



Project Administration Memorandum

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PHI: Integrated Coastal Resources Management

The project administration memorandum is an active document, progressively updated and revised as necessary, particularly following any changes in project or program costs, scope, or implementation arrangements. This document, however, may not reflect the latest project or program changes.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 November 2006)

Currency Unit – peso (₱)

₱1.00 = \$0.0200481

\$1.00 = ₱49.8800

ABBREVIATIONS

| | | |
|-------|---|--|
| COA | – | Commission on Audit |
| DA | – | Department of Agriculture |
| DENR | – | Department of Environment and Natural Resources |
| EIRR | – | economic internal rate of return |
| FIRR | – | financial internal rate of return |
| GEF | – | Global Environment Facility |
| ha | – | hectare |
| ICRM | – | integrated coastal resources management |
| IEC | – | information, education, and communication |
| IEE | – | initial environmental examination |
| kg | – | kilogram |
| km | – | kilometer |
| LGU | – | local government unit |
| MDFO | – | Municipal Development Fund Office |
| MPA | – | marine protected area |
| NGO | – | non-government organization |
| PMO | – | project management office |
| PPMS | – | project performance management system |
| PSC | – | project steering committee |
| SERF | – | shadow exchange rate factor |
| USAID | – | United States Agency for International Development |

NOTES

- (i) The fiscal year of the Government and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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LOAN PROCESSING HISTORY

| | | |
|----|--|--------------------|
| a. | Approval of project preparatory technical assistance | 2 Aug 2001 |
| b. | Feasibility Study | Feb 2003 |
| c. | Fact-finding | 19 Apr-26 May 2004 |
| d. | Management Review Meeting (MRM) | 30 June 2004 |
| e. | Appraisal Mission | 7 Aug-9 Sep 2006 |
| f. | Staff Review Committee (SRC) | 26 Sep 2006 |
| g. | Loan Negotiations | 24 Nov 2006 |
| h. | Board Circulation | 14 Dec 2006 |
| i. | Board Consideration and Approval | 23 Jan 2007 |
| j. | Loan Agreement Signing | 28 Mar 2007 |
| k. | Loan Effectiveness, including conditions | 29 Jun 2007 |

DESIGN AND MONITORING FRAMEWORK

| Design Summary | Performance Targets/Indicators | Data Sources/Reporting Mechanisms | Assumptions and Risks |
|--|---|---|--|
| <p>Impact</p> <p>Enhanced coastal resources</p> | <p>Depletion of coastal resources is arrested and 30% improvement in productivity and biophysical state of resources (year 20)</p> | <p>National statistics, and state of ocean reports</p> | <p>Risk</p> <ul style="list-style-type: none"> Major global environmental or macroeconomic crises that can directly affect coastal resources or national/regional economies |
| <p>Outcome</p> <p>Sustainable management of coastal resources</p> | <p>10% improvement over baseline in fisheries resources, 10% improvement in hard coral cover, and 20% improvement in mangrove density in participating municipalities (year 7)</p> <p>10% increase over baseline in fisherfolk household income (year 7)</p> | <p>State of the ocean reports of the Department of Environment and Natural Resources (DENR), coastal and marine habitat monitoring reports, project impact assessments, project completion report</p> | <p>Assumption</p> <ul style="list-style-type: none"> Effective enforcement of regulations and other policy instruments |
| <p>Outputs</p> <p>A. Policy environment and legal framework for integrated coastal resources management (ICRM) rationalized, institutional capacities strengthened, and governance improved</p> <p>B. ICRM institutionalized and functional at the local levels, and coastal ecosystems and resources in the threatened areas of biodiversity are protected and managed</p> | <p>Increased stakeholder participation in major policy decisions, and resource and budget allocation for ICRM (year 4)</p> <p>Participating local government units (LGUs) score at least 75% on the ecogovernance index and the Project scores at least 80% (year 6)</p> <p>In the 68 participating municipalities, 50,000 hectares (ha) of coral reefs with 5,000 ha of no-take zones, 9,000 ha of mangroves, and 7,500 ha of watersheds are managed with active participation of communities (year 6)</p> <p>Incidence of illegal fishing, threats to marine habitats, and encroachments to foreshore areas reduced by 50% (year 6)</p> <p>At least 30% increase in fish density and 5% increase in fish species richness over baseline in no-take zones (year 6)</p> | <p>Department administrative orders and legal instruments,</p> <p>LGUs' ICRM reports and project impact assessment</p> <p>Municipal development plans, and LGU budget documents</p> <p>Records of ICRM organizations</p> <p>Reports of participatory and scientific assessments, records of ICRM and community organizations, and project impact assessment</p> | <p>Assumptions</p> <ul style="list-style-type: none"> Continued commitment of national and local governments ICRM and biodiversity Sufficient number of qualified personnel will be available for training when required National Government is committed to providing performance-based incentives Community-led implementation of ICRM and biodiversity Adequate coverage of nongovernment organizations (NGOs) and rural finance institutions LGUs have competent engineering staff to lead preparatory, construction, and operation and maintenance works |

| Design Summary | Performance Indicators/Targets | Data Sources/Reporting Mechanisms | Assumptions and Risks |
|---|--|--|--|
| C. Alternative and supplementary livelihoods provided | 680 enterprises are established, of which at least 60% remain operational beyond their first year of operation (year 6) The enterprises provide supplemental employment opportunities to 6,800, of whom at least 30% are women (year 6) | Records of ICRM and community organizations, and project impact assessment Records of community organizations, and training reports | Risks <ul style="list-style-type: none"> • Lack of political commitment • Breakdown of peace and order |
| D. Health and social conditions in the coastal communities improved | Households in at least 68 barangays benefiting from social facilities by year 6 | Records of ICRM and community organizations, and project impact assessment | |
| Activities with Milestones A. Policy and Institutional Strengthening and Development 1. Policy Aspects a. Undertake studies and other preparatory work contributing to finalization of ICRM policy <ul style="list-style-type: none"> • Institutional framework (ArcDev) reviewed and finalized in light of Executive Order 533 of 6 June 2006 on ICRM (year 1) • Implementing rules and regulations for the Executive Order 533 finalized (year 1) • National, regional, and provincial coordinating bodies established (year 2) • Policy studies on marine and coastal water pollution, mangrove management, foreshore management, coastal ecotourism, environmental impact assessment, biodiversity conservation, trade in coral reef-associated fish and vertebrate species completed, and disaster management completed (year 3) • Policy study on marine protected areas under the National Integrated Protected Area Systems Act completed (year 2) • Policy study on delineation of responsibilities completed and the recommendations implemented through joint relevant administrative orders (year 2) • Policy study on user fees and resource rents for mangroves, coral reefs, beaches, foreshores, fisheries and mariculture, and on appropriate implementation arrangements is completed and pilot tested (year 3) • Joint department administrative orders to implement new ICRM policy issued (year 3) • National Integrated Protected Area Systems Act revised (year 3) b. Undertake ICRM policy information, education, and communication campaigns (IECs) Campaigns completed for DENR, Department of Agriculture (DA), six provinces, and 68 LGUs (year 4) 2. Capacity Building and Institutional Development a. Provide ICRM-related human resources and institutional development <ul style="list-style-type: none"> • Assessment of human resources and institutions, and capacity-building requirements of DENR, DA, and LGUs; and develop strategies to address these (year 2) • 600 DENR, DA, and LGU staff (including at least 33% women) are trained in various aspects of ICRM (year 6) b. Develop in-house ICRM and marine biodiversity research agenda for DENR and DA <ul style="list-style-type: none"> • Research agenda and plans are formulated and approved (year 2) 3: Performance-based incentive and disincentive system a. Develop incentive-disincentive systems for ICRM <ul style="list-style-type: none"> • Existing local, national, and international incentive and disincentive systems documented and promising systems identified (year 2) • Incentive-disincentive system endorsed by at least 3 national government agencies (year 3) • IEC materials prepared and campaign undertaken (year 3) | | | Inputs <ul style="list-style-type: none"> • Asian Development Bank (ADB) loan: \$33.77 million • Global Environment Facility (GEF) grant: \$8.94 million • Government of the Philippines: \$8.72 million • LGUs & communities: \$10.82 million <p style="text-align: right;">Total \$62.23 million</p> <ul style="list-style-type: none"> • Resource Management \$9.69 million • Capacity Building \$2.79 million • Demonstration & Trials \$3.6 million • Dissemination Activities \$1.68 million • PPMS, Studies, Surveys, and Audits \$4.22 million • Consulting Services \$3.13 million • Equipment & Materials \$2.32 million • Vehicles \$1.47 million • Land Purchase \$0.67 million |

