



1. Project Data:		Date Posted : 08/07/2001	
PROJ ID: P004589		Appraisal	Actual
Project Name: Irrig Oper Supp II (IOSP II)	Project Costs (US\$M)	69.60	68.86
Country: Philippines	Loan/Credit (US\$M)	51.30	47.26
Sector(s): Board: RDV - Irrigation and drainage (99%), Agricultural extension and research (1%)	Cofinancing (US\$M)		
L/C Number: L3607			
	Board Approval (FY)		93
Partners involved :	Closing Date	06/30/1999	12/31/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives
The project objective, from the SAR, was "to improve and sustain the operational efficiency of the NIS [National Irrigation System], thereby helping increase agricultural production (mainly rice), expanding small farmer incomes and rural employment opportunities, and contributing to rural poverty alleviation ."

b. Components
Total project costs of \$ 68.86 million comprised:

1. Improvements to 18 selected NISs, 22 urgent repairs for structures in a further 14 NIS, the construction of 3 sediment exclusion structures, improved water control structures on a pilot basis and erosion prevention measures in critical areas (52%.)
2. Continued budgetary support for measures to ensure the sustainability of system level operation and maintenance (O&M) improvements achieved under IOSP I (36%.)
3. Institutional development through strengthening :
 - Existing Irrigation Associations (IA), establishing new IAs, and financial/management training to facilitate IMT (Irrigation Management Transfer);
 - The National Irrigation Administration (NIA) to improve Irrigation Service Fee (ISF) collection, training in O&M, design and financial aspects of system management, TA for studies and development work, as well as O&M equipment and materials (11%)
4. Agricultural Support Services (1%.)

Comprehensive sector reforms, reflected in an Irrigation System Improvement Plan (ISIP) and Agriculture and Fisheries Modernization Act (AFMA) in 1997, led to additions to project content during implementation . At mid-term in 1997 the scope of both systems improvements and institutional development were expanded .

c. Comments on Project Cost, Financing and Dates
The exchange rate fell from 25 to 50 Peso per US\$ between appraisal and completion . This increased the purchasing power of the \$ for the largely local currency components . Some \$4 million of the Bank loan was cancelled in January and April 2001.

3. Achievement of Relevant Objectives:

1. The project achieved its main objective and estimated increases in agricultural production are realistic - the ICR contains unusually comprehensive, survey-based data and sound, conservative, economic analysis of impact . On balance, sustainability seems likely and the assumption that these incremental changes in production will lead, through increased farmer income and rural employment prospects, to poverty alleviation, is highly plausible. The Incremental O&M component (unchanged in concept since IOSP I), comprised 36% of project costs and was estimated in OED's audit report of IOSP I to yield a return of 28-35% (compared to the 21% in the SAR for IOSP II.) For the system repair and improvement component, accounting for the balance of 64% of costs, the ERR was re-estimated at 21% compared to 17% in the SAR.
2. 505,000 farm families have benefited (110% of SAR target) with incremental rice production at full development

94,000 tons/annum.

3. The project supported the formation of IAs and CIA .
4. The project provided incremental O&M support to all 165 NIS resulting in an increase in cropping intensity of 7%; for the 17 NIS the increase was even greater with the that at full development estimated to reach 30% over the baseline of 149% (compared to an SAR target of only 18% increase.)
5. In a major ICR survey involving 1,400 farmers, some in the 17 project NIS, and others in control areas, the proportion of farmers giving top ratings for irrigation services increased by nearly 100%. Timeliness, Equity of Distribution and Adequacy were rated "just right", "equitable" and "adequate" by 67%, 52% and 67% of the farmers (compared to 37%, 25% and 38% before IMT.)
6. 80% of the farmers and CIA/IA officials reported timely delivery and equitable distribution of water after the project, compared to 40% before.

4. Significant Outcomes/Impacts:

Measured against the overall performance of the irrigation sector, the most significant impact of the project was its contribution to momentum for reforms. These changes took place during implementation and were embedded in new supportive legislation as well as a follow-on Water Resources Development Project (WRDP): (i) **technical change** - of the modality of operation from gated water control and distribution system to one based on long -crested weirs for water control, and proportional dividers at turnout for water distribution; (ii) **institutional change** - empowerment of IAs and establishment of CIAs (Federations and Council of IAs) and, employing a contractual basis for the division of labor between farmers and the NIA for secondary canal O&M . AFMA mandated this transfer of responsibility for O&M of secondary canals in larger irrigation systems (> 300 ha) ; (iii) **Changes in cost -recovery policy** - negotiated shares of ISF collections and pilots to introduce volumetric measurement and wholesaling of water to IAs; (iv) **Self sustaining systems for O&M and rehabilitation** to break the vicious circle of poor maintenance and premature rehabilitation, by introducing stronger financial controls to ensure that ISF collections are applied efficiently; (v) **a proposal for downsizing NIA** was formulated; and (vi) **Elimination of direct and indirect O&M subsidies to NIA** was introduced as a long-term goal.

