



Project Administration Memorandum

Project Number: 37749
Loan Number: 2465
March 2009

Philippines: Agrarian Reform Communities Project II

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 16 September 2008)

Currency Unit	—	peso (P)
P1.00	=	\$0.021
\$1.00	=	P47.13

ABBREVIATIONS

ADB	—	Asian Development Bank
ARB	—	agrarian reform beneficiary
ARC	—	agrarian reform community
ARCP	—	Agrarian Reform Communities Project
ARISP	—	Agrarian Reform Infrastructure Support Project
ARMM	—	Autonomous Region in Muslim Mindanao
CARP	—	Comprehensive Agrarian Reform Program
CLOA	—	certificate of land ownership award
CSGS	—	community safeguard and grievance subcommittee
DAR	—	Department of Agrarian Reform
DENR	—	Department of Environment and Natural Resources
EARP	—	environmental assessment and review procedure
FAPsO	—	Foreign-Assisted Projects Office
GDP	—	gross domestic product
ICC	—	investment coordination committee
IPDF	—	indigenous peoples development framework
IPDP	—	indigenous peoples development plan
IEE	—	initial environmental examination
LARP	—	land acquisition and resettlement plan
LGU	—	local government unit
LIBOR	—	London interbank offered rate
LTI	—	land tenure improvement
LPO	—	Local project office
MDFO	—	Municipal Development Fund Office
MTPDP	—	Medium-Term Philippine Development Plan
NGO	—	nongovernment organization
OFID	—	OPEC Fund for International Development
SWS	—	Social Weather Station

GLOSSARY

agrarian reform beneficiary	—	The Comprehensive Agrarian Reform Law passed in 1988 designates agrarian reform beneficiaries (ARBs) of the Comprehensive Agrarian Reform Program (CARP) as the beneficiaries of land distribution under CARP. They include agricultural lessees and share tenants; regular farm workers; seasonal farm workers; other farm workers; actual tillers or occupants of public lands; collectives or cooperatives of the above beneficiaries; and others directly working on the lands that are under acquisition by the Government under CARP.
agrarian reform community	—	A <i>barangay</i> or a cluster of <i>barangays</i> in which a critical mass of the population consists of ARBs. Further, to be designated as an agrarian reform community (ARC) by the Department of Agrarian Reform (DAR), the <i>barangay</i> or cluster of <i>barangays</i> in question is required to fulfill certain criteria. These include, among others, that (i) at least 50% of the population should consist of ARB households; (ii) cooperatives of the ARBs should have achieved a level of maturity in management, which is measured by DAR's assessment of the level of development of ARCs, (iii) the community exhibits a willingness to adopt improved production and management practices; and (iv) at least 75% of the CARP scope for land acquisition and distribution (LAD) is completed
agrarian reform community (ARC)		The ARC concept emerged in 1993. It is central to DAR's attempt to showcase that agrarian reform works to empower people and bring about sustainable agro-industrial development. This is to be done through a holistic implementation of land reform accompanied by other support services that can bring about sustained improvements in the quality of lives of ARBs. The ARC concept also implies geographic convergence of all government and nongovernment agencies' support services for maximizing efficiency and impacts of rural development efforts.
ARC cluster	—	The term means an area consisting of 2 or more ARCs including the non-ARC <i>barangays</i> in the designated area and/or cluster. The term that has been variously adopted by DAR since 2006 as a concept that allows inclusion of non-ARB populations within and outside ARCs, as well as ARBs living in non-ARC <i>barangays</i> in the vicinity of designated ARCs, within the ambit of DAR's support programs and plans. The ARC cluster approach is thus expected to help the Government to reach larger populations than those of the selected ARCs alone, to increase marketable surplus production, apply the agribusiness concept to large areas of agricultural lands, and achieve economies of scale.
ARC connectivity	—	This term implies establishment of physical and other types of connectivity between ARCs and non-ARC areas covered under the ARC cluster concept. Through improved connectivity, economies of

scale may be achieved in terms of volumes of produce being transported to markets; increases in commuter traffic; and greater efficiencies in markets, investments, and services.

- barangay* — Tagalog term for the smallest local government unit in the Philippines; it represents a village or a cluster of villages or *puroks*. Municipalities or cities are composed of *barangays*. In cities, congressional districts are composed of clusters of *barangays*. In provinces, congressional districts are composed of a cluster of municipalities.
- Community–
driven
development
(CDD) — Treats poor people and their institutions as assets and partners in the search for sustainable solutions to development challenges broadly defined — is an approach that gives control over planning decisions and investment resources to community groups and local governments. It facilitates inclusion of the poor in the community. It can ensure the participation of the different segments of the community in monitoring project activities, procurement, and implementation, as well as encourages transparency.

NOTE

In this report \$ refers to dollar.

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LOAN PROCESSING HISTORY

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|-----|--|-----------------------------|
| 1. | Approval of project preparation technical assistance | 14 September 2004 |
| 2. | Completion of the PPTA | 14 September 2004 |
| 3. | Fact finding mission | 12 April-18 May 2007 |
| 4. | Management Review Meeting(MRM) | 21 August 2007 |
| 5. | Appraisal mission | 30 august-24 September 2007 |
| 6. | Staff Review Committee (SRC) meeting | 3 March 2008 |
| 7. | Loan negotiations | 2 September 2008 |
| 8. | Board circulation | 6 October 2008 |
| 9. | Board approval | 27 October 2008 |
| 10. | Loan agreement signing | 8 December 2008 |
| 11. | OFID loan agreement signing | 17 December 2008 |
| 12. | Loan effectiveness conditions | |

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact ARBs and non-ARBs in approximately 152 ARCs and 11 ARC clusters have reduced poverty and have sustained improvements in incomes and quality of life	ARBs and non-ARBs in selected ARCs and ARC clusters increase their annual incomes by at least 10% by 2018 compared to the baseline survey results from 2009	<ul style="list-style-type: none"> Department of Agrarian Reform (DAR) ARC level of development assessment data (ALDA) National Statistics Office family income and expenditure surveys Baseline survey data Post evaluation report Monitoring reports Loan review reports Midterm review report Impact assessment studies Project completion reports 	Assumptions <ul style="list-style-type: none"> Government has provided assurances for timely budget releases Government continues its commitment to and support for the welfare of ARBs Improvements occur in the levels of peace in conflict-prone areas in ARMM as a result of Project-led developments LGUs operate with improved levels of governance LGUs enroll in an institutional reform program whereby on fulfilling the requirements of the program, they will be refunded 20% of their equity contribution Risks <ul style="list-style-type: none"> Availability and timely release of project funds has been a problem in the Agrarian Reform Communities Project Security concerns and peace and order problems because of local conflicts and civil disturbances in ARMM ARCs covered by the Project Corruption and weak governance can jeopardize project implementation The 50% minimum equity requirement for rural infrastructure subprojects can pose problems to the participation of poorer LGUs
Outcome Well-being of poor and marginalized groups in the target communities improved	At least 70% of ARCs and ARC clusters are empowered to improve their lives through improved access to land, credit, employment, markets and health and education	<ul style="list-style-type: none"> Final survey data in 2014 Final survey in 2014 Municipal data Training and technical demonstration evaluation and follow-up reports 	Assumptions <ul style="list-style-type: none"> ARCs can develop greater capacity and establish effective links with private sector, for better technology, processing and marketing of their produce.

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks Assumptions
	At least 30% of target ARBs rise above the poverty line by year 2014	<ul style="list-style-type: none"> Department of Agrarian Reform monitoring and evaluation reports 	Risks <ul style="list-style-type: none"> Private sector responses to ARC requirements may not be forthcoming
Outcome 1. CDD approach used by ARCs	<ul style="list-style-type: none"> 152 ARCs and 11 ARC clusters assisted by community organizers to set up community-based groups for planning, training, microfinance, and technology transfer by year 6 152 ARCs and 11 ARC clusters with detailed plans prepared by year 2 Training and development plans prepared and implemented for cooperatives, <i>barangay</i> water and sanitation associations, irrigation associations, and other people's organizations in 152 ARCs by year 6 About 144 LGUs assisted with training in participatory planning, financial management, fiduciary requirements of ADB and government by year 2 	<ul style="list-style-type: none"> Baseline survey data collected in 2009 repeat surveys in 2012 2014 Inception report Midterm review report based on survey data and reports of Department of Agrarian Reform Project monitoring reports based on Project progress reports Reports of GFIs and MFIs Project completion report Project evaluation reports 	Assumptions <ul style="list-style-type: none"> LGUs remain supportive to Project objectives and approaches Risks <ul style="list-style-type: none"> Political interference into ARC functioning and development
2. Agricultural productivity and incomes improved	<ul style="list-style-type: none"> Crop yields increased by 15% by year 6 Value-adding activities adopted by 20% of local producers and entrepreneurs by year 6 Improved land titles to about 22,000 ARBs by year 6 At least 15 MFIs assisted to pilot-test their agriculture-based microfinance products in the ARCs by year 2 At least 15,000 ARB and non-ARB borrowers enabled to have access to credit and savings facilities of MFIs and/or cooperatives by year 6 		

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks Assumptions
<p>3. Access to irrigation and markets improved</p> <p>Project implementation and management</p>	<ul style="list-style-type: none"> About 1,925 km of farm-to-market roads and bridges successfully constructed, covering about 116,000 hectares of farmland, by year 6 Small-scale irrigation systems serving about 12,375 hectares of farmlands successfully rehabilitated and/or constructed by year 6 Post-harvest processing facilities provided in communities with assured irrigation and/or surplus generation capacity Transport and handling costs reduced by 30% by year 6 Other benefits may include improved peace and security, greater social inclusion, improved participation by vulnerable groups 		
Activities with Milestones			Inputs
<p>1. CDD, Participatory ARC Planning and Implementation</p> <p>1.1 Orientation, communication, social capital formation for community-driven development in approximately 152 ARCs and 11 ARC clusters by year 3</p> <p>1.2 Detailed ARC plans in approximately 152 ARCs and 11 ARC clusters by year 3</p> <p>1.3 Organizational development training plans drawn up by year 3</p> <p>1.4 Support to good governance at local level to ARCs and LGUs by year 3</p> <p>2. Agriculture and Enterprise Development</p> <p>2.1 Agricultural productivity improvement by transfer of technology by year 5</p> <p>2.2 Enterprise and market development in all target areas by year 5</p> <p>2.3 Land tenure improvement in all target areas by year 5</p> <p>2.4 Rural finance, community-based savings and credit systems implemented by year 5</p> <p>3. Rural Infrastructure</p> <p>3.1 Technical expert services procured in year 1.</p> <p>3.2 Small-scale irrigation works: Conduct feasibility study and detailed design in year 1 and year 2.</p> <p>3.3 Civil work contractors engaged and being supervised by LGUs by year 4</p> <p>4. Project Implementation and Management</p> <p>4.1 Project executive committee set up in year 1</p> <p>4.2 Appointment of national project coordinator before project effectiveness in year 1</p> <p>4.3 Provision of technical units under national project coordinator in year 1</p>			<p>ADB loan: \$70.0 million</p> <ul style="list-style-type: none"> Civil works: \$45.5 million Goods and equipment: \$1.6 million Consulting services: \$11.5 million NGO Contracting: \$2.0 million Recurrent Costs: \$1.0 million Interest: \$8.1 million Commitment charges: \$0.3 million <p>Government: \$108.4 million</p> <ul style="list-style-type: none"> Civil works: \$76.2 million Environment and Social Safeguards: \$0.2 million Capacity Development: \$13.1 million

<p>4.4 Designation of Department of Agrarian Reform regional director and provincial agrarian reform officer as project managers in year 1</p> <p>4.5 Use and activation of Comprehensive Agrarian Reform Program implementing teams for project implementation in year 1</p> <p>4.6 Activation of subproject approval committees in year 1</p> <p>4.7 LGU participation in project activities through the local project office in years 1–3</p> <p>4.8 ARC plans completed by year 3</p> <p>4.9 Detailed subproject proposals preparation completed by year 3</p> <p>4.10 Annual work plan and budget preparation</p> <p>4.11 Conduct monitoring and evaluation on quarterly basis</p> <p>4.12 Conduct baseline survey (2008), midterm review (2010) and project completion report (2014)</p>	<p>million</p> <ul style="list-style-type: none"> • Consulting Services: \$7.1 million • Recurrent Cost: \$8.7 million • Interest: \$2.4 million • Commitment charges: \$0.7 million <p>OPEC Fund for International Development cofinancing: \$30.00 million</p> <ul style="list-style-type: none"> • Civil works: \$30.00 million
<p>ADB = Asian Development Bank, ARB = agrarian reform beneficiary, ARC = agrarian reform community, ARMM = Autonomous Region in Muslim Mindanao, CDD = community-driven development, GFI = government financial institution, LGU = local government unit, MFI = microfinance institution</p> <p>^a A baseline survey was done in 2005 as part of the project preparatory technical assistance. A new baseline survey will be done in 2009 as part of project implementation to update the survey data and provide a current database for comparative analysis.</p> <p>^b To be done in 2011 as part of midterm review, and in 2014 as part of project completion</p>	

MAP



I. PROJECT DESCRIPTION

A. Project Area and Location

1. The project targets ARBs in about 152 selected ARCs and 11 ARC clusters in 18 provinces, in order to reduce poverty, and bring about sustained improvements in incomes and quality of life. Based on the latest official poverty data, nineteen of the poorest provinces were selected, including six in the Autonomous Region in Muslim Mindanao (ARMM). The provinces to be covered include Romblon, Marinduque, Camarines Norte, Camarines Sur, Sorsogon, Negros Occidental, Leyte, Eastern Samar, Northern Samar, Western Samar, Zamboanga del Norte, Zamboanga del Sur, Zamboanga Sibugay, Maguindanao, Lanao Del Sur, TawiTawi, Basilan, and Sulu.

B. Impact and Outcome

2. The long-term impact of the Project is to enable agrarian reform beneficiaries (ARBs) in about 152 selected agrarian reform communities (ARCs) and 11 ARC clusters in 19 provinces in southern Philippines, to reduce poverty, and have sustained improvements in incomes and quality of life. The Project outcome includes improved capabilities and well-being of poor and marginalized groups in the target communities. This outcome will be pursued through the design and implementation of an integrated and complementary package of development investments, involving support for community-driven development (CDD), support to new and expanded ARC organizations and their business-oriented activities, increased effective participation of the poor in community planning and decision-making, agri-enterprise development, infrastructural support, and mainstreaming of project management.

C. Outputs

3. To achieve the outcomes of poverty reduction and sustainable livelihoods, the Project will support the following outputs:

- (i) CDD consisting of
 - (a) social capital formation for community organizing and participation,
 - (b) participatory detailed ARC planning,
 - (c) organizational development of community organizations, and
 - (d) improved LGU capacity for better governance.
- (ii) Agriculture and enterprise development including
 - (a) transfer of technology,
 - (b) entrepreneurship development among ARC organizations,
 - (c) improved linkages between the private sector and ARC organizations leading to increased investments into rural areas for growth,
 - (d) community-based savings and lending groups, and
 - (e) land tenure improvement.
- (iii) Rural infrastructure development.
- (iv) Project implementation and management.

D. Major Activities and Implementation Responsibilities

1. Community Driven Development (CDD)

4. The objective of this output is to mobilize, organize, and strengthen communities and local institutions, through the use of a community driven development (CDD) approach throughout the Project. It aims to prepare local communities and people's organizations for their active participation in the design of poverty reduction activities supported by the Project. Greater participation by the poor will be encouraged to prevent capture of project benefits by the elite. Support will go to organizing of inclusive membership-based groups, developing their capacity, and improving local government unit (LGU) governance.

5. The output will consist of the following subcomponents: (i) support to social capital formation; (ii) participatory detailed ARC planning; (iii) organizational development of community organizations; and (iv) improved LGU capacity for better governance.

a. Support to Social Capital Formation

6. The objective of this subcomponent is to prepare and strengthen communities and local institutions for their informed participation throughout the Project, to improve the sustainability of project investments. A CDD approach¹ will be used to engage the poor in the target ARCs and ARC clusters in identifying priority needs and constraints, as well as subprojects to address them. The activities to be supported will be the following: (i) mobilization of communities and (ii) building socially inclusive membership-based organizations of ARBs, non-ARBs, and landless workers in the target areas. The Project will provide support through NGOs and civil society organizations, which will deploy trained community organizers, backstopped by expert NGO staff, to work in all target *barangays*. This subcomponent will also help to identify the training and capacity development needs of ARB organizations and based on that, to draw up training and development plans for the ARCs.

7. The Municipal Agrarian Reform Officer (MARO) will be responsible for coordinating and implementing these activities in partnership with selected NGOs, *barangay* level CARP implementing teams, ARC organizations among others. The National Project Coordinator (NPC) will draw up generic terms of reference for the engagement of NGOs, civil society organizations (CSOs), for these activities, which will need to be submitted to ADB for approval. Thereafter, these will be sent to Regional Directors. The provincial agrarian reform officer (PARO) will further detail these in consultation with the project consultants and MAROs, and then insert advertisements in national and local newspapers for such services. Short listed NGOs/CSOs will be selected through a tendering process, on the basis of the responsiveness of their proposals to the Terms of Reference (TORs). NGOs/CSOs² will be recruited on the basis of ADB's Guidelines for the Use of Consulting Services, and using a quality and cost based selection method. Proposals will be submitted by the PARO to the Technical Review Committee at regional level to be chaired by the Regional Director of Department of Agrarian Reform (DAR) if the budget is below \$75,000. Proposals with budgets higher than that will be

¹ For details of the community-driven development approach, refer to Supplementary Appendix A which details the community-driven development approach to social capital formation, participatory planning, and implementation.

² It is expected that NGOs/CSOs may be selected to support a number of ARCs in contiguous areas. They may be selected at the regional level, or national level depending upon the type of services to be delivered, the extent and nature of their coverage. Larger NGOs may be preferable given the need for expertise in requisite areas, demonstration impact, availability of resources and sustainability in terms of their ability to continue to provide support even after cessation of the project.

submitted to the national level Technical Review Committee. However, as in all other contracts, all NGO/CSO recruitments will be subject to prior review by ADB. Three sets of documents will be submitted to ADB including a) the Request For Proposals (RFP), including a list of shortlisted NGOs, (ii) a technical proposal evaluation report, and (iii) an overall evaluation and ranking report. After obtaining ADB approval, the DAR Regional Office (DARRO) will hold contract negotiations with the selected NGO/s, which will be minuted. The DARRO will prepare the draft contracts. The draft contract and minutes of contract negotiation will be submitted to ADB for approval, after which the contract will be signed by the DAR Regional Director functioning as the Regional Project Manager (RPM). All contracted NGOs will submit detailed workplans and progress reports including financial reports and audited accounts of expenditure to the DAR Regional Director, with copies to the National Project Coordinator (NPC) and ADB.

8. Once the NGOs are selected they will start working along with the MARO, and the *barangay* CARP implementing teams (BCIT) in target ARCs, to promote community participation through *barangay* level general meetings, and then planning workshops, setting up new community organizations and or working with existing ARB organizations to deepen and, extend their outreach to hitherto excluded groups, facilitate the increased interest and involvement of the poor including the landless households in ARC planning, prioritizing, investments, implementation and monitoring. This process should help in deepening community commitment to ARC planning and improve the sustainability of inputs provided and outputs generated. The BCIT should be deepened to include representatives of the landless poor as well as women. NGOs will be responsible for facilitating the participation of the poor and women in planning and decision making. NGOs will work with the ARC planning teams from DAR to finalize the ARC plans including proposed sub projects. Both during and after the planning phase, the NGOs will be responsible for organizing the formation of community based groups for a number of activities including micro finance, enterprise development including commercial activities, agro production, agro processing and marketing of produce among other activities. Groups will also be formed for participating in the prioritization of social infrastructure development and their procurement, construction, monitoring, and operation and maintenance, (O&M). Women's increased participation in commercial activities, enterprise development, and agribusiness development will be facilitated by NGOs. Where indigenous peoples (IPs) may be part of ARCs, NGOs will in particular address issues of their participation in ARC planning and implementation, their inclusion in ARC organizations, and in new activities to be developed under the project, including microfinance, commercial farming, processing and marketing, as well as the development of sustainable social infrastructure. All monitoring of project implementation should be participatory, and NGOs should facilitate the process. All NGO reports should be gender disaggregated.

b. Participatory ARC Planning

9. The second set of activities will include detailed ARC and ARC cluster planning. The first step after start-up of the project implementation will be the training of planning teams at the provincial level. Training will be provided on community-driven development (CDD) and safeguard policies by subject specialists and NGOs/CSOs. This will be followed by the development of comprehensive ARC plans to be prepared by communities, represented in the reconstituted BCIT³, with technical support from the project teams. The planning process will be fully participatory and inclusive of vulnerable groups, and it will be assisted by the NGOs. Close attention will need to be paid to identification of marketing opportunities. The Project will facilitate LGU participation in ARC planning and the incorporation of ARC plans with rural

³ Reconstituted for the project by including representatives of the poor, women and IPs wherever present.

development plans of LGUs.

10. The MARO will be fully responsible for this output, working through provincial planning teams composed of provincial DAR staff, LGU staff from CARP implementing partner agencies such as the Department of Agriculture (DA), Department of Environment and Natural Resources (DENR), and the National Irrigation Authority (NIA). These teams will be set up for each province by the PARO, and will be trained by resource persons including experienced DAR staff, consultants, NGOs. Thereafter, they will move from municipality to municipality within the province, undertaking ARC planning along with the BCIT, and NGOs working in the ARCs. Their output will be the final agreed ARC plans which will be countersigned by the chief of the BCIT and the MARO. Such plans will include sub project proposals for all components under the project as well as other activities for possible support by the private sector, banks, micro finance institutions among others. Each sub project to be included will be accompanied by market assessment and marketing plan to be provided by Business Advisory Units (BAUs) located at DAR offices at provincial level.

c. ARC and LGU Organizational Development for Improved Governance

11. This subcomponent will seek to strengthen local community-based organizations and local government agencies working with them under the Project, to make them more effective in planning, implementing, monitoring, and sustaining activities within their own areas. This will reinvigorate the provincial, municipal, and the BCITs, and the LGU entities working with them. It will develop and train ARC cooperatives, microfinance groups, and farmer associations. It will also establish user associations for social services and infrastructure (*barangay* water user and irrigator associations, among others).

12. The subcomponent will improve local governance and accountability of LGUs by providing training⁴ on fiduciary policies and management, as well as on safeguard policies, among other areas of capacity development. To deal with the frequent changes in the LGUs because of evolving political processes, the Project will provide training on a continuing basis to ensure the longer-term capacity of the LGUs to provide assistance to the ARCs. The Project will involve the legislative branch of the LGUs in project implementation to safeguard against possible changes in the LGUs.

13. Training programs will be based on identified need, by consultant teams. A training plan will be prepared and delivered on a province by province basis, and provide training at different levels of trainees on pertinent topics. Topics such as ADB and GOP harmonized policies and procedures on procurement of goods and services, recruitment of consulting services, what constitutes mis- procurement, community based contracting, ADB Policy on Anti Corruption, ways to strengthen governance at all levels through appropriate checks and balances, fiduciary aspects, financial controls and management, CDD, ADB's Public Disclosure policy, ADB policies on Indigenous Peoples, Gender and Development, and Involuntary Resettlement, public disclosure involving the provision of adequate access to information regarding the project at different levels. All training inputs will be assessed for effectiveness through mutually defined goals with measurable indicators, and these will be reported upon in all progress

⁴ Training will include linkages between land tenure improvement and agri-enterprise development, community-driven development approaches, environment, and other social safeguard policies, as well as ADB and Government policies on procurement, financial management, safeguard policies, and anticorruption, among other areas.

reports by Regional Directors to the NPC, and submitted to ADB in consolidated progress reporting on quarterly and semi annual basis.

2. Agriculture and Enterprise Development

14. The purpose of the agriculture and enterprise development output is to provide strategic support services to participating ARCs and ARC clusters to (i) generate sustained increases in agricultural production and productivity; (ii) increase economic activities and value-added in the target areas; and (iii) pilot ARC connectivity strategies. This output is expected improve livelihoods through better market orientation and value addition by ARBs. The output consists of four subcomponents: (i) agricultural productivity improvement, (ii) enterprise development, (iii) land tenure improvement, and (iv) enhanced access to rural financial services.

a. Agricultural Productivity Improvement

15. This subcomponent will enable ARBs and non-ARB small and marginal farmers to move from subsistence production to market-oriented surplus generation. It will provide assistance to ARCs based on their needs and priorities identified in the detailed ARC plans. It will accordingly support training, demonstrations, and cross-learning visits by farmer groups for peer group learning. Among the types of demonstrations and training to be supported are

- (i) increased productivity through introduction of improved crop varieties;
- (ii) improved farming practices to increase yields and cropping intensity—this will include sloping land technology, organic crop production, certified seed production, among others;
- (iii) integrated pest management;
- (iv) enhanced access to and installation of irrigation systems (under the rural infrastructure component);
- (v) crop diversification through environment-friendly farming systems (multistory and rotational cropping);
- (vi) improved post-production handling, especially of perishable produce, to minimize losses;
- (vii) improved marketability products by improving their quality and safety (not harmful to consumers); and
- (viii) study tours of farmer groups.

16. Responsibility for implementing this sub component rests with the MARO, coordinating through the Local Project Office (LPO) headed by the Mayor/head of LGU. After completion of the ARC planning exercise, the municipal agriculture officer known as the Municipal Agriculturist (MA), under the overall direction of the head of the LGU and guidance of the MARO, will prepare plans for the delivery of appropriate training, extension, research and other types of support required by ARBs and other farmers in the ARCs. Such plans will be approved by the LPO, and implemented by the extension and training staff under the LGU, with strategic support from the regional offices of DA, research stations among others, as required. Such plans should include monitorable indicators and should be made known to the target beneficiaries through public information boards physically located at the ARCs. The delivery of the services to the target beneficiaries will be monitored by the MA and the MARO, and included in the monthly and quarterly progress reports to be prepared by each MARO for submission through the PARO to the RPM and NPCO, and to be consolidated in quarterly and semi annual progress reports to ADB.

b. Agri-Enterprise and Market Development

17. This subcomponent will support better integration of market considerations into subprojects under the Project. Proposals identified in the ARC plans will need to include market assessments and marketing plans. BAUs will provide such services to ARC organizations. These advisory units will be established at the provincial level, initially within the DAR provincial office, to be turned over eventually to the LGU. A market information system will also be set up at the provincial level in collaboration with the Department of Agriculture's Bureau of Agricultural Statistics.

18. To facilitate the development of large agribusiness areas, the Project will support ARC cluster development. The target ARCs will be the starting points from which to initiate cluster activities in surrounding *barangays*. The Project will focus on activities that can clearly strengthen the backward and forward linkages between production, processing, and marketing. About 11 ARC clusters are likely to be included under ARCP II with a phased approach. ARC cluster coordinators with appropriate private sector development background will be appointed at DARROs.

19. For this subcomponent, responsibility for implementation will rest at municipality level with the LPO under the head of the LGU, with the MARO undertaking coordination of services, to be provided by the provincial offices of DAR. The BAUs will be organized by the PARO within the provincial DAR office. These BAUs will include staff with business development, product and market assessment and market development skills, who will examine all ARC plans for sub project proposals' viability. All detailed sub project proposals must include the assessment by the BAU staff, in order to be considered for submission to the regional technical approval committee. ARC cluster coordinators will be based in regional DAR offices, working under the overall coordination of the RPM. The ARC Cluster coordinators will assist in the selection of ARC Clusters for development under the Project, and draw up ARC development plans. They will be responsible for coordinating delivery of support services under the project for the selected ARC clusters. They will monitor the progress of the ARC Clusters in terms of improved access to services, processing facilities, markets, volumes of production, processing and marketed volumes, development of agribusiness, private sector investments among other aspects of ARC cluster development. Such reports will be prepared by the ARC Cluster coordinators and submitted to the RPM, and to the NPC. These will be included in quarterly and semi annual progress reports submitted to ADB.

c. Land Tenure Improvement

20. The Project will support improvements in land titles in agrarian reform lands, with a view to strengthening ideas of ownership and commitment among ARBs to improving their lands. The land area covered by collective certificates of land awards (CLOAs) amounts to about 59% of the total area distributed in the selected ARCs (outside of ARMM). Land tenure improvement will be undertaken primarily in areas included within the target ARCs where about 55,000 ha will need to be surveyed for subdivision and/or stabilization of titles, as per the cropping plans prepared as part of the detailed ARC planning process. About 22,000 ARBs will be covered under this.

21. Support for land tenure improvement will include social preparation, surveys, and separation of individual titles, stabilization of land titles of ARBs. Social preparation for separation of collective issuance of individual CLOA separation will be provided through the CDD. Surveys and separation of individual titles will be implemented with DAR as the prime

mover.

22. The sub component will be coordinated and managed by the MARO under the overall direction of the head of the LPO. Social preparation of target ARCs will be undertaken by contracted NGOs with the BCIT through *barangay* or village level meetings. Thereafter DAR provincial legal teams will work in close tandem with the MARO, to identify ARBs and their verification, discuss options regarding titling, identification of actual or spiritual shares, and undertake preparation and issuance of titles.

d. Improved Access to Sustainable Rural Financial Services

23. There is an urgent need to mitigate the negative effects credit dependency upon moneylenders and traders, on ARB livelihoods of the high levels of their dependence for production and consumption credit on traders and moneylenders..⁵ The Project will contract suitable NGOs/CSOs, government financial institutions (GFIs), and microfinance institutions (MFIs) to work with interested ARCs in setting up self-selected, socially homogenous people's groups to help develop community-based microfinance activities. The Project will work with selected microfinance institutions (MFIs) to develop suitable options for farmers' credit needs.

24. This sub component will be implemented under the overall coordination by the MARO under the direction of the LPO. NGOs contracted under the project to work at ARC level will facilitate the organization of small groups of ARBs and non ARB farmers interested in developing micro finance services. The project will contract interested MFIs for the supply of training and credit both for micro finance as well as farming loans. Training will be provided to community based groups in related areas such as group working, group dynamics, leadership, election of group representatives/office bearers, savings, business planning, life cycle needs of credit, book keeping, ledger, accounting, loan repayments. Compulsory and regular savings will be initiated thereafter, and following 6-9 months of regular savings, loans would be advanced by partner MFIs. The contracted MFIs would provide regular monitoring and follow up of savings, repayments and overall financial sustainability of services. All project progress reports will include reporting on the micro finance activities under the project, amounts of credit mobilized, savings, repayments, interest rates, group development among other aspects.

