



Republic of the Philippines
IFAD Implementation Support Mission
October 2017
Aide-Memoire

I. Introduction

1. An IFAD team¹ worked in the Philippines from 16 to 27 October 2017 to: (i) support DAR for the implementation of CONVERGE; (ii) support BFAR for the implementation of FishCORAL; (iii) support DA for the start up of CHARMP2 additional financing; (iv) support DENR and DTI for the restructuring of INREMP, in collaboration with ADB; and (v) support DTI and NEDA for fast track processing of RAPID. In Manila, the mission met with key officials of DAR, BFAR, DTI, DENR and NEDA, as well as the Asian Development Bank. Field visits were undertaken in Mindanao, to CONVERGE locations in Bukidnon region and FishCORAL sites in Caraga region.
2. This aide memoire reflects the mission's findings and the agreements reached with relevant authorities. It was discussed with, and endorsed by, the Government at a Wrap Up meeting on 27 October chaired by Mr Roly Tungpalan, Undersecretary, NEDA. This document is subject to confirmation by Government and IFAD management.

II. Active Portfolio

3. **CONVERGE/DAR.** This project represents an investment of USD 52.5 million which aims to enable agrarian reform beneficiaries, organisations and clusters to become highly productive and competitive producers and entrepreneurs, in ten provinces of regions IX, X and Caraga. While the project became operational in October 2015 and 32% of its implementation period has elapsed, only 15% of the IFAD loan has been disbursed and no physical achievements have yet been made. Implementation has been constrained by poor governance and excessive centralisation within DAR, a relatively weak project management team, and lengthy bureaucratic procedures for routine recruitment, procurement and financial transactions.
4. However, current implementation trends are promising. All feasibility studies are completed, the targeted agrarian reform organisations and cooperatives are fully prepared for implementation, the relevant LGUs are competent and experienced, and numerous tenders for enterprise investments and rural infrastructure have been issued, with contract signature expected in November-December. These tenders are valued at PHP 189 million, of which PHP 151 million (USD 3.0 million) will be financed by IFAD.
5. It is clear that decisive resolution of the project's governance and management problems by DAR will eliminate implementation constraints and allow for rapid implementation and loan disbursement. In this context, several measures have been agreed by the mission and DAR:
 - DAR will fully decentralise project decision making from the MLO to the CPMO with immediate effect; this will include work planning and budgeting, financial flows, recruitment, procurement and contracting. The MLO will comply with its intended role of facilitation with national oversight agencies.
 - DAR will recruit a highly competent and experienced project manager, ideally from the private agribusiness sector, and a qualified and experienced financial manager, both for the CPMO. Both recruitments will be at highly competitive market rates. These new staff will be contracted by end-December 2017. This will allow for smooth handover from the outgoing project manager in the first quarter of 2018.

^{1/} The IFAD team consisted of Mr Jing Pacturan (country programme officer), Mr Lando Arban (special advisor) and Mr Omer Zafar (country programme manager). The mission was supported by Mr Gomer Tumbali (project management advisor) for CONVERGE.

- DAR will ensure that improved project governance and management is combined with substantial simplification of recruitment, procurement and financial procedures. The project management advisor (TA) arrangement will be continued in 2018 for this purpose.
 - ten of the eleven participating LGUs are assessed as having low fiduciary risk, based on their experience in implementing rural infrastructure under ODA-funded projects, their good governance practices, and their staff capacities. For these LGUs, DAR will provide 50% advance funding for rural infrastructure sub-projects with immediate effect. This will simplify and accelerate implementation and disbursement while mitigating risk. The signed DAR-LGU contracts and PIM will be amended accordingly.
 - before the end of 2017, DAR will submit WAs to IFAD to request replenishment for all payments made under contracts signed, as well as all operating expenses incurred.
6. **FishCORAL/BFAR.** The project represents an investment of USD 43.7 million which aims to enable coastal communities in regions 5, 8, 13 and ARMM to manage their fisheries and coastal resources in sustainable manner, generating livelihoods benefits for households. While the project became operational in October 2015 and 39% of its implementation period has elapsed, only 14% of the IFAD loan has been disbursed and minimal physical achievements have been made. Implementation is constrained by weak management, insufficient strategic direction, weak technical capacities in key areas, and lengthy bureaucratic procedures for routine recruitment, procurement and financial transactions.
7. However, some preparatory activities have been completed. These include the recruitment of staff, establishment of bay management councils, drafting of coastal resource management plans, completion of agreements with LGUs and POs, and initiation of participatory resource and social assessment in Region 13. Most importantly, numerous tenders are in process for procurement of goods, works and services, for an aggregate value of PHP 180 million (USD 3.6 million). These findings are confirmed by the recent supervision mission for the project.
8. In order to decisively resolve the project's constraints and enable strategic, quality and rapid implementation, several measures have been agreed by the mission and BFAR:
- BFAR will recruit a competent and experienced project management advisor (TA), at competitive international market rates, with immediate effect. The advisor will support project governance and management, facilitate implementation, streamline fiduciary procedures, and provide strategic guidance for resource management and livelihoods activities.
 - BFAR will ensure that livelihoods activities are implemented on the basis of strategic links with the private sector, resulting in substantial financial returns for households.
 - the joint Government-IFAD mid-term review of the project will be advanced to the first quarter of 2018. The mid-term review will adjust/calibrate project targets, activities, implementation mechanisms, and cost tables.
 - before the end of 2017, BFAR will submit WAs to IFAD to request replenishment for all payments made under contracts signed, as well as all operating expenses incurred.
9. **INREMP/DENR.** This project represents an investment of USD 154 million which aims to improve the environmental condition of watersheds in four upper river basins and generate livelihood benefits for local communities and households. It is cofinanced by ADB, IFAD, GEF and CCF. While the project became operational in April 2013 and 63% of its implementation period has elapsed, only 14% of the IFAD loan is disbursed, and physical achievements are minimal. The project has been constrained by serious problems in governance, management, technical capacities and implementation procedures. Key agreements reached with DENR during the first quarter 2017 mid term review mission on re-orienting the project have not been implemented, and the project is classified as a problem project by the external financiers and the oversight agencies.
10. Following intensive consultations among the concerned parties (ADB, DENR, DoF, NEDA, IFAD, DTI), it was agreed that the scope of project activities would be reduced, and the IFAD loan would be reallocated exclusively to the livelihoods enhancement subcomponent. IFAD financing would be expanded geographically to cover all four upper river basins.

