

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: AB2414

<b>Project Name</b>	National Program-Support to Environment and Natural Resources Management
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Sector</b>	General agriculture, fishing and forestry sector (85%); General public administration sector (10%); Mining and other extractive (5%)
<b>Project ID</b>	P096174
<b>GEF Focal Area</b>	M-Multi-focal area
<b>Global Supplemental ID</b>	P091147
<b>Borrower(s)</b>	GOVERNMENT OF THE PHILIPPINES
<b>Implementing Agency</b>	
	Department of Environment and Natural Resources Visayas Avenue, Diliman Quezon City Philippines Tel: (632) 929-6626
	Government of the Philippines Philippines
<b>Environment Category</b>	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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## 1. Country and Sector Background

### A. Country Context

Since the 1980s the Philippine economy has been lagging behind others in Asia with appreciably lower levels of GDP growth and investment per capita than for the region as a whole. Weak economic performance and a fast growing population significantly constrain the country's ability to reduce poverty. In response to these trends, the Government's Medium Term Philippine Development Plan (MTPDP 2004-2010), the President's 10 point agenda for development and the World Bank's (WB<sup>1</sup>) current Country Assistance Strategy (CAS), view economic growth (with social inclusion and environmental responsibility), as the principal engines for achieving core development objectives related to poverty reduction and employment. In policy, the guiding principles are to ensure that the positive benefits from growth are optimized sustainably, whilst the real or imputed costs of attaining growth are minimized.

Long term, sustainable economic growth and poverty reduction in the Philippines, moreover, will depend critically on how successful Government will be in improving public service delivery and accountability and encouraging greater and more responsible private investment. Given the very high dependence of the economy and private income on primary resources, the responsible utilization and management of natural capital will be crucial in meeting and sustaining future development goals and preventing excessive environmental costs. Conversely, inadequate regard to implementing sound natural resource management (NRM) measures and safeguarding the nation from excessive

<sup>1</sup> Also referred to as the Bank in this document

environmental degradation will rapidly erode resource inventories (some of which are unique to the Philippines) and seriously offset short term economic gains by significant, longer term costs.

In addition to direct resource costs (depletion of forests, minerals and fish), the country's propensity to costly natural disasters, as recent events have shown, will likely increase with a result that investor confidence will lag as pollution, health and congestion costs rise, tourism revenues decline and the cost of cleaning up after irresponsible industries falls on Government. Consequently, continued Environment and Natural Resources (ENR) mismanagement constitutes a major impediment to long term growth and poverty reduction.

## **B. Sector Issues**

The Philippines is an archipelago of more than 7,100 islands covering an estimated area of 29.9 million hectares. Its territorial waters cover an estimated 221.1 million hectares or approximately 88% of the Philippine territory. Within these lands are important, but dwindling areas of rainforest which contain high species diversity and high levels of endemism and territorial waters of equally extensive coral reefs, sea grass beds, seaweeds, which are also home to a high diversity of fishes, and beautiful and pristine beaches that attract tourists. The Philippines is one of two countries in the world (the other is Madagascar) that is both a mega-diversity country and a biodiversity hotspot. Per hectare, the Philippines probably harbor more diversity of life than any other country on earth, but this diversity is also under tremendous threat of total destruction.

An expanding population, at present increasing by 2.36 percent annually, weak governance as well as high dependence on natural resources, including "mining" thereof, has led to pollution and extensive ecosystem degradation. This unabated degradation is integrally linked with the livelihoods and health of a large proportion of the population, where some 47% of the population lives below the poverty line. Key indicators of the degradation of the environment and natural resource base are reflected by the following:

(a) Severe forest degradation, with forest cover reduced from 70% in 1900, to only 6% remaining; (b) Only one third (32%) of coral reefs remain in good condition, while most are degraded with 27% in poor condition; coastal mangroves are also significantly depleted; (c) Loss of watershed integrity due to inappropriate upland agriculture, deforestation, and road construction, leading to water shortages, sedimentation and natural disasters; (d) Almost half (45%) of the arable lands in the Philippines have been moderately to severely eroded, forcing subsistence farmers to move onto critical and marginal lands; (e) Deforestation and overexploitation has put many species under severe threat; with 331 species on International Union for the Conservation of Nature (IUCN) Vulnerable or Endangered list in 2002 (compared to 183 species in 1992), while 23% of the endemic vertebrate species are threatened; (f) Only 8 of the the country's 206 priority protected areas (PAs) have been approved by Congress and receives some funding; most are "paper parks" with limited staff and/or no budget; (g) Air and water pollution in major urban centers exceed national standards; and (h) About 31% of diseases are water-related.

At present, about 30% of the country's population, or an estimated 17.4 million people, live in upland areas where about half of the cultivated area is characterized by very steep slopes, and without proper soil and water conservation measures being undertaken. As a result, critical watersheds and protected areas are being damaged while extensive swidden agriculture (or *kaingin*) is adding to the pressure on local forest systems. Commercialized and illegal logging which continue to be practiced in many forests also add pressure to the watersheds and protected areas, negatively affecting local communities' livelihood and resource management options. Poor mining practices have also seriously impacted many

communities. Likewise rapid urban growth and industrialization has resulted in serious pollution and reduction in the overall quality of life in major urban centers.