| Activities with Milestones | |
|--|---|
| <p>B. ICRM and Biodiversity Conservation</p> <p>1. ICRM</p> <p>a. Undertake IEC campaign</p> <ul style="list-style-type: none"> • IEC campaigns for communities, health workers, and LGU staff designed (year 2) • IEC campaigns implemented for coastal communities in the 68 municipalities (year 2 and thereafter every year) • IEC campaigns on linkages between population growth and deteriorating coastal resources, and population management are implemented for health workers and 25,000 community members (including at least 33% women) in the 68 municipalities (year 6) <p>b. Undertake participatory coastal resources assessment and scientific observations</p> <ul style="list-style-type: none"> • Participatory coastal resources assessments completed/updated in 68 municipalities (including marine protected areas), and coastal resource maps indicating location, extent, and use patterns (years 2 and 6) • Scientific assessments of resources and habitats in six provinces completed (years 1, 3, and 6) <p>c. Develop and strengthen ICRM organizations</p> <ul style="list-style-type: none"> • Multisector and community organizations including fish and aquatic resources management committees, NGOs, community organizations, bantay dagats (marine watch teams), and environment and natural resources protection committees strengthened/established in 68 municipalities (year 6) • 200 members (including at least 33% women) of ICRM organizations trained in organizational aspects (year 3) • 1,000 members of ICRM organizations trained in ICRM (year 3) <p>d. Prepare participatory ICRM plans and institutionalize these in LGU planning and budgeting</p> <ul style="list-style-type: none"> • Participatory planning workshops undertaken in 68 municipalities (year 2) • Integrated ICRM plans including the upland management developed and incorporated in municipal development plans in 68 municipalities and updated annually during project implementation (year 2 and thereafter every year) • Each of the 68 municipalities provides an adequate annual allocation for ICRM activities (year 3 and thereafter every year) <p>e. Implement ICRM plans</p> <ul style="list-style-type: none"> • Municipal coastal databases established/upgraded in 68 municipalities and national coastal database established (year 2) • Environmental impact monitoring mechanism established in 68 municipalities (year 2) • Within the municipal water participatory delineation of zones for economic uses and implementation of a system of licensing in 68 municipalities (year 2) • Sustainable financing mechanisms (user fees, rents, and revenue generation) are introduced in at least 33% of the municipalities (year 6) • 7,000 ha of poorly managed/threatened mangroves are rehabilitated and 2,000 ha of mangrove areas reforested (year 6) • 3,500 ha of poorly managed/threatened watersheds are rehabilitated and 4,000 ha of watershed areas reforested (year 6) <p>f. Establish and conduct participatory monitoring and evaluation for ICRM activities</p> <ul style="list-style-type: none"> • Participatory monitoring and evaluation systems involving community members and municipal governments established and stakeholders trained in 68 municipalities (year 2) • Annual monitoring surveys and annual municipal workshops, and national feedback workshops (year 2 and thereafter every year) <p>g. Design and implement participatory enforcement mechanisms</p> <ul style="list-style-type: none"> • 680 bantay dagat (marine watch team) members and 680 community members familiarized with fisheries laws and regulations and trained in enforcement (year 3) • 80 patrol boats and 74 sets of enforcement equipment procured (year 2) • 68 legal seminars conducted for local judges (year 2) | <ul style="list-style-type: none"> • Civil Works \$10.66 million • Implementation and Supervision \$2.29 million • Recurrent Costs \$10.79 million <p>Total Base Costs \$53.32 million</p> <p>Contingencies \$2.63 million</p> <p>Financing Charges \$6.27 million</p> <p>Total Cost \$62.32 million</p> |

Activities with Milestones

2. Biodiversity conservation

a. Establish ICRM centers

- Five centers established and equipped (year 2)

b. Conduct research on critical biodiversity resources

- 30 studies including baseline studies and follow-up studies on habitat condition, population dynamics of threatened species, trends in the coastal resources completed (year 6)
- Five international evaluation symposia, each with up to 100 participants, (year 6)

d. Develop marine protected areas (MPAs) and tools

- MPA database and rating system incorporating GEF tracking tools for protected areas operationalized (year 2)
- 50 MPAs for effective management with at least 5,000 ha of sanctuary (no-take) areas identified (year 3)
- Management plans for the 50 MPAs developed (year 3)
- At least five coordinating bodies to manage MPA networks and corridors (year 3)
- Conservation projects habitat rehabilitation, restoration, and stock enhancement activities emanating from management plans completed in 50 MPAs (year 6)
- Reporting using GEF MPA management tracking tool (year 1 and thereafter every year)

e. Establish and strengthen ecocertification/ecolabeling of sustainable harvesting activities

- Appropriate ecocertification/ecolabeling instruments designed and 350 community members, 325 traders, and 350 municipal staff trained in ecocertification by (year 6)
- In municipalities neighboring 50 MPAs, trade of marine species regulated and managed through ecocertification (year 6)

C. Enterprise Development and Income Diversification

a. Develop enterprise development support infrastructure

- Enterprise development units designated and equipped in six provinces (year 1)
- Enterprise development unit staff trained in planning and setting up business (year 1 and thereafter every year)

b. Develop livelihood-related IEC

- Skills inventories completed in 68 municipalities (year 1)
- Demand assessments and market studies completed (year 1 and 2)
- IEC materials designed (year 2) and updated (year 3 and 4)

c. Facilitate enterprise development

- 680 self-reliant groups (with at least 33% women members) strengthened (year 4)
- Internal savings mobilized in 75% of the community groups (year 5)
- 340 land and aquatic, and 32 ecotourism-based demonstrations and training enterprises established through community participation (year 6)
- 6,800 community members (including at least 33% women) trained in promising enterprises and entrepreneurial skills (year 6)
- 50% of self-reliant groups linked to sources of credit (year 6)

d. Facilitate private sector investment

- Potential investment packages for private sector investment identified (year 3)
- IEC aimed at attracting private sector investment conducted (year 4, 5 and 6)
- Workshops for tourism operators and locally based tourism businesses undertaken (years 4, 5, and 6)

D. Social and Environmental Services and Facilities

- Feasibility studies including initial environmental evaluations or environmental impact assessments and social safeguards screening completed for infrastructure in 68 municipalities (year 5)
- Agreements between 68 municipalities and municipal development fund on infrastructure financing reached (year 5)
- Civil works completed for infrastructure in 68 municipalities (year 6)
- Communities in 68 municipalities trained in operation and maintenance (year 6)

I. PROJECT DESCRIPTION

A. Project Areas

1. The Project will cover provinces and municipalities surrounding marine biodiversity corridors of national and global importance as identified by the Philippine Biodiversity Conservation Priorities.¹ Four “extremely high” priority biodiversity corridors were selected: (i) the Babuyan corridor along the northern coast of Luzon joining the Pacific Ocean and South China Sea, (ii) the Ticao Pass–San Bernardino Strait–Samar Sea corridor, (iii) the Daanbantayan corridor straddling the Visayas Sea and the Tanon Strait, and (iv) the Pujada Bay corridor, an important point of convergence for bioregions of the Pacific Ocean and the Celebes Sea. Two more areas of “very high” to “high” priority marine biodiversity significance near to marine corridors were selected: (i) the Zambales marine ecosystem in the Luzon Sea, and (ii) the Siquijor small-island marine ecosystem between the Bohol Sea and Sulu Sea. Biodiversity significance and major threats of these marine corridors and ecosystems are described in **Supplementary Appendix A**.

