrangements for the Matching Grants			Once
Description of Covenant			
The Borrower shall establish and thereafter maintain, throughout implementation of the Project, a National Grant Committee (NGC), as well as Regional Grants Committees (RGCs) in each of the Regions covered by the Project, all with a mandate, composition and resources satisfactory to the Bank. (Section I.E.1 of Schedule 2 to the Loan Agreement)			
Name	**Recurrent**	**Due Date**	**Frequency**
Mid-term evaluation: (a) report; and (b) review.		No later than: (a) twenty-nine (29) months; and (b) thirty (30) months, respectively, after the effectiveness date.	Once
Description of Covenant			
The Borrower shall: (a) prepare and furnish to the Bank, no later than twenty-nine (29) months after the effectiveness date, or such other date agreed between the Bank and the Borrower, a mid-term evaluation report integrating the results of the monitoring and evaluation activities performed on Project progress during the period preceding the date of said report and setting out the measures recommended to for the Project to achieve relative objectives during the period following such date; and (b) review the report with the Bank, no later than thirty (30) months after the effectiveness date, or such later date as the Bank shall request in order to ensure efficient Project completion and the achievement of the objectives based on the conclusions and recommendations of the report and Bank's views on the matter. (Section II.A.2 of Schedule 2 to the Loan Agreement)			
Name	**Recurrent**	**Due Date**	**Frequency**
Memorandum of Agreement with the National Irrigation Administration			Once
Description of Covenant			
The Borrower shall enter into a Memorandum of Agreement with the Borrower's National Irrigation Administration for communal and small scale irrigation systems under Part 1(c)(iii) of the Project, on terms and conditions acceptable to the Bank, prior to submitting any withdrawal applications to the Bank for proceeds of the Loan to be used to finance activities under Part 1(c)(iii) of the Project. (Section I.G.4 of Schedule 2 to the Loan Agreement)			
Name	**Recurrent**	**Due Date**	**Frequency**
Project Specific Conditions of Disbursement: Schedule 2, Section IV.B.1(b)		Prior to disbursement of funds for Matching Grants.	Once
Description of Covenant			
No withdrawals shall be made under Category 2 until the Borrower has established the NGC, the RGC, the Central Grant Management Unit (CGMU) and the Regional Grants Management Units (RGMUs) in accordance with the provisions of Section I.E of Schedule 2 of the Loan Agreement.			

Team Composition				
Bank Staff				
Name	**Role**	**Title**	**Specialization**	**Unit**
Frauke Jungbluth	Team Leader (ADM Responsible)	Lead Agriculture Economist	Agriculture, Rural Development and Livelihoods	GFA02
Maria Theresa G. Quinones	Team Leader	Senior Operations Officer	Rural Development, Land Tenure, CDD	GFA02
Rabih H. Karaky	Former Team Leader	Operations Adviser	Agriculture, Livelihoods, Rural Development	LCROS
Cecilia D. Vales	Procurement Specialist	Lead Procurement Specialist	Procurement	GGO02
Dominic Reyes Aumentado	Procurement Specialist	Senior Procurement Specialist	Procurement	GGO02
Aisha Lanette N. De Guzman	Financial Management Specialist	Financial Management Specialist	Financial Management	GGO20
David Tuchschneider	Peer Reviewer	Senior Rural Development Specialist	Productive Partnerships, Livelihoods	GFA04
Dina Umali-Deininger	Peer Reviewer	Practice Manager	Agriculture, Livelihoods, Rural Development	GFA07
Jorge A. Munoz	Peer Reviewer	Practice Manager	Land Tenure	GSULN
Helene Bertaud	Legal Counsel	Lead Counsel	Legal	LEGES
Loren Jayne Atkins	Legal Counsel	Associate Counsel	Legal	LEGES
Ranjini Ramakrishnan	Legal Counsel	Senior Counsel	Legal	LEGIA
Marivi Amor Jucotan Ladia	Social Safeguards Specialist	Social Development Specialist	Social Safeguards and Gender	GSU02
Maya Gabriela Q. Villaluz	Environmental Safeguards Specialist	Senior Operations Officer	Environmental Safeguards	GEN2B
Elezor Trinidad	Team Member	Program Assistant	Administrative Support	EACPF
Extended Team				
Name	**Title**			
Dorothy Lucks	Change Management Specialist			
Josef Ernstberger	Senior Agriculture Economist			

Locations					
Country	**First Administrative Division**	**Location (Province)**	**Planned**	**Actual**	**Comments**
Philippines	CAR	Abra, Benguet	X		
	Region I	La Union, Pangasinan, Ilocos Sur, Ilocos Norte	X		
	Region II	Cagayan, Isabela, Nueva Vizcaya	X		
	Region III	Bulacan, Bataan, Nueva Ecija, Pampanga, Tarlac, Zambales	X		
	Region IV-A	Batangas, Quezon	X		
	Region IV-B	Marinduque, Oriental Mindoro, Occidental Mindoro, Palawan	X		
	Region V	Albay, Camarines Sur, Masbate, Sorsogon, Camarines Norte	X		
	Region VI	Aklan, Capiz, Iloilo, Negros Occidental	X		
	Region VII	Bohol, Cebu, Negros Oriental	X		
	Region VIII	Eastern Samar, Leyte, Northern Samar, Western Samar	X		
	Region X	Misamis Occidental	X		
	Region XI	Davao del Norte, Davao Oriental	X		
	Region XII	Sarangani	X		
	Autonomous Region in Muslim Mindanao (ARMM)	Maguindanao, Lanao del Sur, Basilan	X		

I STRATEGIC CONTEXT

A. Country Context

1. The Philippines is a lower middle income country with a population of about 100 million people. About 55 percent of the Philippine population live in rural areas, where poverty rates remain high and with nearly 38.2 percent of the rural population is classified as poor. Farmers and fishers are the poorest among the basic sector groups and rural incomes are much lower than urban ones. Economic growth has been robust in recent years, averaging 5.4 percent per annum in 2006-2015 and reached 6.4 percent in 2016. Real gross domestic product (GDP) grew by 6.1 and 5.8 percent in 2014 and 2015, respectively, driven by household consumption, private construction, and exports of goods and services. Some 1.8 million Filipinos were lifted from poverty between 2012 and 2015, surpassing the government targets. The proportions of the population living in poverty fell from 25.2 to 21.6 percent over the period 2012-2015, a rate of roughly 1.2 percentage points annually. Improved incomes and a higher employment rate were the key drivers of the reduced poverty incidence in the Philippines, helped by a generally stable inflation environment. Based on the 2015 Family Income and Expenditure Survey, household per capita incomes in the Philippines increased for all income deciles between 2012 and 2015.

2. Though the overall economic outlook remains favorable, the persistent structural rigidities and the risky business climate present challenges to the government in its pursuit of an inclusive and sustainable growth, and in its efforts to reduce poverty and create jobs. The Philippines Development Report (PDR) 2013 concluded that longstanding policy distortions (i.e., labor markets, land, agriculture) have slowed long term growth in agriculture and manufacturing. The agricultural sector remained broadly stagnant, and manufacturing failed to grow sustainably. A low skill services sector emerged as the dominant sector of the economy.

B. Sectoral and Institutional Context

3. In 2016, the agriculture sector contributed 11.3 percent to the GDP. More than 30 percent of the country's population relies on agriculture for their livelihoods, however poverty incidences are much more prevalent among agriculture families, than the national average. Agricultural growth has averaged 2.1 percent in 2011-2013 (about 3.2 percent in the decade before), placing the Philippines on a slower sector growth trajectory than most of its south-east Asian neighbors. The sector has been plagued by a number of challenges that inhibited its contribution to economic growth, job creation, and poverty reduction. In addition to the continuous challenge of climate variability and extreme weather events, the agricultural sector is constrained by low farm productivity, high production costs, weak agricultural extension systems, low level of technology adoption, poor access to markets, weak producer organizations, inefficient supply chains and logistics system, lack of proper infrastructure (roads and irrigation), inadequate post-harvest facilities, limited access to finance, and lack of clear property rights.

4. The country is still working to improve its production base of about 4.8 million agricultural farms with 9.7 million hectares or 32 percent of the nation's total land area to provide gainful employment and ensure adequate food supply for the growing population. Recent positive trends in yields have failed to reverse the stagnation of farm productivity. Agricultural land is predominantly occupied with traditional crops such as coconut, rice, and corn. The Philippines continues to trail other countries in the region in the yields levels for key commodities such as rice, coconut and sugarcane, e.g., the country ranked fourth among the ASEAN countries (Malaysia, Indonesia, Thailand, and Vietnam) in rice and coconut yields, and fifth in corn. Furthermore, the Philippines has not yet exploited the full potential of its export commodities with comparative advantages in coconut, banana, mango, pineapple, sugar, abaca, papaya, fresh fruits and vegetables. The exports share of agricultural products is only 8.3 percent compared to 13.3 percent for Malaysia and 21.1 percent for Indonesia. Poor rural business climate, malfunctioning land markets, and

the absence of risk mitigating institutions have overall inhibited the investment in the modernization of the agricultural sector.

5. Damage to agricultural production in the Philippines resulting from natural disasters is substantial. Between 2006 and 2013, the Food and Agriculture Organization (FAO) estimated the total damage and loss in the agriculture sector at US$3.8 billion, arising from 78 natural disasters with damages to agricultural production from weather-related disasters (i.e., tropical cyclones, tropical storms and flooding) over the years 2010-12 increased from an already high level. The majority of damage and losses (US$3.1 billion) occurred in the crop sub-sector, with over six million hectares of crops affected and the highest losses observed for rice, corn and high-value cash crops. The frequency and intensity of extreme events is likely to increase, as will their impact. Despite the uncertainty associated with long term projections, it is likely that extreme rainfall events will become more frequent. Increased rainfall intensity may trigger landslides and flooding and could cause crop and livestock destruction, livestock and aquaculture losses, as well as a reduction in the availability and quality of land due to erosion and landslides Twenty-seven percent of the total land area is currently considered to be vulnerable to drought. The future climate of the Philippines as a whole is likely to be warmer and wetter with regionally varying impacts and average precipitation and temperature projected to increase.

6. Land tenure reform, mainly undertaken through the Comprehensive Agrarian Reform Program (CARP) and implemented by the Department of Agrarian Reform (DAR) and the Department of Environment and Natural Resources (DENR) has resulted in the distribution of more than 6.9 million hectares to small-scale farmers, also known as agrarian reform beneficiaries (ARBs). The program aims to develop the ARBs into self-reliant producers. However, only about half of the ARBs have so far been assisted in improving the productivity of their farms. There are still some issues about inter-generational land transfer arrangements which DAR is continuing to address through improvement of land tenure security.

7. Related programs that complement DAR's interventions for ARBs are the Department of Trade and Industry's (DTI) Industry Clusters which specify industries with high market potential per region, and Shared Services Facilities Program which provides processing facilities and equipment as well as marketing assistance to farmers' organizations including ARB cooperatives. DTI has identified the market and investors for commodities with big market demand and export potential but could not achieve much progress due to the inefficient supply chains. For this reason, DAR and DTI are closely collaborating to encourage producers to meet the scale and quality required by the market.

8. The Department of Agriculture (DA) is implementing the Philippine Rural Development Project (PRDP) to support the development of agricultural value-chains through enterprise and infrastructure sub-projects based on Provincial Commodity Investment Plans. Project impacts indicate a substantial reduction in travel times, and transport costs as well as increased incomes. As DA and DTI are investing in the development of value chains for traditional and non-traditional crops, DAR, through the proposed project, seeks to facilitate the inclusion of the ARBs and other farmers, including landless rural workers, into the value-chains to generate wider benefits.

C. Higher Level Objectives to which the Project Contributes

9. The higher level objective of the proposed project would be to contribute to rural poverty reduction, job creation, and increased rural economic growth and households' incomes in the Agrarian Reform Community (ARC) clusters. The proposed project is fully consistent with the World Bank Group's Country Partnership Strategy (2015-2018) for the Philippines (Report No. 78286-PH) which identified the promotion of rapid, inclusive and sustained economic growth as one of its goals. The project also contributes to the World Bank Group's twin goals of ending poverty and boosting shared prosperity by

targeting investments in the agriculture sector which represents the major source of livelihood and employment in the rural areas, where poverty incidence is highest. It also fosters partnerships in productive investments between farmers' groups and commercial buyers, along agricultural supply chains that would contribute to improved market access and higher income opportunities for all.

10. The project is in line with the objective of the Philippine Development Plan (PDP) 2017-2022 on developing a competitive, sustainable, and technology-based agricultural sector that would contribute to inclusive growth and poverty reduction. It is further aligned with the administration's Ten-Point Socio-Economic Agenda, specifically on promoting rural and value chain development toward increasing agricultural and rural enterprise productivity, and on ensuring security of land tenure to encourage investments. The project is also contributing to the sector outcomes of PDP Chapter 8 (Expanding Economic Opportunities in Agriculture, Forestry and Fisheries). Furthermore, the project would support the DAR's thrust and policy directions on providing sufficient support services to the farmers, providing mechanism to improve agricultural productivity and livelihoods, and expanding employment opportunities aimed towards achieving the goal of improved quality of life of farmers.

11. The project builds on a number of past World Bank supported projects with DAR such as two Agrarian Reform Communities Development Projects (ARCDP I and ARCDP II) which provided packages for basic infrastructure, community development and capacity building, as well as agriculture and enterprise development support. It also complements the DAR's Converge on Value Chain Enhancement for Rural Growth and Empowerment Project and the DA's PRDP. While PRDP focuses on infrastructure improvement and agro-enterprise development based on approved provincial commodity investment plans, the proposed project adopts a beneficiary-led and demand driven approach, where sub-project investments are identified and implemented by the beneficiaries. The project would provide the necessary support services, technical assistance, and financing.

II PROJECT DEVELOPMENT OBJECTIVES

A. PDO

12. The project development objectives are to improve access to markets and to enhance the competitiveness of smallholder farmers in the targeted Agrarian Reform Community clusters.

B. Project Beneficiaries

13. The direct beneficiaries of the project are estimated at around 300,000 people and would include ARBs, non-ARBs, smallholders and landless farmworkers in the ARC clusters. They include both landowners and landless workers who want to improve productivity of their areas as the potential of the land has not yet been developed. These areas often have poor infrastructure and extension services but high agricultural potential. DAR has established ARC clusters to achieve economies of scale in reaching the poor and harnessing agricultural potential. The 50 ARC clusters proposed under the project are located in 203 municipalities within 44 provinces, across 14 regions.

14. Project areas were selected and prioritized based on criteria including poverty headcount and the number of ARBs. According to the National Household Targeting System, the poverty rate in the targeted provinces ranges between 26 percent and 70 percent. Based on the poverty estimates of the National Statistics Coordination Board, there were 14.9 million poor population in the project's 44 provinces. Moreover, up to 24 of the 44 targeted provinces are included as priority areas for inclusive growth and poverty reduction.

15. Beneficiaries would benefit from the project's various activities and investments such as organizational development and strengthening; technology training and technical assistance on farm business planning, improved production, post-harvest handling and marketing; access to finance; and access to improved public infrastructure. At least 30 percent of the total beneficiaries are expected to be women and no less than 20 percent of the beneficiaries are poor[1].

16. Capacity building, mobilization, and financing services provided to the farmers' organizations (FOs) would indirectly benefit other project entities including private agribusinesses, input suppliers, non-government organizations (NGOs) and government and non-government service providers. Finally, the DAR and its staff at the central, regional, and provincial office level, as well as Local Government Units (LGU) partners, would benefit from project activities through learning and capacity building.

C. PDO Level Results Indicators

17. Achievement of the PDO would be measured by three key indicators:

(a) Percentage of direct project beneficiaries who have adopted an improved practice promoted by the project.
(b) Number of direct project beneficiaries (by gender and poverty status).
(c) Percentage increase in average value of sales due to project interventions.

III PROJECT DESCRIPTION

A. Project Components

18. The proposed project is designed to enhance market opportunities through an inclusive beneficiary-led approach. The FOs would be the main vehicle for delivering project support and assistance. Participating FOs would be existing or emerging producer or marketing groups, irrigators' associations, or cooperatives. Targeted FOs can be small or large in scale but should fulfill basic criteria of formal registration, and basic organizational and business governance. The project would achieve its stated objective through the implementation of the following three components.

Component 1: Support Services for Enhanced Market Linkages (US$131.06 million, of which IBRD is approximately US$40.25 million)

19. The objective of this component is to enable the FOs in the ARC clusters to become more competitive in terms of farm productivity, product quality and access to market. It would: (a) strengthen the capacity of farmers and FOs to engage in commercial agriculture opportunities; (b) improve the extension, business development, and land tenure services; and (c) provide physical infrastructure investments to support productivity improvements and market access. The component has three sub-components:

20. *Sub-Component 1.1: Extension and Business Development.* This sub-component aims at enhancing the knowledge and capability of FOs in the ARC clusters to help them respond to market opportunities. Rapid assessments, market matching fora and subsequent technical advice would facilitate the scoping of potential market opportunities, identify existing constraints and devise potential solutions to address them, and determine the corresponding capacity needs. An appropriate combination of technical, business, and operational training would be provided using the Farmer Field Schools (FFS) and Farm Business Schools (FBS) approach. Training of trainers would be conducted to build the capacity of local service providers

[1] As defined by eligibility for the Department of Social Welfare and Development's Conditional Cash Transfer Program.

and lead FOs in providing extension and business development services to farmers and FOs through the supply chain networks. Additional packages of technical and organizational capacity development support for FOs would be provided once specific needs have been identified and would include climate smart agriculture trainings as a way to increase the adaptive capacity of climate vulnerable farmers.