The root causes of ENR degradation are sector-wide and inter-related. This is discussed further in the analysis presented in Annex 1, which provides the technical basis for components and activities to be undertaken in the NPS-ENRMP. Overall, it is of very real concern that the present state of the Philippine environment and natural resources are assessed to be in worse shape than in previous decades, and continuing to deteriorate; (see 2004 environment indicators from various WB and ADB reports and the UNDP Human Development Index).

### **C. Government Strategy**

The Government of the Philippines (GoP) has undertaken widespread reforms to enhance the policy and institutional framework for ENR management. Numerous laws and regulations are in place. Government institutional functions were transformed with passage of the Local Government Code (LGC), which advocated comprehensive decentralization and devolution of some Department of Environment and Natural Resources Management (DENR) functions to Local Government Units (LGU). Other significant laws include the National Integrated Protected Area System (NIPAS) Act, the Comprehensive Agrarian Reform Law, the Mining Act, the Indigenous People's Rights Act (IPRA) Act, Fisheries Code, the Wildlife Resources Conservation Act, the Clean Air Act, the Ecological Solid Waste Management Act, the Toxic and Hazardous Waste Management Act and the Clean Water Act. Some of these policies are beginning to have a positive impact by encouraging the integration of environmental concerns and improved sustainable resource use and ecosystem protection into local development planning, though on a limited scale.

Despite these commendable initiatives, many barriers still remain to overcoming the threats to the natural resource base. For example, weaknesses in local resource planning still remain, with biodiversity concerns not sufficiently integrated into sector plans. The major challenge facing the Department of Environment and Natural Resources (DENR) is to ensure that its core mandates as protector and conservator of environment and natural resources are fully reflected in future development policy and conduct. However, to ensure this, the Department will need to:

- i. Improve credibility and transparency – enhance public confidence in the DENR, away from a perception of being just a regulator to being an effective and respected conservator. This negative perception of the Department, often clouded by allegations of corruption, has significantly limited the ability of DENR to forge constructive partnerships with other Departments and stakeholders in ENR management. For many, it is easier and faster to either “do the work first or seek clearances from DENR later,” or simply to find ways to avoid the bureaucracy altogether.
- ii. Rationalize functions & expenditures- promote a sound and efficient institutional basis for ENR management, only after which other purposeful policy and regulatory actions become more feasible. In this regard DENR needs a substantial institutional overhaul to improve service delivery. In particular: (a) rationalize functions and expenditures; (b) finalize prioritization of functions with budget; (c) enhance effective partnerships with line agencies to improve delivery; (d) devolve more responsibility for ENR management (ENRM) to other public agencies and local government units (LGUs) where possible; (e) provide incentives for sustained private sector involvement in ENRM; and (f) streamline the policy and legal framework for ENRM to improve effectiveness; and
- iii. Improve ENRM standards, which are currently lacking, for example, very slow procedures in securing tenure instruments and issuance of resource-use permits.

Budgetary limitations, and the fact that about 85% of DENR's budget goes to maintaining the bureaucracy and personnel costs (DENR has a staff complement of some 28,000), has meant that the Department has relied heavily on foreign assisted projects and grants to fund actual operations and investments. However, this has led to a projectized approach, and resulted in short-term interventions, changing priorities and lack of follow-up and sustainability. There is wide recognition, that this segmented approach with weak linkages and poor follow through in relation to ENRM priorities has to change to a more inclusive, sector wide approach consistent with long term priorities. This needs to be based on an integrated ecosystem approach that would address cross-sectoral ENRM issues, using the watershed as the unit of program planning, inter-agency coordination, prioritization, devolution of power and responsibilities, LGU empowerment and accountability and engaging the private sector.

The DENR's institutional vision expressed in the President's 10 Point Agenda for Growth and the Medium Term Philippine Development and Investment Plan (MTDIP 2004-2010), which underpin the country's strategic framework for economic development, poverty reduction, social inclusion and equity, recognizes the ENR sector concerns mentioned above. It broadly encompasses: (i) promotion of sustainable and responsible natural resource use; (ii) protection of ecologically fragile areas and reforestation; and (iii) promotion of a healthy environment. Consistent with these priorities, the DENR is committed to delivering on three Major Final Outputs (MFO) in the five-year period 2006-10, which form the basis of the performance-based budgeting system being developed by the Government.<sup>2</sup> The MFOs are: 1) Policies & plans developed, implemented, monitored and evaluated; 2) Ecosystems and natural resources developed protected, conserved, enhanced and degraded ones rehabilitated; and, 3) Comprehensive standards and regulations developed, implemented monitored and enforced. The project components supported under the NPS-ENRMP would center on specific activities under each of these three MFOs, and as such be integrally linked with nationally identified strategies and fully aligned with DENR's budget allocations. MFOs (1) and (3) aim at developing an enabling environment for mainstreaming the various ENRM agendas, while MFO2 encompasses major thrusts related to rehabilitation, conservation and protection through integrated ecosystem approaches in watersheds, coastal areas and protected areas. A grant from the Global Environment Facility (GEF) is being requested to support incremental activities that foster the integrated ecosystem approach envisaged mainly under MFO2. The proposed fully blended National Program Support to Environment and Natural Resources Management (NPS-ENRM) would fund a time-slice of DENR's core functions and would support agreed targeted expenditures within the Department's regular programs, as well as on-the-ground incremental investments that would provide global and additional local environment benefits.

