



# Report and Recommendation of the President to the Board of Directors

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Project Number: 46420  
December 2013

Proposed Loan  
Republic of the Philippines: KALAHI–CIDSS  
National Community-Driven Development Project

## CURRENCY EQUIVALENTS

(as of 2 December 2013)

Currency unit	–	peso (P)
P1.00	=	\$0.0228
\$1.00	=	P43.77

## ABBREVIATIONS

ADB	–	Asian Development Bank
CDD	–	community-driven development
DSWD	–	Department of Social Welfare and Development
EAL	–	emergency assistance loan
GDP	–	gross domestic product
KALAHI–CIDSS	–	Kapit-Bisig Laban sa Kahirapan (Linking Arms Against Poverty)– Comprehensive and Integrated Delivery of Social Services
KC-NCDDP	–	KALAHI–CIDSS National Community-Driven Development Project
M&E	–	monitoring and evaluation

## NOTE

In this report, “\$” refers to US dollars

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## PROJECT AT A GLANCE

<b>1. Project Name:</b> KALAHI-CIDSS National Community-Driven Development Project		<b>2. Project Number:</b> 46420-002	
<b>3. Country:</b> Philippines		<b>4. Department/Division:</b> Southeast Asia Department/Human and Social Development Division	
<b>5. Sector Classification:</b>			
		<b>Sectors</b>	<b>Primary</b>
		Multisector	√
			<b>Subsectors</b>
			Preprimary and basic education
			Decentralization
			Social protection
<b>6. Thematic Classification:</b>			
		<b>Themes</b>	<b>Primary</b>
		Social development	√
			<b>Subthemes</b>
			Human development
			Disaster risk management
		Governance	Public administration (national, decentralized, and regional)
		Gender equity	Gender equity in human capabilities
		Capacity development	Organizational development
<b>6a. Climate Change Impact</b> No Climate Change Indicator available.		<b>6b. Gender Mainstreaming</b>	
		Gender equity theme (GEN)	√
		Effective gender mainstreaming (EGM)	
		Some gender elements (SGE)	
		No gender elements (NGE)	
<b>7. Targeting Classification:</b>		<b>8. Location Impact:</b>	
<b>General Intervention</b>	<b>Targeted Intervention</b>		
	<b>Geographic dimensions of inclusive growth</b>	<b>Millennium development goals</b>	<b>Income poverty at household level</b>
	√		
		National	Medium
		Rural	High
		Urban	Medium
<b>9. Project Risk Categorization:</b> Complex			
<b>10. Safeguards Categorization:</b>			
		Environment	B
		Involuntary resettlement	B
		Indigenous peoples	A
<b>11. ADB Financing:</b>			
		<b>Sovereign/Nonsovereign</b>	<b>Modality</b>
		Sovereign	Special Assistance Loan
		<b>Source</b>	<b>Amount (\$ Million)</b>
		Ordinary capital resources	372.104
		Total	372.104
<b>12. Cofinancing:</b> No Cofinancing available.			
<b>13. Counterpart Financing:</b>			
		<b>Source</b>	<b>Amount (\$ Million)</b>
		Government	291.6
		Total	291.6
<b>14. Aid Effectiveness:</b>			
		Parallel project implementation unit	No
		Program-based approach	Yes

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed emergency assistance loan (EAL) to the Republic of the Philippines for the KALAHÍ–CIDSS National Community-Driven Development Project (the project).<sup>1</sup> The EAL will support the implementation of the government’s KALAHÍ–CIDSS National Community-Driven Development Project (KC-NCDDP) to restore basic social services and rebuild communities affected by Typhoon Yolanda (international name: Haiyan).<sup>2</sup>

## II. THE PROJECT

### A. Rationale

2. **Overall development context.** The Philippines is a lower middle-income country with a human development index of 0.654, placing it 114th out of 187 countries.<sup>3</sup> From 2003 to 2012, the country’s gross domestic product (GDP) grew at an average annual rate of 5.2%, but poverty incidence increased from 24.9% to 27.9%.<sup>4</sup> Incomes and poverty incidence differ significantly across provinces. Many geographically isolated, hazard-prone, or conflict-affected areas and indigenous peoples’ ancestral domains have very limited health services, low female participation in the workforce and local politics, and wide gender wage gaps. Progress lags in meeting Millennium Development Goals on poverty, universal primary education, and maternal health. Limited access to basic services is a key cause of poverty and inequality in the country.<sup>5</sup> Government estimates indicate that about 45% of the population is vulnerable to falling into poverty if confronted by external shocks such as health problems, family deaths, loss of employment, and disasters.<sup>6</sup>

3. **Vulnerability to natural hazards.** The Philippines is one of the world’s most natural-hazard-prone countries. It ranks third on the global disaster risk index, behind Vanuatu and Tonga.<sup>7</sup> Nearly 60% of the total land area is exposed to multiple hazards such as floods, earthquakes, landslides, and volcanic eruptions; about 74% of the population is vulnerable to disasters. About 1,000 lives, on average, are lost annually because of disasters. The country experiences about 20 typhoons every year. Tropical cyclones and associated flooding account for about 75% of recorded deaths and 63% of damage. The annual cost of disasters to the economy is estimated at 0.7%–1% of GDP.<sup>8</sup> The frequency and ferocity of the disasters overstretch the capacity and resources of national and local governments to respond effectively.

