Validation Report
July 2021

Philippines: Agrarian Reform Communities Project II

Reference Number: PVR-789
Project Number: 37749-013
Loan Numbers: 2465 and 8238

Independent Evaluation ADB

Raising development impact through evaluation

ABBREVIATIONS

ADB	–	Asian Development Bank
AED	–	agriculture and enterprise development
ARB	–	agrarian reform beneficiary
ARC	–	agrarian reform community
ARCP	–	Agrarian Reform Communities Project
ARMM	–	Autonomous Region in Muslim Mindanao
CDD	–	community-driven development
DAR	–	Department of Agrarian Reform
DMF	–	design and monitoring framework
EIRR	–	economic internal rate of return
GAP	–	gender action plan
IPDF	–	Indigenous Peoples Development Framework
km	–	kilometer
LBP	–	Land Bank of the Philippines
LGU	–	local government unit
M&E	–	monitoring and evaluation
MDFO	–	Municipal Development Fund Office
MTR	–	midterm review
NDAP	–	National Disbursement Acceleration Program
NPCO	–	National Project Coordination Office
OFID	–	Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development
PBGS	–	performance-based grant system
PCR	–	project completion report
PPMS	–	project performance management system
RRP	–	report and recommendation of the President to the Board of Directors

NOTE

In this report, “$” refers to United States dollars.

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PROJECT BASIC DATA

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<tr><td>Project number</td><td>37749-013</td><td>PCR circulation date</td><td colspan="2">21 Dec 2020</td></tr>
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Rural market infrastructure
Rural water policy, institutional and capacity development
Rural water supply services</td></tr>
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<tr><td colspan="2">Involuntary resettlement</td><td colspan="2">B</td></tr>
<tr><td colspan="2">Indigenous peoples</td><td colspan="2">A</td></tr>
<tr><td>Country</td><td colspan="2">Philippines</td><td>Approved
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($ million)</td></tr>
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<tr><td rowspan="4">OCR: 70.00</td><td>Loan (2465)</td><td>70.00</td><td>45.14[b]</td></tr>
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—</td><td>31 Dec 2017

19 Aug 2019
15 Jan 2020</td></tr>
<tr><td>Project officers</td><td>
M. Mitra
A. Musa
K. Hee Ryu
P. Ramachandran
M. Mongiorgi-Lorenzo
P. Long
S. Setboonsarng
L. Leung
A. Mukhamedyarova</td><td>Location
ADB headquarters
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Jan 2009
Nov 2009
Oct 2012
Dec 2013
Apr 2014
Jul 2016
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<tr><td>IED review
Director
Team leader</td><td colspan="4">
N. Subramaniam, IESP
G. Kilroy, Evaluation Specialist, IESP[c]</td></tr>
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ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IESP = Sector and Project Division, OCR = ordinary capital resources, OFID = Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development, PCR = project completion report.

[a] Includes interest, taxes and duties during construction cost.

[b] Based on the PCR data, page ii on ADB loan.

[c] Team members: R. Brockman (quality reviewer), F. De Guzman (Senior Evaluation Officer), J. Lette and T. Hopkins (consultants).

I. PROJECT DESCRIPTION

A. Rationale

1. The Government of the Philippines initiated the Comprehensive Agrarian Reform Program in the late 1980s to distribute public lands suitable for agriculture to eligible agrarian reform communities (ARCs). From 1999 to 2007, the Asian Development Bank (ADB) funded the Agrarian Reform Communities Project[1] (ARCP) through the Department of Agrarian Reform (DAR) by supporting ARCs in local development planning and addressing constraints on agricultural production and infrastructure.

2. The Agrarian Reform Project II (ARCP II or the project) sought to address the challenges of rural poverty reduction and stimulating agricultural growth. The project built on the success of the first ARCP, which decentralized project implementation to DAR regional offices, local government units (LGUs), and ARCs. The ARCP assisted in the development coverage of 165 ARCs in 35 provinces. Decentralization of project implementation to DAR regional offices, LGUs, and ARCs was useful in raising local ownership and resources for subproject planning and execution. Diversification of farm production by the project through demonstration assisted agrarian reform beneficiaries (ARB) to move from low-value crops to higher-value products and better markets. Irrigation development resulted in improved yields and crop intensification. The project demonstrated that providing improved physical infrastructure and transportation to ARCs resulted in connections with bigger and more distant markets and social services. Institutionally, the ARCP showed the need for ensuring regular budgetary releases for project implementation and ensuring high standards of governance and fiduciary responsibility. Implementation of ARCP showcased the need to build the capacity of ARBs and ARC organizations in financial management and improved accountability.[2]