The overall NPS-ENRM would support a strategic approach geared towards: (i) improving country level performance in the management of the ENR portfolio; (ii) applying lessons learned and replication of successful activities; (iii) implementation of an integrated project approach – minimizing stand-alone project-type operations; (iv) better mainstreaming GEF support through the integration of global environment issues into regular development programs; (v) strengthened institutional arrangements (at national and LGU level); and (vi) projection of outcomes and impacts with clear indicators that measure performance (M&E). This approach supports the GEF's focus on integration across focal areas, and the proposed program would therefore serve as a priority national initiative under OP12 with benefits for biodiversity and land degradation and potential also for benefits in climate change and international waters. Whereas IBRD funds would be provided to support DENR in mainly addressing its national priorities, incremental GEF support would be targeted toward

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<sup>2</sup> The MFOs serve as the main guide in DENR's target setting and planning, and consequently are the basis for its budget requests, as well as the associated Indicators, Program and Activities which are described in DENR Administrative Order (DAO) No. 2003-019 issued on June 17, 2003.

overcoming the barriers at the regional and local levels for implementation of decentralized natural resource management, building on existing best practices

#### **D. GEF Eligibility**

The Philippines is eligible for GEF funding as a signatory to and has ratified the key global treaties on the environment: Convention on Biological Diversity (1993), United Nations Framework Convention on Climate Change (1994) and the United Nations Convention to Combat Desertification (UNCCD, 2000) as well as Ramsar (1994), and is an active participant in the United Nations Forum on Forests. In addition, the planned support is in line with the National Biodiversity Strategy and Action Plan (NBSAP), including its operational strategies to ensure:

(a) collaboration among key stakeholders in the country; formulation and enforcement of comprehensive policies and procedures for biodiversity conservation, (b) sustainable use and equitable sharing of its components; (c) proper integration of biodiversity conservation strategies in development planning and management at all levels and by all sectors; (d) putting into practice a conservation culture or environmental ethics for biodiversity and bio-resources; (e) active participation of all sectors and stakeholder in biodiversity conservation; and (f) fulfillment of the country's commitments and obligations to the Convention on Biological Diversity (CBD) as well as other regional and international agreements.

A second iteration of the NBSAP, which was called the Philippine Biodiversity Conservation Priority-setting Program (PBCPP) was completed in 2002. This helped to redefine priorities for protected areas.

The NPS-ENRM Program is also consistent with the priorities identified in the National Action Plan to address the objectives of the UNCCD. The National Action Plan advocates integrated watershed management as a key strategy for sustainable ENRM, and the introduction of appropriate area -specific technologies to reverse declining land productivity and enhance the supply of freshwater.

## **2. Objectives**

The **program's overall development objective** would be to strengthen the allocative efficiency of DENRs limited budget resources through better prioritization and partnership arrangements facilitating scaling-up, and through better linking of plans and budgets. Underpinning this, the project would support an institutional reform agenda linked to a program of related and priority investments. Specifically, the reform agenda would seek to: i) initiate key reforms identified by DENR to strengthen its organization and operations with a view to enhancing overall effectiveness in ENR management; ii) strengthen the service delivery functions and transparency of DENR to better enable its support to LGUs, private sector and other entities; iii) enhance prioritization and effectiveness in the implementation of environmental management, while facilitating compliance with regulations, rather than through dependence on enforcement mechanisms; iv) expand influence and impact of DENR through devolution of functions to local authorities supporting integrated watershed protection, beginning with the selected priority watersheds under NPS-ENRMP; and v) strengthen DENR's overall project management processes by implementing the project within the regular structure of DENR, establishing closer linkages between plans and budgets, and improved monitoring and evaluation feedback into management processes.

The **global environment objective** of the program would be to enhance ecosystem services for global and local benefits. Specific global objectives would be addressed through GEF financing in strategic areas to enhance ecosystem services for global and local benefits. The global environment objective would be achieved by applying an integrated ecosystem management (IEM) approach in priority

watershed areas and selected sites of global significance. Global benefits would include: biodiversity protection (e.g. habitat protection, natural forest regeneration and reduction of threats to protected areas); improved ecosystem services such as enhanced water flows, reduction in sedimentation loads, and increased capability for carbon storage. Additional global benefits would arise by creating synergies that optimize linkages between focal areas, e.g. fire management and conversion of slash and burn agriculture with more sustainable agricultural practices, which increase land cover and contribute to increasing carbon stock. Restoration of wetland functions would provide habitat protection for biodiversity, increase carbon stocks and strengthen hydrological cycles. The main indicators to measure the above are outlined in the Results Framework in Annex 3).

**Carbon Finance:** The project intends to incorporate carbon finance in the reforestation efforts in order to encourage the sequestration of carbon dioxide, a gas which contributes to global climate change. Traditionally, the widespread adoption and sustainability of forest rehabilitation efforts in the Philippines has been hampered by a lack of financial resources and incentives to maintain and protect the reforested area that would allow for the achievement of climate change benefits. Carbon finance and the associated monitoring and regulatory framework will provide this needed financing and incentives. The financing complements and does not duplicate efforts under the GEF financing. The GEF financing will focus on enhancing integrated ecosystem management through upfront capacity building and investment support while the carbon finance will provide the recurrent financing and incentive structure necessary to encourage the adoption and sustainability of carbon stocks. Additionally, the GEF will not fund any costs associated with processing the carbon finance transaction.