21. *Sub-Component 1.2: Land Tenure Improvement.* This sub-component would encourage on-farm land investment through securing individual land titles. Farmers holding collective land titles are unable to gain access to loan finance and are less likely to invest in land development. The project would support the survey and boundary demarcation necessary for the subdivision of collective Certificates of Land Ownership Awards (CLOAs), on a demand driven basis. In addition, the project would support the DAR to strengthen its land tenure improvement program through the conduct of policy studies.

22. *Sub-Component 1.3: Rural Infrastructure.* This sub-component would support critical infrastructure necessary to enhance farm productivity and access to markets for the targeted ARC clusters. Infrastructure investments such as farm to market roads (FMRs) and bridges, small scale/communal irrigation systems, potable water supply systems and multi-functional community buildings would contribute to increased agricultural productivity and the reduction of marketing costs. ARC cluster development plans highlight important infrastructure linking key production areas with access networks as prioritized through joint planning between FOs and LGUs. Priorities may be adjusted in relation to new market opportunities identified by FOs. Government counterpart funds provided through regular budget allocations would support investments in FMRs and bridges. Other infrastructure would be supported through project funds.

Component 2: Investments in Productive Partnerships (US$81.36 million, of which IBRD is approximately US$53.36 million)

23. The objective of this component is to support smallholder farmers in the ARC clusters to increase their competitiveness, business orientation and market position and to make them attractive business partners in the value chain. This would be undertaken through a Matching Grants Program (MGP) wherein matching grants would be provided to FOs. The grant would be provided through two windows: (a) small grants ranging from PhP400,000 up to PhP1 million; and (b) larger grants ranging from more than PhP1 million up to PhP10 million. To ensure ownership and commitment, the applicants for both windows would need to match the grant amount with counterpart funds or cost-sharing of 40 percent which would come from the FOs' own resources and/or from commercial loans. The matching contributions under the larger grant window would need to be provided in cash, while under the small grants window, up to 50 percent of the matching contribution put forward by the FOs would be valued in kind. Sub-projects would be demand-driven and could include investments to improve productivity, product quality, production facilities (nurseries, green houses), semi-processing and marketing, production of value added agricultural products, food safety promotion and improvement, business management, new product development, other income-generating activities and provision of services. The project would also support the management and implementation costs of the MGP including the costs of grant management units, equipment, technical assistance, and incremental operating costs.

24. Each application would be evaluated, scored and selected according to its expected contribution to the MGP objective. The main selection criteria would include: (a) financial and technical viability of proposed activities; (b) extent that activities would increase competitiveness, improve market access, add value, and/or improve service provision; (c) expected impact on market demand from smallholder produce; (d) extent that the proposal facilitates or up-scales successful technical and/or institutional arrangements in the Philippine context; and (e) likely sustainability.

25. *Grant Management and Processing.* A set of activities and organizational arrangements would be implemented under the project, which would support information and communication campaigns activities

to facilitate forward and backward linkages among all stakeholders in the agricultural value chains, stimulate partnership agreements and introduce the MGP. This would include:

(a) Grant Management. To manage the implementation of this component, the project would finance an agricultural economist, a matching grant specialist and an environmental specialist at the central level and two hired staff in each of the 14 regions and provide funds for vehicles, and incremental operating costs.

(b) Matching Grant Training and Publicity. This would include funding for a general orientation and an intensive training program for all staff involved in the facilitation, management and decision making under the MGP (management unit staff, technical reviewers, grant committee members, DAR field officers, service providers, etc.). It is expected that at least some 300 people would need to receive training of various types. The MGP would be advertised with calls for proposals through a semi-annual publicity and advertisement campaign (including mass media and internet). Following the advertisement, the project would organize semi-annual grant information workshop in each region which would provide an opportunity for all interested applicants and service providers to: (i) learn about the grant objective, detailed procedures, and eligibility criteria; (ii) distribute information material, forms, etc.; and (iii) make contact with the respective grant management units in the regions. After the first round of supported sub-projects approach completion, the experiences, outcomes and development impact would be presented and discussed at a national annual conference.

Component 3: Project Management, Monitoring and Evaluation (US$18.36 million, of which IBRD is approximately US$5.45 million)

26. The objective of this component is to provide support to the project implementing agencies at the central, regional, and provincial levels in project management and coordination, technical operation, financial management, procurement, social and environmental safeguards, and monitoring and evaluation (M&E). The component would finance activities on: (a) project orientation workshops and training; (b) engagement of technical assistance and short term experts; (c) design and installation of an M&E and Management Information System; (d) M&E surveys and reviews (baseline, mid-term and end of project impact evaluation through an external agency/organization); (e) procurement of office equipment and vehicles; and (f) incremental operating costs.

B. Project Financing

27. The total project cost, including financial charges, is estimated at US$231,032,910. The project would be implemented over a period of five years. The table below presents the breakdown of project costs and sources of funding by component. The total project costs and financing requirements include price contingencies, taxes, and front end fee. About US$99,312,910 of the project costs are expected to be financed through an IBRD loan, the remaining costs of some US$131.72 million would be financed from the Government of the Philippines (US$103.72 million) and from beneficiaries' contributions (US$28 million).

Table 1: Project Cost and Financing

	Including Contingencies	% of Total	IBRD Financing	% of Financing
1. Support Services for Enhanced Market Linkages				
Extension and Business Development	12.60	5.5	12.60	100.0
Land Tenure Improvement	3.34	1.4	3.34	100.0
Rural Infrastructure	115.12	49.8	24.31	21.1
Subtotal	**131.06**	**56.7**	**40.25**	**30.7**
2. Investments in Productive Partnerships				
Matching Grant Sub-projects	81.36	35.2	53.36	65.6
Subtotal	**81.36**	**35.2**	**53.36**	**65.6**
3. Project Management, Monitoring and Evaluation				
Project Management	16.08	7.0	3.17	19.7
Monitoring and Evaluation	2.28	1.0	2.28	100.0
Subtotal	**18.36**	**8.0**	**5.45**	**29.97**
Total PROJECT COSTS	**230.78**	**99.6**	**99.06**	**42.9**
Front-end Fee	0.25	0.1	0.25	100.00
Total Costs to be Financed	**231.03**	**100.0**	**99.31***	**42.9**

* The exact (non-rounded) amount is US$99,312,910.00 (i.e., US$40,250,843.00 for Component 1; US$53,359,636.00 for Component 2; US$5,454,149.00 for Component 3; and US$248,282.00 for Front-end Fee).

IV IMPLEMENTATION

A. Institutional and Implementation Arrangements

28. As the lead implementing agency, DAR would exercise overall administration, planning, management and supervision of the project through its existing units and staff at the central, regional, provincial and municipal levels in collaboration with the counterparts from the partner agencies. Technical experts would be engaged to provide technical assistance and advice to the project.

29. **Project Management Board (PMB).** An inter-agency PMB would be set up to provide policy direction and overall management guidance to the project, as well as approve the project's annual work and financial plans. The PMB would be chaired by the DAR Secretary and composed of representatives from various agencies that would be involved in the project. To facilitate and speed up the processing and approval of the infrastructure sub-projects and matching grants proposals, the PMB would establish the Sub-project Approval Committee (SAC) and National and Regional Grant Committees (NGC and RGC).

30. **Central Project Office (CPO).** The CPO would be headed by a National Project Manager who would report directly to the Project Implementation Officer of the DAR's Foreign-Assisted and Special Projects Office (FASPO). It would: (a) be responsible for the day-to-day operations of the project in accordance with the approved annual work plan and budget; (b) liaise with relevant partner implementing agencies and government oversight agencies for the provision of technical, financial and other assistance required by the project; and (c) serve as the technical secretariat to the PMB and the SAC. Other administrative and technical support to the CPO would be provided by FASPO's Finance, Management and Administration Service and the Monitoring and Evaluation Unit.

31. **Regional Project Offices (RPOs).** The RPOs would be headed by the respective DAR Regional Directors who would be designated as the Regional Project Manager. The RPOs would be supported by project point persons at the DAR's Regional Support Services Division who would coordinate and supervise project activities at the regional and provincial levels. It would also work closely with other regional offices/agencies for technical support/assistance.

32. **Provincial Project Offices (PPOs).** The PPOs would be headed by the respective DAR Provincial Agrarian Reform Program Officers who would be designated as the Provincial Project Manager. The PPOs would oversee and undertake the integrated implementation and coordination of project components and activities within the targeted ARC clusters. The PPO would be staffed by DAR staff who would be selected on the basis of their skills and competencies in accordance with guidelines to be set by the CPO. At the ARC cluster level, the DAR Development Facilitator, under the supervision of the DAR Municipal Agrarian Reform Program Officer, would be responsible for the day-to-day coordination of various project activities.

33. **Project Operations Manual (POM).** The project is governed by a POM which provides clear guidelines, implementation procedures and selection criteria for all project activities. The POM also includes Terms of References as well as formats for applications, contracts, reporting, monitoring and evaluation. A comprehensive Matching Grant Program Sub-Manual was prepared as part of the POM. The procedures in the POM would be reviewed and assessed on a regular basis during implementation and modifications are subject to prior approval from the World Bank.

34. **Sub-Components 1.1 and 1.2 (Extension and Business Development and Land Tenure Improvement).** These activities would be managed by DAR using a combination of its own staff, service providers, relevant Government line agencies, qualified state universities and colleges (SUCs), private institutions, companies, and consolidators and social enterprise organizations or NGOs.

35. **Sub-Component 1.3 (Rural Infrastructure).** Implementation of this sub-component would be through Memoranda of Agreement (MOA) and Sub-Project Agreements (SPA) signed between DAR and the following government offices/departments. The MOAs/SPAs with these agencies would stipulate prioritization and consistency of the implementation of infrastructure works in accordance with approved ARC cluster development plans, implementation arrangements, and ensure that the infrastructure is closely linked to the project's development objective and outcome.

(a) LGUs for potable water supply systems and multi-purpose buildings (Bank-financed);

(b) Department of Public Works and Highways (DPWH) for FMRs and bridges (counterpart funding);

(c) National Irrigation Administration (NIA) for small-scale/communal irrigation systems (Bank-financed).

(d) Department of Interior and Local Government (DILG) for capacity building of LGUS for the construction of potable water system, small water impounding and farm to market road sub-projects.

36. **Component 2 (Investments in Productive Partnerships).** The MGP would be set up under the oversight of DAR but is designed in such a way that it could gradually evolve into a free-standing program. A Central Grant Management Unit (CGMU) would be established within the CPO for overall MGP management, monitoring and reporting. The CPO would engage a technical assistance team composed of Agribusiness Expert, Matching Grant Specialist and Environmental Specialist.

37. Regional Grant Management Units (RGMUs) would be established in the 14 regions. The RGMUs would consist of a Matching Grants Officer and an Assistant, who would work closely with the DAR staff

in each region and province for management, verification and monitoring of grants. The RGMUs would be housed in the DAR's regional offices, and would be responsible for organizing the call for proposals, organizing grant program presentation workshops, receiving and registering applications, screening applications for compliance with budgetary and documentary requirements, record-keeping, monitoring, arranging information and training activities, evaluating completed grants, and organizing contracts with local specialists for tasks including evaluations of the grant sub-projects.

B. Results Monitoring and Evaluation

38. Project results would comprise progress, physical outputs, costs, direct benefits, and PDO level and intermediate results (component) indicators which would measure percentage of direct project beneficiaries who have adopted an improved practice promoted by the project, number of direct project beneficiaries (by gender and poverty status), and percentage increase in average value of sales due to project interventions. The results framework (Annex 1) presents the project outcome indicators that the various project offices would be tracking in collaboration with external assistance. M&E instruments would include a Management Information System (MIS) to track physical and financial progress, achievement of results indicators, and an impact survey for sample project activities and households in the target ARCs and any additional primary and secondary data as needed.

39. The RPOs/PPOs would prepare periodic M&E reports that would be sent to the CPO for consolidation in annual M&E reports that would be shared with the Bank. In addition, a mid-term survey would be conducted half way through project implementation for a comprehensive assessment of project progress and results. Physical and financial implementation progress reports would be prepared quarterly and would constitute a key document for review during Bank implementation support missions. The CPO would prepare a mid-term progress report ahead of the mid-term review mission.

40. An external agency/organization would be commissioned under Component 3 to design and undertake an impact evaluation assessment of project interventions on project beneficiaries based on representative surveys to be conducted at three stages of project implementation: a baseline, a follow-up prior to mid-term, and a final round at project completion. The project may benefit from national survey data to use for benchmarking and data control. The impact evaluation would include specific surveys for a sample of infrastructure sub-projects (roads, irrigation, etc.) and a socio-economic survey of a sample of ARBs within the FOs, and a control group. The survey would focus, among others, on: (a) access to services, use of and satisfaction with services supported by the project; (b) adoption of techniques promoted through the extension services; and (c) changes in farm income resulting from adoption of agriculture techniques and from participation in productive partnerships.

C. Sustainability

41. Sustainability is a key focus of the project. It would depend on a number of factors including the sound technical design of the planned interventions, the effectiveness of project management and implementation, well-functioning project institutions including farmer organizations, financially and economically viable productive partnerships.

42. The main thrust for sustainability is to support viable farm business and FO operations with sufficient management capacity and resources to enable adaptability in the event of market shocks. DAR has demonstrated that with limited support, FOs have survived for many years and some FOs have operated as finance and service providers to other FOs. The additional support services that would be provided through the project would assist to build the capacity of the FOs, including the consideration of succession planning, asset management, business service provision to smaller FOs, and building the capacity of identified lead farmer technicians to ensure that technical knowledge remain locally available to augment the limited LGU

support in delivering technical services to farmers. DPWH and NIA are the lead agencies in the implementation of farm to market roads and irrigation systems, respectively, and have the technical and institutional capacity for the construction and rehabilitation of these civil works. Furthermore, the LGUs would be responsible for the maintenance of the community infrastructure, and the irrigators' associations and water users' associations would be responsible for operation and maintenance of irrigation and potable water systems.

43. For the productive partnerships, sustainability is highly likely because partnerships are (a) demand driven; (b) based on viable plans owned and prepared by the project beneficiaries with technical assistance from the project; (c) managed with clearly defined set of screening and eligibility criteria, and a transparent evaluation process with elements of devolved responsibilities to the regions and provinces; (d) focused on key elements of productivity and marketing improvement; and (e) engaged with strong and capable partners along supply chains with experience in linking with smallholders. The implementation of the MGP is guided by a well-developed manual factoring in lessons learned from similar interventions elsewhere that have been adapted and modified to suit the Philippine context.

V KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

44. The overall risk rating is considered Substantial. The key risks identified are risk of failure or misuse of the matching grants mechanism and fiduciary risk due the multitude of implementing agencies with varying procurement and financial management (FM) capacity and familiarity with World Bank's procedures and guidelines.

45. **Political and Governance Risk.** The Philippines went through national elections in mid-2016, and the current administration has been in place for ten months. The new administration won the elections on a change agenda, and brought in new teams and priorities aligned with this agenda. The government structure remained as is and new Cabinet Secretaries and other key officials have been appointed. The country's new Philippine Development Plan (PDP), which provides the framework and directions for the medium-term development agenda from 2017-2022, has been approved by the NEDA Board and is available on-line. The Public Investment Program (PIP) and PDP Results Matrix (RM) are under preparation and would follow and outline the specific projects and targets for the sectors and implementing agencies. Given that the transition process is still ongoing with the PIP and RM not yet finalized, their impact on the project implementation and achievement of the project's development objectives cannot be excluded.

46. **Project Technical Design, and Institutional Capacity for Implementation and Sustainability Risks.** The MGP is a new program with features that have not been tested previously in the Philippines. Potential risks include: (a) DAR has insufficient capacity to monitor and supervise the program; (b)FOs and commercial partners are unable to prepare quality proposals and provide the required matching investment funds; (c) grant funds are used to provide grant recipients with an unfair commercial advantage over competitors; and (d) interference with decision-making on grant awards. To mitigate these risks the Bank team would provide intensive support during preparation and implementation and share experiences from other projects and countries. The MGP Sub-Manual in the POM includes clear criteria and processes for appraisal and award of grants which would be determined by the NGC or RGC which have majority non-government representation.

47. **Fiduciary Risks**. The different implementing and cooperating agencies (including LGUs and FOs) have varying procurement and financial management capacity, which could affect the implementation of project activities. To mitigate this risk, procurement and financial arrangements have been fully

documented in the POM to provide detailed guidance to the project implementers. Furthermore, project staff would be supplemented with procurement and financial management specialists who would be hired to provide necessary assistance. The World Bank team would also provide training and implementation support throughout project implementation.

VI APPRAISAL SUMMARY

A. Economic and Financial Analysis

48. The project would invest around US$230 million in supporting an estimated 300,000 direct beneficiaries including ARBs, non-ARBs, smallholders and landless farmworkers in ARC clusters providing support through training, rural infrastructure and agriculture business development. A standard cost-benefit calculation method was used based on existing data and information for the ARC clusters and observed impacts from ongoing DAR activities. For the computation of rates of return and net present values constant price as of 2014 and a cash flow project period of twenty years were used. The estimates were computed based on the proposed project scope, investment costs, operations and maintenance costs, and implementation schedule.