2. Within the marine biodiversity corridor and ecosystems identified, six provinces were selected based on the following: (i) strategic location, (ii) status of coastal communities that can potentially benefit from the enhanced management of coastal resources, and (iii) willingness of provinces and municipalities to support an ICRM program. The provinces selected are Cagayan, Cebu, Davao Oriental, Masbate, Siquijor, and Zambales. Sixty-eight municipalities within these provinces were selected and are listed in **Appendix 1**.

B. Impact and Outcome

3. The expected impact of the Project is enhanced coastal resources. The expected outcomes are sustainable management of coastal resources and increased income for coastal communities.

C. Outputs

4. The Project comprises four components: component A: policy and institutional strengthening and development; component B: ICRM and biodiversity conservation; component C: enterprise development and income diversification, and component D: social and environmental services and facilities.

1. Component A: Policy and Institutional Strengthening and Development

5. The component aims at (i) rationalizing Government policy for ICRM and improving coordination mechanisms, (ii) strengthening national and local government institutional capacity, and (iii) developing a performance-based incentive and disincentive system for local governments. Policy weaknesses and legal gaps in the management of coastal zones and habitats will be studied and corrective measures recommended. Drawing on the works under the previous United Nations Development Programme assistance, and as required under Executive Order 533 on integrated coastal management, the Project will develop an institutional framework for national and local government coordination of ICRM. A comprehensive national policy on ICRM will be finalized and an IEC campaign undertaken. In light of the national policy, the roles of the Department of Agriculture (DA), DENR, local governments, and other national Government agencies in ICRM and related activities will be clarified. Imposition and collection of

¹ DENR. 2002. *Philippine Biodiversity Conservation Priorities: A Second Iteration of the National Biodiversity Strategy and Action Plan*. Manila.

user fees and resource rents for MPAs, mangroves, coral reefs, beaches, and foreshores as sustainable means for financing ICRM operations will be studied and operationalized.

6. The Project will support human resource and institutional development of DA, DENR, and local governments. Capacity-building needs of the institutions and their human resources will be assessed and appropriate strategies developed to address these. In view of the present moratorium on the creation of new regular staff positions in national government agencies, DENR will address the present shortage of qualified staff in marine and coastal resources management through staff redeployment and training. About 600 DA, DENR, and municipal government staff will be trained in various aspects of ICRM including basic practices of coastal resources management, resource enhancement, social preparation, environmental management, and biodiversity conservation. Multisector local government ICRM organizations, including fisheries and aquatic resources management committees, *bantay dagat* (marine watch teams), and NGOs will be developed and strengthened.

7. The Project will support identification and dissemination of a performance-based incentive-disincentive system that builds on and links to DENR's coastal resources management certification system. The system establishes performance benchmarks for local governments. Viable material incentives will be provided to the certificate recipient local governments to continue good coastal resources management practices. The performance-based incentive system will be linked to the ecogovernance index developed under the USAID-assisted Ecogovernance Project of DENR.

2. Component B: ICRM and Biodiversity Conservation

8. The component will promote basic ICRM practices, i.e., adaptive planning and budgeting, municipal water zoning, law enforcement, pollution control and environmental management, resource use licensing, and management of foreshores, beaches, and mangroves. Coastal resources in 68 municipal waters will be assessed through participatory and scientific resource assessment. Participatory assessment will be undertaken for all the coastal waters, while scientific assessments will be done in selected sites of high biodiversity; the results will be reflected in the updated municipal coastal database and compiled in a national coastal resources database. ICRM plans will be developed and integrated into the municipal planning process. About 7,000 ha of mangroves will be brought under improved management and about 2,000 ha will be reforested. About 4,000 ha of denuded watersheds will be reforested and 3,500 ha of forests in watersheds will be rehabilitated. Local fisheries and aquatic resources management committees, marine watch teams, and NGOs will be trained on participatory enforcement mechanisms for fisheries laws and regulations, and provided with basic equipment and facilities.

9. The component will protect and manage coastal ecosystems in selected threatened areas of high biodiversity. Networks of 50 MPAs, comprising about 15–20 new MPAs and 30–35 existing MPAs, will be developed in the six priority biodiversity corridors and marine ecosystems. MPA management plans will be developed and/or strengthened and functional organizations will be put in place. The management plans will be supported by targeted research on critical biodiversity resources including sensitive ecosystems and threatened flagship species, and will include species restocking and pilot schemes for coral reef and giant clam transplanting. Five ICRM centers will be established as hubs for biodiversity monitoring and research, and training and demonstration activities. The centers will be located at the existing marine science institutions and project support will complement existing facilities for similar activities. ICRM centers will also be the focal points for undertaking an IEC campaign to be developed and implemented in coordination with the ongoing works under the

communication, education, and public awareness program of the Convention on Biodiversity; operational links between the two will be examined and specific recommendations made during the initial stage of project implementation.

10. The Project will also support development and implementation of a system for ecocertification of sustainable harvesting activities in reef-associated species, taking into account the changing degree of vulnerability of species; and will link it to the Project's biodiversity monitoring program. The system will cover food fish and ornamental fish for the aquarium market.² The Project will train about 680 individuals from coastal communities and participating municipality staff in 68 municipalities to regulate and manage the trade of marine species.

3. Component C: Enterprise Development and Income Diversification

11. The component aims at providing municipal fisherfolk with supplementary income and reducing their reliance on fishing by promoting environment-friendly sustainable enterprises and livelihoods. Technical and institutional support will be provided to undertake viable livelihoods and enterprises identified from similar ongoing programs and other potential ones. Enterprises providing employment opportunities to about 6,800 people will be developed during project implementation. Priority will be given to people affected by the restricted use of coastal resources. Activities will include (i) undertaking social preparation including community organization, needs and resource assessment, and savings mobilization; (ii) establishing an enterprise development unit in each province, identifying appropriate livelihoods and enterprises, and undertaking feasibility and market studies; (iii) establishing about 370 enterprises in 68 municipalities, and training 6,800 fisherfolk on technical and managerial aspects of enterprises; (iv) assisting community groups in preparing bankable business plans and accessing credit facilities of formal banking systems such as Land Bank of the Philippines, Development Bank of the Philippines, rural and thrift banks, cooperatives and NGOs, or other existing and programmed credit facilities including the *Isang Bayan*, *Isang Produkto*, *Isang Milyong Piso* programs; (v) helping develop partnerships between coastal communities and private entrepreneurs in enterprise operation, management, and marketing; and (vi) promoting and developing ICRM-related ecotourism. In developing livelihoods and enterprises, care will be taken to ensure that intended activities are aligned and connected with those existing in the project area.

4. Component D: Social and Environmental Services and Facilities

12. This component will address the basic social services needs of disadvantaged coastal communities, and support local governments' efforts to mitigate coastal pollution and degradation of resources. The component will follow a demand-driven approach, providing technical and investment support to participating municipalities for improving water supply and sanitation, managing solid waste, providing add-on school classrooms and day-care centers, and mitigating coastal pollution and erosion. Beneficiaries will be trained on operation and maintenance of the completed subprojects. The selection criteria for social and environmental infrastructure are given in [Appendix 2](#).

² In developing an ecocertification system for aquarium market fish, the Project will coordinate with the GEF-assisted Marine Aquarium Market Transformation Initiative, approved in May 2004.