### **3. Rationale for Bank Involvement**

Since 2004, the Bank has actively engaged DENR, key policy makers in the National Economic Development Authority (NEDA), donor partners, NGOs, LGUs and communities to ascertain critical and emerging environment and natural resource management issues and their linkages to development strategies and priorities in the Philippines. The Bank also routinely engages with DENR in producing the Philippines Environment Monitor; highlighting issues and concerns related to coastal and marine resources management, solid waste, and air and water pollution in the country. The consultations have highlighted the need for adopting an integrated (supporting core/regular agency programs), programmatic (long term) and holistic (sector wide approaches) to ENRM, compared with previous assistance alternatives that were projectized (sub sector specific) and had short term horizons. Likewise the study on “Governance of Natural Resources in the Philippines” and a “Natural Resources Management Way Forward Action Plan for the Philippines” have also recommended: (i) an integrated approach to watershed, protected areas and coastal zone management; (ii) strengthening of governance through improved service delivery, standards and accountability; and (iii) more effective coordination between DENR and other government entities and NGOs for protected area management and other critical habitats. The proposed NPS-ENRMP is designed to respond to the approaches identified in these studies and consultations.

Since 1992, the GEF through WB, United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP) and Asian Development Bank (ADB), has invested about US \$118.7 million for environmental management in the Philippines. Most of these activities are recent, and are focused heavily on climate change (58% or about \$68.9 million), with a smaller amount targeted at biodiversity conservation (37% or \$43.9 million). In addition, the resources have been spent in concentrated areas, for single focal area emphasis. There have been successes in some areas, but the lack of an integrated and comprehensive approach, has resulted in limited impact overall.

While it is clear that the WB, GEF and other donors should continue to invest in ENRM in the Philippines, it is also clear that such investments will need to be made within a coherent sector-wide framework that is underpinned by demonstrable prioritization, selectivity, coordination, lessons learned and a results focus. Designing and implementing such a robust ENR sector-wide approach would help to ensure more effectiveness and efficiency in GEF and other donor operations in Philippines. It is clear that financial resources *per se* have not been the only reason sub-optimal outcomes were achieved in the management of ENRs. Rather how and where the money was deployed seems to be an important determinant of whether or not environmental improvements were achieved. The 2005 Environmental Sustainability Index report (Esty et al. 2005) ranked Philippines 125 out of 146 countries that were studied. The report focused on 5 core issues: Environmental Systems; Reducing Environmental Stresses; Reducing Human Vulnerability to Environmental Stresses; Societal and Institutional Capacity to Respond; and Steward of Global Environmental Challenges.

### **1. Higher level objectives to which the project contributes**

In line with the MTPDP and CAS goals, the fully blended NPS-ENRM would assist DENR to: (1) create and strengthen an enabling institutional environment to mainstream Environment and Natural Resource Management issues in the economic growth, development and poverty reduction processes in the Philippines; and (2) assist the GOP in enhancing ecosystem services for additional global and local benefits. Furthermore the planned assistance would contribute to the specific CAS-level goal of social inclusion by strengthening the participation of communities in natural resource management and decision-making. It would also support the CAS focus on governance by making the system for planning budgeting and delivery of services in DENR and selected LGUs more efficient and transparent. The program's approach based on targeted expenditure support is also consistent with the CAS strategy of moving towards mainstreaming support for the government's own programs, and using a broader sector based approach to develop DENR's capacity to better plan, implement and monitor its programs.

### **GEF Operational Strategy/program Objective Addressed By the Project**

The GEF's Operational Program on Integrated Approach to Ecosystem Management (OP 12) is not aimed at resolving environmental issues related to a single GEF focal area, but at bringing synergy between the various GEF focal areas (biodiversity, climate change, international waters, POPs, land degradation, ozone) in a manner that optimizes multiple benefits. Consistent with this philosophy and approach, the proposed NPS-ENR provides a comprehensive and holistic framework to manage natural resources across sectors and administrative boundaries; facilitates local participatory approaches to watershed management and enhances prioritization within the DENR's functions.

Moreover, the program design emphasizes the two main thrusts of OP12, capacity building and on-the-ground investments. Through capacity building, the policy, legal and regulatory framework would be strengthened to support Integrated Ecosystem Management (IEM), which is GoP's preferred strategy for managing the country's ecosystems. The GEF grant in particular would strengthen capacity of DENR's provincial units, LGUs, People's Organizations (POs) and other community groups in integrated ENR planning and implementation, consistent with the thrust of decentralization and devolution. Conflict resolution among resource users would be addressed by replicating existing working models from different parts of the country. Capacity building would be aimed at mainstreaming biodiversity conservation and sustainable land management in national, regional and

local resource management plans, again replicating successful experiences. On the ground investments based on an IEM approach would be made in specific priority watersheds and micro-catchments. Priority watershed areas have been identified which contain critical ecosystems and biodiversity of global significance.