3. Responding to a request of the Government of the Philippines, ADB approved a $70.0 million loan for financing the ARCP II in October 2008. The project was designed to support the implementation of the Comprehensive Agrarian Reform Program by facilitating access of target communities to support services and markets. It was to cover 152 ARCs and 11 ARC clusters in 19 of the poorest provinces of the southern Philippines[3] and assist some 150,000 persons in 44,000 households. It aimed to transform beneficiaries from subsistence farmers into agribusiness entrepreneurs.

B. Expected Impacts, Outcome, and Outputs

4. The project's expected impact, as shown in the design and monitoring framework (DMF) of the report and recommendations of the President (RRP),[4] was reduced poverty and sustained improvements in incomes and quality of life in ARBs and non-ARBs in approximately 152 ARCs and 11 ARC clusters. The project's envisaged outcome was improved well-being of

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[1] ADB. 1998. *Report and Recommendation of the President to the Board of Directors: Proposed loan for the Agrarian Reform Communities Project in the Philippines.* Manila.

[2] IED. 2012. *Validation Report: Agrarian Reform Communities Project*. Manila: ADB.

[3] The project targeted the following provinces of Southern Luzon, Visayas and Mindanao: Basilan, Camarines Norte, Camarines Sur, Eastern Samar, Lanao Del Sur, Leyte, Maguindanao, Marinduque, Negros Occidental, Northern Samar, Romblon, Shariff Kabunsuan, Sorsogon, Sulu, Tawi, Tawi, Western Samar, Zamboanga del Norte, Zamboanga del Sur, and Zamboanga Sibugay. In 2012, Marinduque and Shariff Kabunsuan were replaced by Oriental Mindoro and Palawan.

[4] ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan on Agrarian Reform Communities Project II in the Philippines.* Manila.

poor and marginalized groups in the target communities.[5] During implementation, minor revisions were made to the DMF to make the original targets time-bound and added a third one for increasing incomes of ARBs.

5. There were four outputs:[6] (i) community-driven development (CDD) approach used by ARCs, (ii) agricultural productivity and incomes improved, (iii) access to irrigation and markets improved, and (iv) project implementation and management. The first three outputs were revised later to community-driven development, agriculture and enterprise development (AED), and rural infrastructure development, respectively, while the outcome added capabilities to well-being of poor and marginalized groups.

C. Provision of Inputs

6. The project was approved in October 2008. The loan was signed in December 2008 and became effective in March 2009. Loan closing was scheduled for June 2015. The project was completed in December 2017, three years later than planned. The financial closing of the ADB loan was in August 2019 and that for the OPEC Fund for International Development (OFID) in January 2020, since the government needed time to refund unused advances. The project completion report (PCR) noted that the closing date was extended for three consecutive years at the borrower's request, due to delays in implementing rural infrastructure development subprojects.[7]

7. At appraisal, the estimated total project cost was $208.4 million and to be funded by a $70.0 million loan from ADB, $30.0 million loan from OFID, and a government contribution of $108.4 million—$52.4 million from DAR and $56.0 million through LGU equity. Actual project expenditure was $118.7 million or 57% of the planned costs. Of this, 38% was financed by the ADB loan ($45.1 million), 7% by the OFID loan ($8.8 million), 19% by the national government ($23.1 million) and the remaining 35% by LGUs or $41.6 million. The CDD component spent only 20% of its estimated budget since the national government used $20.0 million of its own resources through the performance-based grant system (PBGS). Overall expenditures were less than the estimated budget due to a low demand from LGUs for rural infrastructure and the need for LGUs to shoulder higher equity contributions. The security concerns in the Autonomous Region in Muslim Mindanao (ARMM) led to the low utilization (29.4%) of the OFID loan. There were two partial loan cancellations: (i) $3.0 million from the ADB loan, approved in October 2014 and (ii) $8.4 million from the OFID loan in August 2016. At financial closing, about $21.8 million of ADB loan proceeds and $12.8 million of OFID loan were undisbursed.

