Validation Report

Reference Number: PCV:PHI 2011-73
Project Number: 24076
Loan Number: 1453
December 2011

Philippines: Bukidnon Integrated Area Development Project

Independent Evaluation Department
Asian Development Bank
ABBREVIATIONS

ADB – Asian Development Bank
BHS – barangay health station
BME – benefit monitoring and evaluation
BRC – Bukidnon Resources Company
CIS – communal irrigation system
EA – executing agency
EIRR – economic internal rate of return
ha – hectare
IADP – integrated area development project
km – kilometer
LGU – local government unit
MHC – municipal health center
NGO – nongovernment organization
NIA – National Irrigation Administration
O&M – operation and maintenance
PCR – project completion report
PGB – Provincial Government of Bukidnon
SDR – special drawing rights

NOTES

(i) In this report, “$” refers to US dollars.

Key Words
adb, agriculture, asian development bank, bukidnon, income generation, integrated rural development, irrigation, livelihood, mindanao, philippines, roads, water supply

Director General  S. Hutaserani, Officer-in-Charge, Independent Evaluation Department, (IED)
Director  Hemamala Hettige, Independent Evaluation Division 2, IED
Team leader  T. Ueda, Senior Evaluation Specialist, IED
Team members  J. Dimayuga, Senior Evaluation Officer, IED
R. Isidro-Cajilig, Evaluation Assistant, IED

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I. PROJECT DESCRIPTION

A. Rationale

1. Bukidnon is one of seven provinces in northern Mindanao, the poorest region on Mindanao island in southern Philippines. In 1994, at the time of project design, 41% of Bukidnon's population was classified as poor. Key issues identified were low and declining levels of labor productivity; lack of employment and income-generation opportunities; and inadequate social services, infrastructure, credit, and access to markets. These factors were impeding the growth of the agricultural economy and exacerbated the disparities in socioeconomic status between the urban and rural populations.

2. The project\(^1\) rationale was based on the premise that the combined efforts of the Provincial Government of Bukidnon (PGB), participating municipalities and barangays (districts or villages), and the target population could be channeled to focus investments on an area to develop income-generating opportunities and improve the quality of life of poor rural communities. This would be achieved through an area-focused approach on a cost-sharing basis. The investments would address two key development constraints in the project area: the lack of adequate rural infrastructure to promote smallholder investments in commercial activities.

\(^1\) ADB. 1996. Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of the Philippines for the Bukidnon Integrated Area Development Project. Manila.
production of vegetables and other high-value crops both for the fresh market and/or for processing; and the lack of basic social services in remote communities.

3. The area-focused strategy was considered to be particularly feasible because farmer preferences, market demand, and climatic conditions in the project area favored high-value crop production. Its geographic focus would also reinforce the provincial agricultural production strategy by targeting specific rural communities in the same areas that lacked social services.

B. Expected Impact

4. The project aimed to increase opportunities for improving the socioeconomic status of poor rural communities in northern Bukidnon. This was envisioned to occur through (i) a 100% increase in fresh and processed vegetables and other produce of northern Bukidnon by 2006, (ii) a 140% net increase in the average household income of direct beneficiaries of the project’s investments in agricultural production, (iii) significant improvement in the health and nutrition status of targeted communities by 2006, and (iv) an economic internal rate of return (EIRR) of 21.7%.

C. Objectives or Expected Outcomes

5. Project investments would lead to (i) increased and sustained production of vegetables and other high-value crops at five target sites, and (ii) improved delivery of and access to basic social services for 5,000 households. The mentioned outcomes would be measured by the achievement of the following: (i) increase in the area planted with vegetables/high-value crops from 750 hectares (ha) in 1996 to 2,300 ha by 2003, (ii) increase in contract growing with agroprocessing companies, (iii) increase in preschool children attending day care centers in 35 barangays by 2000, (iv) access to clean domestic water supply for an additional 10,000 households in four target municipalities by 2000, (v) attaining a 1:3,000 ratio of barangay health stations to population in 27 barangays by 2001, and (vi) reduction in travel time to the nearest municipal health center (MHC) by 3 hours to less than 1 hour. The process through which project activities would be implemented was also intended to produce an intangible but significant result: strengthened local government units (LGUs) and community-level capacity to initiate and manage development activities and to collaborate with private investors to produce and market high-value crops.