The **global environment objective** of the program would be to enhance ecosystem services for global and local benefits. Specific global objectives would be addressed through GEF financing in strategic areas to enhance ecosystem services for global and local benefits. The global environment objective would be achieved by applying an integrated ecosystem management (IEM) approach in priority watershed areas and selected sites of global significance. Site specific technologies would be applied based on technical and scientific suitability, local enabling environment and potential impact, resulting in sustainable land management practices, effective models for ecosystem restoration and conservation of biodiversity. Livelihood models and payment for environmental service approaches would incorporate carbon finance playing a key role in the sustaining the carbon stock. Global benefits would include: biodiversity protection (e.g. habitat protection, natural forest regeneration and reduction of threats to protected areas); improved ecosystem services such as enhanced water flows, reduction in sedimentation loads, and increased capability for carbon storage. Additional global benefits would arise by creating synergies that optimize linkages between focal areas, e.g. fire management and conversion of slash and burn agriculture with more sustainable agricultural practices, which increase land cover and contribute to increasing carbon stock. Restoration of wetland functions would provide habitat protection for biodiversity, increase carbon stocks and strengthen hydrological cycles.

#### 4. Description

**Component 1 Policy, Planning, Monitoring and Evaluation (US\$14.58 M – of which GEF US\$ 0.78 M):** This component largely supports the institutional elements of DENR's reform agenda under the project; the implementation of which is important for supporting the program of investments under components 2 and 3 of the project. The institutional setting and basis for the reform agenda are elaborated upon in Annexes 18.

The component would have several sub-components, sub-component 1.1: Development of Plans and Policies to strengthen the efficiency of DENR's organization and operations; strengthen the service delivery functions in the provision of data, information and M & E; and strengthen DENR's overall project management processes. Sub-component 1.2 would support the strengthening of databases, and establishment of a more effective MIS system, as well as preparation of surveys and resource maps. Sub-component 1.3 would support the strengthening of DENR's Public Awareness and Environmental Education Program: Review and assessment of DENR IEC strategy and framework, structure, roles and functions, building upon the existing strategy, framework structure, roles and functions. In addition, the component would further complement institutional strengthening designed to meet the requirements of public sector rationalization, particularly on expenditure through its support for the preparation of a planning and budgeting strategy that would be developed incorporating benchmarks for key reforms in planning and budgeting in core functions and priority programs. Activities would specifically be aimed at: i) strengthening the linkage between planning and budgeting with a view to reducing the disconnect between the General Program of Action (GPOA ), and the annual budget, ii) as needed, refinement of DENR's MFOs to better reflect core functions, priorities and outputs.

**Component 2 Integrated Eco-system Management (US\$35.85 M – of which GEF US\$5.61 M):** Component 2 will specifically target groups and stakeholders that are directly influenced by the state of natural resources in the country. At the national level, project support will be provided to activities such

as compiling natural resource inventories, demarcation of forest boundaries and cadastral surveys. At field level, support will be directed at priority watersheds identified by DENR. Component 2, will also be the main focus of GEF activities, which will be fully blended.

Subcomponent 2.1: would promote participatory Micro-catchment, Integrated Watershed Ecosystem Planning, Management and Awareness Raising; including the strengthening of communications systems vital for the transmission and dissemination of critical information; and strengthening of partnership/collaboration with other sectors in environmental compliance. Subcomponent 2.2 would support restoration and rehabilitation of priority convergence watersheds (Non GEF areas); capacity building (LGU, local communities, DENR); and the conduct of IEC campaigns. In addition, the sub-component would also support biodiversity conservation and management within priority PAs and other biologically important areas; and the assessment of key conservation areas, resource-base inventory cum geohazard assessment and mapping and assessment of wetlands. Subcomponent 2.3 would promote socially sensitive development in watershed sites through its support to livelihood projects for GEF sites, including eco-tourism where feasible.

**Component 3 Strengthening Environmental Management: (US\$3.83 M – of which GEF US\$ 0.63 M):**

Component 3, will target the regulatory and oversight functions of DENR to ensure that the excessive costs of environmental damage and resource mismanagement are minimized and the private sector (including firms and individuals) develop a more informed and responsible attitude to environmental concerns. In conjunction with the other components this meets sector goals related to reducing ENRM cost in growth. Component 3 will have two sub-components: Sub-Component 3.1 Regulatory Functions would specifically contribute to: better management of natural resources through the strengthening of key regulatory functions related to issuance of tenurial instruments, and encroachment into forest areas; as well as the strengthening of the implementation of regulations, relating to air and water quality, solid waste management, and environmental impact assessment (EIA) which *inter alia*, would include greater transparency, improved partnerships with both the public and the private sector and the use of market-based and command and control instruments. Sub-Component 3.2: would be limited in scope but address priority activities related to mining, geology and protection of ground water. Specifically it would support: (i) site investigation and analysis and development of environmental rehabilitation plans for selected abandoned mines; ii) interim mitigation and remediation measures designed to both prevent or reduce the legacy of the past mining activities, (Bagacay mine only) while the final rehabilitation plan is being prepared, and to support pilot activities to develop environmental and social policies for current and future mining; (iii) geo-hazard mapping of high risk areas for landslides and flood-run-off, to assist in land use planning and mitigate against the risks of mudslides etc., that too frequently cause severe loss of life, property and damage to the environmental; and iv) improve ground-water mapping to facilitate more the sustainable management of this increasingly important source of water for domestic, agricultural and industrial use.