D. Special Features

13. **Biodiversity Conservation with GEF Participation.** A key feature of the Project is the conservation of biodiversity of global importance with GEF involvement. The biodiversity conservation measures under the Project follow an innovative approach by developing networks of MPAs within marine corridors and ecosystems that are recognized as having high biodiversity of global significance. By promoting protection of sites over an extended area within the corridors, greater exchange of fish and larvae will result, improving chances of restoring biodiversity where resource depletion and habitat loss has occurred. By reducing gaps in management coverage in the corridors, weak links in the management chain will be reduced and more effective management of entire marine corridors will be supported.

14. **Poverty Targeting.** The project design includes a combination of measures to maximize project impact on poverty. The rural poverty incidence in the six provinces that will receive support for ICRM ranges between 25.8% and 77.0%, with a six-province average of 59.0% compared with the national average of 48.8%. Within the rural population, the incidence of poverty is much higher in the coastal communities at 76.0%; the coastal population will be the primary beneficiary of improved coastal resources management supported by the Project. The criteria for selection of schemes under the social and environmental services and facilities component will give priority to communities that have a high incidence of poverty. Similarly, the income diversification and enterprise development component will focus on poor disadvantaged groups with little or no access to technology and capital.

15. **Environmental Governance and Performance Monitoring.** The Project will support implementation of the ecogovernance index developed by the USAID-assisted Ecogovernance Project of DENR, which aims at greater transparency, accountability, and participatory decision-making in the management of natural resources, including marine and coastal resources, and environmental management. The index includes four activities that represent the flow of government actions in resource management: planning, budgeting, implementation (including procurement and issuance of permits and licenses), and control or enforcement (monitoring, reporting, sanctioning, etc.). The index will be applied to measuring performance of DA, DENR, and local governments concerned; Internet access will be available through a website to be established for the Project.

16. **Gender and Development.** Despite their extensive involvement in the marketing of fisheries and other aquatic products, women are not well represented in coastal resources management, or in training, meetings and other related activities. While recognizing the need to respect local values and beliefs, and the choices of both men and women about taking part in specific activities, the Project will promote greater involvement of women in the decision-making process of ICRM. Specific activities include (i) national and local gender sensitization training and collection of gender-disaggregated data in household socioeconomic studies, biodiversity, and related ICRM research and policy and legal studies as the basis for defining intervention measures; (ii) integration of gender analysis in ICRM planning, monitoring, and evaluation; and (iii) conduct of gender and development orientation and related training to national and local government personnel and community members. The project strategy for gender and development is outlined in the summary poverty reduction and social strategy (Appendix 3). The gender action plan (Appendix 4) sets a participation target for women of 33% in membership in ICRM organizations, MPA management boards and self-reliant groups for livelihood; staff training in biodiversity and ICRM; and incremental staff recruitment for the Project.

17. **Environmental Safeguards.** The project activities are aimed at, among other things, sustainable management of marine and coastal resources and environmental protection, and by design are not expected to create any significant adverse environmental impact. An initial environmental examination (IEE) (Supplementary Appendix B) was conducted during project preparation and the findings are summarized in Appendix 5. The IEE determines that most activities will contribute to environmental improvement, and subprojects to be identified during implementation are likely to be classified as B or C. Activities with potential adverse impact relate to two components: (i) component C: income diversification and enterprise development, and (ii) component D: social and environmental facilities and services. Component C may support development of small-scale mariculture including cage farming, which could have small adverse environmental impacts. Such adverse impacts will be avoided or mitigated through appropriate siting, management, and monitoring. Prior to the commencement of mariculture, fisherfolk will be trained on the technology and management of mariculture, including environmental management. The mariculture operation will be monitored as part of the overall resource management plan and environmental problems and issues will be identified, consistent with the IEE for the Project, in time for appropriate action. Social and environmental facilities under component D will include development of rural water supply, public toilets, classrooms, day-care centers, and small-scale coastal erosion structures—construction of which, if not done properly, may cause environmental problems. An environmental assessment and review framework (Supplementary Appendix C) was prepared to guide the screening of subprojects under components C and D, taking into account both ADB and Government safeguard requirements. An IEE will be prepared in accordance with the environmental assessment and review framework for each such scheme screened as category B, and will identify potential environmental concerns and recommend appropriate mitigation and monitoring measures. The IEE will be prepared by the local government concerned, and reviewed and approved by the relevant DENR office as per environment regulations of the Government. Provision has been made for budgetary support to the participating municipalities for undertaking environmental monitoring for the activities under components C and D over 5 years. Provision has also been made for capacity building of regional and municipal government staff in environmental management and monitoring through training courses to be conducted during the first year of project implementation.

18. **Social Safeguards and Indigenous People.** The Project will require small plots of land for the construction of social and environmental facilities, which will be obtained through allocation of available unoccupied public land, and purchases in the open market. Since the land acquisition will not entail exercising the right of eminent domain, such acquisition will not involve ADB's involuntary resettlement policy.³ Infrastructure proposals will be identified during participatory formulation of the ICRM plan, which the regional steering committee (para. 52) and DENR will approve; this will trigger a feasibility study. The regional steering committee will review the feasibility study for technical and economic viability, and compliance with the selection criteria. Committee approval will be conditional on the municipality providing unoccupied public land or purchasing the land at market rate, if additional land is required. The Municipal Development Fund Office (para. 37) will enter into an agreement with the municipality for financing the infrastructure once these conditions are fulfilled and documentary evidence submitted. Documents will establish plot location, ownership, cost, and tenure status; and guarantees that land purchases are not forced upon the sellers and public land plots are unoccupied.

19. Resource management activities such as establishment of no-take zones⁴ within MPAs, control of destructive fishing, and mangrove and watershed management may have adverse

³ ADB. 1995. *Involuntary Resettlement*. Manila.

⁴ Harvesting of fish or any other aquatic resources is not allowed within no-take zones.

impact on the livelihoods of some people; such impacts will, however, be small and temporary. The impacts will be mitigated through the community-based natural resources management contracts and group-based alternative livelihood enterprises to be supported by the Project under components B and C. The challenge will be to identify people affected and ensure their participation in these activities. The ICRM plan to be prepared for each municipality under component B, in a participatory manner, will identify people affected and ensure their inclusion in the mitigation program. They will be given priority for participation in the alternative livelihood activities under component D, which will begin implementation in year 1 of the Project. Resource access restriction impacts and mitigation measures including implementation arrangements are given in [Appendix 6](#).

20. Available information suggests that the Project will not cover or affect any area inhabited by indigenous people. If such groups of people are identified as being significantly affected by the Project in any municipalities, then indigenous peoples' development plans will be prepared in accordance with ADB's indigenous peoples policy,⁵ and implementation of project activities in these municipalities will be conditional on ADB's approval of the relevant indigenous peoples' development plans.

II. COST ESTIMATES AND FINANCING PLAN

A. Project Investment Plan

21. The project investment cost is estimated at \$62.32 million, including taxes and duties of \$5.15 million (Table 1). A summary of cost estimates by expenditure category and by financier is given in [Appendix 7](#) and details are provided in [Supplementary Appendix D](#).

Table 1: Project Investment Plan
(\$ million)

| Item | Total |
|---|--------------|
| A. Policy and Institutional Strengthening and Development | 1.38 |
| B. ICRM and Biodiversity Conservation | 29.85 |
| C. Enterprise Development and Income Diversification | 6.11 |
| D. Social and Environmental Services and Facilities | 12.97 |
| E. Project Implementation | 3.00 |
| Subtotal (A+B+C+D+E) | 53.32 |
| F. Contingencies | |
| 1. Physical | 1.68 |
| 2. Price | 1.05 |
| G. Interest and Other Charges during Construction | 6.27 |
| Total | 62.32 |

ICRM = integrated coastal resources management.