[5] The term 'capabilities' was added in the design and monitoring framework at the midterm review.
[6] Subcomponent summary 1: CDD to assist 152 ARCs and 11 ARC clusters to (i) establish and set up community-based groups for planning, training, microfinance, and technology transfer; (ii) develop detailed plans to be implemented by the participating local organizations (iii) conduct training on participatory planning, financial management, and fiduciary requirements of ADB and national government. Subcomponent summary 2: agriculture and enterprise development (AED) component aimed at (i) crop yield improvement; (ii) adoption of value-adding activities local producers and entrepreneurs;(iii) improved land titles issued to about 22,000 ARBs; (iv) MFIs assisted to pilot-test their agriculture-based microfinance products in the ARCs; (v) at least 15,000 ARB and non-ARB borrowers enabled to access to credit and savings facilities. Subcomponent summary 3: rural infrastructure component targeting the (i) construction of 1,925 km of farm-to-market roads and bridges (ii) rehabilitation and construction of small-scale irrigation systems serving about 12,375 hectares of farmlands(iii) provision of post-harvest processing facilities in communities.
[7] ADB. 2020. *Completion Report: Agrarian Reform Communities II in the Philippines.* Manila.

8. National consultant services of 3,574 person-months were contracted, i.e., only 61% of the estimated 5,860 person-months.[8] Two international consultants were contracted for 30 person-months as planned at appraisal. National consultants comprised 72 individuals for 1,545 person-months, and five consulting firms were contracted for 2,029 person-months. The PCR noted that DAR did not recruit many individual consultants since they were already in place and the government budget for the project lapsed in 2016. Instead of contracting nongovernment organizations under output 1, DAR opted to use in-house expertise.

9. The project was categorized as B for both environment and involuntary resettlement safeguards, and category A for indigenous peoples. An indigenous peoples development framework (IPDF) was prepared, based on participatory consultations and in line with ADB's Policy on Indigenous Peoples (1998) and local legislation. About 475 subprojects consisting mainly of small-scale rehabilitations of communal irrigation and potable water systems, farm-to-market roads (FMRs), and social infrastructure were assessed in accordance with the safeguards manual. One hundred twenty (120) initial environmental examinations were prepared, and 259 certificates of non-coverage were issued. There were 186 required environmental management and monitoring plans (EMMPs) with mitigation measures to address issues including soil erosion, loss of access, waste management, occupational and community health and safety, and monitoring requirements. No significant adverse impacts were reported during civil works. A multi-level grievance redress mechanism up to the level of the National Project Coordination Office (NPCO) was established. No formal complaint reached the NPCO since the few complaints received were resolved at the *barangay* and LGU levels.

10. On involuntary resettlement, 177 subprojects out of a total of 475 infrastructure subprojects had project affected persons (PAPs). These PAPs were compensated with an aggregate amount of $86,125 for the affected portions of and/or improvements of their lands, such as trees and crops. There were no reported grievances related to subproject construction raised to the NPCO. An indigenous peoples development framework (IPDF) was prepared with full participatory consultation. The indigenous peoples comprised 1,000–1,400 households of the total project target of 150,000 households. Rehabilitated FMRs improved the mobility of indigenous peoples and made the transport of farm products to the market and access to health and social services easier. The indigenous peoples' decision-making practices were respected all throughout the project development process. All rural infrastructure subprojects were required to secure certificates of non-overlap or certification precondition from the National Commission on Indigenous Peoples. The number of indigenous peoples participating in project training and meeting was not reported, although IPDF required 50% indigenous peoples' participation.

11. The project was categorized as having some gender elements in view of its potential to improve women's access to opportunities and services provided by the project's components including infrastructure, AED and CDD. A gender action plan (GAP)[9] was prepared by the executing agency with eight target areas.[10] At completion, the PCR reported all GAP targets

[8] Footnote 4. The RRP (para. 68) indicated that 1,230 person months of consulting services were expected to be deployed. Based on the comments of the SEER/SERD, during PCR validation interdepartmental review (16 June 2021), PCR (para. 22) indicated that the project envisaged 5,890 person-months of consulting services at appraisal (5,860 person-months of national consultants and 30 person-months of two international consultants). The same para. also explained the under-utilization of estimated consulting services. It noted that during implementation, the executing agency did not proceed with the recruitment, since most of the individual consultants were already in place and the project's government budget lapsed in 2016.

[9] Footnote 7, Appendix 9.

