1. Country and Sector Background

Mindanao is a study in contrast between growth areas and lagging regions. While it plays host to several high growth urban centers, the greatest concentration of rural poverty in the Philippines is also found in the island. Poverty incidence in Mindanao currently stands at 39.7%. In the Autonomous Region in Muslim Mindanao (ARMM), the rate rises to 45.9%, more than double the national average.

Poverty and conflict are inextricably linked in Mindanao. Various forms of violence have exacted a heavy toll. The Commission on Human Rights in ARMM provides the following figures: more than 60,000 deaths, two million internal refugees, 535 mosques destroyed, 200 schools demolished, 35 cities or towns damaged. A World Bank study estimated the direct output loss from 1970-2001 conflict in the range of $2-3 billion.¹

Caught in a vicious cycle of insecurity and under-development, institutional capacities for sustainable social and economic development are weak in conflict-affected areas of Mindanao.

2. Objectives

The project development objective is “to improve social and economic recovery in targeted conflict-affected communities of Mindanao through activities which promote confidence-building, peace and demand-driven governance”.

3. **Rationale for Bank Involvement**

**Parent Project.** The Multi-Donor Facility – PH Mindanao Reconstruction & Development Project (“the Mindanao Trust Fund” or “MTF”) was approved in July 2005. Building on the comprehensive 2005 Joint Needs Assessment for Conflict-Affected Areas in Mindanao, the main purpose of the project was to build the capacity of the Bangsamoro Development Agency (BDA).\(^2\) A total of $8.485 million has been committed through seven separate grant agreements, of which $7.8 million has been disbursed as of October 2012.

The BDA is the development arm of the Moro Islamic Liberation Front (MILF), an insurgent group that is in peace negotiations with the Government of the Philippines (GPH). The BDA was established pursuant to a 2001 agreement between the GPH and the MILF with a mandate to lead, manage and implement development projects in Bangsamoro areas. In most post-conflict situations, armed groups that are adept at fighting have no background or experience in governing and delivering development. Working with the BDA, therefore, provides a unique opportunity to build capacity on development management for an insurgent group that can deliver positive outcomes on the ground now and help prepare the necessary skills and knowledge for a post-peace agreement scenario.

The proposed Additional Financing comes at a strategic time, with positive momentum being achieved on the peace process and many analysts predicting a Transition Framework Agreement will be signed at some time within the next one-six months.

4. **Description**

The Additional Financing phase of the project restructures the project components as follows:

**Project Components.**

- **Component 1: Community-driven development grants.** Block grants will be provided to People's Organizations at the village level to fund community-driven reconstruction and development (CDR and CDD) activities identified by the communities themselves. The project approach will combine CDR and CDD, opening up the prospect for a combination of private and public goods to support livelihood, early recovery needs in high conflict areas (e.g., core shelters, farming inputs, etc) and community-based infrastructure. This component will cover at least 65 villages in 21 municipalities. Site selection will be based on empirical data on conflict, poverty and accessibility, as well as local government support and commitment. Block grants will be calculated at PHP 800/capita, drawing on evidence from the KALAHICIDSS impact evaluation on the size of the block grant required to deliver

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economic benefits. Strong efforts will be made to build social cohesion and trust at the community level.

- **Component 2: Creation of Sustainable Livelihood Opportunities.** This component will work with people's organizations on the development of at least 3-4 economic subsectors with growth and employment potential. Community-based enterprises will be developed or strengthened along the identified value chains. Market-oriented skills development to increase employability for wage employment will also be provided. This would be a new activity for the MTF and will be implemented on a pilot basis for the next two and a half to three years covering 12 villages in 3 municipalities. The component will involve a new grant recipient, the International Labour Organization (ILO), which will function as the conduit of funding and provide technical assistance to build the capacity of the BDA to deliver livelihood and income generation programs. It will also introduce a new set of partners to the MTF-RDP, particularly business associations and private companies. This component will provide entrepreneurship training and support to 720 beneficiaries and 60 existing business enterprises; skills training and employment counselling for 685 beneficiaries; construct six common service facilities; and train 12 community-based organizations on market-oriented livelihood plus post-training support for wage and self-employment.