11. On 25 October, DENR and DTI signed a Memorandum of Agreement appointing DTI as the executing agency for the management, implementation, and disbursement of the livelihoods subcomponent. During the signing ceremony, held at ADB headquarters in Manila, it was agreed that DTI would develop a work plan and budget for the livelihoods subcomponent for 2018, to be incorporated in the project AWPB. This would include both livelihoods investments as well as capacity building for DTI's local units in the project areas. As stipulated in the MoA, release of funding to DTI for implementation would be semi-annually in advance.
12. Before the end of 2017, ADB will submit WAs to IFAD to request replenishment for IFAD's portion of payments made under contracts as well as operating expenses incurred.
13. **CHARMP2/DA.** As agreed with NEDA, DoF and DA, the current loan for CHARMP2 will be completed in December 2017 and closed by June 2018. DA needs carry out the remaining and winding down activities for 2017 and prepare the annual outcome survey. To enable DA to deliver on these, DBM would have to issue the SARO amounting to Php 50 million from the IFAD loan and Php 5.55 million from the GOP counterpart funds; the request was submitted to DBM on 22 June 2017.
14. The Additional Financing for CHARMP2, in the form of a new loan amounting to USD 10.33 million, was approved by the IFAD Executive Board in December 2016 and negotiated with DoF in August 2017. The new loan will finance CHARMP2 activities in 18 new barangays in the 18 project municipalities within the provinces of Abra, Apayao, Benguet, Ifugao, Kalinga and Mountain Province of the Cordillera Administrative Region. The Financing Agreement has been signed by IFAD and is awaiting signature by DoF and the issuance of ratification documents by Government (Monetary Board approval and Department of Justice legal opinion). It is imperative for this process to be completed rapidly, to allow the project to withdraw the initial deposit from IFAD before the end of 2017 in order to (i) provide liquidity for project activities starting in 2018; and (ii) avoid classification as a problem project. The initial deposit should be about USD 7 million to finance rural infrastructure projects already designed and agreed with communities, planned livelihoods activities, and operating costs, all for the first semester of 2018.

III. Project Pipeline

15. **RAPID/DTI.** The project represents an investment of USD 95.7 million which will provide strategic enabling conditions for the sustained growth of micro and small enterprises in commodity value chains with comparative advantage, market demand, growth potential, backward linkages to small farmers and job creation effects. It is scheduled for submission to IFAD's Executive Board for approval on 11-12 December 2017, subject to negotiation of the Financing Agreement prior to the Board session.
16. The project is awaiting review and approval by the Investment Coordinating Council - Cabinet Committee and the NEDA Board, issuance of the Forward Obligation Authority (FOA) by DBM, and issuance of the Special Presidential Authority (SPA). The completion of these steps will allow for the Financing Agreement to be negotiated. DTI and NEDA assured the mission that intensive efforts are being made in order to complete these steps, as well as the negotiations, in advance of the IFAD Board session. IFAD remains committed to supporting the Government to facilitate quick processing of the project. In the meantime, IFAD is processing an initial pre-start up grant of USD 0.5 million to build DTI capacity.

Annex 1: Financial Status of Active Portfolio (as at 25 October 2017)

Project	Implementing Agency	Timeframe			Financing			Disbursement Factor
		Effective Date	Completion Date	Time Elapsed	Loan Amount	Disbursed Amount	Percentage Disbursed	
<u>SDR Loans - figures in SDR</u>								
CHARMP2	DA	11/2008	12/2017	98.2%	16 150 000	15 846 190	98.1%	1.00
INREMP	DENR	04/2013	06/2020	62.8%	13 250 000	1 823 224	13.8%	0.22
<u>Euro Loans - figures in Euro</u>								
CONVERGE	DAR	10/2015	12/2021	32.4%	22 800 000	3 529 092	15.5%	0.48
FISHCORAL	BFAR	10/2015	12/2020	38.7%	27 310 000	3 936 514	14.4%	0.37