[10] Gender targets: (i) availability and access of men and women to new or additional sources of income and credit; (ii) women–led community initiated and implemented projects per ARC; (iii) gender equity in leadership in ARC

were achieved, including 41% of total land titles which were awarded to female ARBs. About 45% of beneficiaries of project training were women compared with the target of 33%. Also, social infrastructure subprojects were designed to be gender friendly.[11] Seven out of 18 participating value-adding enterprises, supported under the AED component, were led by females, although women were less represented in accessing project supported credit than their male counterparts.[12]

D. Implementation Arrangements

12. Implementation arrangements did not change from appraisal. DAR was the executing agency that supervised the project implementation through the Foreign Assisted and Special Projects Office. A project executive committee was established, chaired by the DAR secretary. The National Project Coordination Office (NPCO) was also set up. Implementing agencies were all participating municipal LGUs and DAR offices at the regional and provincial levels, other national government departments,[13] and the private sector. The LGU project offices were chaired by the municipal mayors. Loan proceeds were released through the Department of Finance which, in turn, released funds to DAR and the Municipal Development Fund Office (MDFO). DAR, as the executing agency, was responsible for fund disbursement for all project activities. The MDFO, under the Department of Finance, was responsible for the transfer of project funds required under the rural infrastructure component directly to LGUs. DAR provided the MDFO with the necessary information needed from the LGUs to facilitate fund disbursements. An ARMM regional project office was established in Cotabato City with local offices established in each ARMM province. The MDFO transferred funds directly to the LGUs for rural infrastructure projects in project provinces and the DAR national office transferred funds directly to DAR-ARMM. The PCR noted that implementation arrangements were appropriate. However, LGU capacity limitations and the high counterpart contributions impeded project implementation. The government response was to allow access of qualifying LGUs to two instruments: (i) a PBGS, and (ii) the National Disbursement Acceleration Program (NDAP) to assist in partially meeting their 50% equity requirements under the rural infrastructure output. Under the PBGS, participating LGUs received a capital grant up to 20% of the total cost of rural infrastructure subproject after an assessment of their performance. Over 900 million Philippine pesos (PHP) was approved for 116 LGUs but only PHP500 million was released to 96 LGUs by the end of 2018. In addition, the government assisted LGUs through the NDAP, which channeled a 25% equity grant to the LGUs. However, the NDAP was discontinued from June 2014, following the Supreme Court decision declaring it unconstitutional.

13. The PCR noted that two of the 28 loan covenants were not fully or partially complied with. Noncompliance related to the contracting of nongovernment organizations and microfinance institutions for CDD. DAR had sufficient internal capacity to implement this component using its own credit program through the Land Bank of the Philippines (LBP). The

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Peoples' Organizations per percentage of women in the Peoples' Organizations' leadership; (iv) gender disaggregated data on project beneficiary adopters of project introduced technology; (v) design of infrastructure projects are gender-friendly; (vi) data and documentation of benefits of men and women to economic opportunities and/or employment in infrastructures construction and maintenance; (vii) data and documentation of men and women given access to training on operations and maintenance of infrastructure projects and other skills not traditionally known to women; (viii) 100% of staff (NPCO, RPO, PPO, MAROs, development facilitators), key implementers and at least 50% of beneficiaries attended training on gender sensitivity.

[11] Ground floor health stations and day care centers, and potable water fixture in safe and accessible spaces.

[12] Under the Agrarian Productivity Credit Program (APCP), 31.9% received loans, and under the Agri-enterprise Credit and Agri-finance Services (AgriCASH) program approximately 16.6% received microloans.

[13] Including Department of Agriculture (DA), Department of Trade and Industry (DTI), Department of Environment and Natural Resources (DENR), and Department of Public Works and Highways (DPWH).

loan covenant concerning audited project financial statements (APFS) was partially complied with at project closure—the final APFS submitted on 19 November 2020 required revisions, but the Commission on Audit was unable to review the documents due to the COVID-19 pandemic.

14. Risks highlighted at appraisal included (i) the lack of timely budget releases from the government, (ii) security-related concerns in project in ARMM due to local conflicts, and (iii) weak governance. The borrower provided assurances regarding the avoidance of budget delays. Governance-related risks were to be mitigated through close monitoring and capacity development of the LGUs' procurement of goods and services.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

15. The PCR rated the project relevant, indicating it was aligned with the government's Medium-Term Development Plan (2004–2010)[14] to reduce poverty through rural economic growth; the Agriculture and Fisheries Modernization Act 1997;[15] and the Local Government Code 1991.[16] The project was aligned with ADB's past and current country strategies and programs supporting inclusive growth and sustainable economic development.[17] It also built on the lessons of the first ARCP. However, the project was not aligned with the government's policy[18] for cost-sharing with LGUs for infrastructure development.[19]

16. Minor changes were made to the DMF's performance targets during the midterm review (MTR), including the rewording of one target in the CDD component to highlight the strengthening of local people's organizations. Two performance targets were amended for the AED component to focus ARBs on being more market- rather than production-oriented and include the preparation of up to five long-term regional value chains and 19 local market-led value chain development assessments and action plans. The target to assist 15 micro-finance institutions (MFI) to pilot test their products was removed at the MTR stage since DAR utilized its own lending program with the Land Bank of the Philippines. No changes were made to the rural infrastructure component.