D. Components and/or Outputs

6. The project comprised four components: (i) development of rural infrastructure, including five communal irrigation systems (CISs) and rehabilitation/extension of about 80 kilometers (km) of farm-to-market roads; (ii) community development support services, including agricultural extension and credit services; (iii) social services, including the construction of about 27 barangay health stations (BHSs), 3 MHCs, 4 rural water supply systems, and 35 day care centers; and (iv) strengthening the implementation capacity of PGB and other LGUs through provision of training and consulting services.

E. Provision of Inputs

7. The project expenditure totaled $6.5 million (17.5%) compared with the planned cost of $37.3 million. Underexpenditure was particularly pronounced in the infrastructure (i.e., civil works) component, with around $5.8 million expended of the planned $30.6 million. Due to the cancellation of most of the CISs and rural roads, only 6.1% of the budget was spent for rural
infrastructure. The rural roads component was terminated after the completion of 11.5 km of farm roads. Expenditures on project management and institutional development were also substantially reduced due to the cancellation of investment activities.

F. Implementation Arrangements

8. The executing agency (EA) was PGB, and the implementing agencies were the seven municipalities, 115 barangays, National Irrigation Authority (NIA), and Department of Agriculture. A project advisory committee was formed to advise the provincial governor on, and identify solutions to, policy-related and interagency coordination issues pertaining to project implementation. Nongovernment organizations (NGOs) were also engaged to assist with community organization and training activities and provided technical assistance for the implementation of specific project components.

9. According to para. 32 of the project completion report (PCR), the government did not comply with several loan covenants, including those obligating it to enter into memoranda of agreement with the Land Bank of the Philippines for providing production loans and with NIA for CIS operation and maintenance (O&M), due to the cancellation of the CIS component. The project partly complied with some covenants: (i) the flow of project funds was slow, impairing implementation; (ii) most required reports were delayed, while a government PCR was not prepared; (iii) the project did not appoint a local consultant experienced in project management to fill the project director post, appointing one of its existing staff members instead; (iv) the project advisory committee did not meet regularly, because senior staff were too busy; and (v) the benefit monitoring and evaluation (BME) system was not implemented as envisaged.

10. Overall, consultant performance was partly satisfactory. Problems were experienced with the (over-) design of roads, with excessive costs, and with poor contractor supervision, leading to cancellation of the roads component with only 11.5 km completed. The PCR reports poor performance by the CIS component consultants and overall dissatisfaction by the EA with consultant performance (footnote 2, paras. 28 and 34). Prior to the midterm review, the contracts of several consultants were suspended by the PGB due to alleged nonperformance. The details of what happened are not provided in the PCR, nor in the project files. This situation was never fully resolved, and the PCR reports (footnote 2, para. 35) that final payments to these consultants were still outstanding as of mid-2009.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

11. The project was fully consistent with both government and Asian Development Bank (ADB) policies in the mid-1990s. However, the design was not thorough. Using small-scale technical assistance was justified on the basis of the substantial work undertaken to prepare the private sector Bukidnon Resources Co. (BRC) project. The use of the integrated area development approach can also be questioned in retrospect. Although by the time of final design (in 1996), the project had been simplified and substantially reduced in cost, there remained a risk that the PGB would be more enthusiastic about some components than others. Added to this was the fact that the road and irrigation loan components had an interest rate of

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14% in local currency, while other components would be grant-funded. The high interest rate plus the requirement to invest around $12 million of provincial funds made the main project components unattractive to the PGB. It saw little chance of recovering either principle or interest from road users or irrigators (who might be able to pay for O&M but not much more). Some aspects of this issue were identified during all stages of the design process. In the context of the low willingness and ability of the PGB to meet its financial commitments and the changed agricultural economy by the time of project completion, this validation rates the project as less relevant, similar to the PCR’s rating.