4. **Typhoon Yolanda.** On 8 November 2013, Typhoon Yolanda hit the central Philippines, leaving behind an unprecedented path of destruction. An initial disaster needs assessment has

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> The National Economic and Development Authority Board approved the KC-NCDDP on 18 January 2013. The design of KC-NCDDP has been adjusted to support the post-disaster efforts of the government. More broadly, the KC-NCDDP aims to bring about more equitable access to basic services and reduce poverty.

<sup>3</sup> United Nations Development Programme. 2013. *Human Development Report*. New York.

<sup>4</sup> National Statistical Coordination Board. The poverty incidence estimate for 2012 is for the first semester only.

<sup>5</sup> ADB. 2009. *Diagnosing the Philippine Economy: Toward Inclusive Growth*. Manila; ADB. 2007. *Philippines: Critical Development Constraints*. Manila; A. Balisacan. 2007. Local Growth and Poverty Reduction. In A. Balisacan and H. Hill, eds. *The Dynamics of Regional Development: The Philippines in East Asia*. Cheltenham: Edward Elgar.

<sup>6</sup> Government of the Philippines, National Anti-Poverty Commission and National Statistical Coordination Board. 2005. *Assessment of Vulnerability to Poverty in the Philippines*. Manila.

<sup>7</sup> Alliance Development Works. *World Risk Report 2012*. <http://www.ehs.unu.edu/file/get/10487.pdf>.

<sup>8</sup> ADB, National Disaster Coordination Council, and United Nations. 2008. *National Assessment on the State of Disaster Risk Management in the Philippines. Final Report*. Manila.

been carried out.<sup>9</sup> As of 1 December 2013, the death toll stood at 5,632, with another 1,759 still missing, 26,136 injured, and about 890,000 families or 4.11 million people displaced.<sup>10</sup> The Asian Development Bank (ADB) estimated that an additional 1.5 million persons may have fallen into poverty immediately after Typhoon Yolanda—a 24% increase in the number of poor in central Philippines and 7.1% nationwide. Preliminary government estimates indicate that Typhoon Yolanda and other recent disasters may have cut the national economic growth rate by 0.3–0.8 percentage points in the fourth quarter of 2013 alone, which is equivalent to \$900 million–\$2.5 billion of lost GDP in 2013. ADB’s preliminary forecast for 2014 is that the drop in the GDP growth rate could be as high as 1 percentage point. The combined regional economies of Central Visayas, Eastern Visayas, and Western Visayas—which account for 12.5% of the country’s GDP—could shrink by 4.0%–8.0% in 2014. The Eastern Visayas’ economy could contract by 30.0% or more in 2014.

5. **Improving service delivery and responding to post-disaster needs.** Community-driven development (CDD) approaches have been used to address bottlenecks in the local delivery of basic services.<sup>11</sup> The CDD principles of participatory planning and community control of investment resources are being applied in the Philippines by the government’s Kapit-Bisig Laban sa Kahirapan (Linking Arms Against Poverty)—Comprehensive and Integrated Delivery of Social Services (KALAHI–CIDSS) project, managed by the Department of Social Welfare and Development (DSWD).<sup>12</sup> KALAHI–CIDSS<sup>13</sup> has improved basic service delivery, effectively targeted poor communities, and responded to the needs of poor households, lessening the influence of patronage in resource allocation and job creation.<sup>14</sup> The government identifies CDD as a pillar of the country’s development and poverty reduction strategy, and is expanding KALAHI–CIDSS operations into the KC-NCDDP.

6. In the aftermath of Typhoon Yolanda, the KC-NCDDP will use CDD to support recovery and rehabilitation efforts in affected communities. International experience demonstrates the effectiveness of CDD in responding to disaster situations and reducing disaster risks. CDD is useful in emergency and post-calamity situations for the following reasons: (i) a community is the first to experience a disaster and the first to respond, (ii) communities have indigenous knowledge of hazards and mitigation, (iii) involving affected communities in determining needs and priorities helps ensure the appropriateness and sustainability of disaster responses, and (iv) organized communities are better able to demand downward accountability.<sup>15</sup>

7. The presence of CDD projects, especially in poor, remote, and disaster-prone areas, also makes them well positioned to urgently respond to post-disaster needs and facilitate the coordination and cohesiveness of assistance. CDD projects that have established efficient

<sup>9</sup> Summary Initial Disaster Needs Assessment (supplementary appendix accessible from the list of linked documents in Appendix 2).

<sup>10</sup> National Disaster Risk Reduction and Management Council, Situation Report No. 49. 1 December 2013.

<sup>11</sup> Sector Assessment (Summary): Community-Driven Development (accessible from the list of linked documents in Appendix 2).

<sup>12</sup> KALAHI–CIDSS was launched in 2002, with cofinancing from the World Bank. In 2004, the Spanish Agency for International Development Cooperation provided financing to it under the Empowerment and Development of Communities Project. In 2010, the World Bank provided additional financing to KALAHI–CIDSS until May 2014; the Millennium Challenge Corporation provided parallel financing. By December 2012, KALAHI–CIDSS had covered 8,435 barangays in 364 poor municipalities and supported 8,776 subprojects, reaching 1.95 million households. Some subprojects have helped address community needs in response to disasters.

<sup>13</sup> Overview of Community-Driven Development and the Kapit-Bisig Laban sa Kahirapan—Comprehensive and Integrated Delivery of Social Services Project (accessible from the list of linked documents in Appendix 2).