**5. Financing**

**Source:**

	(\$m.)
Borrower/Recipient	30
International Bank for Reconstruction and Development	50
Global Environment Facility	7
<b>Total</b>	<b>87</b>

## 6. Implementation

Implementation of the project would follow normal DENR management and administrative structures and procedures to ensure that project supported activities are consistent with the Department's regular operations. A Project Steering Committee (PSC) at senior management level would be established to guide project implementation and ensure that dedicated results are achieved. The PSC would maintain responsibilities for management and problem solving during project implementation, and would periodically report on project implementation effectiveness to the DENR Management Committee (EXECOM), headed by the DENR Secretary. The PSC will be the main link for the joint DENR/WB implementation reviews and would be chaired by the Under Secretary for Policy and Planning. It will have representations from Assistant Secretaries for Administration, Finance and Field Operations and Directors from the different bureaus i.e., Forestry, Protected Areas and Wildlife Bureau (PAWB), Department of Agriculture – Bureau of Soil and Water Management (DA-BSWM), Department of Local Government (DILG), Environment Management Bureau (EMB), and the Mining and Geosciences Bureau (MGB).

Day-to-day operations of the project would be coordinated through the Director of Foreign Assisted Program Office (FASPO) as the Chair, and be supported by at least two staff from the FASPO and the implementing bureaus. Financial aspects would be coordinated from the Financial Management Service. At the site level, overall coordination would be overseen by a Watershed Management Council (WMC) chaired by the provincial Governor with representatives of agencies (DENR, NEDA, NIA, DPWH, and DA-BSWMS), LGUs, civil society and the private sector. The WMC would become a permanent multi-sectoral body to coordinate at watershed level and oversee the implementation of an integrated watershed management plan. The WMC could be an existing entity such as a Protected Areas Management Board (PAMB), the Bicol River Basin Steering Committee (in the case of Bicol), or a provincial development council that will be modified to suit the requirements of integrated watershed management. The Provincial LGUs in close collaboration with the Provincial Environment and Natural Resources Officer (PENRO) and the Community Environment and Natural Resources Officer (CENRO) offices will be responsible for implementation of the Program activities at regional and local levels. The participating Provincial LGUs will each create an Environment and Natural Resources Unit (ENRU) or Private Service Unit (PSU)<sup>3</sup> to provide the required services for all the NRM programs and projects being funded and implemented by the province through the ENRO. The services provided by the ENRU or PSU ranges from planning, GIS, mapping, documentation of claims for ancestral domains, CBFM processing of agreements, training, Information and Education Campaign (IEC), monitoring, and project management.

Local level implementation will be supported by technical assistance from Local Service Providers (LSP), who would be specialized local agencies, NGOs, consulting firms, or individual consultants with the necessary skills. The LSP would be contracted through TA contracts and selected on a competitive basis. As mentioned previously, partnership arrangements would also be sought with these and other private sector entities. In all cases, the project would avoid the creation of new structures; rather it

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<sup>3</sup> The model is based on the best practice model developed in Quirino, where the Provincial LGU has created an NGO arm, the Community Forestry Foundation of Quirino, Inc. (CFFQI). This eliminates the bureaucratic procedures that usually hamper the timely delivery of the appropriate services needed by communities. It facilitates the whole project management process, from planning to implementation, management, monitoring and evaluation. The model may be adjusted to site specific characteristics. It will be important to avoid top-down structures where decisions have to be taken in Manila before anything can happen on the ground. Please note however that in this case, it will not be a separate body outside normal operations – rather it is “created” to ensure that there are clear roles and responsibilities for what needs to be done.

would rely on the inherent DENR structures, ensuring that roles and responsibilities are clearly spelled out to smooth the implementation process. These partnership practices in the Philippines are robust and have been tested through various initiatives in the past.

## **7. Sustainability**

Sustainability considerations are intrinsic to the design of the NPS-ENRMP in line with the following: (i) the lending instrument, the SIM, requires considerable ex-ante buy-in and ownership, which are now clearly expressed by key stakeholders, the DENR, National Economic Development Agency (NEDA), Department of Budget and Management (DBM) and the Department of Finance (DOF); (ii) the overall program goals reflect DENR's institutional vision and goals outlined in its latest policy statement; (iii) the program supports the structural shift required of the line agencies in the Philippines to move away from incremental budgeting towards a performance based approach. This is reflected in the Department's use of MFOs, to which the program's components are aligned; (iv) essentially the program supports the existing DENR budget and is not additional; thereby reducing the potential fiscal burden from a traditional SIL; (v) the GEF incremental interventions are an integral part of DENR's work program, that is, activities already identified to support the critical natural resources on which economic growth depend, but for which there is no budget for management. These design characteristics should facilitate a smooth transition from SIM and GEF support to the DENR's regular programming. Moreover, past experience of donor assistance in the Philippines has been one of discrete projects which have fostered long-term institutional sustainability. This is reinforced by lessons learned from GEF interventions such as CPPAP where it was found that sustainable financing for conservation requires a longer term involvement.

Sustainability will also be advanced through capacity building targeted to regional DENR offices, LGUs and communities to better manage natural resources. Experience from a number of projects in the Philippines shows that LGUs and communities when empowered and given adequate support, can become willing and effective managers of natural resources. The IEC strategy should raise the level of awareness and knowledge of ENR issues, thereby promoting local interest in environmental stewardship in the longer term. Moreover, the program's strategy of prioritizing the IEM approach which links ecological, economic and social considerations in NRM, together with the emphasis on cross sectoral coordination, represents a shift away from single sector interventions that have proven to be less sustainable. Financial sustainability at the local level would be promoted through a number of initiatives based on scaling up existing successful conservation financing models such as PES and community financing developed under the United States Agency for International Development supported Eco-governance project.