B. Effectiveness in Achieving Project Objectives

12. The validation also concurs with the PCR’s rating of less effective, given that the outputs were not fully realized as planned. Although substantial design and preliminary work was undertaken, no drip irrigation systems were constructed. Only 11.5 km of farm-to-market roads were upgraded out of a planned 82 km. Information on the capacity of the local government to maintain its roads is not available. The PCR (footnote 2, para. 43) reports that the province has prioritized health care and social services, has built upon the initial investment provided by the project to expand to wider coverage in the province, and has staffed facilities with highly trained medical personnel. At the village level, the 35 day care centers, 23 BHSs, and 1 MHC provided under the project bring the provincial network to 1,035 day care centers, 351 BHSs, 15 provincial health stations, and 8 hospitals. Of the four planned water supply projects envisioned by the project, two were completed (Baungon and Libona) and are used by 7,560 households. One water supply system (Manolo Fortich) was implemented but is nonfunctional. Implementation of the Talakag water supply project was still ongoing under the provincial budget at the time of the PCR (June 2009).

13. Economic sector investments were ineffective or non-existent. In practice, greater concentration on irrigation and crop production may have also been of benefit to the PGB, following its purchase of the BRC plant in about 2002, reported by the midterm review mission. It is, however, unclear what the status of the plant is, as it is not mentioned on the PGB’s website among the provincial agroprocessing enterprises.

C. Efficiency of Resource Use in Achieving Outputs and Outcomes

14. The project appointed adequate numbers of staff to the project management office (footnote 2, Appendix 1), but overall process efficiency was limited. In terms of economic performance, as the PCR states, the investment of $1.9 million in the irrigation component was largely wasted, with little if any positive economic impact. The PCR concludes that the road upgrading program was efficient, with an EIRR of 20%. No information is available on the economic efficiency of the social sector investments (e.g., consumer surplus or willingness to pay). Overall, the project is rated by this validation as less efficient, similar to the PCR.

D. Preliminary Assessment of Sustainability

15. Sustainability is a difficult concept in the context of this project. There is no reason to assume, based on available information, that the social sector investments completed will not be sustainable, particularly in the health sector, where budgetary support by the PGB and PhilHealth (the government health insurance corporation) is reported by the PCR to be strong. The non-operation of one of the three completed water supply schemes reported by the PCR (footnote 2, para. 44) is a concern, and additional information on the current status of all four schemes would be useful to assess their sustainability. The issue with respect to sustainability
relates mainly to the failure to complete much of the economic sector program. In this case, the total investment was 17% of the target, with rural infrastructure at just 6% of the target of $22 million (Table 1).

<table>
<thead>
<tr>
<th>Component</th>
<th>Appraisal Estimate</th>
<th>Actual</th>
<th>% of Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Infrastructure</td>
<td>21,909</td>
<td>1,330</td>
<td>6%</td>
</tr>
<tr>
<td>Community Development</td>
<td>5,824</td>
<td>34</td>
<td>1%</td>
</tr>
<tr>
<td>Social Services</td>
<td>6,729</td>
<td>4,021</td>
<td>60%</td>
</tr>
<tr>
<td>Project Management and Institutional</td>
<td>2,108</td>
<td>1,029</td>
<td>49%</td>
</tr>
<tr>
<td>Development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Project Cost before Service Charge</strong></td>
<td><strong>36,570</strong></td>
<td><strong>6,414</strong></td>
<td><strong>18%</strong></td>
</tr>
<tr>
<td>Service Charge during Implementation</td>
<td>721</td>
<td>99</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37,291</strong></td>
<td><strong>6,513</strong></td>
<td><strong>17%</strong></td>
</tr>
</tbody>
</table>


16. This validation agrees with the PCR that the social sector components are likely sustainable, which the PCR uses as the basis for rating the entire project. The validation considers that it is difficult to ascribe high sustainability to a project that is both less effective and less efficient, with major components not completed, and the project is consequently rated here less likely sustainable.