- **Component 3: Capacity & Institution Building.** Based on a detailed capacity-building plan, this component will build the capacity of the BDA, LGUs, people’s organizations and selected non-government organizations to plan, implement, monitor and evaluate development and livelihood interventions. This component will include funding for the operational costs of BDA; capacity-building for LGU and private sector partners; and social mobilization and capacity-building for people’s organizations.

- **Component 4: Monitoring & Evaluation.** This component will support rigorous monitoring and impact evaluations for the program and M&E capacity development for BDA. The component will also fund Secretariat costs for the World Bank to oversee and manage the MTF.

### 5. Financing

<table>
<thead>
<tr>
<th>Source:</th>
<th>($m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Bank Financing: Mindanao Trust Fund</td>
<td>5.60</td>
</tr>
<tr>
<td>Borrower/Recipient</td>
<td>0.16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5.76</strong></td>
</tr>
</tbody>
</table>

### 6. Implementation

Oversight and management arrangements will follow the same arrangements as outlined in the Operations Manual and Administration and Grant Agreements. The Mindanao Trust Fund Interim Steering Committee, co-chaired by the Office of the Presidential Adviser on the Peace Process (OPAPP), the BDA and the World Bank, with membership from the MTF partners and the UN Resident Coordinator, will continue to provide overall strategic guidance. The BDA will continue to take the lead on the ground in terms of social preparation and mobilization and oversight and engagement with local government units. The two existing Trust Fund Recipients,

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MinLand and CFSI and the proposed new recipient, ILO, will act as conduits for funding and technical assistance.

At the sub-national level, a Multi-Sectoral Committee (MSC) is constituted to endorse site selection and approve sub-project proposals. The MSC membership comprises local government officials, religious leaders, and representatives from civil society, the MILF and the Moro National Liberation Front, where present. Where possible, existing MSCs will be tapped, rather than establishing new Committees.

Municipal Technical Teams (MTT) are also established by participating LGUs, who make the skills of the Municipal Engineer and Municipal Social Welfare Officer available to provide technical support to project implementation.

Under Component 2, a Project Coordination Committee, incorporating the BDA, ILO, World Bank, mayors of the target locations, ARMM Regional Government, ARMM Chamber of Commerce, the Mindanao Business Council and local business and workers associations will be constituted and meet every six months. This will be complemented by a Technical Working Group that will meet monthly and enhanced MTT membership, incorporating selected business associations and entities. A specific Operations Manual for this component will be produced during the six-month inception phase.

7. **Sustainability**

Sustainability will be pursued at three levels. First, with regard to the institutional arrangements for program management, capacity building for BDA and people’s organizations is intended to create sustainable capacities to deliver high quality and equitable community development and livelihood creation programs.

Second, at the level of villages and municipalities, the sustainability of inclusive, participatory planning and management arrangements that contribute to peace building will be supported both by training and by implementation of sub-projects.

Third, sustainability of individual sub-projects will be promoted by the appraisal requirement, that proposals include clearly defined arrangements for operation and maintenance (O&M) of community assets including mobilization of resources to finance O&M activities, and eventually, where required, to replace the asset in question.

8. **Lessons Learned from Past Operations in the Country/Sector**

In post-conflict situations, transitions do not necessarily fall into chronologically distinct periods such as emergency, reconstruction, and development, but may have different and even overlapping time periods in different localities. The provision of rehabilitation and development assistance needs to be able to respond to this reality by providing for flexibility in terms of beneficiaries (e.g., both communities and dislocated IDPs), and in terms of needs and priorities (e.g. immediate needs, community infrastructure, and livelihoods).
In a post-conflict context where delivery of the “peace dividend” and the building of capacity in government agencies to manage the delivery of this “peace dividend” are both critical elements, the challenge of balancing these two aims needs to be carefully managed, so that the incentive to provide rapid results on the ground does not take precedence over the nurturing of institutional capacity which may be the pre-condition for sustainable and cost-effective delivery of development in the medium and longer term, when donor funding shrinks. Vesting program management in the BDA and the role of the Trust Fund Recipient as program management consultants to provide continuous on-the-job training is expected to address this risk.

