

**Philippines**  
**Provincial Road Management Facility**  
**(PRMF)**

Facility Design Document

**November 2008**

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## Acronyms

<b>ADB</b>	Asian Development Bank
<b>AusAID</b>	Australian Agency for International Development
<b>AWP</b>	Annual Works Program
<b>BLGF</b>	Bureau of Local Government and Finance
<b>CMDP</b>	Comprehensive Multisectoral Development Plan
<b>CLUP</b>	Comprehensive Land Use Plan
<b>DENR</b>	Department of Environment and Natural Resources
<b>DILG</b>	Department of the Interior and Local Government
<b>DOF</b>	Department of Finance
<b>DPWH</b>	Department of Public Works and Highway
<b>ECC</b>	Environmental Compliance Certificate
<b>EIA</b>	Environmental Impact Assessment
<b>EIRR</b>	Economic Internal Rate of Return
<b>EMB</b>	Environmental Management Bureau
<b>EMG</b>	Environmental Management Guide
<b>FDD</b>	Facility Design Document
<b>FIRR</b>	Financial Internal Rate of Return
<b>FY</b>	Financial Year
<b>FMC</b>	Facility Managing Contractor
<b>GDP</b>	Gross Domestic Product
<b>GNP</b>	Gross National Product
<b>GOA</b>	Government of Australia
<b>GOP</b>	Government of Philippines
<b>HRD</b>	Human Resource Development
<b>ICC</b>	Investment Coordination Committee
<b>IEA</b>	Initial Environmental Assessment
<b>IEE</b>	Initial Environmental Examination
<b>IMG</b>	Implementation Management Group
<b>IFGI</b>	Infrastructure for Growth Initiative
<b>IRA</b>	Internal Revenue Allotment
<b>IRR</b>	Internal Rate of Return
<b>LGC</b>	Local Government Code
<b>LGU</b>	Local Government Unit
<b>LGUPBGP</b>	Local Government Unit Performance Based Grant Program
<b>LFA</b>	Logical Framework Approach
<b>M &amp; E</b>	Monitoring and Evaluation
<b>MDC</b>	Municipal Development Council
<b>MOA</b>	Memorandum of Agreement
<b>MRDP</b>	Mindanao Rural Development Project
<b>MVUC</b>	Motor Vehicle User Charge
<b>NEDA</b>	National Economic Development Agency
<b>NGAS</b>	e-New Government Accounting System
<b>O &amp; M</b>	Operation and Maintenance
<b>PAWRP</b>	Provincial Annual Works and Reform Program
<b>PRMF</b>	Provincial Road Management Facility

<b>PEISS</b>	Philippines Environmental Impact Statement System
<b>RA</b>	Republic Act
<b>RB</b>	Road Board
<b>RFT</b>	Request for Tender
<b>QA</b>	Quality Assurance
<b>SLRF</b>	Special Local Road Fund
<b>SP</b>	Sanguniang Panlalawigan
<b>SPRMP</b>	Southern Philippines Road Maintenance Program
<b>TA</b>	Technical Assistance

Exchange Rate

**Aust \$1.00 = US\$ 0.95 =P42.0**

July 2008

# 1 Executive Summary

## 1.1 Background

1. The Overseas Aid Program of the Government of Australia (GOA) recognizes that economic growth is essential for reducing poverty and realizing the Millennium Development Goals (MDGs), and that infrastructure investment is a key driver of economic growth. This is reflected in the launch in 2007 of the Infrastructure for Growth Initiative (IFGI), which aims to help regional partner governments to improve their infrastructure policies and finance high-priority infrastructure investments. To maximize its development impact, IFGI will collaborate with and support infrastructure-related interventions of the World Bank (WB), Asian Development Bank (ADB) and other multilateral agencies.

2. The Australian Agency for International Development (AusAID) has agreed with the Government of Philippines (GOP) to support a Southern Philippines Road Maintenance Program (SPRMP). The proposed SPRMP seeks to build on, and expand, AusAID's existing geographical focus in Mindanao and the Visayas islands. The major focus will be the strengthening of road management at the national, provincial, municipal and barangay levels through a combination of planned co-financing partnerships with the World Bank, or other Donors, and a new AusAID bilateral facility, the Provincial Road Management Facility, which will work with selected provincial governments in the southern Philippines.

3. It is envisaged that the SPRMP will comprise the following activities:

- i. potential co-financing of the WB supported **National Roads Improvement and Management Program, Phase II (NRIMP2)**;
- ii. Support for provincial roads through an AusAID designed and managed bilateral facility, the **Provincial Road Management Facility (PRMF)**;
- iii. Support for Municipal and Barangay Roads through co-financing of the WB supported **Mindanao Rural Development Project, Phase II (MRDP2)**;
- iv. A grant Program for Local Government Units co-financed with the WB through the proposed **Local Government Unit Performance-Based Grants Program (PBGp)**.

4. With GOA approval of the SPRMP concept framework in August 2007 and subsequent endorsement by NEDA in October 2007, AusAID recognized that further work was needed to progress the program components through to implementation. After considering options for managing the SPRMP, AusAID approved a rolling design – implement approach and established the Implementation Management Group (IMG) under the direction of an AusAID Lead Task Manager.

5. The IMG which commenced operations in February 2008 was charged with working with GOP to finalize the program's modalities; commence discussions with the World Bank and other possible partners on co-financing arrangements; and recruit advisers to assist in the development of the Program. Specifically, the IMG was entrusted to manage the initial design phase of the PRMF, produce the Facility Design Document (FDD), prepare the Request for Tender (RFT) for a Facility Managing Contractor (FMC) and guide the subsequent implementation through approval and advice on rolling annual work programs (AWPs) supported by the FMC.

### 1.1.1 The problem

6. The Philippines which has a population of almost 90 million has an extensive road network with an estimated 201,000 kilometres of roads. This network constitutes an important infrastructure system linking areas of production with markets, and connecting the rural areas with urban centres. The road network thus occupies a key link in the economic infrastructure of the country. Of the total road network in the Philippines, it is estimated that over 85% falls under the jurisdiction of provinces and their associated cities, municipalities and barangays.

7. While the GOP and donors acknowledge the importance of provincial roads in the context of an overall national road network:

- i. the amount of GOP budget at the national and provincial level to rehabilitate and maintain these roads is extremely limited;
- ii. there are no major donor programs to assist the provinces in road rehabilitation and maintenance; and
- iii. the provincial road assets upon which millions of Filipinos depend for communication, access to services and markets is progressively deteriorating.

8. Sustainable provincial infrastructure requires regular maintenance, adequate prioritisation and planning, sufficient budget and adequate contracting, financial management and monitoring procedures. National government funding and policy guidelines<sup>1</sup> impact on those areas but are often not well implemented at the local government level. The most significant component of funding for local governments comes from fiscal transfer payments from the central government. In many cases these funds provide over 90% of the local government budgets. Self generated provincial fee and tax revenue is then very important to support an expanded infrastructure maintenance allocation. Further, the local governments must follow established planning/budget and financial management and reporting guideline established by the national government. In many provinces the guidelines are poorly understood or followed and a gap remains between the objective and the reality.

9. The Provincial Development Council (PDC) comprised of elected and non elected members and including at a minimum 25% representation by local Non Governmental Organisations (NGO), reports to the local legislative body, the Sanguniang Panlalawigan (SP) with responsibility under the Local Government Code for planning, prioritizing and approving development initiatives, monitoring and evaluating implementation. While the legal framework is established, improved operation of the PDC is needed to facilitate coordination between government agencies and bring in more community based input to planning, prioritizing, monitoring and evaluation investment performance.

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<sup>1</sup> Guidelines on Provincial/Local Planning and Expenditure Management produced under the NEDA-ADB Technical

Assistance on Strengthening Provincial and Local Planning and Expenditure Management. 2007  
The Guidelines consist of:

Volume 1: Integrated Framework

Volume 2: Provincial Development and Physical Framework Plan

Volume 3: Investment Programming and Revenue Generation

Volume 4: Tools and Techniques on Budgeting and Public Expenditure Management

Volume 5: Project Evaluation and Development.

The ADB have provided some implementation funding to support these recommended changes, but clearly the scope of recommendations will require supplementary support from the national government or donors to help the provinces institute the reforms.

### 1.1.2 The opportunity

10. In commissioning the SPRMP, the GOA identified a key opportunity to address the existing poor provincial road condition through the development of the PRMF which would:

- i. provide funding for the rehabilitation of existing provincial roads and bridges and their subsequent maintenance; and
- ii. strengthen institutional capacity within the provincial government to improve road sector planning and management.

11. To achieve this end, the IMG has appointed a team of Interim Design Consultants and Specialists to develop the PRMF design initially in seven provinces (Bohol, Guimaras, Agusan Del Sur, Bukidnon, Misamis Occidental, Misamis Oriental and Surigao Del Norte) where AusAID has ongoing partnership through other programs. Additional provinces will be chosen on the basis of their economic potential, poverty ranking and commitment of the senior management to agreed institutional reforms.

## 1.2 The Strategy

### 1.2.1 Goal

12. **The PRMF goal is - *increased economic growth and improved public access to infrastructure and services in the southern Philippines.***

13. The rehabilitation and maintenance of strategic provincial roads which link municipalities and barangays to local, regional and national markets is an essential element in any provincial development plan. In addition to improving market access, these roads can also improve access to essential public infrastructure and services such as health and education facilities which improve social capital and enhance household welfare and wellbeing.

14. However, while measurable improvement of core provincial road networks, economic activity and public access to infrastructure and services is achievable within the proposed five year time horizon of PRMF, **unless the physical works program is accompanied by reforms in the way provinces plan, budget and manage their finances, the road infrastructure and the associated economic and social benefits generated under PRMF will not be sustainable in the long-term.**

15. Explicit in this strategy is the premise that a provincial road rehabilitation and maintenance program will not be sustainable unless accompanied by institutional reforms. While the capacity of Provincial Engineering Departments will be a key focus for planning, expenditure and management reforms, longer term sustainability will require the program to also focus on increasing provincial revenues, improving the linkages between provincial budgets and provincial planning (a sub-set of which relates to infrastructure), and improving internal control mechanisms to boost accountability. These broader reforms will also be key to managing the risk inherent in the use of partner government financial and procurement systems.

### 1.2.2 Objectives

16. To address this issue the design team proposes a strategy that will pursue two complementary **development objectives:**

- i. Improve the sustainable GOP provision, management and maintenance of a core network of provincial roads in targeted provinces in Mindanao and the Visayas; and
  - ii. Strengthen provincial institutional capacity and governance systems related to the provision and maintenance of provincial roads.
17. To achieve this end it is proposed that the PRMF be structured around two main components:
- i. **Component 1:** Capacity Building for Road Sector Planning and Management – with the intended intermediate outcome that - provinces have institutional, financial, operational, planning and management capacity to develop and implement road sector plans in support of broad-based sustainable social and economic development.
  - ii. **Component 2:** Road Network Rehabilitation and Maintenance – with the intended intermediate outcome that - provincial roads are being rehabilitated and sustainably maintained on an annual basis.
18. The PRMF will assist provincial governments to overcome road planning, funding, executing and monitoring constraints which result in poor provincial roads by implementing a comprehensive capacity building program alongside the provision of physical road rehabilitation and maintenance work. The PRMF will show by example the benefits of using contractors to carry out maintenance rather than using in-house staff through reduced cost, improved road condition, improved budget stability, and improved financial and physical works accountability
19. The use of partner government systems is key to ensuring sustainability of the program and complying with the Paris declaration on aid effectiveness. Whenever possible, and subject to an assessment of the effectiveness of counterpart systems and processes, the PRMF will use GOP systems.

### 1.2.3 Base and Incentive Funding

20. Under PRMF, support for the development of these components will be delivered over a period of 5 years (2008/9-2013/14). Operationally, PRMF will be supported by two funding programs, **a base program** funded annually to the partner provinces based on the road rehabilitation gap and **an annual incentive program** funding pool based on achievement of provincial performance criteria<sup>2</sup>. These will include:

- i. improved sustainable infrastructure development planning, good governance and project cycle management;
  - ii. improved procurement , financial management and internal audit procedures;
  - iii. broadened use of contract maintenance and reduced reliance on force account maintenance;
  - iv. improved provincial fee revenue and tax collecting; and.
  - v. commitment to human resource management and development in support of each of the above.
21. In parallel with improving the provincial road network, the incentive program has a wider longer term development agenda, namely, to promote institutional and governance reform in road sector planning and management.

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<sup>2</sup> Once the World Bank/AusAID co-financed Local Government Unit Performance Based Grant Program (LGUPBGP) begins, the incentive criteria structure for PRMF will be coordinated and be compatible with that broader national program.

22. While the PRMF funding is initially limited to five years, the institutional reform process required is likely to require at least 10 years to achieve the targeted changes.

#### **1.2.4 Pre-Requisites for Engagement**

23. As a condition of PRMF support, each Provincial Government partner will be required to:

- i. Agree to a Provincial Assessment being undertaken of the provincial government processes and procedures. Assessments for the initial seven provinces will be undertaken by AusAID. The FMC will undertake updates of these assessments and be responsible for undertaking full assessments for each additional partner province.
- ii. Sign an initial Memorandum of Agreement (MoA) with AusAID and the Department of Interior and Local Government (DILG) which outlines a set of operational and governance 'principles' acceptable to all parties which will form the basis for the PRMF partnership. This MOA will be signed by the Provincial Governor and initialled by the Heads of Provincial Departments; and
- iii. Once the MoA has been signed - a subsequent Provincial Annual Works and Reform Program (PAWRP) will be developed by the FMC with the Provincial Development Council to guide implementation of the PRMF in that province. The PAWRP will be subject to a "no objection" from AusAID and DILG.

24. Requirements for a province to remain eligible for PRMF assistance will be detailed in the Memorandum of Subsidiary Arrangement (MSA) signed between GoA and GoP and reflected in the MoA.

#### **1.2.5 The PRMF Review Process**

25. Progress towards achieving the intermediate outcomes will be reviewed by the GOP and GOA annually and more formally through the Mid Term Review at the end of year 3 of Facility implementation. As part of these reviews, ongoing workshops will be conducted to assist provinces to assess the lessons learned in the planning, budgeting, development and implementation of their road rehabilitation and maintenance programs and consider how the lessons may be more widely applied to further improving public administration and good governance at the provincial level.

### **1.3 Anti Corruption Practices**

26. Misappropriation of funds is a key risk factor. The design of PRMF is informed by the anti-corruption action plan developed for AusAID Philippines in 2007. The design team has taken all practical steps consistent with logical project delivery to ensure that the opportunities for corrupt practice are limited and that the motivation for corruption is significantly diminished.

27. Strengthening of the public financial management systems, budgeting, and contract management processes for physical works is a core focus of the PRMF. The design of the PRMF requires fiduciary risk assessments to be undertaken as part of the initial provincial institutional capacity assessments and the expenditure

management review. AusAID guidelines on **Assessment and Controls for using Country Expenditure Systems**<sup>3</sup> will be followed.

28. The FMC will work with the provincial governments to ensure that design, costing, procurement, contracting, contract management, project delivery and financial management arrangements (and the related business processes of the Imprest Account arrangements) are robust, accountable and meet Australian requirements. These will include reporting, transparency, and audit and accountability arrangements linked to strengthening the GOP systems. This review also considers the elements of the current World Bank led initiative to combat corrupt practices in project delivery in the Philippines and how best to incorporate them into the execution of the PRMF. The FMC will review the recommendations of that report and where elements are pertinent to the ongoing delivery of the PRMF, they will be incorporated. The PRMF includes an anti-corruption action plan (ACAP)<sup>4</sup> that is consistent with activities envisaged under the co-financed NRIMP2 and MRDP2. The development of this plan will support engagement with civil society groups with an active interest in monitoring the efficiency and effectiveness of public infrastructure and procurement activities.

29. If fraud does occur at the project activity level, the responsible partner agency will be expected to ensure that the prosecution of the case takes place, and that all reasonable action is undertaken to recover the missing funds. If funds are not recovered and/or prosecution does not take place, the IMG will consider its options in continuing to support the activity.

#### 1.4 Measuring Success

30. The successful implementation and management of the PRMF will improve capacity at the provincial level to plan for and sustainably manage the provincial road network. At the conclusion of the project in 5 years time, if successfully implemented and managed, AusAID could expect:

- i. Over 1000 km of Provincial roads to be rehabilitated and maintained in up to 10 provinces servicing some 4 million people.
- ii. That people with ready access to rehabilitated and maintained road networks will have better access to economic activity and public infrastructure and services that will improve their livelihoods.
- iii. The core network of Provincial roads to be fully maintained at a defined quality standard by the relevant Provincial Governments.
- iv. Participating Provincial Governments to have improved capacity to:
  - ☐ Forge formal linkages between the provincial budget office, provincial planning office and provincial engineers office in support of road sector planning and management;
  - ☐ Prepare multi-year budgets in support of the plans;
  - ☐ Raise additional revenues in support of provincial roads and other public infrastructure;

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<sup>3</sup> See AusAID guidelines on using country systems  
<http://intranet.ausaid.gov.au/Guidelines/All%20Guidelines/G-AssessmentAndControlsForUsingCountryExpSystems-126.doc>

<sup>4</sup> The ACAP will be updated and endorsed by the Program Committee on 11 July 2008. The provisions of the PRMF will take into account any changes incorporated into this updated plan.

- ☐ Internally audit road sector and other provincial government expenditures and to act appropriately on the findings and recommendations;
  - ☐ Use value-for-money approaches to road service delivery and follow national procurement laws;
  - ☐ Formulate Human Resource Management and Development plans in support of change management and knowledge and skills development for road sector planning and management; and
  - ☐ Provide accurate and timely reports to national government as required by law on provincial road sector activities.
- v. Relevant civil society groups to regularly participate in planning, priority setting and monitoring of road service delivery through the PEO road sector activity management cycle.
  - vi. Provinces to have a robust, open and transparent market for engineering works.
  - vii. Provinces to have improved local employment opportunities in road-maintenance related activities.

31. The suggested qualitative and quantitative performance indicators for measuring these indices of success are detailed in the goal, objective and component outcome and output statements in the PRMF logical framework analysis (logframe) (refer Annex 3).

## 1.5 Management

32. The overall management of the Facility will be under the GOA – GOP SPRMP Implementation Management Team (IMT) which is composed of the AusAID - GOP Advisory Board and the AusAID Implementation Management Group (IMG). The SPRMP Advisory Board will be jointly chaired by AusAID and the National Economic and Development Authority (NEDA)<sup>5</sup>. The Board will provide advice on policy issues identified by the IMG on the implementation of PRMF, facilitate implementation of PRMF activities that involve the member-agencies and advocate for policy and governance reforms, especially in the Philippines Development Forum (PDF) and the League of Provinces of the Philippines, related to the implementation of PRMF.

33. The IMG will continue to be led by the AusAID Lead Task Manager and will be supported by a team of advisers, specialists and program delivery personnel. It will provide strategic direction to the FMC on the implementation of PRMF, including decisions on annual programming and budget allocation, and monitor the overall implementation of PRMF.

34. The FMC through its Team Leader will undertake the daily operations of the Facility and meet contractual obligations. It will establish a Facility Coordination Office in one of the provinces covered under PRMF, collaborate with the Provincial Governments in the implementation of the Facility and report to the IMG.

35. The Department of the Interior and Local Government will serve, as the counterpart agency for PRMF at the national level. The Department, will work with AusAID in complying with the GOP approval process (Investment Coordination Committee approval/notation and Subsidiary Agreement) and requirements (such as environmental compliance clearance). It will ensure synergy of PRMF with other

<sup>5</sup> Other members of the board will include Undersecretaries of the Departments of the Interior and Local Government (DILG), Finance (DOF) and Public Works and Highways (DPWH), Chairman of the League of Provinces of the Philippines (LPP), and a representative from a donor partner.

GOP and donor initiatives and disseminate lessons learned and reforms flowing from PRMF to the national government. It will also actively participate in the review of PRMF implementation, particularly in the monitoring and evaluation of activities.

36. The provincial governments will be the primary counterpart in the implementation of PRMF. Each Provincial Government will sign with AusAID an MOA that spells out the operational and governance principles, and an PAWRP with the FMC that details the agreements and guides the implementation of the PRMF in the province. The Provincial Governments will provide counterpart fund and personnel as needed to work beside the FMC staff.

### **1.5. Timeframe and Duration**

37. The PRMF is proposed for five years from 2008/9-2013/14 with a mid-term review of Facility implementation scheduled for 2011. While it is anticipated that significant progress can be made in improving provincial roads and achieving institutional reforms during this period, consolidation of the program within the southern Philippines is only likely to be achieved over at least a 10 year time horizon. The scope for providing a further phase of assistance for road development and institutional reforms will be assessed during the review at the end of Facility scheduled for 2013/14.

### **1.6. Cost and Financing**

38. AusAID anticipates allocating a budget of AU\$85 million over 5 years for PRMF works and capacity building. This figure is exclusive of FMC fees and management costs.

39. The PRMF will need to retain flexibility in order to respond to the different road sector development needs and the political and administrative environment in each province. In this regard, the details of the contributions to the province and the implications of the institutional changes effected under PRMF on the provincial budgets will be incorporated in the PAWRP between the FMC and the provincial governments and subsequent annual plans and budgets.

40. The principal financing mechanism for PRMF will be the establishment of an Imprest Account which will be managed by the FMC. The FMC shall be responsible for preparing the Operations Manual that details the arrangements and operational procedures relating to the management of this account.

### **1.7. Risk Management**

41. The principal risk to the PRMF is lack of sustainability resulting from the failure to achieve institutional reform with respect to:

- i. Rationalizing the functions and operations of the Provincial Engineering Offices in relation to outsourcing and contract management as well as changes to other provincial entities such as planning and finance departments;
- ii. Securing acceptance from the executive and legislative branches of the provincial government who control the planning and budget process to allocate sustainable provincial funding for infrastructure maintenance activities ;
- iii. Increasing the local fee and tax revenue base and managing public finances more effectively; and

- iv. Adopting a more participatory, transparent and accountable approach to road sector development planning and financial management at the provincial level.

42. These risks may be exacerbated by LGU elections in 2010. This might require the PRMF PAWRP to be renegotiated with some provincial governments with new leadership. The institutional risks can be ameliorated by developing: (i) institutionalization of the PAWRP through adoption by the Sangguniang Panlalawigan (SP); (ii) awareness and advocacy programs which target the key political and administrative decision makers; and (iii) an informed constituency at the barangay, municipal, and civil society level which actively participates in road sector planning and activity monitoring and supports reform.

43. Corruption is a risk for the program. To protect against corruption and misappropriation, AusAID and the FMC will carry out a full review of the robustness of the governance systems and capacity of each province that will be engaged under the PRMF. Management of funds will only be given to provinces that have acceptable project development and financial management procedures and capacities.

44. AusAID's Operations Policy and Support Branch (OPS) is currently developing guidelines on the expenditure of AusAID funds through country systems. The FMC will refer to the OPS for guidance prior to any transfer of responsibility for fund management to the provinces.

45. There is a potential security risk in any activity in Mindanao. The FMC will conduct a full peace and conflict review in anticipation of adding one conflict affected province to the partner group. It will be essential for the FMC to capitalize on the network established by AusAID through its other programs and engagement with donors and GOP agencies in Mindanao. These entities serve as valuable sources of information on the peace and security situation in the region.

## **1.6 Work In progress**

46. The IMG with a team of Interim Design Consultants and Specialists started preparation of a Facility Design Document (FDD) for the PRMF in February 2008 and is currently working with provincial counterparts in seven provinces (which are existing program partners of AusAID) to identify, scope, design, and prepare bidding documents for first year activities in road rehabilitation, maintenance and technical assistance.