<sup>14</sup> The benefits derived from KALAHI–CIDSS are summarized in Overview of Community-Driven Development and the KALAHI–CIDSS Project (supplementary appendix accessible from the list of linked documents in Appendix 2).

<sup>15</sup> World Bank. 2009. *Building Resilient Communities: Risk Management and Response to Natural Disasters through Social Funds and Community-Driven Development Operations*. Washington DC.

management systems, including flexible procurement and disbursement procedures, can be tapped to quickly mobilize resources after a disaster. Indonesia expanded CDD programs to respond to urgent recovery needs after five major disasters from 2004 to 2010.<sup>16</sup> The post-disaster experience of Aceh and Nias highlighted the following outcomes of CDD programs: (i) fully disbursed funds ahead of schedule, (ii) more outputs delivered than other programs, and (iii) greater transparency and accountability than most other government projects.<sup>17</sup>

8. With the presence of KALAHÍ–CIDSS in about 90% of the Yolanda-affected areas, and building on the long-running KALAHÍ–CIDSS management systems, the KC-NCDDP will be well positioned to address the post-disaster needs of communities. The KC-NCDDP will provide support for recovery and rehabilitation activities in more than 14,000 barangays (villages) in more than 500 municipalities across 39 provinces affected by the typhoon, covering about 3.3 million households. It will provide (i) grants for planning and implementing CDD subprojects, (ii) capacity building and implementation support, and (iii) program management monitoring and evaluation (M&E).

9. The project is aligned with ADB's Disaster and Emergency Assistance Policy by assisting the government with restoring and rebuilding economic, social, and governance activities in typhoon-affected communities.<sup>18</sup> It is also aligned with ADB's sector and thematic assessments, which stress strengthening capacity for disaster risk management, and promoting gender equality and women's empowerment. ADB has closely coordinated with the government and other development partners in the design of the KC-NCDDP, as well as in rehabilitation and recovery efforts.<sup>19</sup> The project is consistent with the government's Yolanda Recovery and Rehabilitation Plan.

10. ADB's response includes the immediate deployment of the Typhoon Yolanda Response Team and the following development assistance: (i) a \$3 million grant from the Asia Pacific Disaster Response Fund to help meet immediate expenses to restore life-saving services, (ii) a \$500 million EAL to support the post-disaster efforts of the government, and (iii) a \$20 million grant from the Japan Fund for Poverty Reduction to provide affected people in Eastern Visayas with access to emergency support and early recovery systems. ADB's support to the government's conditional cash transfer program partially funds 200,000 families in the affected areas, with at least 69,000 households in the severely affected areas.<sup>20</sup> In collaboration with other development partners, ADB assisted the government in the preparation of the Yolanda Recovery Rehabilitation Plan. ADB has ongoing and planned operations in the affected areas.

## **B. Impact and Outcome**

11. The impact will be improved resiliency of poor communities to natural hazards. The outcome will be improved access to services and infrastructure for communities in affected

<sup>16</sup> These are (i) Aceh tsunami in December 2004, (ii) North Sumatra and Aceh earthquake in March 2005, (iii) Java earthquake in May 2006, (iv) West Java tsunami in July 2006, and (v) Mt. Merapi volcanic eruption in October 2010.

<sup>17</sup> The Indonesian Program Nasional Pemberdayaan Masyarakat Mandiri: Lessons for Philippine Disaster Risk Management (accessible from the list of linked documents in Appendix 2). See also L. Campeau. 2007. *Aceh and Nias, Indonesia: Results Achieved using Community Reconstruction following the Tsunami-Disaster in December 2004*. Sourcebook on Emerging Good Practice on Managing for Development Results, 2nd Edition. Washington DC: World Bank; World Bank. 2012. MDF–JRF Knowledge Notes: *Lessons Learned from Post-Disaster Reconstruction in Indonesia*. Jakarta.

<sup>18</sup> ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila.

<sup>19</sup> Development Coordination (accessible from the list of linked documents in Appendix 2).

<sup>20</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Technical Assistance Grant, and Administration of Technical Assistance Grant to the Republic of the Philippines for the Social Protection Support Project*. Manila.

provinces and their participation in more inclusive local disaster risk reduction and management planning, budgeting, and implementation.

### C. Outputs

12. **Output 1: Community-driven development subprojects selected, implemented, and completed.** Planning and investment grants will be provided to more than 6,000 barangays, benefiting about 900,000 households. Planning grants will support participatory and gender-inclusive planning by barangay residents as well as technical assistance to ensure effective subproject selection and implementation. Investment grants will support subprojects and activities that respond to community priorities.<sup>21</sup> Rehabilitation and recovery efforts will emphasize building back better and disaster-resilient community infrastructure. Subproject eligibility will be based on an open menu and subject to an exclusion list.<sup>22</sup> The open menu will include community proposals on disaster response and risk reduction.

13. Community planning will be facilitated in barangays. The KC-NCDDP staff will undertake community organization and facilitation in cooperation with community volunteers trained in participatory planning and subproject preparation and implementation. Community subprojects will be identified and selected for submission to a municipal forum. Community leaders and volunteers selected by barangay residents will represent their barangay in the forum where subprojects will be prioritized based on size of the investment grant allocated to the municipality and locally agreed selection criteria.<sup>23</sup> Program staff will undertake due diligence on subprojects before funding is committed.<sup>24</sup> Barangays with prioritized subprojects will organize implementation teams to supervise and administer the subprojects.