Similarly, in a post-conflict context where rapid delivery of the “peace dividend” is critical to establish or maintain the credibility of government vis-à-vis the population, implementing agencies need to manage the challenge of maintaining engineering quality of sub-projects, so that beneficiary communities get value for money. The BDA and LGUs have sufficient engineering capacity in their staff to assist communities to develop sub-projects that are technically sound, and to provide technical supervision of the implementation of these projects.

Responding to lessons from the 2011 World Development Report on Conflict, Security and Development⁴ and a 2011 World Bank-World Food Program representative survey across conflict-affected areas of Central Mindanao and earlier analysis on conflict and displacement,⁵ there is a need for development actors to place a greater emphasis employment promotion and income-generation to support stability and break cycles of violence. Component Two of the Additional Financing addresses this imperative.

The 2011 WDR also highlights the centrality of creating “inclusive-enough coalitions” of stakeholders as a pre-condition to necessary confidence-building measures that can help to create legitimate institutions that deliver citizen security, justice and jobs. Working with the BDA and facilitating BDA-government partnership is an explicit confidence-building measure.

The block grant calculation utilized by the Additional Financing draws on evidence from the KALAHICIDSS Impact Evaluation on the necessary size of the community block grant to deliver strong economic benefits.

9. **Safeguard Policies (including public consultation)**

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
<td>[X]</td>
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<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
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<td>[ ]</td>
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<td>Pest Management (OP 4.09)</td>
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<td>[ ]</td>
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<tr>
<td>Indigenous Peoples (OP/BP 4.10)</td>
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<tr>
<td>Physical Cultural Resources (OP/BP 4.11)</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>


Involuntary Resettlement (OP/BP 4.12) [X] [ ]
Forests (OP/BP 4.36) [ ] [ ]
Safety of Dams (OP/BP 4.37) [ ] [ ]
Projects on International Waterways (OP/BP 7.50) [ ] [ ]
Projects in Disputed Areas (OP/BP 7.60)* [ ] [ ]

The safeguards policies that apply to the MTF-RDP are: (1) OP/BP 4.01 Environmental Assessment; (2) OP/BP 4.10 Indigenous People; and (3) OP 4.12 Involuntary Resettlement.

Environmental Assessment

Environmental issues in the MTF-RDP relate primarily to impacts caused by construction of small-scale infrastructure. The Program has an environmental screening mechanism that identifies prohibited sub-projects (e.g., community roads into protected areas or procurement of pesticides) and those with adverse environmental impacts. People’s Organizations are properly informed of the negative list and are assisted to develop mitigating measures.

Involuntary Resettlement

Sub-projects involving involuntary land acquisition and resettlement (displacement) are on the negative list and not eligible for funding. Land required for sub-projects may be furnished through voluntary private land donations, voluntary private long-term leases at a nominal cost, transactions between willing-seller-willing-buyer, or access to use vacant community or government land. Private, community or government donations, long-term leases, and community purchases must be properly documented. The documents will be part of the sub-project appraisal.

Indigenous Peoples

The Program approach aims to achieve the twin objectives of ensuring: (a) the informed participation of indigenous peoples, so that they are in a position to receive culturally compatible social and economic benefits; and (b) that indigenous peoples are not adversely affected during the development process.

The Program design promotes equitable inclusion of ethnic/tribal indigenous peoples in decision making and as beneficiaries. The procedure for selection of Community Volunteers is expected to ensure that indigenous peoples are represented in the planning and eventually in the implementation stage if they decide to join the Peoples’ Organization.

The Program will ensure that IPs meaningfully participate in the identification and planning for sub-projects located within their barangay or ancestral domains. In barangays where IPs are not dominant, or where the communities fall within the ancestral domains of IPs, the Program shall ensure that Technical Assistance is provided to enable IPs to participate meaningfully in the planning process.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas
10. List of Factual Technical Documents

- World Bank (2003), Social Assessment of Conflict Affected Areas in Mindanao.
- World Bank (2006), Assessment of Mindanao’s Potential for Growth and Development and Linkage with the Mindanao Trust Fund’s Reconstruction and Development Program.

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