47. The following activities and input studies have been completed by the IMG:

- i. Initial Environmental Assessment - reviewed the GOA and GOP environmental requirements for civil works under the PRMF(Annex 4);
- ii. Procurement Study - analysed the procurement requirements of AusAID with the GOP procurement laws and processes at the national and local levels (Annex 5);
- iii. Initial assessments of the provincial road network in six provinces and the organisational framework for road sector planning and management (Annex 8); and
- iv. Traffic Survey on traffic analysis for selected provincial road networks(Annex 10).

## 1.7 Next Steps

48. The draft PRMF Design Document has undergone appraisal peer review . The final FDD will be ready by the end of August. The scope of services for the FMC will be ready by September 2008.

49. AusAID will be undertaking a two-step tender process commencing with a short-listing process to be advertised in the fourth quarter of 2008. The first step of the selection process will assess the capacity of bidders to undertake the services. The companies short-listed will be asked to submit full technical and financial proposals in the fourth quarter of 2008. By March 2009, the IMG anticipates that AusAID will have appointed and mobilized the FMC to take over responsibility from the IMG and Interim Design Consultants for the development and implementation of the PRMF.

50. In the interim, the IMG and Interim Design Consultants and Specialists will continue to work with GOP on the approval requirements and the nominated provinces to consolidate the development of the PRMF in accordance with the proposed design strategy. By mobilisation of the Facility, the IMG will have completed the following:

- i. A draft PRMF technical guide to the operations manual to be prepared by the FMC. The technical guide will set down guidance on road network planning and prioritization, technical standards, procurement procedures and management and reporting requirements;
- ii. Memorandum of Subsidiary Arrangement with GOP including approval of PRMF by the GOP Investment Coordination Committee;
- iii. Agreement with DILG on the PRMF operational and governance principles;
- iv. Programmatic Initial Environmental Examination as required by GOP;
- v. Provincial Assessment Report for each province initially engaged that contains:
  - ☐ Enhanced criteria for selecting and ranking road links for rehabilitation and/or maintenance within provincial road networks;
  - ☐ Preliminary rapid assessments of provincial road networks; and
  - ☐ Information on capacity building requirements in support of the above.
- vi. Year 1 annual work programs including, cost estimates, implementation schedules and contract packaging; and
- vii. Briefing of Provincial Governors and their technical and administrative officers on the PRMF objectives and operational and governance principles thereby laying the foundation for signing the Provincial MOA at a date to be negotiated with each province.

## **2 Analysis and Strategic Context**

### **2.1 Introduction**

51. This document is founded on a fundamental initial choice. AusAID through the development of the framework strategy document for Southern Philippines Road Maintenance Project (SPRMP) decided that this facility would seek to use road maintenance funding as leverage to encouraged provinces to improve their systems of public administration and governance associated with road sector planning and management.

52. Improved roads affect everyone. Women use them to get to markets, children to go school, and Governors to win elections. However, road maintenance is also something that cannot be deferred. A road with deferred maintenance very quickly becomes a non-road in the heavy rainfall conditions experienced in Southern Philippines. Hence a commitment to sustainable annual maintenance expenditure is a fundamental requirement for keeping roads working. However, this requirement can only be served if:

- i. the necessary provincial planning, budgeting, procurement and contract management functions are in place; and
- ii. the political and administrative executive decision-making processes which govern these functions are participatory, transparent, accountable and equitable.

53. In sum, road sector planning reflects the wider challenges for improving public administration and governance across all development sectors at the provincial level. The following design pursues and develops these challenges through the Provincial Road Management Facility (PRMF).

### **2.2 Country and Sector Issues**

#### **2.2.1 National Macroeconomic Situation**

54. The Philippines is a lower middle income country with a Gross National Income (GNI) per capita of around US\$1,400<sup>6</sup> in 2006. The Philippines growth trajectory has been much flatter than many of its ASEAN neighbours. Following World War II the Philippines was coming off a sound base, Gross Domestic Product (GDP) per capita in the 1950s was double that of Thailand, but the Philippines did not experience the full Asian boom years of 1970s to 1990s and suffered several catastrophic economic collapses. Consequently real per capita income is now only 40% higher than in 1975 compared with China (1000% higher), Thailand (300%), Malaysia (200%) and Indonesia (200%).

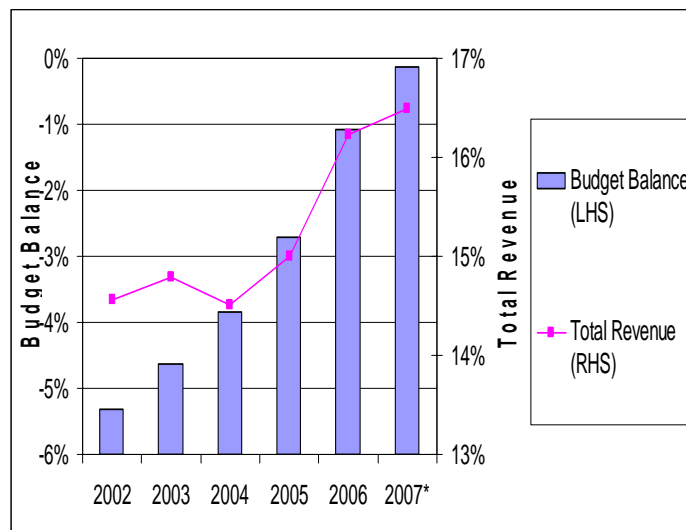
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<sup>6</sup> PPP atlas method. Source: World Bank

Figure 2.1: Philippines Budget Balance, 2002 to 2007

55. Between 2005-2007 the Philippines showed signs of moving to an improved growth trajectory. For example, in 2007 the Philippines GDP expanded by 7.3%, the highest in 30 years. Sixty percent of that growth was driven by private consumption, supported by overseas Filipino workers' remittances. Other principal drivers of growth are business process outsourcing, electronic component exports and a small but growing mining

industry. The Government had a near budget balance in 2007, with a 0.1 % of GDP deficit, primarily achieved through one-off privatization revenues. This is a significant recovery from the -4.6% deficit in 2003. However, significant challenges remain in improving tax revenues. Government tax revenue was 14% of GDP in 2007, below the 14.3% recorded in 2006 and is low by ASEAN standards. Infrastructure and social sector spending has been significantly increased in the last two national budgets, from a low base; however, there will need to be further increases in coming years to have any impact on poverty.



56. On the negative side, inflation has emerged as a growing concern. Although inflation was less than 5% in 2007, a relatively low level by historical standards, rising fuel and oil prices have driven inflation to around 12% (June 2008). While global factors are the primary cause of inflation, underlying inflation is still running at approximately 6%. In addition, investment still remains low by regional standards and the manufacturing and agricultural sectors have retained their historically slow rates of growth. The initial indications for 2008 are that growth has cooled to the 5-6% range, but the Philippines is still enjoying the longest period of sustained economic expansion since the 1970s.

## 2.2.2 Poverty

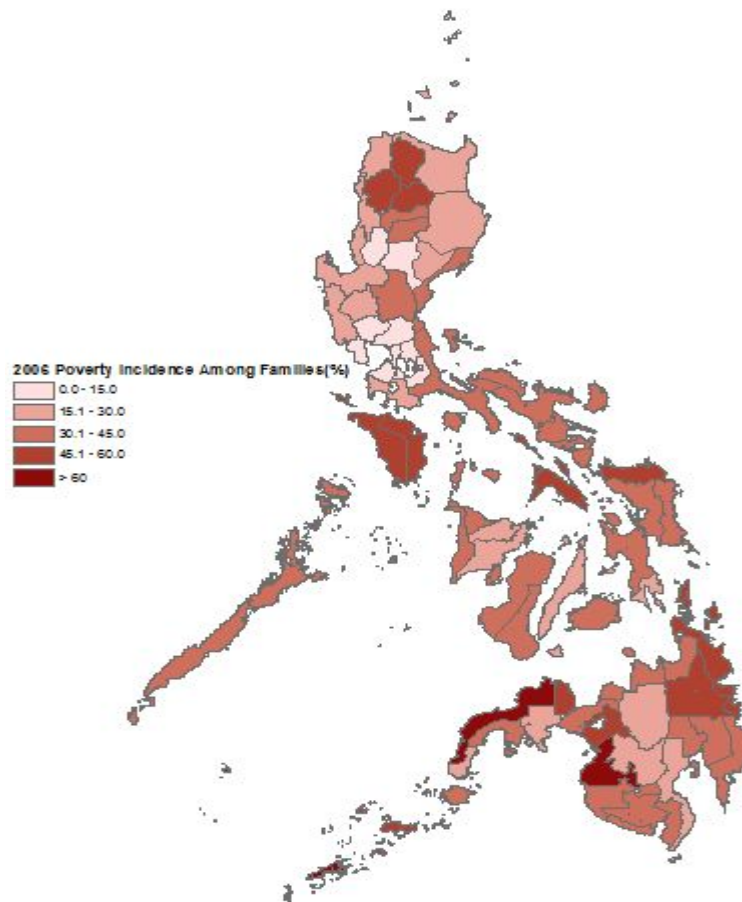
57. The Philippines recent economic growth has yet to translate into sustained poverty reduction. Government data reveals that between 2003 and 2006, poverty has increased from 30% to 32.9%. Almost 30 million people of a population of approximately 90 million live on US\$2 a day; 12 million live on US\$1 per day. Official poverty data does not yet capture the effect of rising food prices, but economic modelling indicates that recent food price increase could push more Filipinos under the poverty line.

58. Regional disparity is high within the Philippines. While Manila has a GDP per capita twice the national average, 20 million Filipinos live in provinces that have an average GDP per capita below Papua New Guinea (PNG). The poverty rates in the PRMF target regions of the Visayas and Mindanao were 40% and 45% respectively in 2006. Two thirds of Filipino poor live in rural areas. (Figure 2.2).

59. Achievement on the Millennium Development Goals (MDG) is also mixed. There is still a need to do much more on education, maternal mortality and reproductive health services. Gains against the MDG on a national level, however,

hide large disparities between the regions. Thirty-nine of the 81 provinces may fail to achieve many of the targets.

**Figure 2.2: Poverty Incidence of Families**



### **2.2.3 Philippines National Government-Local Government Unit Relationship**

60. The Philippines has a unitary government framework. It is a presidential republic with a bi-cameral legislature. The National Government operates through departments/agencies. The President, through the assistance of the Department of the Interior and Local Government (DILG), exercises general supervision over the sub-national level or Local Government Units (LGUs) which include provinces, cities, municipalities and barangays. LGUs comprise 81 provinces, 136 cities, 1494 municipalities and 41,995 barangays in the Philippines. Each LGU is headed by an elected local chief executive and governed by an elected legislative body (Sanggunian). LGUs exercise autonomy over prescribed functions. Highly urbanized cities are independent of provinces and barangays are subordinate to cities and municipalities.

61. The responsibility for health, local roads, social welfare services, provincial infrastructure facilities, low cost housing, provincial environmental enforcement and a number of other research and investment related services was devolved by the National Government to the LGUs in 1991. Local autonomy was advanced by expanding local government taxing authority and devolving expenditure responsibilities. The enabling act for this decentralization and devolution is Republic

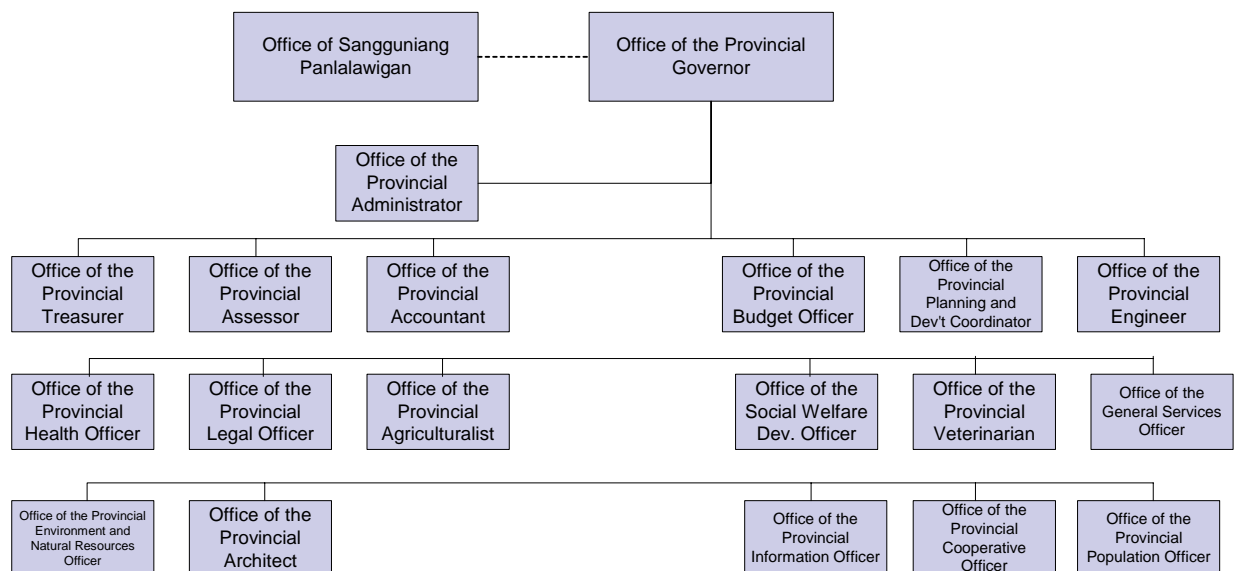
Act No. (RA) 7160 or the Local Government Code (LGC) of 1991. The two largest sectoral areas of expenditure by provincial governments are typically health and roads.

62. The LGC increased the financial resources available to LGUs by: (1) broadening their taxing powers; (2) providing them with a specific share from the national wealth exploited in their area, e.g. mining, fishery and forestry charges; and (3) increasing their share from the national taxes, i.e., internal revenue allotments (IRA) to as much as 40%. The Code also provides local governments with an opportunity to generate revenue from local fees and charges.

## 2.2.4 Provincial Governance Structure

63. The focus of PRMF is on the designated provincial road network and the system of Provincial administration. Figure 2.3 illustrates the overall structure of a typical province.

**Figure 2.3: Typical Provincial Organisational Structure**



### 2.2.4.1 Sources of Finance

64. The LGC (Section 129) defines the sources of finance that are available to LGUs. Each LGU can create its own sources of revenue, and levy taxes, fees, and charges, consistent with the basic policy of local autonomy. Such taxes, fees, and charges accrue exclusively to the LGUs.

65. The exercise of these powers however is severely limited, and for provinces includes only the following:

- i. Land transfer tax;
- ii. Tax on printing and publishing;
- iii. Franchise tax;
- iv. Tax on Sand, Gravel and other Quarry Resources;
- v. Professional Tax;
- vi. Amusement Tax;

- vii. Registration of delivery trucks or vans operated by companies involved in certain areas.

66. However, these taxation powers do not generate sufficient finances for LGUs to undertake their responsibilities. In general most provinces and municipalities rely heavily on the Internal Revenue Allotment (IRA) for between 90 and 95% of their development and recurrent budget. From late 2008, a proposed but not yet approved amendment to the Local Government Code will provide the provinces with access to a new tax on financial services as one of several changes which together will have the potential to significantly increase their revenue base. Of the IRA share, 20% is required for development projects identified in the LGU development plans. Provincial Governors, municipal/city mayors or barangay captains have a high degree of discretionary authority over the use of these funds. This is a corruption risk factor which is discussed in more detail in section 2.3.5.3 and 3.5.3.3 LGU Financial Management and Accountability.

67. The management of financial resources in the local government is governed by the LGC. It transferred responsibility to LGUs of the delivery of basic services, exercise of regulatory powers that traditionally belonged to national agencies, and allowed for increased financial resources through the IRA. The private sector, NGOs and people's organizations are now recognized and encouraged to participate actively in governance processes.

68. The LGC provides for dual status of the local government - as a public or government entity and as a private or corporate entity. As a public or government entity, the local governments exercise, by delegation, a part of the sovereignty of the State, such as in the imposition and collection of taxes, preservation of peace and order, and the establishment of schools. As a private or corporate entity, local governments are legal entities (similar to a business corporation) performing functions not strictly governmental and act as a corporate body for their own purposes and not as subdivisions of the State. It is in this character that LGUs operate public utilities and public markets.

#### **2.2.4.2 Provincial Planning and Management**

69. Overall management of a province is the responsibility of elected officials composed of the Governor, Vice Governor and members of the local legislative body Sanguniang Panlalawigan (SP). The Vice Governor presides over the SP composed of the elected regular members, the presidents of the provincial chapter of the League of Barangay, the provincial federation of municipal Sanguniang Bayan (SB), members of municipalities and sector representatives.

70. The LGC mandates the provincial government to prepare a comprehensive multi-sector development plan (CMDP) and a comprehensive land use plan (CLUP). In 2007, NEDA, Departments of Budget and Management (DBM), Interior and Local Government (DILG) Finance (DOF) issued the Joint Memorandum Circular (JMC) No. 1 series of 2007 on harmonization of local planning, investment programming, budgeting, revenue administration and expenditure management. The JMC streamlined the planning process and lessened the number of plans required from the LGUs. At the provincial level, the JMC mandated the integration of CMDP or Provincial Development Plan and CLUP into a Provincial Development and Physical Framework Plan (PDPFP). The preparation of the document is initiated by the Provincial Development Council (PDC) and approved by the SP. The PDC is responsible for setting the direction of the province's social and economic development and in coordinating all subsequent development efforts within the territory. Road development in the province falls within this plan. This structure is mirrored at municipal, city and barangay levels with the equivalent Sanguniang

Bayan (SB) and Municipal Development Council (MDC) performing functions provided by law and similar to the higher level LGU counterpart but limited within its boundaries and capacity. Under these provincial and other local government organizations are offices tasked to implement the approved plans.

71. The province, through the Provincial Governor, is mandated to ensure that every component city and municipality within its territorial jurisdiction acts within the scope of its prescribed powers and functions. Highly urbanized cities and independent component cities are however independent of the province.

#### **2.2.4.3 Provincial Development Council**

72. The PDC is an important local governance body which is the key support unit to the provincial legislature. It is composed off the following representatives:

- i. The Governor as head;
- ii. All mayors of component cities and municipalities;
- iii. The congressman;
- iv. Chairperson of the Appropriations Committee of the Sangguniang Panlalawigan;
- v. **Representatives of NGOs operating in the province, who shall constitute no less than 25% of the members of the Council.**

73. The functions of the PCD is as follows:

- i. Formulate long term, medium term and annual socioeconomic development plans and policies;
- ii. Formulate medium term and annual public investment programs;
- iii. **Appraise and prioritize socioeconomic development programs and projects;**
- iv. Formulate local investment incentives to promote the inflow and direction of private investment capital;
- v. **Coordinate, monitor and evaluate the implementation of development programs and projects; and**
- vi. Perform other such functions as may be provided by law or competent authority.

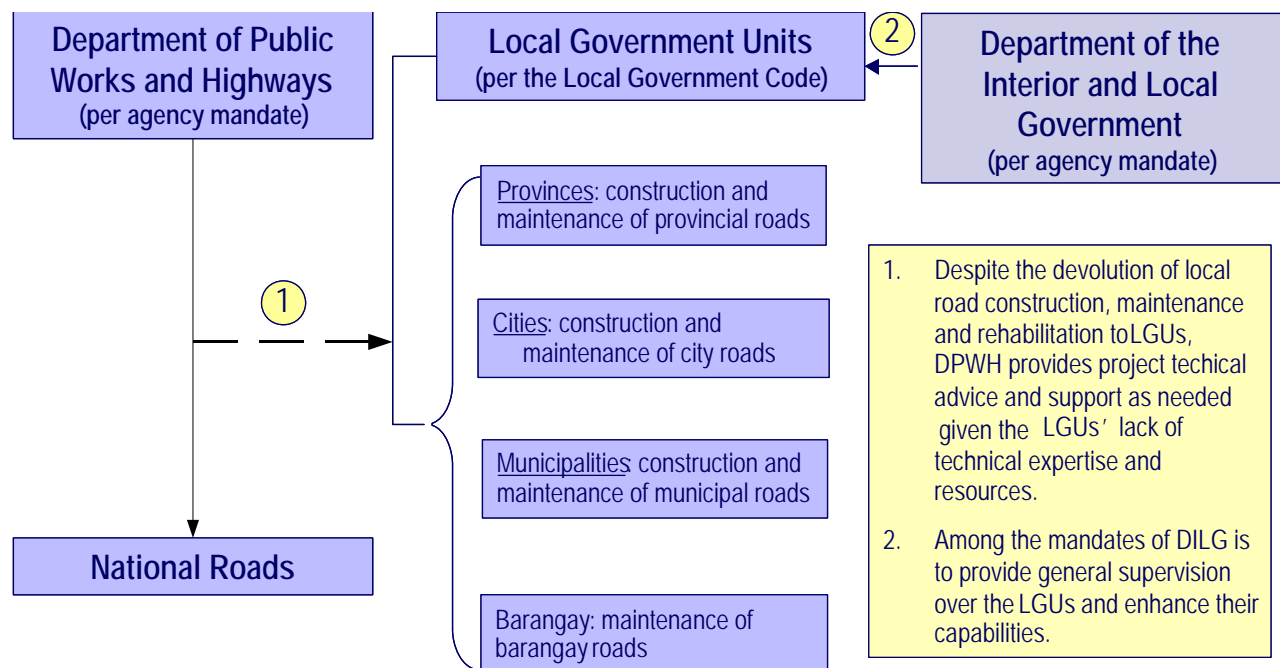
74. The PDC is one of the key institutional structures through which any provincially focused support must flow. Its composition and mandate allow for a level of community input that fits well with the overall objectives of AusAID programming.

#### **2.2.5 Jurisdictional Responsibility in the 'Road Sector**

75. **The PRMF will target provincial gravel roads only.** The provincial roads fit into the overall Philippine network in a critical slot between the national roads and the local municipal, city and barangay roads. The jurisdictional responsibility for the road system in the Philippines is primarily through: (i) the Department of Public Works and Highways (DPWH) which develops and maintains all national roads according to the Philippine Highway Act of 1953; and (ii) the DILG that provides funding, some technical capacity building and monitoring of the LGU roads and the LGUs that develop and maintain the LGU roads. This is illustrated graphically in figure 2.4. Other national agencies such as the Departments of Agriculture (DA), Agrarian

Reform (DAR) and Environment and Natural Resources (DENR) also develop local roads to support their programs and projects.

**Figure 2.4: Agency Responsibility for Road Development and Maintenance**



76. Table 2.1 summarizes the distribution of the road network by national and sub-national levels of government responsibility.

**Table 2.1: Distribution of Road Network by Level of Jurisdiction**

	Responsible Government Agency	('000) km	Percent of network	Percent paved	Av km per LGU
National	Department of Public Works and Highways	29.0	14	70	-
Provincial	Provincial Government	27.1	13	21	343
City	City Administration	7.1	4	77	73
Municipal	Municipality	15.8	8	34	11
Barangay	Barangay	122.0	61	7	3
<b>Total</b>		<b>201.0</b>	<b>100</b>		

77. **DPWH** is responsible for 29,000 km of national roads, of which 70% are paved. Of the balance of 30% unpaved, many of those are former provincial roads that have been allocated to the DPWH and as a consequence, their condition is often similar to a typical provincial road. **LGUs** are responsible for 27,100 km of provincial roads, out of which 21% are paved and the large part of the rural **BARANGAY** roads, of which only 7% is paved. Additionally there are 7,100 km city roads (77% paved) and 15,100 km municipal roads, (34% paved). As the link between the national roads and the local municipal and barangay roads, the provincial roads serve an essential link in the national network.

### 2.2.5.1 Infrastructure Planning

78. The **Provincial and Municipal Engineering Offices** are responsible for planning, development and management of infrastructure in their respective jurisdictions. Road planning, development and maintenance are the responsibility of each jurisdiction down to the barangay level. The engineering capacity resides mainly with the provinces or with some of the larger municipalities. Depending on the size, resources and leadership of the local government unit, the engineering offices vary in terms of organization, manpower complement and extent of responsibilities.