17. The RRP noted that the national government policy limited grant financing of LGU projects to a maximum of 50% of cost, including the project's rural infrastructure development component.[20] Project design was based on the 10–20% equity share from the LGUs, as

[14] Government of the Philippines. 2004. *Medium Term Philippine Development Plan 2004–2010.* Manila.
[15] Government of the Philippines. 1997. *Republic Act 8435: The Agriculture and Fisheries Modernization Act (1997)*. Manila.
[16] Government of the Philippines.1991. *Republic Act 7160: The Local Government code of 1991*. Manila.
[17] ADB. 2005. *Country Strategy and Program: Philippines*, *2005–2007*. Manila (note: extended to 2010); ADB. 2010. *Country Strategy and Program: Philippines*, *2011–2016*. Manila; and ADB. 2017. *Country Strategy and Program: Philippines, 2018–2023*. Manila.
[18] Government of the Philippines, National Economic and Development Authority. 2003. *Guiding Principles and National Government – Local Government Unit Cost Sharing Policy in the Evaluation and Processing of Project Involving Devolved Activities*. Manila; Government of the Philippines, Department of Finance. 2009. *Order 40-2009: Revised National Government – Local Government Unit (NG-LGU) Cost Sharing Policy*. Manila.
[19] In 2003, the government released the revised cost sharing policy, which required the national government and LGUs to share 50% each of total project cost. With the limited financial capacity of the LGUs, the revised policy was not fully implemented, and the LGUs were allowed to contribute 10%–20% cost-share until 2009. In 2009, the Department of Finance made it mandatory to follow the 50% cost sharing under all development projects including the ARCP II.
[20] Footnote 4, para. 53.

adopted under the first ARCP. The PCR indicated that the project preparatory technical assistance,[21] which was completed in 2005, set the performance targets too high, since it was completed in advance of the change of government policy on cost-sharing with the LGUs.[22] The project's DMF identified the LGU's 50% equity requirement as a risk. The project scope was ambitious with 537 subprojects over 19 provinces, in view of the 10%–20% cost sharing. The PCR noted that "the inability to meet the rural infrastructure performance targets is due to the inability of LGUs to shoulder the increased equity requirement imposed by the revised national government-LGU cost sharing policy, and incomplete and inconsistent guidelines for the LGUs to gain access to the PBGS to motivate them to participate in the project."[23] Rural infrastructure accounted for 77% of the loan amount, and any design shortcomings would have serious implications on project performance. The MTR could have recommended a reduced scope in view of the increased equity requirements.

18. The project was aligned with government's and ADB's agriculture sector policies. However, it was not designed in conformity with the latest policy on LGU infrastructure cost-sharing. This validation assesses the project less than relevant in view of the design shortcomings. The policy change pertaining to the increase in cost-sharing was foreseen and even identified as a risk. However, this was not adequately addressed. Hence, this affected the delivery of targeted outputs and outcome.

B. Effectiveness in Achieving Project Outcome and Outputs

19. The PCR rated the project less than effective although it was not possible to assess the project outcome targets due to the lack of reliable data. Original targets were (i) at least 70% of ARCs and ARC clusters were empowered to improve their lives through greater social inclusion, equitable access to land and other productive resources, and improved access to health and education; (ii) at least 50% of participating ARBs increased their annual incomes by 10% by year 6; and (iii) at least 30% rose above the poverty line by year 10. A final impact assessment study was not completed in view of the cancellation of counterpart funds, while subproject data on improvements in incomes was inadequate to compute the two income related targets. Also, the baseline assessment was incomplete at the beginning of the project, although DAR did conduct a partial assessment in 2012 in the areas of four regions with completed rural infrastructure subprojects. This provided the only hard data to assess project achievements.