The carbon finance activities being considered provide one of the more promising forms of PES. They provide a financial incentive structure for the development and maintenance of reforestation and forest rehabilitation activities, in particular, while providing a mechanism for longer term support to the investments and a framework for transparent governance.

Carbon finance is among one of the most operationally active forms of Payment for Environmental Services. It has a large financing base and generally the livelihood activities to be supported by the program are those already proven to be sustainable; including financially. In addition, the participatory manner in which they are identified, and the careful feasibility analysis to which they are subjected to determine their profitability on site, further add to their sustainability.

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

In designing the NPS ENRM, a number of valuable lessons were incorporated from past Bank and GEF interventions, issues and concerns from environmental impact assessments from environmental monitoring as well as the outputs of discussions with key stakeholders presented in the joint Bank/GOP papers on “Governance of Natural Resources in the Philippines” and the “Natural Resources Management Way Forward Action Plan for the Philippines”. In particular, the papers highlight the importance of: (i) strengthening decentralization of natural resources management and devolution of responsibilities to LGUs and communities; and (ii) overhauling DENR’s budget process and strengthening the participation of communities and local governments in ENRM. Pertinent lessons from previous Bank/GEF/donor projects incorporated into project design included those from: (i) the Environment Sector Assistance Loan (1991-1998); (ii) the Central Visayas Regional Project; (iii) The Agrarian Reform Communities Development Project (1996– 2003); (iv) Conservation of Priority Protected Areas Project (CPPAP); and (v) USAID Environmental Governance Project (see Annex 1 for a fuller description of lessons from completed projects). These include: (i) effective sectoral reforms require accompanying investments in transition to a new policy environment; (ii) institutional support and the right incentives can enable LGUs in effective NRM; (iii) considerable benefits are possible from devolution of NRM and service delivery to LGUs and communities if they are fully engaged and their capacities are strengthened; (iv) LGUs and communities are willing to commit and allocate scarce resources to NRM, livelihood generation, rural infrastructure development and maintenance provided they are recognized as the overall managers of these efforts and are properly supported with relevant technical assistance; (v) multi-sector partnerships are important in solving complex forest management issues; (vi) appropriate and effective long term tenure instruments to provide incentives are important; (vii) fund transfers to LGUs through national government agencies remains highly inefficient and there is need to put in place an efficient fund transfer mechanism through which national and donor resources can be channeled to LGUs in the transition to full devolution; (viii) investments in natural resources (forestry, protected areas and watersheds) require longer and more sustained support than possible under projects.

In addition to an incentive structure, capacity building and financial devolution, effective NRM requires strong buy in and political support at the local level; good governance and responsible environmental and social practices are required for mineral development to contribute to growth in a sustainable manner; economic instruments in environmental management e.g. environmental user fee system (EUFS) and public disclosure of environmental performance when coupled with the command and control measures for pollution control could improve and enhance compliance by the regulated community.

Specific lessons have been incorporated from an Independent Evaluation of GEF OP12 including: (i) sound initial diagnosis of problems and assessment of possible solutions is often missing in project design resulting in poor justification for conformity with OP12; (ii) appropriate scientific and technical approaches to problem solving is often missing in project design; (iii) all projects claim multiple global environment benefits not supported by indicators; (iv) some projects describe expected synergies between or among focal areas, but none actually defines or measures synergies; (v) trade offs that are sometimes inevitable because of conflicting conservation and development goals are rarely identified, discussed or measured; (vi) projects should include mechanisms to learn from ongoing experience and adapt during implementation; and (vii) there is a need for accurate establishment of baselines and for identification of appropriate SMART indicators.

To better understand the finance and budget structure of the DENR, a sector expenditure and budget review was carried out; the results of which are presented in Annex 11.

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

**Environment:** The Program will finance a slice of the DENR's core priority activities to meet its mandates and strategic goals in managing, conserving and protecting the country's environment and natural resources. It will not finance any activities related to mining of mineral resources, but will instead assist Government address the legacy of the past by supporting the preparation of a comprehensive mine rehabilitation and remediation plan, implementation of interim measures to contain immediate risks posed by the abandoned mines to the environment and the community and strengthening enforcement of environmental and social policies for current and future mining.

Year 1 of the Program has a well-defined set of priority activities, which are mostly "soft" activities, with the exception of the interim measures for the Bagacay mine site. These activities include stakeholder mobilization and consultations, surveys and mappings, trainings and capacity building, seedling collection and establishments of nurseries for indigenous tree species, formation of Water Management Councils in priority watersheds, formulation of watershed management plans, advocacy and IEC works, review of programs and policies, among others. The interim measures for the Bagacay mine site include construction of diversion and limestone channels to prevent and neutralize acidic water from flowing into Taft river; construction of drainage canals, fences and berms, slope stabilization measures and installation of signage.