3. Rural Infrastructure Development

25. Rural infrastructure is critical to the ability of ARCs and ARC clusters to participate in market-oriented agriculture and agribusiness promotion. To enhance ARC connectivity and promote development of agribusiness lands, the rural infrastructure development output will aim to (i) reduce transportation time and haulage costs of rural produce; (ii) reduce cost of farm inputs; (iii) increase availability of irrigation to enhance crop production; (iv) promote crop diversification; (v) increase cropping intensity and improve yields; and (vi) reduce post-harvest losses and transport damage. In addition, because most ARCs have difficulties accessing clean water, this subcomponent will also provide priority social infrastructure in order to (i) reduce incidence of waterborne diseases; (ii) generate time savings for more productive use; (iii) reduce health-related expenses; (iv) improve community hygiene and public health; and (v) reduce the vulnerability of the rural poor to various types of crises by improving access to emergency services.

⁵ The CARP impact assessment in 2003 found that the dependence of the rural poor on landlords was replaced by the growing dependence on traders and moneylenders after the implementation of CARP. This has led to reduced incomes, low prices (as compared to open market rates for produce), and perpetuated poverty.

26. The Project will adopt a CDD approach to subproject identification during the ARC detailed planning, to ensure that interventions provided by the Project, realistically address the needs of the ARCs.

27. The main outputs will include the following subcomponents:

- (i) **Rural access infrastructure.** Rehabilitation and selective construction of critically needed *barangay* or farm-to-market roads and their associated structures, single-lane concrete bridges and low-level crossings, access trails, footpaths, and hanging foot bridges in upland areas;
- (ii) **Small-scale irrigation.** Construction and rehabilitation of small-flow communal irrigation schemes, small water impounding projects, small farm reservoirs, shallow tube wells, and drip irrigation schemes for high-value crops
- (iii) **Post-harvest facilities.** Provision of warehouses and solar driers;
- (iv) **Potable Water Supply System (PWS).** Construction of PWS to include levels I and II⁶; and
- (v) **Other social infrastructure.** Construction and /or rehabilitation of multipurpose buildings, tribal halls, school room units, daycare centers, *barangay* health stations, and small-scale flood protection works. These sub-projects will be considered only where the lack of such facilities would jeopardize the creation of an enabling environment for sustainable poverty reduction. Indigenous communities will be given the highest priority in the provision of other social infrastructure.

28. Subprojects shall be planned and selected in accordance with the project guidelines agreed between the Borrower and ADB. The project guidelines shall include, among others, the following selection criteria: (i) prioritization by poor rural communities through the CDD approach; (ii) concurrence by the LGU; (iii) willingness on the part of LGUs to put up the required equity in accordance with the Borrower's National Government and Local Government Unit Cost Sharing Policy approved by the Investment Coordination Committee on 12 December 2002, and to operate and maintain the facilities in partnership with appropriate ARC organizations; (iv) LGU willingness to carry out the necessary surveys (including a census of affected persons in instances of land acquisition and adverse impacts, a land acquisition survey (if required), and social surveys), individual subproject feasibility studies by which the technical and economic viability are verified, and detailed engineering design that includes all required clearances; (v) preparation of the land acquisition and resettlement plans (LARPs), if required, or a summary discussion of land reports in cases of no land acquisition, (vi) willingness of LGUs to abide by ADB and government procurement safeguard and anticorruption policies, and to enforce proper financial and fiduciary management; (vii) commitment of LGUs to resolve any social or environmental problems; (viii) willingness of the LGUs and ARCs to promote organizations within the ARCs to operate and maintain the facilities; (ix) availability of project resources; and (x) no financing of proposed subprojects from any other foreign or local projects. The sub projects will be identified and prioritized through

⁶ Level I systems have one single supply location standpipe per community; level II systems are community-piped level I systems with several supply locations.

barangay and village level meetings to facilitate community participation. After prioritization, these will be included in the final ARC plans. Further, sub projects will be planned in detail by municipal officials (including NIA staff for irrigation) and assisted by other CARP Implementing partner agencies such as Department of Public Works and Highways (DPWH), DA, DENR among others as required. BAUs will assess the viability of proposed sub projects, and their assessment reports will be included with the project proposal for submission to regional and or national levels for approval. All subprojects costed at less than \$75000 will be submitted for approval at regional level, and proposals costing more will be submitted to the national level for approval.⁷

4. Project Implementation and Management

29. Efficient project implementation and management will be ensured by providing resources to support the management structure, which will be fully mainstreamed at the national, regional, provincial, and local levels. To the extent possible, all project implementation and management structures will be established within existing national and provincial government institutions. Regular DAR staff will be redeployed to assist in project implementation. The output will include consultant advisory services related to project management, CDD, safeguard policies⁸, fiduciary responsibility, agri-enterprise development, microfinance and rural credit promotion, infrastructure development, monitoring and evaluation, extension training, gender and development, and environment management, among others. The project organization chart is given in Appendix 1.

E. Special Features

30. **Socially Inclusive Development.** The Project is expected to stimulate participatory and inclusive social development. It includes a number of measures aimed at supporting community mobilization including organizing, training, capacity development in participatory design and implementation; improving capacity to access institutional finance; and building up community-based savings and credit groups, among others. Through these, the Project is expected to improve the local decision-making of the rural poor, reduce dependence on moneylenders and traders, reduce share tenancy, enable community monitoring and implementation, and improve ARBs' and other poor farmers' incomes through access to the open market instead of tied factor and product markets. The Project's socially inclusive approach will allow the participation of vulnerable groups such as indigenous peoples.

31. **Economic Benefits.** The Project will help to reduce poverty and improve the well-being of ARB and non-ARB households in the target of about 152 ARCs and 11 ARC clusters. A summary Poverty Reduction and Social Strategy is included in Appendix 2. The primary economic benefits to be derived from the Project consist of (i) the incremental value of agricultural output and (ii) savings in the cost of transportation of farm produce as a result of improved communications. Better farm incomes are expected from improved farm productivity through greater and more secure access to water, improved seed, inputs supply, better production practices, and crop diversification. The analysis here draws on the work undertaken by the project preparatory technical assistance in estimating the cost-benefit analysis for the Project as a whole.

⁷ For further details on rural infrastructure sub project selection and approval please refer to Appendix 16.

⁸ This will include experts on ADB's policies on indigenous peoples, involuntary resettlement, and the environment.

32. The benefits considered in the cost–benefit analysis are the computed benefits from the Project per type of component activity consisting of the following:

Table 3: Project Benefits Impact

Component Activity	Physical	Computed Benefits
Roads	1,925 km	VOC and/or transport savings, producer's surplus
Bridges	2,160 lms	VOC and/or transport savings, producer's surplus
Flood Protection Works	4,135 lms	producer's benefit from crop protection
Communal Irrigation Facilities	12,375 ha	Producer's surplus
Solar Driers	80 units	Drying fees, other rental fees
Warehouses	46 units	Storage fees, other rental fees
PWS	500 units	Water revenue, savings in medical expenses, time

lms = linear meters, PWS = Potable Water Supply System, VOC = vehicle operating cost.

Source: Asian Development Bank estimates.

33. The rehabilitation and/or construction of communal irrigation systems is expected to generate a total physical target area of about 12,375 ha of command areas, benefiting about 7,020 farmers, including about 5,616 ARB households. Increases in cropping intensity are expected to result from expansion in effective service area (for example, included in the design area but cannot be served by an existing irrigation system) and from generation of new irrigable areas (to be served through construction of a new irrigation facility or expansion in design area of an existing facility). For rehabilitated irrigation systems, average cropping intensity is 130% without-project, calculated to increase to 165% with-project. For new irrigation systems, average cropping intensity is expected to increase from 100% without-project to 165% with-project.

34. Improved access to irrigation is estimated to increase average yield from irrigated farms from 40 *cavans* (Philippine dry measure equivalent to 2.13 bushels) per ha without-project to 80 *cavans* per ha with-project. Aside from irrigation service facilities for rice producing areas, other inputs of the Project also induce a shift in the ARCs' production functions for the other crops cultivated. These include the assistance to farmers through technology demonstrations and trainings, credit and/or financing linkages for purchase of production inputs, capability-building trainings, land tenure improvement, and other forms of technical assistance of the Project that generally lead to improved farming practices and ultimately increase output. Given an average 10% growth in agricultural gross value added over the previous year, the Project assumes a weighted average increase in all crop yields of up to 15% at full development in the sixth year. Based on ARCP I performance monitoring data, the incremental increase in crop yield as a result of project interventions can range from 10% to 100%. At full development of the Project, the value of agricultural producer surplus is estimated to reach an average of P284 million from all ARCs, or P2.15 million per ARC.

35. The Project's technical support services for agricultural development will improve the productivity of coconut, sugarcane, and corn farms (Supplementary Appendix E). There are about 64,000 ha of coconut, 13,500 ha of sugarcane and 1,500 ha of corn on the farm lots of about 39,500 ARBs. Estimated incremental increase in farm outputs is at 18% for coconut, 75% for sugarcane, and 16% for corn. The annual incremental output in agricultural commodities will have a net value of \$14 million for rice, \$22 million for copra, \$9 million for sugarcane, and \$0.4 million for corn, or a total value of \$45 million per annum. Specifically, household incomes will increase by 20% on average in targeted ARCs; and 10% of households will achieve an increase in income above the poverty threshold by year 10. The Project is also expected to generate additional employment amounting to about 5 million person-days of

unskilled labor and 2 million person-days of skilled labor. This is expected to benefit landless and other poor households in the target areas.

36. The rehabilitation and/or construction of an estimated target of 1,925 km of farm-to-market roads will result directly in a 40% reduction in transportation costs for agricultural produce and a 60% reduction in commuter fares. The estimated influence area of the roads covers about 194,000 ha, of which about 116,000 ha (60%) are agricultural production areas. Transportation costs of agricultural produce will be reduced from P280 per ton-kilometer (t-km) to P158 per t-km. At full operating cost, savings from agricultural freight is expected to reach P131 million. Commuter fares will also be reduced from P44.5 per passenger-kilometer (pass-km) to P18 per pass-km. At an average annual population growth rate of 2% for all ARCs, vehicle operating cost savings derived from commuter transport will total P1 billion at full project development (Supplementary Appendix E).

37. Other facilities to be supported by the Project include solar driers, warehouses, multipurpose buildings, and potable water systems. These facilities will be provided primarily in areas served by irrigation facilities in consideration of greater volumes of production. User fees will be collected for cost recovery of the facilities. Provision of potable water supply will reduce incidence of disease, reduce school absences of children, improve educational performance, and reduce water-fetching time. Overall, the Project's benefits outweigh its costs. The Project has a net present value of benefits amounting to P3,616 million (\$78.6 million) and a 29.4% economic internal rate of return. Sensitivity analysis indicates that the Project will remain viable with a 25% increase in cost or a 25% reduction in benefits (Supplementary Appendix E).

F. Social and Gender Impacts, and Impacts on Indigenous Peoples (IPs)

38. The Project's benefits and impacts from social capital formation do not lend themselves to direct quantification. It is expected that as a result of the Project, ARBs and other poor farming households will strengthen their ability to participate effectively in local planning and decision-making on resource use and allocation. In particular, the community-driven development approach will promote a more socially inclusive development process that will address gender and indigenous peoples issues in resource and capital ownership and in entrepreneurial initiative participation — women are expected to benefit from microfinance, micro-enterprise development, and technical training. The Gender Action Plan is attached in Appendix 3. They are expected to play increasingly significant roles in leadership of people's organizations. Another unquantifiable social impact expected is greater inclusiveness of indigenous peoples in the target ARCs and ARC clusters.

39. **Indigenous Peoples Development Framework.** In keeping with ADB's *Policy on Indigenous Peoples* (1998), an indigenous peoples development framework (IPDF) is prepared, (Appendix 6) which will guide the preparation of indigenous peoples development plans (IPDPs) for subprojects likely to have impacts on indigenous peoples (Details are in Appendix 4).

G. Involuntary Resettlement

40. The Project is not expected to lead to significant involuntary resettlement. Most rural infrastructure subprojects are relatively small and likely to be executed in already-existing sites, for example, farm-to-market roads upgrading. However, under certain circumstances, land acquisition and involuntary resettlement impacts may occur, leading to acquisition of land and other assets, and adverse impacts on livelihoods, jobs, and incomes of affected persons. To prevent any decline in living standards below pre-project levels, and to make affected persons

into project beneficiaries, the Project includes an involuntary resettlement framework. It details the principles to be followed to develop land acquisition and resettlement plan (LARP) for subprojects requiring land acquisition, in accordance with ADB's *Involuntary Resettlement Policy* (1995). All affected persons irrespective of their status as titled, or those whose claims can be recognized under the law, or non-titled will be eligible for compensation for assets acquired, incomes and livelihoods lost, and rehabilitation assistance. Communal assets that are likely to be acquired will be replaced by the Project with similar assets and/or facilities. All LARPs will be in accordance with the involuntary resettlement framework and subject to final approval by ADB, prior to subproject appraisal and submission for approval. A summary involuntary resettlement framework is in Appendix 5.

H. Environment Impacts

41. The overall project is categorized as B under ADB guidelines. An initial environmental examination (IEE) was prepared for the whole project (SIEE is included in Appendix 8). Most subprojects are small-scale access infrastructures. About 5% of subprojects are likely to have farm-to-market roads greater than 2 km and less than 5 km in length. In general, no significant environmental impacts have been identified under the overall project. No ARCs have been identified as within or near high-biodiversity areas or within sites that are of historical, archeological, or paleontological significance. At the design stage, mitigating measures will involve the detailed review of location and technical specifications of the proposed rural infrastructure. Initial review at the DAR regional level will be undertaken, and a final review will be done at the central level. For general impacts of all types of subprojects related to construction, which is temporary in nature, mitigating measures would include water spraying of transport routes, use of equipment in good condition, and careful planning and scheduling of work. During operation of small irrigation subprojects, the possible impacts to the environment could be contamination of surface and groundwater, and potential leaching of soil nutrients because of increased use of agrochemicals as a result of crop intensification. These impacts can be mitigated by screening for environmentally friendly substances, intensive training of farmer irrigators on the proper application of inorganic fertilizers and pesticides, and the introduction of and advocacy for organic farming practices.

42. An IEE was prepared for the whole project, and a site-specific IEE will be prepared for a specific subproject scheme (roads); these IEEs are intended to assist in developing environmental assessment documents for future subprojects. The environmental assessment and review procedure will be used to screen future subproject. Further details are provided in Appendix 6. The environmental assessment and review procedure criteria, procedures, environmental management and monitoring plan templates, capacity development, institutional arrangements, budgets, and implementation checklists will be used to comply with ADB and Government environmental requirements. All subprojects falling under category B will be required to prepare an IEE for submission to DENR, and the first IEE will also be submitted to ADB for review. Even if an IEE is not required, environmental implications will be reviewed and the template for environmental management and monitoring specific to the subproject type will be followed. No environmental impact assessment is expected to be required for any future subproject scheme, as there is no subproject that is likely to fall under category A classification.

II. COST ESTIMATES AND FINANCING PLAN

A. Project Investment Plan

43. The investment cost of the project is \$208.4 million, including taxes and duties of \$18.2

million. Summary cost estimates by expenditure category and by financiers are provided in Appendix 2 and details are given in Supplementary Appendix B. Table 1 indicates the summary cost of project components.

Table 1: Project Investment Plan

(\$ million)		
Item		Amounts ^a
A. Base Cost^b		
1. Community-Driven Development		5.3
2. Agriculture and Enterprise Development		25.2
3. Rural Infrastructure		135.2
4. Project Implementation Management		9.6
Subtotal (A)		175.3
B. Contingencies^c		21.7
C. Financing Charges During Implementation^d		11.4
Total (A+B+C)		208.4

^a Includes taxes and duties of \$18.2 million

^b In mid 2007 prices

^c Physical contingencies computed at 5% for civil works, field research and development, training, surveys and studies. Price contingencies computed at 0.8% on foreign exchange costs and 4.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate

^d Includes interest, commitment charges. Interest during construction has been computed at the five-year forward London interbank offered rate plus a spread of 0.4%. Sources: Asian Development Bank and the Government estimates, 2008.

B. Financing Plan

44. The Government has requested a loan of \$70 million from ADB's ordinary capital resources (OCR), including price contingencies and financing charges during implementation to help finance the project. The total project cost is estimated \$208.4 million. About \$70 million of such financing will come from ADB's ordinary capital resources, while \$30 million will come from OFID funds to be administered by ADB. The ADB ordinary capital resources portion of the loan will have a 25.5 year term, including a grace period of 6.5 years, an interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility plus a 0.20% net lending spread; the commitment charge calculated at a 0.15% rate is levied on undisbursed loan balance; and such other terms and conditions as set forth in the Loan Agreement. The Government has provided ADB with (i) the reasons for its decision to borrow under the 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. The OFID portion of the loan will have a 20-year maturity, including a 5-year grace period, a 1% service charge per annum, and 3% interest. The proposed financing plan in Table 2 below shows the percentage financing share among the different sources.

Table 2: Financing Plan

(\$ million)

Source	Total	%
Asian Development Bank	70.0	33.6
OPEC Fund for International Development	30.0	14.4
National Government	52.4	25.1
Local Government Units	56.0	26.9
Total	208.4	100.0

OPEC = Organization of Petroleum Exporter Countries

Sources: Asian Development Bank and the Government estimates, 2008.

C. Allocation of Loan Proceeds

45. The allocation of loan proceeds and the basis for withdrawal from the ADB account in Loan Agreement is given in Table 3 below. ADB financing in this table was prepared in accordance with the expenditure accounts set in the RRP. Allocation by component with related percentages of ADB and OFID financing is discussed in point V para 45 to para 49 and detailed allocation of loan proceeds and allocation of funds from various financiers are also included in Appendix 2.

Table 3: Allocation and Withdrawal of Loan Proceeds

No	Item	Category	Subcategory	Percentage of ADB Financing
1	Works	40,243,000		56 percent*
2	Equipment	1,590,000		
2A	Vehicles		743,000	100 percent*
2B	Motorcycles		326,000	100 percent*
2C	Computers		177,000	100 percent*
2D	Other Office Equipment		344,000	81 percent*
3	Environment and Social Safeguard	10,465,000		51 percent*
4	Consulting Services	1,806,000		100 percent*
5	Interest and Commitment Charge	8,325,000		100 percent of amounts due*
6	Unallocated	7,571,000		
	Total	70,000,000		

Note: * Excluding taxes/duties

III. IMPLEMENTATION ARRANGEMENTS

46. **Executing Agency.** DAR will be the Executing Agency (EA) of the Project⁹. DAR will supervise the implementation of the Project through its Foreign-Assisted Projects Office (FAPsO), in collaboration with other operational units within the department as well as CARP implementing partner agencies and oversight agencies. FAPsO will oversee the coordination of project implementation, review, monitoring, and evaluation. It will submit monthly and/or quarterly financial and progress reports to ADB and oversight agencies. It will manage the Project and be responsible for delivery of project outputs. The EA will make necessary budgetary arrangements for the Project's counterpart funds to be estimated 12 months in advance of the anticipated expenditure and ensure that such funds will be allocated in the

⁹ ADB has been informed by the Government that while there are ongoing evaluations of DAR performance, and options for the future of CARP are under consideration, DAR will continue to be the Executing Agency of the Project. The processing is therefore continuing with the existing parameters.

respective national, provincial, and municipal budgets and released in a timely manner and in adequate amounts to allow efficient project implementation, operations, and maintenance.

47. **Project Executive Committee.** DAR will work under the supervision and guidance of the project executive committee (PEC), which will be set up and chaired by the DAR Secretary. The DAR Undersecretary designated as the project implementation officer (PIO) for FAPsO will act as vice chair. The PEC will include representatives of oversight agencies and partner agencies and/or their respective successors¹⁰. Ex-officio members shall include representatives from involved DAR units and the ADB. It will meet at least once every quarter in year 1 and every 6 months thereafter. It will review and approve annual work plans and budget, flow of funds, cost-sharing with LGUs, use of consultant services, progress monitoring, and all other relevant project activities. There shall be a secretariat, to be headed by the national project coordinator (NPC) of ARCP II, which will handle the technical and administrative requirements of the committee under the supervision and guidance of the director, project development management staff (PDMS) and FAPsO monitoring and evaluation (M&E) staff. The secretariat will coordinate committee meetings and timely preparation and submission of all project-related documents for review by the committee, prepare and disseminate the minutes of committee meetings and decisions made by the committee, and handle any other responsibilities allocated to it by the committee.

48. Under the office of the FAPsO, a national project coordination office (NPCO) for ARCP II, to be headed by the national project coordinator for ARCP II, will be set up to manage the Project and to supervise, monitor, and coordinate project implementation¹¹. The NPC for ARCP II will be based here. He or she will be assisted by the regular FAPsO staff and some 13 national consultants in the areas of project management, administration, finance, and accounting, among others. The NPC for ARCP II, who will report to the PIO FAPsO, will also be assisted by a fiduciary adviser (international consultant) to be engaged for about 24 person-months over the project implementation period¹². The NPC will be regularly assisted by the project management adviser, (national consultant) to be engaged for approximately 36 person months over the project period.

49. **Implementing Agencies and Specialized Agencies Providing Assistance.** Implementing agencies will include all participating municipal LGU and DAR offices at the regional and provincial levels. CARP implementing partner agencies such as DA,, DENR, DPWH, and specialized agencies such as NIA and National Commission on Indigenous Peoples (NCIP) will also support the Project. The NCIP, NIA and other specialized agencies whose inputs may be realized for the project, will each sign with DAR a memorandum of agreement, which will spell out their roles, responsibilities, and budget for implementation of specific project activities. DAR-ARMM will conclude a similar agreement with ARMM partner agencies¹³. The NIA is expected to assist weaker LGUs to undertake design of rural

¹⁰ The project executive committee will include the following agencies and/or their successors: National Economic and Development Authority, Department of Finance, Municipal Development Fund Office (MDFO), Department of Budget and Management, Bureau of Local Government Finance, Department of Agriculture, Department of Interior and Local Government, Department of Environment and Natural Resources, Department of Public Works and Highways, National Irrigation Administration, Land Bank of the Philippines, National Commission on Indigenous People, and the ARMM/DAR-ARMM.

¹¹ The FAPsO oversees the NPCOs or PMOs of other foreign-assisted projects as well, as part of the Government's mainstreaming efforts.

¹² All consultant services will be recruited in keeping with ADB's Guidelines on the Use of Consulting Services (2007, as amended from time to time).

¹³ For details on the roles and functions of partner agencies and institutions, refer to Supplementary Appendix C, Project Management Structure.

infrastructure subprojects, in the setting up of irrigator associations, in establishing irrigation service fees, in operations and maintenance training, among others. The NCIP is expected to participate in project committees, and in preparation and review of indigenous peoples development plans, land acquisition and resettlement plans, and any other indigenous peoples related activities.

50. **Regional- and Local-Level Project Implementation and Management.** The ARCP II covers six regions. Regional offices will be established under the overall management of the DAR Regional Directors, who will serve as the RPMs. In each of the project provinces, a provincial project office (PPO) will be established under the supervision of the provincial agrarian reform officer, who will function as the provincial project manager.

51. At the municipal level, LGUs, as implementing units, will be responsible for the setting up of local project offices (LPOs) to be chaired by the municipal mayors. The municipal agrarian reform officers, assisted by technical experts and administrative and financial specialists from the LGU, as well as staff from the regional offices and provincial project managers' offices, will be responsible for project implementation at ARC and municipal levels. In close collaboration with the MARO, the LPO will serve as the base unit for all project interventions in the ARCs within the municipality. The LPO will be responsible for ARC planning, agri-enterprise development activities, community-driven development support programs, and rural infrastructure subproject planning, and provision of required equity for the relevant project activities. The LPOs shall coordinate and monitor project implementation and address project-related concerns at the municipal and ARC levels, in close collaboration with the MAROs. At the LPO level, the municipal engineer's office will be the designated project unit for infrastructure development, while the municipal agriculture office will be responsible for agriculture, agri-enterprise development, and livelihoods development activities.

52. **Implementation Arrangements in the ARMM.** For project activities to be carried out in the ARMM, a regional project office will be established prior to loan effectiveness. The DAR-ARMM secretary will be the regional project manager, responsible for reporting and coordinating with the ARMM regional governor. The DAR-ARMM assistant secretary of operations will be the ARMM regional deputy project manager. The management and operations of the regional project office will be mainstreamed in the DAR-ARMM office. Municipal-level LGUs will play important roles in planning and implementing ARC plans and approved subprojects. The Project will be implemented in close consultation with local community leaders to ensure social inclusion and acceptance, with lasting impacts on peace and security.

53. **Fund Flows to ARMM.** ARCP II funds will flow directly to DAR-ARMM through DAR. Since ARCP II is a national project, the DAR central office will transfer funds directly to DAR-ARMM for activities related to CDD, ARC planning, capacity development, agri-enterprise development, land tenure improvement, rural financial systems development, and project management. For rural infrastructure subprojects, the Municipal Development Fund Office of the Department of Finance will transfer funds directly to participating LGUs, based on the cost-sharing agreement between them and the national government. In the context of the weaker LGUs, particularly in the ARMM, the Project will provide training in fiduciary aspects, financial management, and procurement.

54. **Technical Review and Approval Committees.** To mainstream and decentralize the review and approval process of subprojects under ARCP II, the process of technical review and approval of subprojects will be shared at the regional and national levels, depending on subproject cost. A national subproject approval committee will be set up by FAPsO to approve

subprojects costing more than \$75,000. Corresponding regional subproject approval committees will be set up by the DAR regional offices for all other subprojects.

55. **Financial Management Assessment.** The Executing Agency has strong financial management credentials and experience in managing and utilizing ADB funds under ARCP which closed in December 2007. The financial management systems are in keeping with ADB systems of financial management. Weaker LGUs, such as those in ARMM, will require capacity development under the Project in financial management, fiduciary requirements, and reporting requirements for ADB and the Executing Agency.

IV. IMPLEMENTATION SCHEDULE

56. The Project will be implemented over 6 years starting in early 2009. A summary project implementation schedule is given in [Appendix 9](#).

V. COST ESTIMATES AND FINANCING PLAN DURING IMPLEMENTATION

57. Asian Development Bank – As indicated in Table 2 above, ADB will finance \$70 million about 33.6% of the total project cost. Proceeds from the ADB ordinary capital resources portion of the loan will finance project activities covering approximately 127 ARCs in the target provinces identified for the Project. Table 3 above presents ADB financing by expenditure category and Table 5 below present ADB financing by component category.

Table 5: ADB financing by component (\$'000)

	Amount (\$'000)	%
1. Community Driven Development	2,892	49.7
2. Agriculture and Enterprise Development	10,469	37.7
3. Rural Infrastructure	46,061	30.2
4. Project Implementation Management	2,260	21.3
Total Project cost	61,682	31.3
Interest During Implementation	8,030	77.2
Commitment Charges	295	28.3
Total disbursement	70,008	33.6

Source: RRP Supplementary Appendix B

58. **OFID.** The OFID loan will finance project activities for approximately 25 ARCs in the ARMM and or other poor areas³⁸ and it will finance only for civil works \$30 million about 14.4% of the total project cost. The areas of OFID financing are different from the areas of ADB financing. OFID will finance 56% of the total financing of civil works.

59. **Central Government.** The central Government will finance about [25.1%](#) of the total cost, equivalent to \$52.1 million. The Government as indicated in [Table 6](#) below will fund a part of the cost of civil works, rural finance, and recurrent costs including salaries, operations and maintenance costs, and financing charges for OFID loan. Its contribution by component is presented in [Table 7](#).

Table 6:: Central Government Financing by Expenditure Account (\$'000)

	Expenditure account	Total	Taxes	Without taxes
1	Civil works	20,175*	15,092	5,082
2	Environment and Social Safeguards	171	2	168
3	Capacity Development	13,140	449	12,691
4	Consultancy Services	7,813	11	7,802
5	Incremental O&M	7,972	766	7,206
6	Interest During Implementation	2,368	0	2,368
7	Commitment Charges	748	0	748
	Total	52,387	16,322	36,065

* cash rewards for LGUs that have implemented some progress of various reforms set by the Government

Source: RRP – Supplementary Appendix B.

Table 7: Central Government Financing by Expenditure Account (\$'000)

Project component	Total	Taxes	Without Taxes
1. Community Driven Development	2,924	174	2,750
2. Agriculture and Enterprise Development	17,326	343	16,982
3. Rural Infrastructure	20,688	15,092	5,596
4. Project Implementation Management	8,332	712	7,621
Interest During Implementation	2,368	0	2,368
Commitment Charges	748	0	748
Total	52,387	16,322	36,065

60. National government policy limits its grant financing of infrastructure projects devolved to LGUs to a maximum of 50% of cost³⁹. The policy applies to the rural infrastructure facilities covered by the project. The amount will come from the budgetary appropriations of DAR and allocation of cash rewards for LGUs that have implemented some progress of various reforms set by the Government. Government contribution includes an estimated \$6 million credit portfolio to be tapped from public and private microfinance institutions in support of the project's microfinance assistance to intensify and/or diversify agricultural production and promote rural enterprise development in the ARCs.

61. **LGUs.** About \$56.0 million of the Project cost will be funded from equity contribution of LGUs participating in the project. The nature of the LGU equity will be in the form of cash or combined cash and monetized in-kind contributions, such as use of equipment and materials owned by the LGUs. It is agreed that the LGUs may enroll in a reform program with identified goals and measurable benchmarks. Based on satisfactory evidence of their meeting the targets, the LGUs may have 20% of their contribution refunded to them by the national government. Contributions from project beneficiaries constitute about 5% of LGU equity, mainly in the form of donated labor time and indigenous materials. Savings and/or capital share through membership in cooperatives may also be required or utilized as beneficiary's equity in availing microfinance or the internally generated savings of the community-based microfinance groups. Detailed cost estimates and financing plan of the Project are given in Appendix 2¹⁴.

¹⁴ Also attached to Appendix 2 – Guidelines for the financial governance and management of investment projects financed by Asian Development Bank.