The signing of IMT contracts between IAs and NIA after the completion of improvement works (a stronger foundation for future farmer commitment to ISF), and the establishment of some CIAs (incorporating experience from Mexico's successful IMT program) were milestone achievements.

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. The agency's seeming lack of strong commitment to the reforms (no initiative was taken by the NIA to implement AFMA) was aggravated by the executive's (the President) mid-1998 populist decision to condone nonpayment of ISF by the farmers. This has seriously undermined two decades of efforts to increase cost-recovery. While budgetary commitments have increased to compensate NIA, this does not help its long-term financial viability. The ISF collections were only 53% of the appraisal target (less in real terms) and met only 54% of O&M expenses, compared to 95% expected at appraisal. The IA's share of ISF has declined. While the trend has been reversed, the net effect has been to diminish the capability of both IAs and the NIA to undertake proper O&M of irrigation systems.
2. The project design was not very innovative, especially given the long experience and involvement of the Bank in the political economy of irrigation reform. While progress has been made, the sector is still dominated by an overstuffed NIA and inadequate incentives and institutional design to support full implementation of the Bank's water resource management policy. Changes introduced in 1997 were designed to address some of these concerns, but NIA has yet to experience any downsizing, and the financial control of funds collected through the ISF (partially used to finance NIA) is still prone to bureaucratic capture and misuse of the funds (which may not be translated into efficient main system O&M by the NIA but used to sustain NIA's staff establishment .) While some empowerment has been facilitated by project, the reform process is far from complete .
3. Consultant estimates of the desirable rate for O&M expenditures is \$ 45/ha whilst that presently spent on the 17 NIS areas is only \$30/ha. While this is offset by substitution of lower cost IA /CIA labor for NIA inputs, the ICR considers that 9 of the 17 NIS will still need some combination of increased ISF and reduced costs, to achieve efficiency and sustainability . The contribution of NIA resources (in the form of its commercial income and budgetary allocation) can only be considered a short-term support to sustainability and would be threatened by a rationalization of NIA size and function .
4. There was an 18-month delay in project closing due to inadequate budgetary allocations and a two year delay in use of Bank loan proceeds for TA. But the expansion in the scope of systems improvements and institutional development was partly responsible for the delay .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Likely	"Uncertain" would be a more appropriate characterization given its dependence on

			essentially unpredictable political circumstances. The region's judgement is that recommitment to reform by the new government is likely.
Bank Performance :	Satisfactory	Satisfactory	The region has addressed some of the concerns raised in the PPAR for IOSP I.
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Despite two decades of irrigation sector reform, supported by other donors, the process is incomplete in the Philippines. A valid comparison is the "big bang" approach in Mexico which has made more progress in a shorter time. Even with a span as wide as the 6 years of IOSP II, intermittent changes in agency and political leadership have seriously retarded the slow progress towards the achievement of policy goals .
2. A program approach is needed for irrigation sector reform and NIS improvement . The IMT program, which commenced under IOSP II, was based entirely on project specific agreements between the Bank and NIA for the 17 NIS. IMT progress in other systems (for instance the Magat River Integrated Irrigation System) has stalled, and in other large NISs it remains uncertain .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

This was a very good quality ICR and the economic analysis and survey results will help sustain the policy and advocacy efforts of the Bank as it tries to implement the global water resources management policy . Annex I is of limited use - firstly the so called Log Frame Matrix is misnamed and secondly, even in a more modest role, it is of little use to compare the "Actual/Latest Estimate "of an indicator to that "Projected in last PSR." One would expect the two values to be close whatever the baseline was . It would be better not to pretend a Logframe of results is presented if no baseline is available and the causal chain of "Inputs/ Outputs/ Outcomes/ Impact" are not elaborated. Unfortunately the format used in this ICR has been almost universally adopted by all the regions .