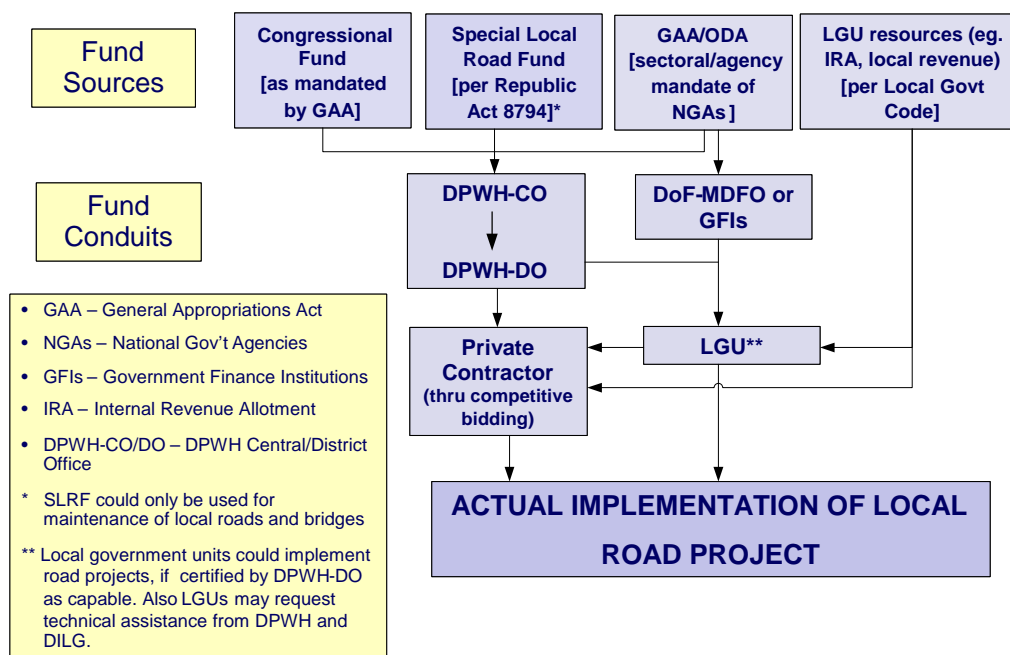
#### a. Provincial Engineering Office

79. The Provincial Engineering Office (PEO), under the office of the Governor, is tasked to oversee the care and maintenance of all provincial roads, bridges and other provincial infrastructures such as buildings and facilities, water supply systems, school buildings, barangay facilities, parks and playgrounds. Originally confined to maintenance of existing facilities, the PEO in some areas have assumed broad roles in materials and quality testing, planning, programming, implementation, improvement of existing infrastructures and development and operation of an equipment pool to meet the growing needs of the province.

80. The task of road maintenance management in the province is the responsibility of the PEO's Maintenance Division. A Maintenance Engineer heads this with clerical support provided by the Administrative Division. In some provinces, an administrative approach to road management is followed using in-house or directly contracted casual staff. This is called a “**force account**” approach. In this model, a maintenance foreman or capataz works with teams and heavy equipment to maintain roads and bridges under the direction of the Maintenance Engineer. In other provinces, the task of undertaking periodic and routine maintenance is contracted out to either private contractors or municipalities as contractors who assume responsibility for a specific length of provincial roads. This is called the “**contracting out**” approach and is the model that this facility will strongly encourage.

### 2.2.5.2 Budget for Roads

81. The flow of funding and source of funds for provincial roads development and maintenance is shown in figure 2.5. The program based funding includes the Special Local Road Fund (SLRF) and the Internal Revenue Allotment (IRA). The SLRF is mandated as 5% of the national Road Fund (RF) and is allocated to individual provinces according to a formula. The IRA provides the bulk of the road funding either through direct budget allocation to staff cost and operating expenses or through allocation of the 20% of the IRA mandated to be spent on development projects some of which may be roads based on the budgetary discretion of the governor and provincial planners.

**Figure 2.5: Sources of Funds for Local Road Projects and Channels**

82. Additional sources of development funds, although external in nature and not as regular and as reliable compared with the above-stated sources, are the Philippine Development Assistance Fund (formerly Countrywide Development Fund) of Congressmen and Senators and the Social Fund of the Office of the President as well as donor funds. The elected officials exercise control of their respective funds and decide on its use and distribution, most of which are spent on infrastructures in areas of their choice. While there is a set allocation for each congressman, members of the ruling coalition may also have power through local committees to allocate discretionary funds and thereby benefit their specific constituency.

83. The main donor assistance to the road transport sector comes from the World Bank and Japan. In June 2007, the GOP and the World Bank negotiated with DPWH a US\$232 million loan for the National Roads Improvement and Management Program (NRIMP2). JBIC is developing the Road Enhancement and Asset Management and Preservation program (REAMPP). All these programs are directed to the national road network. At the sub-national level, stage two of the World Bank assisted Mindanao Rural Development Program (MRDP2) provides funds for municipal and barangay road rehabilitation as part of an infrastructure support project.

### 2.2.6 Financial Sustainability of Road Asset Management

84. The road sector remains dependent on outside finance for much of its expenditure. While the road fund has been established, the level of collections in 2007 reached 7 billion Pesos, but as shown in table 2.2, the overall maintenance need is more like 22 billion Pesos. This figure assumes that the roads are in good to fair condition and that only routine and some periodic maintenance would be needed to keep the roads in decent shape. That, however, is not the case. **In the provinces of interest to this project, the roads are badly damaged from ineffective or deferred maintenance/rehabilitation and as a consequence, significant additional investment is needed to bring the road network up to a maintainable standard.** Based on our estimates of need, the national roads are now receiving

about the correct amount of funding to meet normal needs. The other LGU roads however remain heavily under funded by US\$143 million annually.

**Table 2.2: Asset Value of Philippine Road Network**

Asset Calculation										
TOTAL ROAD NETWORK	Network Length <sup>a</sup>	Unit cost per km <sup>b</sup>	Replacement Value (RV)	Budget Required based on 2.5% of Asset Value	Present <sup>d</sup>				Required	
					Maintenance Expenditure (routine+periodic)		Maintenance Expenditure over Replacement Value		Maintenance (routine + periodic)	Surplus or Shortage
Road Class / Surface	[1]	[2]	[3] = [1]x[2]	[4] = [3]x2.5%	[4]	[5] = [1]x[4]	[6] = [5] / [3]	[5] <sup>e</sup>	[5] <sup>e</sup>	
	km ('000)	%	USD/km	US\$ million	US\$ Million	Peso Million	USD/km <sup>e</sup> p.a.	US\$ million	per road classification	US\$ million
<b>DPWH - National Roads (2007)</b>	<b>30.0</b>	<b>100%</b>		<b>11,148</b>	<b>50%</b>	<b>278.70</b>	<b>11,148</b>	<b>306.5</b>	<b>2.75%</b>	<b>285.2</b>
Concrete	13.4	45%	512,000	6,861	171.52	6,861	13,953	187.0		
Asphalt	7.5	25%	426,000	3,195	79.88	3,195	11,851	88.9		
Gravel	9.1	30%	120,000	1,092	27.30	1,092	3,368	30.7		
<b>LOCAL GOVERNMENT</b>										
<b>Provincial Roads (2000)</b>	<b>27.1</b>	<b>100%</b>		<b>3,254</b>	<b>15%</b>	<b>81.34</b>	<b>3,254</b>	<b>27.1</b>	<b>0.83%</b>	<b>247.8</b>
Paved	5.7	21%	308,000	1,756	43.89	1,756	1,000	5.7		
Unpaved	21.4	79%	70,000	1,498	37.45	1,498	1,000	21.4		
<b>City Roads (2000)</b>	<b>7.1</b>	<b>100%</b>		<b>2,571</b>	<b>11%</b>	<b>64.26</b>	<b>2,571</b>	<b>13.4</b>	<b>0.52%</b>	
Paved	5.5	77%	447,000	2,459	61.46	2,459	2,000	11.0		
Unpaved	1.6	23%	70,000	112	2.80	112	1,500	2.4		
<b>Municipal Roads (2000)</b>	<b>15.8</b>	<b>100%</b>		<b>2,550</b>	<b>11%</b>	<b>63.76</b>	<b>2,550</b>	<b>15.8</b>	<b>0.62%</b>	
paved	5.4	34%	376,000	2,030	50.76	2,030	1,000	5.4		
unpaved	10.4	66%	50,000	520	13.00	520	1,000	10.4		
<b>Barangay (2000)</b>	<b>122.0</b>	<b>100%</b>		<b>2,903</b>	<b>13%</b>	<b>72.58</b>	<b>2,903</b>	<b>48.2</b>	<b>1.66%</b>	
paved	8.5	7%	208,000	1,768	44.20	1,768	1,000	8.5		
unpaved	113.5	93%	10,000	1,135	28.38	1,135	350	39.7		
<b>Subtotal LGU</b>								<b>104.5</b>		
<b>Total</b>	<b>202.0</b>			<b>22,425</b>	<b>100%</b>	<b>560.63</b>	<b>22,425</b>	<b>411.0</b>	<b>1.83%<sup>f</sup></b>	<b>533.0</b>
Key Ratio of Total Road Network :					Replacement Value / GDP (22,425/ 98,540) =					<b>0.228</b>

a Source : DPWH 2003 (JICA)

DPWH - Department of Public Works and Highways; JICA - Japan International Cooperation Agency

b Source: National Roads - DPWH-Project Management Office

Provincial Roads: paved, 90% price of national roads;

unpaved, 30% price of national roads

City Roads: DPWH-PMO

paved, 50% price of

unpaved, 33% price of paved

Municipal Roads: paved, 110% price of national roads asphalted

unpaved, 33% price of paved

Barangay : paved, 67% price of provincial paved roads

unpaved, Consultant's estimate

c Source : DPWH - Bureau of Maintenance, for paved and gravel

for unpaved, Consultant's estimate

d: Note : "Most of the Present expenditure is devoted to Routine Maintenance only"  
(WB-Report May 19, 2005; Philippines, p183)

e: Note: ADB and WB-Report 2005, p173; figures for 2003

f: Conclusion: Present Maintenance Spending at DPWH & DILG is insufficient  
(below 2.5% benchmark)

Note : Expressways and major bridges excluded

2006 GDP : US\$ 98.54 billion = Pesos 3,941.6 Billion  
US\$ 1 = 40 Pesos

## 2.3 Problem Analysis and Strategy Selection

85. This analysis is principally drawn from field visits of the IMG<sup>7</sup> supplemented by a comparative study conducted by the ILO in 2007 of road maintenance problems and issues in five provinces. Further backup information is contained in a number of studies conducted by the World Bank and ADB. As described in section 2.1.5 many of the roads at the sub-national level first require rehabilitation to bring them up to a maintainable standard and, second, sustained maintenance to keep them serviceable. The discussion which follows outlines the problems and issues associated with (i) creating maintainable roads and (ii) developing sustainable maintenance programs.

### 2.3.1 Creating Maintainable Roads

#### 2.3.1.1 Current Situation

86. Roads are normally the largest asset owned by any government and it holds that maintaining those roads and protecting that investment should rank as one of the highest priorities for ongoing budget expenditure. The overall structure of the asset value of the roads in the Philippines is shown in table 2.2. The normative standard for routine and periodic road maintenance budgeting is set at 2.5% of the asset value per year, assuming the roads are in a maintainable state. While the funding for

<sup>7</sup> For a complete list of persons met during the field visits please refer to annex A.

national roads has now reached that level (2007/8), the funding for LGU roads falls far short of what is needed. This largely results from under budgeting at the local government level and inappropriate and often ineffectual use of the budget that is allocated. Because of the poor level of maintenance the ILO estimated that the asset value of the LGU road network is shrinking by 15 billion pesos per year. Field observations support the contention that the assets are in very bad condition, but in many cases they have deteriorated to a steady state condition where there really is no road in the normal definition of that term.

### 2.3.1.2 Problem Analysis

87. The following is a summary of the key issues and problems faced by the provincial governments in maintaining their roads and in developing and implementing a sustainable road maintenance management system.

#### a. Financial Constraints

88. Provincial governments are fiscally constrained. A study of Provincial Governments in Mindanao shows that they have on average PhP577 per capita (A\$15) of revenue to spend on services and investment (Table 2.3). This amounts to about 1% of the regional economy and is a very small amount given the provinces' important service delivery obligations in areas such as health and infrastructure.

**Table 2.3: Mindanao Provincial Data (2005)**

	Total PhP billion (A\$)	Per Capita PhP (A\$)
Total population <sup>8</sup>	20.1 million	
Gross regional product <sup>9</sup>	931 (24.5 billion)	46,343 (1220)
Total provincial government revenue, 2005	11.6 (309 million)	577 (15.1)
Provincial governments' own source tax revenue	1.4 (36.5 million)	69 (1.8)
Provincial road network (km)	11,095	0.0005
Estimate of provincial road maintenance needs <sup>10</sup>	1.7 (43.8 million)	84.6 (2.2)
Estimate of provincial maintenance expenditure <sup>11</sup>	219.6 (5.8 million)	10.9 (0.29)
Estimate of shortfall in total public and private infrastructure provision <sup>12</sup>	1.5 (39 million)	73.7 (1.91)

Source: Philippines Department of Finance, National Statistics Coordination Board, and Department of Interior and Local Government.

89. While the National Government policy of decentralization passes on significant responsibility to local governments, they do not operate autonomously. The National Government sets certain criteria on the expenditure of provincial governments, with no more than 55% of the budget to be spent on wages and salaries and 20% of the budget to be spent on 'development'. Although adherence to these rules is variable as the Philippine Government has limited power to withhold IRA from poorly performing provinces.

90. As a result of the limits on available funds allocated through the provincial budget, the PEOs often carry out only spot improvements. In Misamis Occidental

<sup>8</sup> Projection based on census estimate of 18.1 million in 2000.

<sup>9</sup> World Bank Atlas method estimate, adjusted for provincial income disparities.

<sup>10</sup> Cost estimate of PhP150,000 per km from RSPD mission.

<sup>11</sup> ADB estimate that 1.9% of LGU income is spent on maintenance.

<sup>12</sup> The World Bank estimates that infrastructure spending of 2.2% of GDP is well below the necessary level for sustainable economic growth.

province for instance, where they have a total of 316 kms of provincial road, only 40kms are “maintained” in any one year. This means that on average a road is “maintained” once every 8 years. This results in a provincial road network that is not maintainable as shown in the following photo. Because the PEO’s office is underfunded and limited in its effectiveness, there is little incentive to change. More money is often spent on salaries than on actual maintenance works and there is little incentive to contract out maintenance services since it will ultimately lead to a drop in staffing levels and thus lost jobs.

91. The ILO study and the IMG review team attempted to obtain information on how much money was spent at the LGU level on road maintenance. This proved to be an almost impossible task. Because road maintenance is not viewed nor treated as a recurrent expense, maintenance funds are not allocated from a standard budget line but are rather buried as general funds for maintenance of public assets, for road rehabilitation or for concreting or reshaping particular roads.

92. From the estimates made of direct spending and allocation of staff costs, it appears that many provinces are allocating in the range of 5 - 10% of their provincial budget to road maintenance. In Bukidnon for instance, a general standard of 80% good and fair roads has been achieved based on a maintenance allocation of Php 80,000 per year or about 6 to 8% of the provincial budget. But for other provinces with more difficult geography or climate, a long term sustainable level is more likely to be in the range of 10% of provincial expenditure.

93. It is vital to create awareness among all the stakeholders in the road sector - politicians, planners, engineers, administrators and the beneficiaries – of the importance of recurrent road maintenance. The most direct way to do this is to illustrate that national assets worth billions of pesos are being wasted because of a lack of willingness or capacity to spend a small proportion of the value of these assets on maintenance.



#### **b. Technical Capacity**

94. The IMG field visits and the ILO observed that the current condition of “maintained” provincial roads highlighted the limited Technical capacity of the PEO. Generally the PEO did not:

- i. understand the importance of **drainage** to road sustainability. The inattention to drainage is a problem in virtually all provinces. This is critical issue since without drainage, all roads will fail very quickly, particularly in areas of high rainfall;
- ii. understand the importance of **proper materials** and materials specification. Because of maintenance cost concern, provinces tend to use the most easily available and least expensive road building material. In many provinces the available material is rounded river gravel or in others, soft limestone. This material does not provide a stable and

maintainable road surface and the roads deteriorate very quickly to a condition as shown in the above photo;

- iii. have access to up-to-date **information** to guide maintenance planning and decision-making– (i) there is no standard mapping in place making integration of information difficult; and (ii) the road inventory is not regularly updated giving rise to discrepancies in official estimates of the actual extent of the road network;
- iv. regularly undertake road **condition surveys** or employ standard procedures in their assessment;
- v. prepare an integrated **road maintenance plan** but instead prepared a program of works based on an ocular inspection of specific road segments as the need arises or in response to political and community demands;
- vi. regularly **monitor road maintenance** activities. As a result years of improper maintenance work has caused significant damage to the rural roads. Loss of paving material, lowering of the carriageway and disappearance of side drains represent the main problems;
- vii. have access to the resourced to **train and upgrade** the skills of engineering staff to address these issues.

### c. Maintenance Method

95. Most of the PEOs operate on a “**force account**” basis for carrying out routine and periodic road maintenance. This approach is based on the argument that it is more cost effective to “make” than to “buy”. The result is inflated staff levels, inefficient use of staff and equipment and reduced output per unit of input.

96. Most ‘developed country’ jurisdictions and many “developing countries” have now moved to a “**contracting out**” approach to road maintenance whereby the available funding is used to contract with private operators to carry out rehabilitation or maintenance works. Agencies that have made this transition report an improvement of output efficiency in the range of 20%<sup>13</sup>. They include for instance, Australia, New Zealand, Canada, Sweden, Malaysia, Papua New Guinea and Solomon Islands as places where contracting out is used exclusively or for a major component of road maintenance needs. Contracting out is also used exclusively by DPWH for routine and periodic maintenance of the Philippine national roads and as a consequence many of the contractors at the provincial level already have experience in contracted road rehabilitation and maintenance.

97. Some provinces such as Bukidnon, have changed to contracted maintenance already and the results are evident. The budgets allocated to road maintenance are in line with industry standard norms. The PEO has made the transition to being the management team that plans, monitors and evaluates the work, rather than undertaking the work itself. In general, the roads in that province are in fair to good state and the efficiency in terms of outcomes the Province achieves from its roads expenditure is far higher than in provinces that use the force account method. While the physical conditions in Bukidnon are different than those found in other provinces, the use of contracting allows many of the issues identified under technical capacity, noted above to be explicitly incorporated in the contract conditions.

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<sup>13</sup> This is the efficiency gain reported in a study of Queensland county roads that were contracted out for maintenance in comparison to those that were left with the county. A further note was that the roads which remained under “force account” also experienced an improvement in efficiency once contracting out was initiated because of the improved accountability afforded by the comparison.

98. That changes in the approach to maintenance can be affected is one of the key underlying assumptions of this project. If the province accepts that a better way is possible, and with the evidence of a change by the provinces to embrace that new style of management, this project becomes sustainable. Without that change it does not. Thus one of the key criteria in the development of the incentive program as outlined below in 2.3.2 is the acceptance of the contracting out model.

## **2.3.2 Creating Conditions for Sustainability**

### **2.3.2.1 Current Situation**

99. Provinces vary widely in their approach to maintenance and in the process of planning and managing the upkeep of their assets. There is little linkage between planning and budgeting and there is little linkage and monitoring of budget expenditure and achievement. No consistent estimate of what is being spent on what activity is possible. Allocations from the IRA also fluctuate dramatically from year to year. As a result, provinces argue that long-term planning is an exercise in futility. They essentially wait to see what they get each year and then allocate it to the “fixed” costs - like salaries and wages and operations cost - and whatever remains is then allocated to “activities” like maintenance.

#### **2.3.2.2 Problem Analysis**

100. The long term sustainability of a road rehabilitation and maintenance program will depend on several key factors:

- i. Increasing the overall size of the provincial budget through generation of increased levels of local fees and taxes;
- ii. Improving expenditure management and prioritisation/planning systems to make the most effective use of available funding;
- iii. Improving the efficiency of the service delivery model to maximise the use of existing funds;
- iv. Improving the accountability of the provincial government to its constituency and preventing misappropriation of funds;
- v. Ensuring the various provincial offices have well defined human resource development programs and well trained staff to fill the required positions.

#### **a. Funding Requirements for Ongoing Service Delivery**

101. The single most important consideration in ensuring long-term sustainability is the ongoing funding required by the provincial government. There are several aspects to this: revenue raising; efficient expenditure management; and efficient service delivery models.

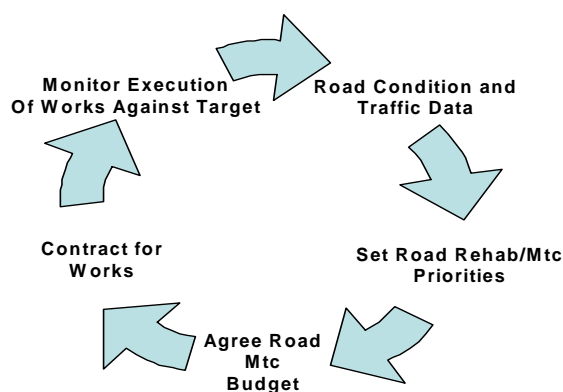
102. As noted above, the LGUs while given significant service delivery responsibility are very constrained in terms of their authority to raise taxes. Further, the political economy of the provinces, both inside and outside the government, work against effective tax collection. One of the potentially largest sources of revenue, tax on land transactions, is meant to be done on a fair market value for the land, however, land value is not updated regularly and the transaction tax is thus much less than it should be.

103. The IMG estimates that the current level of provincially sourced fees and taxes could be increased by about 50-80%<sup>14</sup> by more effective monitoring of transactions, more efficient collection, more up to date land valuation and use of computer based tax management systems. It may also be possible for LGUs to pass new laws to better exploit their tax and fee mandates. In any respect, the key issue for provinces may not be so much providing a technical tool for revenue raising as it is providing them a stronger incentive to do so.

#### b. Improved Planning, Budgeting and Expenditure Management

104. Planning and budgeting are two halves of the same issue. Better budgeting requires better planning and better planning will lead to better budgets. Multi year planning also requires knowledge, data, and information on user needs, priority setting and effective monitoring of output. The planning and budgeting cycle for road rehabilitation and maintenance is shown in figure 2.6.

Figure 2.6: Maintenance Planning, Budgeting and Monitoring Cycle



105. At this point, virtually all provinces are deficient in one or more of these areas; data on road condition is not collected regularly; traffic levels on the provincial roads are not monitored; priority setting is not done systematically and may not be linked to the overall provincial socioeconomic and physical development plan. In some provinces, the job of deciding which roads to maintain is determined by the municipality; hence monitoring of works completed is seldom matched against the planned intervention.

106. It is not possible to manage activities effectively without knowing what is being spent on them. At this time, it is impossible in most provinces to tell what the actual expenditure is for road maintenance. While the identification of individual items of expenditure is generally in good shape, the allocation of that expenditure by activity is not available. This comes back to a lack of linkage between program activities, budgets and expenditure management.

107. The other critical linkage is between offices. Engineers commonly complain that they don't have enough money allocated from the budget office to complete their work. This is poor communication. As planning and budgeting become more integrated, communication should also improve and the budget allocation will

<sup>14</sup> The percentage of provincial revenue obtained from local sources ranges from a low of 1% to a high of 32%. The average across provinces is 7%. This suggests that on average most of the southern provinces could at least increase of their current level of revenue collection to the 7% average. This implies an increase of 50 to 80% from their current collections.

consider the actual use of that money in delivering services to the provincial population.