14. **Output 2: Institutional and organizational capacity strengthened.** The project will support capacity development of municipal DSWD program staff who will provide facilitation support, technical assistance, subproject oversight, and local coordination.<sup>25</sup> About 4,000 program staff and their local government counterparts will be trained in CDD, development planning and management, conflict resolution, mediation within and between barangays, quality review, local poverty assessment, and M&E. Program staff and stakeholders will be trained to (i) develop competencies in disaster-risk management; (ii) apply environmental and social safeguard policies; (iii) respond to special circumstances such as vulnerability to natural hazards and climate change, presence of indigenous communities, and areas affected by conflict; (iv) facilitate community organization to ensure the inclusion and participation of marginalized groups in subprojects; and (v) embed participatory approaches in government systems and processes.

<sup>21</sup> Investment grant amounts are based on a formula using population size and poverty incidence.

<sup>22</sup> The open menu of subprojects includes community water systems, schools, daycare centers, health stations, electrification, tribal housing, access roads, small bridges or footbridges, pre- and post-harvest facilities, equipment and materials support, irrigation, drainage, sanitation, flood control, seawalls, soil protection, and artificial coral reef sanctuaries. In the aftermath of disasters, the menu may be adjusted to allow investments needed or justified in a post-disaster or emergency context (e.g., repair of public buildings, debris removal, shelter construction and repairs, use of chainsaws for cutting fallen trees), including investments for cash for work or food for work, as mutually agreed by DSWD and ADB. The exclusion list includes activities that may be harmful to the environment or indigenous peoples such as weapons, chainsaws, explosives, pesticides, insecticides, herbicides, asbestos, and other potentially dangerous materials and equipment; fishing boats and nets exceeding the government-prescribed size and weight; road construction into protected areas; political and religious activities, rallies, and materials; and activities employing children under 16 or unfairly exploiting women or men of any age.

<sup>23</sup> Paras. 29 to 30 of the project administration manual discuss subproject selection criteria and process.

<sup>24</sup> This will comprise technical, economic, social, and financial viability assessments, including safeguard compliance.

<sup>25</sup> In response to a government request, a capacity development technical assistance project for \$1.5 million will be prepared and financed separately. It will complement capacity development under the KC-NCDDP with the (i) formulation of a learning and development framework, (ii) completion of curriculum design and learning modules, and (iii) establishment of institutional support systems.



The project will strengthen the KC-NCDDP's financial management system, grievance redress and social accountability mechanisms, and knowledge development and exchange.

**15. Output 3: Program management and monitoring and evaluation systems enhanced.**

The project will strengthen program management and M&E systems by supporting the development and maintenance of a management information system in DSWD for tracking, measuring, and reporting progress using key performance indicators. The system will include national and regional electronic file management of community requests for fund release and supporting documents. The project will also support third party M&E, at least one special study, and capital expenditure requirements for program management. The KC-NCDDP operations manuals have been updated and harmonized with ADB policies and procedures.

**D. Investment and Financing Plans**

16. The government requested an EAL<sup>26</sup> of \$372,103,895 from ADB's ordinary capital resources with a 4-year implementation period, to respond to post-disaster needs of affected communities through the KC-NCDDP, including taxes and duties.<sup>27</sup> The loan will have a 32-year term, including a grace period of 8 years, custom tailored repayment method, an annual interest rate determined in accordance with ADB's London interbank offered rate-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions set forth in the loan agreement. Based on this, the average loan maturity is 18.97 years and the maturity premium payable to ADB is 0.20% per annum. The project is estimated to cost \$663.838 million, with the government providing \$291.7 million in counterpart financing (including taxes duties and financing charges).<sup>28</sup> The project investment plan is in Table 1. The financing plan is in Table 2. The KC-NCDDP has an estimated cost of \$1,132.0 million, of which the government will finance 24% and the proposed EAL 33%. The government has requested the World Bank to finance 42%, and the Government of Australia will provide a grant equal to 1%.

**Table 1: Project Investment Plan**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Priority community subprojects completed and community capacity enhanced	403.8
2. Institutional and organizational capacity strengthened	183.0
3. Program management and monitoring and evaluation enhanced	51.5
<b>Subtotal (A)</b>	<b>638.3</b>
<b>B. Contingencies<sup>c</sup></b>	1.2
<b>C. Financing Charges during Implementation<sup>d</sup></b>	24.3
<b>Total (A+B+C)</b>	<b>663.8</b>

<sup>a</sup> Includes taxes and duties of \$26 million included in the base cost and financed from the government and the Asian Development Bank (ADB) loan resources. Of this amount, ADB will finance an estimated \$21 million.

<sup>b</sup> In mid-2013 prices.

<sup>c</sup> Price and physical contingencies are computed at 5% for training. These do not include output 1 contingencies.

<sup>d</sup> Includes interest and commitment charges. Interest during construction for the ADB loan has been computed at the 5-year forward London interbank offered rate plus a spread of 0.40%. Commitment charges for the ADB loan are 0.15% per year, charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

<sup>26</sup> Operations Manual section D7 (Disaster and Emergency Assistance) states that a proposed EAL must have an implementation period set normally up to 2 years for natural disasters and may be exceptionally extended for, at most, 2 additional years when the level of destruction and dislocation are deemed extreme. In the aftermath of Typhoon Yolanda, the proposed 4-year project implementation period is reasonable.