20. The PCR noted that output 1 was achieved with three targets met and one exceeded. The 161 ARCs and 11 ARC clusters were assisted against the targets of 152 ARCs and 11 ARC clusters. ARC cluster development plans were completed and incorporated into their respective LGUs' development plans. Also, cooperatives and barangay water and sanitation and irrigation associations, and people's organizations in 152 ARCs were strengthened. However, in the absence of a survey and monitoring and evaluation (M&E) data, this validation questions how these findings can be confirmed while noting that only 20% of the output 1 budget was spent. Output 2 was partially achieved with one target achieved and two out of the five targets partly achieved. The target of 5 long regional value chains and 19 short provincial and LGU market-led value chain development assessments and action plans developed and being implemented, modified at MTR, was fully achieved. The targets on increase in crop gross

[21] ADB. 2005. *Technical Assistance to the Republic of the Philippines for Agrarian Reform Communities Project II.* Manila.
[22] Footnote 7, para. 20.
[23] Footnote 7, para. 10.

margins and positive returns from supported enterprises were not achieved although these were noted in the PCR as partially achieved, and data sources were anecdotal. The target of improved land titles to 22,000 ARBs was not achieved with only 10.3% of ARBs benefiting from improved land titles. The access to credit target under output 2 was partially achieved. However, the failure to open up access to MFIs was a missed opportunity. Under output 3, i.e., rural infrastructure development, 770 km of FMRs (40% of the target) and 4,649 ha of small-scale irrigation (38% of target) were completed. Project targets for post-harvest facilities and social infrastructure were reported as achieved. DAR attributed the failure to accomplish rural infrastructure development targets to increased unit costs, changes in specifications, and the inability of LGUs to meet cost-sharing requirements.[24] For output 4, the majority of its targets were achieved, except that after three extensions, DAR was unable to complete the project on time. The PCR noted the absence of an impact study and the lack of data as a problem, which questions the adequacy of the project performance management system (PPMS).

21. Safeguard plans and measures were in place and compliant from inception. The PCR noted that the GAP provided gender-focused indicators. However, these indicators came without specific target numbers. The GAP had indicators for the CDD, rural infrastructure, and project management outputs. The PCR indicated that the target of 33% female participation in training activities was exceeded according to data from the training records.

22. Based on the above discussions, this validation assesses the project less than effective, largely in view of the deficiencies in data that did not allow an adequate assessment to be made.

C. Efficiency of Resource Use

23. The PCR rated the project less than efficient. An economic internal rate of return (EIRR) of 29% was computed at appraisal. The PCR did not recalculate the EIRR due to a lack of data and the absence of project completion surveys. In the absence of the EIRR, the evaluation of efficiency was based on process efficiency. There were substantial delays in project implementation due to problems associated with the national government and the LGU cost-sharing formula. The project was extended three times resulting from delays in subproject selection,[25] contract awards, procurement, and liquidation. Much of these delays stemmed from limited LGU capacity and affected project sequencing with the AED. The CDD component proceeded well, especially the formulation of the ARC plans. However, the MTR noted the need to enhance community participation in the implementation and delivery of outputs 2 and 3.

24. Considering these process inefficiencies, this validation assesses the project less than efficient. The project spent 70% of its approved budget on rural Infrastructure and delivered only 40% of FMRs and rehabilitated 38% of irrigation schemes. The project had a 33% overspending on project implementation and management. Implementation delays also contributed to the reduced rating.

D. Preliminary Assessment of Sustainability

[24] Government of the Philippines, Department of Agrarian Reform. 2019. *L2465/8238: DAR-ADB Agrarian Reform Communities Project II (ARCP II) - Project Completion Report*. Manila.
[25] ADB (Southeast Asia Department). 2012. Loans 2465 and 8238: Agrarian Reform Communities Project II Review Mission Report, December (internal). The report indicated a reduction in NPCO approval process from 33 steps (278 days) to 27 Steps (245 days).

25. The PCR rated the project less than likely sustainable, noting that it empowered 161 ARCs and 11 ARC clusters to prepare and integrate development plans into LGU plans, and strengthened local organizations. However, this validation notes that end-line and project impact surveys were not undertaken and that only 20% of the budget for CDD was spent. The PCR's conclusion could not be substantiated. The PCR indicated that the infrastructure completed under the project was fully maintained by the LGUs with annual inspections made by DAR at the time of the project completion mission. To incentivize LGUs in maintaining these assets, any performance-based grant associated with the asset would be converted to a loan if maintenance was not up to standard for three successive inspections. Irrigation associations are responsible for maintenance of these facilities. Nevertheless, it is uncertain whether the LGUs or irrigation associations have sufficient resources to maintain rural infrastructure. This validation assesses the project less than likely sustainable.