E. Impact

17. In the absence of substantial economic sector investment, the project impact has been moderate. Some benefits resulted from the extensive farmer training programs, but yields and farming practices are reported by the PCR to be little changed from the preproject situation. Tomato yields, for example, are around 19 tons per hectare (t/ha), compared with a target of more than 50 t/ha. Positive environmental impact was less than planned, due to the dropping of the catchment reforesting activity, now being continued slowly by the Department of Environment and Natural Resources. The PCR (footnote 2, para. 51) also reports that the target of issuing land titles to 500 lumad (indigenous people of Mindanao) households was only partly achieved; to date, the province has issued five collective "mother" certificates for 34,143 households but has issued no individual titles. Overall, the impact of the project on poverty reduction was limited, but in areas where roads were upgraded some positive impact is likely (based on the high EIRR). Families living in the area of the health and community infrastructure also have been benefited.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

18. The PCR rates the performance of the borrower and executing agency partly satisfactory (footnote 2, para. 36), which the validation concurs with. The PCR identifies a major reason for this as the failure of the PGB to appoint a consultant as project director when the first director died. The termination of consulting and NGO contracts meant that tasks had to be undertaken by project management office staff, but they were not undertaken effectively at all. The executing agency and/or implementing agency failed to submit a PCR. The hesitation of the EA to borrow at the high municipal development fund interest rate needed to be communicated much earlier, to see if new financing channels could have been defined. The PGB did make significant efforts to meet its own financial obligations under the project, ultimately contributing almost $4 million or 60% of the total
actual project cost.

B. Performance of the Asian Development Bank

19. The PCR rates the performance of ADB as unsatisfactory, given its poor attention to project design issues. It notes (footnote 2, para. 38) that the failure to execute a major change in project scope when the BRC tomato-processing factory defaulted on its ADB loan in October 1996 (and closed in 1998) represented a significant shortcoming. ADB’s ability to monitor the project effectively was constrained by the inability to undertake field review due to the ban on travel by staff to the Autonomous Region of Muslim Mindanao (ARMM) (footnote 2, para. 37). While Bukidnon is in Region X and is not part of ARMM or the Special Zone on Peace and Development, travel under the then-government was restricted in much of Mindanao. The validation concurs with the PCR rating, and considers that much earlier review and redesign was required if the project was to succeed.

C. Others

20. The project’s limited investment in the economic sectors means that potentially negative impacts in relation to, e.g., environment and resettlement were negligible. The lack of catchment reforestation under the project suggests that the positive impact was less than planned. Drip irrigation is also generally an environmental positive, and it is unfortunate that investment did not proceed from that perspective. The construction of day care centers and clinics is likely to have been on public land or land donated voluntarily, though project documents do not confirm this (or report any resettlement issues).

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

21. This validation rates the project partly successful based on ratings against the core evaluation criteria of less relevant, less effective, less efficient, and less likely sustainable. The PCR’s overall rating is also partly successful. It is noted that the PCR’s rating of relevance in the text (footnote 2, para. 42) is less relevant, the same as in the computation table in Appendix 10. However, the numerical rating for relevance in the said table is incorrect (should be a “1”), which would yield an aggregate score of 1.2, compared with the 1.4 currently stated in the appendix. The validation estimates a total score of 1.0.

Table 2: Overall Ratings

<table>
<thead>
<tr>
<th>Criteria</th>
<th>PCR</th>
<th>IED Review</th>
<th>Reason for Disagreement/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance:</td>
<td>Less relevant</td>
<td>Less relevant</td>
<td></td>
</tr>
<tr>
<td>Effectiveness in Achieving Outcome:</td>
<td>Less effective</td>
<td>Less effective</td>
<td></td>
</tr>
<tr>
<td>Efficiency in Achieving Outcome and Outputs:</td>
<td>Less efficient</td>
<td>Less efficient</td>
<td></td>
</tr>
<tr>
<td>Preliminary Assessment of Sustainability:</td>
<td>Likely</td>
<td>Less likely</td>
<td>For social sector components that were implemented, sustainability is reported to be adequate. The validation nonetheless considers that, since only around 17% of planned expenditure was realized, sustainability must be considered limited.</td>
</tr>
<tr>
<td>Borrower and Executing Agency:</td>
<td>Partly satisfactory</td>
<td>Partly satisfactory</td>
<td></td>
</tr>
<tr>
<td>Performance of ADB:</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td></td>
</tr>
<tr>
<td>Impact:</td>
<td>Relatively Moderate</td>
<td>Irrigation- and road-related impacts minimal, health impacts significant.</td>
<td></td>
</tr>
<tr>
<td>Criteria</td>
<td>PCR</td>
<td>IED Review</td>
<td>Reason for Disagreement/Comments</td>
</tr>
<tr>
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<tr>
<td>small impact on poverty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall Assessment:</td>
<td>Partly successful</td>
<td>Partly successful</td>
<td></td>
</tr>
<tr>
<td>Quality of PCR:</td>
<td>Satisfactory</td>
<td>See below.</td>
<td></td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, IED Independent Evaluation Department, PCR = Project Completion Report.
Source: ADB IED.