49. The aggregated economic cash flow of the project including all supporting investments shows an economic internal rate of return of 20.6 percent and a net present value of about PhP7.549 billion at 15 percent discount rate. The main contributors to economic viability are the projected net incremental value from improved agricultural production, economic revenues/net benefits derived from operation of agribusiness/enterprises funded through the matching grants for productive partnerships, and priority infrastructures that would be provided under the project in the 50 ARC clusters. The analysis has considered impacts of training and adoption of better agricultural practices, benefits from improved infrastructures (roads, irrigation, post-harvest) and from the agriculture businesses to be supported under the matching grants.

50. For the analysis, DAR developed ten agribusiness models based on the priority commodities of ARC clusters, the area of production and potentials of the commodities for processing and value-adding. These agribusiness models include processing, trading/marketing of copra, organic rice, low-chemical rice, cacao, cassava, coffee, oil palm, muscovado sugar, abaca and rubber. The financial analysis considered the cost and returns of these commodity models on FO/enterprise level. The sensitivity analysis showed that these models remain viable at a combined 20 percent increase in costs and 20 percent decrease in benefits.

B. Technical

51. The design of the project built on the implementation experience in implementing World Bank-funded investment projects as well other foreign-assisted projects within DAR that have included support to FOs, land surveying and rural infrastructure works. The support for FOs builds from the results of the Organizational Maturity Assessment undertaken by DAR which provides the basis for identifying capacity building and other priority needs for FOs. Furthermore, teaching farm business enterprise management and supporting the farmers through upgrading and improving technical and operational processes to meet market requirements (quality, standards) would contribute to improving the performance of farmers to enable access to commercial markets and increase farmer incomes. The quality provision of technical and business advice would be screened and evaluated through the DAR provincial and regional offices.

52. The proposed infrastructure sub-project selection, technical design, implementation and O&M would be guided by the existing DPWH and NIA technical standards and specifications for farm-to-market roads and bridges and irrigation sub-projects, respectively. DAR's ongoing projects have existing

implementation partnership agreements with DPWH and NIA (through MOAs) that specify the design, supervision, monitoring and evaluation of sub-projects.

53. The MGP is based on good practices and lessons learned from programs in other regions and countries. Similar MGPs have proved well-suited to support FOs, rural businesses and entrepreneurs to introduce innovative partnership and market linkage arrangements, and thus contribute to increased competitiveness and commercialization of smallholder farmers. The demand-driven and competitive approach and the requirement for a matching contribution, increase the likelihood that the winning applicants are the most innovative and that proposals are relevant to the needs of the beneficiaries. To complement this activity, the project would also support training and technical assistance in business planning, management and marketing that would help the development of FOs as strong and competitive business entities and attractive partners for other private agribusiness operators.

C. Financial Management

54. Based on a financial management assessment of the project carried out in accordance with the "Financial Management Practices in World Bank-Financed Investment Operations", the DAR's financial management (FM) systems meet the Bank's requirements provided the recommended mitigating measures are incorporated in the design and implementation of the project. Although audit reports showed non-compliance to established internal controls, DAR subsequently resolved the issues noted by the Commission on Audit (COA). The overall control environment is adequate for the implementation of the project provided that the mitigating measures described below are implemented.

55. DAR through the CPO shall oversee the overall FM implementation under the project. The FM arrangements would be mainstreamed and as such would use existing FM structure, policy and procedures of the agency as supported by rules and regulations of the oversight agencies such as the COA, Department of Budget Management (DBM), and Department of Finance's Bureau of Treasury. The FM units in the central, regional and provincial offices would support the CPO in the implementation of the project. Though the FM assessment showed that the current FM manpower of DAR, taking into consideration the rationalized structure, is adequate, additional staff would be recruited to ensure that FM arrangements would be maintained throughout the life of the project. Regular FM personnel would be assigned to work on the project and additional FM personnel would be hired to assist in the central and field offices to perform various activities such as budgeting, accounting and financial reporting to ensure that funds are used for the intended purpose.

56. As noted earlier, the project would involve the implementation of various components in partnership with different agencies such as the DPWH, NIA, FOs, and LGUs that have varying financial management capabilities some of which may not be able to maintain acceptable FM arrangements. The FM arrangements particularly on the funds flow and financial reporting are fully documented in the FM section of the POM to ensure efficient download of funds and sufficient controls on accountability for the usage of funds.

57. Separate books of accounts would be maintained by the project so that issues on the DAR's financial statements would not be mixed with that of the proposed project. Resolution of issues on the project financial statements shall be required to be acted upon or resolved within six (6) months from the issuance of the report. Due to some weaknesses in internal control, the POM has detailed sections on FM internal controls and that FM systems would be put in place and documented before project implementation. Training on the FM requirements of the project would also be conducted and monitoring of compliance to FM processes would be a regular part of the review missions conducted by FASPO. As part of the Loan Agreement, Quarterly Interim Financial Reports (IFRs) would be submitted within 60 days after the end of each calendar quarter. Formats of these IFRs have been agreed during loan negotiations.

58. The audit of the Project Financial Statements would be conducted by COA. The scope of the audit shall include a review of the designated account and eligible expenses to be conducted on an annual basis and submitted to the Bank six months after the end of each calendar year. Annual Audited Project Financial Statements together with a copy of the management letter reflecting the auditor's findings and recommendations shall be submitted to the Bank no later than six months after the end of each fiscal year. DAR would also monitor issues noted by COA and prepare a time bound action plan to act upon or resolve all issues within six months after the receipt of the audited financial statements.

D. Procurement

59. DAR through its relevant offices in the central and regional offices, including the Bids and Awards Committee, would handle procurement of goods and non-consulting, and consultancy services related to supporting project operations. LGUs and NIA would carry out the procurement for rural infrastructure while FOs would manage and implement their own procurement through community participation based on the procurement section of the MGP Sub-Manual in the POM. The CPO, RPOs, and PPOs shall oversee the procurement implementation under the project.

60. A procurement assessment of DAR and NIA, sample LGUs and FOs was carried out. The World Bank/Philippine Government Procurement Policy Board report on Agency Procurement Compliance and Performance Indicators Assessment (APCPI) for DAR was also taken into consideration. The procurement entities have their own procurement procedures and processes, mostly based on the national rules and practices, but are generally similar to the requirements of the Bank Guidelines. The DAR and NIA are regular implementers of foreign-assisted projects, however most of the staff who have experiences with Bank procurement have either left or moved to other organizations.

61. Some of the weaknesses identified include: (a) decline in the overall performance of the DAR's procurement system based on APCPI results for 2011-2014 report; (b) lack of experience with the Bank's Procurement Guidelines and Processes; (c) lack of experienced procurement staff; (d) outdated procurement documents brought about by the recent revision of the implementing rules and regulations of the procurement law; (e) inadequate knowledge of internal and external auditors on procurement rules, including revisions and official interpretation; and (f) diversity of small procurements needing technical assistance, supervision, and monitoring. In order to mitigate these risks, the following measures have been agreed: (a) strengthening of DAR's procurement system; (b) training of CPO on procurement, project management and contract implementation and provision of additional procurement specialists; (c) inclusion of specific procurement section in the POM and detailing, among others, the procurement arrangement based on the Loan Agreement and processing timelines within various implementing units; (d) annual procurement audit would be conducted by the COA following the Guide in the Audit of Procurement as part of the financial audit; and (e) continuous training for the procurement designated staff in the CPO, RPOs and PPOs would be provided. Other improvements in the public procurement system which would be adopted under the project includes but not limited to: (a) use of geo-tagging as evidence of work performed or goods delivered for purposes of payment; (b) performance monitoring of procuring entities using the APCPI; (c) professionalization of procurement practitioners; and (d) CSO/NGO and private sector involvement as procurement observers.

E. Social (including Safeguards)

62. The main beneficiaries of the project are poor farmers in rural areas where around 38 percent of the population remain impoverished due to low access to support systems in the production and marketing of their products. The different project components address the various challenges facing poor farmers, thus contributing to rural poverty reduction, job creation, and increased rural economic growth and households' incomes in the targeted ARC clusters. Improved quality of rural life and expanding access to public service

is also expected to decrease the influx of rural-urban migration which currently is also exacerbated with uncontrolled population increase.

63. **Gender and Poverty.** Visits to the proposed project sites and discussions with various stakeholders showed that project activities are highly likely to benefit poor households, including women. Reliable marketing of their products would help lead to new opportunities and improved efficiency in livelihood opportunities. More efficient productive time for livelihood due to presence of better technology may translate into higher household income most of which is in the hands of women. There is a direct correlation between the amount of money managed by women and the magnitude of benefits to the household, particularly children. The project would promote project implementers and FOs' appreciation and knowledge of gender mainstreaming by providing orientation on the concepts and tools of gender and development such as Gender Sensitivity Training using Gender-Based Effectivity Skills Training (G-BEST) and other tools developed by DAR. The project would aim to observe project gender-related impacts through its M&E system and surveys.

64. **Involuntary Resettlement (OP/BP 4.12).** Construction of new community infrastructure such as FMRs, bridges, small-scale/communal irrigation systems, and other community based multi-purpose infrastructure may require temporary or permanent land acquisition from residential and agriculture land. Scales of impacts are quite limited and can be minimized due to the flexibility in site selection. The present practice is to use land donation and/or the open purchase approach in land acquisition but there is a need to establish that donor and sellers have genuine willingness to part with their lands and that it does not compromise the economic wellbeing of their families. Projects considered linked (i.e., contiguous to, contemporaneous with and contributing to the PDO of present project) regardless of funding may also be encountered. The project's Environment and Social Management Framework (ESMF) comes with a Resettlement Policy Framework (RPF) to provide specific guidance compliant with the Bank's OP/BP 4.12 to address the aforementioned possibilities as well as other involuntary resettlement impacts. The RPF specifies principles and objectives, eligibility criteria of displaced persons, modes of compensation and rehabilitation, potential relocation of these persons, participation features and grievance procedures. The RPF was presented during public consultations and comments from the project stakeholders were incorporated in the final version. The RPF was disclosed by DAR in English nationwide and at the World Bank InfoShop on May 19, 2015 and May 22, 2015, respectively. The revised version was also disclosed on October 13, 2015. It is locally accessible in the project sites.

65. **Indigenous Peoples (OP/BP 4.10).** Using the Ancestral Domain Information System of the National Commission on Indigenous Peoples, it was learned that 22 of the target 44 provinces have IP presence in towns covered by target ARCs (see Annex 11 of the ESMF). The Indigenous Peoples' Rights Act of the Philippines mandates that any project that impinges on ancestral domains must secure a free and prior informed consent from affected indigenous peoples (IP) communities and not just broad community support. To ensure compliance to OP/BP 4.10, the IP Development Framework (IPDF) for the project accompanies the ESMF. It sets out guidelines to: (a) ensure that the IP communities receive social and economic benefits that are culturally appropriate; (b) avoid potentially adverse effects on the IP communities; and (c) when such adverse impacts cannot be avoided, minimize, mitigate, or compensate for such effects. IP dedicated consultations were done at sub-project level to ensure that practical recommendations are incorporated in the design and operation of the sub-project. The IPDF was disclosed in English by DAR nationwide and at the World Bank InfoShop on May 19, 2015 and May 22, 2015 respectively. The revised version was also disclosed on October 13, 2015. It is locally accessible in the project sites.

F. Environment (including Safeguards)

66. The project is a category B project that triggers the following environmental safeguard policies: OP/BP 4.01 Environmental Assessment, OP/BP 4.04 Natural Habitats, OP/BP 4.09 Pest Management, OP/BP 4.11 Physical Cultural Resources, and OP/BP 4.37 Safety of Dams. Since the sub-projects and specific sites within the clusters targeted by the project still have to be determined, DAR has prepared and presented in public consultations the ESMF, which provides guidance on the process for addressing safeguards concerns during project implementation. DAR has satisfactorily implemented ESMFs in previous projects, including the World Bank-assisted projects (ARCDP 1 and 2). The ESMF for the project was disclosed in English by DAR nationwide and at the World Bank InfoShop on May 19, 2015 and May 22, 2015 respectively. The revised version was also disclosed on October 13, 2015. It is locally accessible in the project sites. Based on the multi-donor banks' climate finance tracking methodology, the project is not considered to provide direct climate change co-benefits. The project incorporates climate smart agriculture considerations in its technical assistance and matching grant activities and will include reporting on such measures in its regular progress monitoring. The project's carbon balance is considered negative indicating avoided emissions due to the expected improved agricultural practices, increase in perennial crops, and better land use practices.

67. **Environmental Assessment (OP/BP 4.01)**. Potential impacts of the sub-projects are expected to be modest, temporary and localized since their scope and nature are mainly small-scale, rural and agriculture-based. Based on their nature and scope, sub-projects would be screened to determine the type of safeguards instruments that need to be prepared in accordance with the following categories: (a) Category A - sub-projects are highly unlikely because the environmental impacts are expected to be modest since the scope and nature of the sub-projects are mainly small-scale, rural and agriculture-based; (b) Category B - impacts are site-specific, reversible, and small scale; and mitigation measures are manageable; (c) Category C - minimal or no adverse environmental impacts, no environmental assessment (EA) required. The safeguard instruments that may be required to comply with OP/BP 4.01 include an Initial Environmental Examination, Environment and Social Management Plan (ESMP), Pest Management Plan (PMP), and Environmental Code of Practice. An Initial Environmental Examination is an environmental assessment with a limited scope to be conducted for each sub-project whose anticipated impacts are small-scale, temporary and site-specific. As part of the EA process for all sub-projects, public consultations and disclosure of the safeguards instruments would be conducted with relevant stakeholder groups (potentially affected communities, NGOs, and FOs/peoples organizations).

68. **Natural Habitats (OP/BP 4.04).** While the project would not lead to loss of natural habitats, it is possible that any of the sub-projects might affect natural habitats. The ESMF includes screening for impacts on natural habitats. To address anticipated impacts, the ESMP would include mitigating measures to adequately manage these impacts.

69. **Pest Management (OP/BP 4.09).** The increased demand for agricultural production, irrigation and water supply sub-projects highlights the need to address any environmental risk related to pesticides use. Since the project may encounter potential pest or disease vector issues due to these increased demands, screening procedures would include the scanning of pest management concerns. The ESMF is complemented by an Integrated Pest Management Framework (IPMF) that provides the scope and coverage in the preparation and implementation of a PMP. For sub-projects that require an EA, the ESMP would be accompanied by a PMP, when necessary. Where pest management concerns are present, even if the sub-project does not require an EA, a PMP would still be prepared to adequately prescribe the appropriate alternative technologies or mitigating measures. In case an agribusiness proposal calls for the improvement and upscaling of production systems involving the use of chemical-based fertilizers and pesticides, the FO/proponent would be required to comply with the project's IPMF and prepare a PMP that would provide

the list of required pest control products to the CPO for no objection of the World Bank prior to proceeding with procurement.

70. **Physical Cultural Resources (OP/BP 4.11).** The sub-projects may involve the restoration and rehabilitation of existing agricultural lands or the reconstruction of small civil works in rural, open areas where physical cultural resources may be present. In case of chance finds, procedures on how to manage them are described in the ESMF. A chance finds clause would be included in the bidding documents and in all works contracts.

71. **Safety of Dams (OP/BP 4.37).** The menu of sub-projects includes community based multipurpose infrastructure such as small-scale earthen reservoirs for irrigation and water supply which may generate minor, localized and temporary social and environmental impacts. Anticipated environmental impacts include soil erosion, siltation and pollution of waterways. These concerns are addressed in the project as the proponents are required to specifically comply with the national regulations of the Water Code of the Philippines for the dam safety regulations and the relevant safeguard policies in the ESMF. The project's screening checklist identifies potentially related impacts to ensure that appropriate measures are incorporated during site selection, project design and implementation. For small dams that would be supported by the project, the ESMF requires that these dams be designed by qualified engineers in compliance with OP 4.37.

72. **Grievance Redress Mechanism.** An appropriate grievance redress mechanism procedure is in place to monitor the ESMF implementation. To enhance the CPO's work, DAR has designated an environmental safeguards specialist who would work closely with the social safeguards specialist that handles social safeguards and the rural infrastructure engineer that handles the technical aspects of the project. In addition, regional safeguards officers would be hired or designated to take charge of overall supervision, monitoring and reporting at regional level. The project includes additional training for regional and provincial safeguards staff, and community facilitators, to support the implementation of these technical guidelines.

G. World Bank Grievance Redress

73. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

PHILLIPINES: Inclusive Partnerships for Agricultural Competitiveness Project

Project Development Objectives

The Project Development Objectives are to improve access to markets and to enhance the competitiveness of smallholder farmers in the targeted Agrarian Reform Community clusters.