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impact

26. The PCR rated the project's development impact less than satisfactory. Members of 161 ARCs directly benefited from engaging in the local planning process. However, capacity building efforts for their local organizations under the CDD component have been less than effective, taking into account the delayed and limited achievement of targets under the AED and rural infrastructure development components and the fact that only 20% of the budget for this activity was spent. The ARCs emerged from the project with an improved potential to transition from subsistence agriculture to agribusiness with new skills learned and enhanced access to finance. The early activities in the AED component concentrated on production training. However, the focus switched to a more market-driven approach later. The rehabilitated rural infrastructure assets will improve access to markets and possibly reduce transport costs although it is not clear whether or not a critical mass of infrastructure has been completed that could have a significant impact on ARC livelihoods. The social infrastructure completed under the project was indicated by the PCR as positively impacting women's lives by shortening the time to reach markets, clinics and social service centers. The improved potable water systems could reduce the incidence of waterborne diseases and medical expenditures. Communities, which had new clinics and school classrooms, have the potential to impact maternal and child health and increase enrolment. However, in the absence of the final impact study, these benefits could not be quantified. Given the less than expected achievements at the outcome and output levels, the project impact is likely to be less than expected. Accordingly, this validation assesses the project's development impact less than satisfactory.

B. Performance of the Borrower and Executing Agency

27. The PCR rated the performance of the borrower satisfactory. DAR complied with all but one of the loan covenants while the project enabled the institutionalization of the CDD approach in the LGU planning. Nevertheless, the LGUs had limited financial and technical capacity to implement the rural infrastructure component, and the amended cost sharing policy, which was known before the project commenced, had a major impact on implementation. The PCR noted that DAR proceeded with the project, assuming that alternative financing arrangements would be found to solve the LGU cost-sharing issue.[26] It detailed the efforts made to provide alternative financial arrangements. However, these were not sufficient. The DAR's reorganization, in which the new management decided that the project should focus more on

[26] Footnote 7, para. 5.

the CDD component and meet the ARBs' AED needs through a separate Agrarian Reform Community Connectivity and Economic Support Service Program, did little to contribute to the success of the project. Also, the lack of an adequate PPMS and the end-line and impact surveys, limited the assessment of project benefits. This validation assesses the performance of the borrower less than satisfactory.

C. Performance of the Asian Development Bank and Co-financiers

28. The PCR rated ADB's performance satisfactory. The original project design, built on the earlier ARCP with its lower LGU equity contribution, was expected to be applied to ARCP II. This was identified as a risk at appraisal. However, the project proceeded without an appropriate solution. This should have been resolved before project approval and at least by the time of the MTR. ADB fielded 11 review and 2 special project administration missions jointly with the DAR, and each made recommendations to improve implementation. This validation assesses ADB's performance less than satisfactory. The OFID was not rated since ADB administered this loan.

D. Others

29. No major safeguards issues arose during implementation.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

30. The PCR rated the project less than successful. The PCR noted the project was well aligned with the government's and ADB's priorities to reduce poverty, especially in rural areas. However, the consequence of the increased cost-sharing contributions by the LGUs could have been foreseen in advance. In the absence of reliable data, the PCR rated the project less than effective as it was not possible to evaluate the achievement of the impact and outcome targets. It stressed that the rural infrastructure component, with 65% of total planned expenditures, achieved less than half of its deliverables and the project met only 16% of the land title improvement targets. It rated the project less than efficient in view of process inefficiencies, significant implementation delays, and cost overrun. Given the generally poor maintenance of project assets due to insufficient budget allocations for operations and maintenance, the project was rated less than likely sustainable. This validation also assesses the project less than successful. It assesses the project less than relevant as the LGU's cost-sharing issue was not resolved before loan approval, and the scope of the rural infrastructure development component was not revised to reflect the lower demand. It is less than effective due to the lack of data on the outcome and, where figures were available, targets were not met. It is less than efficient in view of the implementation delays, the lack of data to assess project benefits and the high cost of rural infrastructure in relation to accomplishments. It is less than likely sustainable as the problems over the cost-sharing issue raise the possibility of budgetary shortfalls in future operations and maintenance funding, given the production (subsistence), rather than market, orientation of agricultural outputs.