Sources: Asian Development Bank and Government estimates.

B. Financing Plan

22. The Government has requested a loan of \$33.80 million from ADB's ordinary capital resources to help finance the Project. The loan will have a 25-year term, including a grace period of 6 years, an interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.75% per annum, and such other terms and conditions set forth in the draft loan agreement. The interest and other

⁵ ADB. 1998. *The Bank's Policy on Indigenous Peoples*. Manila.

charges during implementation will be capitalized. The Government has provided ADB with (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility on the basis of these terms and conditions, and (ii) an undertaking that these choices were its own independent decision and not made in reliance on any communication or advice from ADB.

23. On behalf of the Government, ADB asked GEF to provide grant financing for the Project, and GEF approved a grant of \$9.0 million on 1 December 2006. The grant, to be administered by ADB, will cover costs of activities related to conservation and management of biological diversity.

24. Activities related to social and environmental infrastructure under component D are devolved functions of municipalities; costs for these activities, estimated at \$13.20 million equivalent including contingencies, will be partly borne by the participating municipalities in accordance with the applicable terms and conditions of the National Government and Local Government Unit Cost-Sharing Policy (Appendix 8). The Government's financial support to the municipalities will be a mix of loan and grant, which will complement equity contributions from the municipalities and beneficiaries. In addition, the municipal governments and beneficiaries will finance \$7.36 million as part of the costs under components B and C for activities related to participatory law enforcement, and biodiversity conservation.

Table 2: Financing Plan
(\$ million)

| Source | Total | Percent |
|-------------------------------------|--------------|----------------|
| Asian Development Bank | 33.80 | 54.2 |
| Global Environment Facility | 9.00 | 14.4 |
| Central Government | 8.71 | 14.0 |
| Local Governments and Beneficiaries | 10.81 | 17.4 |
| Total | 62.32 | 100.0 |

Sources: Asian Development Bank and the Government

C. Allocation of Loan Proceeds

25. The allocation of loan proceeds and the basis for withdrawal from the ADB loan and GEF accounts are summarized in Appendix 9.

III. IMPLEMENTATION ARRANGEMENTS

26. DENR, as the Executing Agency, will be responsible for overall project management. The project implementing agencies are as follows:

- (i) policy and institutional strengthening and development component: DA and DENR;
- (ii) ICRM and biodiversity conservation component: DA and DENR;
- (iii) enterprise development and income diversification component: DA and DENR; and
- (iv) social and environmental services and facilities component: municipal governments.

DA and DENR will implement components (i) to (iii) with the active participation of municipal governments.

27. DENR will execute and implement the Project through its existing central, regional, and provincial organization. The Foreign-Assisted and Special Projects Office at the DENR central office will be the project management office (PMO). Working under the guidance of the secretary and direct supervision of the assistant secretary for foreign-assisted projects, the PMO will be responsible for overall planning, programming, budgeting, operations, monitoring, and management of the Project. As an implementing agency, DENR will be responsible for initiating activities related to rationalizing ICRM policies; developing regulation and coordination frameworks; developing national, regional, and municipal human resources; establishing marine protected areas; undertaking targeted research on biodiversity conservation and management; developing and implementing an ecocertification mechanism; and rehabilitating and managing mangroves and watersheds. DENR will implement these activities drawing technical support from its relevant specialized bureaus and offices at headquarters, including the Coastal and Marine Management Office, Protected Areas and Wildlife Bureau, and Environmental Management Bureau. Field implementation will be carried out through coastal and marine management divisions located at the DENR regional offices in regions II, III, V, VII, and XI; provincial environment and natural resources offices; and community environment and natural resources offices (subprovincial).

28. DA will be responsible, in collaboration with DENR and participating municipalities, for undertaking participatory and scientific resource assessment and developing a database on living aquatic resources in coastal waters; undertaking studies on conservation of traded and threatened marine species; enhancing habitat and stock; and identifying and promoting viable alternative livelihoods for fisherfolk. DA will provide technical support to DENR in relevant policy studies including studies on resource rents and user fees as applicable to fishery activities and initiatives to harmonize conflicting jurisdiction between national agencies involved in ICRM. DA will provide these services through the Bureau of Fisheries and Aquatic Resources and its regional offices in the five project regions. The Office of the Assistant Director for Technical Services (central office of the Bureau of Fisheries and Aquatic Resources) will be responsible for planning, implementing, and monitoring DA activities and act as the DA focal point for the Project.

29. The five ICRM centers under component B will be established at or attached to existing marine science institutions. Two potential institutions of international repute are the University of the Philippines' Marine Science Institute and Silliman University; one or both of these institutions will be selected for project participation. DENR will sign a memorandum of agreement with the selected institution(s) incorporating the institution's functions and responsibilities and the financial and other support the Project will provide. The institutions will, in coordination with DENR, select a local university or college in each of the five project regions to host an ICRM center.

30. The municipal governments will be directly responsible for selection, design, and implementation of the infrastructure supports and facilities under component D. DENR and DA will engage project municipalities in participatory resource assessment, establishment and management of marine protected areas, enforcement of laws and regulations, and identification and promotion of alternative livelihoods. The municipal engineering office will be the designated municipal project unit for infrastructure development, while the municipal agriculture office will be the designated municipal project unit for activities related to resource management and biodiversity conservation. These offices will undertake the activities in coordination with the fisheries and aquatic resources management committees, marine watch teams, and other relevant people's organizations in the municipality.

31. DENR will establish a project steering committee (PSC) to oversee and coordinate project implementation. The PSC will be chaired by the secretary, DENR (or his/her authorized

representative); and comprise senior officials of DA and the departments of budget management, interior and local governments, and finance, and National Economic and Development Authority. Municipal and provincial governments will be invited to attend meetings on issues that require their participation. DENR will establish a regional steering committee in each of the region II, III and VII to oversee and coordinate project implementation within the region, and to review and approve municipal ICRM plans including subprojects under component D. The committee will comprise representatives of concerned regional agencies and institutions and participating local governments. The provinces of Davao Oriental and Masbate being far away from respective regional headquarters, DENR will establish a provincial steering committee in these two provinces performing the tasks similar to that of regional steering committees. The project organization chart is given in [Appendix 10](#).

IV. IMPLEMENTATION SCHEDULE

32. The Project will be implemented over 6 years, commencing in early 2007. A summary project implementation schedule is given in [Appendix 11](#).

V. PROCUREMENT

33. Goods and services financed partly or wholly by ADB and GEF will be procured in accordance with the ADB's *Procurement Guidelines*. Except as ADB may otherwise agree, Goods and works shall only be procured on the basis of the methods of procurement set forth below:

- (i) International Competitive Bidding
- (ii) National Competitive Bidding
- (iii) Shopping

34. Equipment to be procured under the Project will consist primarily of office, laboratory and training equipment, motorbikes, utility vehicles, and motorized boats.

35. Contract packages exceeding \$500,000 will be awarded on the basis of international competitive bidding. Each contract costing between \$100,000 and \$500,000 will be awarded through national competitive bidding. Minor equipment and materials costing less than \$100,000 will be procured through shopping.

36. Most civil works under part D of the Project will be carried out using labor-intensive technology, with arrangements for cost-sharing by local communities in the form of labor, local material, or cash. Such civil works packages will be contracted out by the LGUs to the communities following the procedures for community participation in procurement as provided in ADB's *Procurement Guidelines* (April 2006, as amended from time to time), with a contract ceiling of \$10,000. Civil works packages not exceeding \$100,000 will be awarded on the basis of shopping. Civil works packages more than \$100,000 will be awarded on the basis of national competitive bidding. No civil works package is estimated to exceed \$150,000.