These results are at	Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values				
		YR1	**YR2**	**YR3**	**YR4**	**End Target**
Beneficiaries who have adopted an improved practice supported by the project (Percentage)	0	0	0	25	50	50
Direct project beneficiaries (Number) - (Core)	0	5,000	50,000	100,000	200,000	300,000
Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core)	0	30	30	30	30	30
Percentage increase in average value of sales due to project interventions (Percentage)	0	0	0	10	20	30

Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values				
		YR1	YR2	YR3	YR4	End Target
Client days of training provided (number) (Number) - (Core)	0	10,000	150,000	300,000	500,000	600,000
Client days of training provided - Female (number) (Number - Sub-Type: Breakdown) - (Core)	0	3,000	45,000	90,000	150,000	180,000
Percentage of beneficiaries reporting improved access to services (Percentage)	0	0	0	10	15	15
Area of collective CLOA surveyed for subdivision (Hectare)	0	0	3,000	6,000	9,000	12,000
Number of infrastructure sub-projects completed according to the specifications (Number)	0	0	35	90	200	250
Number of matching grants approved (Number)	0	0	100	250	400	450
Increase in average net annual profits from sub-projects financed among MGP recipients (Percentage)	0	0	0	10	20	25
MGP recipients operating based on updated business plans (Percentage)	0	0	0	50	60	70
Targeted beneficiaries satisfied with Partnerships (Percentage)	0	0	60	65	70	75

Indicator Description

Project Development Objective Indicators

Indicator Name	Description	Frequency	Data Source / Methodology	Responsibility for Data Collection
Beneficiaries who have adopted an improved practice supported by the project	Percentage of beneficiaries (out of the total target primary beneficiaries) who have adopted/used improved technology, marketing and management practices provided/supported under the project.	Baseline, Mid-term, End of Project	Survey, Progress Report, FO assessment	DAR/ Consultant
Direct project beneficiaries	Number of direct project beneficiaries (out of the total target primary beneficiaries) who directly derive benefits from the project's activities and interventions.	Annually	Survey, Progress Report; ARBs, non-ARBs, landless, smallholders	DAR/ Consultant
Female beneficiaries	Percentage of female direct project beneficiaries.		No description provided.	No description provided.
Percentage increase in average value of sales due to project interventions	Percentage increase in the average value of sales of agricultural products and/or average sales in agribusiness undertakings of targeted farmer groups supported under the project.	Annually	Survey, Progress Report	DAR/ Consultant

Intermediate Results Indicators

Indicator Name	Description	Frequency	Data Source / Methodology	Responsibility for Data Collection
Client days of training provided (number)	Number of client days of training provided which is measured by the number of clients who completed training multiplied by the duration of training expressed in days.	Annually	Survey, Progress Report	DAR/ Consultant
Client days of training provided - Female (number)	Number of female-client days of training provided which is measured by the number of female-clients who completed training multiplied by the duration of training expressed in days.	Annually	Survey, Progress Report	DAR/ Consultant
Percentage of beneficiaries reporting improved access to services	Percentage of beneficiaries (out of the total target primary beneficiaries) who have reported improved access to services provided by the project.	Baseline, Mid-term, End of Project	Survey, Progress Report	DAR/ Consultant
Area of collective CLOA surveyed for subdivision	Number of hectares covered by collective Certificates of Land Ownership Award (CLOA) that have been surveyed under the project.	Annually	Progress Report	DAR/ Consultant
Number of infrastructure sub-projects completed according to the specifications	Number of infrastructure sub-projects funded and completed under the project's Sub-Component 1.3.	Annually	Progress Report	DAR/ Consultant
Number of matching grants approved	Number of matching grants approved and funded under the project's Component 2.	Annually	Progress Report	DAR/ Consultant
Increase in average net annual profits from sub-projects financed among MGP recipients	Percentage increase in net annual profit of MGP-funded sub-projects.	Annually	Survey, Progress Report	DAR/ Consultant

MGP recipients operating based on updated business plans	Percentage of MGP recipients operating based on the business plans updated under the project.	Annually	Survey, Progress Report	DAR/ Consultant
Targeted beneficiaries satisfied with partnerships	Percentage of targeted beneficiaries (including FOs and business partners) that are satisfied with the operations of the productive partnerships supported under the project.	Annually	Survey, Progress Report	DAR/ Consultant

Annex 2: Detailed Project Description

PHILLIPINES: Inclusive Partnerships for Agricultural Competitiveness Project

Component 1: Support Services for Enhanced Market Linkages (Total: US$131.06 million; IBRD: approximately US$40.25 million)

1. The objective of this component is to enable farmers' organizations (FOs) in the agrarian reform community (ARC) clusters to become more competitive in terms of farm productivity, product quality and access to market. It would: (a) strengthen the capacity of FOs to engage in commercial agriculture opportunities; (b) improve the extension, business development, and land tenure services; and (c) provide physical infrastructure investments to support productivity improvements and market access.

2. Preparation works across ARC clusters would also be undertaken to support market matching efforts which include community consultations, resource profiling, compiling industry, FO readiness assessment and market studies, and mapping of existing markets and sub-projects in infrastructure and rural agribusiness development. These information and the identification of potential market linkages and partnerships would be used to update ARC cluster development plans.

3. **Sub-Component 1.1: Extension and Business Development.** This sub-component aims to enhance the knowledge and capability of FOs in the ARC clusters to help them respond to market opportunities and stimulate interest between FOs and value chain players to form forward and backward linkages. Activities would include: (a) market and industry fora at the provincial/cluster level; (b) viability scoping and facilitation; (c) farm support through the Farmer Field Schools (FFS) and Farm Business Schools (FBS) and (d) technical extension. Rapid assessments, market matching fora and subsequent technical advice would facilitate the scoping of potential market opportunities, identify the existing constraints, devise potential solutions to address them, and determine the corresponding capacity needs. An appropriate combination of technical, business, and operational training would be provided using the FFS and FBS approach. Training of trainers would be conducted to build the capacity of local service providers and lead FOs in providing extension and business development services to farmers and FOs through the supply chain networks. Additional packages of technical and organizational capacity development support would be provided for FOs (including irrigators associations and barangay water users associations) once their specific needs have been identified.

4. ***Market and Industry Fora.*** Market matching events would be conducted to stimulate interest between FOs and value chain players to form forward and backward linkages. Activities would include market and industry fora at the provincial/cluster level to exchange ideas and perceptions on market opportunities and initiate possible partnership arrangements between FOs, business operators, service providers and other support institutions and organizations.

5. ***Viability Scoping and Facilitation.*** The project would assist the FOs in assessing the viability of potential market options identified. FO capacity building needs would be assessed through an FO Assessment and Training Needs Assessment to help determine the required technical, organizational and operational training needs to improve their performance and successfully engage in the chosen market linkage. Technical assistance from qualified service providers would be tapped for detailed market opportunity assessment including scoping of market requirements, calculating costs that could be incurred, and assessing risks that may be faced. These would assist FOs to make informed decisions in relation to different market opportunities and to prepare for active engagement with potential partners. Further business complementation activities, as may be required at the provincial level, would also be organized once FOs have identified a potential partnership. Details of partnership arrangements, needs and expectations are discussed during the business complementation activities. In addition, the project would

engage intermittent service providers who would work with DAR staff to strengthen the implementation capacity and scheduling of critical activities to facilitate successful market arrangements.

6. ***Farm Support.*** Using the FFS and FBS approach, the project would provide farm support to FOs and other farmer beneficiaries to train them on the use of improved production and post-harvest technologies and new business management practices to prepare them for commercial market engagements. Updating of training modules and training of trainers would be conducted to build the capacity of local service providers and lead FOs in providing FFS and FBS skills training to farmers and FOs. The FFS would be commodity specific and in many cases can be delivered by the Municipal or Provincial Agriculturalists with resources provided for operational costs and external resource persons. Specialized resource persons would be brought into the FFS program to help farmers address the need for compliance with specific market quality standards. FFS service provider contracts would include packages of training materials to be used in revolving schemes to facilitate adoption of the technologies that are introduced. Technology demonstration farms in support of the FFS may also be established based on the proposals by the FOs and/or LGUs. In addition to the FFS, the project would engage technical specialists in specific crops to support FOs to upgrade their production and meet quality standards. Farm business training would be made available to selected individual members of FOs, particularly younger farmers to develop and enhance their business management skills to access market opportunities and produce more efficiently, sustainably, and profitably based on market demands.

7. ***Technical Extension.*** To support FFS and FBS graduates in the adoption of sustainable agricultural production technologies and farm business skills using the farmer-to-farmer approach, technical service providers' tasks would include training of lead farmers who are experienced, able to adapt to new technologies, and have community leadership to become farmer technicians. The project would also support service provider contracts for FO and farmer capacity development to address emerging additional training and capacity building needs and the institutional development needs of recipient farmers/peoples organizations to carry out proper operation, management and maintenance and ensure sustainability of rural infrastructure sub-projects turned over to them including irrigation sub-projects, potable water supply systems and multi-functional community buildings.

8. **Sub-Component 1.2: Land Tenure Improvement.** The sub-component would support land survey and boundary demarcation necessary for the subdivision of collective Certificates of Land Ownership Awards (CLOAs) on a demand driven basis, as well as support DAR to strengthen its land tenure improvement program through the conduct of policy studies.

9. ***Land Subdivision.*** The sub-component would support the survey and boundary demarcation for the subdivision of around 12,000 hectares of collective CLOAs. The process of subdivision of collective CLOAs would be carried out in accordance with DAR Administrative Order No. 03 (series of 1993) and in conformity with applicable World Bank social and environmental safeguards operational procedures. The decision to subdivide the collective titles should emanate from the agrarian reform beneficiaries (ARBs) and expressed in a written request to DAR. ARBs who wish to retain collective ownership for reasons of maintaining the viability of their production and enterprise activities have the option to do so. The process includes validation checks to ensure that: (a) all potential land ownership disputes have been addressed; (b) names of all proposed individual CLOA owners are on the collective CLOA title supported by adequate identification; (c) no eligible CLOA owners have been unfairly excluded; and (d) all required supporting documents are presented. These validation checks would be undertaken by the Municipal Agrarian Reform Program Officers (MARPOs). Qualified surveyors would be contracted to conduct the land survey, after which the MARPOs would work with the collective CLOA holders to finalize the boundary demarcation. Boundary demarcation may include reserving some parts of the collective land for community infrastructure or other common purposes.

10. ***Policy Studies.*** DAR's land tenure improvement activities have focused on an accelerated process of land transfer from large land holders to smallholders through the collective and individual CLOA instruments. There has been little focus on maintaining and subsequent transfer processes. The Comprehensive Agrarian Reform Law provides for transfer of titles but does not define detailed instruments. As original CLOA title holders age and either bequeath land to descendants or move away from the property, such instruments become increasingly more urgent. There is a need to more clearly define and test different processes that would ensure that the transferred land continues to be used productively. The project would support some policy studies that, among others, would investigate the current status and options for improved procedures.

11. **Sub-Component 1.3: Rural Infrastructure.** This sub-component would support critical infrastructure necessary to enhance farm productivity and access to market for the targeted ARC clusters. Infrastructure investments such as farm to market roads (FMR) and bridges, small scale/communal irrigation systems, potable water supply systems and multi-purpose facilities would contribute to increased agricultural productivity and the reduction of marketing costs. ARC cluster development plans highlight important infrastructure linking key production areas with access networks as prioritized through joint planning between FOs and Local Government Units. Priorities may be adjusted in relation to new market opportunities identified by FOs. Investments in FMRs and bridges would be fully funded from the government counterpart contribution. Irrigation and community infrastructure would be financed from loan proceeds with counterpart contribution.

Component 2: Investments in Productive Partnerships (Total: US$81.36 million; IBRD: approximately US$53.36 million)

12. The objective of this component is to support smallholder farmers in the ARC clusters to increase their competiveness, business orientation and market position in the value chain and make them attractive business partners for higher level players in the value chain. Through the Matching Grants Program (MGP), wherein matching grants would be provided to FOs, would benefit the FOs from an initial kick-start to become more attractive, competitive and more powerful stakeholders and business partners in agricultural value chains, which in turn would lead to an increased and sustainable farm income. Such business initiatives and innovations would likely focus on measures to increase competitiveness, improve market access, add value, and improve service provision, thereby increasing opportunities and demand for local smallholder produce. The main beneficiaries would be small and medium farmers organized into registered FOs, who have a potential to expand their market-related activities and/or improve their competitiveness and profitability.

13. ***Eligible Applicants***. The MGP would be limited to applicants with business activities providing benefits or services to smallholder production in the 50 candidate ARC clusters. The potential eligible applicants are the following:

(a) Existing or newly registered FOs and cooperatives within the 50 ARC clusters exclusively or jointly with registered agribusiness (joint proposals).

(b) Existing or newly registered federations/networks of cooperatives in the 44 provinces servicing the candidate clusters, exclusively or jointly with registered agribusiness (joint proposals).

14. Although the component is intended primarily for the beneficiaries within the 50 ARC clusters, it would also include partnership sub-projects with FOs jointly with registered processing/trading businesses that may be located outside the clusters but have operations in the province benefiting the ARBs in the target clusters. In such cases, the application would have to demonstrate that the proposed sub-project activities would bring direct and substantial benefits to smallholder farmers and ARBs not only within the targeted ARC cluster but including those within the provinces as well. However, such type of sub-projects should not be more than 30 percent of the total grant-funded sub-projects approved and the application

would have to come as a joint proposals from the processing/trading businesses and the FOs/cooperatives within the project target area.

15. The MGP would not aim to widely provide investment funds for large-scale businesses, but rather to introduce and demonstrate appropriate and affordable technologies that would benefit the development of the small-scale commercial rural business sector. However, support for partnerships between larger-scale and smaller suppliers would be encouraged if the applicant demonstrates clearly that: (a) the proposal corresponds to the MGP priorities; and (b) the partnership would be mutually beneficial in developing business linkages and would provide substantial market opportunities and benefits to smallholder farmers/producers of the project target area.

16. Detailed eligibility criteria are specified in the Project Operations Manual and would include appropriate registration, sound financial status and records with at least two years of audited accounts, management experience, and transparent governance. An organizational assessment tool has been developed to categorize FOs according to their organizational, resource management and social enterprise organizational capacity. This tool would be used as an additional screening mechanism to determine eligibility of FOs for the different financing windows under the matching grant program. It is estimated that some 300 and 150 sub-project proposals would be supported under the small and larger grants window, respectively.

17. ***Productive Partnerships.*** Partnerships under the project would include different types:

(a) Grant applicants are required to establish a partnership[2] with one or more service providers who would provide technical assistance, business and management advice, support for business development and sub-project implementation, and help with drafting the application and reports as needed. Eligible service providers could include a wide range of private sector business consultants, traders, associations and non-government organizations present in the regions, as well as faculty and extension staff.

(b) Grant applicants are encouraged to establish partnerships with agri-business operators in the up- and down-stream value chains. As a minimum requirement they should have a clear idea where they source inputs and to whom they are planning to sell their produce. This could take the form of letters of intention, sales contracts, etc. or partnerships expressed in a joint application presented by the FOs in partnership with an agribusiness enterprise.

18. ***Matching Grant Funding.*** The MGP would provide grants through two windows: (a) small grants would range from PhP400,000 up to PhP1 million; and (b) larger grants would range from more than PhP1 million up to PhP10 million. To ensure ownership and to demonstrate commitment, the applicants for both windows would need to match the grant amount by counterpart funds with a cost-sharing requirement of 40 percent, which would need to come from the FOs own resources and/or from commercial lending (for example a grant size of PhP2.5 million would require a beneficiary contribution of at least PhP1.6 million). The matching contributions under the larger grant window would need to be provided in cash, while under the smaller grants window up to 50 percent of the matching contribution could be provided in-kind (e.g., labor, local materials, or the provision of land for construction of facilities). These ratios were determined based on the interactions with potential project beneficiaries and following international experience for similar programs. Adjustments may be made during sub-project implementation depending on demand and lessons learned.

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[2] Partnership, in this context, means a contractual relationship between two different entities, the applicant and a service provider (individual or organization), to work together for the implementation of the proposed sub-project.

19. The small grants window would cater to proposals from poor and smallholder farmers organized in FOs, who would not have the capacity to engage in large business operations and have limited capacity to raise counterpart matching contributions. The larger grants are designed for medium and large FOs and federations of FOs, who have some level of proven business and management experience, however, facing restrictions to access commercial financing (e.g., no long-term financial products offered by existing banks) or to link to larger markets.

20. The MGP would be demand-driven to ensure that it responds to the applicants' expressed needs and that the winning applicants are entrepreneurial and innovative. To draw on the full range of potential, eligible applicants would include small and medium registered FOs (associations or cooperatives) and could be presented by FOs as standalone proposals or by FOs in partnership with an agro-enterprise. In case of joint proposals grant funds would only be used for investments for the FO and its members with the exception of technical services that may be provided by the enterprises to the FO (technical assistance costs).

21. Each application would be evaluated, scored and selected according to its expected contribution to the MGP objective. The main selection criteria would include: (a) financial and technical viability of proposed activities; (b) extent that activities would increase competitiveness, improve market access, add value, and/or improve service provision; (c) expected impact on market demand from smallholder produce; (d) extent that the proposal facilitates or up-scales successful technical and/or institutional arrangements in the Philippine context; and (e) likely sustainability.

22. Applications under the large grant window would follow a competitive ranking with investment proposal showing higher benefits for smallholders and/or larger number of beneficiaries ranked more favorable with a higher chance of approval. Equally, proposals with a higher proportion of matching contributions over and above the minimum 40 percent requirement would be assessed more positively, provided they score well on the selection criteria and smallholder beneficiary impact.

23. It is not proposed to predetermine the priority topics from the outset, but rather provide a framework that supports a range of possible business initiatives in produce quality, semi-processing and marketing, business management, and improved market linkages across multiple sectors. Grants would also be available for service provision. However, as the MGP progresses, it may become necessary to prioritize or limit different types of activities depending on experience gained during implementation.