Overall Ratings

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Less than relevant	The project was not aligned with national government's LGU

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
			cost-sharing policy, and its design did not account for the higher cost-sharing required by LGUs neither at appraisal nor during the MTR.
Effectiveness	Less than effective	Less than effective	
Efficiency	Less than efficient	Less than efficient	
Sustainability	Less than likely sustainable	Less than likely sustainable	
Overall Assessment	**Less than successful**	**Less than successful**	
Preliminary Assessment of Impact	Less than satisfactory	Less than satisfactory	
Borrower and executing agency	Satisfactory	Less than Satisfactory	Proceeding with the project without resolving the LGU cost-sharing issue; and monitoring and evaluation deficiencies that meant data were inadequate to assess project accomplishments.
Performance of ADB	Satisfactory	Less than Satisfactory	Proceeding with the project without resolving the LGU cost-sharing burden and lack of course correction at MTR.
Quality of PCR		Satisfactory	Para. 35

ADB = Asian Development Bank, IED = Independent Evaluation Department, LGU = local government unit, MTR = midterm review, PCR = project completion report.
Source: ADB (IED).

B. Lessons

31. The PCR noted the following lessons: (i) more attention should have been given to improving land tenure, including the acquisition of rights-of-way; (ii) the need to conduct more extensive due diligence on LGUs' financial capability to share costs during implementation; (iii) establishing partnerships with government agencies, civil society and private sector would bring additional resources, especially for project supported enterprises that find attracting private sector interest difficult; (iv) training of DAR technical staff on new concepts of value chain development and new projects should anchor on a better understanding of private sector participation, market requirements, and skills enhancement for value chain development; (v) ADB should work with the executing agency to establish an effective project M&E system and ensure effective monitoring of all project activities, including DMF targets; and, (vi) regular safeguard training should be provided to assist LGUs implement, oversee, and monitor compliance.

32. This validation supports the PCR lessons and adds two project-level lessons. First, ensuring that an acceptable cost-sharing arrangement is in place at the outset, prior to project

launch, can help minimize project risks. The rural infrastructure component comprising 80% of total actual project cost was not achieved largely as the LGUs were unable to raise the required counterpart contributions. Moreover, it is essential that appropriate due diligence and risk assessment are undertaken and that risk mitigation measures concerning the financial capability of participating local governments are identified at the outset. The midterm review should be used to make course corrections. Second, project implementation highlights the importance of increased accountability and ownership by all stakeholders in achieving the project's intended outcome. This, along with a well-designed capacity building intervention for implementing agencies, would help facilitate timely implementation and achievement of project results. Complex projects with many components and a wide geographical coverage require a high level of government commitment and ownership.

C. Recommendations for Follow-Up

33. This validation supports most of the recommendations of the PCR. These include more effective collaboration among government agencies, with crossover responsibilities to be encouraged, especially at the design stage. Where LGUs are key to a project, a thorough assessment of technical, administrative, and financial capacity should be completed in advance. Greater involvement of the private sector and financing institutions in projects are needed from the outset. Rigorous M&E systems are essential and should include outcome and impact monitoring. Safeguard training should be provided to ensure proper oversight capacity, and environment and social safeguards management plans should be included in bidding documents. This validation supports the PCR recommendation that poverty-focused projects should be limited to a few outputs, but does not support limiting coverage to a more limited geographical area. Properly designed and implemented projects can have scale dividends across wider geographies, but they should be complemented with local government commitment, capacity, and ownership.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Reporting

34. The project submitted quarterly M&E reports. A baseline survey was prepared in 2009 and a partial one in 2012. The PPMS was set up in the NPCO but was assessed less than effective. DAR did not undertake follow-up surveys and an impact evaluation at project completion due to fund shortage. However, the agency prepared a draft PCR in January 2019.

B. Comments on Project Completion Report Quality

35. The quality of the PCR was satisfactory. It highlighted performance against targets where possible, despite data constraints due to lack of end-line surveys and the absence of an impact assessment. Its ratings were generally sound and, although shortcomings were indicated, it did not significantly challenge the project's relevance or the borrower's and ADB's performance. The PCR lessons and recommendations were valid and supported by evidence in the report and project files.

C. Data Sources for Validation

36. Data sources used for the validation included back-to-office reports, various aide memoire, the midterm evaluation report, minutes of the management review meeting, the PCRs of government and ADB, and the RRP.

D. Recommendation for Independent Evaluation Department Follow-Up

37. None.