37. The methods of procurement are subject to, among other things, the detailed arrangement and threshold values set forth in the Procurement Plan in [Appendix 12](#). The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in the updates to the Procurement Plan.

38. **Domestic Preference.** The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactures Goods.

39. **National Competitive Bidding.** The procedures to be followed for national competitive bidding shall be those set forth in Republic Act 9184 of the Republic of the Philippines, effective 26 January 2003, and Implementing Rules and Regulations, effective 8 October 2003, incorporating amendments as of August 2006, with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the Procurement Guidelines:

i. Eligibility

(a) Eligibility screening as described in the Implementing Rules and Regulations shall not be applied. However, bids that do not contain the following documents will not pass the documentary compliance check if they are a specific requirement of the bidding documents: (i) evidence of the required financial, technical or production capacity; (ii) audited financial statements; (iii) credit line or cash deposit certificate; (iv) bid security; and (v) authority of the bid signatory.

(b) National Sanction list may be applied only with prior approval of ADB.

ii. Advertising

Bidding of National Competitive Bidding contracts estimated at \$500,000 or more for Goods or \$1,000,000 or more for Works shall be advertised concurrently with the general procurement notices on ADB's Website.

iii. Price Ceiling

The approved budget for the contract (ABC) may be published, but it shall not be stated or implied that bid prices shall not exceed the ABC, or that bid evaluation will in any way take into account the ABC. The ABC, budgetary allocation, ceiling price, or similar estimates of contract value shall not be used to reject bids without prior concurrence of ADB.

iv. Domestic Preference

(a) No preference of any kind shall be given to domestic bidders or for domestically manufactured goods.

(b) Suppliers and contractors shall not be required to purchase domestically manufactured goods, supplier or materials.

(c) Foreign suppliers and contractors from ADB member countries shall be allowed to participate, if interested, without first being required to associate with, or enter into joint venture with, local firms.

(d) Foreign suppliers and contractors from ADB member countries shall be allowed to bid, without registration, licensing, or other government authorizations, leaving compliance with these requirements until after award and before signing of a contract.

v. Experience Qualification

For a Works contract, the experience qualification requirement shall be: (i) at least one previous contract at 80% of the estimated cost of the contract being procured; and (ii) an annual turnover from all Works average over the last three years equal to 100% of the estimated cost of the contract being procured.

vi. Bid Security

Bid Security shall be in the form of a bank guarantee from a reputable bank.

vii. Contract Amendment

ADB's concurrence shall be obtained before approving modifications to contracts under implementation where (i) the value of the modification exceeds 15% of contract amount, or (ii) it results in material changes to the conditions in the contract.

viii. ADB Member Country Restrictions

Bidders must be nationals of member countries of ADB, and offered Goods and Works must be produced in and supplied from member countries of ADB.

40. **Community Participation in Procurement.** The Borrower may use community participation in procurement for Works contracts related to reforestation and rehabilitation of watershed and mangrove under Component B and in procurement for Works contracts under Component D in accordance with the agreed procedures set out in the Procurement Plan (Appendix 12).

VI. CONSULTING SERVICES

41. The Project will require an estimated 369 person-months of consulting services: 51 person-months international and 318 person-months national. Except as ADB may otherwise agree, the Borrower shall apply quality- and cost-based selection method in engaging consulting services. The (i) fields of expertise and detailed terms of reference, (ii) steps in the selection process and submission requirements, and (iii) model narrative evaluation criteria are provided in **Appendix 13**. ADB's reference documents on consulting services can be downloaded from <http://www.adb.org/Consulting/documents.asp>.

42. The Project also provides for conducting special studies under components A and B, and for preparing detailed subproject proposals under component D. The Borrower shall apply the single source selection method in engaging consulting services, in accordance with the procedures set forth in the Procurement Plan (Appendix 12).

43. The Borrower shall recruit the individual consultant for enterprise development in accordance with ADB's procedures for recruiting individual consultants.

VII. DISBURSEMENT ARRANGEMENTS

44. For activities to be implemented by DA and DENR, the ADB loan and GEF grant proceeds will be provided through budgetary allocation to these agencies. Activities to be implemented by municipal governments will be jointly financed by the national Government, municipality concerned, and local communities. ADB loan proceeds and national Government

support for activities to be directly implemented by municipalities will be disbursed through the Municipal Development Fund Office (MDFO) of the Department of Finance as a mix of loan and grant.

45. The Department of Finance will establish three imprest accounts: two accounts for DENR (one each for the ADB loan and GEF grant), and one for MDFO (for the ADB loan). The accounts will facilitate timely release of funds for making payments, particularly for expenditures under small contracts. DENR and MDFO will operate and maintain the imprest accounts in accordance with ADB's *Loan Disbursement Handbook*. The advance to the imprest accounts will be limited to 10% of the allocations of DENR and MDFO components financed by the ADB loan and 10% of the grant for the components financed by GEF, or 6 months projected expenditure of the respective components, whichever is less. ADB's statement of expenditure procedure will be followed to liquidate funds advanced to the imprest accounts and will apply to contracts not exceeding \$100,000.

46. The Flow of Funds and Disbursement Modalities including specific arrangements for managing project funds are given in [Appendix 14](#).

VIII. PROJECT PERFORMANCE MONITORING AND EVALUATION

47. A project performance management system (PPMS) will be established at national and regional DENR operations. The Foreign-Assisted and Special Projects Office will be responsible for developing and operating the PPMS with information provided by the PMO and regional offices concerned. The PPMS will encompass the following elements: (i) monitoring of physical and financial progress, as well as the economy and efficiency in achieving major activities; (ii) monitoring of the level and adequacy of participation of various stakeholders in planning and implementing project activities, and the performance of DENR and implementing agencies against the ecogovernance index; (iii) collection of gender-disaggregated data in benchmark surveys and policy and legal studies; (iv) monitoring of the Project's social, environmental, biodiversity conservation, and economic impacts, including the establishment of benchmark information and data; and (v) development of a mechanism for making necessary adjustments in project design and implementation arrangements in light of the PPMS findings. ADB's Project Performance Report (PPR) showing the targets to be monitored is provided in [Appendix 15](#).

48. Consistent with the GEF operational strategy, biodiversity monitoring will pay special attention to species selection, current occurrence, density, and other demographic parameters, including yield studies, regeneration surveys, and actual impacts of harvesting. The Project will coordinate with GEF in designing the monitoring and evaluation of biodiversity. The five ICRM centers will oversee the monitoring and evaluation program. The Project will also coordinate with the European Union-financed Association of Southeast Asian Nations Biodiversity Conservation Center, Philippines, to draw on their experience in developing a biodiversity information monitoring system.

49. The PPMS will provide for baseline, midterm, and completion surveys; and train staff on the proper monitoring of field activities for ICRM and biodiversity, alternative livelihoods, and social and environmental infrastructure. PPMS findings will be incorporated in quarterly project progress reports to be prepared by the PMO within 3 weeks of the end of the reporting period and submitted to ADB and Government oversight agencies and local governments concerned. The Project will establish a website, in English and Tagalog, for wider dissemination of project initiatives and achievements, and to provide a feedback mechanism. The website will draw upon the municipal coastal and MPA databases, and will serve as a depository for ICRM-related reports and publications.

IX. ACCOUNTING, AUDITING, AND REPORTING

50. All agencies involved in project implementation will maintain separate accounts exclusively for project-related disbursements. The PMO will review and consolidate these accounts and have them audited annually in accordance with sound auditing practices by the sovereign audit agency of the Government or other auditors acceptable to ADB. The audit report will include a statement verifying whether or not the funds disbursed by ADB were used for the purpose for which they were provided. The report will include the auditor's opinion on the use of imprest account and statement of expenditure procedure. Copies of the audited accounts and auditor's report will be submitted to ADB within 9 months after the end of each fiscal year. The Sample Audit Letter showing the details of financial and auditing requirements is provided in [Appendix 16](#).