24. Eligible expenditures for the use of the grant would include works, goods and services which serve an investment purpose and generate productive assets, for example processing and storage buildings and equipment, jointly used infrastructure, training, market studies and survey, marketing development activities, product certification and branding, etc. The grant cannot be used to purchase annual farm inputs, pay for farm labor or salaries, servicing loans or provide working capital.

25. ***Grant Management and Processing.*** A set of activities and organizational arrangements would be implemented under the project, which would support information and communication campaign activities to facilitate forward and backward linkages among all stakeholders in the agricultural value chains, stimulate partnership agreements and introduce the matching grant program. This would include:

(a) <u>Grant Management</u>. To manage the implementation of this component the project would finance an agricultural economist, a matching grant specialist and an environmental specialist at the central level and two hired staff in each of the 14 regions and provide funds for vehicles, and incremental operating costs.

(b) <u>Matching Grant Training and Publicity</u>. This would include funding for a general orientation and an intensive training program for all staff involved in the facilitation, management and decision making under the matching grant program (management unit staff, technical reviewers, grant committee members, DAR field officers, service providers, etc.). It is expected that at least some 300 people would need to receive training of various intensity. The matching grant program would be advertised with calls for proposals through a semi-annual publicity and advertisement campaign (including mass media and internet). Following the advertisement the project would organize semi-annual grant information workshop in each region, which would provide an opportunity for all interested applicants and service providers to learn about the grant objective, detailed procedures, and eligibility criteria, to distribute information material, forms, etc. and make contact with the respective grant management units in the regions. After the first round of supported sub-projects approach completion the experiences, outcomes and development impact would be presented and discussed at a national annual conference.

Component 3: Project Management (Total: US$18.36 million; IBRD: approximately US$5.45 million)

26. The objective of this component is to provide support to the project implementing agencies at the central, regional, and provincial levels in the project management and coordination, technical operations, financial management, procurement, social and environmental safeguards, and monitoring and evaluation (M&E). These would enable the project to: (a) plan, design, manage, implement and monitor project activities; and (b) establish, implement and operate an effective project management information system as well as effectively monitor and evaluate project results and outcomes. Activities to be funded under this component would include:

(a) **Project Management.** The following activities would be financed: (i) project orientation workshops and training; (ii) engagement of technical assistance and short term experts; (iii) procurement of office equipment and vehicles; and (iv) incremental operating costs.

(b) **Monitoring and Evaluation.** The following activities would be financed: (i) design and installation of the monitoring and evaluation system; (ii) establishment and operationalization of a management information system; and (iii) conduct of baseline survey, implementation progress assessment and reporting, mid-term review, and end-of-project evaluation.

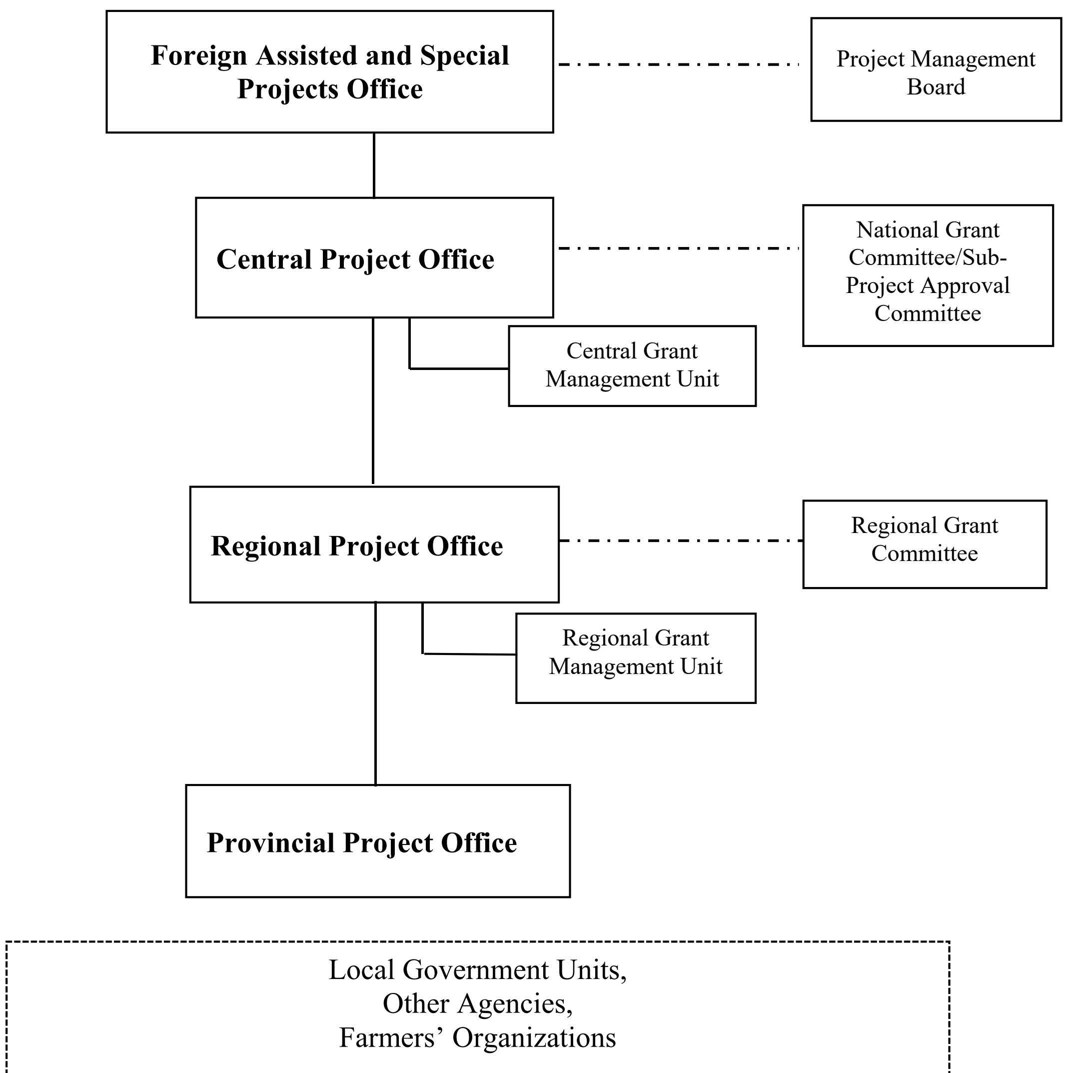
Annex 3: Implementation Arrangements

PHILLIPINES: Inclusive Partnerships for Agricultural Competitiveness Project

Project Institutional and Implementation Arrangements

1. The project would be implemented over a period of five years, across 50 agrarian reform community (ARC) clusters (composed of 301 ARCs) in 203 municipalities within 44 provinces in 14 administrative regions of the country (including ARMM). The project implementation arrangements are designed based on the rationalized structure of the Department of Agrarian Reform (DAR), with reduced manpower complement at the municipal and provincial level. Overall project management and supervision is lodged at the DAR's Foreign Assisted and Special Projects Office (FASPO). The institutional arrangements for the project are illustrated in the following organigram.

Figure 3.1: Project Management and Implementation Structure



2. **Project Management Board (PMB)**. An inter-agency PMB would be established to provide policy direction and overall management guidance, and approve the project's annual work and financial plans. The PMB would be chaired by the Secretary of the DAR or his/her designated representative and would be composed of representatives from government oversight agencies specifically the Department of Finance (DOF), National Economic and Development Authority (NEDA), and Department of Budget and Management (DBM), and partner implementing agencies such as the Department of Agriculture (DA), Department of Trade and Industry (DTI), Department of Public Works and Highways (DPWH), Department of Environment and Natural Resources (DENR), National Irrigation Administration (NIA), Department of Interior and Local Government (DILG), Land Bank of the Philippines, and the National Commission on Indigenous Peoples (NCIP). To facilitate and speed up the processing and approval of the infrastructure sub-projects and matching grant proposals, the PMB would establish a Sub-project Approval Committee (SAC) and a National and Regional Grant Committees (NGC and RGC).

3. **Central Project Office (CPO).** The DAR, through the CPO, would be responsible for the overall and day-to-day administration, planning, control, management and supervision of the project. This includes: (a) preparation of the overall and annual implementation and financial plans; (b) enforcement of and compliance to the Project Operations Manual (POM); (c) coordination with partner implementing agencies/institutions and selection/engagement of service providers; (d) serving as the technical secretariat to the PMB and SAC; and (e) overall management and coordination of project implementation, procurement, financial management and monitoring and evaluation. The CPO would be under the DAR's Foreign-Assisted and Special Projects Office (FASPO) which would also provide administrative and technical support to the project through its Finance, Management and Administration Service and Monitoring and Evaluation Unit.

4. The CPO would be headed by a National Project Manager and staffed with a core group of technical coordinators composed of DAR regular staff. The CPO and its staff complement would be designated through a DAR Special Order to give them proper authority to undertake project activities. A team of local consultants would also be engaged on individual capacity to provide expert advice and services on the project's activities on extension, organizational development, agribusiness development, rural infrastructure, grants management, financial and economic analysis, procurement, financial management, environmental safeguards and monitoring and evaluation. Engagement of key consultants providing component support would be based on TORs and procurement process satisfactory to the Bank.

5. **Regional Project Offices (RPOs).** The RPOs would be headed by the respective DAR Regional Director who would be designated as the Regional Project Manager. The RPOs would be supported by project point persons or coordinators at the DAR's Regional Program Beneficiaries Development Division to ensure full coordination and supervision of project activities at the regional levels and in the provinces under its jurisdiction. It would also: (a) work closely with its regional counterparts at the project's partner implementing agencies or offices; and (b) serve as the technical secretariat to the Regional Grant Management Unit (RGMU), including orientation and coordination of market matching activities, procurement of extension and business development services for FOs, and monitoring of signed Memorandum of Agreements. The RPOs would report regularly the project progress and other concerns to the CPO.

6. **Provincial Project Offices (PPOs).** The PPOs would be headed by the respective DAR Provincial Agrarian Reform Program Officers who would be designated as the Provincial Project Manager. The PPOs would be composed of staff detailed from the DAR offices and their number would be based on the magnitude of investments and the management/skills requirements. The PPOs would oversee and undertake the integrated implementation and coordination of all project components and activities within the targeted ARCs clusters, including monitoring the farmer training and extension activities and regular reporting to their respective RPOs. All proposals would emanate from the Farmers' Organizations (FOs)

with the assistance of business development service providers. At the ARC cluster level, the DAR Development Facilitator would be responsible for the day-to-day coordination, monitoring and facilitation of various project activities. These staff would work closely with the LGUs, community leaders, FOs and other project stakeholders, in facilitating the various project interventions in the ARC clusters and mobilize the active participation of the community in all project activities.

7. **Other Stakeholders.** The Local Government Units (LGUs) would have an active role in the project. They would be responsible for the: (a) design and implementation of public infrastructure facilities such as multi-purpose buildings, potable water supply, etc.; (b) participate in the provision of extension services to the FOs; and (c) implement community infrastructure. The project would also coordinate with and tap technical expertise and services from other partners using existing coordination mechanisms such as:

(a) **Department of Trade and Industry (DTI) -** for facilitating market fora, drawing private sector participation, matching FOs to market and buyers, evaluating proposals and provision of technical assistance in the implementation of productive partnerships involving value-adding, product packaging, quality upgrading, branding and certification. DTI would facilitate the forward linkage of the FOs organized by DAR to priority industry clusters and major players in priority commodities.

(b) **Department of Agriculture (DA) -** for the extension and business development sub-component specifically in the diffusion of proven and tested production technologies and farming systems, through the Agriculture Training Institute and other attached agencies in charge of specific commodities such as the Philippine Coconut Authority, and Sugar Regulatory Administration. DA would provide technical assistance in the design and implementation of training programs for trainers, extension workers and farm managers who would in turn provide technical assistance to FOs.

(c) **Department of Science and Technology (DOST) -** for technical assistance in product innovation/ enhancement technology training for FOs engaged in production and processing.

(d) **Department of Public Works and Highways (DPWH) -** for the design and implementation of farm-to-market roads and bridges.

(e) **National Irrigation Administration (NIA) -** for the design and implementation of communal irrigation and drainage facilities.

(f) **Department of Interior and Local Government (DILG) -** for capacity building of LGUs, under the Assistance to Disadvantaged Municipalities and Conditional Matching Grant Programs, for the construction of potable water system, small water impounding and farm to market road sub-projects.

(g) **State Universities and Colleges (SUCs) -** for agricultural extension and technology diffusion, technical advisory resources, business development services, etc.

(h) **Land Bank of the Philippines, National Confederation of Cooperatives (NATCCO), and other relevant organizations/financing institutions, as well as the private business sector -** for the extension of credit and other financial services, and in facilitating investment and marketing assistance to target ARBs/farmer cooperators and FOs/cooperatives/other People's Organizations (POs).

(i) **Other private entities, non-government organizations (NGOs), POs, federations or networks of FOs -** for the delivery of extension and business development services as well as in conducting the feasibility and policy studies to be supported under the project.

8. **Sub-Component 1.1 (Extension and Business Development) and Sub-Component 1.2 (Land Tenure Improvement).** These would be managed and implemented by DAR through the RPOs and PPOs. The RPOs would organize provincial fora to facilitate market matching. Based on the results of the fora, the FOs would be supported to conduct rapid market assessment and viability scoping activities. Technical consultants would be contracted to assist with this process where required. The Farmer Field School would be based on training modules tailored to the local commodity and markets and would include consideration

of climatic and local risk factors. These would be implemented through a Memorandum of Understanding with the relevant government agencies or contracted to technical service providers. Similarly, the Farm Business School (FBS) would be based on the FAO Farm Business School program that would be enhanced in line with the requirements of the ARC clusters. The delivery of the FBS would be through a training of trainers program to build field extension capacity in the ARC clusters. Additional technical and capacity development services would be provided in response to identified technical and organizational needs for each ARC cluster. Under the Land Tenure Improvement subcomponent, the RPOs would contract private surveyors to undertake the subdivision of collective CLOAs. Titling processes would follow existing processes between DAR and other government agencies.

9. At the RPO and PPO levels, technical, extension and capacity development support would be sourced from qualified SUCs, private institutions, companies, individual consultants, consolidators and social enterprise organizations or non-government organizations.

10. **Sub-Component 1.3 (Rural Infrastructure).** DAR would work with LGUs, DPWH and NIA for rural infrastructure. LGUs, through a Sub-project Agreement (SPA), would be in charge of implementing the community infrastructure investments such as water supply, multi-purpose facilities, etc. FMRs and bridges would be fully financed by GOP and implemented by DPWH through a Memorandum of Agreement (MOA) signed with DAR. Irrigation works would be implemented by the NIA through a MOA signed with DAR. The MOAs would be consistent with the requirements laid out in the POM.

11. **Component 2 (Matching Grants Program).** The structures of the Matching Grants Program (MGP) would be established within the DAR with the potential to evolve into a free-standing program if so desired later. To maintain impartial and objective management and decision making the project would establish separate entities for grant management and grant approval as follows:

Matching Grant Oversight and Approval Bodies

(a) **National Grant Committee (NGC)**. The multi-stakeholder NGC would be set up and chaired by the Project Implementation Officer of FASPO with a total of seven members who would be representatives of government line agencies and institutions including DTI, DA, private sector, NGOs/CSOs, academe, chamber of commerce/microfinance institutions/bank and farmers' organizations (FOs). Private sector representatives must be the majority. The NGC would have the overall responsibility in providing policy directions and strategies for the MGP implementation. The CPO would prepare a short list of potential members for each position from which selections would be made by DAR subject to no objection by the World Bank. The NGC would be responsible for review and approval of proposals for grants under the large grant window.

(b) **Regional Grant Committees (RGCs)**. The multi-stakeholder RGCs would be set up and chaired by the respective DAR regional directors and composed of government members (e.g., DAR, DTI, DA) and non-government members (e.g., representatives from NGO/CSO/academia, chamber of commerce, farmer representative, banking sector, business sector). The CPO would prepare a short list of potential members for each position from which selections would be made by DAR subject to no objection by the World Bank. The RGCs would be responsible for review and approval of proposals under the small grant window.

Matching Grant Management Bodies

(a) **Central Grant Management Unit (CGMU)** would be established within the CPO for overall management of the MGP, monitoring and reporting. It would consist of an agri-business expert, a matching grant specialist and an environmental specialist. The role of the CGMU is to: (a) act as Secretariat to the NGC; and (b) to provide technical guidance, training and backstopping of the regional and provincial staff.

(b) **Regional Grant Management Units (RGMUs)** would be established in 14 regions. The RGMUs would consist of a Matching Grant Officer and an Assistant, who would work closely with the DAR staff in each region and province for management, verification and monitoring of grants. The RGMUs would be housed in the regional DAR offices, and would be responsible for organizing the call for proposals, organizing grant program presentation workshops, receiving and registering applications, screening applications for compliance with budgetary and documentary requirements, record keeping, monitoring, arranging information and training activities, evaluating completed grants, and organizing contracts with local specialists for tasks including evaluations of the grant sub-project.