<sup>27</sup> Including taxes and duties in ADB-financed project expenditures is consistent with the country partnership strategy. Taxes and duties are not an excessive share of the project cost and are material to the success of the project.

<sup>28</sup> This will be used principally to cover a share of the community grants, capacity building, and administrative costs. It includes all government financing of the program, not just counterpart financing for the ADB loan.

**Table 2: Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	372.1	56.1
Government	291.7	43.9
<b>Total</b>	<b>663.8</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

## E. Implementation Arrangements

17. The DSWD will be the executing agency.<sup>29</sup> The government's Human Development and Poverty Reduction Cluster will provide policy oversight and strategic guidance to the KC-NCDDP implementation.<sup>30</sup> National and regional project management offices will implement the KC-NCDDP, coordinate with national government agencies, and provide technical support to municipal teams. The DSWD will hire program staff to work with communities and municipal governments. Local governments will designate at least one counterpart staff member. Implementation arrangements are summarized in Table 3 and described in detail in the project administration manual.<sup>31</sup>

**Table 3: Implementation Arrangements**

Aspects	Arrangements		
Implementation period	January 2014– December 2017		
Estimated completion date	31 December 2017 (loan closing date 30 June 2018)		
Management			
(i) Oversight body	Human Development and Poverty Reduction Cluster		
(ii) Executing agency	DSWD		
(iii) Key implementing agencies	DSWD central office, DSWD regional offices		
(iv) Implementation unit	National PMO, 93 staff; regional PMO, 808 staff; field staff, 4,407		
Procurement	Community subprojects and planning grants (community bidding, community shopping, community direct contracting, small value procurement or community force account using community-based procurement guidelines)	Multiple contracts	\$358.58 million
	Goods (NCB/shopping)	51 contracts	\$1.07 million
	Training and workshops (shopping and small value procurement)	Multiple contracts	\$9.41 million
	Social marketing (shopping and small value procurement)	Multiple contracts	\$0.16 million
	Internal and external monitoring (shopping and small value procurement)	Multiple contracts	\$1.16 million
Consulting services	Training, social marketing, evaluation studies, safeguards, procurement, financial management (CQS and ICS)	Multiple contracts	\$1.20 million

<sup>29</sup> The DSWD is one of the key government agencies responsible for relief and recovery operations during emergency and post-disaster situations.

<sup>30</sup> The cluster is chaired by the DSWD and includes the departments of agriculture, education, agrarian reform, health, labor and employment, and interior and local government, as well as the Housing and Urban Development Coordinating Council and the National Anti-Poverty Commission.

<sup>31</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Aspects	Arrangements
Retroactive financing and/or advance contracting <sup>a</sup>	Retroactive financing to cover incremental costs, goods, consulting services, planning grants, and community subprojects. Advance action for procurement of service vehicles, motorcycles, office equipment, community subprojects, and consulting services
Disbursement	Loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.

ADB = Asian Development Bank, CQS = consultants' qualification selection, DSWD = Department of Social Welfare and Development, ICS = individual consultant selection, NCB = national competitive bidding, PMO = program management office.

<sup>a</sup> For immediate emergency responses, no more than 30% of loan proceeds should be used for retroactive financing of expenditures. These must have been incurred and paid for after the emergency occurred.

Source: Asian Development Bank; Government of the Philippines, Department of Social Welfare and Development.

### III. DUE DILIGENCE

#### A. Economic and Financial

18. The 10-year experience of KALAHI–CIDSS demonstrates its viability and cost-effectiveness for funding priority community investments. An external evaluation of KALAHI–CIDSS concludes that (i) CDD subprojects yield economic internal rates of return of 16%–65% and averaging 21%, all above the hurdle rate of 15% set by the National Economic and Development Authority; (ii) the unit costs of CDD subprojects are lower than for traditionally procured infrastructure projects, with cost savings ranging from 8% for school buildings to 76% for water supply; (iii) investments in capacity development are associated with collective action, improved access to public goods, good subproject maintenance, and more trust among community members; and (iv) social mobilization strengthens the match between demand for public goods and their supply making resource allocation more efficient.<sup>32</sup>

19. A recent impact evaluation of KALAHI–CIDSS identifies the following benefits: (i) household consumption increased by 12%; (ii) year-round road access improved by 9 percentage points; (iii) higher employment rates, particularly among women; and (iv) increased marketing of livestock and farm produce.<sup>33</sup> The analysis of the project and its benefits (footnote 32) assesses it to be financially sustainable in view of (i) the demonstrated and expected benefits of CDD, (ii) increased public spending on the social sector, (iii) the KC-NCDDP's relatively modest share of government expenditures,<sup>34</sup> and (iv) strong government commitment to use the KC-NCDDP as a platform for addressing social development and broader poverty reduction needs. The use of the CDD approach in post-disaster rehabilitation is expected to generate similar (and possibly higher) level of benefits from what has been experienced in regular situations.