51. Compliance with these financial reporting and auditing requirements will be monitored by review missions and during normal project supervision, and followed up regularly with all concerned, including the external auditor. ADB shall impose the following measures should PMO fail to submit within the due date:

Within six months after the due date: Processing of requests for new contract awards and disbursement such as replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will be put on hold.

Within twelve months after the due date: Disbursement shall be suspended.

52. PMO will submit to ADB consolidated quarterly progress reports on all aspects of project implementation within one month after the related quarter. The reports will detail the achievements related to the implementation schedule, targets and plans for the next reporting period, problems requiring resolution, and steps to be taken to resolve them. The participating agencies will submit quarterly progress reports through the PMO on the progress of its part of the Project. The activities in the Project framework should be used in monitoring the Project's progress. The format and content of the quarterly progress report are provided in [Appendix 17](#).

53. Within 6 months of Project closing, PMO will prepare a project completion report (PCR) for submission to ADB. The report will detail the results and achievements of the Project including an impact assessment, economic and social benefits generated, provide an analysis of the funds spent, and indicate measures to ensure the sustainability of Project investments. The suggested format and content of the PCR are provided in [Appendix 18](#).

X. PROJECT REVIEW

54. In addition to regular monitoring, the project performance will be reviewed at least twice a year jointly by ADB and the Government. The review will assess implementation performance and achievement of project outcomes and objectives, review financial progress, identify issues and constraints affecting the Project, and work out a time-bound action plan for their resolution. In 2009, ADB and the Government will undertake a midterm review of the Project to assess the implementation status; review the project parameters; and take appropriate measures including modification of scope and implementation arrangements, and reallocation of loan and grant proceeds, as appropriate, in light of implementation experience, to achieve the project objectives.

XI. ANTICORRUPTION POLICY

55. ADB's anticorruption policy⁶ was explained to and discussed with the Government and DENR. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project. To support these efforts, relevant provisions of ADB's anticorruption policy are included in the loan regulations and the bidding documents for the Project. In particular, all contracts financed by ADB and GEF in connection with the Project will include provisions specifying the right of ADB to audit and examine the records and accounts of DENR and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

56. The project design and implementation arrangements provide for mitigating corruption risks. Risks associated with project management, including procurement and disbursement, will be mitigated by using national, regional, and field participatory management, and improving transparency and accountability. The cost-sharing arrangement will motivate local governments to strive for economy and efficiency in project implementation, and avoid corrupt practices. Most social and environmental infrastructure and facilities will be developed by beneficiary communities ensuring better use of the allocated funds. In addition, performance of DA, DENR, and local governments will be monitored against the ecogovernance index (para 17).

XII. PROJECT BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS

A. Environmental, Social, and Poverty Reduction Benefits

57. The Project will directly address threats to coral reefs, sea-grass beds, mangroves, and beaches—the major coastal ecosystems. These independent ecosystems perform a wide range of biological and physical functions that underline their environmental, biological, and economic importance. Ensuring their protection is vital to arresting declining fish catch and a potential collapse of coastal fisheries. At project completion, the fish catch outside the no-take zones of the project-supported 50 MPAs is expected to increase by 10% over the baseline; hard coral cover in the 50,000 ha reef areas to increase by 10%; density of the 5,000 ha of mangroves to be brought under improved management practices to improve by 20%; and incidence of destructive fishing in the coastal waters of 68 municipalities to be reduced by 50%. Other immediate benefits from the protection of these marine and coastal ecosystems are prevention of coastal erosion and saline water intrusion into the coastal aquifer, and natural assimilation and treatment of coastal wastes.

58. A major environmental benefit of the Project is protection of the globally significant biological diversity of Philippine waters. The 50 MPAs in the priority marine biodiversity corridors will form a network of reefs and associated coastal ecosystems that harbor unique flagship species and contribute to conservation and management of important marine and coastal species, including humpback whales, thresher sharks, whale sharks, manta rays, banded sea snakes, dolphins, and olive ridley and hawksbill sea turtles. Illegal commercial poaching, overfishing, and destructive fishing being practiced in the MPAs will be eliminated or reduced, and the rich biological diversity conserved.

59. Mechanisms and strategies for beneficiary community participation, such as IEC campaigns, community organization and training, and credit access and enterprise development training, will help transform coastal communities into responsible resource users and managers.

⁶ ADB. 1998. *Anticorruption* (as amended to date). Manila.

IEC and extension programs will result in behavioral changes in coastal communities, particularly in the use of coastal resources, and bring about improvements in reef health.

60. By improving coastal fisheries resources and generating opportunities, the Project will address two of the root causes of rural poverty in the Philippines as identified in ADB's *Poverty Assessment for the Philippines* (2004): (i) weak performance of the agriculture sector, and (ii) low employment-generation capacity of the economy. The decline in coral productivity and related fisheries resources, estimated at 2% per annum, has been directly affecting the real incomes of fisherfolk. The gains from the ICRM component will mostly be within the municipal waters of the 15 km zone, primarily the domain of small fisherfolk and off-limits to commercial fishing under the Fisheries Code of 1998. Community enforcement of regulations mainly through fisherfolk, most of whom are poor, will ensure that the majority of the project gains in terms of fish catch accrue to the poor. Additionally, the improved state of coastal waters will enhance ecotourism potential/values, which will generate employment opportunities in the communities, as experienced under similar ongoing projects. Employment will also be generated through community-driven watershed and mangrove rehabilitation.

61. Improvements in water supply, sanitation, and solid waste management will improve the general health and living environment of disadvantaged coastal communities, and enhance their productive capacity contributing to overall economic development in the area. Infrastructure construction will be undertaken through community contracts that will generate employment opportunities for the local population.

62. Enterprise development activities will lead to improved skills for fisherfolk, enabling them to establish enterprises or seek better employment opportunities. The alternative livelihood and enterprise schemes will relieve pressure on coastal resources, thus preventing their deterioration. Detailed assessments of potential and demand were undertaken in six sample municipalities, which led to identification of 12 representative livelihood/microenterprise activities. Incremental annual incomes net of labor costs from these enterprises are estimated in the range of ₱8,700–₱98,000. The anticipated returns to labor are ₱200/day–₱610/day, which is 1.68%–5.08% of the daily average wage rate of ₱120/day.

63. Improved management of coastal resources together with alternative livelihood and enterprise schemes will benefit about 10,000 fisherfolk families, with an average 10% increase in real household income. The poverty impact analysis in the sample municipalities indicates that about 71% of the net economic gains will accrue to the poor. With 76% of the population in coastal communities living below the poverty line, 61% of whom are employed in fishing, the Project will have a major impact in combating poverty and improving income distribution in the project area.

B. Policy Impact and Institutional Benefits

64. The establishment of an institutional framework for ICRM will remove current deficiencies in national and regional ICRM coordination. A comprehensive ICRM policy will address weaknesses and legal gaps, and promote greater involvement of local governments in developing and managing local resources. Strengthened national, regional, and local institutional capacity will facilitate a participatory approach to resource management, and enhance transparency and accountability in management decisions. Strengthened community organizations such as marine watch teams will be more effective in enforcing laws and regulation in municipal waters. The participatory approach, including the cost-sharing arrangement between national and local governments, will enhance local ownership and sustainability of benefits.

C. Economic Benefits

65. The economic benefits of the Project will be derived from four major sources: (i) coral reef management and conservation, (ii) mangrove rehabilitation and management, (iii) watershed rehabilitation and management, and (iv) livelihood and enterprise development. The quantifiable benefits from coastal habitat (reef and mangrove) can be grouped as follows: (i) fishery values: the net value of sustainably managed commercial reef and mangrove fishery; (ii) local uses: marketed and nonmarketed uses from reefs and mangroves that are not associated with the commercial fishery, for example aquarium trade, gleaning of coral reef flats, small-scale capture fishery, and hunting in mangroves, etc.; (iii) erosion control and waste management: coral reefs and sea grass acting as barriers to destructive wave actions on coastlines, and mangroves protecting coastal zones against destructive typhoons and tidal waves, and managing wastes through assimilation; and (iv) global use values: sustainable export of live fish, international tourism, and aesthetic and biodiversity values of reefs.