12. ***Matching Grant Implementation Steps.*** The main steps and implementation responsibilities are as follows:

Table 3.1: Matching Grant Implementation Steps

Steps	Responsible Unit
a. Training of DAR staff, grant management units, Central and Regional Grant Committee members, service providers, etc.	CPO/CGMU
b. Information campaign for potential applicants and service providers	CPO/RGMUs
c. Announce call for proposals	RGMUs /regional DAR
d. Train and advise on proposal preparation, facilitate arrangements between potential applicants and service providers	DAR/RGMUs
e. Prepare and submit proposals	Applicants/Service providers
f. Solicit and support preparation of proposals	DAR provincial offices
g. Receive and register all submitted proposals	RGMUs
h. Screen proposals for compliance with rules	RGMUs
i. Technical review by two technical reviewers	Technical Reviewers
j. Summarize results of technical review and send to RGC/NGC (regional level for small grants and central level for larger grants)	RGMUs
k. Evaluation and selection of winning proposals	RGC (small grants)/ NGC (large grants)
l. Field verification of winning proposals	RGMUs
m. Send winning proposals for no objection to Bank (applies to at least first 30 grants)	CPO
n. Inform grant winners and non-winners, announce grant winners in newspapers, etc.	RGMUs
o. Information/training sessions for grant winners and their service providers on procedures for contracts, disbursements, reporting, monitoring etc.	RGMUs
p. Matching Grant Agreements and signature	Grant Winner/ DAR upon recommendation from RGMUs

q. Disburse tranches to bank account based on achievement of milestones in contract	CPO upon recommendation from RGMU
r. Implement grant sub-project activities	Grant Winner/Service provider
s. Regular monitor grant sub-projects	External monitoring agent (independent evaluator)
t. Evaluate completed grant sub-projects	DAR/RGMUs / External monitoring agent (independent evaluator)

13. **Project Operations Manual (POM).** Project implementation would be guided by a comprehensive POM, which is composed of four sub-manuals: (a) Implementation Manual for Component 1; (b) Guidelines in Productive Partnerships (Component 2); (c) Procurement Manual; and (d) Financial Management Manual. These sub-manuals describes the detailed implementation arrangements for project components, including project management institutions, and the roles and responsibilities of different stakeholders such as government agencies, LGUs, service providers, FOs, and the Bank. The POM also provides details of the project inspection and supervision plan, procurement procedures, loan disbursement, financial management, accounting and audit requirements, as well as monitoring and evaluation functions, indicators and reporting.

Financial Management, Disbursements and Procurement

14. **Financial Management Organization and Staffing Arrangements**. The project would be implemented using the government and DAR's financial management (FM) systems as the basis for budgeting, accounting, internal controls, financial reporting and auditing. FM units in the FASPO that are involved in financial management have qualified officers and staff. FASPO has considerable experience in handling Bank-financed projects and is very familiar with Bank FM arrangements. However, there are still a number of vacant positions where hiring is still ongoing due to the recent rationalization plan.

15. In addition to FM staff in the CPO, the project is to be implemented by DAR field offices, other implementing agencies and FOs. At the regional and provincial offices, DAR FM processes are handled by the Chief Finance and Administrative Officer supported by a Budget Officer and an Accountant. At present, job order staff are maintained to augment the manpower constraint. The FM assessment showed that the current FM staff complement of DAR is not sufficient in number to ensure that FM arrangements would be maintained throughout the life of the project. As such, it was agreed that regular FM personnel would be designated to facilitate the fiduciary requirements of the project and that additional FM personnel would be hired in the central, regional and provincial offices, as necessary, to assist the current FM personnel to perform various activities such as budgeting, accounting and financial reporting to ensure that funds are used for the intended purpose.

16. The different implementing and co-operating agencies (including LGUs, FOs) have varying FM capacity. As such capacity building in terms of FM and establishment of clear FM guidelines is critical in ensuring the smooth implementation of the project including efficient download of funds and sufficient controls on accountability for the usage of funds. The FM arrangements are fully documented in the FM section of the POM which (a) clearly defines the roles and responsibilities of FM personnel in the Project Offices (CPO, RPOs, PPOs) and in partner agencies and FOs; and (b) documents the financial reporting requirements, funds flow instructions and audit requirements necessary to show accountability of transactions.

17. **Budgeting.** Budget proposals are prepared annually by DAR and submitted to the Department of Budget and Management (DBM) for review. DAR's annual budget is included in the annual General Appropriations Act which has to be approved by Congress. DAR should ensure that the project budget is included in the annual budget over the life of the project. For the first year (2017) of the project, DAR would allocate counterpart funds from its approved budget to ensure the immediate implementation of project activities. In addition, GOP would commit government counterpart to ensure completion of the project for uncompleted activities after the closing date. To further monitor the project, annual work and financial plans would be prepared during project implementation

18. **Accounting.** DAR conforms to the New Government Accounting System (NGAS) which the Commission on Audit (COA) issued as per COA Circular No. 2001-004 dated October 30, 2001 and took effect on January 1, 2002. Recently, COA rolled out the new Unified Account Code System and Philippine Public Sector Accounting Standards which is an adoption of the International Public Sector Accounting Standards.

19. The bookkeeping segment of NGAS is computerized and is referred to as electronic NGAS. DAR, to date, does not use the e-NGAS and manually maintains its financial records through MS Excel worksheets. DAR has no established back-up system of financial records although FM staff would maintain back-up copies albeit under their own discretion. Review of prior period audit reports showed that the financial statements of DAR were given an adverse opinion by the auditors. As such, the agency financial reports are not reliable and have significant audit findings. Due to the adverse audit findings in the agency financial reports, separate books of account would be maintained for the project. Any audit findings noted by COA on the project financial statements should be acted upon or resolved within six months after receipt of the audit report.

20. **Internal Controls.** Basic internal controls such as separation of conflicting functions, segregation of bookkeeping functions from custodianship of assets, reconciliation of subsidiary records with the corresponding general ledger control account, and a multilevel system of review and approval of transactions before their execution are required under NGAS. In consideration of the involvement of multiple implementing and cooperating agencies with varying capacities, the POM includes the following:

(a) Sub-components which would be implemented by other government agencies and partner organizations and the process on transfer of funds to these agencies, including the necessary documents that would facilitate the transfer of funds.

(b) For Component 2 (Matching Grants Program), the sub-manual on the Matching Grants Program which forms part of the POM, documents which organizations are eligible and what expenses are eligible for funding. The FM capacity is also considered as an indicator in the assessment of farmer organizations.

(c) The process on the review and approval of MGP sub-projects, transfer of funds and financial reporting requirements on the use of funds.

21. **Funds Flow.** The funds flow from the World Bank to the Bureau of Treasury's account at the Bangko Sentral ng Pilipinas (Central Bank of the Philippines). After approval by the DBM and through the issuance of a Notice of Cash Allotment, the funds would be deposited to the DAR's Designated Account which is maintained in an acceptable depository government bank. A project Peso account shall also be opened at CPO to pay for Peso based expenditures.

22. ***Funds Flow from CPO to RPOs/PPOs***. The fund flow would follow the existing FM arrangements of DAR. Project bank accounts shall also be opened at field offices for loan and GOP counterpart funds to pay for Peso based expenditures. Expenses in the RPO and PPO are expected for a number of goods, consultant services and incremental operating costs to support project implementation. To trigger

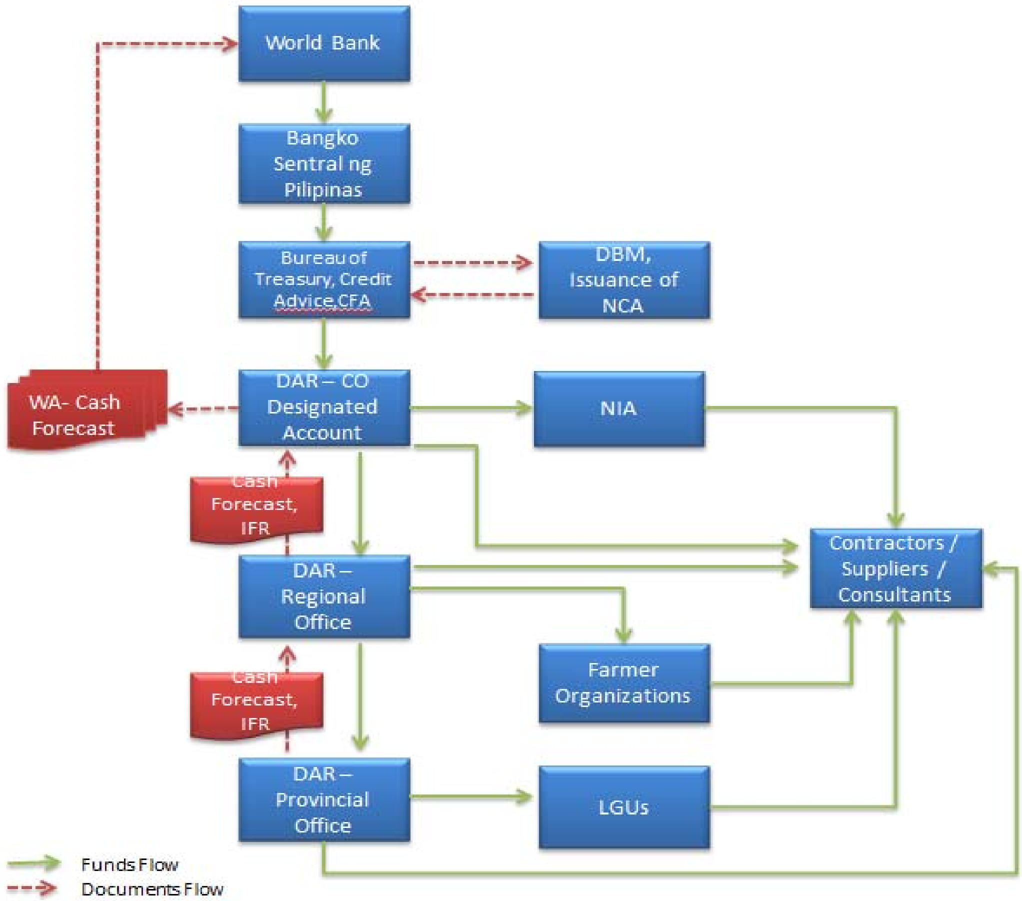
disbursements, supporting documents such as cost proposals, training designs etc. would be prepared by the PPO for review and consolidation in the RPO which in turn would be submitted to the CPO along with the costs of the regional offices as well. Based on the proposals, a Sub-Allotment Release Order would be issued from CPO to RPO and from RPO to PPO to allow contracting of goods and services. All funds downloaded would be subject to liquidation and would be used as basis by the CPO in reporting to the Bank actual usage of funds.

23. ***Funds Flow from CPO to NIA***. The fund flow would follow the existing FM arrangements of DAR and NIA. Project bank accounts shall also be opened at NIA for loan and GOP counterpart funds to pay for Peso-based expenditures. Expenses in NIA are expected for a number of civil works on irrigation. A Memorandum of Understanding would be signed between the two agencies including agreements on details of an annual Program of Works. The CPO would release the funds to NIA Central Office and would follow a funds flow and reporting requirement similar to Figure 3.2 within the NIA structure. All funds downloaded to NIA would be subject to liquidation as reviewed by the COA and would be used as basis by the CPO in reporting to the Bank actual usage of funds.

24. ***Matching Grants Funds Flow***. Matching Grant funds would be released to FOs by the RPOs in at least two tranches based on the achievement of milestones. It is therefore critical that the Grants Management Unit (GMU) specifically identify the milestones for each proposal including the reasonability of the budget proposal and ensure that achievement is validated before funds are released to the FOs. All funds downloaded would be subject to the policies and procedures documented in the POM. The POM also documents the reporting requirements for the usage of funds and review of achievement of milestones in the CPO.

25. ***Funds Flow from DAR to LGUs***. Expenditures at LGU level may include works (community infrastructure) and incremental operating costs. Project bank accounts shall be opened by LGUs for loan and GOP counterpart funds. A Sub-project Agreement would be signed between the DAR and the LGU for each approved sub-project. CPO would release the funds to PPOs and subsequently to LGUs based on the agreed number of tranches and submission of liquidation reports.

Figure 3.2: Flow of Funds



26. **External Audit.** The audit of the Project Financial Statements would be conducted by COA. The scope of the audit shall include a review of the designated account and eligible expenses to be conducted on an annual basis and submitted to the Bank six months following the end of each calendar year.

27. **Financial Reporting and Monitoring.** DAR records its financial transactions and operations in conformity with generally accepted accounting principles and in accordance with pertinent laws and regulations as provided by the COA and DBM. The accounts of the DAR are being kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal control agencies of the government. Financial information, to the fullest extent, is made useful to the various levels of internal management for purposes of planning, evaluation and control and decision making within the organization, and assuring the appropriate use and accountability for its resources.

28. DAR shall submit the following reports to the Bank throughout the life of the project:

(a) Quarterly Interim Financial Reports (IFRs) within 60 days after the end of each calendar quarter.

(b) Annual Audited Project Financial Statements together with a copy of the management letter reflecting the auditor's findings and recommendations shall be submitted to the Bank no later than six months after the end of each fiscal year. The auditor for this project is COA. DAR would also monitor issues noted by COA and prepare a time bound action plan to resolve all issues within 6 months after the receipt of the audited financial statements.

29. **Supervision Plan.** FM implementation review shall be undertaken twice a year during project implementation. The scope of the supervision may cover any of the following: (a) review of the continuous maintenance of adequate FM system by DAR; (b) review of IFRs; (c) follow up of timeliness of FM reporting and actions taken on issues raised by external auditors; (d) follow up of the status of the any agreed action; and (e) review of compliance with the financial covenants. In addition, the FM implementation review would include field visits to validate the FM arrangements documented in the POM.

30. **Disbursements.** The lending instrument that has been selected is Investment Project Financing. A report based disbursement modality would be used for the download of funds from the Bank to DAR. In this modality, Bank funds would be downloaded to DAR at least on a semester basis based on the cash flow needs of the project. Attachment of the detailed Statement of Expenditures (SOEs) would not be a requirement of the Withdrawal Application for the download of funds, but would be reviewed during project support missions and subject to usual internal reviews by DAR. In this modality, DAR would forecast the cash needs of the project for a six month period and submit a Withdrawal Application to the Bank. In succeeding withdrawal applications, the cash forecast requirements and Statement of Uses of Funds for previous downloads would be submitted as supporting documents. To facilitate reporting, RPOs shall submit the SOEs to the Central Office monthly to consolidate all SOEs and report on utilization. DAR would open and maintain a Designated Account in US Dollars in an authorized government depository bank acceptable to the Bank.

31. Loan disbursement of the loan would be in accordance with the financial plan of the project for the following categories:

Table 3.2: Allocation of IBRD Loan Proceeds

Disbursement Categories	Amount of the Loan (Expressed in Dollars)	Percentage of Expenditures to be financed
(1) Goods, Civil Works (except for roads and bridges), non-consulting services, consultants' services, training and workshops, and incremental operating costs	57,064, 628	100%
(2) Matching-grants under Component 2	42,000,000	100% of amount disbursed
(3) Front-end fees	248,282	Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07 (b) of the General Conditions.
Total	99,312,910	

Procurement

32. Procurement for the project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works, and Non-consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers"; and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" (January 2011 and revised July 2014), and the provisions stipulated in the Loan Agreement. While the Philippine Procurement Law (RA 9184) is in reasonable harmony with the Guidelines at the NCB level, the Procurement Schedule of the Loan Agreement includes an annex detailing procedures that are not acceptable to the Bank and provisions that

apply when NCB is used. The general descriptions of various items under different expenditure category are described below.

33. **Procurement of Works**. Works to be procured under this project would include communal irrigation, water supply, post-harvest facilities, multi-purpose facilities, drying pavement and other rural infrastructure, and land survey works. Contracts, if any, estimated to cost the equivalent of US$15 million or more would be procured following International Competitive Bidding (ICB) method and would use the Bank's Standard Bidding Documents. Contracts to be procured following National Competitive Bidding (NCB) method, which are estimated to cost the equivalent of less than US$15 million, would use the Harmonized Philippine Bidding Documents. Shopping for works, may also be used for small and simple contracts estimated to cost the equivalent of US$200,000 or less. Direct contracting may also be used following Section 3.5 of the Procurement Guidelines.

34. **Procurement of Goods.** Goods to be procured under this project would include vehicles, office equipment, information technology and communication equipment and software and other goods to support the operations of the Project. The procurement would be done using the Bank's Standard Bidding Documents for ICB contracts, if any, estimated to cost the equivalent of US$3 million or more. Contracts estimated to cost less than US$3 million would be procured following NCB method, using the Harmonized Philippine Bidding Documents (PBD). Shopping would also be used for small and off-the-shelf items for contracts estimated to cost the equivalent of less than US$100,000. Direct Contracting may also be used in exceptional circumstances and with appropriate justification following Section 3.5 of the Procurement Guidelines.

35. **Selection of Consultants**. Consulting firms and individual consultants would be required for technical assistance and operational support, grant proposal/feasibility study preparation and evaluation, coaching, mentoring of farmers' organizations, capacity building and various surveys, assessments and studies for project implementation and monitoring, policy studies, information, education, communication and advocacy activities. Shortlists of consultants for services estimated to cost less than US$500,000 equivalent per contract may compose entirely of national consultants. Quality and Cost Based Selection would be the preferred mode while the following may also be used, as appropriate for the contracts: Quality-Based Selection, Consultants' Qualification Selection, Least-Cost Selection, Single Selection in exceptional circumstances and with appropriate justification, and Individual Consultants by competition of at least 3 CVs and Sole Source if justified.