62. **Contract awards** - Contract awards projections by years including graph that has been updating from appraisal estimates are presented in Appendix 5. All contracts financed by ADB in connection with the Project will include provisions specifying the right of ADB to audit and examine the records and accounts of the Executing Agency and all contractors, suppliers, consultants, and other service providers as they relate to the Project.¹⁵ All procurement of consulting services will be subject to ADB prior review. For civil works, the first 5 contracts procured under NCB will be subject to ADB prior review as the basis for the remaining contracts that they may have during the course of implementation. However, ADB may require submission of a copy of the bid evaluation report for each subproject for post-review to determine if procurement was done according to agreed guidelines. Any adverse finding will result in all related contracts will be declared null and void, with the concerned LGU being penalized. Disbursement - Disbursement projection by years including graph that has been updated from appraisal estimates is presented in Appendix 6.

VI. CONSULTANT RECRUITMENT

63. The Terms of reference for consulting services are presented in Appendix 7. The project will require an estimated 1,230 person-months of consulting services consisting of 1,200 person-months of national consultants and two international consultants for a total of 30 person-months. One international consultant will support the national project coordinator in matters pertaining to rural development, financial administration, procurement management, anticorruption, and fiduciary requirements. This international consultant will provide technical backstopping to LGUs in financial administration and procurement, as well as help to improve their fiduciary performance. The other international consultant will assist the Project in developing viable micro finance services for project beneficiaries. The national consultant team will be led by the national project adviser, who will assist the national project coordinator in project administration. All consultants will be recruited under ADB's *Guidelines for the Use of Consultants* (2007, as amended from time to time). The consultants will provide specialized technical services based on approved terms of reference and scope of work. All national consulting services will be procured through a firm using a quality- and cost-based selection procedure or through individual consultant recruitment in consultation with ADB as per ADB Guidelines. The international consultants will be recruited in consultation with ADB either through a firm or on an individual basis. 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 10. ADB's reference documents on consulting services can be downloaded from <http://www.adb.org./Consulting/documents.asp>.

64. The selection of consulting firms, universities, institutes, and NGOs to undertake specialized studies and project-related services will be conducted in accordance with ADB's *Guidelines for the Use of Consultants* (2007, as amended from time to time). The Project, through the DAR provincial offices, will engage the services of local survey firms for land survey activities under the land tenure improvement component. For the CDD approach, the Project will recruit NGOs and civil society organizations to provide expert services in the field. These organizations will be recruited at the national, provincial, and local levels using the quality- and cost-based selection procedure. NGOs will be evaluated using a set of criteria that will capture their unique qualifications.

¹⁵ All information pertaining to procurement of goods, works, and services under the Project will be posted on the Government of the Philippines website for the same, <http://www.philgeps.net/GEPS/default.aspx>, and <http://www.philgeps.net/GEPS>.

65. Outline TORs are already approved. Advertisements for consulting services have been issued by the EA even prior to project effectiveness. Applications are expected to be submitted by April 2009. The EA will submit the evaluation criteria to ADB for approval followed by submission of the short list of candidates to ADB by May 2009. After obtaining ADB approval, contract negotiations will be carried out by the EA by May/June, followed by signing of contracts by May 2009. Consultants are likely to be mobilized by end June/early July 2009.

VII. PROCUREMENT

66. All goods and services to be financed partly or wholly by ADB or OFID or any other source of financing under the Project will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time).⁴⁵ Except as ADB may otherwise agree, all goods and works shall be procured on the basis of procurement methods set forth below.

- i) International competitive bidding
- ii) National competitive bidding
- iii) Shopping

67. The majority of subprojects are expected to be relatively small and unlikely to attract international contractors. Hence, procurement of such small works will be through the shopping method under ADB's *Procurement Guidelines*. All civil works contracts exceeding \$100,000 and less than \$5,000,000 will be procured through the national competitive bidding procedure (NCB). Civil works contracts worth more than \$5,000,000 will be procured through international competitive bidding (ICB). Most rural infrastructure construction will be undertaken using labor-intensive methods, with arrangements for local communities to participate through equity contributions in the form of labor, materials, or cash. Community participation in procurement of rural infrastructure works will be supported for small works of up to \$10,000. Under certain conditions, if communities have successfully participated in procurement before, they may participate in schemes of up to \$30,000 in value. Community participation will build the involvement and commitment of local communities, use local knowledge, and promote the use of labor-intensive technologies.

68. Goods to be procured under the Project include office equipment and supplies, motorbikes, utility vehicles, land survey instruments, planting materials, agricultural and processing equipment, and school and health center supplies, among others. Procurement of goods valued at less than \$100,000 will be done through the shopping method under ADB's *Procurement Guidelines*. Goods valued at \$100,000 or more but less than \$500,000 will be through national competitive bidding. All equipment valued at \$500,000 or more will be procured under the international competitive bidding procedure. Procurement under the rural infrastructure component will be the main responsibility of the municipal LGU through its bids and awards committee in accordance with the provisions of Republic Act 9184. Procurement of equipment and materials for schools and health centers will be small (less than \$100,000) and can be done through the shopping method. The methods of procurement are subject to, among other things, the detailed arrangement and threshold values set forth in the Procurement Plan in Appendix 8. 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.

69. The procurement plan is attached in Appendix 8.

70. **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.

71. **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.

72. **Community Participation in Procurement.** The Borrower may use community 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.

VIII. DISBURSEMENT PROCEDURES

73. The ADB loan proceeds will be released to the Department of Finance through the Bureau of the Treasury using the existing fund release mechanism for Overseas Development Assistance (ODA) projects. Three imprest accounts, two for the ADB loan and one for OFID loan, will channel the project loan proceeds. OFID funds are for the infrastructure component in ARMM and other selected poor areas and will be disbursed through the imprest account based on ADB clearance. Two imprest accounts (ADB and OFID) will be with the Department of Finance for fund disbursement related to the rural infrastructure component and will be channeled through the Municipal Development Fund Office, which will release the funds to an LGU according to performance-based tranches prescribed by the Project. The LGU will maintain an account with an authorized government depository bank dedicated to the loan proceeds portion (national government grant) of the subproject cost.

74. The other ADB imprest account will be with DAR for all other eligible expenses from the

loan proceeds. The DAR regional and provincial offices will open their respective accounts with an authorized government depository bank where project funds will be deposited. For the ARMM, the DAR central office will transfer funds directly to DAR-ARMM for outputs one and two (community-driven development and agriculture and enterprise development), whereas the Municipal Development Fund Office (MDFO) will transfer ADB and OFID funds directly to LGUs for the rural infrastructure output. Separate accounts shall be maintained for ADB and OFID funds at all levels. Assuming that conditions for the use of Statement of Expenditure (SOE) procedures are met in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time), ADB's SOE procedures may be used to reimburse expenditures and liquidate individual expenditures not exceeding \$100,000 per payment and the Project will use the appropriate SOE forms. To ensure liquidity of funds, the imprest accounts will be replenished and liquidated on a monthly basis or when the accounts are drawn down by 20% of the initial deposit. The total ceiling of all imprest accounts shall be less than 6 months expenditures targets or 10% of the total loan amount, whichever lower. The currency of the accounts is in US\$. The imprest accounts and SOEs will be audited annually by auditors acceptable to ADB. Details about disbursement modalities including the statement of expenditure, imprest fund and other supporting information are in Appendix 9. Potential direct payment procedure or commitment procedure for eligible project-related expenditure that will involve big contract amounts will be assessed during the implementation of the Project. The Government shall also the ADB guidelines sent by CTLA's disbursement letter of 22 January 2009 (attached).

IX. PROJECT MONITORING AND EVALUATION

75. To monitor and evaluate the operational performance of the agencies and institutions involved and the benefits obtained from the Project, DAR, in consultation with ADB, will establish a project performance management system in accordance with the project design and monitoring framework (Appendix 1) in the national project coordination office within 1 year of loan effectiveness. The project performance management system will monitor and rate (i) key activities (on a physical and financial basis), including consultant recruitment, equipment and materials procurement, procurement of civil works, training, surveys, special studies, and drafting of implementation guidelines; (ii) performance in project activities of various stakeholders, including LGUs at the provincial and municipal levels, ARCs, ARC clusters, people's organizations, NGOs, and civil society organizations; and (iii) social, environmental, and economic impacts, establishing benchmarks. It will also introduce mechanisms for adjusting project design and project implementation arrangements, and for incorporating lessons learned from similar projects into project planning. Project monitoring and evaluation reports will be submitted by the NPCO, through the DAR-FAPsO, to ADB on a quarterly basis. On project completion, impacts will be evaluated in accordance with a schedule and terms of reference (TOR) to be agreed upon mutually by the Government and ADB. A baseline survey will be done prior to actual implementation, followed by an impact assessment at midterm review, an impact evaluation at the end of the Project, and a project completion report to be submitted within 3 months of project completion.

76. The PPMS will provide for baseline, midterm, and completion surveys; and train staff on the proper monitoring of field activities for ARCP II and CDD, agri enterprise development, rural infrastructure development, and social and environmental infrastructure. PPMS findings will be incorporated in quarterly project progress reports to be prepared by the NCO 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.

77. Project risk management plan (RMP) as given in Appendix 10, was prepared in accordance with ADB's Second Governance and Anticorruption Action Plan (CAGAP II) and Guidelines for implementing GACAP II. The overall aim of GACAP II is to improve ADB's performance in helping strengthen governance systems and in reducing vulnerability to corruption in the investments. As indicated in the guidelines, RMP focuses on assessing public financial management, procurement, and corruption risks in the Project and includes practical actions necessary to mitigate project-specific risks. The RMP will be regularly monitored during project review missions and the tool to monitor the progress is also included in the appendix.

X. REPORTING REQUIREMENTS

78. Details about project performance guidelines are given in Appendix 11. The project performance management system will monitor and rate (i) key activities (on a physical and financial basis), including consultant recruitment, equipment and materials procurement, procurement of civil works, training, surveys, special studies, and drafting of implementation guidelines; (ii) performance in project activities by various stakeholders, including LGUs at the provincial and municipal levels, ARCs, ARC clusters, people's organizations, NGOs, and civil society organizations; and (iii) social, environmental, and economic impacts, establishing benchmarks. Progress reports will monitor quantitative targets set in the DMF for all project outcomes and outputs, and assign reasons for levels of progress achieved along with revised targets. It will also introduce mechanisms for adjusting project design and project implementation arrangements, and for incorporating lessons learned from similar projects into project planning. Project monitoring and evaluation reports will be submitted by the NPCO, through the DAR-FAPsO, to ADB on a quarterly basis. On project completion, impacts will be evaluated in accordance with a schedule and terms of reference (TOR) to be agreed upon mutually by the Government and ADB. A baseline survey will be done prior to actual implementation, followed by an impact assessment at midterm review, an impact evaluation at the end of the Project, and a project completion report to be submitted within 3 months of project completion. Details about reporting requirement are given in Appendix 12 and sample of progress report by executing agency is presented in Appendix 13.

XI. AUDITING REQUIREMENTS

79. The Project will adhere to the revised and updated financial management guidelines and procedures applicable to foreign-assisted projects being implemented by national government agencies. A memorandum of agreement between DAR and oversight bodies and CARP implementing agencies will stipulate the agency's role in the management and disbursement of project funds. FAPsO finance and administrative staff will be responsible for management of project funds and will undertake the processing, disbursement, reimbursement, and financial monitoring of the loan proceeds. Such financial management and control arrangements will be carried out in accordance with government accounting procedures.

80. Expenditures by DAR regional and provincial offices will be recorded using the new government accounting system and the standard government charts of accounts. Separate books of accounts will be maintained at the regional and provincial levels. At the end of each year, the national project accountant will consolidate all project accounts, including the financial statements submitted by DAR regional and provincial offices and LGU partners. The national project accountant will submit the consolidated financial statement report to FAPsO.

Consolidated project accounts and related financial statements will be audited annually by an auditor acceptable to ADB. The audited reports and related financial statements in English will be submitted to ADB not later than 9 months after the end of the fiscal year to which they relate. The Executing Agency will be responsible for the submission to ADB of (i) annual audit reports and, (ii) quarterly progress reports. A Sample of Audit Letter is given in Appendix 14. A separate audit opinion is to be issued on the use of imprest account and SOE procedures.

81. 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

XII. MAJOR LOAN COVENANTS

82. In addition to the standard assurances the Government has also given specific assurances that will be incorporated in the loan agreement:

- (i) The Government will ensure that project activities, including those under subprojects, will comply with (a) applicable laws and regulations of the Philippines; (b) ADB environment policies and regulations, specifically ADB's *Environment Policy* (2002); (c) environment assessments and review framework as prepared and agreed for the Project; and (d) the environmental monitoring plan as set out in the summary initial environmental examination (SIEE), including preparing initial environmental examination for subprojects. The Government will report compliance with ADB's *Environment Policy* in DAR's quarterly progress report.
- (ii) The Government will ensure that land required for the Project is free of occupation; and any involuntary resettlement, as defined in ADB's *Involuntary Resettlement Policy* (1995), will be avoided under the Project. If, because of an unforeseeable circumstance, such involuntary resettlement is unavoidable, the Government will prepare LARPs in accordance with ADB's *Involuntary Resettlement Policy* and the involuntary resettlement framework, and submit such resettlement plan to ADB for approval prior to commencing land acquisition activities.
- (iii) The Government will ensure that for an ARC and ARC Cluster, which includes ancestral domains or indigenous peoples areas, or with significant indigenous peoples population, an indicative indigenous peoples development plan will be prepared and included in the ARC and cluster development plans for endorsement to the LGU for implementation under the Project. Such plans will be prepared in accordance with the Project's Indigenous Peoples Development Framework as agreed between the Government and ADB, existing national guidelines, applicable policies and guidelines of the Government, and ADB's Policy on Indigenous

Peoples, 1998. The Government will submit all indigenous peoples development plans for ADB's review and approval prior to implementation of the relevant subprojects in accordance with the ADB's Policy on Indigenous Peoples. The indigenous peoples development plans and monitoring reports will be made available on the ADB website and information contained in such documents will also be made available at municipal and ARC level to all target communities and other stakeholders. The Government will regularly report on the status of indigenous peoples under the Project. In all ARCs with substantial indigenous peoples, they will form a significant proportion of all project beneficiaries under community-driven development activities, capacity building of ARC organizations, agriculture and enterprise development, land tenure improvement, and development of rural infrastructure.

- (v) The Government will ensure that DAR and project implementing agencies will monitor and inspect on all contractors' activities related to fund withdrawals and settlements. The Government will further ensure that all contracts financed by the loan proceeds will include provisions specifying ADB's right to audit and examine the records and accounts of contractors, suppliers, consultants, and other service providers as they relate to the Project.
- (vi) The Government will ensure that appropriate NGOs and microfinance institutions will be contracted to provide specialized services for the CDD approach and other specialized services.
- (vii) Rural infrastructure subprojects will be planned and selected in accordance with project guidelines (para. 48).

XIII. KEY PERSONS INVOLVED IN THE PROJECT

83. 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.

1.	Mr Urooj S. Malik Director SEAE ADB, Manila	Tel: 632 6326772/6234 Fax: 632 6362231 E Mail: umalik@adb.org
2.	Dr. Manoshi Mitra Senior Social Development Specialist SEAE, ADB, Manila	Tel: 632 6326111/6914 Fax: 632 636 2231 E Mail: mmitra@adb.org
3.	Mr. Homer Taylor Project Officer SEAE, ADB	Tel: 632 6326926 Fax: 632 6362231 E Mail: htaylor@adb.org
4.	Mr. Oliver Domagas Financial Control Specialist CLTA5, ADB	Tel: 632 6324393 E Mail: odomagas@adb.org
5.	Ms.Ma.Purificacion L.Liwanag Control Officer CLTA5, ADB	Tel: 632 6326780 E Mail: pliwanag@adb.org

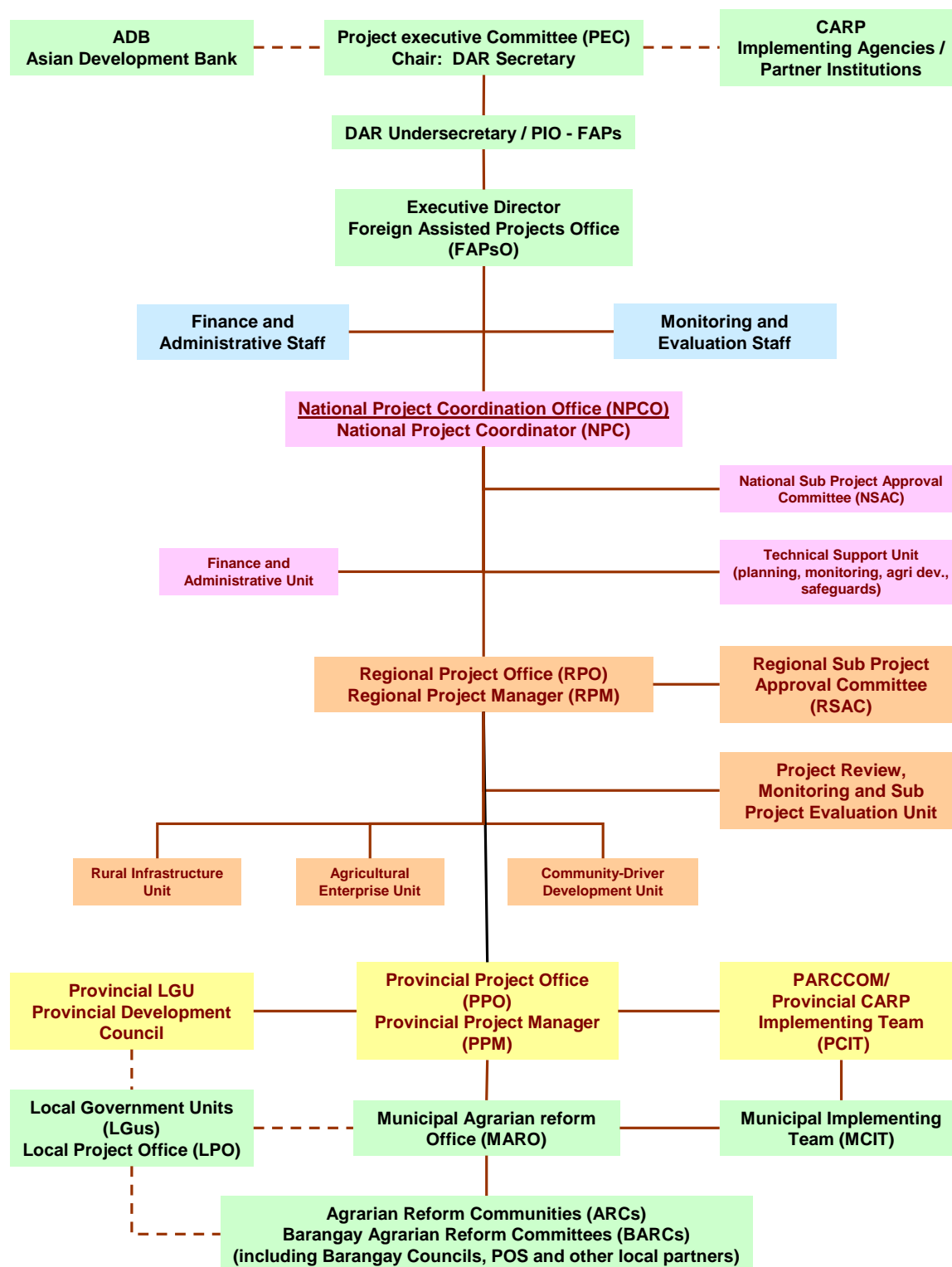
- | | | |
|----|---|---|
| 6. | Mr. Narciso B. Nieto
Undersecretary
Department of Agrarian Reform
Elliptical Road, Quezon City, Manila | Tel:
Fax:
E Mail: |
| 7. | Mr. Nelson Genito
National Project Coordinator
DAR FAPsO
Elliptical Road, Manila | Tel: 4262601 / 926 1891
Fax: 926 1891
E Mail:
nggenito_arcp2@yahoo.com |
| 8. | Ms. Herminia San Juan
DAR FAPsO
Elliptical Road, Quezon City, Manila | Tel: 0917359232
Fax: 9261891
E Mail: minnie_sj@yahoo.com |

XIV. ANTICORRUPTION POLICY

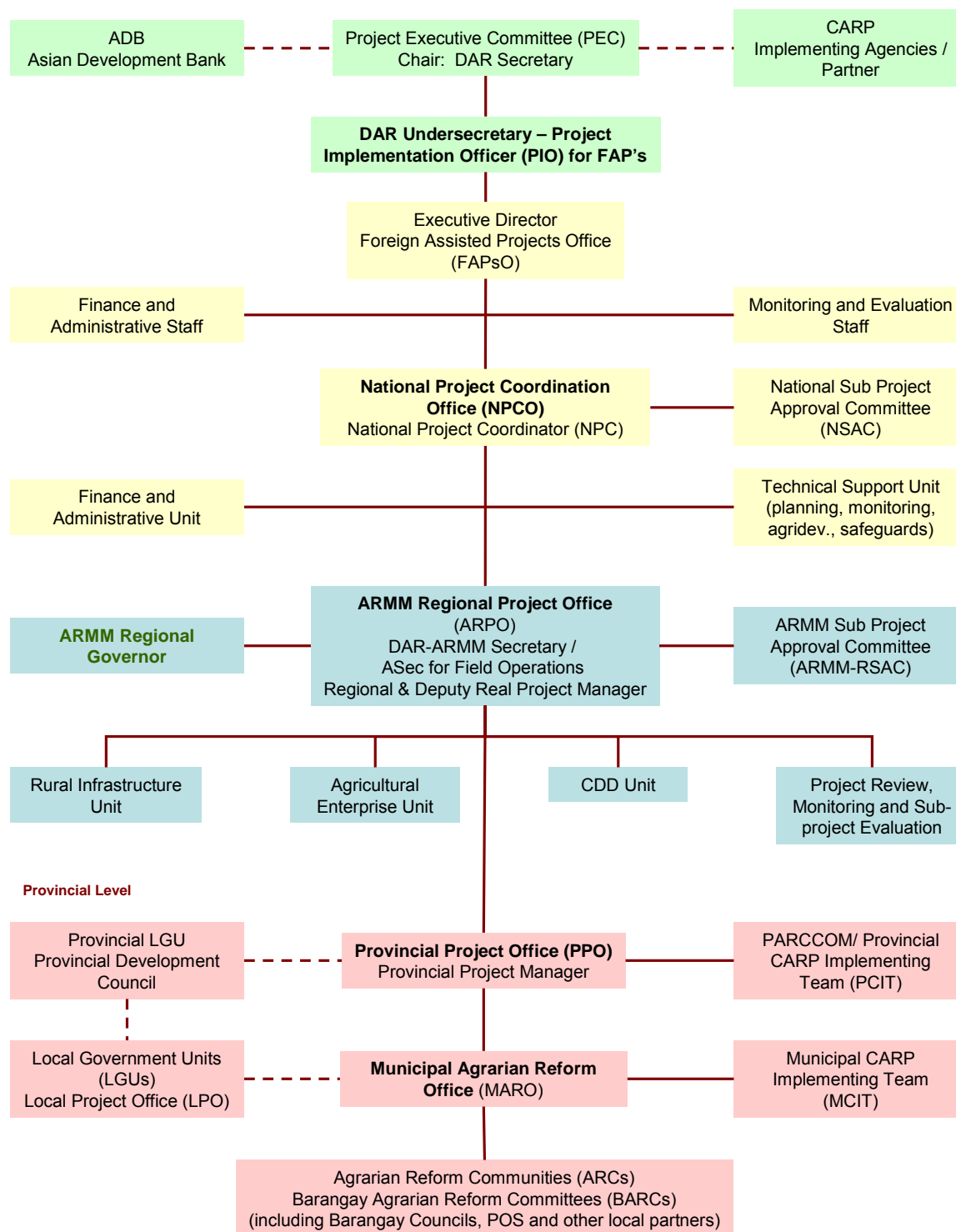
84. ADB's anticorruption policy⁶ was explained to and discussed with the Government and DENR. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive 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 OFID 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. From time to time ADB will carry out spot audit in order to ensure good governance and transparency. The project also includes an international consultant for fiduciary management, through awareness raising, capacity development as well as surprise checks of all documents related to procurement of goods and services.

85. 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 DAR, and local governments will be monitored closely.

ARCP II PROJECT ORGANIZATION CHART



ARCP II ARMM ORGANIZATIONAL AND PROJECT MANAGEMENT STRUCTURE



Cost Estimate Financing Plan

(separate file)

- suggest to prepare supplementary appendices for supporting documents

DETAILED IMPLEMENTATION SCHEDULE																											
Activity	Agency/ies	Year 1				Year 2				Year 3				Year 4				Year 5				Year 6					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
1. Inception Workshop	ADB/ DAR																										
2. Setup National Project Coordination Office and Apply National Coordination	DAR / FAPsO																										
3. Project Steering Committee Setup	DAR/ FAPsO																										
4. Regional and Provincial Offices Setup	DAR Central DARRO / DARPO																										
5. Local Project Offices Setup	Municipal LGUs																										
6. National Regional Subproject Approval Committees Setup	DAR Central/ DARROs / DARPOs / CARP / Partner Agencies																										
7. Recruitment of Consultants at National and Regional Levels	DAR / FAPsO / NPCO																										
8. Recruitment of Resident Institute for Baseline Survey	NPCO/ DAR / FAPsO																										
9. Imprest Accounts Set-up	DAR / FAPsO / MDFO																										
10. Approval of Six Months Budget and Workplan	PSC																										
11. Release of Project Advance	ADB / DAR /FAPsO																										
12. Baseline Survey and Report	DAR / Research Institute																										
13. NGO Contracts	DAR / ADB																										
14. Social Capital Formation	LPO / NGOs / DARPO / DARRO																										

15. Detailed ARC Plans	DARPO / LPOs / Barangays																														
Activity	Agency/ies	Year 1				Year 2				Year 3				Year 4				Year 5				Year 6									
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4						
16. Agri-enterprise Development	LPO / DAR / RPO / PPO /NGOs																														
17. Microfinance System	DAR / POs / LPOs / MFIs / NGOs / Barangays																														
18. Land Tenure Improvement	DAR / PO / LPO /Barangay																														
19. Rural Infrastructure																															
20. Project Management																															
21. ADB Review Mission																															
22. ADB Midterm Review	ADB / NPCO / DAR / FAPsO / LPOs / OFID																														
23. Midterm Impresst Assessment	DAR / FAPsO / NPCO																														
24. Project Completion Report	NPCO / DAR / FAPsO / Consultants																														
25. PCR Mission	ADB /OFID / DAR																														

ADB = Asian Development Bank, CARP = Comprehensive Agrarian Reform Program, DAR = Department of Agrarian Reform, DARPO = Department of Agrarian Reform Provincial Office, DARRO = Department of Agrarian Reform Regional Office, FAPsO = Foreign-Assisted Projects Office, LGU = local government unit, LPO = local project office, MDFO = Municipal Development Fund Office, MFI = microfinance institutions, NGO = nongovernment organization, NPCO = National Project Coordination Office, OFID = OPEC Fund for International Development, POs = peoples organizations, PPO = Provincial Project Office, PSC = Project Steering Committee, RPO = Regional Project Office.

Sources: Asian Development Bank and Government of the Philippines.

		DETAILED IMPLEMENTATION SCHEDULE																											
Activity	Agency/ies	Year 1				Year 2				Year 3				Year 4				Year 5				Year 6							
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
1. Inception Workshop	ADB/ DAR																												
2. Setup National Project Coordination Office and Apply National Coordination	DAR / FAPsO																												
3. Project Steering Committee Setup	DAR/ FAPsO																												
4. Regional and Provincial Offices Setup	DAR Central DARRO / DARPO																												
5. Local Project Offices Setup	Municipal LGUs																												
6. National Regional Subproject Approval Committees Setup	DAR Central/ DARROs / DARPOs / CARP / Partner Agencies																												
7. Recruitment of Consultants at National and Regional Levels	DAR / FAPsO / NPCO																												
8. Recruitment of Resident Institute for Baseline Survey	NPCO/ DAR / FAPsO																												
9. Imprest Accounts Set-up	DAR / FAPsO / MDFO																												
10. Approval of Six Months Budget and Workplan	PSC																												
11. Release of Project Advance	ADB / DAR /FAPsO																												
12. Baseline Survey and Report	DAR / Research Institute																												
13. NGO Contracts	DAR / ADB																												
14. Social Capital Formation	LPO / NGOs / DARPO / DARRO																												

15. Detailed ARC Plans	DARPO / LPOs / Barangays																								
Activity	Agency/ies	Year 1				Year 2				Year 3				Year 4				Year 5				Year 6			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
16. Agri-enterprise Development	LPO / DAR / RPO / PPO /NGOs																								
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Sources: Asian Development Bank and Government of the Philippines.