108. These are areas of focus for the PRMF. Without a link between what has been accomplished physically to what was planned and budgeted, no effective expenditure management is possible. This process requires development and implementation of planning, budgeting and monitoring systems that may not exist. Moreover, this process integrates the activity of the planning office, the budget planning office, the treasury and the engineering office. The systems that are used to develop and monitor the above process need to be accessible and transparent to each of the above units of government.

109. Both community and civil society involvement is normally important in setting priorities, in contracting and in monitoring works completed. Further, the involvement of the community in the priority setting planning process is apt to result in different results if there is a conscious effort to include women in planning the activity. Case studies show that in the former case, a higher priority is normally accorded to those roads that improve access to hospitals, schools and community services that directly affect the family. Further, many traders and small business people are women who may have strong opinions about what improvements to access are most useful to them. The issues of participation and addressing the core policy issues such as the social and economic, environmental and governance dimensions as part of the provincial road network planning process are dealt with in more detail in chapter 3.

### **c. Institutional Accountability and Anti- Corruption Practices**

110. Available information indicates that provincial government financial systems are largely functional but need considerable strengthening. A fair amount of analysis of LGU financial capability has already been undertaken.<sup>15</sup> For example, the European Commission performed an assessment of public financial management procedures in a sample of 15 Provincial Governments and found the majority of them to be largely compliant with Philippines Government financial regulations and procedures for disbursement of funds. This is confirmed by the IMG expenditure management review of the seven initial partner provinces. While some problems were identified, in no case were the problems so serious that a complete overhaul of the financial control systems would be necessary.

111. Notwithstanding these conclusions, provincial government financial management procedures still require considerable capacity building. Further, the robustness of provincial government financial procedures is highly variable from province to province. Key weaknesses in LGU financial management include poor implementation of the Electronic New Government accounting system (e-NGAS), weak internal budgeting controls and weak participation of stakeholders.

112. The internal audit function, weak at the National Government level, is largely non-existent at LGU level. The purpose of independent internal audit remains a poorly understood and applied concept throughout the Philippines. GOP introduced a new set of procurement guidelines in 2006/7 and is in the process of rolling these out to line agencies and sub national governments.

113. Following from the Paris Declaration<sup>16</sup>, the Australian Government has a zero tolerance policy towards misuse of Australian funds and the PRMF business processes will require robust financial management and accountability systems,

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<sup>15</sup> Studies include an ADB Study on decentralization; World Bank LG financial assessments; PEPFMR; CFAAs; WB Project assessments (e.g. SSLDIP – Landbank project) and LG financial accountability assessments done by EU health program.

<sup>16</sup> See [http://www.oecd.org/document/18/0,3343,en\\_2649\\_3236398\\_35401554\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/18/0,3343,en_2649_3236398_35401554_1_1_1_1,00.html)

including the use of trust account arrangements to hold the Australian funds. Strengthening of counterpart systems must be a crucial part of the PRMF support, so that GOP systems can increasingly be used as part of the Facility fund management and fund disbursement process. The objective is to ultimately transit to a full use of the provincial financial system.

114. The PRMF design team recognizes that the potential for corrupt practice will always exist. While the Philippines has a poor record on this issue, resulting in specific measures being incorporated in the ongoing World Bank funded national roads program, at the provincial level, the problem is less acute. In part this may be a result of the much smaller budgets available at the provincial level but it is also a reflection of the closer connection between the operations of the provincial government and the users of those services. Nevertheless, vigilance is required.

115. The focus on increased contracting will potentially increase the opportunities for corrupt practice. But in designing the PRMF, the team has been very aware of the areas where such practice has traditionally been a problem and special measures have been built into the approach as outlined below to mitigate those opportunities.

#### **d. Human Resource Development**

116. The PRMF strategy flags significant institutional changes to the way provinces plan, budget and account for asset maintenance. Paramount among these is the proposed progressive shift from the use of the PEO force account to contracting out. With a contract out model, there will be need for significant reorganisation and training. Most road engineering departments in most provinces will be able to function with fewer than 50 staff but they will need to be trained staff. Skills such as maintenance works planning, procurement management, contract management, contract monitoring, materials testing and contract certification will be needed in the PEO while those with skills related to equipment management and maintenance, maintenance supervision, or delivering physical works will be needed elsewhere, namely, by those contractors actually performing the work. The FMC will be required to assess the skill levels of the PEO and develop with the provincial government a reorganisation plan, a plan for developing the skills needed by the PEO to manage under a new delivery model.

117. Redundancy of staff is always a concern in any jurisdiction where this change in maintenance method is contemplated. The HRD plan will require a sensitive treatment of this aspect. Contractors will certainly wish to employ some of the existing government staff. Others may over the course of 10 years, retire without replacement. Casual community based staff in those areas affected by the contracts may become subcontractors to the prime contractor. One of the reasons why we propose an overall target timetable of 10 years is to allow this process of transition enough time to be achieved smoothly.

118. Further, the changes in the PEO will not be possible without coincident changes in the other key functions of the provincial government, including the planning, investment programming, budgeting, financial control and audit functions and information technology (IT) support. Improvements to these areas is also a prerequisite to allowing the transition from an AusAID managed activity to one that uses local provincial delivery and management systems.

119. In addition, governance reform will not be limited to the administration. Where necessary the PDC will be strengthened to ensure that local community and civil society input is both active and fully engaged in the planning, monitoring and evaluation of infrastructure projects and their implementation. Where need exists, support and training will also be provided to the private contractors, to ensure their

buy in to the PRMF concept and to strengthen both administrative and technical areas that are deemed to be deficient.

### 2.3.3 Facility Development Strategy

120. **The PRMF goal is - increased economic activity and improved public access to infrastructure and services in the Southern Philippines.**

121. Roads which link producers to markets are an important element in improving the efficiency and effectiveness of commodity value chains to generate economic growth and reduce poverty. Value chain analysis conducted in the Philippines and elsewhere highlights that it is the pull of markets that generates the incentive for producers to produce and for traders to service producers. Poor people with limited access to markets have poor market knowledge and are poorly serviced with the inputs they need for production. As a result they have limited incentive to increase production and virtually no chance of breaking out poverty.

122. The rehabilitation and maintenance of strategic provincial roads which link municipalities and barangays to local, regional and national markets is an essential element in any provincial poverty alleviation strategy. In addition to improving market access, these roads can also improve access to essential public infrastructure and services such as health and education facilities which improve social capital and enhance household welfare and wellbeing.

123. Measurable improvement of core provincial road networks, demonstrated increase in economic activity and improved access to public infrastructure and services can be achievable within the proposed five year time horizon of the PRMF. **However, unless the physical works program is accompanied by reforms in the way provinces plan, budget and manage their finances, the road infrastructure and the associated economic and social benefits generated under PRMF will not be sustainable in the long-term.**

124. To address this issue the design team proposes a strategy that will pursue two complementary development objectives:

- i. Improve the sustainable GOP provision, management and maintenance of a core network of provincial roads in targeted provinces in Mindanao and the Visayas; and
- ii. Strengthen the provincial institutional capacity and governance related to the provision and maintenance of provincial roads.

125. The development rationale for focusing on the **provincial road network** is that provincial roads form the key link in the network structure between the local barangay and municipal farm to market roads and the national highways. Over time, as the network in the Philippines matures and the administrative and functional definition of the network components become more rationalized, the provincial roads will form the sub-arterial (usually class II or III) roads in the national network and provide the functional link between the national arterial network and the tertiary network of local roads.

126. The development rationale for **strengthening provincial institutional capacity and governance systems for road rehabilitation and maintenance** is to sustain the provincial road network. Specifically, it will be of little value if the money spent under the PRMF is used to rehabilitate the roads in the key target provinces, but as soon as the program finishes, the roads begin to deteriorate back to their original condition.

127. Explicit in this strategy is the premise that a provincial road rehabilitation and maintenance program will not be sustainable unless accompanied by institutional

reforms. While the capacity of Provincial Engineers Departments will be a key focus for planning, expenditure and management reforms, longer term sustainability will require the program to also focus on related aspects of increasing provincial revenues, improving the linkages between provincial budgets and provincial planning (a sub-set of which relates to infrastructure), and improving internal control mechanisms to boost accountability. These broader reforms will also be key to reducing the risk profile inherent in the use of partner government financial and procurement systems.

128. To achieve this end it is proposed that the PRMF be structured around two main components:

- i. **Component 1:** Capacity Building for Road Sector Planning and Management – with the intended intermediate outcome that - provinces have institutional, financial, operational, planning and management capacity to develop and implement road sector plans in support of broad-based sustainable social and economic development.
- ii. **Component 2:** Road Network Rehabilitation and Maintenance – with the intended intermediate outcome that - provincial roads are being rehabilitated and sustainably maintained on an annual basis.

129. The PRMF will assist provincial governments to overcome road planning, funding, executing and monitoring constraints which result in poor provincial roads by implementing a comprehensive capacity building program alongside the provision of physical road rehabilitation and maintenance work. The PRMF will show by example the benefits of using contractors to carry out maintenance rather than using in-house staff through reduced cost, improved road condition, improved budget stability, and improved financial and physical works accountability.

130. The use of partner government systems is key to ensuring sustainability of the program and complying with the Paris declaration on aid effectiveness. Whenever possible, and subject to an assessment of the effectiveness of counterpart systems and processes, the PRMF will use GOP systems. AusAID guidelines on **Assessment and Controls for using Country Expenditure Systems** will be followed.

### 2.3.4 Key Elements of the Design Strategy

#### Summary

131. As a condition of PRMF support, each Provincial Government partner will be required to:

- i. Agree to a Provincial Assessment being undertaken of the provincial government processes and procedures. Assessments for the initial seven provinces will be undertaken by AusAID. The FMC will undertake updates of these assessments and be responsible for undertaking full assessments for each additional partner province.
- ii. Sign an initial Memorandum of Agreement (MoA) with AusAID and the Department of Interior and Local Government (DILG) which outlines a set of operational and governance 'principles' acceptable to all parties which will form the basis for the PRMF partnership. This MOA will be signed by the Provincial Governor and initialled by the Heads of Provincial Departments; and
- iii. Once the MoA has been signed - a subsequent Provincial Annual Works and Reform Program (PAWRP) will be developed by the FMC with the

Provincial Development Council to guide implementation of the PRMF in that province. The PAWRP will be subject to a “no objection” from AusAID and DILG.

132. Requirements for a province to remain eligible for PRMF assistance will be detailed in the Memorandum of Subsidiary Arrangement (MSA) signed between GoA and GoP and reflected in the MoA, but is likely to include continued commitment to, and progress in achieving, reforms under the incentive program.

133. As a condition of PRMF support, Provincial Governors will be required to subscribe to a **Memorandum of Agreement** (MOA) with AusAID prior to PRMF mobilization. The MOA will outline a set of operational and governance ‘principles’ acceptable to both parties which will form the basis for the PRMF partnership.

134. The AusAID minimum requirement for signing the MOA is a joint communiqué by AusAID` and the Provincial Governor announcing the objectives and scope of the PRMF following a workshop briefing by AusAID of the Governor and his/her administrative and planning advisers. This will ensure that both the provincial political and administrative executive have initial exposure to the PRMF and are aware of the MOA principles which underpin its development.

135. On signing the MOA, provinces would be eligible for an initial program of works to support road rehabilitation and maintenance activities for the first year without preconditions. However, in parallel with this works program the FMC will assist each province to undertake a provincial road sector planning and management review and develop a five year Provincial Road Network Development Plan (PRNDP).

136. Following completion of the review and the preparation of the road plan the FMC would convene workshops to discuss how each province can be best assisted under the scope and principles of the PRMF to implement the PRNDP.

137. Subject to the outcome of these discussions, the FMC will sign a PAWRP based on an agreed program of assistance in support of road rehabilitation and maintenance linked to an incentive scheme which encourages institutional and governance reforms in the road sector planning and management.

138. The PAWRP provisions will take account of the feasible pace of change in the province with respect to road maintenance and public administration improvement and detail a medium-term activity plan and budget for its implementation and management.

139. The minimum requirement for agreeing to the PAWRP would be verification that the province is making progress towards addressing the MOA principles.

#### **2.3.4.1 Establishing the Core Principles**

140. While improvement of the provincial road network is technically achievable within the project timeframe (five years) of the Facility, achieving success in strengthening road related public administration and governance is more challenging. Improvement in public administration will require changes in the way the provincial political and administrative executive and their support staff plan and allocate resources. There is a moderate to high risk that not all the institutional reforms required to strengthen public administration for road sector planning and implementation will be in place within the project period. To address this issue, three key elements to enhance the chances of success in strengthening public administration and road rehabilitation and maintenance will require the FMC to:

- i. establish a set of “core principles” that are accepted by the Governors and AusAID as a guide for the ongoing PRMF partnership;
- ii. develop a framework for implementing and managing the principles; and
- iii. provide incentives for pursuing and adhering to the principles.

141. Provincial Governors will be required to agree to an initial MOA with AusAID prior to PRMF mobilization as a condition of support. To achieve this agreement, it is important that the Governors and their key senior financial, planning and engineering staff understand the PRMF objectives and principles. To initiate this process, AusAID will invite Governors and their principal administrative advisers from the seven target provinces identified for initial assistance to a PRMF workshop in Bukidnon. Bukidnon has been selected as the venue because the Governor of this province and his administration has already initiated a number of core road sector planning and administrative reforms advocated in the PRMF design. Under the MOA, Governors will be asked to commit to:

**a. Principles for Road Rehabilitation and Maintenance, namely:**

- i. To achieve a sustainable allocation of annual budget for road rehabilitation and maintenance to support economic development and poverty alleviation from its own budget resources;
- ii. That these allocations will not compromise the implementation of other core provincial development activities;
- iii. To assess the social, economic and environmental impacts of road rehabilitation and activities and to ‘do no harm’ in conflict affected areas;
- iv. PRMF funding for road rehabilitation, maintenance, and other physical works will be contracted out.

**b. Principles for Strengthening Road Related Public Administration, namely:**

142. To progressive engagement in a reform process that strengthens road related public administration and good governance in support of broad-based sustainable social and economic development through:

- i. Multi-year road program based revenue and expenditure planning;
- ii. Application of the principles of sustainable and participatory development planning, and project cycle management;
- iii. Improved financial management;
- iv. Improved procurement and internal audit to support contracting out and financial management;
- v. Increased fee revenue and tax collection to support the ongoing provision and maintenance of public road infrastructure and services; and.
- vi. Human resource management and development in support of each of the above.

**c. Administrative / legal issues**

- i. The requirement for counterpart contributions (eg contribution of 12% for physical works undertaken to cover eVAT)
- ii. Office space requirements for the Provincial Coordinator; and

- iii. Agreement to modified procurement processes to be followed for all PRMF activity;
- iv. other administrative and/or legal issues that may arise following agreement to the MSA.

**d. Principles to Which AusAID Commits**

143. In response to the agreement by the province to the principles and administrative/legal issues, AusAID in turn will commit to:

- i. Funding of both road improvements as well as technical assistance to support road related institutional change and human resource development within the provincial departments;
- ii. Flexibility in the planned application of the principles in timing and extent to fit the specific capabilities and current institutional structure of the province.

144. The subsequent outcome of this consultation with the Governors will be the signing of a MOA through which :

- i. AusAID agrees to move forward with the implementation of the first year works program of road rehabilitation; and
- ii. the Governor and senior administration staff agree to accept the strategic principles underlying the PRMF and work actively with the FMC over the first year of the PRMF to develop an integrated plan to achieve the objectives defined by those principles.

**2.3.4.2 Implementation and Management of the Principles**

145. The following discussion outlines the proposed framework for giving effect to the implementation and management of the principles as espoused in the MOA:

**a. Road Rehabilitation and Maintenance Principles**

- i. **Allocating an annual road maintenance budget.** Commitment to achieving a sustainable annual budget allocation for road rehabilitation and maintenance requires awareness and acceptance of the need for asset management by the political and administrative executive. As part of project start-up activities in project year 1, the PRMF will sponsor Information, Education and Communication (IEC) activities targeting the planning and decision-making executive to improve their awareness of the need for asset management and support for budget appropriations.
- ii. **Balancing road sector development with other provincial priorities.** The PRMF initiative should not overshadow other provincial development priorities. The Incentive Fund has the potential to skew provincial budget allocations in favour of roads. The FMC will be required to review and report on the impact of the PRMF on development planning and budgeting priorities as part of the annual planning process.
- iii. **Conduct impact assessment.** The PRMF will assist the province to review the social, economic and environmental impact of road projects through the GOP and GOA requirements for Environmental Impact Assessment. Particular attention will be given to the impact of the road activities on the health and livelihood of women and their children and to the principle of 'do no harm' in conflict affected areas. Adherence to this principle requires that the provincial road

networks proposed do not create or aggravate existing social tension and conflict.

- iv. **Contracting out.** A central platform in the PRMF strategy for improving financial management is to demonstrate improved procurement and financial management practices with particular focus on the benefits of contracting out. The PRMF will seek to demonstrate to the provinces that using the contracting approach to maintenance is preferable to doing it under force account. As noted above, one of the benefits of that change is an improvement in institutional accountability. First, the contracting process is open, follows the GOP guidelines and is accountable to the community through the PDC and through the Bids and Awards Committee (BAC). The FMC will also require that the bidding and contracting for all contracts be channelled through the electronic bid system operated by Government Bids and Procurement Board (GBPB). Further, as part of that contracting process, two key features can be specified. First, that the contractors, who are bidding to undertake the works, will ensure that both technical and labour support positions are equally open to both men and women. And second, that to the degree possible, the routine maintenance activity following the road rehabilitation works, will be carried out using local community based labour. This will help to transfer more ownership of the roads to the communities and it will provide an important source of revenue to the communities who may see the contract process as removing part of the casual labour opportunities that the PEO previously provided. Further, contracts need to be monitored. Therefore, they are accountable for achieving their contract targets. These targets will be monitored and evaluated by the supervision engineer.

## **b. Strengthening Public Administration**

### **i. Multi-year revenue and expenditure planning**

146. GOP national guidelines specify the need to move to a three-year rolling structure for planning and budgeting. Currently, most provinces practice annual incremental planning and budgeting. This short-term framework makes effective planning within the provincial sector agencies difficult. Issues of sustainability and good governance are almost impossible to address because of the ad hoc and opportunistic nature of executive planning and decision-making. If public infrastructure and service delivery is to be more sustainable, provinces must shift to multi-year revenue and expenditure planning to guide the annual budget process.

### **ii. Sustainable Development Planning, Project Cycle Management and Good Governance**

147. Sustainable development requires a participatory approach to planning involving (i) the political and administrative executive and their support staff, (notably the PDC on behalf of the legislature) (ii) communities and businesses impacted by planning decisions and (iii) civil society groups with an active interest in development planning and good governance.

148. Sustainable development is premised on the assumption that there is coordination between the provincial development agencies and other stakeholders in consideration of the impact of environmental, social, economic and institutional factors on the feasibility of proceeding with a development activity. For example, a

Governor may see good political mileage in proposing to building a new road, however:

- i. the area may be geographically unsuitable because of slope and high rainfall (environmental factors);
- ii. indigenous people may be opposed because they want to restrict the access of settlers to their land (social factors);
- iii. the road corridor may be surrounded by land that is not productive (economic factors); and
- iv. the province, municipalities and barangays which share the road catchments may not agree on cost sharing arrangements for maintenance (institutional factors)

149. Collectively, these factors should rule that construction of the road is not feasible or sustainable. It is often the case, however, that the project cycle management processes which provide for the coordination and appraisal of sustainability issues in the project design and approval process are insufficiently well defined and supervised. Hence projects with no chance of being sustained slip or are pushed through to approval.

150. To increase the prospects for sustainable development, planning agencies need to develop and adhere to a system of project cycle management (**PCM**). PCM is a term used to describe the management activities and decision-making procedures used by an institution or group during the life-cycle of a program or project. It defines key tasks, coordination roles and responsibilities, key documents and decision options in the process of activity design, implementation, monitoring and evaluation.

147. **Good governance** is also part of PCM. It embodies the principles of participation, transparency, and accountability which must be applied by executive planners and decision-makers throughout each stage of the project cycle if there is to be equitable and sustainable development. Equitable development has two dimensions - social equality and gender equality. **Social equality** is determined by the relative access of individuals and groups within a society to core livelihood assets such as education and health services, markets and commercial services, housing, transportation and communications.

148. **Gender equality** is about the relative access of men, women and their children to these and other livelihood assets.

149. The rehabilitation and maintenance of provincial roads impacts directly on social and gender equality given that well maintained roads will improve the access of communities and households living adjacent to these road networks to these core livelihood assets.

150. The PRMF will work with provincial administrations to review their road sector project cycle management systems and procedures, identify the strengths and weaknesses and make recommendations for improvement. Specific attention will be given to the feasibility/design and appraisal process within the project cycle given its importance in influencing economic, environmental, institutional and social sustainability outcomes which are central to road sector planning.

151. To support the feasibility design and appraisal process the PRMF will engage the services of a Social Development and Gender Specialist to assist in the analysis and appraisal of sustainability issues associated with the development of provincial road projects as they impact on social and gender relations at the household and

community level. This will involve the formulation of a Social Development and Gender Action Plan which will establish guidelines and procedures for assessing and addressing social and gender equality issues in the context of the achievement of the PRMF goal, objectives and component outcomes. The NEDA Gender and Development (GAD) guidelines will be used as the basis for developing this framework.

### **iii. Improved Financial Management, Procurement and Audit**

152. While the GOP has well defined systems for financial management for national and sub-national levels of government, like project cycle management, these systems are not particularly well supervised and, in some provinces, there can be considerable leakage of funds due to mismanagement and corruption. The GOP and the GOA are particularly concerned to address this issue and improve financial management across all sector agencies.

153. The PRMF will endeavour to work within the framework of existing GOP financial management systems in support of the Paris declaration. In giving this commitment, however, the PRMF, through the FMC advisers will:

- i. Work with provincial governments to improve internal control systems and introduce an internal audit function in accordance with national guidelines.
- ii. Ensure that it has in place an anti-corruption strategy and implementation plan which meets GOP and GOA requirements (refer section 3.4.4.3) and encourages the engagement of experienced civil society groups in its monitoring and evaluation.

154. The PRMF will work with provincial administrations to review their financial management, procurement and audit systems and procedures, identify the strengths and weaknesses and make recommendations which will support improvements in the operation and management of these systems.

### **iv. Increasing Tax Revenue**

155. As described in section 2.1.3.1 provinces are heavily dependent on their IRA for their recurrent and development expenditure. Without an increase in their fee and tax base provinces are restricted in the roads and other public infrastructure and services they can maintain and develop. The PRMF will work with provincial administrations to review their fee and tax revenue base, identify the opportunities and constraints for further revenue collection and make recommendations which will support increased revenue collection.

### **v. Human Resource Management and Development**

156. If the PRMF is to be successful, a range of institutional changes in the way road sector planning and management is undertaken will need to be implemented. While these changes principally impact on the operations of the Provincial Engineering Office (PEO) in the form of down-sizing and re-skilling, other provincial agencies will be impacted, most notably, those agencies responsible for investment planning, budgeting and financial management.

157. As part of its road sector planning and management analysis (component 1) the PRMF will identify the organization and management and core capacity building needs of the PEO and those agencies with a functional responsibility for supporting it in each province. This analysis will be developed into a HRM&D plan with an initial focus on road rehabilitation and maintenance. The plan will be cognizant of social and gender equity considerations when addressing organization change and staff development and training opportunities.