36. **Community Participation Procurement (Procurement by FOs).** Procurement of goods, works and services under the MGP identified under Component 2 may follow methods that entail Community Participation in Procurement that should be acceptable to the Bank in accordance with Paragraph 3.19 of the Procurement Guidelines. These methods for Community Participation in Procurement shall be explained in detail in the Matching Grant Sub-manual. The Sub-manual would provide for efficient and value for money procurement procedures, including adequate mitigation and control measures against fraud and corruption. Consideration would be given, whenever practical to the use of competitive methods as outlined in the Bank's Procurement and Consultants' Selection Guidelines.

37. **Project Implementing Agencies' Procurement Organization and Capacity.** Following the Government Procurement Reform Act (Republic Act No. 9184), all procurement activities would be carried out by the Bids and Awards Committees (BAC) of DAR, NIA and LGUs, henceforth referred to in this section as "procuring entities". The Heads of the Procuring Entities designate at least five but not more than seven members of the BAC of unquestionable integrity and procurement proficiency. The BAC Chair is at least a third ranking permanent official of the procuring entity while the regular members must have expertise in procurement, finance, technical skills relevant to the nature of procurement and representative from the end-user units. The BACs are supported by regular (administrative) secretariat units and ad-hoc

technical working groups depending on the nature of contracts to be procured. The capacity and size of BAC secretariat units depend on the volume of regular procurement of the procuring entities relative to their annual budgetary allocation. Thus, additional volume of work and responsibilities brought by the project need to be factored in the project's procurement capacity requirements. Moreover, DAR would be the main implementing agency that would be responsible for achieving the projects development objective. Thus, CPO is tasked to provide overall coordination and guidance, and initiate and lead procurement activities, among others.

38. An assessment of the capacities of the implementing agencies to implement procurement actions for the project was carried out by the Bank in March-May 2015 and updated in September 2016. The assessment reviewed the organizational structure for implementing the project and the interaction between the various offices responsible for delivering procurement results.

(a) ***DAR overall procurement system strengthening***. As the main implementing agency responsible for achieving the Project's development objective, the assessment focused largely on the procurement capacity of the DAR and its BACs. The Agency Procurement Compliance and Performance Indicator (APCPI) monitoring of DAR system for the years 2011-2014 showed that the performance of the system declined in 2014 from an overall rating of 2.31 in 2013 to 2.13 in 2014, as against the highest rating of 3.00. In 13 out of 40 sub-indicators, the system performed poorly as compared to the Average National APCPI Rating and recommended benchmark. A number of identified weaknesses relate to Pillar 1, compliance with legislative and regulatory framework focusing on competitiveness of the bidding process; and Pillar 3 – procurement operations and market practices focusing on efficiency. Moreover, delay is noted in the preparation and submission of the 2015 Procurement Monitoring Report (PMR), the basic document for the APCPI evaluation system. Section 12.2 the IRR requires PMR should be submitted to Government Procurement Policy Board (GPPB) 14 days after the end of each semester. A separate 2011-2014 APCPI Report is on file identifying the performance of the system as measured by the 3 Pillars, 16 indicators and 40 sub-indicators.

(b) ***DAR-CPO, NIA, LGUs and other agencies***. DAR-CPO would provide technical assistance to the DAR-BAC for the items to be procured by DAR and oversee all procurement activities of procuring entities that would be involved in project implementation. As the activities are incremental to DAR CPO's present functions, there is a need to increase the capacity of DAR-CPO including the other involved agencies to ensure efficient and effective implementation. In summary, the following common weaknesses were identified: (a) lack of project knowledge and procurement expertise to implement the specialized requirement of the project. (b) insufficient staff skills in implementing project procurement requirements that includes the rules and procedures of the Bank and Republic Act No. 9184; (c) insufficient number of skilled Procurement Staff; and, (d) diversity of small procurements needing technical assistance, supervision and monitoring.

(c) ***Applicable Procurement Documents.*** The implementing documents for the country's public procurement system are harmonized with development partners (ADB, JICA and WB) and may be used in procuring contracts for Goods, Works and non-consultant services under NCB, Shopping, and other Bank accepted methods except ICB. For contracts procured through ICB method, the Bank's standard bidding documents shall be used. Considering the effectiveness of the 2016 IRR on October 28, 2016, the procurement documents that the procuring entities would be using for the above methods should follow the updated harmonized versions. The GPPB and the development partners have started the updating of the harmonized PBDs for goods, non-consulting services and works, and the Generic Procurement Manuals (GPM), Volume 1 – Establishment of Procurement systems and Organization; Volume 2 – Manual of Procedures for Procurement of Goods and Services; Volume 3 – Manual of Procedures for Procurement of Infrastructure Projects. The harmonization process for the PBDs would be completed by end of February 2017 and the GPMs by end of June 2017. GPM Volume 1 needs to be customized to the procuring entities unique situation. For selection of consultants, the administrative and approving procedures follow the country system while the procuring entities would use the Bank's Consultants' Guidelines and the standard selection documents for consultants. .

(d) ***Procurement audit by the internal (DAR-IAS) and external (COA) auditors*** would be strengthened to attain adequacy in internal control. The Bank's procurement supervision would be supplemented by the annual procurement audits to be conducted separately by COA and the DAR Internal Audit Service. This would result to better procurement implementation and enforcement. In this regard, the challenge is to achieve consistency in the interpretation of the procurement rules that are applied to the project, those issued by the Government and the Bank, and how they are harmonized. The Handy Guide in the Audit of Procurement (HUGAP) issued by the Chair of COA in March 2016 would be used by the auditors.

(e) ***Mitigating measures*** were discussed and agreed upon, as follows:

- While the DAR – BAC is being strengthened, DAR may consider establishing a separate BAC for foreign assisted and special projects (FAPs) at DAR that would handle the procurement of the Project. The establishment of the DAR-BAC for FAPs would be in accordance with the 2016 IRR of RA 9184, and should follow the procedures specified in Volume 1 of the 2016 Generic Procurement Manual;
- Two (2) Procurement Specialists experienced in World Bank procurement procedures would be appointed to support the BAC-FAPS and CPO respectively to achieve efficient and effective project procurement implementation;
- The staff of DAR's BAC-FAPS and CPO, and the staff of NIA, LGUs and other agencies, at the central, regional and provincial levels, would be trained by DAR's and CPO's procurement specialists and also by the Bank on project procurement management, contract implementation, and other tools necessary to achieve satisfactory implementation;
- The Project Operations Manual (POM) would include a Procurement Sub-manual (PSM) that comprise: (i) customized GPM Volume 1, the Harmonized GPM Volumes 2 and 3 and the procedures for selection of consultants; (ii) Harmonized PBDs for Goods, Non-consulting services and Infrastructure Projects; (iii) Banks standard RFPs and contract forms for selection of consultants.
- Training on HUGAP would be conducted for DAR IAS and COA auditors. Financial support would be provided from project funds.

39. **Procurement Plan (PP)**. For each contract to be financed by the Loan, the PP indicates the different procurement or consultant selection methods, estimated costs, prior review requirements, and time frame. The PP would be agreed upon during negotiations between the GOP and the Bank. It would be available at DAR's and the other procuring entities' website, the Project's database and in the Bank's external website. DAR would update the PP throughout the duration of the project at least annually by including contracts previously awarded and to be procured in the next twelve months. All PPs and their updates shall be subject to Bank's prior review. In this regard, the Bank's Systematic Tracking of Exchanges in Procurement (STEP) would be used to track the implementation of the plan. Adequate training of DAR's staff on STEP would be conducted by the Task Team.

40. **Frequency of Procurement Supervision**. Based on the result of the capacity assessment of the procuring entities, two supervision missions per year would be conducted to visit field operations and carry out post review of procurement actions.

41. **Thresholds for Procurement Methods and Prior Review**. All ICB contracts would be subject to prior review and the procurement plan would indicate those that would be subject to prior or post review. The applicable procurement methods thresholds are shown in the following table.

Table 3.3: Thresholds for Procurement Methods and Prior Review

Procurement Method	Threshold	Bank Prior Review
1. ICB (Goods)	US$3 million and above	All
2. NCB (Goods) packages	Below US$3 million	US$2 million and above
3. ICB (Works) packages	US$15 million and above	All
4. NCB (Works) packages	Below US$15 million	US$10 million and above
5. Shopping (goods)	US$100,000 and below	None
6. Shopping (works)	US$200,000 and below	None
7. Direct Contracting (Goods) Direct Contracting (Works)	None; on exceptional basis to be justified following criteria in Section 3.7, Procurement Guidelines	- Justification for all proposed Direct Contracts regardless of value subject to prior approval by the Bank as part of procurement plan. - Goods: US$2 million and above - Works: US$10 million and above
8. Community Participation	None; follow Section 3.19, Procurement Guidelines	None
9. Consulting Services (firms): QCBS, QBS, LCS	None	- US$1 million and above. - Below US$1 million, only TORs may be reviewed and comment issued.
10. Consulting Services (firms): CQS for small assignment	US$200,000 and below	- None; - Only TOR may be reviewed and comment issued.
11. Consulting services (firms): Single Source Selection	None; on exceptional basis to be justified following criteria in Section 3.10, Consultants Guidelines	- Justification for all proposed Single Source contracts regardless of value subject to prior approval of the Bank as part of procurement plan. - US$1 million and above. - Below US$1 million, only TOR may be reviewed and comment issued.
12. Consulting Services (individual): Competitive by comparing at least 3 CVs	None	- US$300,000 and above. - Below US$300,000, only TOR may be reviewed and comment issued. - All procurement and legal consultants' contracts, regardless of value.
13. Consulting Services: Sole Source Individual	None; On exceptional basis to be justified following criteria in Section 5.4 of Consultants' Guidelines	- Justification for all proposed Sole Source contracts regardless of value subject to prior approval of the Bank as part of the procurement plan. - US$300,000 and above. - Below US$300,000, only TOR may be reviewed and comment issued. - All procurement and legal consultants' contracts, regardless of value.

42. **Contracts Eligible for Retroactive Financing**. Procurement of goods and works, and selection of consultants in advance of project effectiveness shall follow the Bank's Procurement and Consultants Selection Guidelines respectively, to be eligible for retroactive financing if provided under the loan.

Environmental and Social (including safeguards)

Environmental

43. **Environmental Assessment (OP/BP 4.01).** The project is classified as a "Category B" operation under Bank OP 4.01. The WB policy on Environmental Assessment (EA) is triggered as it is anticipated that minor, site-specific and reversible environmental impacts would occur in increasing agricultural production and setting up agribusiness. Sub-projects with significant environmental impacts are highly unlikely because the impacts are expected to be modest since the scope and nature of the subprojects are mainly small-scale, rural and agriculture-based. Anticipated impacts would include agricultural wastes, worker health and safety, disruptions to local traffic, mitigation of dust, noise, wastewater, excessive run-off, loss of vegetation, cut and fill of undeveloped terrain, loose soil and debris during site development and construction, and siltation of waterways. Experience in past projects indicate that the proposed designs and program of works for the proposed infrastructure projects from the ARCs usually do not include environmental and social considerations during the pre-construction, construction, operational and maintenance stages of the subprojects. Since the project would finance activities similar in nature, for it to achieve sustainability and lasting environmental and social benefits, there is a need to conduct an environmental assessment for each subproject to ensure that potential impacts and issues are addressed during project design and implementation.

44. **Natural Habitats (OP/BP 4.04).** The project would not lead to the loss of a significant share of the country's critical natural habitat, however this policy is triggered to make sure that anticipated impacts are adequately addressed. The ESMF screening procedures would include provisions to determine whether anticipated impacts would significantly affect natural habitats and ascertain that the proposal includes an environmental assessment and appropriate mitigating measures to address the impacts.

45. **Pest Management (OP/BP 4.09).** The World Bank policy on Pest Management is triggered. Project investments could result in increased use of pesticides as agricultural production for crops and livestock and the processing of agricultural products intensify in the project sites. IPAC's Integrated Pest Management Framework provides for the guidelines for the adoption of IPM in the subprojects. A template for a Pest Management Plan is also prepared and attached to the Environment and Social Management Framework (ESMF). The PMP is based on on-site evaluations of local conditions conducted by appropriate technical specialists with experience in participatory integrated pest management (IPM). IPM trainings would be conducted as part of the project to educate the agricultural workers and farm organizations. The IPM approaches include certified pesticides, their proper application and handling, as well as biological control, cultural practices, and the development and use of crop varieties that are resistant or tolerant to the pests. In case the need to procure chemical-based fertilizers and pesticides arises, the proponent would indicate how the list of pest control products was developed and agree with the Bank before the list is authorized for procurement.

46. **Physical Cultural Resources (OP/BP OP 4.11).** This policy is triggered since the subprojects may involve the restoration and rehabilitation of existing agricultural lands or the reconstruction of small civil works in rural, open areas where physical cultural resources may be present. In case of chance finds, procedures on how to manage them are described in the ESMF. A chance finds clause would be included in the bidding documents and all construction works contracts.

47. **Safety of Dams (OP/BP 4.37).** The World Bank policy on Dams safety is triggered. Only small dams such as low-height water impounding structures or reservoirs not more than 10 meters for irrigation and water supply, are proposed under the project and would be eligible for funding. This is considered a small dam as defined in OP/BP 4.37. The project's screening checklist identifies potentially related impacts to ensure that appropriate measures are incorporated during site selection, project design and implementation. Sub-project proposals would comply with the requirements and conditions set out in the ESMF. Based on similar projects, communal irrigation systems involve construction /rehabilitation of ogee weirs for run-of-river irrigation systems, which do not impound large volumes of water and the safety issues for these dams often relate to accidental drowning at the intake. The weirs are sometimes used by residents as footpaths to cross the irrigated farmlands. For small dams that would be supported by the project, the ESMF requires that these dams be designed by qualified engineers in compliance with OP 4.37. The environmental assessment of a dam sub-project would include a brief risk assessment of dam failure and impacts on environment and safety of host and downstream communities. The Environment and Social Management Plan (ESMP) would define the mitigating measures and preventive measures to dispel drowning incidents. Based on assessments done, none of the proposed first year sub-projects would involve dams.

48. **Environment and Social Management Framework (ESMF).** The project is demand-driven and would support activities that would improve farmer organizations' access to markets and productive partnerships, by giving opportunity for poor farmers, landless farmworkers and women to get involved in capacity building, training on technology and participation as workers in the proposed agribusiness projects. It would also benefit private corporations that would partner with famer organizations for improved production and access to market. It has prepared an ESMF where a typical sub-project proposal would undergo environmental screening during subproject identification and validation to ensure compliance to the Bank's safeguards policies and national environmental regulations and standards. All proposals shall undergo environmental assessments as part of their feasibility study and design and shall conform to the technical guidelines and design specifications agreed in the project. Among the community based rural infrastructure sub-projects, the following may generate environmental and social impacts: farm-to-market roads, short-span bridges, small-scale earthen reservoirs for irrigation, multi-functional community buildings, and water supply systems. Anticipated environmental impacts include soil erosion, siltation, pollution of waterways from agricultural activities, noise, odors, and wastes from processing and packaging of agricultural products. Sub-projects covered under the Philippine Environmental Impact Statement Systems (PEISS) shall comply with the requirements of the DENR and secure an Environmental Compliance Certificate (ECC) while sub-projects deemed not covered under the PEISS shall prepare simple environment and social management plans (ESMPs).

Social Safeguards

49. **Involuntary Resettlement (OP/BP 4.12).** Construction of new community infrastructure such as farm to market roads (FMRs), short-span bridges, small-scale irrigation, and other community based multi-purpose facilities may require temporary and permanent land acquisition from residential and agriculture land. Even the rehabilitation of existing structures may require small land acquisition for some expansion. Scales of impacts are quite limited and can be minimized due to the flexibility in site selection. The present practice is to use land donation and/or the open purchase approach in land acquisition. The LGU's right of eminent domain indicates the need for due diligence review. While it is not discounted that proposed infrastructures are valued by land donors/sellers and that the increase in the valuation of the properties many times equals to or even go beyond the cost of the project-acquired small parcels of land for right-of-way for instance, still there is a need to establish that donor and sellers have genuine willingness to part with their lands and that it does not compromise the economic wellbeing of their families. Projects considered linked (i.e. contiguous to, contemporaneous with and contributing to the development objective of the present project) regardless of funding may also be encountered. The ESMF of the project includes a Resettlement Policy Framework (RPF) which provides specific guidance compliant with the World Bank OP 4.12 to address the aforementioned possibilities as well as other involuntary resettlement impacts. The Framework specifies principles and objectives, eligibility criteria of displaced persons, modes of compensation and rehabilitation, potential relocation of these persons, participation features and grievance procedures.