Contract Awards Projections

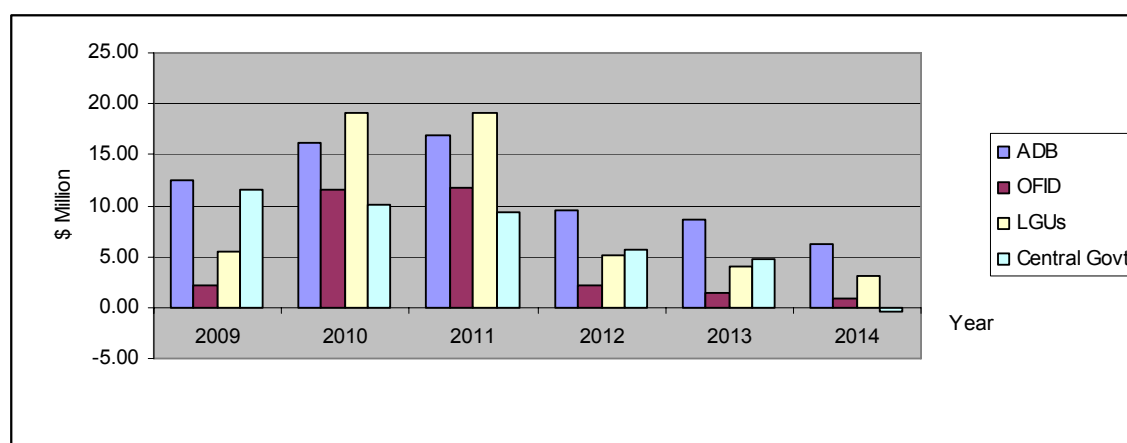
A. Contract Awards by Semesters from Various Financiers (\$ Million)

	LGUs	ADB	OFID			National Government	Cumulative
	Amount	Amount	Amount	Total	Project Costs	Cash Flow	Cash Flow
1	2.75	6.20	1.05	9.99	15.79	-5.79	-5.79
2	2.75	6.30	1.05	10.10	15.79	-5.68	-11.48
3	9.54	8.05	5.77	23.36	28.43	-5.07	-16.55
4	9.54	8.19	5.77	23.50	28.43	-4.93	-21.48
5	9.58	8.38	5.86	23.82	28.60	-4.79	-26.26
6	9.58	8.52	5.86	23.96	28.60	-4.64	-30.91
7	2.56	4.71	1.12	8.38	11.26	-2.87	-33.78
8	2.56	4.79	1.12	8.46	11.26	-2.79	-36.58
9	1.97	4.26	0.74	6.97	9.40	-2.43	-39.00
10	1.97	4.33	0.74	7.04	9.40	-2.35	-41.35
11	1.58	3.12	0.47	5.17	4.99	0.18	-41.18
12	1.58	3.17	0.47	5.22	4.99	0.23	-40.95
Total	55.97	70.01	30.01	155.98	196.92	-40.95	-40.95

B. Annual Contract Awards from Various Financiers (\$ Million)

	2009	2010	2011	2012	2013	2014	Total
ADB	12.50	16.23	16.90	9.49	8.58	6.29	70.01
OFID	2.09	11.54	11.71	2.24	1.48	0.94	30.01
LGUs	5.50	19.08	19.16	5.11	3.95	3.16	55.97
Central Govt	11.48	10.00	9.43	5.67	4.78	-0.41	40.95
Total	31.57	56.86	57.20	22.51	18.79	9.98	196.92

C. Contract Awards from Various Financiers



Disbursement Projection by Year (\$'million)

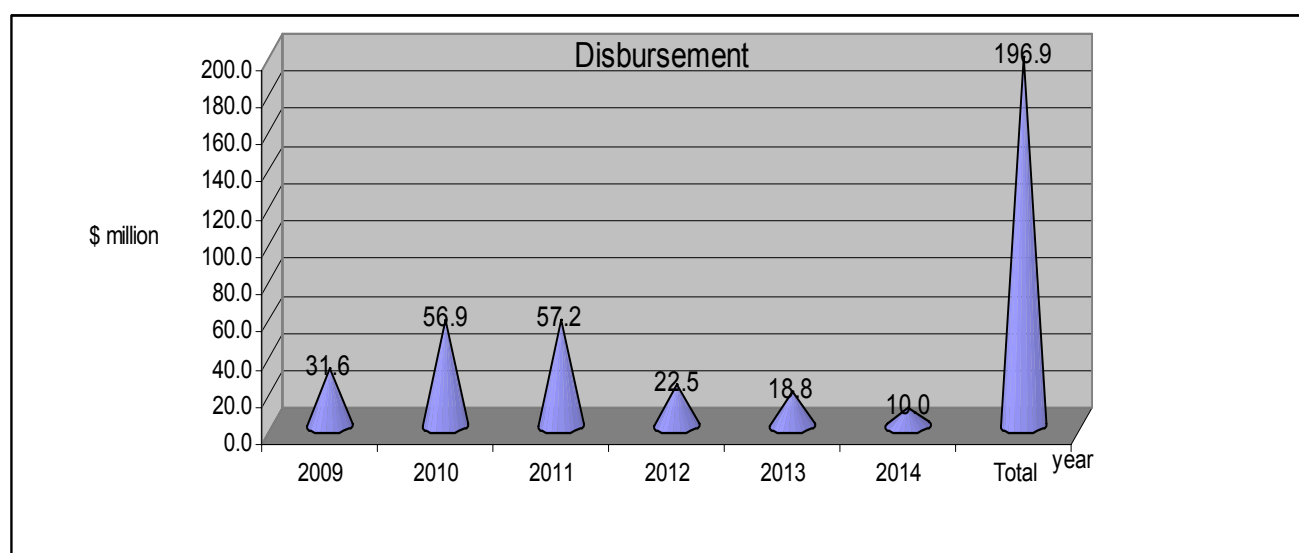
A. By Expenditure Accounts

Disbursement by Expenditures	2009	2010	2011	2012	2013	2014	Total
I. Investment Costs							
A. Civil Works	15.89	49.64	49.99	14.97	11.48	9.65	151.62
B. Goods/Equipment							
Vehicles	0.75	0.00	0.00	0.00	0.00	0.00	0.75
Motorcycles	0.33	0.00	0.00	0.00	0.00	0.00	0.33
Computers	0.18	0.00	0.00	0.00	0.00	0.00	0.18
Other Office Equipment	0.35	0.00	0.00	0.00	0.00	0.00	0.35
Subtotal Goods/Equipment	1.60	0.00	0.00	0.00	0.00	0.00	1.60
C. Environment and Social Safeguards	0.15	0.00	0.00	0.00	0.00	0.00	0.17
D. Capacity Development	4.62	2.21	1.99	2.08	2.17	0.06	13.14
E. Consultancy Services	6.54	2.95	3.08	3.22	2.80	0.04	18.62
F. NGO Contracting	0.76	0.30	0.31	0.32	0.34	0.02	2.05
Total Investment Costs	29.56	55.11	55.37	20.60	16.79	9.77	187.20
II. Recurrent Costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00
C. Incremental O&M	1.42	1.48	1.55	1.62	1.69	0.20	7.97
D. Consulting Services	0.59	0.27	0.28	0.30	0.31	0.01	1.76
Total Recurrent Costs	2.01	1.76	1.83	1.92	2.00	0.21	9.73
Total PROJECT COSTS	31.57	56.86	57.20	22.51	18.79	9.98	196.92

B. By Component Accounts

Disbursement by component	2009	2010	2011	2012	2013	2014	Total
1. Community Driven Development	2.25	1.14	0.87	0.91	0.51	0.14	5.82
2. Agriculture and Enterprise Development	9.60	4.26	4.45	4.65	4.82	0.00	27.79
3. Rural Infrastructure	16.45	49.78	50.13	15.12	11.59	9.65	152.72
4. Project Implementation Management	3.27	1.68	1.76	1.83	1.86	0.19	10.59
Total	31.57	56.86	57.20	22.51	18.79	9.98	196.92

Source: update from RRP – Supplementary Appendix B



OUTLINE TERMS OF REFERENCE OF CONSULTANTS

1. A team of international and national consultants will be recruited to help the government with implementing the project. All consultants will be recruited through firms using QCBS procedure. A total of nine consultant positions are proposed for the national level including one international and eight national consultants. At regional level a complement of seven specialists are proposed to assist with project implementation at regional, provincial and municipal levels.

2. In addition the services of non government organizations (NGOs), civil society organizations (CSOs) will be locally recruited to provide assistance with preparing the community driven development approach and helping to build the capacity of Department of Agrarian Reform (DAR) staff, and communities to implement the approach. Local firms will be contracted for the purposes of conducting special studies such as the baseline survey, repeat surveys, and impact assessments among others.

A. National Government

1. International Consultant (36 person-months)

a. Project Management Adviser

3. **General.** The Project Management Adviser (PMA) shall be responsible for assisting the National Project Coordinator (NPC) in the management and supervision of the implementation of the ARCP II. She/he shall provide technical assistance and advisory services to the DAR-Foreign Assisted Projects Office (FAPsO) in the overall management and implementation of ARCP II. The PMA shall be reporting directly to the NPC of the project.

4. **Scope of Services.** The specific duties include but not limited to the following:

- (i) Assist the NPC in the preparation of project documentation in keeping with ADB requirements;
- (ii) Oversee and supervise the preparation and implementation of the work and financial plan;
- (iii) Liaise and coordinate with partner agencies, oversight bodies, and funding institutions on all aspect related to good governance of the project;
- (iv) Prepare and submit consolidated project budget proposal to the NPC, for submission to the Project Executive Committee (PEC);
- (v) Oversee procurement procedures for goods and services required by the national project coordination office (NPCO) and Regional Project Management Office (RPMOs);
- (vi) Provide technical assistance to municipal and provincial local government units (LGUs) as required on implementation of the ADB's Anticorruption Policy;
- (vii) Make field visits to municipal LGUs and provide technical training and backstopping on fiduciary matters, including the preparation of bid documents and the award of contracts, and financial reporting;
- (viii) Oversee the preparation and timely submission of regular physical and financial reports indicating project benefits and impact;
- (ix) Provide technical assistance and advisory services to the national subproject approval committee and PEC; and
- (x) Perform other project related functions as may be required by DAR-FAPsO from time to time.

5. Core Competencies

- (i) Proven managerial and advisory capability, innovativeness and effectiveness under varying work assignments, conditions and time pressures;
- (ii) Ability to manage and implement complex rural development projects with related financial management system;
- (iii) Proven knowledge of fiduciary management, ADB's Procurement Guidelines and Guidelines on the Use of Consulting Services, ADB's Policy on Anticorruption;
- (iv) Ability to give sound advice on sensitive issues based on thorough understanding of the agrarian reform policies and programs;
- (v) Ability to provide technical assistance on fiduciary management;
- (vi) Excellent communication skills, interpersonal and teamwork abilities, including proven ability to work cohesively with senior officials and international consultants; and
- (vii) In depth knowledge of social, economic, and cultural issues affecting the implementation of the Agrarian Reform Program in the Philippines.

6. Qualification Requirements

- (i) At least 10 years professional experience as a project manager or team leader of similar complex rural development projects;
- (ii) Should have strong professional background in project planning, appraisal and review of agrarian reform related projects;
- (iii) Should have strong professional expertise in fiduciary management;
- (iv) Should possess a strong academic background, preferably a masters; and
- (v) Degree holder in economics, development management, business administration/management, and related fields of study.

2. National Consultants

a. Senior Economist (24 person-months)

7. The Senior Economist would be responsible for the provision of technical assistance and advisory services in the economic and financial analysis of various subprojects submitted for the review and approval of ARCP II.

8. **Scope of Services.** The specific duties include but not limited to the following:

- (i) Undertake socioeconomic analysis of development assistance and investment programs of government agencies and funding institutions in the Agrarian Reform Communities (ARCs);
- (ii) Conduct economic and financial evaluation of LGU's absorptive capacity for development assistance in the ARCs;
- (iii) Provide technical assistance and advisory services to the NPCO in the conduct of the meetings of the national subproject approval committee and the PEC;
- (iv) Provide technical inputs in the preparation and consolidation of the annual work and financial plans, quarterly progress reports and financial status and annual budget proposals;
- (v) Provide technical inputs in the revision and update of project operations manual particularly on the guidelines for the subproject preparation and implementation, economic and financial analysis of subprojects and socio-economic benefit monitoring;

- (vi) Conduct capacity building and technical skills enhancement programs for designated DAR field staff in the preparation of feasibility studies;
- (vii) Review and evaluate best practices in subproject preparation and implementation and incorporate these in the project operations manual; and
- (viii) Provide technical inputs in the preparation of the project strategic directions and sustainability measures.

9. **Core Competencies**

- (i) Proven expertise in undertaking economic and financial analysis of integrated rural development projects under varying work assignments, conditions and time pressures;
- (ii) Broad experience in the preparation and implementation of complex rural development projects with related economic and financial management system;
- (iii) Ability to give sound advice on sensitive economic and financial management issues based on an in depth understanding of the agrarian reform policies and programs;
- (iv) Excellent communication skills, interpersonal and teamwork abilities;
- (v) Including proven ability to work cohesively with senior officials and international consultants; and
- (vi) In depth knowledge of social, economic and cultural issues affecting the implementation of the Agrarian Reform Program in the Philippines.

10. **Qualification Requirements**

- (i) At least 10 years professional experience as a senior economist of similar complex rural development projects;
- (ii) Should have strong professional background in economic and financial management systems, feasibility study preparation and conduct of socio-economic studies;
- (iii) Should possess a solid academic background, preferably a masters; and
- (iv) Degree holder in economics, finance, and development management or in related fields of study.

b. National Safeguards Specialist (24 person-months)

11. The National Safeguards Specialist shall be responsible for establishing, supporting and supervising the implementation of the ARCP II safeguard processes, both environmental and social.

12. The specific duties include but are not limited to the following:

- (i) Prepare and implement a comprehensive orientation and training process for introducing safeguards policies, principles and procedures at all levels of project operation;
- (ii) Ensure effective installation and implementation of safeguard processes at municipal, provincial, regional and national levels;
- (iii) Oversee the appointment of qualified and competent regional safeguard specialists;
- (iv) Serve as safeguards advisor to other national project specialists to ensure alignment between all project components on safeguard related issues.

- (v) Liaise and coordinate with project staff and partner agencies on all aspect related to smooth safeguards implementation;
- (vi) Provide technical and problem solving support to regional safeguards specialists in implementation of safeguard processes; and
- (vii) Prepare and submit timely and regular progress reports indicating full compliance with environmental, land acquisition, indigenous peoples and gender safeguards, record of grievances, and adequate allocation of resources to address safeguard activities.

13. **Core Competencies**

- (i) Sound technical knowledge in both environmental and social safeguards processes;
- (ii) Proven experience in addressing requirements for safeguards compliance;
- (iii) In depth knowledge of social, environmental and cultural issues affecting the implementation of agrarian reform;
- (iv) Ability to manage and implement complex rural development processes with understanding of the cost implications of safeguards compliance;
- (v) Capability to provide guidance on negotiation and conflict resolution processes;
- (vi) Managerial and advisory capability, innovativeness and effectiveness under varying work assignments, conditions and time pressures; and
- (vii) Excellent communication skills, interpersonal and teamwork abilities, including proven ability to work cohesively with senior officials.

14. **Qualification requirements**

- (i) At least 5 years professional experience as a environmental, social or rural development specialist in similar complex rural development projects, particularly with experience of resettlement processes for rural infrastructure;
- (ii) At least 2 years experience as a safeguards specialist at national or regional level; and
- (iii) Should posses a strong academic background, preferably a master's degree holder in environmental science, sociology, development management and related fields of study.

c. Monitoring and Evaluation Specialist (24 person-months)

15. **General.** The planning and monitoring specialist would be responsible in designing and implementing the planning and monitoring system and tracking key performance indicators during project implementation.

16. **Scope of Services.** The specific duties include but not limited to the following:

- (i) Design planning and monitoring reports to be used at different levels of project implementation, baseline survey forms, benefits and results monitoring forms;
- (ii) Develop specific technical requirements for an improved planning, monitoring and evaluation methodology in a separate manual;
- (iii) Provide technical inputs in the preparation and consolidation of the annual work and financial plans, quarterly progress reports and financial status and annual budget proposals;

- (iv) Provide technical inputs in the revision and update of project operations manual particularly on the guidelines for planning, monitoring and evaluation systems;
- (v) Conduct capacity building and technical skills enhancement programs for designated DAR field staff in planning, monitoring and evaluation systems;
- (vi) Provide technical inputs in the preparation and conduct of baseline surveys and analysis of baseline data;
- (vii) Provide technical inputs in the preparation of the project strategic directions and sustainability measures; and
- (viii) Undertake project related functions as may be required by the Project Management Adviser.

17. **Core Competencies**

- (i) Proven expertise in undertaking planning, monitoring and evaluation systems for integrated rural development projects under varying work assignments, conditions and time pressures;
- (ii) Broad experience in the planning, monitoring and evaluation of complex rural development projects with related economic and financial management system;
- (iii) Ability to give sound advise on sensitive planning and management issues based on in depth understanding of the agrarian reform policies and programs;
- (iv) Excellent communication skills, interpersonal and teamwork abilities including proven ability to work cohesively with senior government officials and international consultants; and
- (v) Broad knowledge of social, economic and cultural issues affecting the implementation of the Agrarian Reform Program in the Philippines.

18. **Qualification Requirements**

- (i) At least 5 years professional experience as a planning and monitoring specialist in similar complex rural development projects;
- (ii) Should have strong professional background in development planning, monitoring and evaluation systems and conduct of baseline and impact studies;
- (iii) Should possess a solid academic background, preferably a masters; and
- (iv) Degree holder in economics, development management or in related fields of study.

d. Community Driven Development Specialist

19. The Community Driven Development (CDD) Specialist at the national level would be responsible for guiding the planning, implementation and review of the social capital formation, participatory planning and implementation component. This will entail working closely with DAR and other partner agencies at national, regional and local level to ensure that at all stages of the project, consideration is given to building local capacity and sustainability. The three main areas of focus will be on community development, organizational strengthening and good governance, but strong links will also be required between all project components, including the safeguards and arc cluster activities.

20. **Scope of Services.** The specific duties include but are not limited to the following:

- (i) Work closely with the regional CDD consultants, assisting and guiding them in required activities;

- (ii) Assist DAR in revitalization of the PCIT and MCIT;
- (iii) Assist DAR in recruitment of NGOs/CSOs where required;
- (iv) Prepare and implement a comprehensive orientation and training process for community driven development principles and procedures at all levels of project operation;
- (v) Work with DAR participatory arc planning teams and PATSARRD in finalizing ARC planning processes for each ARC;
- (vi) Work with DAR staff as well as LGUs at provincial and municipal levels to ensure effective installation and implementation of organizational processes at municipal, provincial, regional and national levels;
- (vii) Assist consultants at regional level and DAR staff to generate training and capacity development needs assessments and programs for each ARC ;
- (viii) Assist provincial agrarian reform officers (PAROs) and municipal agrarian reform implementation teams (MCITs) in establishment and operation of the community based micro finance funds;
- (ix) Liaise and coordinate with project staff and partner agencies on all aspect related to smooth and sustainable implementation of each sub-component;
- (x) Provide technical and problem solving support to regional specialists in implementation of local self-reliance processes; and
- (xi) Prepare and submit timely and regular progress reports.

21. **Core Competencies**

- (i) Sound technical knowledge in community driven development, organizational development and good governance processes;
- (ii) Proven experience in all three areas of building community capacity for participatory development as well as a demonstrated understanding of how to build sustainability into project processes;
- (iii) In depth knowledge of social, environmental and cultural issues affecting the implementation of agrarian reform;
- (iv) Ability to manage and implement complex rural development processes with understanding budgeting and financial management;
- (v) Managerial and advisory capability, innovativeness and effectiveness under varying work assignments, conditions and time pressures; and
- (vi) Excellent communication skills, interpersonal and teamwork abilities, including proven ability to work cohesively with senior officials.

22. **Qualification Requirements**

- (i) At least 10 years professional experience as a community development or organizational development specialist in similar complex rural development projects;
- (ii) At least 2 years experience with governance processes;
- (iii) Should posses a strong academic background, preferably a master's degree holder in community development, sociology, development management and related fields of study.

e. Senior Rural Infrastructure Engineer (SRIE)

23. **General.** The Senior Rural Infrastructure Engineer (SRIE) (24 person months) shall assist the rural infrastructure unit (RIU) of the NPCO. He/she would be locally contracted and

would be based in the NPCO. He/she would manage in accordance with the project's operations manual the rural infrastructure component of the project and be responsible for all matters related to the implementation of this component.

24. Scope of Services. Specifically, he/she would:

- (i) Conduct a thorough evaluation of relevant LGUs to determine their eligibility for project support in relation to their technical, administrative and financial capacity to implement proposed rural infrastructure activities;
- (ii) Review specifications for rural infrastructure works (rural access, communal irrigation schemes, post-production facilities and social infrastructure facilities) and prepare and agree on standard designs and specifications for use by LGUs;
- (iii) Define the scope and purpose of the standard work items to be undertaken by LGUs;
- (iv) Check, review and evaluate detailed engineering plans, design, drawings, PERT/CPM, Gantt chart and S-curve, detailed estimates and programs of work submitted by the LGU through the PPIO and RPMO and recommend such for funding and project inclusion. Otherwise, return all documents to its origin for modification, correction or revision as the case may be;
- (v) Establish mechanisms and standard costs to be used in determining the work item unit costs that would be used as the means to release funds to LGUs for completed work and establish procedures for approving variations in planned work and resolving claims for extra payments;
- (vi) Review contractors' claims for additional payments, extension of time or other such claims as recommended by RPMO and PPIO and make recommendations on appropriate actions to be taken;
- (vii) Propose revision, where necessary, to procedures, standard specifications and work item unit cost calculations;
- (viii) Review, analyze and evaluate periodic reports of sub-projects implementation as submitted by the PPIO through the RPMO, conduct field inspection if necessary and recommend solutions to problems encountered; and
- (ix) Review completion reports, conduct final field inspection, prepare final inspection report and recommend turnover of completed facilities to the LGU and/or ARC.

25. The Senior Rural Infrastructure Engineer would work closely with LGU's, National Irrigation Authority, Department of Agriculture, central, regional, provincial offices of DAR and other implementing agencies in all aspects of the project, and ensure that competitive bidding and other contractual procedures conform with the requirements of ADB and the Philippine government. He/she would report directly to the NPC.

26. Core Competencies

- (i) Technical and administrative experience on civil works undertaken by "force account", private contractors and by community contracts;
- (ii) Experience in the preparation of contract tender documents and evaluation of contract bids;
- (iii) Experience in the use of labor based / equipment supported (LB/ES) method of construction and maintenance of infrastructure projects;
- (iv) Adequate knowledge and experience in carrying out these works without adverse effect to the environment;

- (v) Adequate knowledge and experience in carrying out social safeguard policies on rural infrastructure implementation of the ADB and the government of the Philippines;
- (vi) Ability to manage rural infrastructure sub-projects implementation in collaboration with local government units and other carp implementing agencies;
- (vii) Ability to provide sound advice to the project management adviser on issues relevant to rural infrastructure development;
- (viii) Excellent communication skills, interpersonal and teamwork abilities, including proven ability to work cohesively with senior officials and international consultants; and
- (ix) Ability to impart knowledge and train the designated technical staff of the department of agrarian reform in all phases of rural infrastructure development.

27. Qualification Requirements

- (i) The Senior Rural Infrastructure Engineer (SRRIE) would hold a professional qualification in civil engineering and be a member of the Philippine Institute of Civil Engineers (PICE); and
- (ii) At least ten (10) years experience of implementing rural infrastructure in the Philippines including design, construction and maintenance of all weather roads, communal irrigation schemes, potable rural water supply, post-production facilities and other community infrastructure.

f. Regionally Based National Consultants (1416 person-months)

28. Regionally Based National Consultants (1416 person months) will have the above areas of expertise and will be based at the six regional project management offices (RPMOs). They will work under the supervision of the DARRO and DARPO, and will provide technical support to LGUs at provincial and municipal levels, ARCs, and POs as required.

g. NGOs/CSOs

29. NGOs/CSOs will be recruited locally by DARROs/DARPOs in order to provide support services for CDD and community based micro finance services. They will have at least 10 years of experience in the local areas, of designing and implementing community development projects using participatory approaches, gender and development projects, and setting up and operation of sustainable microfinance systems based on community participation and homogenous group formation.

h. Poverty Impact Assessments

30. Local firms/research institutes/NGOs will be recruited by the DAR central on a quality and cost based (QCBS) method, to carry out baseline and repeat surveys as well as impact assessment studies. The methodology to be used will include both quantitative as well as qualitative research. Particular attention will be paid to the impacts on the poor and upon women.

PROCUREMENT PLAN

A. Project Information

Country	Republic of the Philippines
Name of Borrower	Government of the Philippines
Project Name	Agrarian Reform Communities Project II
Loan or Technical Assistance Reference	To be determined
Date of Effectiveness	To be determined
Amount (total from all financiers)	\$208.9 million
Of which Committed	\$70.0 million
Executing Agency	Department of Agrarian Reform
Approval Date of Original Procurement Plan	
Approval of Most Recent Procurement Plan	
Publication for Local Advertisement ^a	To be determined
Period Covered by this Plan	2009-2014

^a General procurement notice, invitation to prequalification and to bid, call for expressions of interest.
Source: Asian Development Bank and the Government estimates.

B. Procurement Thresholds Works and Goods

Procurement Methods	To be used above or below
ICB works	At least \$5,000,000
ICB goods	At least \$1,000,000
NCB works	Less than \$5,000,000 but more than \$100,000
NCB goods	Less than \$1,000,000 but more than \$100,000
Shopping Works	Less than \$100,000
Shopping Goods	Less than \$100,000
Community Participation	Less than \$30,000

ICB = international competitive bidding, NCB = national competitive bidding
Source: Asian Development Bank estimates.

C. Procurement Thresholds Consulting Services

Procurement Methods	To be used above or below
Quality- and Cost-Based Selection	Above \$200,000
Consultants' Qualifications Selection	Below \$200,000
Individual selection	to be determined

Source: Asian Development Bank estimates.

D. List of Contract Packages for Works, Goods, and Services Exceeding \$100,000

Contract Description	Estimate Cost (\$'000)/package	Procurement Method	Expected Date of advertisement	Prior Review	Agency
Civil Works	144,056 (1290 p)	NCB/shopping	2nd Quarter of Year 1	Y/N ^a	LGUs
Civil works	1,500 (150 p)	CP / shopping	2nd Quarter of Year 1	Y/N	LGUs
Vehicles	655 (2 p)	NCB	2nd Quarter of Year 1	Yes	DAR
Motorcycles	290 (1 p)	NCB	1st Quarter of Year 1	Yes	DAR
Computers	184 (1 p)	NCB	1st Quarter of Year 1	Yes	DAR/LGUs
Other Office Equipment	354 (20 p)	NCB	1st Quarter of Year 1	Y/N ^a	DAR/LGUs
Environment/Safeguards	306 (20 p)	QCBS	1st Quarter of Year 1	Yes	DAR/LGUs
Consultancy Services	1,271 (up to 6 p)	to be determined ^b	1st Quarter of Year 1	Yes	DAR/LGUs

CP = community participation, DAR = Department of Agrarian Reform, LGU = local government unit, NCB = national competitive bidding, p = packages, QCBS = quality- and cost-based selection

^a Only for the first 5 NCB

^b to be determined in consultation between the Government and ADB

Source: Asian Development Bank and Government estimates.

Table 6.1: Proposed Detailed Contract Packages

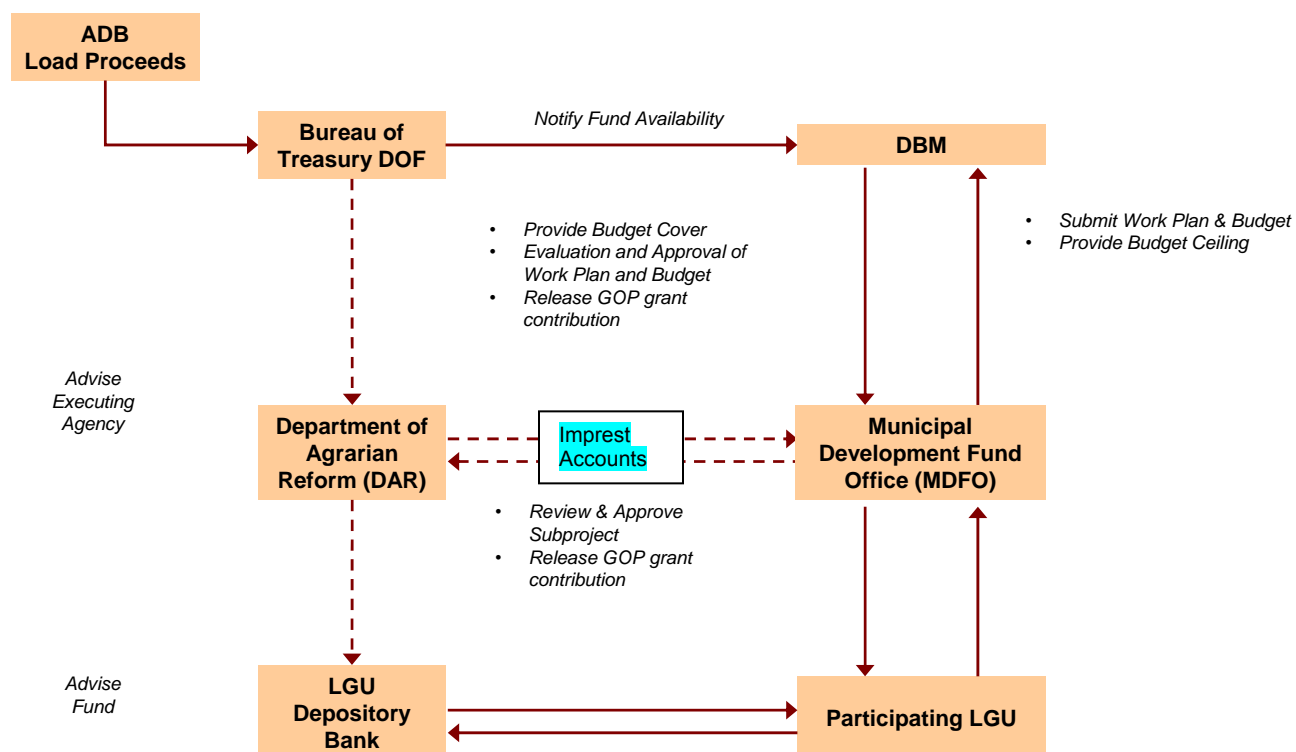
Description	Unit	Number of Contracts	Cost Estimate (US\$ '000)	Aggregated Total Cost Estimate (US\$ '000)	Mode of Procurement	Responsible Agency
A. Civil Works						
1. Rural Access						
a. Road Rehabilitation	package	440	109.566	48,209.000	NCB	LGU
b. Road Construction	package	205	118.698	24,333.000	NCB	LGU
c. Bridges	package	73	97.822	7,141.000	NCB/shopping	LGU
d. Flood Protection Works	package	44	13.045	574.000	shopping	LGU
2. Communal Irrigation System						
a. Small Scale Irrigation Rehabilitation	package	37	173.904	6,504.000	NCB	LGU
b. Small Scale Irrigation Construction	package	103	260.874	26,870.000	NCB	LGU
3. Potable Water System						
a. Level II	package	290	32.610	9,457.000	shopping	LGU
b. Level I	package	22	32.591	717.000	shopping	LGU
4. Post Production Facilities						
a. Warehouse	package	45	15.222	685.000	shopping	LGU
b. Solar Drier	package	70	3.257	228.000	shopping	LGU
5. Social Facilities						
a. Multipurpose Building	package	33	9.121	301.000	shopping	LGU
b. School Building	package	89	26.674	2,374.000	shopping	LGU
c. Barangay Health Station	package	79	11.304	893.000	shopping	LGU
d. Day Care Center	package	79	10.430	824.000	shopping	LGU
B. Goods/Equipment						
1. Service Vehicles						
a. pick-up trucks, utility van	package	1	652.173	652.173	ICB	DAR-CO
b. pump boat	package	1	13.043	13.043	shopping	DAR-CO
c. motorcycles	package	1	295.652	295.652	NCB	DAR-CO
2. Computers	package	1	161.956	161.956	NCB	DAR-CO
3. Land Survey Instruments	package	1	211.956	211.956	NCB	DAR-CO
4. Other Office Equipment	package	1	48.152	48.152	Shopping	DAR-CO
5. Office Fixtures	package	22	17.292	380.430	Shopping	DAR-CO/RO/PO
6. Equipments for schools, day care- and health centers	packages	376	2.2	836.184	shopping	LGUs

Description	Unit	Number of Contracts	Cost Estimate (US\$ '000)	Aggregated Total Cost Estimate (US\$ '000)	Mode of Procurement	Responsible Agency
C. Services						
1. Consultants						
a. Domestic	package	1	1,197.391	1,197.391	QCBS	DAR-CO
b. International Experts	package	1	326.087	326.087	QCBS	DAR-CO
2. Contracts						
a. NGO	package	19	217.391	4,130.435	QCBS	DAR-RO
b. Subdivision Survey	package	19	136.211	2,588.000	LCS	DAR-RO
c. M and E Surveys/Studies	package	3	144.261	432.782	QCBS	DAR-CO
Total Contract Packages and Cost		1,680		139,548.057		

DISBURSEMENT MODALITIES

1. As given in Figure 1 below, the ADB loan proceeds will be released to the Department of Finance through the Bureau of the Treasury using the existing fund release mechanism for Overseas Development Assistance (ODA) projects. Three imprest accounts, two for the ADB loan and one for OFID loan, will channel the project loan proceeds. OFID funds are for the infrastructure component in ARMM and will be disbursed based on ADB clearance. Two imprest accounts (ADB and OFID) will be with the Department of Finance for fund disbursement related to the rural infrastructure component and will be channeled through the Municipal Development Fund Office, which will release the funds to an LGU according to performance-based tranches prescribed by the Project. The LGU will maintain an account with an authorized government depository bank dedicated to the loan proceeds portion (national government grant) of the subproject cost.