## 2.3.5 Selecting Partner Provinces

### 2.3.5.1 Criteria for Choice

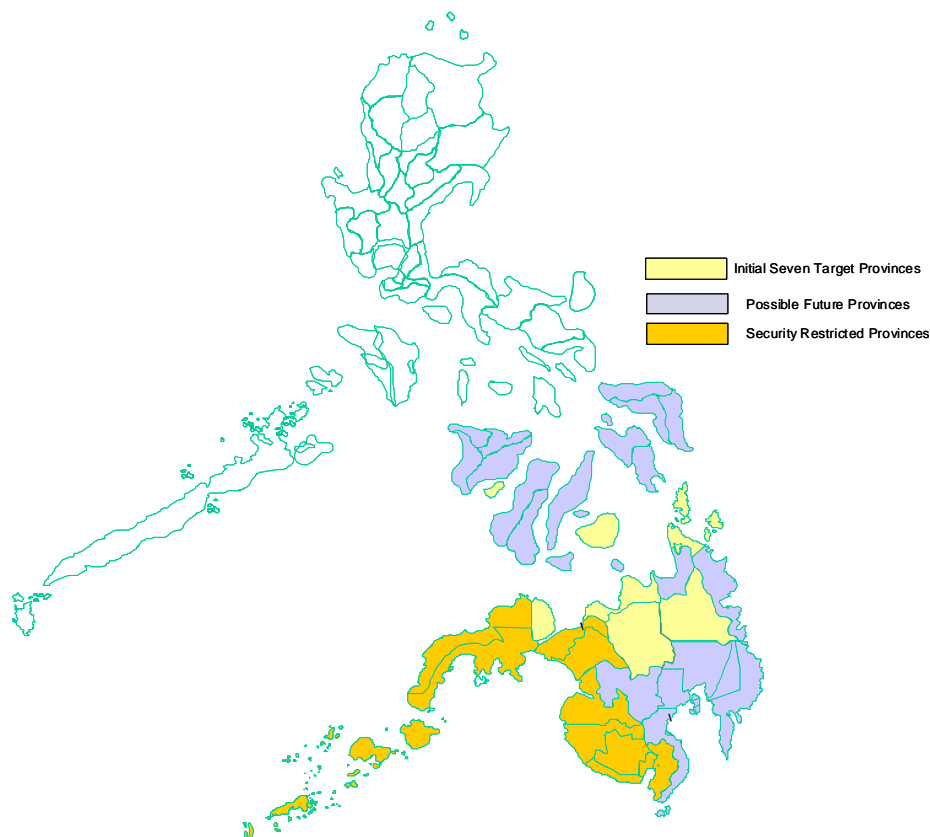
158. The initial selection of provinces was based on supporting those provinces where (i) there is poverty but potential for growth, (ii) AusAID has a pre-existing relationship which can be developed and consolidated, and (iii) there is a reasonable chance that the provincial Governor and the administrative executive will be responsive to implementing institutional and governance reforms necessary to support effective road sector planning and management.

159. Based on these three criteria the IMG has short-listed an initial seven provinces to participate in the program: Misamis Occidental, Bohol, Bukidnon, Agusan del Sur, Surigao del Norte, Giumaras and Misamis Oriental.

160. The PRMF strategy also provides for one conflict affected province to be included in the program. The final selection of this province will be made by AusAID in consultation with the GoP and the FMC once appointed. The FMC will be required to undertake a peace and conflict impact analysis (PCIA) prior to operating in this province.

161. Subject to funding availability, the PRMF will seek to expand its activities to other provinces within Mindanao and the Visayan regions. The FMC will liaise with AusAID and the DILG on the selection of additional provinces.

**Figure 2.6: Selection of Partner Provinces**



162. The currently selected provinces and the remainder of the provinces eligible for possible partnership are illustrated in figure 2.6.

### 2.3.5.2 Continuing Eligibility

163. For a province to maintain its eligibility for funding under the PRMF it will need to ensure that it maintains compliance with the anti corrupt practices provisions noted in section 3.4.1.1. Further, the province must continue to demonstrate commitment to the meeting the agreed targets under the Performance Incentive Program by qualifying each year to at least a minimum level of incentive fund support which reflects positive movement on one or more of the incentive fund criteria.

### 2.3.5.3 Structure of Facility Funding

164. Operationally, PRMF will be based on two funding components, a **Base Program** related to the need of the province and the assessed maintenance funding gap, and a second **Performance Incentive Program** based on commitment to and achievement of the MOA principles described in section 2.2.4.1.

#### a. The Base Program

165. The budget available and the size of the provinces constrain how many provinces can be included in the Facility. The logic is as follows:

- i. A long list of provinces is selected and the extent of the provincial gravel road network is determined;
- ii. An estimate of the core road network in each province allows for an estimate of the annual budget needed, based on the assumption that the overall program will not run longer than 10 years, that AusAID is committed to rehabilitating the core network back to maintainable standard and that the cost of each km of rehabilitation is PhP 2 million.

166. This analysis leads to a review of budget options as the Facility is expanded as shown in table 2.4.

167. The table shows the limits to what can be accomplished with a given budget, in this case \$85 million excluding FMC fees and management costs for works and capacity building over 5 years. The IMG has assumed that in the first full year of the Facility, only the base program will be spent. For the second year onward, this will leave approximately AU\$19 million per year available for base and incentive costs. AU\$8.6 million has been allocated for additional provinces.

**Table 2.4: Estimated Facility Budget Allocation**

	Gravel <sup>17</sup>	Core Kms <sup>18</sup>	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Misamis Occidental	300	250	1.25	1.25	1.25	1.25	1.25	
Agusan del Sur	280	250	1.25	1.25	1.25	1.25	1.25	
Surigao del Norte	275	250	1.25	1.25	1.25	1.25	1.25	
Bukidnon	750	50	0.25	0.25	0.25	0.25	0.25	
Bohol	770	400	2.00	2.00	2.00	2.00	2.00	
Guimaras	130	120	0.60	0.60	0.60	0.60	0.60	
Misamis Oriental	600	450	2.25	2.25	2.25	2.25	2.25	
Additional Provinces			-	2.15	2.15	2.15	2.15	
<b>Sub total Base Program</b>			<b>9.00</b>	<b>11.00</b>	<b>11.00</b>	<b>11.00</b>	<b>11.00</b>	<b>53.00</b>
<b>Sub total Performance Incentive Program</b>			<b>-</b>	<b>8.00</b>	<b>8.00</b>	<b>8.00</b>	<b>8.00</b>	<b>32.00</b>
<b>Facility Total</b>			<b>9.00</b>	<b>19.0</b>	<b>19.0</b>	<b>19.0</b>	<b>19.0</b>	<b>85.0</b>

168. The Base Program will apply to all the selected provinces in the PRMF. The funding will be set at approximately a rate that allows for 10% of the core road network to be rehabilitated annually but that ultimately, all the core provincial roads will be in maintainable and thus sustainable condition. This level of budgeting is considered practical and will ensure that the Facility has a significant impact. This funding will parallel the existing provincial budget funding. The Provincial Governments will contribute funding equivalent to the amount of the eVAT charged for all PRMF activities (12% for civil works).

169. A full budgetary and expenditure management review will be undertaken prior to the commencement of the Facility to determine what capacity exists within each province to undertake additional works and if that capacity does not exist, what HRM&D will be needed to manage the additional works. Because most provinces argue that they are already overstretched, the base program will be operated initially by the FMC. As the provinces adopt a more active contracting out approach to their own maintenance works, the resources released by this change will then be available to reallocate to supporting the PRMF works. **Clearly this is an area of judgement and a successful transition of responsibility from the FMC to the provincial PEO will depend on the improvement in capacity of the PEO and their interest in assuming that responsibility.**

170. The average cost of rehabilitating one kilometre of road is approximately A\$50 thousand or PHP 2 million. The need to allow for wide access to the contracts by the local contracting community in each province means that the size of each contract should be kept below about A\$300 thousand. Details of the implementation of this program are provided in Chapter 3 and 4.

<sup>17</sup> Based on DILG provincial road inventory

<sup>18</sup> Estimate based on provincial assessments conducted for PRMF

**b. The Performance Incentive Program**

171. The PRMF proposes to establish a Performance Incentive Program fund to encourage provinces to pursue reforms in road sector planning and management. The incentive program is designed to leverage off the work accomplished under the base funding. In recognition of the importance (to the ultimate sustainability of the Facility) of encouraging provinces to increase their tax base, the Facility will provide additional incentives to provinces that increase revenue generation by providing a matching grant – peso for peso – the amount of additional local fee and tax revenue generated by the province each year, up to a cap (determined annually) across all provinces.

172. This money will be provided to each province's development fund and not tied to PRMF implementation. The total of all the matching money committed each year will be earmarked as the first commitment of the Performance Incentive Program fund. To ensure that this money is used for effective development a clause will be included in the MOA to commit the provincial government to using the money for development projects and not for provincial staff costs.

173. The funds remaining after the allocation of Performance Incentive payments to the development funds will be made available to the PRMF budget for each province based on the province's performance in meeting pre-agreed criteria milestones.

**Performance Incentive Program Criteria**

174. In addressing the key problems faced by the provinces, the following four additional criteria have been developed both to achieve sustainable roads and to support requirements laid down in the national government planning, budgeting and financial control guidelines:

- i. Progress toward development and implementation of multi-year, program based planning linked to the budget process. This implies that the annual budget cycle follow a standard planning, programming and budgeting logic to ensure allocation efficiency;
- ii. Establishment of internal financial control process and procedures (including audit);
- iii. Development of a multi-year capacity building, institutional development plan to support the above changes.
- iv. Commitment to and evidence of contracting out of routine or periodic road maintenance using provincial budget funds.

175. Each province will come to the Facility with a different approach to road maintenance and administrative reform, with a different allocation of funding and with different capacity problems. The intent is to apply the Performance Incentive Program criteria flexibly within ranges and based on the change between a province's starting point and annual assessment. The following matrix (Table 2.5) provides examples of ranges of achievement which will be prepared during an annual assessment by the FMC for each province but evaluated by the IMG. The performance criteria will be a mixture of highly quantitative indicators such as percentage use of private sector contracting and revenue raising to more qualitative measures of capacity building and establishment and implementation of internal audit. Achievement of each agreed milestone will result in points being provided to the province. These points will be used to determine each province's share of the performance fund. An indication of the criteria, milestones to be measured and likely increase in funding are shown in Table 2.5.

176. The following steps define the implementation strategy:

- i. The size of the Performance Incentive Program fund will be determined annually for the following year by AusAID.
- ii. The FMC will prepare an annual assessment of the achievement under the Performance Incentive Program which will serve as the basis for identifying the level of funding for the succeeding year;
- iii. The FMC together with each province will prepare a long list of projects based on the PRNDP (new road linkages with high economic returns, major drainage work, slope stabilization work, bridge repair and replacement) that would qualify for the Performance Incentive Program. That long list will be approved for each province by Project Steering Committee (PSC);
- iv. The IMG will use the data in the annual assessment prepared by the FMC to rank the provinces and make the final decision on the performance fund allocation;
- v. Once the amount of funding is determined for each province, the projects that are highest on the provincial long list that fit the Performance Incentive Program fund can move forward to contracting.
- vi. Based on the recommendation of the IMG any unused Performance Incentive Program funds not spent or committed by a province for any year will be redistributed to other provinces as determined by AusAID;
- vii. By the end of the third financial quarter of each year, the FMC will report to IMG on the amount of Performance Incentive Program fund unspent or uncommitted by each province at which time that money will be removed from the allocation to that province;

177. For provincial partners that do not perform under the Performance Incentive Program, the Project Steering Committee (PSC) will determine measures for compliance. If the province continues to under perform or does not commit to any implementation of administrative reform or governance change under the Facility, the PSC may recommend the removal of that province from the Facility program and replace it with an alternate province. Alternate or additional provincial partners will be jointly determined by AusAID and DILG through the PSC.

#### **2.3.5.4 Expenditure Monitoring**

178. The expenditure under the Facility will be transparent to civil society and community groups in each province. In each province the FMC will hold an open “town hall” style meeting to explain the basic concepts of the Facility to all who attend. At that meeting, the members of the community and civil society will be encouraged to become active participants in the delivery of the program. While the formal channel of decision making and monitoring and evaluation of implementation remains with the PDC, 25% of its members are from civil society and as a result, there is no reason why groups like a provincial road watch cannot be set up to both assist with planning as well as to monitor achievements.

179. Other jurisdictions have shown that active involvement of the community is one of the most effective ways to ensure that what is planned and promised, is in fact delivered. The FMC will support the formation of community based groups to monitor the delivery of the road improvement works and where any problems are noted, communicate those through the appropriate NGO sitting on the PDC to enable the PDC to take appropriate action.

**Table 2.5: Application of Incentive Criteria**

Criteria	Milestone	Incentive Funding
<b>Untied</b> Evidence of increase in local (non IRA, non government-owned business) fee and tax revenue generation.	Absolute value of increase over previous year's local revenue generation.	For each additional peso raised, PRMF will provide one peso to the provinces development fund (to a predetermined cap )
<b>PRMF budget</b> Contracting out of routine and/or periodic road maintenance using own funds (excluding other donor funds and non-ongoing grants made to the province)	The first step for the province is to agree to move toward contracting out. The initial milestone for the province is thus the agreement by the Governor that such is the objective of the province in the MOA.	Agreement to contract out by the Governor will be worth an initial 20 points. Each 10% increase in the funds provided to the private sector for contracted road maintenance will be allocated 20 points.
Program based multi year planning and budgeting following the GOP guidelines.	Milestones will be negotiated with each province to ensure a province's baseline is understood and milestones encourage progress. Examples of milestones include: <ul style="list-style-type: none"> <li><input type="checkbox"/> Preparation of planning paper to outline how a sustainable multiyear road program budget will be developed and implemented.</li> <li><input type="checkbox"/> Completion of first program based multi year plan and budget.</li> <li><input type="checkbox"/> Annual implementation of sustainable multiyear road budget.</li> <li><input type="checkbox"/> Total funding for road maintenance is increased towards the level necessary to sustain core road network.</li> </ul>	Achievement of each milestone will be worth 25 points.  Milestones will be approved by AusAID. Achievement of Milestone will be determined by AusAID.
Establishment of internal audit process and procedures based on the GOP law.	Milestones will be negotiated with each province to ensure a province's baseline is understood and milestones encourage progress. Examples of milestones include: <ul style="list-style-type: none"> <li><input type="checkbox"/> Planning document prepared to implement an internal control system</li> <li><input type="checkbox"/> Implementation schedule prepared to implement internal control system.</li> <li><input type="checkbox"/> Internal audit function allocated or internal auditor hired.</li> <li><input type="checkbox"/> Internal audit for first year completed.</li> </ul>	Achievement of each milestone will be worth 25 points.  Milestones will be approved by AusAID. Achievement of Milestone will be determined by AusAID.
Development of a multi year capacity building plan for institutional change	Milestones will be negotiated with each province to ensure a province's baseline is understood and milestones encourage progress. Examples of milestones include:	Achievement of each milestone will be worth 25 points.  Milestones will be approved by AusAID. Achievement of

Criteria	Milestone	Incentive Funding
	<input type="checkbox"/> Preparation of "contract out" human resource plan with training needs and timetable <input type="checkbox"/> Preparation and publication of revised institutional structure for PEO and timetable for implementation <input type="checkbox"/> Commencement of training and basic institutional change in the PEO's office <input type="checkbox"/> Evidence of significant institutional change in reduction of staff levels and training of staff <input type="checkbox"/> Completion of institutional change and staff training	Milestone will be determined by AusAID.

## 2.4 Coordination with other Donors

### 2.4.1 SPRMP Co-Financing Activities with World Bank

180. The issue of coordination with other donor programs complementary to the PRMF is specifically addressed by the SPRMP. The SPRMP has identified three ongoing program activities funded by the World Bank for possible co-financing support. These are:

#### 2.4.1.1 National Roads Improvement and Management Program (NRIMP2)

181. This program builds on NRIMP1 and will help fund the national road network. Jointly these two programs will provide close to US\$600 million over the next four years. A large portion of this assistance goes toward the rehabilitation of roads but does not cover all the maintenance requirements. While the details of the co-financing levels to be committed by AusAID to the NRIMP2 are as yet undefined, early discussion regarding vertical linkage between the NRIMP2 choice of target roads in PRMF provinces and the PRMF initiatives on the core provincial roads in those provinces have been productive.

182. Through NRIMP2 AusAID will aim to support the target provinces of the PRMF and further target support to the secondary national road network in those provinces - often seriously under-maintained and in need of rehabilitation. Such focus will ensure that one of the guiding principles of the SPRMP framework of integrated road network planning among all the road classes in a province will be a step closer to being achieved.

#### 2.4.1.2 The Mindanao Rural Development Program (MRDP2)

183. This program provides broad support for effective planning and financial management (including the rehabilitation of municipal and barangay roads) throughout Mindanao. AusAID and WB initially agreed for AusAID to fund the Institutional Governance Reform component of MRDP2. Discussions are also being undertaken for SPRMP to provide assistance on rehabilitation and maintenance of municipal and barangay roads in PRMF provinces. Indicative co-financing support under this could include:

- i. Capacity strengthening of financial, budgetary management and revenue mobilization;

- ii. Strengthen the capacity of municipalities to plan, implement and manage roads under their jurisdiction<sup>19</sup>;
- iii. Strengthen linkages between road management at provincial and municipal levels; and
- iv. Rehabilitation of priority municipal and barangay roads.

184. As with NRIMP2, the discussions with the World Bank will focus on the compatibility of the recommendations, particularly as regards LGU governance and institutional development. For those provinces where PRMF will function, the Governor and the provincial staff will be encouraged to guide municipalities within those provinces in the access of MRDP funding. Where municipalities do apply for MRDP funds, the funding from AusAID will be directed to institutional development and governance. The province will be encouraged to ensure that technical assistance to those municipalities is compatible with the technical assistance being provided to the provinces following from the FMC review of capacity and systems and expanded under the incentive program.

#### **2.4.1.3 Local Government Unit Performance Based Grant Program (LGUPBGP)**

185. The LGUPBGP aims to establish a performance based grants system that builds capacity of LGUs in core functional areas such as planning and budgeting, revenue mobilization, local financial management, accountability and transparency. The project is expected to improve access to infrastructure and services in participating LGUs. It will have four core components: a performance assessment system, development grants, capacity building grant and institutional strengthening program.

186. The design of LGUPGP is still under development by the World Bank. A team is carrying out a fact finding mission prior to pre appraisal and final appraisal. The current plan is to fine tune the criteria under which the performance based grant program will function. Further, the grant will be conditional on a limited level of co-finance from the LGUs of 10%. This co-finance can come from any source, not just locally raised revenue so it will not impose an unreasonable impediment to the uptake of the program funding.

187. The potential overlap between PRMF and LGUPBGP on area coverage and capacity building program is significant. Selection of provinces that will be funded by LGUPBGP is yet to be determined pending completion of the detailed design. However, it is highly likely that it will include some PRMF provinces. AusAID and WB have initially agreed to cooperate and ensure that overlap is minimized if this happens.

188. One of the main tasks of the FMC will be to ensure that the institutional development and broader governance initiatives undertaken as part of the PRMF remain compatible with the governance initiatives undertaken as part of the LGUPBGP. The LGUPBGP will be a Philippine wide program and it is likely to last longer than the PRMF. It is therefore important to fit the recommended governance improvements from PRMF into the LGUPGP framework rather than argue for the other way around. This will be an ongoing task for the FMC.

#### **2.4.2 Lessons Learned from Other Programs**

189. A full discussion and summary of other programs that may have implications for the design of the PRMF is included in annex 2. The incorporation of the lessons

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<sup>19</sup> The content of this capacity building component could change materially in those provinces where the PRMF succeeds in bringing about a consolidation of road maintenance under the provincial government.

learned from those projects and programs in the PRMF design informs each of the areas of our approach including, implementation, technical issues, provincial road administration and institutional capacity building issues and financing issues.

### 2.4.3 Rationale for AusAID Intervention

190. Given the emphasis on promoting growth, governance and infrastructure development in the Philippines country program strategy, the PRMF, within the framework of the SPRMP, provides an ideal opportunity for AusAID to demonstrate its commitment to these core principles in a geographic region and sector not covered by other donors. The PRMF will directly contribute to:

- i. **Economic growth and improved public access to infrastructure and services in the southern Philippines** - by improving the access of people who live along road catchments to (i) markets and the inputs they require for production; and (ii) to essential public infrastructure and services thereby according them greater opportunity to utilize this access to improve their social and economic welfare.
- ii. **Institutional reform and good governance** - by fostering a more participatory, transparent, accountable and equitable approach to provincial planning and decision-making through: (i) demonstration and adoption of improved road sector planning and management practices; and (ii) the progressive application of these practices by the provincial political and administrative executive as mandated by the GOP guidelines;
- iii. **Infrastructure development** - by (i) improving the awareness of the provincial executive of the need for asset management and the corresponding requirement for budget support across all development sectors; and (ii) through directly assisting in the rehabilitation and maintenance of priority provincial road networks

191. The IMG concludes that GOA engagement in the roads sector in the southern Philippines through PFMF is timely, appropriate and welcome.

### 2.4.4 Form of Aid

192. The design team designates the PRMF as a facility that requires the development of both project and program management skills at the provincial level. To secure their fixed allocation or base grant, provinces are required to develop a work plan and budget for the design, implementation and management of a portfolio of priority road rehabilitation and maintenance projects. In this context PRMF will support conventional project development. However, if provinces wish to proceed with securing incentive funds they must agree to pursue a range of program reforms aligned to strengthening the capacity of the provincial governments to better plan and manage their road network.

## 2.5 Measuring Success

193. The successful implementation and management of the PRMF will improve capacity at the provincial level to plan for and sustainably manage the provincial road network. At the conclusion of the project in 5 years time, if successfully implemented and managed, AusAID could expect:

- i. over 1000 km of Provincial roads to be rehabilitated and maintained in up to 10 provinces servicing some 4 million people.

- ii. that people with ready access to rehabilitated and maintained road networks will have better access to economic activity and public infrastructure and services that will improve their livelihoods.
- iii. the core network of Provincial roads to be fully maintained at a defined quality standard by the relevant Provincial Governments.
- iv. participating Provincial Governments to have improved capacity to:
  - ☐ forge formal linkages between the provincial budget office, provincial planning office and provincial engineers office in support of road sector planning and management;
  - ☐ prepare multi-year budgets in support of the plans;
  - ☐ raise additional revenues in support of provincial roads and other public infrastructure;
  - ☐ internally audit road sector and other provincial government expenditures and to act appropriately on the findings and recommendations;
  - ☐ use value-for-money approaches to road service delivery and follow national procurement laws;
  - ☐ formulate Human Resource Management and Development plans in support of change management and knowledge and skills development for road sector planning and management; and
  - ☐ provide accurate and timely reports to national government as required by law on provincial road sector activities.
- v. relevant civil society groups to regularly participate in planning, priority setting and monitoring of road service delivery through the PEO road sector activity management cycle.
- vi. provinces have a robust, open and transparent market for engineering works.
- vii. improved local employment opportunities in road-maintenance related activities.

194. The suggested qualitative and quantitative performance indicators for measuring these indices of success are detailed in the PRMF goal, objective and component outcome and output statements in the logframe (refer Annex 3).

195. It sum, through the mobilization of a program of road sector planning and management, the PRMF will have demonstrated to the provincial political and administrative executive the wider benefits of adopting the core elements of effective public administration and good governance through:

- i. a participatory approach to multi-year sector development planning and budgeting;
- ii. transparency in financial management, procurement and contract management; and
- iii. human resource management and development planning in support of each of the above;
- iv. engagement of the local community and civil society groups in planning and monitoring of activities.