Two separate environmental assessment (EA) studies were conducted by the DENR as part of the Program preparation. One assesses the impacts of year 1 activities and the other assesses in great detail the impacts of the interim measures. The two EAs confirm the negligible negative environmental impacts of the year 1 activities due their "soft" nature and the manageable impacts of the interim measures. Environmental issues related to the interim measures include siltation of waterways due to civil works and the potential increase in acid mine drainage during construction. Siltation will be addressed by constructing silt traps/ponds within the drainage channels and downstream of the limestone channels and other strategic areas and by doing the construction during summer/dry months. The construction of proper drainage canals as well as stabilization of the tailings dam will prevent any movement of tailings materials downstream. Also, most of the tailings materials are already compact thus eliminating movements downstream. Possible tailings materials that will be moved by the flow of surface water during rainy days will be contained along the silt traps/ponds, thus preventing them from flowing to Taft River. Regular monitoring, de-silting and maintenance activities will be conducted to ensure efficiency of the silt traps. Silt materials collected from de-siltation and maintenance activities will be deposited in the interim at the tailings ponds until full measures and disposal options are identified.

The EAs also formulated environmental guidelines, including a negative list of activities/subprojects, that will be followed for priority activities for years 2-5 and these guidelines are made part of the Operations Manual. The Environmental Management Bureau (EMB) of the DENR, with the mandate of implementing the Philippine EIA, will ensure that these guidelines are followed by the other Bureaus and LGUs, who will be implementing their respective priority activities. The other Bureaus of the DENR (MGB, FMB, PAWB) have the capacity to prepare and/or review EAs based on their involvement in reviewing EAs as part of the EIA Review Committee convened by EMB to review EAs of projects. LGUs, on one hand, will be capacitated by the Program to screen activities for environmental impacts and to prepare their respective EAs or EMPs for their priority activities assessed

to have environmental impacts. Finally, EMB's capacity will be further strengthened under Component 3 of the Program.

**Social:** Individual social assessment reports for each of the six priority sites for integrated ecosystem watershed management and a separate one to guide actions related for the Bagacay interim measures discuss the different multi stakeholders, their interests and their influence on the management of the project interventions. With the working paper on the description of the priority sites, they give guidance on the stakeholder mobilization detailing the challenges for the implementation of the participatory approach in watershed management. An IP Policy Framework has been submitted and reviewed by the Bank as acceptable. It details the principles and operational guidelines for the preparation of the IP Development Plan that will form part of the integrated ecosystem watershed management plan for the Southern Sierra Madre Cluster where Dumagats are present and the Libmanan-Pulantuna watershed where Agtas are stakeholders. Disclosure was done by posting the reports in the DENR website, in concerned LGU's public bulletin boards.

The Project envisages having positive impacts on communities with the introduction and implementation of sustainable livelihood activities and a sound integrated watershed management program. Involuntary resettlement, land acquisition and/or restriction on access to sensitive areas are not expected to happen. Indigenous peoples/indigenous cultural communities are not expected to experience negative impact from the project. To enhance the inclusion of their interests in the program, an Indigenous Peoples Policy Framework has been submitted by the proponent and has been found in compliance with the Bank's OP 4.10. This shall guide the formulation of watershed specific IP Development Plan or the validation and institutionalization/updating of their ADSDPP (Ancestral Domain Sustainable Development and Protection Plan) when such has already been done.

The project design provides for complementary strategies for the development of alternative environmentally sustainable livelihood activities. There is no intention of restricting access by settlers/resource users in selected Project sites, particularly in relation to management of protected areas. To address the concerns on indigenous people's rights, as well as of general access to resources during project intervention the ENRMP, the IP Policy Framework ensures that IPs' interests are well considered and that the IP communities are meaningfully engaged, following the provisions of IPRA and the Bank's Indigenous Policy (IP) policy. Consultations will be conducted to ensure that IPs' views are included in the project development cycle and that they also share project benefits resulting from implementation. The Project is also designed to address general issues of access to natural resources by other groups in the target areas, ensure social acceptability; and contribute to ENR conflict resolution among the different stakeholders through the participatory planning process to be followed. In addition, civil society groups will be involved in activities to pursue project objectives. The Project would support opportunities for NGOs to be contracted by DENR or LGUs to undertake specific activities in sub-project implementation such as awareness campaigns, community training, third party monitoring, development of alternative livelihoods, etc. The periodical forum to monitor project impact would give equal attention to both environmental and social outcome indicators.

The Integrated Ecosystem Watershed Management shall heavily utilize the participatory approach in program development and management. The watershed-specific social assessment reports defined and analyzed the respective key internal and external stakeholders of each watershed detailing their capacities and assets, constraints and liabilities and degree of influence. This will guide the watershed-specific implementers in the formulation and implementation of their respective consultation, participation and institution building plans meant to enhance project ownership, accountability and equitable distribution of benefits. It also presents respective demographic and socio economic baseline

data of affected communities and framework for micro enterprise development that will be used in the development of sustainable livelihood activities even in sensitive areas where no restriction of access is envisaged.

A separate social assessment report has also been prepared for the measures that are going to be implemented in the interim period that the full scale Plan for the Closure and Rehabilitation of the Bagacay abandoned mine is formulated. It provides recommended arrangements to ensure meaningful participation of the stakeholders and accountability of implementers in the implementation of the interim measure and factors to consider in the preparation of the full scale rehabilitation plan which emphasizes on the need for an effective conflict resolution mechanism given divergent and sometimes opposing stakeholder interests.

## **10. List of Factual Technical Documents**

To be completed.

### 11. Contact point

Contact: Idah Z. Pswarayi-Riddihough

Title: Lead NRM Specialist

Tel: (202) 458 2178

Fax: (202) 522 1674

Email: Ipswarayiriddiho@worldbank.org

### 12. For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Email: pic@worldbank.org

Web: <http://www.worldbank.org/infoshop>