FIGURE 1: ARCPII FUNDS FLOW



2. The other ADB imprest account will be with DAR for all other eligible expenses from the loan proceeds. The DAR regional and provincial offices will open their respective accounts with an authorized government depository bank where project funds will be deposited. For the ARMM, the DAR central office will transfer funds directly to DAR-ARMM for outputs one and two (community-driven development and agriculture and enterprise development), whereas the Municipal Development Fund Office will transfer OFID funds directly to LGUs for the rural infrastructure output. Assuming that conditions for the use of Statement of Expenditure (SOE) procedures are met in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time), ADB's SOE procedures may be used to reimburse expenditures

and liquidate individual expenditures not exceeding \$100,000. To ensure liquidity of funds, the imprest accounts will be replenished and liquidated on a monthly basis or when the accounts are drawn down by 20% of the initial deposit. The imprest accounts and SOEs will be audited annually by auditors acceptable to ADB.

3. ADB's *Loan Disbursement Handbook* (2007, as amended from time to time) is presented as a part of this appendix.

Risk Assessment Management Plan¹⁶

Risk description	Likelihood of occurrence in the Project (very low, low, medium, high)	Potential Impact (very low, low, medium, high)	Mitigation measures (Include existing or planned measures)
A. Public Financial Management			
Shortfall in revenue/ lack of timely budget release	High at some LGUs for infrastructure	high	Ensure that counterpart funds are regularly budgeted and closely monitor budget releases at national and LGU levels; Monitor levels of revenue, expenditure and borrowing on monthly basis; keep eagle eye on fiscal performance; assess and mitigate potential cash deficit; enhance the RATE (Run After Taxes Evaders)
Excesses in expenditures	low	medium	Develop linkage between planning, budget, and control expenditure on day to day basis in each LGU; enhance internal control system; monitor to ensure that expenditure will be made against an agreed work plan; use government procurement and audit systems and monitor the flow of resources and act together to immediately address any issues
LGU over borrowing	low	high	Control ceilings of LGU spending in various sectors; manage assets and liability of national governments and LGUs
High (50%) equity requirement of poor LGUs	medium	high	Guide LGUs to better access to refund provision up to 20% for completion of agreed institutional reforms; seek potential technical assistant grand for improve LGU capacity
Lack of accountability	medium	medium	control through various media and civil societies; policy makers monitor well-performing as well as underperforming agencies leading to corrective actions and/or commendation; monitor fidelity bonding of government officers; improve technology to faster and create more transparent monitoring system for potential graft and corruption
Heavily congested courts and inefficient judicial system	low	high	Enhance judicial reform, civil service reform, procurement reform and the role of advocacy groups including Procurement Watch in monitoring procurement process; strengthen the roles of CSOs to participate in Bids and Awards Committees; formulate indicators for measuring anti-corruption efforts including the specific identification of corruption risks; the design response to the risks, monitoring measures and sanctions as appropriate
Potential leakages of project funds	medium	high	Encourage CSO participation to monitor the actual disbursement of project funds; direct payments for various procurement packages;

¹⁶ Extract from various documents including (i) RRP Loan 2465 – PHI; (ii) Public Financial Accountability for Integrity and Results: The Case of the Philippines Bureau of the Treasury; (iii) Anti-corruption Plan and Action 2008-2011: Australia-Philippines Development Assistance Program, September 2008; The Philippines' Procurement Assessment Report by the World Bank

Risk description	Likelihood of occurrence (very low, low, medium, high)	Potential Impact (very low, low, medium, high)	Mitigation measures (Include existing or planned measures)
B. Monitor Procurement			
Incompliance with procurement procedures	low	medium	Monitor the compliance with ADB's procurement guidelines and the guidelines of the use of consultants, particularly to ensure that the needs of the bidders, suppliers, contractors and consultants to observe the highest standards of ethics in the procurements and execution of contracts and sanctions if fraud and corruption are discovered; all contracts financed by ADB will include provision specifying the right of ADB to audit and examine the records and accounts of EAs, IAs, the contractors, suppliers, consultants and other service providers
Potential corruption in procurement process	medium	high	Disseminate the Government Procurement Reform Act to the Project staff; develop fruitful partnership between civil society organizations (CSOs) and line agencies in procurement monitoring; use local diagnostic tools ¹⁷ to identify public sector agency-specific corruption risks and to lay out plans for the corruption prevention monitoring functions; disseminate findings from other donors such as from the World Bank's Country Procurement Assessment Report; all information pertaining to procurement of goods, works and services under the Project will be posted on the Government's website
Consultations among bidders for corrupt practices	medium	high	Conduct electronic auctions for various procurement packages; strengthen local efforts to combat public sector corruption; remain the Government that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive and/or coercive practices related to the Project
Corruption challenges, especially in infrastructure component	high	high	Develop partnership with other donors ¹⁸ strengthen agencies' business process, service delivery mechanisms and financial management system in managing infrastructure subprojects; work with advocacy agencies such as Road Watch ¹⁹ to ensure transparency in procurement systems; minimize collusions and bid-rigging; ADB may require submission of a copy of the bid evaluation report for each subproject for post review to determine if procurement was done according to agreed guidelines. Any adverse finds will result in all related contracts to be declare null and void, with concern LGUs being finalized

¹⁷ Including (i) the Philippine Office of the Ombudsman's (OMB's) Integrity Development Review; (ii) Presidential Anti-Graft Commission's (PAGC's) Integrity Development Action Plan; (iii) The Philippines Agency Procurement Index and Procurement Compliance Performance Indicators; (iv) the new Sectoral Performance Audit Reports and Agency Performance Reports of the Philippines Commission on Audit (COA)

¹⁸ Including the World Bank, donors from bilateral collaboration such as AUSAID, USAID, JICA, etc

¹⁹ An independent group composed of government, development partners, and CSOs

Risk description	Likelihood of occurrence (very low, low, medium, high)	Potential Impact (very low, low, medium, high)	Mitigation measures (Include existing or planned measures)
C. Anticorruption and Other Matters			
Corruption and weak government	medium	high	ADB's Anticorruption policy was explained and discussed with the executing agency (EA) and request the TA to disseminate the policy to key stakeholders at all levels; Close monitoring procurement process and train project staff to effectively monitor overall financial management of the project/subprojects; monitor timely counterpart funds and other resources availability and enhance capacity of stakeholders at the national, LGUs and community level to implement the Project
Score 2.5 out of 10 by The Transparency International Corruption (TIC) ²⁰	medium	medium	Track the overall corruption trends in the Philippines and assess their impacts at project level; enhance the roles of agencies having anti-corruption responsibilities to monitor the Project including the office of Ombudsman; the Commission on Audit; the Civil Service Commission; Special Anti-Graft Court; the Presidential Anti-Graft commission; Working groups on Governance and Anti-corruption; the Transparency and Accountability Network and the Dept. of Budget and Management ²¹
Delays in land administration and management	low	high	Learn from other projects to improve the procedures and systems by which rights to property in the Project areas are properly documented – particularly in registration, surveying, valuation, and titling; Support the establishment of one-stop-shops (OSS) in key provinces to restore confidence by allowing transparency in the collection of property taxes and fees, reducing rent-seeking behavior and other opportunities for corruption
Political interference into ARC functioning and development	low	low	Department of Agrarian Reform (DAR) will initiate liaisons meetings on a semiannual basis with the National Government Audit Office to review and discuss the information on corrupt practices;
Security related concerns in ARMM ²²	high	high	Contribute to reduce conflict and improve peace and security through social inclusion by working together with traditional community leaders and focusing investments to improve the livelihood of the poor
Weak LGUs to manage the subprojects	medium	high	Provide various training to enhance capacity of LGU officers and monitor regular budget releases to reduce potential delays in completion subproject implementation

²⁰ The Transparency International Corruption Perception Index rated the Philippines 131st out of 179 countries surveyed in 2007. With scores ranging between 10 (highly clean) and 0 (highly corrupt), the Philippines' score was 2.5

²¹ The Project staff should review the following documents: (i) the Anti-Graft and Corrupt Practices Act; (ii) the Plunder Law and Forfeiture Law; (iii) the Government Procurement Reform Act; (iv) National Anti-Corruption Program of Action; (v) Medium Term Philippines Development Plan (MTPDP) Socio Economic Report – this report includes the Philippines Government's own assessment of its efforts to curb corruption

²² ARMM = autonomous region in Muslim Mindanao

B. Progress of Risk Management Plan
Loan 2465 – PHI: Agrarian Reform Community Development Project II

As of _____²³

Risk description	Likelihood of occurrence in the Project ²⁴	Potential Impact ²⁵	Mitigation measures (Include existing or planned measures)	Progress and other remarks
A. Public Financial Management				
Shortfall in revenue/ lack of timely budget release	High at some LGUs for infrastructure	high	Ensure that counterpart funds are regularly budgeted and closely monitor budget releases at national and LGU levels; Monitor levels of revenue, expenditure and borrowing on monthly basis; keep eagle eye on fiscal performance; assess and mitigate potential cash deficit; enhance the RATE (Run After Taxes Evaders)	
Excesses in expenditures	low	medium	Develop linkage between planning, budget, and control expenditure on day to day basis in each LGU; enhance internal control system; monitor to ensure that expenditure will be made against an agreed work plan; use government procurement and audit systems and monitor the flow of resources and act together to immediately address any issues	
LGU over borrowing	low	high	Control ceilings of LGU spending in various sectors; manage assets and liability of national governments and LGUs	
High (50%) equity requirement of poor LGUs	medium	high	Guide LGUs to better access to refund provision up to 20% for completion of agreed institutional reforms; seek potential technical assistant grand for improve LGU capacity	
Lack of accountability	medium	medium	control through various media and civil societies; policy makers monitor well-performing as well as underperforming agencies leading to corrective actions and/or commendation; monitor fidelity bonding of government officers; improve technology to faster and	

²³ As of the date of the wrap-up meeting in each project review mission

²⁴ (very low, low, medium, high)

²⁵ very low, low, medium, high)

Risk description	Likelihood of occurrence in the Project²⁴	Potential Impact²⁵	Mitigation measures (Include existing or planned measures)	Progress and other remarks
			create more transparent monitoring system for potential graft and corruption	
Heavily congested courts and inefficient judicial system	low	high	Enhance judicial reform, civil service reform, procurement reform and the role of advocacy groups including Procurement Watch in monitoring procurement process; strengthen the roles of CSOs to participate in Bids and Awards Committees; formulate indicators for measuring anti-corruption efforts including the specific identification of corruption risks; the design response to the risks, monitoring measures and sanctions as appropriate	
Potential leakages of project funds	medium	high	Encourage CSO participation to monitor the actual disbursement of project funds; direct payments for various procurement packages;	
B. Monitor Procurement				
Incompliance with procurement procedures	low	medium	Monitor the compliance with ADB's procurement guidelines and the guidelines of the use of consultants, particularly to ensure that the needs of the bidders, suppliers, contractors and consultants to observe the highest standards of ethics in the procurements and execution of contracts and sanctions if fraud and corruption are discovered; all contracts financed by ADB will include provision specifying the right of ADB to audit and examine the records and accounts of EAs, IAs, the contractors, suppliers, consultants and other service providers	
Potential corruption in procurement process	medium	high	Disseminate the Government Procurement Reform Act to the Project staff; develop fruitful partnership between civil society organizations (CSOs) and line agencies in procurement monitoring; use local diagnostic tools ²⁶ to identify public sector agency-specific corruption risks and to lay out plans for the corruption prevention monitoring functions; disseminate findings from other	

²⁶ Including (i) the Philippine Office of the Ombudsman's (OMB's) Integrity Development Review; (ii) Presidential Anti-Graft Commission's (PAGC's) Integrity Development Action Plan; (iii) The Philippines Agency Procurement Index and Procurement Compliance Performance Indicators; (iv) the new Sectoral Performance Audit Reports and Agency Performance Reports of the Philippines Commission on Audit (COA)

Risk description	Likelihood of occurrence in the Project ²⁴	Potential Impact ²⁵	Mitigation measures (Include existing or planned measures)	Progress and other remarks
			donors such as from the World Bank's Country Procurement Assessment Report; all information pertaining to procurement of goods, works and services under the Project will be posted on the Government's website	
Consultations among bidders for corrupt practices	medium	high	Conduct electronic auctions for various procurement packages; strengthen local efforts to combat public sector corruption; remain the Government that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive and/or coercive practices related to the Project	
Corruption challenges, especially in infrastructure component	high	high	Develop partnership with other donors ²⁷ strengthen agencies' business process, service delivery mechanisms and financial management system in managing infrastructure subprojects; work with advocacy agencies such as Road Watch ²⁸ to ensure transparency in procurement systems; minimize collusions and bid-rigging; ADB may require submission of a copy of the bid evaluation report for each subproject for post review to determine if procurement was done according to agreed guidelines. Any adverse finds will result in all related contracts to be declare null and void, with concern LGUs being finalized	
C. Anticorruption and Other Matters				
Corruption and weak government	medium	high	ADB's Anticorruption policy was explained and discussed with the executing agency (EA) and request the TA to disseminate the policy to key stakeholders at all levels; Close monitoring procurement process and train project staff to effectively monitor overall financial management of the project/subprojects; monitor timely counterpart funds and other resources availability and enhance capacity of stakeholders at the national, LGUs and community level to implement the Project	
Score 2.5 out of 10 by The	medium	medium	Track the overall corruption trends in the Philippines and assess their impacts at project level; enhance the	

²⁷ Including the World Bank, donors from bilateral collaboration such as AUSAID, USAID, JICA, etc

²⁸ An independent group composed of government, development partners, and CSOs

Risk description	Likelihood of occurrence in the Project²⁴	Potential Impact²⁵	Mitigation measures (Include existing or planned measures)	Progress and other remarks
Transparency International Corruption (TIC) ²⁹			roles of agencies having anti-corruption responsibilities to monitor the Project including the office of Ombudsman; the Commission on Audit; the Civil Service Commission; Special Anti-Graft Court; the Presidential Anti-Graft commission; Working groups on Governance and Anti-corruption; the Transparency and Accountability Network and the Dept. of Budget and Management ³⁰	
Delays in land administration and management	low	high	Learn from other projects to improve the procedures and systems by which rights to property in the Project areas are properly documented – particularly in registration, surveying, valuation, and titling; Support the establishment of one-stop-shops (OSS) in key provinces to restore confidence by allowing transparency in the collection of property taxes and fees, reducing rent-seeking behavior and other opportunities for corruption	
Political interference into ARC functioning and development Security related concerns in ARMM ³¹	low	low	Department of Agrarian Reform (DAR) will initiate liaisons meetings on a semiannual basis with the National Government Audit Office to review and discuss the information on corrupt practices;	
	high	high	Contribute to reduce conflict and improve peace and security through social inclusion by working together with traditional community leaders and focusing investments to improve the livelihood of the poor	
Weak LGUs to manage the subprojects	medium	high	Provide various training to enhance capacity of LGU officers and monitor regular budget releases to reduce potential delays in completion subproject implementation	

²⁹ The Transparency International Corruption Perception Index rated the Philippines 131st out of 179 countries surveyed in 2007. With scores ranging between 10 (highly clean) and 0 (highly corrupt), the Philippines' score was 2.5

³⁰ The Project staff should review the following documents: (i) the Anti-Graft and Corrupt Practices Act; (ii) the Plunder Law and Forfeiture Law; (iii) the Government Procurement Reform Act; (iv) National Anti-Corruption Program of Action; (v) Medium Term Philippines Development Plan (MTPDP) Socio Economic Report – this report includes the Philippines Government's own assessment of its efforts to curb corruption

³¹ ARMM = autonomous region in Muslim Mindanao

PROJECT PERFORMANCE RATINGS³² AND REPORT³³

I. PROJECT PERFORMANCE RATING

I. A. Introduction

1. The purpose of the project rating system is to establish the implementation or operational status of each project and to identify projects that are encountering or could encounter problems so that suitable remedial measures can be taken promptly by the borrower, executing agency (EA), implementing agency, or ADB. Projects under administration are rated using the following rating criteria.

I. B. Project Performance Ratings for the Public Sector Projects

2. The project performance rating system (PPRS) uses performance indicators to assess both the implementation progress and achievement of development objectives. The rating of project implementation progress focuses on physical and financial factors, while the rating of development objectives concentrates on the likelihood of achieving the short- and long-term development impacts of a project. Given the cause-and-effect relationship, satisfactory implementation is normally essential to achieving project development objectives. The PPRS introduces a rating scale:¹ "highly satisfactory", "satisfactory", "partly satisfactory", and "unsatisfactory". Projects are initially rated as satisfactory after Board approval and the ratings are then updated periodically. When project implementation activities are at a standstill indefinitely, the project will be rated as inactive. Suspended loans will automatically be rated unsatisfactory.

1. Development Objectives

3. Project development objectives are statements of development outcomes, impacts, or benefits expected from implementing the various project components and achieving project outputs. Any significant successes and deficiencies encountered in project implementation are likely to be reflected in the degree of achievement of development objectives. However, satisfactory implementation progress may not necessarily lead to satisfactory achievement of development results because of the effect of critical external factors such as the economic policy environment, global markets, and political situation. Because the development impact may only become clear several years after project completion, project staff must use their best judgment when assessing expected achievements. To do this, staff must periodically review the assumptions and risks identified at appraisal, which are critical to success, to assess whether they are still applicable in the current situation.

4. Therefore, direct measurement and assessment of progress, in terms of development objectives, and analysis of risks and assumptions external to the project, are emphasized in the proposed rating system of development objectives. This will also help staff flag early warning signals enabling them to be proactive rather than reactive in project monitoring and in taking actions to remedy the project in the face of adverse external factors.

³² Recorded and updated from ADB's PAI No. 5.10, Revised on October 2008. We include this as this will be the basis in preparing the Project Performance report

³³ Recorded and updated from ADB's PAI No. 6.05, Issued on December 2001 and Revised on October 2008

5. Critical assumptions and risks, that affect the likelihood of achieving the development objectives include: (i) key policy assumptions (policy-based covenants such as cost recovery and tariffs, financial performance of EA, etc.); (ii) assumptions on environmental sustainability; (iii) assumptions on beneficiary participation and stakeholder ownership; (iv) assumptions on economic and financial viability and cost recovery (e.g., costs and prices remain within the viable range identified during the appraisal sensitivity analysis); (v) assumptions on institutional capacity, budget availability, and operation and maintenance; socioeconomic impact; (vi) political stability (peace and security); and (vii) baseline data availability and monitoring mechanisms to measure development impacts³⁴.

6. Based on the analysis, the development objectives are rated using the following rating criteria (Appendix 1). Overall rating for the development objectives is calculated based on the average of the individual ratings of the achievement of the above critical assumptions and risks during the course of implementation until project completion (PAIs 6.05, paras. 14–15). After completion, the assessment of the immediate development objectives will be included to the calculation of the overall rating (Annex 1, page 1, footnote b).

Highly Satisfactory (HS): The project or program is expected to exceed most of its major immediate development objectives.-

Satisfactory (S): The project or program is expected to achieve most of its major immediate development objectives.

Partly Satisfactory (PS): The project or program is expected to achieve some of its major immediate development objectives.

Unsatisfactory (U): The project or program is unlikely to achieve its major immediate development objectives.-

2. Implementation Progress

7. Project implementation activities—loan signing and loan effectiveness—are rated according to delay³⁵. Implementation progress after the loan has become effective is assessed in the PPRS by evaluating several quantifiable aspects of project implementation³⁶.

a. Project and Sector Loans

8. Overall ratings for project and sector loans are evaluated against seven criteria consisting of timely project implementation, changes in project scope, changes in implementation arrangements, project cost overrun, provision of counterpart funds and cofinancing, compliance with major covenants, and submission of audited project accounts and agency financial

³⁴ In agriculture, short-term impacts could include increased yields, more intensive cropping patterns, and larger area under cultivation, while longer-term impacts could include increased agriculture percentage of GDP, increased exports, and reduced number of the rural poor. In transport, short-term impact could include reduced transport costs, while longer-term impacts could include increased industrial and agricultural production. In education, short-term impacts could include better teachers and facilities, and increase in enrollment levels, while longer-term impacts could include improvements in literacy rates and employment levels.

³⁵ Please refer to ADB's PAIs 1.03 and 1.04)

³⁶ Separate rating criteria are introduced for project and sector loans, program loans, development finance institution (DFI) and credit loans, and combined project and DFI loans (Appendix 1, pages 3, 6, 9, and 12).

statements. Annex 1 provides detailed rating criteria for assessing implementation progress. Based on individual ratings for each criterion, an overall implementation progress rating is determined by reflecting the majority of the individual ratings, subject to the overall rating being not higher than one category above the lowest individual rating. The PPRS requires closely monitoring and taking specific actions, if needed, for projects with less than satisfactory ratings, as described in **Annex 2**.

3. Potential Problem

9. Potential problem projects are projects with satisfactory ratings in both development objectives, and implementation progress, but are identified as likely to slip into the “partly satisfactory” or “unsatisfactory” categories unless adequate project supervision is given. To identify the potential problem projects, several project performance indicators are determined as flag-in criteria. The number of flag-in criteria is 11 for project loans.

4. Project at Risk

10. The “at risk” concept is introduced to identify actual problem projects (“partly satisfactory” or “unsatisfactory” ratings) and potential problem projects with four or more criteria flagged (PAI 6.05 para. 6).

5. Overriding Facility

11. In exceptional cases, the regional department concerned is permitted to override the system-computed implementation progress (IP) ratings, and upgrade or downgrade the projects with proper justification and approval of the director general concerned by memorandum. The overriding would be effected by the Central Operations Services Office (COSO) upon receipt of a copy of the approval memorandum. The release of the overriding will take the same procedures. This would be uniformly applied for IP and PP ratings of all ADB loans (project, program, DFI, and combined). (Appendix 1, page 1, footnote a).

II. PROJECT PERFORMANCE REPORT

II. A. Introduction

12. Project Performance Reports (PPRs) are part of the overall project performance management system (PPMS), which encompasses all stages of the project cycle. PPRs provide information on project implementation and progress in achieving development objectives. Because of the cause-effect relationship between the two aspects of project performance, PPRs should present explicit and verifiable performance targets that reflect progress toward achieving project objectives. They highlight performance assessments for project supervision, key assumptions and risks, major problems encountered, actual or proposed remedial actions, and the project ratings for implementation progress and the likelihood of achieving development objectives.

13. The initial PPR should be prepared from the design and monitoring framework³⁷ by the loan processing mission leader by one month after the loan approval and updated periodically during project review missions in consultation with the executing agencies (EAs) or after receipt

³⁷ included in RRP's appendixes

of project progress reports. This is equal to the PPR forms are in Lotus Notes³⁸ that are available to all ADB staff including regional and resident missions (RMs) administering projects. Reader access by non-operations departments or executing or implementation agencies is available on request. We propose the executing agencies to use similar indicators in assessing the project progress and performance.

14. PPRs are prepared for all ongoing projects financed or administered by ADB, and are to be maintained until the loan account is closed. Projects closed during a year continue to be shown in the main section of the report until the end of the year, but the serial number is blank and project status is replaced with “closed.” PPRs for the completed projects may be maintained beyond the year only upon request by Management for continued monitoring.

II. B. Content of Project Performance Report

15. The PPR is composed of two parts: one-page summary and several pages of supplementary (new PPR database). The summary contains basic essential information on the project including financial information extracted from the loan financial information system (LFIS), and incorporates the “at risk” concept, project rating, thematic and operational priorities, rating on covenants, and major issues and problems. The supplementary part provides detailed information on assessment of current status or progress in meeting development objectives; implementation progress; a flag system indicating a potential problem project; and a rating of sector, environmental, social, financial, economic, and other covenants. The PPR formats for the project are attached in **Annex 3**.

1. Project Ratings³⁹ and “At Risk” Concept

16. The rating for project implementation progress concentrates on the physical implementation of a project, while the rating for development objectives concentrates on the likelihood of achieving the short -and long-term development impacts of a project. Although the former influences the latter, satisfactory implementation progress does not always lead to achieving development objectives satisfactorily. Conversely, development objectives may be achieved despite unsatisfactory implementation progress. The two ratings are equally important. They are complementary, not substitutes.

17. As a key activity of the portfolio management action plan, the “at risk” concept has been introduced in project rating. Under the concept, projects “at risk” include the projects, actual or potential problem (PP) of not meeting their development objectives as articulated in the logical framework. Actual problem projects are those that have performance ratings of unsatisfactory or partly satisfactory in development objectives or implementation progress. Whereas PP projects are those that, while currently not unsatisfactory or partly satisfactory, have, as an early warning device, been identified as projects that may slip into that category unless adequate project supervision and attention is given to them.

2. Development Objectives

2. a. Impact

³⁸ New PPR database in LNADBG1

³⁹ A detailed description of the project ratings is in ADB's PAI 5.10.

18. A project's long-term development objectives (i.e., the impact in the logical framework) and key indicators of long-term development impact should be summarized, demonstrating how the project will contribute to solving problems in the sector. Although the achievement of long-term development objectives is unlikely to be fully under the control of project implementation staff, such objectives should be clearly recorded. For projects with multiple objectives, these should be enumerated in the order of cause-effect relationships.

2. b. Outcome

19. The immediate development objectives (i.e., the project's purpose or outcome in the logical framework) are the pillars of project design. These are the expected results to be achieved soon after project completion. For each intermediate objective, key changes expected are to be defined. These indicators measure the short-term benefits realized by achieving project outputs. In setting indicators, the quality, quantity, and timing required to achieve the next level of objectives is to be considered. For example, if the intermediate objective or outcome is for "small farmers to increase yield," a quantified target could be for "10,000 small farmers to increase yields by 30 percent, while maintaining the baseline harvest quality, within five years." The assessment of the immediate development objectives will be included in the overall development objective rating in the PPR only after project completion.

2. c. Recent Developments

20. The PPR describes the most recent important events and developments related to the achievement of development objectives.

2. d. Problems with Impact and Outcome

21. Problems related to the achievement of development objectives are described concisely. The list of actions taken and the status of proposed actions is also recorded.

3. Implementation Progress

3. a. Project Outputs (Components and Subcomponents)

22. The Project outputs are the tangible and measurable deliverables of the project. A group of related outputs are described as project components. These are presented as completed accomplishments, not as ongoing activities.

23. Each project component is assessed by comparison with the actual performance of the original plan as approved by the Board. The standards against which implementation progress are to be measured differ from those of the original plan only where the project has been restructured to improve its relevance and development impact beyond the initial design. This is to be formally agreed upon by the borrower and ADB, and reported to the Board⁴⁰.

24. Quantifiable indicators (including kilometers of road rehabilitated, power generating capacity installed, number and location of clinics built, number of health personnel trained, policies revised, and new operating systems introduced) are to be established to measure intended outputs. The indicators are to be agreed upon by the EA during project processing and loan negotiations, and if later modified, during project implementation. Where quantifiable

⁴⁰ Referred to ADB's (PAI 5.04)

indicators are not feasible, qualitative ones may be used. However, in these circumstances, the standard rating scale and rating criteria should be defined.

3. b. Key Assumptions and Risks

25. Key assumptions and risks are external factors that cannot be controlled by director, sector division or country director, EAs, but influence the success of project implementation. Such assumptions and risks are to be identified for project objectives, outputs, and activities. Assumptions explain important conditions that affect project implementation, while risks are the probability or likelihood that key assumptions may not materialize. As a general rule, if conditions are worded positively, they are considered assumptions; but if worded negatively, they are construed as risks. The following are examples.

Assumptions:

- legislation regulating the water users remains intact,
- 10 inches of rainfall between May and October,
- timely release of counterpart funds,
- electricity tariffs do not decrease in real terms during the project life
- commodity prices remain stable
- farmers are willing to try new methods
- political and economic conditions remain stable, and
- completion of another related investment by start-up of the project;

Risks:

- 10 inches of rain may not fall between May and October,
- counterpart funds are not released on time due to sudden weakening of the borrower's revenue,
- the borrower does not implement the agreed time-bound plan for electricity tariff increases,
- an unfavorable change in the country's exchange rate during implementation affects competitiveness of products produced by the project,
- a change in the country's trade regime results in more restrictive measures; and
- a shift in the borrower's priorities from higher education to technical, vocational, or primary education, affects budgets and enrolment.