66. An economic analysis was undertaken for the Project taking into account expected quantifiable benefits from these four sources of benefits. Valuation of benefits and the methodology for the analysis is given in [Appendix 19](#). The anticipated economic internal rate of return of the Project is estimated at 16.1%; it is not sensitive to cost overruns or incremental benefit shortfalls.

67. Financial analyses were carried out for 12 representative livelihood/enterprise schemes; each scheme is financially viable with financial internal rate of return values between 70% and 200%. The sensitivity analysis shows that enterprises are not very sensitive to output prices or production costs. Evaluation of benefits and the methodology of the financial and economic analyses are given in Appendix 17. Details are provided in the Supplementary Appendix E.

D. Sustainability

68. The participatory principle underpinning the project design and its financing arrangements will help develop a sense of ownership among various stakeholders—particularly local governments and communities—and this, in turn, will enhance the Project's sustainability. Rationalization of sector policy providing greater management responsibility to local governments for foreshore areas and MPAs will enhance sustainability of project initiatives. National, regional, and municipal institutional weakness will be addressed; and government staff, local communities, and NGOs will be strengthened to assume their responsibilities.

69. Analysis of the current budget and expenditure patterns for project municipalities shows that on average, the annual counterpart funding requirements for project activities during project implementation would be about 2% of the revenues and 8% of the development expenditures of an average fourth class municipality—the majority group among project municipalities. During the postproject period, the annual funding requirements to support recurring costs for project initiatives, including operation and maintenance of infrastructure facilities, will be 1% of municipal revenues and 6% of the present development expenditures. Assuming that current trends in funding are maintained, municipal governments will have sufficient resources to sustain the Project's impact.

70. The capacity of municipal governments for sustainable financing of ICRM will be augmented by developing appropriate policy for user fees and resource rents for MPA, mangroves, coral reefs, beaches, foreshore fisheries, and mariculture. The Project provides for undertaking relevant policy studies, formulating recommendations, and pilot testing the recommendations in five municipalities. Successful models will be supported at least in one third of the municipalities during the Project.

E. Risks

71. Risks that may affect project implementation, constrain attainment of objectives, and ultimately impact project success include (i) degradation of the global environment and macroeconomic conditions, (ii) lack of political will to support the ICRMP, (iii) institutional weaknesses, (iv) peace and order situation, and (v) governance and anticorruption.

72. **Degradation of Global Environment.** Global and regional environment conditions (e.g., climate change, disease outbreaks, and coral bleaching) could undermine project gains in resource management and biodiversity conservation. In addition, populations of some severely depleted species in high biodiversity sites may not be restored through project interventions. The project design provides for countermeasures to address this risk. High biodiversity sites have been selected from various biogeographic regions throughout the Philippines; they are expected to respond differently or not be exposed to the same regional or global conditions. The Project will focus on several different threatened species and habitats, and promote the establishment of networks or corridors of MPAs to ensure that the risks are dispersed.

73. **Institutional Weaknesses.** DENR does not have an adequate number of qualified staff for the sector, and the existing moratorium on creating new regular positions may affect project implementation. DENR will address the issue by redeploying staff, enhancing their skills through in-house training, and hiring contractual staff. Provision is made in the project design for enhancing national, regional, and local staff skills, and hiring contractual staff. Moreover, in designing the implementation arrangements, care has been taken to mainstream the project functions and responsibilities into the existing organizational structure of DENR rather than establish new national and regional project management units exclusively for the Project. Institutional weaknesses will be further mitigated by DENR sharing the implementation responsibility with DA and municipal government and academic institutions.

74. **Political Commitment.** Since the early 1990s, the national Government has shown increasing commitment to marine and coastal resources management. Continued Government commitment to the sector is reiterated in the Presidential Executive Order 533 adopting integrated coastal management as a national strategy (para. 20). Local governments are also taking increasing initiatives to manage their coastal resources, and actively participated in project preparation. However, changes in local leadership during project implementation may affect emphasis on the sector. This risk will be mitigated through municipal council resolutions and memorandums of agreement between DENR and MDFO providing binding commitments covering the project period.

75. **Breakdown of Peace and Order.** The 68 municipalities selected for the Project do not currently have serious peace and order problems. If a problem develops in an area, the PSC could decide, in consultation with ADB, to redirect efforts and staff to a more secure area within the province.

76. **Poor Governance.** Good governance assumes an important dimension in the Project because its successful project implementation will require stakeholders concerned at various levels to agree and adjust to the policy and governance regime changes promoted by the Project. Most of the stakeholders have been receptive to these changes; some may be slow in responding to the needs for change during project implementation. The risk will be mitigated by the emphasis on IEC campaigns to be conducted throughout the project period.

XIII. MAJOR LOAN COVENANTS

77. The major and project specific covenants are summarized in [Appendix 20](#). These will be closely monitored and their compliance status will be submitted to ADB with the quarterly progress reports. In addition, the indicators in the Project's Framework are to be monitored regularly as well.

XIV. KEY PERSONS INVOLVED IN THE PROJECT

78. To facilitate communication and coordination of project activities, the names and contact addresses of key persons involved in the implementation of the Project are given below.

| Name and Designation | Institution/Ministry/Address | Fax/Phone/E-mail |
|---|--|--|
| Mr. Urooj S. Malik Director Agriculture, Environment and Natural Resources Division Southeast Asia Department (SEAE) | Asian Development Bank No. 6 ADB Avenue Mandaluyong City Metro Manila, Philippines | Tel: (632) 632-6234 Fax: (632) 636-2231 e-mail: umalik@adb.org |
| Mr. M. Jamilur Rahman Principal Project Management Specialist SEAE | | Tel.: (632) 632-6914 Fax: (632) 636-2231 e-mail: mjrahman@adb.org |
| Ms. Lorna Enjaynes Associate Programs Analyst, SEAE | | Tel.: (632) 632-6914 Fax: (632) 636-2231 email: lenjaynes@adb.org |
| Mr. Won Mo Yang Financial Control Specialist, CTLA-5 Controller's Department (CTL) | | Tel.: (632) 632-4595 Fax: (632) 6326-2602 email: wmyang@adb.org |
| Ms. Ma. Purificacion Liwanag Project Officer, CTLA-5, CTL | | Tel.: (632) 632-6780 Fax: (632) 6326-2602 email: pliwanag@adb.org |
| Atty. Analiza Teh Assistant Secretary Project Management Unit (PMO)/FASPO | Department of Environment and Natural Resources Foreign-Assisted and Special Projects Office (FASPO) Visayas Avenue Quezon City | Telefax: (632) 926-8065 Phone: (632) 926-8074 |
| Ma. Lourdes Ferrer OIC, Director, Project Operations and Management Division | | Telefax: (632) 926-2689 email: ondet_ferrer@yahoo.com |
| Emerita Linda Javillonar Project Management Division | | Telefax: (632) 928-0025 Email: eldjavillonar@yahoo.com |
| Genevieve Padilla OIC Chief, Project Accounts and Management | | Telefax: (632) 927-6755 email: gennypadilla@yahoo.com |
| Mr. Gil Adora, Asst. Director for Technical Services Sandra Victoria Arcamo Chief, Fisheries Resource Management Division | Bureau of Fisheries and Aquatic Resources PCA Building, Elliptical Road Diliman, Quezon City | Fax: (632) 929-4894 |