### 3 Implementation Arrangements

#### 3.1 Organisation and Management

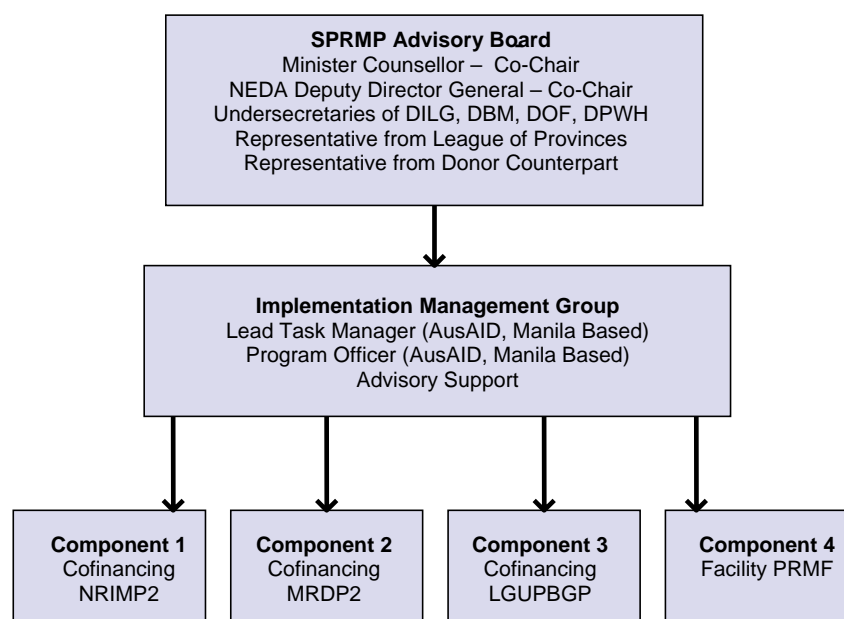
196. The overall management of the Facility will be under the strategic direction of a proposed AusAID Implementation Management Group (IMG) of the SPRMP. Daily operations of the Facility will be supported by the FMC team working with provincial governments.

197. As far as is practical the Facility will work through GOP/LGU systems for the identification, scoping, management and delivery of physical works, with support and oversight by the FMC. In the first year of operation, the FMC will work with provinces to determine their capacity for undertaking the various key tasks such as procurement, contractor management and expenditure management and quality assurance and monitoring. Where those capacities exist, and where the systems in place provide a safe and secure basis for ongoing contracting, project monitoring and expenditure management, the province will be encouraged to provide those inputs. Where such capacities do not exist, the FMC will be charged with helping to develop, deliver and mentor an institutional strengthening program to develop local capacity.

##### 3.1.1 The Southern Philippines Road Maintenance Program

198. The PRMF is one of four components under the management framework of the SPRMP (Figure 3.1).

**Figure 1: Implementation Management Team**



##### 3.1.1.1 Implementation Management Team

199. The SPRMP Advisory Board together with the Implementation Management Group will form the Implementation Management Team (IMT). The formal counterpart agency for AusAID in executing the SPRMP will be NEDA.

### **3.1.1.2 SPRMP Advisory Board**

200. The SPRMP Advisory Board will provide high-level advice in relation to the management of SPRMP and comprise:

- i. AusAID Minister Counsellor as co-chair;
- ii. NEDA DDG for Programming as co-chair;
- iii. DILG Undersecretary for Operations;
- iv. DBM Undersecretary for Operations;
- v. DOF Undersecretary for Operations;
- vi. DPWH Undersecretary for Operations;
- vii. League of Provincial Governors President; and
- viii. Donor Counterparts or Civil Society Representative.

201. The Advisory Board will be acting in a purely advisory capacity and shall not be involved in the operations of the SPRMP, nor have authority for approval of financial assistance. The Advisory Board will provide advice on key issues as identified by the Implementation Management Group (IMG).

202. The Advisory Board will meet every 6-months and will be responsible for:

- i. Providing advice on strategic direction and policy in relation to the implementation of SPRMP;
- ii. Providing advice to ensure SPRMP properly aligns with GOP policies, programs and regulations;
- iii. Advising on other issues which may influence the direction of future assistance including possible political, institutional and social changes which may require a corresponding change in program mix;
- iv. Facilitating Program implementation within GOP. Use of the IMT as a lobby vehicle to overcome impediments at the national level to execution of the works of any of the four areas of the SPRMP;
- v. Linkage to policy issues at the national level that have impact on or affect the implementation of any of the four SPRMP areas;
- vi. Linkage through the IMT to the other national institutions and departments where specialised interventions may be appropriate. This could for instance include specific support for GIS database development within DILG;
- vii. Facilitating donor coordination; and
- viii. Monitor emerging technical, professional or cross cutting issues.

### **3.1.1.3 SPRMP Implementation Management Group**

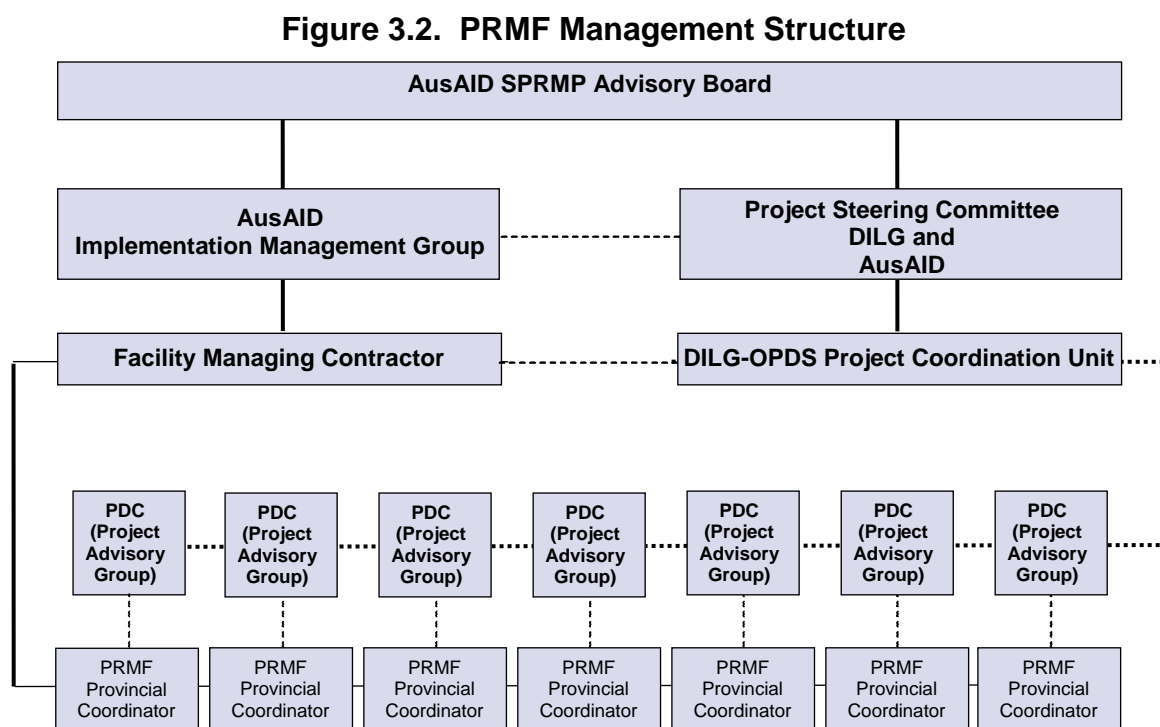
203. The AusAID appointed Implementation Management Group (IMG) is designated to be responsible for the SPRMP. It will undertake overall management of the program as a whole and will be responsible for:

- i. Contract management of each component (including management of co-financing agreements, partnering arrangements and bilateral facility);
- ii. Stakeholder engagement, including implementation partners, managing contractors, recipients, and GOP agencies;

- iii. Monitor implementation progress against M&E framework/system, including participation in component M&E missions;
- iv. Ensure that the FMC financial planning and expenditure management conforms to the requirements of the overall country program;
- v. Consider FMC and Partner reports;
- vi. Service the Advisory Board and AusAID management through preparation of Program work plans (collating component work plans), expenditure forecasts, and preparation of M&E reports identification and management of issues.

### 3.1.2 The Provincial Road Management Facility

204. Figure 3.2 presents the management arrangements for PRMF.



#### 3.1.2.1 Project Steering Committee

205. The PRMF Project Steering Committee (PSC) will be created at the national level. It will be co-chaired by DILG and AusAID. Decision-making authority will rest with DILG and AusAID.

206. The Project Steering Committee will have the following members:

- i. NEDA Director of Regional Development Coordination Staff or Management Staff
- ii. DPWH Director of Bureau of Maintenance
- iii. DBM Director of Regional Operations and Coordination Services
- iv. DOF Director of Bureau of Local Government and Finance
- v. Representative from the League of Provinces of the Philippines; and

- vi. Representative from Civil Society Organization.

207. The PSC will meet every six (6) months, one month before the semi-annual meeting of the SPRMP Advisory Board, or as often as may be necessary, and will have the following functions:

- i. Provide strategic direction and policy guidelines on the implementation of PRMF;
- ii. Provide guidance to ensure PRMF properly aligns with GOP policies, programs and regulations;
- iii. Review and approve the Annual Plan of the FMC<sup>20</sup>;
- iv. Approve the selection criteria and selection of provincial partners;
- v. Approve the PRMF Operations Manual;
- vi. Review the status of PRMF activity implementation of each provincial partner;
- vii. Perform strategic oversight functions, identify strategic issues and recommend measures to address these to the SPRMP Advisory Board; and
- viii. Prepare reports on the critical issues requiring policy actions for the SPRMP Advisory Board.

208. The Team Leader of the Facility Managing Contractor will attend the PSC Meetings. The DILG-OPDS Project Coordination Unit and the FMC will jointly provide Secretariat services to the PSC, including the preparation of minutes of PSC meetings for submission to the SPRMP Advisory Board.

### **3.1.2.2 Provincial Development Council (as the Provincial Advisory Group)**

209. The Provincial Development Council (PDC) will provide advice on the implementation of the PRMF in each province. The PDC's Institutional Development Committee or any appropriate Sectoral or Functional Committee will provide analysis or advice on issues that arise under the PRMF to facilitate the implementation of activities based on the PAWRP agreed between the Provincial Government and the FMC. The PDC will include the PRMF in its agenda at least once each 6 months, one month in advance of the PSC meetings, or as often as may be necessary. For purposes of providing advice to PRMF in the province, the PDC Institutional Development Committee or any appropriate Sectoral or Functional Committee will include the following as members:

- Provincial Engineering Office Head
- Provincial Planning and Development Office Head
- Provincial Budget Office Head
- Provincial Accounting Office Head
- Provincial Treasurer's Office Head
- Human Resources and Management Office Head
- NGO/or Civil Society Group Representative
- DILG Provincial Director
- DPWH Regional Office
- Provincial Environment and Natural Resources Office Head

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<sup>20</sup> This Annual Plan will cover the complete Facility and include as appendices the PAWRP for each province.

- PRMF Provincial Coordinator

210. The PDC acting as the advisory group for PRMF will have the following functions relative to the PRMF activity implementation:

- i. Advise on proper incorporation of local policy guidelines and priorities in the design and implementation of PRMF activities;
- ii. For internal Provincial Government and GoP purposes, review the status of PRMF, monitor the PRMF activities in the province and provide the necessary monitoring and evaluation report as required by GOP, i.e., Provincial Project Monitoring and Evaluation System in collaboration with the PRMF Provincial Coordinator;

211. The PRMF Provincial Coordinator working with the appropriate DILG Provincial Office, with support from the PDC Institutional Development Committee or any appropriate Sectoral or Functional Committee, will prepare a six-monthly report based on the minutes of PDC meetings for submission to the PSC through the DILG-OPDS-PCU.

212. The PDC will not have any decision-making authority over PRMF or activities PRMF undertakes that are outside the normal functions and mandate of the PDC.

### **3.1.2.3 The Facility Managing Contractor**

213. At the provincial level, the Facility Managing Contractor will be represented by the PRMF Provincial Coordinator who will be responsible for managing and coordinating PRMF activities and assistance provided to each provincial partner; interacting and managing relationships with provincial leaders, service providers, and civil society; and reporting to the FMC and the Provincial Government on activity implementation and progress. Broadly, the role of the PRMF Provincial Coordinator will include, but not be limited, to the following:

- a. Facilitate and coordinate the mobilization and implementation of PRMF activities as specified in the PAWRP and logframe, including the agreed Performance Incentive Program, in coordination with the PRMF FMC Team and Provincial Government officers;
- b. Assist the PRMF Team Leader to (i) negotiate the PAWRP, (ii) mobilise and manage resources for the implementation of PAWRP activities (iii) monitor and report on these activities; and
- c. Represent the FMC as an observer to the PDC meetings as an advisory group and document any decisions or concerns registered by the PDC in the semi annual report to the FMC team leader.

214. At the national level the FMC Team Leader will attend the meetings of the PSC and the Advisory Board, report semi annually on the progress of the PRMF and any issues that need to be considered and any decisions that need to be taken. The FMC will also work with the DILG Project Coordination Unit (PCU) to prepare a report from the PSC to be presented to the Advisory Board.

### **3.1.2.4 Roles and Responsibilities of Counterpart Entities**

215. The Department of the Interior and Local Government will be the counterpart agency of AusAID for the strategic implementation of PRMF. The following are the general roles and responsibilities of DILG, which will be spelled out in the Memorandum of Subsidiary Arrangement (MSA) between AusAID and DILG for PRMF:

- i. Undertake strategic program implementation with AusAID, advocate for sustained interest and commitment of provincial partners, coordinate with other government agencies' participation towards effective program implementation;
- ii. Sign the Memorandum of Agreement with AusAID and each Provincial Government partner;
- iii. Review the Provincial Annual Works and Reform Program. In the event that DILG or AusAID objects to an element of the PAWRP, a letter of objection providing clear reasons for the objection, details of the issues, and measures that need to be undertaken to redraft the PAWRP will be provided within 14 working days. If written reasons for the objection are not received within 14 days, the no objection is deemed to have been provided;
- iv. Work with AusAID in complying with the GOP approval process and requirements, namely:
  - ☐ Investment Coordination Committee approval
  - ☐ Memorandum of Subsidiary Agreement
  - ☐ Environmental Compliance Certificate
- v. Provide advice to improve synergy of PRMF with other related GOP and donor initiatives;
- vi. Disseminate lessons learned and reforms coming from the PRMF to the national government and to other non-participating provinces;
- vii. Monitor and evaluate the progress of PRMF activity implementation and provide the necessary monitoring and evaluation reports as required by GOP, i.e., Regional Project Monitoring and Evaluation and annual ODA sectoral review;
- viii. Advise the FMC on the design of activities under the Capacity Building component;
- ix. Assist the FMC in the coordination and delivery of capacity building activities for the provinces;
- x. Jointly with the FMC, submit a six-monthly status report of the implementation of the PRMF to the PSC.
- xi. Establish a Project Coordination Unit (PCU) within the Office of Project Development Service (OPDS) to undertake the responsibilities of DILG regarding PRMF implementation;

216. The Provincial Governments will be the primary counterpart partners in the implementation of PRMF activities. The following are the general roles and responsibilities of the Provincial Governments, which will be incorporated and articulated in greater detail in the MOA. The provincial government will:

- i. Sign with AusAID and DILG a MOA that details the operational and governance principles acceptable to AusAID, DILG and the province;
- ii. Sign the PAWRP with the FMC that spells out the agreements (i.e., general parameters on road rehabilitation and maintenance, capacity building activities and performance measures) and guides the implementation of the PRMF in the province.
- iii. Implement the PAWRP with the FMC based on the agreed principles included in the MOA;

- iv. Comply with the monitoring and evaluation requirements of GoP relevant for PRMF activities, particularly that of the Provincial Project Monitoring and Evaluation Committee and DILG annual inventory of provincial roads, among others;
- v. Contribute funding equivalent to the amount of the eVAT charged for all PRMF activities (12% for civil works); and
- vi. Provide counterpart office space, equipment and personnel, as needed, to work with the PRMF Provincial Coordinator and other PRMF personnel.

### **3.1.2.5 Technical Monitoring Group**

217. A Technical Monitoring Group (TMG) will be established by AusAID towards the end of Year 1 to prepare independent evaluations of the impact of PRMF activities and the effectiveness of the adopted implementation arrangements. Based on these assessments it will also make recommendations to AusAID concerning possible improvements to PRMF implementation arrangements. The TMG will conduct a first assessment early in Year 2 and periodic assessments as deemed necessary by AusAID thereafter. The TMG will be headed by an independent external expert to be selected by AusAID, and will seek inputs from partner agencies as well as from AusAID, the Advisory Board, Provincial Government agencies, local communities in areas of Facility activity and the FMC's personnel.

218. Recommendations of the TMG may be used to revise or amend the contractual responsibilities of the FMC which define the project execution. Those amendments once incorporated in the contract will then become the responsibility of the IMG to manage.

### **3.1.3 Principal Agreements**

219. The formal PRMF counterpart agency at the national level for the GOP is the Department of Interior and Local Government. The IMG is currently in the process of formulating a Memorandum of Subsidiary Arrangement (MSA) between AusAID and DILG which provides the framework agreement for the PRMF. This subsidiary agreement will lay out the general principles of the AusAID contribution, its operational and management structure and the structure of the PAWRP signed by the provincial governments with the FMC. The MoA will be specific to each Provincial Government partner and refer to the MSA. They will provide a formal structure for the relationship of the FMC to each individual province, including:

- i. Form of financial structure for funding works and services including use of the trust fund and payment responsibilities;
- ii. Broad timetable for change or handover of the financial responsibility, and required changes to allow this handover to occur;
- iii. Commitments to a pace of reform by the province and a balanced commitment to support for a human resource management and development program by the FMC;
- iv. Agreement on the use of local bodies like the PDC to assist the FMC in development, monitoring and evaluating the Facility works and technical assistance services;
- v. Agreements for change and commitments for support to affect improvements to the multiyear planning and budgeting system, the financial control system and the commitment to provision of an internal audit function;

- vi. Agreement on active engagement of local communities and civil society groups on planning and monitoring of activities;
- vii. Commitment to improving the efficiency and effectiveness of the provinces use of force account and contracting out service delivery mechanisms.

220. The MoAs would be commitments to a process to be entered into by both the FMC on behalf of AusAID and the provincial governments. The MoA would reference the MSA so far as any formal commitment would be needed to comply with GOP tax, environmental or other laws that may apply.

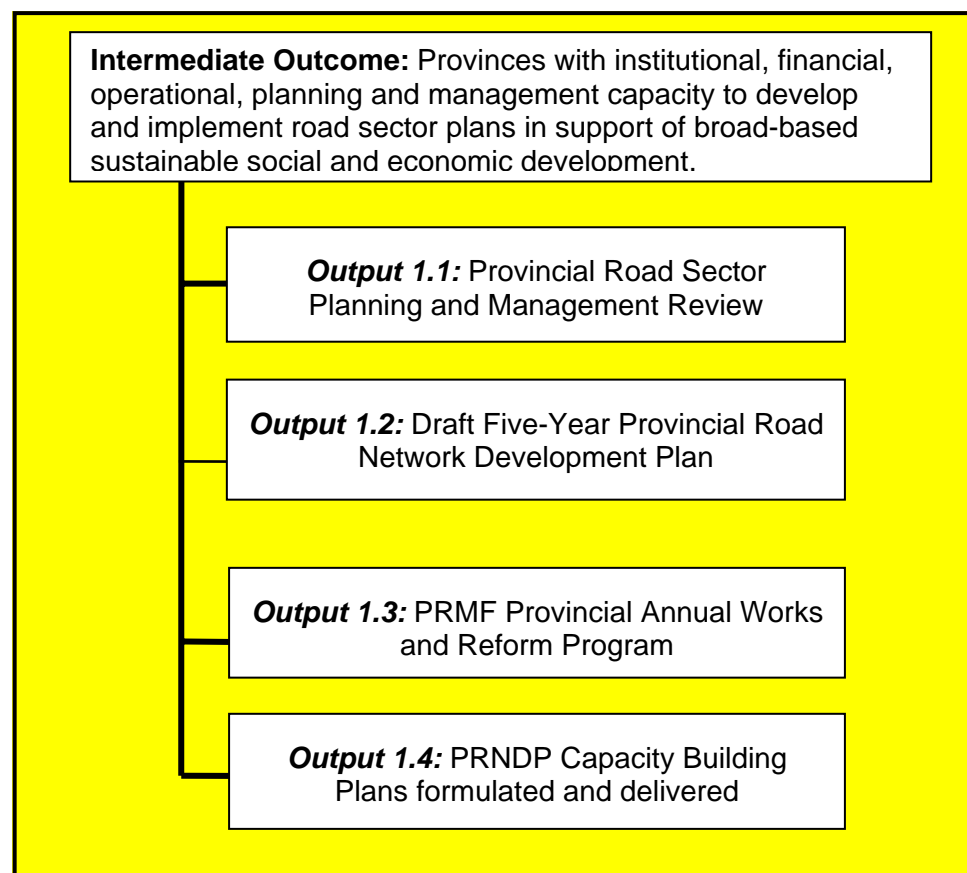
### 3.1.4 Facility Components

#### 3.1.4.1 Component 1: Capacity Building for Provincial Road Sector Planning and Management

221. This component will strengthen the capacity of the provincial governments to plan, prioritize, and efficiently manage the priority provincial road network. The emphasis will be on improving the reliability of a core affordable provincial network of roads linked to the national network and the municipal and barangay networks.

222. Figure 3.2 summarizes the principal component outcome and outputs.

**Figure 3.2. Component 1 Outcome and Outputs**



#### **Output 1.1: Provincial Road Sector Planning and Management Review**

223. In the first year of PRMF mobilization, provinces will be assisted to review their approach to road sector planning and management. The review will build on the existing Provincial Assessment Profiles and will be used to identify the strengths and weaknesses in the existing planning and management systems which govern the relationship between the Provincial Engineering Office and those other Provincial Offices which provide planning, budgeting, financial management and other technical support services.

224. Specifically, the review will focus on the efficiency and effectiveness of the PEO, other Provincial Government Departments that play a role in underpinning the

ability of the Province to deliver road services, and the linkages between Provincial government departments as reflected in:

- i. Planning and project cycle management systems.
- ii. Budgeting, financial control and auditing systems.
- iii. Procurement and service delivery mechanisms.
- iv. Human resource management and development provisions.

225. Where the review reveals weakness in the provincial planning, budget, finance and audit functions, specific recommendations for strengthening capacity within the relevant provincial offices will be made for inclusion in the Human Resource Management and Development Plan (refer output 1.2) for subsequent follow-up in the PAWRP process (output 1.3).

226. A key element of the review process will be assessment of the efficiency and effectiveness of procurement and road service delivery mechanisms as currently defined by force account, contracting out and LGU PAWRP activities. All works funded by the PRMF will be contracted out to the private sector. It is intended that provinces should be encouraged to also contract out some of their own self-funded work.

227. In order to facilitate objective decision making about contracting out the FMC will assist the PEO and planning agencies to:

- i. assess the effectiveness, technical and financial viability of force account and contracting out delivery of road maintenance and prepare a 'like for like' cost comparison of the two methodologies;
- ii. subject to acceptance by the province, prepare a phased program of support to assist provincial government's to contract out at a pace aligned with local absorptive capacity;
- iii. assist provincial government's and/or contractors to introduce labour based appropriate technology (LBAT) maintenance contracts or subcontracts as one contracting option, including training of counterparts and private sector contractors in best practice implementation of these methodologies;
- iv. negotiate time bound reform target milestones to be included in the province performance criteria agreements;
- v. assess the capacity (technical and commercial) of local contractors, carry out a rapid training needs assessment and develop a training program to strengthen relevant capacity.