#### B. Governance

20. Renewed national commitment to governance reform has helped improve the Philippine investment climate and achieve strong growth. However, significant challenges remain for public accountability mechanisms, government agency capacity and integrity, public financial management, procurement, and local governance. DSWD is considered highly competent and well governed, with many years of experience in effectively managing nationwide CDD and conditional cash transfer programs. DSWD also had many years of experience in post-disaster response. It has sound public financial management and procurement systems. Corruption has

<sup>32</sup> Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

<sup>33</sup> J. Labonne. 2013. *The KALAHI–CIDSS Impact Evaluation: A Revised Synthesis Report*. Washington DC: World Bank.

<sup>34</sup> Total program cost is estimated at less than 0.1% of gross domestic product.

not been a prominent issue in KALAHI–CIDSS implementation. The Integrity Development Review of DSWD and independent corruption surveys rated DSWD as among the cleanest government agencies.<sup>35</sup> DSWD engages robustly with civil society organizations.

21. The simultaneous operations in several areas, coupled with the expansion of other social development programs, overstretch DSWD management and oversight capacity. Other implementation challenges include (i) coordination of rehabilitation and recovery needs of such an enormous scale and the many stakeholders that are likely to be involved in these efforts; (ii) interface with government planning and budgeting reforms; (iii) remote and inaccessible subproject locations; (iv) fiduciary risks with higher volume of transactions, especially for subproject investments; and (v) local political interference. These will be mitigated by (i) interagency governance structures operating nationally and locally; (ii) enhanced program management support systems, including the provision of adequate personnel and functional decentralization to regional offices; (iii) capacity development; (iv) a strengthened grievance redress system; (v) simplified procedures and reporting requirements; and (vi) robust monitoring and audit systems, including third party M&E and oversight by civil society organizations.

22. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with DSWD. Specific policy requirements and supplementary measures are described in the project administration manual (footnote 31).

### C. Poverty and Social

23. **Poverty and social impacts.** The project focuses on poor and typhoon-affected areas where the impacts of CDD will be greatest.<sup>36</sup> The project is expected to help reduce poverty by improving the access of the poor to basic services, supporting disaster recovery and reconstruction and strengthening resilience to future disasters. It will help expand poor households' livelihood opportunities and improve their incomes. Better access to health facilities and services will particularly benefit women, children, and the elderly. The project will help lower the incidence of waterborne disease, improve access to schools, and better connect remote communities to town centers and markets. Healthier and better-educated residents will be able to improve their productivity and economic conditions. The project will strengthen institutions by enhancing community participation in local governance, increasing resilience to disasters, and building social capital that reinforces the sustainability of development efforts.

24. **Gender and development.** The project identifies and addresses the needs and priorities of women by ensuring mechanisms to support women's participation and voice in local decision-making processes to select and design priority infrastructure investments.<sup>37</sup> The project's gender action plan ensures that (i) participatory selection of subprojects includes an analysis of the needs and benefits of men and women in the criteria for prioritizing community infrastructure to be rehabilitated or developed; (ii) separate meetings are held with marginalized households—including those headed by women, where needed—to discuss subproject proposals before barangay assemblies, in locations and at times convenient for women; (iii) 20%–30% of the paid jobs created by the project go to women by 2017; (iv) the operation and maintenance plan provides 20%–30% of paid jobs to women; (v) links are made with support services or community crèches are established for child care, so that women can take advantage of employment and training opportunities; (vi) 50% of participants in all capacity development programs are women; (vii) women's leadership of volunteer committees increases

<sup>35</sup> Pulse Asia. 2011 Nationwide Survey on Corruption. <http://www.pulseasia.ph/files/Download/3-28-2011%20MR3%20-%20UB2011-1%20MR%20on%20Corruption.pdf>

<sup>36</sup> Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

<sup>37</sup> Gender Action Plan (accessible from the list of linked documents in Appendix 2).

to 50% by 2017; (viii) gender mainstreaming responsibilities are included in the performance targets of project management officers; and (ix) all program staff undergo gender training and gender indicators are integrated in the KC-NCDDP M&E framework.

#### **D. Safeguards**

27. **Environment.** The project is rated category B, as subprojects are not expected to have adverse environmental impacts. Any environmental risk will be mitigated by implementing subproject environmental management plans, with DSWD monitoring compliance. The KC-NCDDP has a list of subprojects that cannot be funded, which, together with ADB's list of prohibited investments, provides a built-in environmental screening mechanism.<sup>38</sup> The CDD approach likewise ensures that environmental concerns are addressed and mitigation measures are adhered to during implementation. An environmental assessment and review framework has been prepared.<sup>39</sup> An initial environmental examination document will be required for category B subprojects and a project description for category C subprojects.

28. **Involuntary resettlement.** The project is rated category B. Subprojects are expected to require little or no land acquisition, as they are small infrastructure works to be prioritized and implemented by communities. A resettlement framework has been prepared, and resettlement plans will be prepared and approved before accessing block grants for small-scale infrastructure subprojects that have involuntary resettlement impacts.<sup>40</sup>

29. **Indigenous peoples.** The project is rated category A as it will have direct and indirect impact on indigenous peoples' communities in eight of the nine regions to be covered by the project. Project design will ensure active participation of indigenous peoples in small infrastructure rehabilitation and local development, and improved access to basic services. An indigenous peoples planning framework has been prepared to guide the preparation and implementation of indigenous peoples plan for subprojects with impacts on indigenous peoples.<sup>41</sup>

30. The environmental assessment and review framework, resettlement framework, and indigenous peoples planning framework are consistent with national laws<sup>42</sup> and ADB's Safeguard Policy Statement (2009).