26. Although development objectives are only achieved after project completion (sooner or later, fully or partly), during implementation the likelihood and degree of their achievement must be assessed. The subjectivity of the judgment involved can be reduced by considering implementation progress, and equally importantly, by realistically reassessing the key assumptions and risks that affect development objectives. Consider for example, a power project with goals of helping improve the electrification ratio, make the power sector financially sustainable, increase the number of household connections, and improve efficiency of electricity use. Assume that the implementation progress is good but for political reasons, the borrower

has not been increasing electricity tariffs as agreed to reflect the cost of supply. The conclusion can be drawn that the likelihood of achieving the project objective in terms of financial sustainability of the sector is low. Also while planned increases in the number of household connections and therefore the electrification ratio are likely to be achieved, any technical improvements in efficiency of electricity use may be negated by wasteful consumption caused by low tariffs. Consequently, the project rating for development objectives should be “partly satisfactory.”

3. c. Key Project Inputs

27. Key activities and inputs critical to successful project outputs are summarized. An adequate number of activities, preferably 3–7, are also presented to reflect and outline the strategy to accomplish each output. For example, activities could include acquiring land, establishing project offices, and procuring equipment. Inputs, usually comprising the budgeted costs and consulting services allocated to the project, support implementation of the activities.

3. d. Design Changes

28. Major or minor changes in project scope, design, costs, and implementation arrangements are described⁴¹. The approval date of changes is recorded and retained during the project.

3. e. Recent Development

29. Recent development refers to the latest important events and developments, which are related to project implementation and policy issues, such as major contract awards, fielding consultants, submitting reports, requests to ADB for approval and the status of these requests, policy decisions, and actions.

3. f. Problems with Implementation Progress

30. The PPR also describes problems caused by delayed project implementation over the last 6–12 months. The list of actions taken and the status of proposed actions are recorded.

4. Potential Problem Project

31. The description of a potential problem project serves as an early warning device to identify PP projects among satisfactory projects that may slip into that category unless adequate project supervision and attention is given to them. Projects are rated as PP projects when four or more flags are raised from the set of project performance indicators determined as “flag-in” criteria. The number of “flag-in” criteria is 11 for project loans.

5. Covenants

5. a. Audited Project Accounts or Financial Statement

32. The PPR records and indicates the status of submission of the audited project accounts or agency financial statements as specified in the loan or project agreement⁴²

⁴¹ Please refer to ADB's PAI 5.04

⁴² Please refer to ADB's (PAI 5.09).

5. b. Project Specific Covenants

33. Compliance with the major covenants by the borrower and EA is assessed. The compliance is critical to achieving project development objectives.

5. c. Problems, Remarks, Issues with Covenants

34. Problems related to the compliance with covenants and corresponding actions (to be) taken are described.

Annex 1

Rating Criteria for the Assessment of Development Objectives
(Project, Program, Development Finance Institution (DFI), and Combined Project/DFI)

Rating Criteria ^a	Highly Satisfactory (3 points)	Satisfactory (2 points)	Partly Satisfactory (1 point)	Unsatisfactory (No points)
May include the following:				
1. Key Policy Assumptions being implemented 2. Assumptions on Environmental Sustainability, valid and applied 3. Assumptions on Beneficiary Participation and Stakeholder Ownership 4. Assumptions on Economic Viability 5. Assumptions on Financial Viability 6. Assumptions on Cost Recovery 7. Assumptions on Institutional Capacity 8. Assumptions on Budget Availability 9. Assumptions on O&M 10. Good Governance 11. Baseline Data Availability and Monitoring Mechanism 12. Socioeconomic Impact 13. OTHERS a) _____ b) _____ c) _____ d) _____ e) _____	The project or program is expected to exceed most of its major immediate development objectives.	The project or program is expected to achieve most of its major immediate development objectives.	The project or program is expected to achieve some of its major immediate development objectives.	The project or program is unlikely to achieve its major immediate development objectives.

O and M = operations and maintenance.

a DO rating will have the same weight points as does Implementation Progress. Overall rating is calculated based on the assumption and risks until project completion (100 % in project progress for project loans and 100 % loan utilization or disbursement for DFI and program loans). Thereafter, the assessment of the immediate development objectives will be included in the overall DO rating. When project implementation activities are at a standstill indefinitely, the project will be rated as “inactive”. Suspended loans will be automatically rated as “unsatisfactory”.

Overall Development Objectives Rating

The overall rating for development objectives will be based on the average of the individual ratings. This would be subject to the overall rating being higher by no more than one category above the lowest individual rating. The overall rating for development objectives will be calculated automatically by the PPR using the following three-step process.

Step One: The arithmetic average of the individual ratings will be calculated using assigned points: 3 points for highly satisfactory, 2 points for satisfactory, 1 point for partly satisfactory, and no points for unsatisfactory.

Step Two: The arithmetic average will be rounded to the nearest whole number. If the overall rating falls exactly in the middle of two ratings, it will be rounded down.

Step Three: For projects with the rating criteria (i.e., 1 to 13 above) spanning several categories (i.e., HS, S, PS, U), the overall rating may not be higher than one category above the lowest individual rating.

**Rating Criteria for the Assessment of Implementation Progress Project
(HS,S,PS,U)^a**

RatingScale^b	Highly Satisfactory (3 points)	Satisfactory (2 points)	Partly Satisfactory (1 point)	Unsatisfactory (No points)
Project Loans				
Loan Signing ^c	Not applicable.	Within 6 months after loan approval	Not applicable	More than 6 months delay after loan approval
Loan Effectiveness ^d	No applicable.	Within 6 months after loan signing AND within 1 year after loan approval	Not applicable	More than 6 months after loan signing OR more than 1 year after loan approval
1. Project Implementation ^e	No delay.	Less than 20% delay from the original appraisal schedule	20-40% delay from the original appraisal schedule	Greater than 40% delay from the original appraisal schedule
2. Changes in Project Scope ^f	----	No major changes needed to date or major changes needed and approved within 3 months	Approval of major changes pending (greater than 3 months but equal to or less than 1 year)	Approval of major changes pending (greater than 1 year)
3. Changes in Implementation Arrangements ^f	----	No major changes needed to date or major changes needed and approved within 3 months	Approval of major changes pending (greater than 3 months but equal to or less than 1 year)	Approval of major changes pending (greater than 1 year)
4. Project Cost ^g	No overrun	Overrun less than 20% of appraisal estimate of total project cost	Overrun between 20 and 40% of appraisal estimate of total project cost	Overrun greater than 40% of appraisal estimate of total project cost
5. Counterpart Funds or Cofinancing ^h	No shortfall	Shortfall less than 20% of appraisal estimate	Shortfall between 20 and 40% of appraisal estimate	Shortfall greater than 40% of appraisal estimate
6. Major Covenants (excluding # 7 below) ⁱ	Full compliance (100%) on time	Compliance between 80 and 99% or full compliance with slight delays or both	Compliance between 50 and 79% or with substantial full compliance delays or both	Compliance less than 50%
7. Audited Project Accounts and Agency Financial Statements	Full compliance ^j	Delay less than 6 months and statements acceptable	Delay between 6 and 12 months and statements acceptable	Delay greater than 12 months or statements unacceptable ^k

^a In exceptional cases, the director general's approval (by memo with proper justification) is necessary to upgrade or downgrade the automated project rating. COSO will effect the change in the system upon receipt of the written approval. The same procedure and authorities will be followed to release the override rating.

^b When project implementation activities are at a standstill indefinitely, the project will be rated as "inactive." Suspended loans will be automatically rated as U. The overall rating for implementation progress will be based on the average of individual ratings. This would be subject to the overall rating being by no more than one category above the lowest individual rating.

^c Once the loan has been signed, this criterion is no longer applicable and the impact of any delay in loan signing should be taken into account when assessing implementation delays.

^d Once the loan has been declared effective, this criterion is no longer applicable and impact of any delay in loan effectiveness should be taken into account when assessing implementation delays.

^e Percent delay is calculated based on the original implementation period at appraisal; e.g., for a project with implementation period of 5 years, if there is one year delay after 2 years of implementation, it would be considered to have been delayed by 20 percent (1/5). This still applies even when the project extension has been approved. The implementation period is based on loan approval date to original closing date.

^f Excluding changes that are part of a process approach to improve the development impact of the project beyond the initial design. Number of months pending will be counted from the date of change has been identified and confirmed by sector division or regional or resident mission; e.g., review missions' back-to-office report, aide-memoire, or memorandum of understanding. Maximum rating will be S if no major changes or major changes approved within three months.

^g If the scope is reduced, cost overrun should be calculated based on the reduced scope.

^h If the corresponding data is not available, the rating should automatically be PS.

ⁱ Major covenants include project-specific that have serious impact on sector project performance. Related to implementation arrangements, assignment of project staff, land acquisition and resettlement, environmental and mitigation measures, etc., to be classified as sector, economic, environmental, social, financial, or others. Individual covenants may be rated by four scales of HS, S, PS, or U.

^j Full compliance implies not only a timely submission but also satisfactory and acceptable quality. While APA and AFS are cumulative, audits must be carried out at each accounting period, and APA and AFS need to be submitted annually as stipulated in the loan agreement. The reporting year includes a part-year from the start date to the end of that fiscal year, and a part-year from the start of the fiscal year in which a project is closed, to the date of closure.

^k For APA or AFS not complied with for more than 12 months, overall IP rating will be U. Effective 1 January 2000, such loans will be suspended in line with the approved action plan.

Flag-In Criteria for the Assessment of Potential Problem Projects

Rating Scale	For Projects with an overall IP rating of Highly Satisfactory or Satisfactory
1. Project Implementation Delays	Flag-in when rated PS or U for project implementation in current rating.
2. Poor Compliance with Covenants (excluding # 3, 4, 8 below)	Flag-in when rated PS or U for covenants in current rating.
3. Established, Staffed, and Operating PMU or PIU ^a	Flag-in when rated PS or U in current rating.
4. Fielding of Consultants	Flag-in when rated PS or U in current rating.
5. Shortage of Counterpart Funds or Cofinancing	Flag-in when rated PS or U for counterpart funds or cofinancing in current rating.
6. Cost Overrun ^b	Flag-in when rated PS or U for project cost in current rating.
7. Poor Compliance with APA or CFS	Flag-in when rated PS or U for APA or CFS compliance in current rating.
8. Environmental or Social Problems or both ^c	Flag-in when rated PS or U in current rating.
9. Significant Disbursement Delays	Flag-in when the actual disbursement is <70% of the projection as of the cut-off date. If the cut-off date is within the quarter, the projected amount of the quarter will be prorated.
10. In Risk Sector in a Country with History of Past Problems	A project in a sector with only one project will not be flagged. Flag-in when 50% of the sector portfolio in a country has been rated PS or U for IP or DO at some point over the past two years. Projects with loan accounts closed in the last two years will assume the project rating at the time of loan closing.
11. Project Field Missions ^d	Flag-in when number of mission days is less than 10 person-days in the last 12 months for projects with PS or U in overall rating of IP or DO, or less than 5 person-days for projects with HS or S ratings. Projects completed (with 100% project progress) require PCR missions within 2 years after completion, hence, no flag.

Note: If overall rating for IP or DO is PS or U, project is automatically “at risk” and flags are not counted in determining potential problem projects but will be flagged to indicate the problem areas. If IP rating was overridden to upgrade the project rating to HS or S, project will not also be classified as a potential problem project.

^a This may include delays in establishing and maintaining project centers, delays in obtaining approval of an organizational structure, difficulties in finding qualified staff, unavailability of skilled human resources in the country, etc.

^b Flag will not be raised if cost overrun has been properly settled with necessary financing.

^c Includes environmental or social (resettlement) problems.

^d Includes project administration missions fielded (professional staff, national officers, support staff, and staff consultant) in the last 12 months. Person-days exclude travel time.

Annex 2

Administration Actions for Less Than Satisfactory Projects**Partly
Satisfactory**

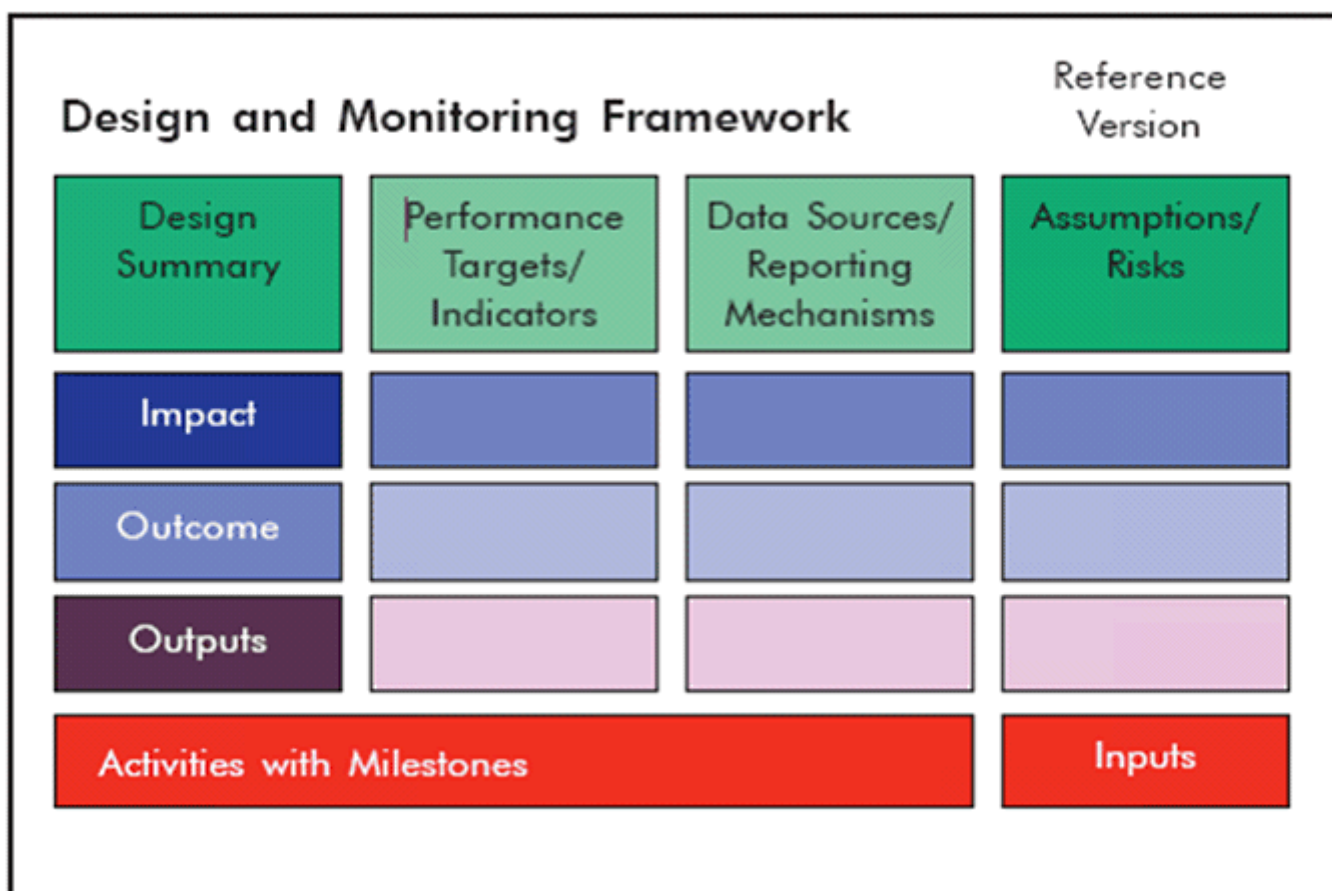
1. Projects should be reviewed at least twice per year.
2. Time-bound action plans should be developed to resolve pending issues.
3. Implementation of the action plans should be closely monitored and followed up with the EA.
4. The action plans should be discussed during monthly divisional project performance review (PPR) meetings and quarterly departmental PPR meetings, and steps taken to ensure that the plans are followed.
5. Back-to-office reports (BTORs) of the project administration missions should be copied to the director general concerned.
6. An issue paper is prepared and submitted to the director general through the director, sector division or country director, RM for approval.

Unsatisfactory

1. Projects should be reviewed at least twice a year.¹
2. Time-bound action plans should be developed to resolve pending issues.
3. Implementation of the action plans should be closely monitored and followed up with the EA.
4. The action plans should be discussed during monthly divisional PPR meetings and quarterly departmental PPR meetings, and steps taken to ensure that the plans are followed.
5. Projects selected by the Central Operations Services Office or the Strategy and Policy Department should be discussed during the operations review meeting.
6. BTOR of the project administration missions should be copied to the director general concerned.
7. An issue paper is prepared and submitted to the director general through the director, sector division or country director, RM for approval.
8. If a project is given this rating for more than one year, it should be discussed by the director, sector division, country director, RM, the most senior official of the EA, and the borrower.
9. A follow-up letter signed by the director general should be sent to the most senior official in the EA and the borrower. In this case, suspension of the loan may be considered if any remedial actions, with the ADB's satisfaction, are not taken by a given date specified in the letter.

¹ Preferably by a special project administration mission to address and resolve specific issues.

Annex 3



Annex 4

PROJECT PERFORMANCE REPORT																															
As of																															
(ALL AMOUNTS IN US\$ MILLION)					SERIAL NO : DIVISION : DEPARTMENT : PROJECT NO : STATUS :																										
					BASIC DATA NAME : PROJECT AT RISK : Impact and Outcome : Implementation Progress (IP) : Potential Problem (PP) : Override :					LAST: : CURR: : Targeting Classification : Themes : Subthemes :																					
										LOAN NO(S)		APPROVAL	SIGNING	EFFECTIVITY	ORIGINAL	REVISED	ACTUAL	PHYSICAL COMPLETION ORIG: : REV: :	ELAPSED LOAN PERIOD ORIG: : REV: :												
PROJECT PROGRESS: REVIEW MISSIONS: : EXECUTING AGENCIES: :																															
FINANCING PLAN (LOAN) <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">PROJECT COST</td> <td style="width: 10%;">TOTAL</td> <td style="width: 20%;">COUNTERPART FUNDS ADEQUATE</td> <td style="width: 20%;">CURRENT VALUE OF BANK LOAN: APPROVED : NET :</td> <td style="width: 20%;">BALANCE AVAILABLE FOR COMMITMENT:</td> </tr> <tr> <td>ADB World Bank Government</td> <td></td> <td></td> <td></td> <td></td> </tr> </table>										PROJECT COST	TOTAL	COUNTERPART FUNDS ADEQUATE	CURRENT VALUE OF BANK LOAN: APPROVED : NET :	BALANCE AVAILABLE FOR COMMITMENT:	ADB World Bank Government																
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LOAN UTILIZATION <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">CUMULATIVE CONTRACT AWARDS</td> <td style="width: 10%;">ADB</td> <td style="width: 10%;">OTHERS</td> <td style="width: 10%;">CUMULATIVE CONTRACTS TO NET BANK LOAN(S):</td> <td style="width: 10%;">PROJ ACTUAL</td> <td style="width: 10%;">2008 CONTRACT AWARDS</td> <td style="width: 10%;">1Q</td> <td style="width: 10%;">2Q</td> <td style="width: 10%;">3Q</td> <td style="width: 10%;">4Q</td> <td style="width: 10%;">TOTAL</td> </tr> <tr> <td>CUMULATIVE DISBURSEMENTS</td> <td>ADB</td> <td>OTHERS</td> <td>CUMULATIVE DISBURSEMENTS TO NET BANK LOAN(S):</td> <td>PROJ ACTUAL</td> <td>2008 DISBURSEMENTS</td> <td>1Q</td> <td>2Q</td> <td>3Q</td> <td>4Q</td> <td>TOTAL</td> </tr> </table>										CUMULATIVE CONTRACT AWARDS	ADB	OTHERS	CUMULATIVE CONTRACTS TO NET BANK LOAN(S):	PROJ ACTUAL	2008 CONTRACT AWARDS	1Q	2Q	3Q	4Q	TOTAL	CUMULATIVE DISBURSEMENTS	ADB	OTHERS	CUMULATIVE DISBURSEMENTS TO NET BANK LOAN(S):	PROJ ACTUAL	2008 DISBURSEMENTS	1Q	2Q	3Q	4Q	TOTAL
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COVENANTS <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">COMPLIANCE WITH COVENANTS:</td> <td style="width: 15%;">AUDITED PROJECT ACCOUNTS / DELAY</td> <td style="width: 15%;">AGENCY FINANCIAL STATEMENTS / DELAY</td> <td style="width: 10%;">SECTOR COVENANTS</td> <td style="width: 10%;">ENVIRONMENTAL COVENANTS</td> <td style="width: 10%;">SOCIAL COVENANTS</td> <td style="width: 10%;">FINANCIAL COVENANTS</td> <td style="width: 10%;">ECONOMIC COVENANTS</td> </tr> </table>										COMPLIANCE WITH COVENANTS:	AUDITED PROJECT ACCOUNTS / DELAY	AGENCY FINANCIAL STATEMENTS / DELAY	SECTOR COVENANTS	ENVIRONMENTAL COVENANTS	SOCIAL COVENANTS	FINANCIAL COVENANTS	ECONOMIC COVENANTS														
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MAJOR ISSUES/PROBLEMS (IP, Impact and Outcome, Covenants) <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;">PROBLEM(S)</td> <td style="width: 50%; text-align: center;">ACTION TAKEN/PROPOSED</td> </tr> <tr> <td style="height: 40px;"></td> <td></td> </tr> </table>										PROBLEM(S)	ACTION TAKEN/PROPOSED																				
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PAU ASSISTANT <small>Legend: EGD - Economic Growth HD - Human Development GD - Gender and Development GG - Good Governance ENV - Environmental Protection PSD - Private Sector Development</small> <small>REG - Regional Cooperation CAD - Capacity Development</small>					PROJECT SPECIALIST																										

IMPACT AND OUTCOME					
Impact					
Description					
Outcome					
Description					
Performance Targets/Indicators			Rating (H, S, P, U)		Progress/Status
Key Assumptions/Risks			Rating (H, S, P, U)		Assessment of Current Status
Assumptions:					
Risks:		Mitigated (Y/N)			
Overall Rating					NOTE: Overall Rating is based only on Assumptions and Risks until project completion. Thereafter, immediate DO assessment will be included
Rating Upon Suspension (for COSO use only)					
New Impact and Outcome Rating:			Effective Date:		Date of Lifting:
Remarks:					
Recent Development (Date:)					
Problems with Impact and Outcome					
Description				Action Taken/Proposed	
Project Quality (one time input)					
Capacity Building Component	Training Component	Participatory Process	Project Manager/Project Office prior to Loan approval	Incorporated Lessons Learned in Sector/Country	Logical Framework

IMPLEMENTATION PROGRESS

Project Outputs

Description	Indicators / Targets	Status

Key Project Inputs

(Loan Categories from LFI/IL/Logical Framework)	Remarks

Key Assumptions/Risks (Input-Output)

Assessment of Current Status

--	--

Implementation Progress

Rating Criteria	Rating (H, S, P, U)	Remarks
1. Project Implementation		
2. Change in Project Scope		
3. Change in Implementation Arrangements		
4. Project Costs		
5. Counterpart Funding/Cofinancing		
6. Major Covenants (exclude #7 below)		
7. Audited Project Accounts and Corporate Financial Statements		
Overall Rating		

Design Changes

--

Recent Development (Date:)

--

Problems with IP

Description	Action Taken/Proposed

POTENTIAL PROBLEM PROJECT

Rating Criteria	Flag (Yes/NO)	Actual Rating	Remarks
1. Project Implementation Delays			
2. Poor Compliance with Covenants			
3. Established, Staffed, and Operating PMU/PIU			
4. Fielding of Consultants			
5. Shortage of Counterpart Funds/Cofinancing			
6. Cost Overrun			
7. Poor Compliance with Audited Project Accounts and Agency Financial Statements			
8. Environmental or Social Problems			
9. Significant Disbursement Delays			
10. In Risk Sector in a Country with History of Past Problems			
11. Project Fielded Missions			
Overall Rating			

Override PP Rating (for COSO use only)		
New PP Rating:	Effective Date:	Date of Lifting:
Justification for Override		Justification for Lifting

COVENANTS

Project and EA Accounts

Project and EA Accounts										
EA	FY End	FY	Months Due After FY	Due	Date Received	Months Delayed	Acceptable Y / N	Auditor's Opinion (Q, U or A)	Status of Compliance	Rating
Submission of Audited Project Accounts (APA):										
Submission of Agency Financial Statements (AFS):										
							Overall Compliance and Rating:			
Findings/Actions Taken or To be Taken and other Remarks:										

Project Specific Covenants

Project-specific covenants	Date Due	Date Completed	Delays (mo.)	Status of Compliance	Rating (S,PS,U)	Remarks/Issues
Sector						
Environmental						
Social						
Financial						
Economic						
Others						
Overall Rating						

Problems/Remarks/Issues with Covenants

--

REPORTING REQUIREMENTS

3. Accounting, Auditing and Reporting⁴³

1. The Project will adhere to the revised and updated financial management guidelines and procedures applicable to foreign-assisted projects being implemented by national government agencies. A memorandum of agreement between DAR and oversight bodies and CARP implementing agencies will stipulate the agency's role in the management and disbursement of project funds. FAPsO finance and administrative staff will be responsible for management of project funds and will undertake the processing, disbursement, reimbursement, and financial monitoring of the loan proceeds. Such financial management and control arrangements will be carried out in accordance with government accounting procedures.

2. Expenditures by DAR regional and provincial offices will be recorded using the new government accounting system and the standard government charts of accounts. Separate books of accounts will be maintained at the regional and provincial levels. At the end of each year, the national project accountant will consolidate all project accounts, including the financial statements submitted by DAR regional and provincial offices and LGU partners. The national project accountant will submit the consolidated financial statement report to FAPsO. Consolidated project accounts and related financial statements will be audited annually by an auditor acceptable to ADB. The audited reports and related financial statements in English will be submitted to ADB not later than 9 months after the end of the fiscal year to which they relate. The Executing Agency will be responsible for the submission to ADB of (i) annual audit reports and, (ii) quarterly progress reports.

4. Project Performance Monitoring and Evaluation

3. To monitor and evaluate the operational performance of the agencies and institutions involved and the benefits obtained from the Project, DAR, in consultation with ADB, will establish a project performance management system in accordance with the project design and monitoring framework (Appendix 1) in the national project coordination office within 1 year of loan effectiveness. The project performance management system will monitor and rate (i) key activities (on a physical and financial basis), including consultant recruitment, equipment and materials procurement, procurement of civil works, training, surveys, special studies, and drafting of implementation guidelines; (ii) performance in project activities of various stakeholders, including LGUs at the provincial and municipal levels, ARCs, ARC clusters, people's organizations, NGOs, and civil society organizations; and (iii) social, environmental, and economic impacts, establishing benchmarks. It will also introduce mechanisms for adjusting project design and project implementation arrangements, and for incorporating lessons learned from similar projects into project planning. Project monitoring and evaluation reports will be submitted by the NPCO, through the DAR-FAPsO, to ADB on a quarterly basis. On project completion, impacts will be evaluated in accordance with a schedule and terms of reference (TOR) to be agreed upon mutually by the Government and ADB. A baseline survey will be done prior to actual implementation, followed by an impact assessment at midterm review, an impact evaluation at the end of the Project, and a project completion report to be submitted within 3 months of project completion.

⁴³ Recorded from RRP's main text – para 74 - 77

5. Project Review

4. In addition to normal monitoring, the Project will be reviewed jointly at least twice a year by ADB and the Government. The reviews will (i) assess project performance and achievement of project objectives and outputs, with particular attention to the application of the community-driven development approach and its effectiveness in including all segments of the poor in the community; (ii) monitor financial progress; and (iii) identify issues and constraints affecting project implementation—and work out a time-bound action plan for their resolution. In the third year of project implementation, ADB and the Government will carry out a midterm review to assess progress and review project parameters.

5. Based on the above information, the reporting requirements from the Government to ADB and internal reports within the government agencies are discussed below.

6. Executing Agency's Project Progress Report⁴⁴

a. Introduction

6. Loan regulations and loan and project agreements require the borrower and executing agency (EA) to provide ADB with reports and information it reasonably requests. These include the EA's periodic progress reports that enable the borrower, EA, and ADB to monitor project progress, become aware of problems during implementation, and assess whether the immediate project objectives will be met.

7. During loan processing, the borrower, EA, and ADB agree on the content, format, and timing for submitting progress reports, taking account of the nature of the project and the information and reporting systems of the borrower and EA. Generally, the borrower or EA submits **the progress reports quarterly**, regardless of progress achieved during the period. When little or no progress is achieved, the progress reports inform ADB of the reasons and problems delaying implementation or that may result in the immediate objectives not being met.

b. Content and Format

8. The content of the progress report includes sufficient information in summary form to be useful to ADB as a funding agency. The purpose of the report is to enable the borrower, EA, and ADB to monitor the latest progress, become aware of current problems, and assess whether the project's immediate objectives will be met. More detailed reports are prepared by consultants or contractors for the project management office (PMO) or project implementation unit (PIU), and by the PMO or PIU for the EA's management. These reports are held at the PMO or PIU and are made available for ADB review, midterm review, and project completion review missions.

9. The progress report sent to ADB is an executive summary of the detailed reports; with format and content permitting ADB staff to readily capture key information for inputting into the project performance report (PPR)⁴⁵. When ADB requires detailed information (such as background to a particular problem), this is included as an appendix. Simple charts such as a bar or milestone charts to illustrate implementation progress, a chart showing actual versus

⁴⁴ Cited mainly from ADB's PAI 5.01

⁴⁵ The eventual goal is to automate reporting on project performance by borrowers or EAs; the use of PPR templates and ADB web site are being considered. At present, not all EAs have Internet access and they can only receive PPRs through the Lotus Notes database in the regional or resident missions.

planned expenditures, and the relationship between physical and financial performance are included. A framework and guidelines for calculating project progress and a sample implementation schedule are shown in **Annex 1**.

c. Procedure

10. A pro forma progress report with format and content agreed to by the borrower, EA, and ADB is appended to the processing mission's memorandum of understanding. The sector division or the regional or resident mission (RM) responsible for implementing the project provides the borrower or EA with an updated sample report after the loan is approved and before the project inception mission. This reminds the borrower or EA of ADB's progress reporting requirements. The sample report will be then incorporated in the project administration memorandum to be discussed and finalized during the project inception mission⁴⁶.