50. **Indigenous Peoples (OP/BP 4.10).** Using the Ancestral Domain Information System of NCIP, it was learned that 22 of the target 44 provinces have IP presence in towns covered by target ARCs. IPs and Indigenous Cultural Communities present in the ARCs belong to the Maeng, Muyadan, Ibaloy, Kankana-ey, Bago, Bugkalot, Ikalahan, Aeta, Agta, Ambala, Tadyawan, Bangon, Tagbanua, Agta Cimaron, Kabihug, Eskaya, Bukidnon, Dibabaon, Mangguangan, Ata Manobo, Mandaya, Iranon, Dalaman, Yakan, B'laan and Manobo tribes. An impact on the presence of IPs of individual sub-projects was agreed whether the IP communities are living within or outside their respective ancestral domains. Impacts may include competition between subproject infrastructures to tribal food gathering areas or sacred grounds, social disorder in decision making which has many possible causes including those related to customary laws that may not be recognized by the mainstream society, selection of IP leaders to deal with, share of the IP community in benefits during construction (as laborers) and during operations of the sub-project. The Indigenous Peoples' Rights Act of the Philippines mandates that any project that impinges on ancestral domains must secure a free and prior informed consent from affected IP communities and not just broad community support. To ensure compliance to OP4.10, the IP Development Framework accompanies the ESMF. It sets out guidelines to (a) ensure that the IP communities receive social and economic benefits that are culturally appropriate; (b) avoid potentially adverse effects on the IP communities; and (c) when such adverse impacts cannot be avoided, minimize, mitigate, or compensate for such effects. IP dedicated consultations were conducted during appraisal and site-specific focused group discussions would be conducted during implementation so that practical recommendations may be incorporated in design and operation of a sub-project.

Safeguards Implementation Arrangements

51. DAR is responsible for the overall administration, planning, control, management and supervision of the IPAC Project. It would provide due diligence and quality assurance in all aspects of subproject preparation including the environmental and social safeguards screening, review of the technical quality and accuracy of the information in the Environmental Assessments and social safeguards instruments and integrating sound environmental and social practices into the subproject design and implementation. The DAR Project Office would require subproject proponents to comply with this ESMF prior to subproject deliberation by the Subproject Approval Committee/Project Management Board. The proponents would

prepare the safeguards instruments and implement during and after the duration of IPAC in accordance with the guidelines stipulated in the ESMF. The DAR Project Office would also supervise the implementation of the safeguards instruments and monitor the safeguards performance of the proponents and report the overall safeguards compliance of the project to the World Bank. The Task Team would advise and support the DAR Project Office in carrying out its safeguards responsibilities to ascertain that the safeguard policies are met.

52. DAR would also collaborate with government agencies through Memoranda of Understanding/ Agreements in the implementation of sub-project activities according to each agency's mandate and specialization. Agencies that are directly mandated to regulate safeguards compliance of development projects are DENR and NCIP.

(a) DENR is responsible for the issuance of the Certificate of Non Coverage (CNC)/Environmental Clearance Certificate (ECC) and the monitoring of safeguards compliance.

(b) NCIP is responsible for addressing issues and concerns of the country's indigenous peoples. It prescribes the procedures on getting the free and prior informed consent of IP communities present in subproject locations that are within their ancestral domains. Their participation may also be sought in engaging the IPs found to have presence in project locations outside ancestral domains.

(c) DPWH for the design and implementation of farm-to-market roads and bridges. The Department shall likewise help in ensuring that implementation of rural infrastructures observes the mitigating measures in the ESMPs and that right of way are secured following IPAC's ESMF.

(d) NIA for the design and implementation of communal irrigation and drainage facilities. The agency shall also help in ensuring that environment and social safeguards are implemented based on the ESMF.

(e) Municipal LGUs for the design and implementation of small infrastructure facilities such as storage and drying facilities, multi-functional community buildings and potable water supply systems. As proponent of subprojects for IPAC Project funding, the LGU would be responsible for complying with safeguards requirements.

Monitoring & Evaluation

53. Systematic Monitoring and Evaluation (M&E) would be carried to monitor progress, outputs, and outcomes of project activities. DAR would be responsible for M&E through the CPO, RPOs and PPOs while other national agencies, LGUs and FOs would cooperate in data collection and verification as needed. Physical and financial progress would be tracked through the Management Information System (MIS) set up under the project. The results framework (Annex I) identifies the project outcome indicators that the CPO, RPOs and PPOs would collect data on through regular monitoring and field surveys. The CPO would prepare regular consolidated M&E reports based on reports from the RPOs, following review and verification. Reports of physical and financial progress of activities implementation would be prepared semi-annually and would constitute a key document for review by regular Bank supervision missions.

54. Using the M&E collected information, the CPO, the RPOs and the PPOs would produce semi-annual reports to monitor project progress. Consolidated reports produced by the CPO for the entire project would be shared with the Bank on a semi-annual basis. In addition, a mid-term review (MTR) would be conducted half way through project implementation for a comprehensive assessment of project progress and results. The CPO would submit a MTR report to the Bank ahead of the MTR mission.

55. An external agency/institute would be commissioned under component 3 of the project to design and undertake an impact evaluation assessment of project interventions on project beneficiaries based on representative surveys to be conducted at three stages of project implementation: a baseline, a follow-up prior to mid-term, and a final round at project completion. The impact evaluation would include specific surveys for a sample of infrastructure subprojects (roads, irrigation etc.) and a socio-economic survey of a sample of ARBs within the FO, and a control group. The survey would focus, among others, on: (a) access to services, use of and satisfaction with services supported by the project; (b) adoption of techniques promoted through the extension services; and (c) changes in farm income resulting from adoption of agriculture techniques and from participation in productive partnerships.

56. Information collected from the M&E reports would be used to assess implementation progress of project activities and the likelihood of the project achieving its development objective. It would also be used to identify any implementation bottlenecks that would necessitate additional efforts and resources, or adjustments through changes or restructuring. The information gathered would also highlight successful examples that may be disseminated and replicated.

Annex 4: Implementation Support Plan

PHILLIPINES: Inclusive Partnerships for Agricultural Competitiveness Project

1. The strategy for implementation support revolves around the objectives of (a) achieving the project development objectives and project outcomes as measured by the results indicators; (b) providing timely and quality support to ensure satisfactory implementation progress covering the various facets of project activities including technical, managerial, institutional, environmental, social, procurement, financial management, risks, monitoring and evaluation; and (c) mitigating the key risks.

2. The approach for implementation support focuses on the following:

a. Management Support
    - Implementation support for readiness, effectiveness, progress
    - PMOs staff capacity
    - Review of annual plans
    - Monitoring Implementation progress (physical and financial targets)
    - Project changes, restructuring

b. Technical support
    - Technical advice on Farmer Organizations mobilization and capacity building
    - Technical advice on marketing matching fora
    - Technical advice on designs for infrastructure works
    - Technical guidance and assistance for the operation of the Matching Grant Program.
    - Institutional strengthening and technical assistance (role of technical institutions and expert teams)
    - Role and activities for Farmer Organizations
    - Review of training plans and activities

c. Procurement
    - Compliance with Bank procurement guidelines
    - Prior and post review
    - Contract management
    - Community based procurement

d. Financial management
    - Compliance with financial management procedures and loan covenants
    - Disbursement

e. Environmental, social, and other safeguards
    - Implementation of the relevant safeguards manuals

f. Delivery, monitoring and sustainability
    - Track PDO and outcomes results indicators
    - Monitoring and evaluation
    - Responsibility, quality and availability of data for monitoring and evaluation

g. Help mitigate other implementation risks

h. Alignment of Bank resources, staffing and skills (supervision missions, team composition, budget).

Implementation Support Plan

3. The implementation support plan would cover the key areas of project implementation mainly technical, fiduciary, safeguards, monitoring and evaluation, and risks. The plan would cover the entire project implementation period, from effectiveness to completion, and support activities would be designed

to provide support at the right time to ensure tailored-support. The implementation support plan would be reviewed and updated based on periodic assessment of risks and appropriateness of the mitigation measures implemented.

4. **Implementing Agency Capacity**. This has been identified as a substantial risk to project implementation. Bank implementation support in project management would initially focus on assisting the client in strengthening implementation capacity at all levels, particularly on financial management and procurement. Frequent supervision early on during the first half of the implementation period is expected to assist with compliance with World Bank financial management and procurement policies and procedures. The World Bank team would also support the client in implementation progress and annual plan reviews, project adjustments and any restructuring required.

5. **Technical**. Specific technical expertise in farmers' mobilization, extension and business development services, land tenure and implementation of matching grant program and rural infrastructure, high value agriculture practices, and villager organizations would be mobilized. These would be complemented by international expertise, particularly in the areas of matching grant program implementation. The challenges for sustainable productive partnerships would be monitored by the World Bank's technical specialist during routine supervision. Technical support to project implementing agencies to help resolve any potential technical issues that may arise, would also be provided.

6. **Procurement**. Implementation support would focus on ensuring that: (a) the procurement agents are performing effectively; (b) CPO, RPO, and PPO staff are fully familiar with, and adhere to the Procurement Management Manual; and (c) planned procurement training is provided to all procurement staff in a timely manner. The World Bank procurement specialist would also carry out prior and post reviews of procurement transactions and monitor the implementation and updates of the procurement plan.

7. **Fiduciary Requirements**. The fiduciary supervision strategy is based on its financial management risk rating, which would be evaluated on a regular basis by the financial management specialist, and in consultation with the task team leader. The financial management specialist would review the implementation of the Financial Management Manual. The specialist would also provide technical support to project implementing agencies and help provide timely resolution to potential financial management issues. Training would be also provided by the Bank before and during project implementation, as necessary.

8. **Safeguards**. The World Bank's environmental and social specialists would monitor compliance with environmental and social safeguards and adherence to the provisions of the ESMF and all safeguards management plans. The specialist are based in Manila and would provide timely and on-demand implementation support to the project staff when needed.

9. **Delivery Monitoring and Sustainability**. The Bank team would support the CPO in analysis and review of project monitoring information from the project MIS and M&E reports to address issues arising during implementation.

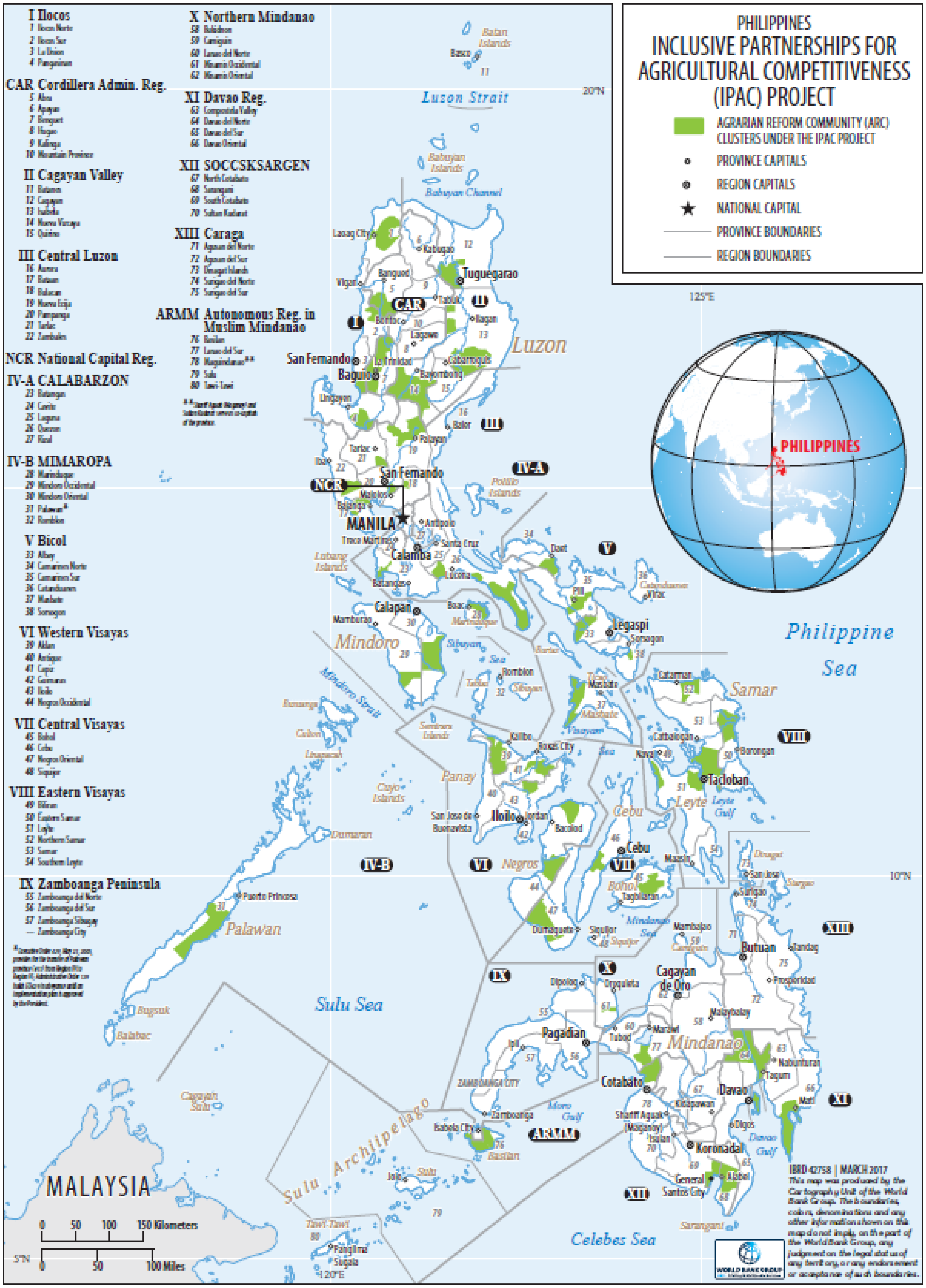
10. **Implementation Support Missions**. The sequence of implementation support missions should involve three in the first year and two in the subsequent years. A summary of the focus, timing, skills, and resource estimates are presented in the tables below.

Table 4. 1: Supervision Inputs

Time	Focus	Skills Needed	Resource Estimate
First twelve Months	• Task and Team Leadership • Technical & Operational Support • FM and Procurement • Safeguards	• TTL/Co-TTL • Technical Skills • Operational Skills • Bank policies • Bank policies	US$100,000
12-60 months	• Task and Team Leadership • Technical Support • FM and Procurement • Safeguards	• TTL/Co-TTL • Technical skills • Operational skills • Bank policies • Bank policies	US$90,000/year

Table 4.2: Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	40	11	Bank staff
Co-Task Team Leader	40	11	Bank staff
Social Development and Safeguards Specialist	10	Field trips as required	Country-office based Bank staff
Environmental Safeguards Specialist	10	Field trips as required	Country-office based Bank staff
Procurement Specialist	12	10	Country-office based Bank staff
Financial Management Specialist	12	10	Country-office based Bank staff
Matching Grant Specialist/Agricultural Economist	20	11	International or national consultants
Farmer Organizations Specialist	15	10	International or national consultants
Agribusiness Specialist	15	10	International or national consultants
Infrastructure/Construction Engineer	15	10	International or national consultants



PHILIPPINES
INCLUSIVE PARTNERSHIPS FOR AGRICULTURAL COMPETITIVENESS (IPAC) PROJECT
AGRARIAN REFORM COMMUNITY (ARC) CLUSTERS UNDER THE IPAC PROJECT
PROVINCE CAPITALS
REGION CAPITALS
NATIONAL CAPITAL
PROVINCE BOUNDARIES
REGION BOUNDARIES
I Ilocos
1 Ilocos Norte
2 Ilocos Sur
3 La Union
4 Pangasinan
CAR Cordillera Admin. Reg.
5 Abra
6 Apayao
7 Benguet
8 Ifugao
9 Kalinga
10 Mountain Province
II Cagayan Valley
11 Batanes
12 Cagayan
13 Isabela
14 Nueva Vizcaya
15 Quirino
III Central Luzon
16 Aurora
17 Bataan
18 Bulacan
19 Nueva Ecija
20 Pampanga
21 Tarlac
22 Zambales
NCR National Capital Reg.
IV-A CALABARZON
23 Batangas
24 Cavite
25 Laguna
26 Quezon
27 Rizal
IV-B MIMAROPA
28 Marinduque
29 Mindoro Occidental
30 Mindoro Oriental
31 Palawan*
32 Romblon
V Bicol
33 Albay
34 Camarines Norte
35 Camarines Sur
36 Catanduanes
37 Masbate
38 Sorsogon
VI Western Visayas
39 Aklan
40 Antique
41 Capiz
42 Guimaras
43 Iloilo
44 Negros Occidental
VII Central Visayas
45 Bohol
46 Cebu
47 Negros Oriental
48 Siquijor
VIII Eastern Visayas
49 Biliran
50 Eastern Samar
51 Leyte
52 Northern Samar
53 Samar
54 Southern Leyte
IX Zamboanga Peninsula
55 Zamboanga del Norte
56 Zamboanga del Sur
57 Zamboanga Sibugay
— Zamboanga City
X Northern Mindanao
58 Bukidnon
59 Camiguin
60 Lanao del Norte
61 Misamis Occidental
62 Misamis Oriental
XI Davao Reg.
63 Compostela Valley
64 Davao del Norte
65 Davao del Sur
66 Davao Oriental
XII SOCCSKSARGEN
67 North Cotabato
68 Sarangani
69 South Cotabato
70 Sultan Kudarat
XIII Caraga
71 Agusan del Norte
72 Agusan del Sur
73 Dinagat Islands
74 Surigao del Norte
75 Surigao del Sur
ARMM Autonomous Reg. in Muslim Mindanao
76 Basilan
77 Lanao del Sur
78 Maguindanao**
79 Sulu
80 Tawi-Tawi
Luzon Strait
Luzon
Philippine Sea
Samar
Mindoro
Panay
Negros
Cebu
Bohol
Leyte
Mindanao
Palawan
Sulu Sea
Celebes Sea
Sulu Archipelago
MALAYSIA
PHILIPPINES
MANILA
0 50 100 150 Kilometers
0 50 100 Miles
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