### **Output 1.2: Draft Five-Year Provincial Road Network Development Plan**

228. The findings and recommendations of the Road Sector Planning and Management Review will be used to prepare a 5-year Provincial Road Network Development Plan for each province in support of broad-based sustainable social and economic development which:

- i. prioritizes the development of the provincial road network following DILG guideline based on provincial development needs and sound technical, social, economic and environmental management criteria;

- ii. develops a revenue and expenditure plan for its funding and finance and accounting systems for its management;
- iii. develops a procurement and service delivery mechanisms for its implementation including the institutional implications of those choices;
- iv. develops a framework for monitoring and evaluating its progress and responding to lessons learned.
- v. develops a Human Resource Management and Development Plan based on social and gender equality to build knowledge and skills and improve capacity in the province to implement and manage the plan.

229. In the development of the plan special attention will be given to the development of new, and enhancement of existing, GIS based Management Information Systems which enhances the collection and processing of data for road sector planning and management by provinces, the DILG, and other agencies.

230. The following key elements will be included in the formulation of the Provincial Road Network Development Plans:

**a. Specification of the Road Network**

A road network report will be undertaken through an assessment of the Provincial road network using existing records and by visual inspection. The Road Network Report will be based on the DILG specified criteria and will:

- ☐ describe the network extent, classification and condition;
- ☐ identify and rank key road links or bridges requiring rehabilitation to be brought back to a maintainable condition either a) immediately or b) within next 3 years;
- ☐ identify and rank key road links or bridges requiring periodic maintenance;
- ☐ identify and rank any new road links that appear to offer high economic rates of return for possible support under the incentive program.

**b. Alignment of the sector with provincial development priorities, planning and budget mechanisms**

The preparation of the PRNDP will include a review of provincial and local level government policies, strategies, and programs for poverty reduction and regional economic development to ensure that any proposed road network activities under PRMF complement provincial and LGU development priorities. The PRNDP will:

- ☐ Specify road sector development priorities within the context of this analysis;
- ☐ Formulate a multi-year revenue and expenditure plan in support of the PRNDP and aligned to provincial planning and budget systems.

**c. Specification of Works Program Procurement and Services Delivery Mechanisms to mobilize the plan**

The PRNDP will provide specifications of works program procurement and service delivery mechanisms to mobilize the plans.

231. The translation of the annual component of the five year plan into tangible and actionable steps requires that the annual program target road works be designed, costed, included in the annual budget, scheduled, bid and contracted. The translation of the planned works to an actionable program of works will be the responsibility of the PEO with support from the FMC as needed. It is not expected that all components of the works program will follow the design initially. The incentive criteria for funding have been designed to support the transition process. Over the course of the Facility it will require transition to the following:

- i. **Design of the target roads.** The Provincial Governments may wish to develop design skills in-house or contract the private sector to undertake this role. This choice will be supported by the FMC through the design of capacity building activities to assist the province reach its desired outcome. The FMC will provide support and quality assurance roles to road segment design processes;
- ii. **Costing.** The PEO will develop unit cost rates for road rehabilitation, routine and periodic road maintenance works. The FMC will also have an equivalent database for Mindanao and Visayas which also takes into account any significant geographical variances. These two sources should be available to the designer to provide an independent estimate of the costing of the works;
- iii. **Budgeting.** The PEO should eventually have the skills to accurately prepare cost information and budgets. In the interim the FMC will be responsible for quality controlling and verifying costs prepared by the PEO (with support from the FMC). Costing of the programmed works will need to be completed prior to the annual budget cycle to allow for adjustment of the budget or amendment of the works program, whichever is necessary;
- iv. **Contracting.** Bidding and contracting will be carried out using GOP guidelines, as amended to comply with GoA procurement requirements, and working with staff of relevant Provincial Government Departments. It is envisaged that the Provincial Government will eventually prepare and manage of contracts. However, in the first year of PRMF assistance in each province, the FMC will be responsible for the contracting of all civil works and capacity building programs that make up the first year work program. The FMC will be responsible for all processes including the preparation of ToRs, contract designs, contract costs, tender documents, tender advertising, FMC selection, contracting, contract monitoring and certification of performance of the FMC. The first year of engagement will provide opportunity for the FMC to develop and deliver capacity building programs targeted at strengthening the ability of Provincial Governments to manage the contracting process.
- v. **Procurement.** It is envisaged that eventually the Provincial Governments will manage procurement processes. In moving towards this the FMC will undertake an assessment of the province's procurement processes, identifying weaknesses and risks, and design and implement a capacity building program to address these weaknesses and risks. A long-term performance-based contract that includes road rehabilitation and ongoing maintenance of the road for the following three years will be developed by the FMC for the year one program and used in subsequent PAWRPs. The

FMC will prepare bidding documents that include requirements for subcontracting of work to local communities, both during the rehabilitation of the roads and also as contributors to the ongoing routine and periodic maintenance of the roads during the maintenance period. The bidding documents will also include provisions that would mitigate negative impacts of road activities on gender, health including HIV/AIDS, child protection, disability, environment, peace and security among others.

232. In helping to develop the sector plan the FMC shall consult with the implementing agencies and their consultants responsible for the other SPRMP projects (NRIMP2, MRDP2 and LGUPGP) to coordinate parallel activities underway or planned at the national, municipal and barangay level to optimize connectivity of the core road network in participating provinces.

**d. Formulation of a Human Resource Management and Development Plan**

233. The plan will build on the current capacity and match that capacity with the skills and positions needed by the province to allow for effective planning and executing of the road works program.

**i. The Provincial Engineering Office**

234. AusAID's preferred strategy is that the PEO change from a works delivery organization to a works planning, scheduling, contracting and monitoring organization. Subject to acceptance of this strategy by the province, this will require progressive change in the way the PEO services road sector planning and management and is staffed and managed. To facilitate this change the FMC will assist the PEO to prepare a change management plan which addresses redundancy and redeployment issues and the organization and management and knowledge and skill requirements for supporting the functions of the restructured organization. The change management plan will include:

- ☐ A phased institutional reengineering plan that clearly specifies milestones to be achieved based on the degree of contracting out and the staff numbers and skills needed to manage that process. The end target of that institutional plan will be a more streamlined structure emphasizing the above skills;
- ☐ An organizational plan to identify key functional positions including position descriptions, technical and administrative skill needs and assessment of the skill match of existing staff compared to the requirements. Central to the development of this plan will be a strategy for redundancy and redeployment for provincial staff displaced by PRMF reforms.
- ☐ Appropriate systems and procedures for asset management and prepare capacity building technical assistance and training focused on works planning and costing, scheduling, procurement, contracting and works monitoring to create the needed skill capacity to fill the above organizational requirements.

235. The plan will specifically address the issue of redundancy management and retraining within the PEO. Reference to Bukidnon's experience may be useful to define both the reasonable target levels of staffing as well as the process of transformation.

236. If the process of contracting out is not accepted by the province the FMC will advise on measures for improving the efficiency and effectiveness of the PEO's existing force account system and offer appropriate HRMD interventions to support capacity building.

**ii. Linkages with, and HRMD for, other Provincial Offices**

237. The HRMD plan will not only strengthen capacity within the PEO but, as a result of the review (Output 1.1), will also build capacity in strengthening the relationship between the Provincial Engineering Office and those other Provincial Offices which provide planning, budgeting, financial management and other technical support services for road sector planning and management.

238. If during the conduct of road sector planning review weaknesses in provincial planning, budget, finance and audit functions are revealed, specific recommendations for strengthening capacity within the relevant provincial offices will be included in the Human Resource Development and Management Plan and tabled as agenda items in the preparation of the Provincial PAWRP (refer output 1.3).

**Output 1.3: PRMF Provincial Annual Works and Reform Program**

239. Following completion of the review and the preparation of the road plan the FMC would convene workshops to discuss how each province can be best assisted under the scope and principles of the PRMF to implement the PRNDP.

240. Subject to the outcome of these discussions, the FMC will develop a PAWRP based on an approved program of assistance in support of road rehabilitation and maintenance linked to an incentive scheme which encourages institutional and governance reforms in the road sector planning and management.

241. The PAWRP provisions will take account of the feasible pace of change in the province with respect to road maintenance and public administration improvement and detail a medium-term activity plan and budget for its implementation and management.

242. In keeping with the MOA principles (refer section 2.3.4.2) the PAWRP will be reviewed annually and the level of support for the province adjusted on the basis of its performance in meeting the incentive funding criteria.

243. AusAID and DILG will review and provide a no objection clearance to the negotiated PAWRP.

**Output 1.4: PRNDP Capacity Building Plans formulated and delivered.**

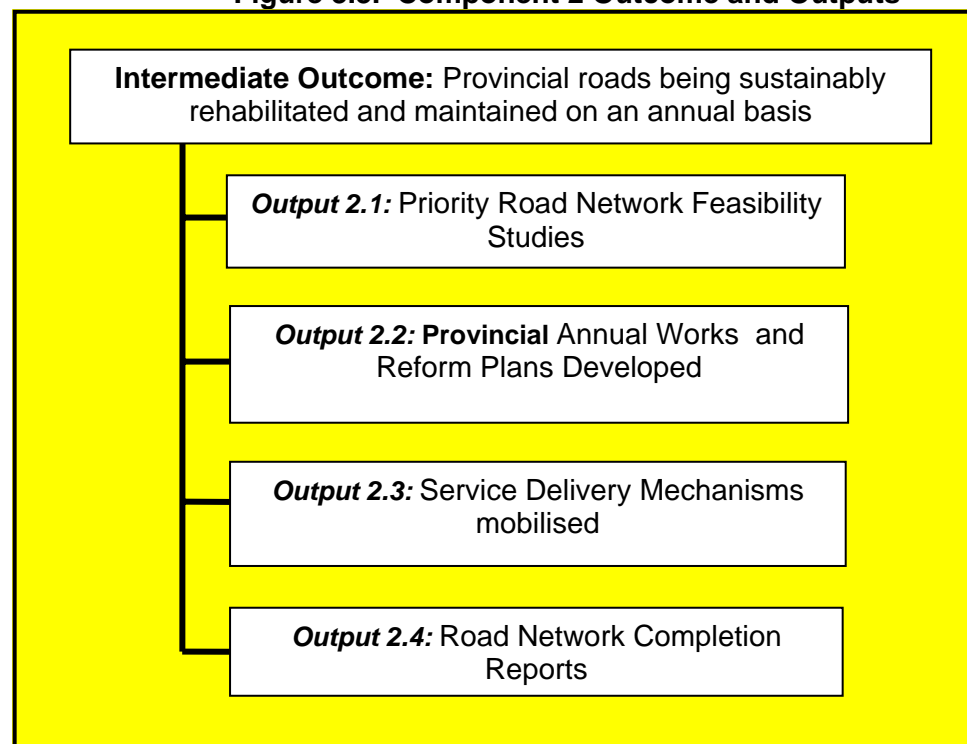
244. These activities will flow from the HRMD analysis in output 1.2 and the PAWRP process (output 1.3). The plan is intended to strengthen the capacity of the PEO, provincial offices providing related planning, budgeting and financial management support services and contractor performance in provincial road sector planning and management and service delivery as defined and prioritized in the PRNDP.

245. The FMC will prepare an annual capacity building activity plan and budget for each province and mobilise technical assistance and capacity building activities around this plan. It is anticipated that the plan will cover a range of activities including organisation and management and knowledge and skills development inclusive of workshops, formal and on-the-job training, mentoring and field visits. Progress towards improving capacity of the target groups will be assessed through the six-monthly progress reports.

### 3.1.4.2 Component 2: Road Network Rehabilitation and Maintenance

246. This component will support the rehabilitation and maintenance of (i) the core affordable provincial road network approved under the PRMF base grant formula as part of year one start-up activities and (ii) those activities subsequently developed and as part of the 5 year PRNDP under component 1 and supported by both the base and incentive program funding. Figure 3.3 summarizes the principal component outcome and outputs.

**Figure 3.3. Component 2 Outcome and Outputs**



247. The FMC shall support eligible provincial government agencies to scope, procure and manage the road rehabilitation and maintenance activities to be funded under the PRMF.

#### **Output 2.1: Road Network Development Feasibility Studies**

248. While the annual road rehabilitation and maintenance programs will not require a feasibility study, some of the planned road improvements under the 5 year Plan may. Those roads requiring feasibility studies will be clearly identified and prioritized. The feasibility studies will cover the technical, social, economic and environmental issues. For environmental issues, the overall Environmental Management Plan will be the umbrella document supported by Sustainable Livelihood Framework Analysis (Annex 9). Within that document, the design of the roads will comply with all the requirements for impact mitigation consistent with good works and environmental planning. Where necessary the FMC will assist provincial government agencies to prepare appropriate levels of feasibility studies, engineering designs, technical specifications, tender documents, cost estimates, economic analysis, environmental assessments and social impact assessments, in accordance with agreed guidelines. Designs and technical specifications shall be based on least-cost life cycle analysis of available and appropriate local materials and construction methodologies. However, as soon as is practical, this role will be left with the PEO. As is normal

practise, the Provincial Development Council (PDC) will appraise and approve these studies. The FMC will only include road segments for which the PDC has approved the feasibility study in the PRMF work-program. Where appropriate and approved by AusAID high-priority road linkages not included in the regular PRMF work program, major drainage work, slope stabilisation work, and repair and replacement of bridges may be incorporated in the list of approved projects for funding under the Performance Incentive Program component of the PRMF.

### **Output 2.2: Provincial Annual Works and Reform Plans Developed**

249. The FMC will assist Provincial Government agencies to prepare provincial annual works and reform plans (PAWRPs) based on the five year Provincial Road Network Development Plans prepared under Component 1. The PAWRPs shall include both rehabilitation and maintenance works within a budget ceiling comprising the province's own resources including matching funding to cover the PRMF VAT costs and additional funding provided by PRMF (to be agreed with the IMG). PAWRPs should comprise a number of work packages (sub-projects) with related cost estimates. They should also include related capacity building projects planned for the next 12 months. It is intended that PRMF funded work will be contracted out. Self-funded work may be implemented either by force account or contracted out. PAWRPs shall also identify any necessary consultants services required for design and/or works supervision.

250. While the FMC will be responsible for contracting of the first year program, for subsequent years, the FMC will assist the PEO to prepare a procurement plan, conduct the procurement of all contracts for civil works and consulting services under approved AWP, in accordance with procurement processes agreed for the facility.

### **Output 2.3: Service Delivery Mechanisms Mobilised**

251. Once the Provincial Annual Work and Reform Plans have been approved, the FMC will work with the PEO to mobilize service delivery through contracting out and force account delivery mechanisms. For all PRMF funded activities and other activities approved for contracting out, the FMC will work with the provincial Supply and Tenders Board to ensure that it is fully functional and following GOP procurement guidelines (as amended to comply with Australian Procurement Guidelines).

252. In support of improving the provincial supply and tender process the FMC shall provide training as required and assist the PEO to supervise outsourced consulting services.

253. Where the province opts to deliver (non PRMF funded) services through force account the FMC will assist the PEO to review its systems and procedures with the view improving service delivery and reducing costs. Once contract and force account activities have been mobilized, the FMC will assist the PEO to undertake regular monitoring and certification of the quality of the works. For contracted out works funded by the PRMF, sign-off by the local supervision consultant or the official PEO works monitor will be required to effect payment of the milestone invoices from the contractors. However, approval procedures should be developed in such a way so as to avoid unnecessary delays or arbitrary outcomes.

254. Notwithstanding the above, in the first year of PRMF engagement in any province the FMC will be responsible for mobilizing the delivery of PRMF assistance.

## Output 2.4: Road Network Completion Reports

255. A completion report, to form part of the PAWRP, should be prepared annually to document the works undertaken and the special conditions or aspects of interest noted during the annual works program. The completion report will document the performance of the contractors, the costs of works, comments by the independent supervision consultant or PEO works monitor and any information obtained during the conduct of the works that will be of value in the development of subsequent works programs and the Provincial Road Network Plan. This is particularly the case as it relates to the risks identified in the risk matrix. Where the completion report notes systemic problems or areas where changes are needed to address risk issues, those areas will be addressed by the TMG and may then lead to changes in the structure of the PRMF. The completion reports will also be used by the project monitoring consultant appointed by AusAID to assess the performance of the road rehabilitation program. The completion reports will also be used by the project monitoring consultant appointed by AusAID to assess the performance of the road rehabilitation program.

### 3.1.5 Facility Managing Contractor

256. The FMC will be responsible for the execution of its contract. It will report to and take all reasonable strategic directions regarding the execution of that contract responsibility from AusAID and in particular the IMG. The Contractor will provide technical, procurement, logistical, financial management and coordination support services to assist the IMG to mobilize the PRMF (initially in seven provinces) with recommended expansion to additional provinces consistent with the available budget and to assist with the subsequent design, tender and contracting of approved PRMF activities in these provinces. The Contractor will also facilitate the monitoring and evaluation of the program.

257. The development of Facility planning and management systems is essential for efficient implementation. While the FMC will be responsible for preparing a full Operations Manual, as part of that development the IMG will provide guidelines that capture the original intent of the structure of the Facility in key technical and operational areas. The practical means of achieving the intended outcomes of the Facility may change as the FMC begins to review the status of each province, so the guidelines are meant to be used as information only. The complete operations manual will detail guidelines and instructions for the systems and procedures which need to be followed for the efficient and effective management of PRMF. The manual will contain annexes on:

- i. **project planning and management systems** - covering the requirements for activity cycle management (including planning monitoring and evaluation), Management Information System Development, procurement and financial management including operations of the Imprest Account;
- ii. **technical guidelines and instructions** – covering the standards, systems and procedures required to support road rehabilitation and maintenance; and
- iii. **impact assessment guidelines** – covering the GOP and AusAID requirements for addressing policy issues and impacts associated with poverty alleviation, social development and gender equality, environmental management and good governance (including anti-corruption and peace and conflict management)

258. A first draft of the manual will be completed within three months of FMC mobilization as part of the Inception Report and it will be updated on an annual basis. Training in the use and interpretation of the manual will be given to all PRMF staff with the view to ensuring that personnel understand the need for an integrated approach to development planning which requires knowledge and understanding of the linkage between planning and management systems, the technical requirements for effective implementation and project sustainability, and the monitoring and evaluation of project related impacts.

### 3.1.6 Structure of the Facility Coordination Office

259. PRMF will be managed through a Facility Coordination Office (FCO) staffed by the FMC. The FCO will comprise a number of full-time staff including one internationally recruited Facility Team Leader who will be able to draw upon the services of locally and internationally recruited long and short-term technical assistance specialists as required. The FCO will provide technical, contract management, procurement, logistical and monitoring and evaluation support services to approved Facility Partners (Provinces) in the implementation of the PRMF pipeline activities.

260. As appropriate the FCO will consult with the IMG to facilitate inter-agency collaboration with the GOP and aid donors.

#### 3.1.6.1 Personnel

261. In assessing its work-in-progress and the requirements for a seamless transition in the appointment of an FMC the IMG has determined that the Contractor will need to provide the services of a Core Team as detailed in table 3.1: Annex 7 details the capability and experience requirements for the core personnel.

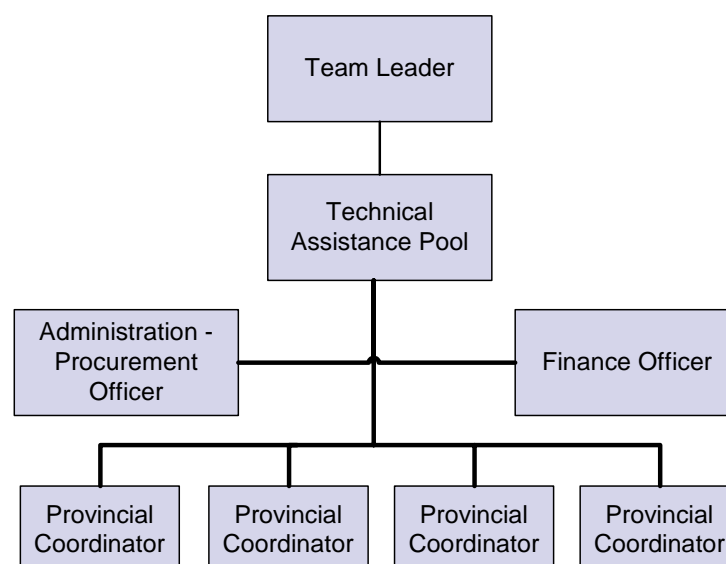
**Table 3.1. Specified FMC Personnel**

<i><b>Position</b></i>	<i><b>Input</b></i>	
	<i><b>Long-Term</b></i>	<i><b>Short-Term</b></i>
<b>Long-Term</b>		
International Team Leader	1	
<b>Local Technical Coordinators</b>		
PRMF Provincial Coordinators – one per province	Up to 10	
Road Engineer Coordinator	1	
Human Resource Management and Development Coordinator	1	
Monitoring and Evaluation Coordinator	1	
<b>Short-Term Locally Engaged Specialists</b>		
Social Development and Gender Specialist		1
Institutional / Organisational Development Specialist		1
Procurement Specialist		1
Local Government Finance/ Internal Audit and Control Specialist		1
Environmental Planning Specialist		1
Unallocated		Up to 20 person months
<b>Short-Term International Advisers</b>		

Social Development and Gender Adviser		1
Human Resource Management and Development Adviser		1
Institutional / Organisational Development Specialist		1
Road Engineering Adviser		1
Local Government Finance/ Internal Audit and Control Adviser		1
Monitoring and Evaluation Adviser		1
Unallocated		Up to 15 person months

262. The following figure 3.5 outlines the general structure of the Facility Coordination Office (FCO).

**Figure 3.5: Structure of the Facility Coordination Office**



263. It is proposed that the FCO comprise an international Team Leader, supported by a Technical Assistance Team comprising:

- i. long-term locally recruited Coordinators (Road Engineering, Human Resource Management and Development, Monitoring and Evaluation and Provincial Coordination); and
- ii. a pool of locally recruited short-term technical Specialists and internationally recruited Advisers.

264. It is proposed that the Provincial Coordinators be located in the Office of the Governor in each province. The FMC will determine the duration and timing of the Specialist and Adviser inputs in consultation with the IMG. The FMC will also recruit suitable locally engaged staff to provide administrative, procurement and financial management services (including management of the Imprest Account) in support of the PRMF.

265. The Team Leader will report to the IMG on a six monthly basis or as directed by the IMG Task Manager and be responsible for:

- i. Implementing directions and resolutions of the IMG/PSC;

- ii. Developing, negotiating and signing Memoranda of Agreement with the partner provinces;
- iii. Undertaking Provincial Assessments for each new/additional province to be added to the Program;
- iv. Updating existing Provincial assessment as necessary to meet M&E, incentive program and/or program design requirements;
- v. Establishing and managing the trust accounts;
- vi. Managing the PRMF flow of funds from AusAID to the partner provinces and ensuring fiscal probity in the payment of those funds to the partner governments and to the works contactors or other approved third parties;
- vii. Managing internal audit and control functions;
- viii. Contracting directly with works contractors or approved third parties where such contracts cannot be executed by the partner provinces;
- ix. Establishing operational priorities within the overall direction provided by the IMG/PSC;
- x. Coordinating project activities to ensure they support PRMF Annual Plans and implementing effective communication arrangements between team members;
- xi. Preparation of TOR's for new Adviser positions approved by the IMG;
- xii. Assessment of annual plans and budgets prior to submission to the IMG/PSC;
- xiii. Review and assessment of six-monthly adviser work-plans and monitoring of the ongoing effectiveness of operational support and capacity building strategies;
- xiv. Providing reports to the IMG as requested/required – highlighting progress, any problems to be addressed and action required;
- xv. Monitoring progress in the design and approval of PRMF;
- xvi. Problem solving and dispute resolution at an operational level.