#### **E. Risks and Mitigating Measures**

31. Project implementation risks and measures to mitigate them are described in the risk assessment and risk management plan.<sup>43</sup> Risks stem from the scaling up of CDD operations within a post-disaster context, inclusion of several stakeholders in program implementation, and duplication of recovery and reconstruction efforts.

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<sup>38</sup> The ADB Safeguard Policy Statement (2009) details prohibited investments.

<sup>39</sup> Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

<sup>40</sup> Resettlement Framework (accessible from the list of linked documents in Appendix 2).

<sup>41</sup> Indigenous Peoples Planning Framework (accessible from the list of linked documents in Appendix 2).

<sup>42</sup> DSWD's environmental and social management framework incorporates the safeguard requirements of the government and the World Bank, as well as the principles and content of the ADB safeguard documents.

<sup>43</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

**Table 4: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigating Measures</b>
Inadequate institutional and personnel capacity to implement and monitor the program in a post-disaster context	Strengthen program management systems and due diligence, decentralize functions to DSWD regional offices, provide adequate numbers of technical staff that could be quickly mobilized, accompanied by well-designed capacity building.
Duplication of recovery and reconstruction efforts	Work closely with stakeholders and provide regular updates to the central committee coordinating line agencies in the formulation, implementation, and monitoring of the Yolanda recovery and reconstruction plan.
Local political interference	Use the underlying principles of community participation and transparency in resource allocation and decision making during the subproject planning cycles. KALAHÍ–CIDSS experience shows community priorities prevail even with changes in political leadership.
Lack of participation by women and the poor in capacity building	Train community facilitators and volunteers on the needs of marginalized community members; where under-representation is a risk, organize separate activities for marginalized households, including those headed by women to select subproject proposals and related capacity building.
Errors in recording and reporting project transactions and other information	Support the establishment of electronic management information and accounting systems for the complete and timely capture and verification of transactions and other relevant information; ensure subregional technical and compliance review and regional authorization of transactions; consolidate reports. Consolidate reports to meet national and regional data needs.
Unclear information regarding ownership and/or prior occupation of land to be utilized for the subprojects	The resettlement framework will require that subprojects are implemented in land where ownership can be clearly established. The CDD approach, public disclosure in the communities, and grievance redress mechanism will help ensure compliance with the resettlement framework.

CCD = community-driven development, DSWD = Department of Social Welfare and Development, KALAHÍ–CIDSS = Kapit-Bisig Laban sa Kahirapan (Linking Arms Against Poverty)–Comprehensive and Integrated Delivery of Social Services.

Source: Asian Development Bank.

#### **IV. ASSURANCES AND CONDITIONS**

32. The government and DSWD have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents. The government and DSWD have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

#### **V. RECOMMENDATION**

33. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$372,103,895 to the Republic of the Philippines for the KALAHÍ–CIDSS National Community-Driven Development Project, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao  
President

13 December 2013

### DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b></p> <p>Improved resiliency of poor communities to natural hazards</p>	<p>By end of 2020:</p> <p>Poverty incidence in target areas recovers to levels before Typhoon Yolanda (baseline: average poverty incidence of 37.3% in Yolanda-affected municipalities, using small area estimates for 2009)</p>	<p>National Statistical Coordination Board small area estimates</p> <p>KC-NCDDP evaluation studies on effectiveness and impact</p>	<p><b>Assumption</b> Government and community support for the project is secured.</p> <p><b>Risk</b> More natural disasters and economic shocks limit progress in reducing poverty.</p>
<p><b>Outcome</b></p> <p>Improved access to services and infrastructure for communities in affected provinces and their participation in more inclusive local disaster risk reduction and management planning, budgeting, and implementation</p>	<p>35% of households in covered municipalities reporting increased confidence to participate in community development by 2017</p> <p>Access to and utilization of basic services and infrastructure such as roads, education, health centers, and water in covered municipalities increased by 10% by 2017</p> <p>45% of members from marginalized groups (indigenous peoples and women) in covered municipalities attend regular barangay (village) assemblies by 2017</p> <p>900,000 households benefited by 2017</p>	<p>Midterm and end-line community and household surveys</p> <p>Midterm and end-line KC-NCDDP management information system data from barangay assembly meeting minutes and attendance complemented by specialized household surveys</p> <p>Midterm and end-line community and household surveys</p>	<p><b>Assumption</b> Communities actively participate.</p> <p><b>Risk</b> Institutional and personnel capacity is inadequate to manage, implement, and monitor the KC-NCDDP.</p>
<p><b>Outputs</b></p> <p>1. CDD subprojects selected, implemented, and completed</p>	<p>85% of completed subprojects meet basic financial standards based on finance and administration submanual by 2017 (baseline: 0% in</p>	<p>Quarterly KC-NCDDP progress report from community projects completion reports</p>	<p><b>Assumption</b> Government is committed to adequately fund and manage the program.</p> <p><b>Risks</b> Political interference</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>2013)</p> <p>85% of subprojects in covered municipalities completed in accordance with technical plans, schedule, and budget by 2017 (baseline: 0% in 2013)</p> <p>85% of completed subprojects in covered municipalities have satisfactory or better sustainability evaluation ratings by 2017 (baseline: 0% in 2013)</p> <p>20%–30% of the paid jobs created by the project are held by women by 2017 (baseline: 3% for skilled and 5% for unskilled in 2013)</p>	<p>Quarterly KC-NCDDP progress report from community projects completion reports</p> <p>Annual KC-NCDDP report from the subproject sustainability evaluation reports of barangays and municipalities</p> <p>Quarterly KC-NCDDP progress report from community projects completion reports</p>	<p>occurs.</p> <p>Costs of materials for construction escalate.</p> <p>Unclear information regarding ownership and/or prior occupation of land to be utilized for the subprojects</p>
<p>2. Institutional and organizational capacity strengthened</p>	<p>85% of covered municipalities have increased membership of people's and civil society organizations in local development councils and special bodies by 2017</p> <p>At least 10 community volunteers per village trained in CDD by 2017, of which 50% are women</p> <p>50% of the leadership positions in community volunteer committees held by women by 2017 (baseline: 35% in 2012)</p>	<p>Quarterly KC-NCDDP progress reports from the municipal and barangay LGU reports</p>	<p><b>Assumption</b> Stakeholders have positive attitudes to the KC-NCDDP.</p> <p><b>Risk</b> The participation of the poor, particularly women, is weak.</p>
<p>3. Program management and M&amp;E systems enhanced</p>	<p>System for community requests for fund release fully operating by 2014</p> <p>At least one study on effectiveness and impacts completed, including a review of gender equality</p>	<p>Quarterly KC-NCDDP progress reports</p>	<p><b>Assumption</b> The recruitment of staff and procurement of equipment is timely.</p> <p><b>Risk</b> Errors occur in recording and</p>



Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks																								
	dimensions, by 2017  100% of newly targeted 189 municipalities generate sex-disaggregated data by 2017 (baseline: 10% in 2009)  Gender action plan implemented by 2017		reporting project transactions and program information.																								
<b>Activities with Milestones</b> 1.1. Community social preparation and mobilization initiated in covered municipalities by Q1 2014 1.2. Selection of subprojects initiated in covered municipalities by Q1 2014 1.3. Transfer of investment grants for implementation commenced in covered municipalities by Q2 2014  2.1. KC-NCDDP capacity building plan finalized by Q1 2014 2.2. Capacity building program for KC-NCDDP and LGU staff started by Q1 2014 2.3. Performance management system for LGUs developed by Q2 2014 2.4. Grievance redress and social accountability mechanisms enhanced and installed by Q1 2014  3.1. A total of 5,215 national, regional, subregional, and municipal technical specialists and consultants and support staff hired beginning Q1 2014 3.2. Management information and M&E systems developed and operationalized by Q1 2014 3.3. Evaluation and special studies designed and procured beginning Q3 2014.		<b>Inputs</b>  <b>ADB: \$372.1 million</b> <table border="1" data-bbox="812 758 1435 926"> <thead> <tr> <th>Item</th> <th>Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td>Output 1</td> <td>358.6</td> </tr> <tr> <td>Output 2</td> <td>10.1</td> </tr> <tr> <td>Output 3</td> <td>2.9</td> </tr> <tr> <td>Contingencies</td> <td>0.5</td> </tr> </tbody> </table> <b>National Government: \$291.7 million</b> <table border="1" data-bbox="812 982 1435 1209"> <thead> <tr> <th>Item</th> <th>Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td>Output 1</td> <td>45.2</td> </tr> <tr> <td>Output 2</td> <td>13.7</td> </tr> <tr> <td>Output 3</td> <td>11.9</td> </tr> <tr> <td>Recurrent costs</td> <td>195.9<sup>a</sup></td> </tr> <tr> <td>Contingencies</td> <td>0.7</td> </tr> <tr> <td>Financing charges</td> <td>24.3</td> </tr> </tbody> </table>		Item	Amount (\$ million)	Output 1	358.6	Output 2	10.1	Output 3	2.9	Contingencies	0.5	Item	Amount (\$ million)	Output 1	45.2	Output 2	13.7	Output 3	11.9	Recurrent costs	195.9 <sup>a</sup>	Contingencies	0.7	Financing charges	24.3
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ADB = Asian Development Bank, CDD = community-driven development, KC-NCDDP = KALAHÍ-CIDSS National Community-Driven Development Project, LGU = local government unit, M&E = monitoring and evaluation, TA = technical assistance.

<sup>a</sup> Of this amount, \$159.2 million is under output 2 and \$36.7 million is under output 3.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=46420-002-3>

1. Loan Agreement
2. Sector Assessment (Summary): Community-Driven Development
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Economic and Financial Analysis
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Gender Action Plan
10. Environmental Assessment and Review Framework
11. Resettlement Framework
12. Indigenous Peoples Planning Framework
13. Risk Assessment and Risk Management Plan

### **Supplementary Documents**

14. Summary Initial Disaster Needs Assessment
15. Overview of Community-Driven Development and the Kapit-Bisig Laban sa Kahirapan–Comprehensive and Integrated Delivery of Social Services Project
16. The Proposed National Community-Driven Development Program
17. The Indonesian Program Nasional Pemberdayaan Masyarakat Mandiri: Lessons for Philippine Community-Driven Development
18. Financial Management Assessment
19. Typhoon Yolanda-Affected Areas and Areas Covered by the KALAHI–CIDSS National Community-Driven Development Project
20. The Indonesian Program Nasional Pemberdayaan Masyarakat Mandiri: Lessons for Philippine Disaster Risk Management