11. The PPR is the main tool for monitoring project implementation performance within ADB⁴⁷. PPRs for "satisfactory" projects are updated at least quarterly as well as after project review missions. PPRs for "unsatisfactory" and "partly satisfactory" projects are updated more frequently. The following procedures apply: (i) The project staff captures key information from the progress report and updates the PPR; (ii) The project staff then recommends any proposed actions to the project administration unit (PAU) head; (iii) If the PAU head approves the recommendations, the sector division or RM responsible for implementing the project conveys ADB's comments or recommendations on the report to the borrower or EA. In so doing, a copy of the updated PPR resulting from the progress report may be incorporated; (iv) Where necessary, a special project administration mission is sent to resolve serious problems in advance of the next scheduled review mission; (v) All departments and offices have access to the updated PPR, and a copy of the progress report is sent only to the concerned parties. For example, in the case of major changes or problems concerning financial matters, submission of the EA's progress report to the Loan Administration Division (CTLA) may help process withdrawal applications when the project involves force account works, or where a significant disparity is observed between progress and disbursement.

12. If a progress report is not received within two weeks of the scheduled date of receipt, the sector division or RM responsible for implementing the project sends a reminder immediately to the borrower or EA. Repeated delays in sending progress reports are recorded in the PPR and discussed with the borrower or EA by the project review mission.

⁴⁶ Please refer to ADB's (PAI 1.05).

⁴⁷ Please refer to ADB's (PAI 6.05)

Annex 1

Framework and Guidelines in Calculating Project Progress**B. Introduction**

1. To ensure that all implementation activities are reflected in measuring implementation progress against the project implementation schedule, the term "physical completion" in the PPR has been changed to "project progress."
2. Physical and pre-commencement activities are considered in calculating project implementation progress. These activities, which may include recruitment of consultants, capacity building, detailed design, preparation of bid and prequalification documents, etc., could constitute a significant proportion of overall implementation and therefore should be counted.
3. Each activity in the implementation schedule will be weighted according to its overall contribution (using time as a reference) to progress of project implementation. These weights will then be used to calculate the percentage of project progress along the entire time span of the project. This is to provide a holistic view of the pace of implementation.

C. Framework for Compiling Activity List and Assigning Weights

4. As implementation activities and their corresponding weights will vary according to the type of project, sector, and country, sector divisions or RMs will be responsible for determining and including them in the project administration memorandum. The actual project implementation progress of these activities should be reported regularly through the EA's quarterly project progress report. To ensure ADB-wide consistency, the following framework has been established; its application will be monitored through the PPR.

B. 1. Compilation of Activity List

5. Sector divisions or RMs concerned should identify major implementation activities and include them in the implementation schedule, which is attached as an appendix in the report and recommendation of the President (RRP). The implementation schedule should follow the critical path of the project's major activities in project implementation taking account of various country, sector, and project constraints.

B. 2. Assignment of Weights

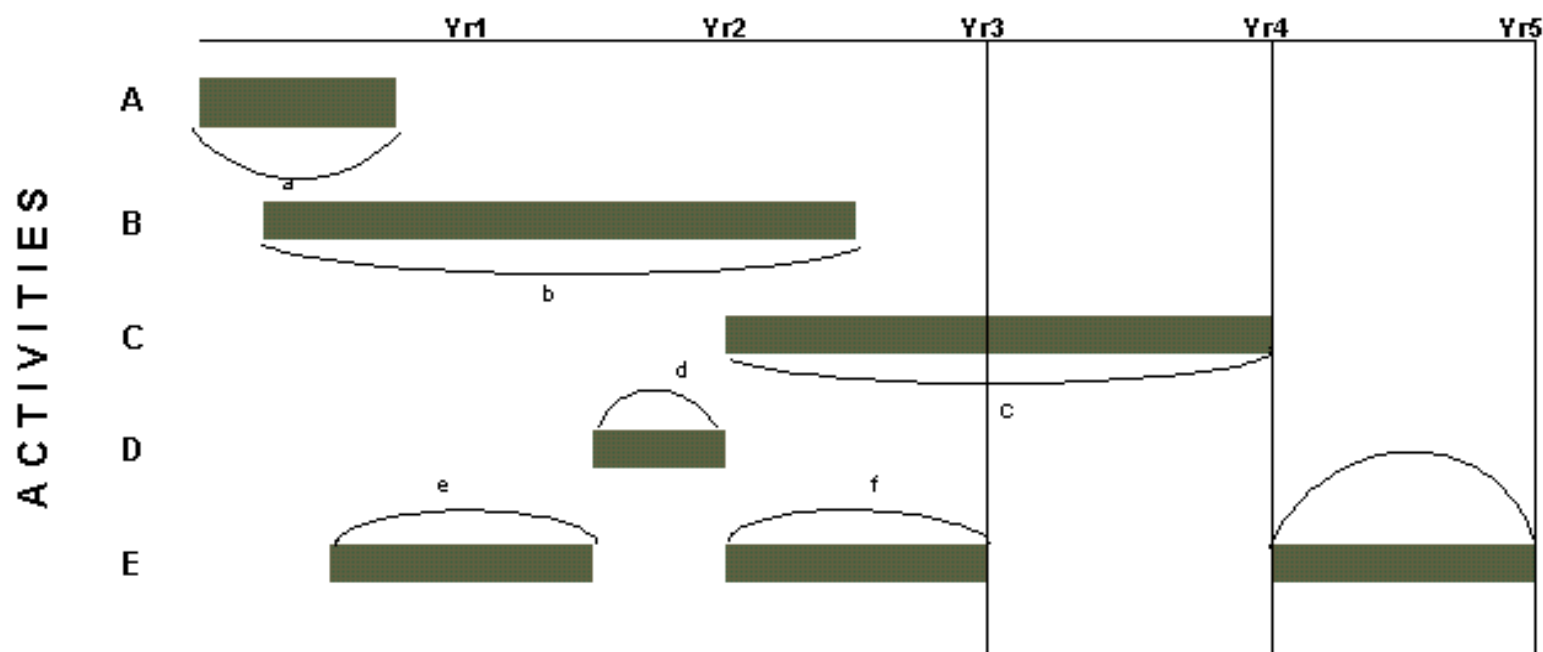
6. Corresponding weights for each activity should be assigned to ensure that "project progress" measures the percentage of achievement (nonfinancial except when the project has credit components) for all events during the entire duration of the implementation schedule. To avoid disproportionate assignment of weights, to the extent possible these should be evenly distributed along the implementation schedule. When activities are concurrent, avoid "double counting."

B. 3. Computation of Project Progress

7. Once all activities are identified and corresponding weights assigned, project progress should be calculated using the following steps:
 - (i) Determine the actual percentage progress (nonfinancial) of each activity.

- (ii) Multiply these percentages by the assigned weight of each activity to arrive at the weighted progress.
- (iii) Add up the resulting weighted progress of all activities to determine the project progress.














Page 6 of this Appendix provides an illustration of this calculation using a generic sample implementation schedule and this Appendix, page 7 a specific example in the education sector.

Implementation Schedule with Activities and Weights⁴⁸

1. Sum of all weights should equal 100 percent ($a+b+c+d+e+f+g = 100\%$)
2. When calculating the percentage of "project progress," all completed activities should be counted as accomplished, regardless of when they were scheduled to be completed. For example, when calculating the percentage of "project progress" after year 3, if activity D is completed in year 3 rather than in year 2, it should still be included in the computation.
3. Total weight of each activity is as follows: Activity A— a ; Activity B— b ; Activity C— c ; Activity D— d ; and Activity E— $e + f + g$
4. Project progress of a project is the summation of the actual percentage of progress for each activity multiplied by the total weight of each activity.

⁴⁸ Cited from ADB's PAI 5.01, Appendix 2

Sample Implementation Schedule⁴⁹

Activities	Year 1	Year 2	Year 3	Year 4	(a) Assigned Weight	(b) Actual Progress	(a) x (b) Weighted Progress
Establish PIU					5%	100%	6%
Establish Accreditation Board, etc.					5%	0%	0%
Appoint Staff and Budget					4%	75%	3%
Adopt Architecture Plans					2%	100%	2%
Shortlist Consulting Firms					6%	100%	6%
Prepare Fellowship Program					6%	76%	4%
Prepare Civil Works Tendering					30%	0%	0%
Civil Works: Classrooms, Dorms, etc.					6%	0%	0%
Procurement of Furniture and Equipment					16%	10%	2%
Field Work of Consultants					7%	0%	0%
Provide Fellowships					6%	0%	0%
Conduct Study Tours					6%	0%	0%
Provide Curriculum Standards					6%	0%	0%
				Total Weight Imp. Progress	100%		24%

(a) Assigned weight for each activity

(b) Actual progress of each activity

(a) x (b) weighted progress for each activity

Project progress = sum of all weighted progress for each activity

⁴⁹ Please refer to ADB's PAI 5.01 - Appendix 2

SAMPLE EXECUTING AGENCY'S PROJECT PROGRESS REPORT⁵⁰

Pro Forma of the Executing Agency's Project Progress Report

A. Introduction and Basic Data

Provide the following:

- ADB loan number, project title, borrower, executing agency(ies), implementing agency(ies);
- total estimated project cost and financing plan;
- status of project financing including availability of counterpart funds and cofinancing;
- dates of approval, signing, and effectiveness of ADB loan;
- original and revised (if applicable) ADB loan closing date and elapsed loan period based on original and revised (if applicable) loan closing dates; and
- date of last ADB review mission.

B. Utilization of Funds (ADB Loan, Cofinancing, and Counterpart Funds)

Provide the following:

- cumulative contract awards financed by the ADB loan, cofinancing, and counterpart funds (commitment of funds to date), and comparison with time-bound projections (targets);
- cumulative disbursements from the ADB loan, cofinancing, and counterpart funds (expenditure to date), and comparison with time-bound projections (targets); and
- reestimated costs to completion, need for reallocation within ADB loan categories, and whether an overall project cost overrun is likely.

C. Project Purpose

Provide the following:

- status of project scope/implementation arrangements compared with those in the report and recommendation of the President (RRP), and whether major changes have occurred or will need to be made;
- an assessment of the likelihood that the immediate development objectives (project purpose) will be met in part or in full, and whether remedial measures are required based on the current project scope and implementation arrangements;
- an assessment of changes to the key assumptions and risks that affect attainment of the development objectives; and
- other project developments, including monitoring and reporting on environmental and social requirements that might adversely affect the project's viability or accomplishment of immediate objectives.

⁵⁰ Cited from ADB's PAI 5.01, Appendix 1

D. Implementation Progress

Provide the following:

- assessment of project implementation arrangements such as establishment, staffing, and funding of the PMO or PIU;
- information relating to other aspects of the EA's internal operations that may impact on the implementation arrangements or project progress;
- progress or achievements in implementation since the last progress report;
- assessment of the progress of each project component, such as, (i) recruitment of consultants and their performance; (ii) procurement of goods and works (from preparation of detailed designs and bidding documents to contract awards); and (iii) the performance of suppliers, manufacturers, and contractors for goods and works contracts;
- assessment of progress in implementing the overall project to date in comparison with the original implementation schedule—quantifiable and monitorable target, (include simple charts such as bar or milestone to illustrate progress, a chart showing actual versus planned expenditure, S-curve graph showing the relationship between physical and financial performance, and actual progress in comparison with the original schedules and budgets, the reference framework or guidelines in calculating the project progress including examples are discussed in Appendix 12 (Reporting Requirements); and
- an assessment of the validity of key assumptions and risks in achieving the quantifiable implementation targets.

E. Compliance with Covenants

Provide the following:

- the borrower's compliance with policy loan covenants such as sector reform initiatives and EA reforms, and the reasons for any noncompliance or delay in compliance;
- the borrower's and EA's compliance with financial loan covenants including the EA's financial management, and the provision of audited project accounts or audited agency financial statements; and
- the borrower's and EA's compliance with project-specific loan covenants associated with implementation, environment, and social dimensions.

F. Major Project Issues and Problems

Summarize the major problems and issues affecting or likely to affect implementation progress, compliance with covenants, and achievement of immediate development objectives.

Recommend actions to overcome these problems and issues (e.g., changes in scope, changes in implementation arrangements, and reallocation of loan proceeds).

SAMPLE AUDIT LETTER

ASIAN DEVELOPMENT BANK

Regional Department
Sector Division / Regional or Resident Mission

[Date]⁵¹

[The Borrower]
Dear Sir or Madam:

Subject: **[Loan No. and Project Title]**
- FINANCIAL REPORTING AND AUDITING REQUIREMENTS

This letter is to ensure your timely compliance with the loan covenants and the quality of financial information as required by ADB. ADB's *Handbook for Borrowers on the Financial Governance and Management of Investment Projects Financed by the ADB* (the Booklet) is enclosed to guide you.

ADB, by its Charter, is required to ensure that the proceeds of any loan made, guaranteed, or participated in by ADB are used for the purposes for which the loan was approved. ADB requires accurate and timely financial information from its borrowers to be assured that expenditure was for the purposes stated in the loan agreement.

For this particular loan, the requirements are stipulated in sections _____⁵² and _____⁵³ of the Loan Agreement of _____ between ADB and [the Borrower] and sections _____⁵⁴ and _____⁵⁵ of the Project Agreement⁵⁶ of _____ between ADB and [name of the EA]⁵⁷. Copies of the Loan/Project Agreements are enclosed for onward transmission by your office to your EA and the auditor(s), together with a copy of this letter.

The following are the main requirements:

- ADB requires the EA to maintain separate project accounts and records exclusively for the Project to ensure that the loan funds were used only for the objectives set out in the Loan or Project Agreements. The project accounts comprise the following: Listed are standard accounts required from nonrevenue-earning entities. Try to identify specific titles of financial statements expected to be submitted by the Borrower and EAs.

⁵¹ The audit letter, with the loan and project agreements, is sent to the borrower when the auditor has been appointed or when the agreements are sent by the program department to the Ministry of Finance or other authority of the borrower.

⁵² Specify section no. in the loan agreement on maintaining project accounts and records.

⁵³ Specify section no. in the loan agreement on the audit requirements.

⁵⁴ Specify section no. in the project agreement on maintaining project accounts and records.

⁵⁵ Specify section no. in the project agreement on the audit requirements.

⁵⁶ If there is a project agreement.

⁵⁷ When more than one project agreement, provide similar information.

- For revenue-earning entities, the submissions consist of the entities' audited financial statements. For nonrevenue-earning entities, the submissions consist of audited project accounts.

The first set of project accounts to be submitted to ADB covers the fiscal year ending _____. As stipulated in the Loan or Project Agreements, they are to be submitted up to _____ months after the end of the fiscal year. For this loan, the deadline is by _____. A sample report format with explanatory notes, is attached as Annex A.

- The accounts and records for the project are to be consistently maintained by using sound accounting principles. Please stipulate that your external auditor is to express an opinion on whether the financial report has been prepared using international or local generally accepted accounting standards and whether they have been applied consistently.

ADB prefers project accounts to use international accounting standards prescribed by the International Accounting Standards Committee. Please advise your external auditor to comment on the impact of any deviations, by [name of the Executing Agency] from international accounting standards.

- Please ensure that your external auditor specifies in the Auditor's Report the appropriate auditing standards they used, and direct them to expand the scope of the paragraph in the Auditor's Report by disclosing the key audit procedures followed. Your external auditor is also to state whether the same audit procedures were followed for all supplementary financial statements submitted.

ADB wishes that auditors conform to the international auditing standards issued by the International Federation of Accountants. In cases where other auditing standards are used, request that your external auditor to indicate in the Auditor's Report the extent of any differences and their impact on the audit.

- The external auditor's opinion is also required on whether (i) the proceeds of the ADB's loan have been utilized only for the project as stated in the Loan Agreement; (ii) the financial information contains data specifically agreed upon between [name of the Borrower or EA] and ADB to be included in the financial statements; (iii) the financial information complies with relevant regulations and statutory requirements; (iv) compliance has been met with all the financial covenants contained in the Loan or Project Agreements; (v) Imprest Account/ Second Generation Imprest Account(s) funds have been correctly accounted for; and (vi) documents and controls on the use of the Statement of Expenditures (SOE) procedure are adequate.
- The Auditor's Report is to clearly state the reasons for any opinions that are qualified, adverse, or disclaimers.
- Actions on deficiencies disclosed by the external auditor in its report are to be resolved by [name of Borrower or Executing Agency] within a reasonable time. The external auditor is to comment in the subsequent Auditor's Report on the adequacy of the corrective measures taken by [name of Borrower or EA].

Compliance with these ADB requirements will be monitored by review missions and during normal project supervision, and followed up regularly with all concerned, including the external auditor.

Yours sincerely,

Director /
Country Director
(Sector Division/
Regional or Resident Mission)

cc: (EA)
(External auditor of the Borrower or EA)

ADB's Anticorruption Policy

1. ADB's *Anticorruption Policy* (1998, as amended to date), as a part of this appendix, was explained to and discussed with the Government of the Philippines and the Executing Agency. 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, provisions of ADB's *Anticorruption Policy* are included in the loan regulations and the bidding documents for the Project. Attention was also drawn to the section on fraud and corruption that was added to ADB's *Procurement Guidelines* and *Guidelines on the Use of Consultants*, particularly the need for bidders, suppliers, contractors, and consultants to observe the highest standards of ethics in the procurement and execution of contracts, and the sanctions if fraud and corruption are discovered. Based on the government policy and experience in fighting corruption, the following preventive measures will be taken: (i) a procurement committee consisting of representatives from related departments will be established in accordance with the operating procedures in the Procurement Manual for ARCP, drawn up between DAR FAPsO and ADB, which will be updated for ARCP II. This commitment will supervise the entire procurement process; and (ii) the Government will also cause DAR to initiate liaison meetings on a semiannual basis with the National Government Audit Office to review and discuss the information on corrupt practices.

2. All contracts financed by ADB in connection with the Project will include provisions specifying the right of ADB to audit and examine the records and accounts of the Executing Agency and all contractors, suppliers, consultants, and other service providers as they relate to the Project.⁵⁸ All procurement of consulting services will be subject to ADB prior review. For civil works, the first 5 contracts procured under NCB will be subject to ADB prior review as the basis for the remaining contracts that they may have during the course of implementation. However, ADB may require submission of a copy of the bid evaluation report for each subproject for post-review to determine if procurement was done according to agreed guidelines. Any adverse finding will result in all related contracts will be declared null and void, with the concerned LGU being penalized.

⁵⁸ All information pertaining to procurement of goods, works, and services under the Project will be posted on the Government of the Philippines website for the same, <http://www.philgeps.net/GEPS/default.aspx>, and <http://www.philgeps.net/> GEPS.

RURAL INFRASTRUCTURE COMPONENT

Component Objective. In support to the overall impact of ARCP II and complementary to the rest of the Project components, the Rural Infrastructure will have the objectives to : (i) reduce transport time and cost of farm inputs; (ii) enhance ability to grow and market crops; (iii) increase production diversity and growing options; (iv) increase cropping intensity and improve yields and productivity; (v) reduce post-harvest losses and transport damage improving quality of products; (vi) reduce incidence of water borne diseases; (vii) generate time savings for better productive use; (viii) generate savings in medical expenses; (ix) Improve community hygiene and public health; (x) reduce vulnerability of rural poor to various types of crisis situations by improving access for emergency services.

Scope of Rural Infrastructure. The “Demand Driven” policy and participatory approach to sub-project identification and prioritization will be maintained to ensure that interventions provided by the Project realistically address the true needs of the ARC communities. However, the demand for basic rural infrastructure in ARCs to be covered under this assistance is expected to be diverse and huge and could not possibly be addressed by ARCP II alone.

Experience shows that LGUs and communities have the tendency to identify a “wish list” of sub-projects for assistance of this type to such extent that even those not critically needed are being proposed for financing under the Program. An effective system of ensuring that “demands” are within the limits of what is basically necessary to trigger development in ARCs is to confine assistance to rural infrastructure to a close or semi-open menu based on the results of the needs assessment.

The conduct of field visits and consultations with communities in the selected ARCs during the Fact Finding and Pre-Appraisal Missions further validated the rural infrastructure trend established by the PPTA⁵⁹. The indicative lists of priorities identified by the communities during the conduct of consultations reflect the types of rural infrastructure demands in the proposed Project areas. These resulted to access infrastructure, which includes rural roads and bridges ranking first followed by the need for a safe and reliable potable water supply (PWS). There are also several irrigation schemes that were identified and will consequently require post harvest facilities (PHF) like warehouses and solar driers.

Based on this trend and to achieve the specific objectives of this component, the rural infrastructure menu is recommended to include the following outputs under the four (4) major classifications:

1. Rural Access Infrastructure – to include rehabilitation and selective construction of highly critical Barangay or Farm to Market roads and its appurtenant structures, single lane concrete bridges and low-level crossings, access trails, footpaths and hanging foot bridges in upland areas;

2. Small Scale Irrigation – to include construction and rehabilitation of small flow communal irrigation schemes (CIP and CIS), Small Water Impounding Projects (SWIP), Small Farm Reservoirs (SFR), Shallow Tube Wells (STW) and drip irrigation schemes for high value crops;

3. Post-Production Facilities – to include warehouses and solar driers; and

⁵⁹PPTA report Annex 7 (ARCP II Rural Infrastructure Trend)

4. Social Infrastructure Facilities – to include Potable Water Supply (PWS - levels I and II), Multi-Purpose Buildings (MPB) and Tribal Centers for the IP communities and rainwater collectors where critically needed.

To address the pressing needs outside of those listed above, assistance may be provided to other rural infrastructure demands as long as these are consistent with Project outcomes. This will include environmentally critical and small scale flood protection works posing immediate danger to lives and properties, small fish landing facilities and solar drier on stilts for coastal ARCs with major marine production activities, Barangay Health Stations and School Building Classrooms where existing demand is apparent and Day Care Centers where women beneficiaries are engaged in entrepreneurial activities.

Eligibility and Selection Criteria. Eligibility of proposed rural infrastructure for financing under ARCP II shall be based on environmental, social and technical considerations.

A. Environmental and Social Considerations: Sub-projects are recommended to be financed under ARCP II if these comply with the following environmental criteria:

1. Subproject sites and operations must be free from significant social and environmental problems and issues unless feasible mitigating measures can be provided, e.g.
 - a. sub-project site in protected areas should be consistent with the protected area zoning and supported with a resolution from the PAMB.
 - b. sub-project site in other parts of the LGU should be consistent with the local land use zoning supported with a local land use clearance.
 - c. sub-projects in IP areas shall be subject to the Field Based Investigation (FBI) of the NCIP and shall secure Free Prior and Informed Consent (FPIC) from the IP community.
 - d. sub-projects should not significantly degrade or convert the ARC or any natural habitat which can affect the ARC (*Note: the interpretation of “significant degradation or conversion” has to be determined by the DAR on a case-to-case basis. As a guide, **degradation** means the modification of the ARC or any surrounding natural habitat to a level that reduces the ability of that ARC or natural habitat to perform its normal functions of supporting its current uses/services. **Conversion** means a major, long-term change in land use or water use.*)
 - e. sub-projects should not use prohibited pesticides and fertilizers. Where synthetic chemical agro-chemicals are necessary to be used, these should be under an Integrated Pest and Crop Management Program.
 - f. sub-projects should not do significant damage to physical cultural resources. Otherwise, such sub-projects should have a restoration and preservation plan.
 - g. sub-projects shall not be contradictory to social mores of the majority of community population i.e. prohibited practices according to local traditions and customs shall be avoided and all design considerations and activities undertaken for each sub-project shall be with proper consent from local communities through the conduct of public consultations
 - h. sub-projects should not cause displacement without compensation to affected persons

2. Potable water supply from proposed sites must be free from any contamination and identified sources like natural springs shall be certified safe by the Department of Health or the local health officer thru the conduct of water sample analysis;
3. The sub-project proponent attests that there are no other users of the proposed water supply source (potable and irrigation use) or the current users have concurred to support additional beneficiaries;
4. Proposed water supply sources must be officially cleared with NWRB i.e. water rights and water permits shall be acquired by the proponent users prior to actual ground implementation;
5. Proposed road alignment shall not be located in areas of more than 25% slope

This shall serve as a built-in screening mechanism for selection of sub-projects to ensure those that are funded will not pose significant harm to the environment.

B. Technical Considerations: Upon compliance of the environmental and social considerations, the general conditions in which proposed rural infrastructure sub-projects will qualify for ARCP II assistance are as follow:

- i. sub-projects must be identified and prioritized by the community (including the vulnerable and poor groups) and concurred by LGU;
- ii. the willingness and commitment of the community and LGU to put up the required equity contribution and operate and maintain the completed facilities;
- iii. the willingness and commitment of LGU to work out the required clearances and permits;
- iv. the willingness and commitment of LGU to conduct detailed surveys and prepare individual sub-project Feasibility Study (FS) and Detailed Engineering (DE) Plans and POW;
- v. the willingness and commitment of LGU to comply with ADB and government safeguard policies;
- vi. there must be evidence of current demand (“Demand Driven”);
- vii. proposed sub-projects must be within the limited available resources of the Project; and
- viii. proposed sub-projects must not be currently covered under any local or foreign funding sources.

To further optimize the use of limited resources and ensure maximum utilization of completed facilities, sub-projects for financing under the rural infrastructure component will be guided by the specific conditions in

Over and above these guidelines, sub-project prioritization must be based on the importance and urgency of the current needs of the ARC community beneficiaries. Disadvantaged group within the ARC shall be given preference and accorded the highest priority in the approval of their identified and prioritized rural infrastructure.

Pre-Conditions to Sub-Project Approval. To ensure sustainability of completed infrastructure facilities, approval of sub-projects will be subject to the following pre-conditions: (i) establishment of an Operation and Maintenance (O and M) Committee for each sub-project type according to the recommended O and M Arrangement⁶⁰; (ii) formulation and submission of an

⁶⁰ PPTA report sub-section C of Part IX: IMPLEMENTATION PLAN

annual O and M plan specifying responsibility centers and sources of maintenance fund; and (iii) signing of Sub-Project Agreement (SPA) and Memorandum of Agreement (MOA) specifying the details in carrying out the O and M provisions of the completed facilities.

LGU Equity. The Loan – Grant – Equity (LGE) mix will be based on the current national government policy on cost sharing. This would involve 50% (5th & 6th), 60% (3rd & 4th) and 70% (1st & 2nd) equity counterpart in cash or in kind from the LGUs (inclusive of the community share of 5%) across all sub-project types. This arrangement would be under an agreement that the LGU shall institute policy reforms at their level and in the event that the LGU deliver such reform as agreed, 20% of the equity will be reimbursed to the LGU reducing its counterpart effectively to 30%, 40% and 50% respectively.

The national grant counterpart that will be sourced out from the ADB and OFID loan proceeds and DAR-GOP will cover a maximum of 50, 40 and 30 percent of the subproject cost for 5th & 6th, 3rd & 4th and 1st & 2nd class municipalities respectively.

Under this arrangement, the LGU and community eligible equity contributions may be sourced from the provincial, municipal or barangay IRA or congressional funds and other legal sources if in cash or provision of specific cost items or services if in kind enumerated in supplementary Appendix 1.

Component Implementation. The implementation of the rural infrastructure component will require the full involvement of the participating LGUs and AR Communities as well as the DAR field technical staff (RPO and PPIO) in view of the mainstreaming policy. The establishment of a municipal Local Project Office (LPO) will be critical to ensure that the required integrated planning and implementation with the other components occur and so that technical quality is maintained. The capacity of the LGUs in rural infrastructure development varies according to municipal classification. As majority of the sites will cover municipalities of lower classification, it is expected that capacity-building interventions will be necessary to ensure smooth implementation of the component. The same is true with almost all the AR communities given the ARBs' educational background.

The ARB community will have the sole responsibility of identifying and prioritizing sub-projects during the conduct of participatory planning and consultations. Technical assistance and guidance will be provided by the LGU through the LPO together with the PPIO.

The preparation of Feasibility Study (FS) of each individual proposed sub-project will be the main responsibility of the LPO through the MPDO while the conduct of field surveys and preparation of detailed engineering documents will be through the MEO. During sub-project preparation, clearances and certifications from government regulatory agencies will be worked out by the LGU through the LPO.

All proposed sub-projects for financing under the Rural Infrastructure Component costing US\$75,000 and below will be subject to approval by a Regional Sub-Project Approval Committee (RSAC). Sub-projects costing over US\$75,000 shall be approved by the NSAC the composition of which is similar to the RSAC but at the national level. ARMM will establish its own RSAC with representatives from the Office of the Regional Governor (ORG).

In support to the national government's employment generation program and in consideration that majority of the sub-projects are small scale, Labor Based–Equipment Supported (LB/ES) methods of construction shall be adopted whenever possible. This should also allow

communities to be engaged in community contracts as “Pakyaw” labor contractors to ensure full involvement as well as help in the process of people empowerment.

Implementation of sub-projects under ARCP II will require full attention from the LGUs as the executing units of the Project. The LPO will be the main responsible unit for the execution and daily supervision of sub-projects implementation regardless of whether implemented by contract or force account. The PPIO will provide overall supervision to LPOs across municipalities within its respective jurisdiction with the full involvement of the ARB communities. The RPO and NPCO will likewise provide periodic supervision on a needs basis.

Monitoring and evaluation of sub-projects implementation will be the main responsibility of the M and E unit of NPCO with full involvement of DAR FAPsO.

ADB at anytime will send supervision mission to selected sites to monitor and evaluate the progress and status of the implementation and management of the Project. The findings of the mission will be embodied in an aide memoire and will be submitted to the Project Executive Committee (PEC) copies of which will be furnished all concerned stakeholders and Project implementers.

All completed sub-projects will be turned over to the LGU represented by the Municipal Mayor. However, there will be instances where completed facilities like communal irrigation schemes and post harvest facilities will be turned over to Farmers’ Association (FA) or People’s Organizations (PO) for appropriate operation and maintenance. In such cases, a Memorandum of Agreement (MOA) between the LGU and concerned FA or PO will have to be put in place to ensure that responsibility is clearly delineated for sustainability.

NPCO will have the sole responsibility to authorize turn-over of the completed facilities after the conduct of final inspection and after it has determined that the sub-project has been completed to the satisfaction of the Project.

The specific implementation processes and procedures of the rural infrastructure component is discussed in supplementary Appendix 1.

Operations and Maintenance and Sustainability Mechanism. The specific unit or organization to operate and maintain the completed facility will be dependent on who will be the direct users or beneficiaries of the facility. The type of infrastructure facilities to be provided by ARCP II can be appropriately operated and maintained either by the municipal LGU or People’s Organizations. The recommended O and M responsible entities for each type can be carried out according to the arrangements supplementary Appendix 1.

To further ensure sustainability of ARCP II completed facilities, the grant component shall be converted into a loan once the LGU fails to maintain the facilities for an agreed period of sub-project economic life and this shall be stipulated in a Sub-Project Agreement (SPA) for each approved proposal.