B. Identification of Lessons

22. The PCR identifies a number of useful lessons, now integrated into ADB’s project planning and processing systems. Many of the technical lessons learned highlight the need for greater attention to design issues at the project formulation stage.

23. This validation considers that the last lesson (i.e., The province’s limited budget resources in the end became a key consideration in the provincial government’s decision to cancel the irrigation and rural roads components so that more resources could be channeled into high priority investments) leads to perhaps an even more important lesson—that the financial impact of projects on local governments needs to be carefully assessed. It seems clear in retrospect that the province could never have been expected to meet the financial requirements of the project—to invest $12 million of its own resources, and to pay high interest on $14 million borrowed from Mindanao Development Fund. The lesson from this is that, unless viable options can be found for funding local investments, a project should not proceed.

C. Recommendations for Follow-Up

24. A number of useful project-related recommendations are made by the PCR (footnote 2, para. 62).

25. The recommendations made by the PCR are sound and merit consideration by ADB and the government. This validation questions whether integrated area development projects (IADPs) are the best modality for area development and poverty reduction in the Philippines and elsewhere in the region. A careful review should be undertaken prior to future project planning regarding this type of project. Under ADB’s portfolio, the First and Second Palawan IADPs were rated partly successful, while the Sorsogon IADP earned a successful rating due to its contribution to poverty reduction. IED recommends that the Southeast Asia Department look at the relevance and effectiveness of the IADP approach in the Philippines, taking also into account the experience of other aid agencies in the same area, during the country programming and sector analysis.

26. It is noted that that the report and recommendation of the President’s supplementary appendixes could not be located. While it is recognized that electronic document storage is now much improved, it is recommended that PCR missions should locate key project documents, including supplementary appendixes and project preparation technical assistance reports, and ensure that these are available. Where key documents cannot be located, this should be mentioned in the PCR.
V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

26. The BME was not implemented effectively. A BME system was designed by consultants but not implemented. The baseline survey was not completed until near the end of the project in 2002. Planned follow-up annual or biennial surveys were not warranted or undertaken in the light of the non-implementation of the economic sector components.

B. Comments on Project Completion Report Quality

27. IED assesses the quality of the PCR satisfactory:
   (i) the PCR fully follows Project Administration Instruction 6.07, and
   (ii) the PCR indicates that the project was cancelled at the request of the PGB. However further discussion of the reasons for the cancellation would have been useful.

28. The lessons and recommendations are considered appropriate and relate well to the PCR's analysis.

C. Data Sources for Validation

29. This validation utilized the report and recommendation of the President, back-to-office-reports and aide memoires of ADB missions, the PCR, and project files.

D. Recommendation for Independent Evaluation Department Follow-Up

30. Given the limited extent of implementation of key components under the project and its early closure, no follow-up is indicated.
REGIONAL DEPARTMENT’S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT

On 19 December 2011, Director, IED2, Independent Evaluation Department (IED), received the following comments from the Environment, Natural Resources and Agriculture Division of the Southeast Asia Department.

We have reviewed IED’s earlier draft project completion report validation report and its final draft. We appreciate that IED is revisiting the validation guidelines, and would like to suggest that in cases such as this, where a project was largely cancelled, but certain components were successful, the successful development impacts could be recognized in a positive manner. We have no further comments.