Procurement Methods and ADB Guidelines. Majority if not all sub-projects under ARCP II financing are expected to be relatively small involving small work contracts (about US \$100,000) and are unlikely to attract international or even national contractors hence, procurement of works will be through Local Competitive Bidding (LCB) under R.A. 9184 although the ADB guidelines for contracts costing US \$100,000 equivalent allows shopping. Procurement of works

for these sub-projects would not also warrant National Competitive Bidding (NCB) under ADB guidelines having a threshold between US \$1,000,000 and US \$10,000,000.

Procurement under the rural infrastructure component will be the main responsibility of the municipal LGU through its duly constituted Bids and Awards Committee (BAC) in accordance with the provisions of R.A. 9184.

Implementation Schedule. The proposed implementation of the rural infrastructure component would be spread over a period of six (6) years in consideration of the LGU's fiscal difficulty to provide the required equity counterpart. Each municipal LGU will have about four (4) to five (5) years to complete the rural infrastructure needs of the ARCs within their jurisdiction to give them enough time to generate an affordable amount of equity requirement in an annual basis. Hence, about half of the target ARCs will commence at Year 1 and the remaining half will have to be on board by Year 2.

Specific Conditions to Financing Rural Infrastructure. To further optimize the use of limited resources and ensure maximum utilization of completed facilities, sub-projects for financing under the rural infrastructure component will be guided by the following specific conditions:

1. Rural Access Infrastructure

- Selective construction or rehabilitation of barangay or farm to market roads of standard specifications will only be allowed if highly justified, satisfying any of the following factors:
 - If the conduct of a Traffic Count Survey yields an existing traffic volume (4-wheeled vehicles) of at least 20 vehicles per day; existing roads that are currently not passable will be certified by the Barangay Chairman and concurred by the community that above traffic count was attained at the time the road was in good condition;
 - If there is an existing influence production area of at least 50 hectares; or
 - If the road provides access to community centers with at least 100 HH population
- Critical access roads that do not satisfy any of the above criteria will be provided only with gravel surfaced (Item 300) sledge trails or motorcycle roads;
- Only road gradients of 12% and above will be provided with concrete tire tracks;
- Proposed roads must be linked to an existing all weather road network;
- Single lane concrete bridges will only be allowed if it satisfies any of the factors under road construction or rehabilitation above, else only bailey panels will be provided but foundation works will be intended for future upgrading to concrete decking;
- Concrete bridges will be limited to a maximum span of 50.00 linear meters; else, Bailey type with concrete foundation works will be provided;
- Trails or footpaths with steep slopes will be provided with concrete pavements;
- Fish landing facilities will have a catchment area of at least 50 fisherfolk HHs.
- Sub-projects exceeding the maximum eligibility provisions may be allowed if the LGU commits to finance the excess demand requirement to ensure equitable distribution of the limited resources to other target communities.

2. Small Scale Irrigation

- Small irrigation schemes or shallow tube wells must identify a farmers' group willing to be organized and registered (if not existing) as Irrigators Service Association (ISA) and agreed with LGU as sub-project proponent;
- The ISA must be willing to be trained and operate and maintain the completed facility the establishment of an initial core group (if not existing) of which will be a pre-condition to sub-project approval;
- Irrigation schemes must be properly coordinated with NIA or BSWM if within their existing coverage and ensure that planning, Feasibility Study (FS) and Detailed Engineering (DE) preparation, implementation and O and M arrangements are agreed upon prior to sub-project approval;
- CIP or SWIP construction must have a minimum number of at least 20 farmer Hh beneficiaries or 50 has of irrigable area, else only STW or SFR will be provided;
- Completion of CIP that were left unfinished due to funding constraints may be allowed if deemed justified by the Project;
- CIS rehabilitated for the last five (5) years shall not be eligible for assistance unless it has been damaged by "Force Majeure";
- Proposed irrigation water sources must have a healthy watershed and a dependable flow enough to generate a cropping intensity of at least 150%; and
- There will be no conversion of productive permanent crops.

3. Post-Production Facilities

- Establishment of small community post-production facilities like warehouse and solar driers must be based on existing demands and projected development of key production areas with approved development funding support;
- Specific PO must be identified and agreed with LGU as proponent of the sub-project; and
- The proponent PO must be registered and willing to be trained and operate and maintain the completed facility. Establishment of an initial core group and members of a proponent PO if not existing, will be a pre-condition to sub-project approval.

4. Social Infrastructure Facilities

☒ **For Potable Water Supply**

- The community must be willing to organize and register the BAWASA and be trained to operate and maintain the completed facility. Establishment of an initial core group of BAWASA officers and members (if not existing) will be a pre-condition to sub-project approval and must be the proponent in behalf of the community;
- Proposed source must have a healthy watershed and reliable supply of water throughout the year;
- No rehabilitation will be made on erroneously located wells; and

☒ **For Building Facilities**

- Multi-purpose Buildings (MPB) will only be provided to active POs to further enhance organizational capability and with evidence that the PO is engaged in business enterprise and conducting regular membership meetings
- Construction, rehabilitation and/or expansion of Barangay Health Stations, Day Care Centers and School Buildings must be coordinated and concurred by the LGU and relevant Line Agencies. In addition, the LGU must commit to provide the necessary health workers, social workers and teachers required under each completed facility respectively. IP areas shall be accorded the highest priority in the provision of these facilities considering that these are often the most disadvantaged and vulnerable sector of the rural communities and are often out of reach of on-going national government programs; and
- Tribal Centers must be justified and strongly recommended by tribal councils and agreed upon by the community at large

LGU and Community Equity in Kind. Under the ARCP II cost sharing arrangement, the LGU eligible equity contributions may be sourced from the provincial, municipal or barangay IRA or congressional funds and other legal sources if in cash or provision of specific cost items or services if in kind enumerated as follows:

- Cost of Pre and Detailed Engineering preparation;
- Cost of Engineering Construction Supervision;
- Cost of lots where buildings are erected;
- Compensation for Right of Way (ROW) acquisition;
- Compensation for Cost of Crop Damages;
- Provision of Construction Materials;
- Cost of Labor;
- Use of Construction Equipment;
- Provision of O and M Hand Tools;
- Conduct of independent materials testing and quality control procedures; and
- Cost of O and M for a period of five (5) years, the estimated time that the LGUs would internalize the concept and importance of maintenance and institute policy reforms as agreed under the cost sharing arrangement

Community counterpart would generally come from services rendered for the sub-project such as implementation monitoring, donated labor time or provision of indigenous construction materials, cost of crop damages, lots or ROW with corresponding absolute Deed of Donation.

These cost items in kind need to be reflected in the preparation of individual sub-project Program of Work (POW) and will form part of the Total Sub-Project Cost (TSPC).

In addition, it is recommended that hiring of labor during construction will give priority to unemployed or underemployed members of the cooperative and will contribute part of their wage earned for capital build up formation, the amount of which will be agreed among themselves.

Implementation Processes and Procedures. The implementation of the rural infrastructure component shall be according to the following specific processes and procedures:

1. Sub-Project Identification, Prioritization and Validation

The ARB community will have the sole responsibility of identifying and prioritizing sub-projects during the conduct of participatory planning and consultations. Technical assistance and guidance will be provided by the LGU through the LPO together with the PPIO.

Identified and prioritized sub-projects shall be subject to field validation by the RPO with technical assistance from the engineering and economic specialists prior to the preparation of the individual FS and DE Documents.

There is a need to integrate ARCP II financed sub-projects to the overall Municipal Development Plan to gain support from the local officials and ensure sustainability in terms of budget allocation for both implementation and maintenance of completed facilities. Hence, the MPDO will ensure that all sub-projects identified and prioritized by the community will be endorsed by the Barangay Development Council (BDC) to the Municipal Development Council (MDC) for integration to the Municipal Development Plan (MDP) and concurred by the Sangguniang Bayan (SB).

2. Sub-Project Preparation

Sub-Project preparation will cover activities necessary to conduct the feasibility analysis, detailed survey, engineering design and preparation of detailed engineering plans, specifications and Programs of Work (POW). The preparation of Feasibility Study (FS) of each individual proposed sub-project will be the main responsibility of the LPO through the MPDO while the conduct of field surveys and preparation of detailed engineering documents will be through the MEO. Completed FS and DE documents will be reviewed by the PPIO and RPO for final appraisal and approval by either the Regional Sub-project Approval Committee (RSAC) or the National Sub-project Approval Committee (NSAC). During sub-project preparation, clearances and certifications from government regulatory agencies will be worked out by the LGU through the LPO. The basic geometric and design specifications to be adopted by ARCP II for each type of rural infrastructure sub-project shall be as follows:

Table 1: Rural Infrastructure Specifications

a. Access Infrastructure

Sub-Project Type	Basic Geometrical and Design Specifications
• Barangay and Farm to Market Road, Trails and Foot Paths	
○ Standard gravel road (<i>for traffic volume of 20 vehicles per day and above</i>)	➤ 4.00 m. wide carriageway with 1.00 m. shoulder and trapezoidal drainage ditch on both sides; 15 cms. aggregate base course of Item 201 on top of 10 cms. sub-base course of Item 200
○ Tire Tracks (<i>for road gradients of 12% and above</i>)	➤ 2 – 60 cms wide x 20 cms thick 3,000 psi concrete tire tracks on 10 cms gravel base course with grass “creeps” along center gap of 0.90 meter
○ Sledge Trail (<i>for tricycles, motorcycles, animal drawn sledge and occasional 4-wheeled traffic</i>)	➤ 2.50 m wide carriageway with 0.50 m shoulder and triangular drainage ditch on both sides; 15 cms aggregate base course of Item 201 with no sub-base course and carriageway shall be overlaid with well compacted sand and gravel surface course (armouring) of Item 300; provisions for passing bays of 6.00 m

Sub-Project Type	Basic Geometrical and Design Specifications
	road width at every 250 meters interval
<ul style="list-style-type: none"> Trails and foot paths 	<ul style="list-style-type: none"> 1.00 m wide carriageway with triangular drainage ditch on both sides; 10 cms aggregate base course of Item 201 with no sub-base course; 0.60 m x .10 m un-reinforced concrete block pavement for steep slopes of 12% and above
• Single Lane Bridge, Low Level Crossings and Hanging Foot Bridges	
<ul style="list-style-type: none"> RCDG type (<i>for traffic volume of 20 vehicles per day or more up to 30.00 meters span</i>) 	<ul style="list-style-type: none"> 4.00 m. wide of 3,000 psi concrete pavement on Reinforced Concrete Deck Girder (RCDG)
<ul style="list-style-type: none"> Bailey type (<i>for traffic volume of less than 20 vehicles per day or bridges of more than 30.00 meters span</i>) 	<ul style="list-style-type: none"> 4.00 m. wide with timber plank running boards on hardwood joists and bailey panels on Reinforced Concrete Piers Hardwood timbers used for construction works shall have appropriate permits from DENR
<ul style="list-style-type: none"> Rock Causeway and Spillways (<i>where appropriate in lieu of bridge</i>) 	<ul style="list-style-type: none"> 4.00 m wide concrete paved carriageway on piled boulders with provision of reinforced concrete pipe culverts (RCP) with sufficient number and diameter; 15 cms concrete upstream and downstream aprons with energy dissipators and cut-of walls of sufficient design depths with temperature bars
<ul style="list-style-type: none"> Hanging foot bridges 	<ul style="list-style-type: none"> 1.20 m wide walkway with 50 mm x 150 mm floor planks or steel mats on 25 mm diameter cable suspensions and concrete abutments
• Small Fish Landing Facilities	
<ul style="list-style-type: none"> Timber Ports 	<ul style="list-style-type: none"> 2.00 m wide walkway with 50 mm x 150 mm floor planks on hardwood sub-structural members; 4.00 m x 7.00 m pier head on 200 mm x 200 mm reinforced concrete pile columns Hardwood timbers taken from sites used for construction works shall have appropriate clearance from DENR
<ul style="list-style-type: none"> Jetty 	<ul style="list-style-type: none"> 2.00 m wide concrete paved walkway on piled boulders of side slope (SS) of 1:2 and minimum free board of 0.50 m

b. Social Facilities

Sub-Project Type	Basic Geometrical and Design Specifications
• Potable Water Supply	
<ul style="list-style-type: none"> Rainwater Collector (<i>to be packaged with building facilities when necessary and if without source of water supply</i>) 	<ul style="list-style-type: none"> Elevated stainless tanks or concrete reservoir with 1.50 m tower and made of 3,000 psi reinforced concrete mixed with water proofing compound Reservoir shall have a capacity of 7,500 liters with dimensions of 3.00 m x 3.00 m square x 1.20 m high
<ul style="list-style-type: none"> Level I artesian well and jetmatic pumps 	<ul style="list-style-type: none"> Located at least 25 m. from water source of pollution Farthest user is not more than 250 m. from point source

Sub-Project Type	Basic Geometrical and Design Specifications
	<ul style="list-style-type: none"> ➤ Designed to deliver at least 20 liters per capita per day (lpcd) ➤ To serve an average of 15 households per unit ➤ Adopt 100 mm diameter of steel casing with 50 mm diameter of G.I. intake pipe with suction rod, 100 mm diameter of low carbon steel screen and 10 mm diameter gravel packing materials; all G.I. pipes shall have a minimum strength equivalent to schedule 40
<ul style="list-style-type: none"> ○ Level II Spring Development (note: design provisions for Level III to be incorporated if LGU or community decides to upgrade in the future) 	<ul style="list-style-type: none"> ➤ Farthest house shall not be more than 25 m. from the nearest communal faucet ➤ Designed to deliver at least 60 liters per capita per day ➤ Communal faucet to serve an average of 4 to 6 households ➤ Spring box shall be made of 3000 psi reinforced concrete mixed with water proofing compound ➤ Ground distribution reservoir shall be located on high ground and made of 3000 psi reinforced concrete mixed with water proofing compound ➤ Main pipeline shall be a combination of 50 – 100 mm diameter GI, UPVC and polyethylene (P.E.) pipe of sufficient strength ➤ Intermediate distribution lines shall be of ½" – ¾" diameter of P.E. pipe ➤ All pipes shall be rated for use of water at 23 °C and at a minimum working pressure of 1.10 Mpa or as dictated by actual hydrostatic head ➤ All pipes shall be embedded at a minimum of 50 cms. below natural ground ➤ Communal faucets shall be of heavy duty brass type provided with concrete apron and tub of appropriate size and design
<ul style="list-style-type: none"> ● Building Facilities 	
D. <ul style="list-style-type: none"> ○ School Buildings, Barangay Health Stations and Day Care Centers 	<ul style="list-style-type: none"> ➤ All floors shall be 10 cms. thick of 3000 psi concrete provided with temperature bars of 10 mm diameter spaced at 40 cms. on center both ways ➤ All walls shall be of 10 cms. thk. concrete hollow blocks ➤ Roofing shall be of ga. # 26 corrugated G.I. sheets while gutters shall be of ga. # 24 plain G.I. sheets
E. <ul style="list-style-type: none"> ○ Tribal Centers 	<ul style="list-style-type: none"> ➤ Geometric design and schemes shall be determined by the Tribal Council of the proponent IP while technical specifications shall adopt those provided under other sub-project types

c. Communal Irrigation Schemes

Category and SP Type	Geometrical and Design Specifications
<ul style="list-style-type: none"> ● Small Scale Communal Irrigation Schemes 	

Category and SP Type	Geometrical and Design Specifications
<ul style="list-style-type: none"> ○ Diversion Type for CIS or CIP (for areas of 50 has and above with streams or creeks of sufficient and dependable flow adopting NIA specifications) 	<p><i>Diversion Works:</i></p> <ul style="list-style-type: none"> ➤ Run-of-river type adopting ogee or trapezoidal sections and check gate or intake schemes as deemed appropriate by NIA design engineers. <p><i>Main Canal, laterals and sub-laterals:</i></p> <ul style="list-style-type: none"> ➤ Trapezoidal section with side slopes (SS) of 1½:1 for most earth canals and 1:1 or 0:1 (rectangular) for lined canals ➤ Earth canals shall have a permissible velocity of not less than 0.30 m/sec. and not more than 1.00 m/sec. ➤ Canal freeboard shall be a minimum of 0.30 m or 40% of designed water depth ➤ Canal top berm width shall be 0.40 m <p><i>note : canal concrete lining shall not be allowed unless highly justified thru actual measurement of losses due to seepage or other valid reasons.</i></p> <p><i>Structures:</i></p> <ul style="list-style-type: none"> ➤ Water level and distribution control devices as needed ➤ Thresher Crossing – one (1) unit for every 500 m in the absence of road crossings along main canals, laterals and sub-laterals ➤ Road and Drainage Crossings as dictated by actual canal alignment and terrain
<ul style="list-style-type: none"> ○ Small Water Impounding Project (SWIP) or Small Farm Reservoir (SFR) – for areas with streams of insufficient flow and available natural basin adopting DA-BSWM specifications 	<ul style="list-style-type: none"> ➤ Earth dam with well compacted embankment and clay core of low permeability materials with 4.00 m crest width and minimum freeboard of 2.00 m ➤ The reservoir should have sufficient storage capacity with allowance for incoming flood flow ➤ Spillway, intake and outlet works and other irrigation facilities shall be of 3,000 psi concrete ➤ All other specifications shall conform to those adopted by DA-BSWM
<ul style="list-style-type: none"> ○ Shallow Tube Wells (STW) – for groundwater source of 20.00 m or less 	<ul style="list-style-type: none"> ➤ Adoption of a Type III model: 10 Hp pump engine with 4" diameter perforated suction pipes and 8" casing
<ul style="list-style-type: none"> ○ Drip or Sprinkler Irrigation (in upland areas for high value crops with spring sources of sufficient head over irrigable area) 	<ul style="list-style-type: none"> ➤ Spring intake box shall be of 3,000 psi concrete mixed with water proofing compound ➤ Polyethylene (PE) pipe main line of 25-50 mm diameter provided with 60-100 mesh or 250 – 5 micron filters at the intake side ➤ Lateral and sub-lateral PE pipes of 12-20 mm diameter with 1 mm orifice emitters ➤ May be used in combination with transferable sprinklers on poles attached to lateral PE pipes in lieu of orifice emitters
<ul style="list-style-type: none"> ● Post Production Facilities 	
<ul style="list-style-type: none"> ○ Warehouses and Solar Driers 	<ul style="list-style-type: none"> ➤ All floors (including land based solar driers) shall be 10 cms. thick of 3,000 psi concrete provided with gravel base and temperature bars of 10 mm diameter spaced at 40 cms. on center both ways ➤ All walls shall be of 10 cms. thk. concrete hollow blocks ➤ Roofing shall be of ga. # 26 corrugated G.I. sheets while gutters shall be of ga. # 24 plain G.I. sheets

Category and SP Type	Geometrical and Design Specifications
	<ul style="list-style-type: none"> ➤ Solar drier on stilts (marine based) for seaweeds shall be made from hardwood and bamboo materials on 200 x 200 mm reinforced concrete pile columns ➤ Hardwood timbers taken from sites used for construction works shall have appropriate clearance from DENR

3. Sub-Project Technical Review, Appraisal and Approval

All proposed sub-projects for financing under the Rural Infrastructure Component costing US\$75,000 and below will be subject to approval by a Regional Sub-Project Approval Committee (RSAC). The RSAC will be composed of permanent representatives from the Regional Offices of NEDA, DA, DENR, DILG, DOF and other agencies deemed relevant by the NPCO. Sub-projects costing over US\$75,000 shall be approved by the NSAC the composition of which is similar to the RSAC but at the national level. ARMM will establish its own RSAC with representatives from the Office of the Regional Governor (ORG).

Prior to RSAC/NSAC approval, RPO/NPCO will conduct field appraisal of sub-projects proposed for funding. An appraisal report will be prepared by RPO/NPCO as basis for RSAC/NSAC decision during sub-project deliberation. All documents necessary for RSAC deliberation will be prepared by RPO as the designated RSAC secretariat.

In the same manner, documents for NSAC deliberation shall be prepared by NPCO as designated secretariat of the NSAC.

4. Procurement Methods and ADB Guidelines

Majority if not all sub-projects under ARCP II financing are expected to be relatively small involving small work contracts (about US \$100,000) and are unlikely to attract international or even national contractors hence, procurement of works will be through Local Competitive Bidding (LCB) under R.A. 9184 although the ADB guidelines for contracts costing US \$100,000 equivalent allows shopping. Procurement of works for these sub-projects would not also warrant National Competitive Bidding (NCB) under ADB guidelines having a threshold between US \$1,000,000 and US \$10,000,000.

Individual sub-projects costing less than US \$100,000 may be implemented by LGUs through "Force Account" or by administration but LGUs signifying intention to implement by "Force Account" will be evaluated by the DAR PPIO and RPO for technical and equipment capability and will secure authorization from the DAR Foreign Assisted Projects Office (FAPsO) through the NPCO. Procurement of "Goods" under "Force Account" works will also be guided by R.A. 9184 consistent with ADB Procurement Guidelines for goods. Procurement under the rural infrastructure component will be the main responsibility of the municipal LGU through its duly constituted Bids and Awards Committee (BAC) in accordance with the provisions of R.A. 9184.

5. Implementation Mode

In support to the national government's employment generation program and in consideration that majority of the sub-projects are small scale, Labor Based–Equipment Supported (LB/ES) methods of construction shall be adopted whenever possible. This should also allow

communities to be engaged in community contracts as “Pakyaw” labor contractors to ensure full involvement as well as help in the process of people empowerment.

However, adoption of LB/ES method shall satisfy all of the following conditions:

- i. Labor Based-Equipment Supported (LB/ES) cost shall not be higher by more than ten (10) percent of the Equipment Based (EB) cost;
- ii. LB/ES project duration shall not be longer by more than fifty (50) percent of the Equipment Based duration;
- iii. Employment of workers within the community shall not unduly impair agricultural production; and
- iv. Technical quality shall be maintained.

Regardless of whether implementation is carried out by contract or by LGU “Force Account” and pursuant to R.A. 5635 dated December 12, 1988, at least fifty (50) percent of the unskilled and thirty (30) percent of the skilled labor requirement shall be taken from the beneficiary community. Hence, beneficiaries within the community shall be the first priority in the selection of labor force. The women shall be given equal opportunity to join the labor force. Community cooperative members employed during construction will contribute part of their wage earned for capital build-up formation, the amount of which will be agreed among themselves.

6. Sub-Project Execution and Supervision

Implementation of sub-projects under ARCP II will require full attention from the LGUs as the executing units of the Project. The LPO will be the main responsible unit for the execution and daily supervision of sub-projects implementation regardless of whether implemented by contract or force account. The PPIO will provide overall supervision to LPOs across municipalities within its respective jurisdiction with the full involvement of the ARB communities. The RPO and NPCO will likewise provide periodic supervision on a needs basis.

7. Sub-Project Monitoring and Evaluation

Monitoring and evaluation of sub-projects implementation will be the main responsibility of the M and E unit of NPCO with full involvement of DAR FAPsO.

ADB at anytime will send supervision mission to selected sites to monitor and evaluate the progress and status of the implementation and management of the Project. The findings of the mission will be embodied in an aide memoire and will be submitted to the Project Executive Committee (PEC) copies of which will be furnished all concerned stakeholders and Project implementers.

NPCO will be responsible for the overall coordination and will actively participate in the conduct of all ADB supervision missions.

8. Sub-Project Turn-Over

All completed sub-projects will be turned over to the LGU represented by the Municipal Mayor. However, there will be instances where completed facilities like communal irrigation schemes and post harvest facilities will be turned over to Farmers’ Association (FA) or People’s Organizations (PO) for appropriate operation and maintenance. In such cases, a Memorandum

of Agreement (MOA) between the LGU and concerned FA or PO will have to be put in place to ensure that responsibility is clearly delineated for sustainability.

NPCO will have the sole responsibility to authorize turn-over of the completed facilities after the conduct of final inspection and after it has determined that the sub-project has been completed to the satisfaction of the Project.

Operations and Maintenance and Sustainability Mechanism. The specific unit or organization to operate and maintain the completed facility will be dependent on who will be the direct users or beneficiaries of the facility. The type of infrastructure facilities to be provided by ARCP II can be appropriately operated and maintained either by the municipal LGU or People's Organizations. The recommended O and M responsible entities for each type can be carried out according to the arrangements below:

Table 2: ARCP II O and M Arrangement

Type of Sub-project	O and M Responsibility	Strategy and Sustainability Mechanism
<input checked="" type="checkbox"/> Rural Access Infrastructure <i>(roads, bridges, fish landing facilities, footpaths)</i>	<ul style="list-style-type: none"> The Municipal and Barangay LGU and community thru the establishment of an O and M Committee (OMC) 	<ul style="list-style-type: none"> ➤ ARCP II, DAR and Municipal LGU/LPO to assist in organizing, training and operationalization of community O and M Committee ➤ Municipal LGU to provide regular annual routine maintenance fund ➤ Maintenance fund to be augmented thru the imposition of road users' fee if feasible ➤ OMC to formulate an annual maintenance program ➤ Municipal LGU to involve community thru commissioning of "pakyaw" groups to undertake maintenance adopting the "length man" system ➤ Periodic maintenance to make use of the "Bayanihan System"
<input checked="" type="checkbox"/> Potable Water Supply	<ul style="list-style-type: none"> The Community thru the establishment of a Barangay Waterworks and Sanitation Association (BAWASA) 	<ul style="list-style-type: none"> ➤ ARCP II, DAR and Municipal LGU/LPO to organize, train and operationalize the BAWASA ➤ DILG to assist in organizing the BAWASA ➤ BAWASA to develop systems and procedures for levying water charges to cover maintenance and operating cost ➤ Local Water Districts (if any) to provide technical assistance to BAWASA through a MOA with the LGU
<input checked="" type="checkbox"/> School Buildings	<ul style="list-style-type: none"> The Municipal LGU thru the School Board and PTCA 	<ul style="list-style-type: none"> ➤ Municipal LGU to provide regular annual operation and maintenance fund ➤ Municipal LGU to ensure the availability of teachers at all times ➤ Municipal LGU to seek assistance from National Line Agencies, i.e. DepEd, to sustain the operation and maintenance of the facility
<input checked="" type="checkbox"/> Barangay Health	<ul style="list-style-type: none"> The Municipal LGU thru the Municipal Health 	<ul style="list-style-type: none"> ➤ Municipal LGU to provide regular annual operation and maintenance fund

Type of Sub-project	O and M Responsibility	Strategy and Sustainability Mechanism
Stations	Office and Local Health Board	<ul style="list-style-type: none"> ➤ Municipal LGU to ensure availability of Barangay Health Workers or midwives at all times ➤ Municipal LGU to seek assistance from National Line Agencies, i.e. DOH, to sustain the operation and maintenance of the facility
<input checked="" type="checkbox"/> Day Care Centers	<ul style="list-style-type: none"> • The Municipal LGU thru the Municipal Social Welfare and Development Office 	<ul style="list-style-type: none"> ➤ Municipal LGU to provide regular annual operation and maintenance fund ➤ Municipal LGU to ensure availability of social welfare officer at all times ➤ Municipal LGU to seek assistance from National Line Agencies, i.e. DSWD, to sustain the operation and maintenance of the facility
<input checked="" type="checkbox"/> Post-Production Facilities	<ul style="list-style-type: none"> • The identified proponent community PO 	<ul style="list-style-type: none"> ➤ Community PO to undertake regular maintenance of facilities through its members ➤ Community PO to develop systems and procedures for collecting users fee if facility is income generating to cover maintenance and operating cost
<input checked="" type="checkbox"/> Tribal Centers	<ul style="list-style-type: none"> • The proponent Tribal Council 	<ul style="list-style-type: none"> ➤ Tribal Council to undertake regular maintenance of facilities through its members ➤ NCIP to provide technical assistance to Tribal Council to develop income generating skills
<input checked="" type="checkbox"/> Small Scale Irrigation	<ul style="list-style-type: none"> • The Farmers thru the establishment of Irrigators Service Association (ISA) or Small Water Impounding Service Association (SWISA) 	<ul style="list-style-type: none"> ➤ Municipal LGU through a MOA with and under the technical guidance of NIA, DA or BSWM to organize, train and operationalize the ISA, FA or SWISA ➤ Municipal LGU with technical assistance from NIA or DA-BSWM to develop O and M manual to include the policies, systems and procedures to be adopted by the ISA or SWISA in collecting irrigation service fees (ISF) from members for O and M use

To further ensure sustainability of ARCP II completed facilities, the grant component shall be converted into a loan once the LGU fails to maintain the facilities for an agreed period of sub-project economic life and this shall be stipulated in a Sub-Project Agreement (SPA) for each approved proposal.

Implementation Schedule. The proposed implementation of the rural infrastructure component would be spread over a period of six (6) years in consideration of the LGU's fiscal difficulty to provide the required equity counterpart. Each municipal LGU will have about four (4) to five (5) years to complete the rural infrastructure needs of the ARCs within their jurisdiction to give them enough time to generate an affordable amount of equity requirement in an annual basis. Hence, about half of the target ARCs will commence at Year 1 and the remaining half will have to be on board by Year 2.

However, the initial social preparation works i.e. participatory ARC planning will take the lead and needs to be done at an earlier stage of Project implementation. It is during this stage that the commitments of the LGUs have to be generated and confirmed to ensure that

implementation is not hampered due to failure in the fulfillment of its obligation under the partnership.

In terms of sub-project type, critical access infrastructure needs to be implemented at an earlier stage to ensure that these are spread over a longer period for affordable equity distribution. Potable water supply sub-projects being a basic necessity are also scheduled during the initial year as planning will require a shorter period of time and investment costs are relatively lower. Irrigation schemes will require a minimum planning period of one (1) year from identification due to hydro-meteorological observations to ensure proper determination of dependable flow of irrigation water source and its technical feasibility as a whole. While rehabilitation schemes with available planning data can commence in year 2, new construction have to be implemented on the third year of the Project period to provide ample time for planning activities. This will then be followed by the establishment of post-production facilities in support to the development of production areas.

It should be noted that commencement of ARCs relies on the extent of preparatory works done by ARCP II PMO. To ensure adherence to the recommended implementation phasing, ground working activities need to be started early even at Year 0. These activities will include among others, the commitment and confirmation of availability of LGU counterpart and its inclusion in its budget for the incoming year 1, the preparation of detailed engineering design, plans and programs of work in time for the review and processing of approval by the first quarter of Year 1 and the conduct of orientation and series of consultations on the first quarter of year 1. Hence the rural infrastructure implementation manual and guidelines have to be completed prior to Loan effectivity.