## 3.2 Monitoring and Evaluation Framework

### 3.2.1 Linking the SPRMF and the PRMF

266. The PRMF is one of four components contributing to the overall development of the Southern Philippines Road Management Program (SPRMP). In supporting this program the GOA requires that a M&E framework be established which can demonstrate the relative contribution of each component to the achievement of the SPRMP goal and objective:

- i. the **SPRMP goal** is - increased economic growth in the Southern Philippines by reducing road infrastructure impediments to economic activity; and
- ii. the **SPRMP objective** is - sustainable GOP provision, management and maintenance of a core network of national, provincial, municipal and barangay roads in Mindanao and the Visayas.

267. In sum, if the relative contribution of the PRMF to the SPRMP goal and objective is to be assessed, the M&E framework for the PRMF must include measures of its contribution to (i) economic activity at the provincial level and (ii) the

provision management and maintenance of the core provincial road network. To achieve this end a PRMF goal and objective has been developed complementary to the SPRMP:

- i. the **PRMF goal is-** increased economic activity and improved access to public infrastructure and services in targeted provinces; and
- ii. the **PRMF objective** is twofold-
  - ☐ improve the sustainable GOP provision, management and maintenance of a core network of provincial roads in targeted provinces in Mindanao and the Visayas; and
  - ☐ strengthen provincial institutional capacity and governance systems related to the provision and maintenance of provincial roads.

268. In the case of the PRMF goal, measures of access to public infrastructure and services have also been included on the basis of the arguments presented in section 3.5.1.2 which state that the economic returns on rural provincial roads are rarely sufficient by themselves to justify the investment. However, when combined with considerations of improved access to public infrastructure and services the returns become more robust.

269. Logical framework convention holds that goals should be statements of long-term development intent and should not be assigned measurable performance indicators. However, given that the PRMF is a component of the SPRMP, the IMG considers it legitimate to develop measures of economic activity and improved public access at the PRMF goal level to demonstrate the PRMF's contribution to the SPRMP over the next 5 years.

### 3.2.2 Monitoring and Evaluation Strategy

270. The M&E framework outlined below is based around the requirements for monitoring and evaluating the higher order objectives and component outcomes of the PRMF as specified in the logframe (Annex 3). For an analysis of the suggested framework for monitoring and evaluation at the component output level, refer to the performance indicators detailed in the logframe and section 3.4 - Plans and Reports.

271. The M&E framework provides for three levels of monitoring and evaluation:

- i. PRMF progress;
- ii. Contractor performance; and
- iii. The contribution of the Facility to AusAID's Philippines Country Program Strategy

#### 3.2.2.1 The PRMF

272. In keeping with the principle of fostering partnerships at the provincial level, monitoring will focus on the overall performance of PRMF and the contributions made by all stakeholders not just the contributions made by the FMC. Provincial activity monitoring will become primarily the responsibility of the Provincial Coordinators supported by the Monitoring and Evaluation Coordinator who will access, analyse and use relevant information on an ongoing basis (from formal and informal sources, using qualitative and quantitative data as appropriate) to help them make informed decisions about the most efficient and effective use of available resources. The M&E Coordinator assisted by the short-term M&E Specialist will review the draft PRMF M&E framework as presented below and work with the FCO and provincial coordinators to refine the framework based upon the on-ground realities.

### 3.2.2.2 Contractor Performance

273. FMC performance will be separately (and formally) assessed on a six-monthly basis by the IMG with the assistance of the Technical Monitoring Group (TMG). Specific indicators of FMC performance will be included in the FMC's contract with AusAID, the details of which will be made available to TMG members.

### 3.2.2.3 Contribution to the Country Program Strategy

274. Selected indicators from the revised M&E Framework will be recommended to AusAID for inclusion in the Country Program Performance Framework and systems established for the six monthly collection and reporting of such data. Subsequent to this review, the inputs of the M&E Specialist will be timed to coincide with the preparation of the six monthly progress reports.

## 3.2.1 Performance Indicators

### 3.2.1.1 At the provincial Level

275. Logframes reflecting the specific development objectives, outcomes and outputs of PRMF assistance will be developed for each provincial activity. While each logframe will include a set of indicators, means of verification and assumptions specific to activity requirements in that province, it must also include standard indicators to enable comparison in performance between provinces and assessment of the overall performance of the Facility.

#### 3.2.1.2 At the Facility Level

276. Table 3.2 provides a summary set of performance indicators for consideration and further development by the M&E coordinator in monitoring and evaluating the overall performance of PRMF at the Facility, contractor and country program strategy level.

Category	Performance Indicators
<i>The efficiency and effectiveness of the contractor through the Facility Coordination Office in mobilising and managing PRMF</i>	<ul style="list-style-type: none"> <li>• PRMF organisation and management systems operating efficiently and effectively and providing gender sensitive analysis and feedback</li> <li>• FCO staff clear about the functions of the FCO, and their own individual roles and responsibilities</li> <li>• FCO staff with required competency levels to perform functions</li> <li>• Staff performance against functional competency requirements</li> <li>• Project partners complying with the management guidelines set out in the PRMF Operations Handbook</li> <li>• PRMF social development and gender framework being effectively applied across all project activities</li> <li>• Actual activity and budget performance against annual plan and budget estimates</li> <li>• Qualitative assessment of FCO management systems and performance by provincial partners,</li> </ul>
<i>The contribution of PRMF sponsored projects to provincial road rehabilitation and maintenance</i>	<ul style="list-style-type: none"> <li>• Periodic reporting through the six monthly reports on the progress being made by the PDC towards achieving the MOA road rehabilitation and maintenance 'principles'</li> <li>• Km and proportion of provincial roads rehabilitated to acceptable</li> </ul>

Category	Performance Indicators
	standards.
<i>The contribution of rehabilitated and maintained road networks to economic activity and improved access to infrastructure and services;</i>	<p><b>Economic Activity</b></p> <p>Case studies of selected provincial road networks detailing indices of increased household economic activity disaggregated by gender as reflected in:</p> <ul style="list-style-type: none"> <li>• Increased primary industry production and improved access to markets</li> <li>• Increased commercial activity</li> <li>• Increased employment opportunity</li> <li>• Improved access to financial services</li> <li>• Increased household incomes</li> <li>• Access to Infrastructure and Services</li> </ul> <p><b>Improved Access to infrastructure and Services :-</b></p> <ul style="list-style-type: none"> <li>• Case studies of selected provincial road networks detailing indices of improved access to infrastructure and services disaggregated by gender as reflected in:</li> <li>• Improved access to health services</li> <li>• Improved access to education services</li> <li>• Improved access to LGU administrative services</li> <li>• Improved access to public/private utilities (water, power and telecommunications)</li> </ul>
<i>The contribution of the PRMF to institutional reform and good governance in road sector planning and management;</i>	<ul style="list-style-type: none"> <li>• Periodic reporting through the six monthly reports on the progress being made by the political and administrative executive towards achieving the MOA 'principles' for strengthening public administration and governance.</li> </ul>
<i>The contribution of the PRMF to social and gender equality</i>	<ul style="list-style-type: none"> <li>• The road sector Project Cycle Management (PCM) process has provision for the consideration of social and gender equality issues commencing with needs analysis and progressing through to, objective setting, design, implementation and monitoring and evaluation</li> <li>• Interest groups actively participating in PCM</li> <li>• HRM&amp;D plan responds to social and gender</li> </ul>
<i>The application of the institutional reforms and lessons learned under the PRMF to the wider process of improving Provincial Public Investment Planning</i>	<ul style="list-style-type: none"> <li>• Annual consultations with the provincial government to assess whether the institutional reforms and lessons learned under PRMF are being applied to other areas of Public Investment Planning.</li> </ul>
<i>The contribution of PRMF to SPRMP development.</i>	<ul style="list-style-type: none"> <li>• Annual reporting on the contribution of the PRMF to improving economic growth in the southern Philippines</li> <li>• Annual reporting on the contribution of the PRMF to improving the physical linkages between the provincial, national municipal and barangay road networks.</li> </ul>

Category	Performance Indicators
<i>The contribution of PRMF to AusAID's development assistance program to the Philippines</i>	<ul style="list-style-type: none"> <li>Mid- term review and end of project completion report detailing the contribution of PRMF to growth, governance and infrastructure development.</li> </ul>

### 3.2.2 Social Development and Gender M&E

277. The Social Development and Gender Specialist will assist the M&E Specialist to develop appropriate performance indicators for monitoring social development and gender outcomes associated with the organization and management of the PRMF and the implementation of the component activities. In developing these indicators, the Specialists will consult the NEDA Gender and Development (GAD) guidelines. The performance indicators should broadly reflect:

- i. The impact of project activities on both males, females;
- ii. The nature and extent of their participation in project activities; and
- iii. Their relative access to project resources.

### 3.2.3 Case Studies

278. The M&E Framework proposes that short evaluations of Facility impacts will be conducted with a sampling logic through specific case studies.

279. The purpose of the case studies is to evaluate the impact of the Provincial Road Network Development Plans at the provincial level, the achievements of the Facility at the goal, objective and component outcome level and the contribution of the PRMF to the SPRMP and the Philippines Country Program Strategy.

## 3.3 Plans and Reports

280. The Team Leader (TL) will be required to supervise the production of the following plans and reports for consideration by the IMG.

### 3.3.1 Inception Report and Annual Planning Report

281. The TL will prepare an Inception Report within 1 month and an Annual Plan within 3 months of mobilization. The Inception Report will detail:

- i. the status of the IMG, Facility Coordination and the Provincial Offices;
- ii. the status of any interim design activities rolled over to PRMF;
- iii. the status of the Facility Operations Manual;
- iv. any significant events which have impacted or could impact on the approved PRMF design and PAWRP;
- v. proposed changes to the FDD and/or its component descriptions – with clear justifications for such proposed changes.

282. In developing the 2008/9 and subsequent Annual Plans, the FCO will confirm the PRMF focus and priorities and detail the key component activities for inclusion in the plan. In preparing the Annual Plan, the FCO will continually review the status of the provincial development planning process to ensure that the PRMF annual plan is

aligned to provincial needs and expectations. The annual plan will provide a framework to guide activities, not a constraining blueprint.

### **3.3.2 Monitoring and Evaluation Report**

#### **3.3.2.1 Performance Assessment and Evaluation**

283. The M&E Coordinator will work with the Provincial Coordinators to verify and develop the output, outcome and objective performance indicators, and the format for the 6-monthly progress reports.

##### **a. Internal Assessment**

284. The FCO will be required to undertake an internal performance assessment and evaluation of PRMF activities for management and planning purposes. Performance assessment and evaluation will involve progressive rating of PRMF component activities in relation to:

- i. Appropriateness of design;
- ii. Achievement of objectives;
- iii. Management;
- iv. Sustainability; and
- v. The core policy issues – governance, social and gender equality and environmental management.

285. In the case of activities where there is poor or non-performance, the FCO Team Leader will make clear recommendations for addressing the problems and issues. The TL will report on the progress of PRMF through Six-Monthly Progress Reports. These reports will inform the development of the Annual Planning and budget process.

##### **b. External Assessment**

286. AusAID will commission an independent Mid-Term Review of the progress of the Facility after 2 years of operation (2011). This review will guide the implementation of PRMF to 2014. Six months prior to activity completion AusAID will conduct an end of activity review. This review will assess the overall performance of the PRMF and the scope of future GOA assistance for the improvement of road sector planning and management and public administration reform in the Southern Philippines.

### **3.3.3 GOA Reporting Requirements**

##### **a. Security Plan**

287. The Team Leader will prepare a draft Security Plan prior to mobilization and finalize the plan within three months of mobilization.

##### **b. Quarterly Reports**

288. The provincial coordinators will be required to submit quarterly progress reports to the FCO detailing progress against planned activities and budgets for approved PRMF activities.

##### **c. Six Monthly Reports**

289. The TL will submit six monthly progress reports to the IMG. These reports will highlight any issues which are unusual or inconsistent with the work plan agreed in

the preparation of the PAWRP. The report will include background information on the issue(s), an analysis of the issues including the likely and actual impact on the project and the level of risk that the issue(s) represent, what action is required to address the issue(s) and manage risk.

**d. Quarterly Financial Report**

290. Three months after project commencement the Team Leader will submit to AusAID a financial report setting out any financial management issues in relation to the project, including a statement of performance against budget for the preceding 3 months and a detailed budget for the following 3 months

**e. Activity Completion Report**

291. Three months prior to the conclusion of PRMF the TL will prepare a Completion Report detailing the status of the final Annual Plan and evaluate progress against the PRMF goal, objective and component outcomes and outputs. The Completion Report will be informed by the six-monthly progress reports.

292. The CR will serve the needs of AusAID, the Partner Government, implementing agency, recipients and other stakeholders by reporting on the effectiveness, efficiency, impact and sustainability, relevance, lessons learned from the design and implementation of the PRMF.

**Table 3.3. Internal and External Monitoring, Reporting and Review Requirements**

<b>Project Monitoring and Reporting Requirements</b>	<b>Description</b>	<b>Management Responsibility</b>	<b>AusAID Monitoring and Reporting Requirements</b>
<b>Internal</b>			
1. The Annual Plan represents the initial starting point for monitoring and reporting	Describes components, anticipated outcomes, outputs and performance indicators	The TL assisted by the FCO Provincial Coordinators	Inception Report , Operations Manual and Annual Plan
2. Regular Progress Reports	QPR detailing progress against planned activities and budgets for approved activities.	Provincial Coordinators	Quarterly Progress Report
3. Six-Monthly Progress Report	Details progress against planned activities and budgets for the PRMF provinces.	The TL assisted by the FCO	Six Monthly Progress Report/ / Exception Reports
4. Quarterly Financial Report.	Details financial management issues in relation to the Facility, including a statement of performance against budget for the preceding 6 months and a detailed budget for the following 6 months	The Finance Officer assisted by the TL	Quarterly Report
5. PRMF Completion Report	FCO Executive report on progress against objectives, outcomes and the implementation plan	The TL assisted by the FCO	Completion report
<b>External</b>			
6. PRMF Mid term Review -2011	Independent review of PRMF progress by program component to address both the requirements of the GOA and the requirements of the GOP.	AusAID	Review Report (Independent Consultant)
7. PRMF End of Activity Review -2014	Independent review of PRMF progress, with focus on the future of GOA /GOP cooperation and assistance to the road sector through the provincial government	AusAID	Review Report (Independent Consultants)

### 3.4 Overarching Policy Issues

293. The PPSP cuts across a range of important policy dimensions central to the delivery of the Australian aid program. Through its international aid program the GOA is concerned to ensure that its aid activities improve the lives and welfare of the target beneficiaries and do no harm, particularly in conflict affected areas. To address these issues AusAID requires that the following policy dimensions be considered in the design of its aid activities:

- i. **Governance** which relates to institutional performance in facilitating participation, transparency accountability and equity; and actions undertaken to support anti-corruption measures and peace and conflict resolution;
- ii. **Social and economic dimensions** which relate to issues of poverty and social and gender equality;
- iii. **Environmental management** which relates to the impact of activities sponsored by the program on the bio-physical environment.

294. The discussion which follows provides an overview of the core policy issues which need to be addressed by the PRMF on a province by province basis. The analysis is intended to provide guidance to the FMC who will be charged with the responsibility for developing guidelines and instruction as part of the PRMF operations manual for addressing these issues.

### 3.4.1 Governance Dimensions

#### 3.4.1.1 Anti-Corruption

295. Misappropriation of funds is a key risk factor. The design of PRMF is informed by the anti-corruption action plan developed for AusAID Philippines in 2007. Further, the design team has taken all practical steps consistent with logical project delivery to ensure that the opportunities for corrupt practice are limited and that the motivation for corruption is eliminated or significantly diminished.

296. Strengthening of the public financial management systems, budgeting, contracting, tendering, and contract management processes for physical works (including addressing fiduciary risk weaknesses) is a core focus of the PRMF. The design of the PRMF requires fiduciary risk assessments to be undertaken as part of the institutional capacity assessments and the expenditure management review.

297. The FMC will work with the provincial governments to ensure that design, costing, procurement, contracting, contract management, project delivery and financial management arrangements (and the related business processes of the Trust Account arrangements) are robust, accountable and meet Australian requirements. These will include reporting, transparency, and audit and accountability arrangements linked to strengthening the GOP systems.

298. **If fraud does occur, the responsible partner agency will be expected to ensure that the prosecution of the case takes place, and that the missing funds are returned to the Trust Fund. If funds are not recovered and/or prosecution does not take place, the program will be suspended or stopped.** Under the incentive component of funding, if a province fails an annual audit, all incentive payments for the subsequent year will be cancelled other than technical assistance directed at clearing the issue that led to the failed audit result.

299. During the initial phase of the Facility implementation, the FMC will be required to have the necessary procurement capacity to support the contracting out of the works supported under the program. During the design, the procurement process used in each province was reviewed and in all cases, the approach follows exactly the national standards. A full copy of the procurement review report is provided as annex 5 under separate cover. We also undertook a review of the differences between the procurement guidelines of the Government of Philippines as compared to the procurement requirements of the Government of Australia and the World Bank. Where procurement is done under the PRMF, it will follow the amalgamated guidelines of Government of Philippines and the Government of Australia. This review also considers the elements of the current World Bank led initiative to combat corrupt practices in project delivery in the Philippines and how best to incorporate

them into the execution of the PRMF. The FMC will review the recommendations of that report and where elements are pertinent to the ongoing delivery of the PRMF, they will be incorporated.

300. The PRMF includes an anti-corruption action plan (ACAP)<sup>21</sup> that is consistent with activities envisaged under NRIMP2 and MRDP2. Specific proposed interventions include:

- i. Disclosure of information to a broad range of interested groups (Public Accountability Meetings, NGOs, etc.);
- ii. Procurement using GOP standardised procedures;
- iii. Civil society and community oversight of PRMF activities including procurement, quality of works and direct involvement in routine maintenance contracting ;
- iv. Independent estimates of works costing for bidding documents, and ongoing independent supervision of works and sign off on payments to contractors;
- v. Regular PRMF audits as per AusAID requirements; and
- vi. Putting in place complaint handling, sanctions and follow-up actions where fraud has been detected.

301. In addition to AusAID oversight, other possible anti-corruption measures would include the use and training of local auditors and improved networking with civil society so as to strengthen decision-making, transparency and accountability. The Facility's M&E / MIS framework and monitoring and auditing of financial flows will be important parts of the processes to detect corruption and other anomalies.

302. Further, the specific actionable components of the Facility have been designed to limit greatly the opportunity for corrupt practice. These steps include the following:

- i. Move to contract maintenance rather than force account. This provides for better budgeting and expenditure management. Contracts are more transparent than force account spending which may not be directed toward road maintenance at all;
- ii. Standardized design of project roads by one national consultant for all ten of the initial provinces. This will ensure that common quality standards are applied and more importantly, that the estimates of cost for each intervention will be developed by an independent engineer, unconnected to the specific province;
- iii. Use of the independent engineer to certify works for the first year of the Facility. This will ensure that an independent engineer is used to provide the certification prior to payment for the rehabilitation and maintenance work. After the first year it will be the responsibility of the FMC and the province to determine the most appropriate means of verifying and certifying completion of works;
- iv. Standardized procurement using the new GOP procurement rules. All provinces have agreed to abide by the GOP guidelines;
- v. Contracting will initially be done by the FMC using standard contracts with payments directly from the FMC trust fund. The objective of the institutional and governance strengthening program is to ensure that as

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<sup>21</sup> The ACAP will be updated and endorsed by the Program Committee on 11 July 2008. The provisions of the PRMF will take into account any changes incorporated into this updated plan.

quickly as possible, the financial responsibility can be transferred to the province using provincial financial management systems. This requires that the province appropriate systems in place to address (i) tendering risks; (ii) appropriate systems in place to manage the transfer of funds; (iii) system support for building fiduciary financial capacity. Only after the FMC, following its review of the provincial systems and capacity, is convinced that those systems are adequate will the financial implementation of the fund be transferred to the province. In cases where they are determined not to be adequate, then the FMC will develop an institutional development plan to address specific deficiencies;

- vi. Disposal of current unused assets, including borrow pits, crushing equipment, maintenance equipment and other moveable assets will be done by open bid available to all contractors;
- vii. The incentive program encourages provinces to install a full time internal auditor. The internal auditor will be a strong vehicle for the FMC to use to change the operation, management and monitoring systems. Further, potential for corrupt practice in the use of the untied development funding provided through the incentive fund will be countered by the improved financial accountability and auditing needed to obtain the rest of the incentive funding;
- viii. The design calls for input from civil society and local communities at least three levels; project prioritization and planning, procurement of contractors and contracting; monitoring progress of works at the local level;
- ix. The incentive program also encourages more effective program based multi-year budgeting and a broad range of improvements to project monitoring and financial control. While the changes related to the payment of incentives are voluntary, they are designed to improve management and by doing so reduce the potential for corruption.

#### **3.4.1.2 Institutional Performance**

303. The issue of institutional performance is central to the integrity of PRMF. PRMF must be able to demonstrate that the institutions and groups it is supporting adhere to the basic principals of good governance. Namely, that they foster participation, transparency, accountability and equity in the pursuit of their objectives.

304. To address the issues of institutional capacity and governance at the project partner (provincial level), PRMF will charge the FMC with responsibility for assessing and evaluating their performance.

305. A pre-requisite for support will be that partners agree to conduct their activities in a participatory transparent, accountable and equitable fashion. This means for instance that open bidding is followed, the mandated community and civil society involvement on BAC is supported, suitable financial management systems to monitor expenditure are used and payments are based on documented completion of works. Failure to do so could result in action being taken to recover funds provided and preclude any further program assistance.

306. Participation is important for two reasons. First, participatory development supports poverty reduction by creating more effective equitable and sustainable activities. People develop a sense of ownership and commitment to activities when they have worked together to assess their problems and resources, considered and evaluated possible solutions and formulated plans to manage and evaluate their project. By building and enriching social networks, participatory development

enhances social capital, the most fundamental resource on which everyone relies for survival in the face of adversity and limited opportunity.

307. Second PRMF requires effective advocacy work to be carried out if there is to be a shift in the approach to development planning and asset maintenance at the provincial level. While the political and administrative executive are obvious targets for advocacy, experience in the Philippines has shown that political and administrative institutions will not pay serious attention to the need for reform without the mobilization and organization of a wider constituency which pushes for these reforms. Hence the development of effective advocacy requires the development of partnership networks that are active in the planning and decision-making process.

308. The PRMF will formally promote participation through the Provincial Development Councils. All provinces, under the Local Government Code are required to establish a Provincial Development Council. The structure and mandate of the PDCs is described more fully in 2.2.4.3 above. The PDC report to the legislature in each province. The PDC is required by law to draw at least 25% of its members from NGOs active in the province. Further, it is given the mandate to approve development programs and projects, and to review, monitor and evaluate program and project implementation. The FMC will work through the PDC in each province. Where the PDC is not effective, the FMC will set up a program for helping with the institutional strengthening of the PDCs to facilitate public involvement is incorporated in decision making through all the phases of the project cycle management.

309. Institutional and governance issues will be monitored and evaluated as part of the Six-Monthly Progress Reports and will be the subject of detailed analysis during the PRMF 2011 mid-term review.

#### **3.4.1.3 Peace and Conflict**

310. Peace and conflict is an important concern for any donor agency working in the Southern Philippines. AusAID completed a review of peace, conflict and development issues in Southern Philippines in 2007<sup>22</sup>. That review provides a comprehensive summary of the origins of conflict in the Southern Philippines. The report further identifies the agencies, groups and steps being taken to build peace in the regions of Southern Philippines.

311. The FMC will apply AusAID's 'Indicative Checklist for Identifying Potential Peace and Conflict Impacts' and test proposed activities against the Guiding Principles for Conflict-Sensitive Approaches to ensure that road rehabilitation and maintenance activities comply with these principles. The principles state:

- i. "Communities must reconcile on the basis of reciprocity of mutual and conflicting interests – beginning with identification of a shared vision and implemented through an incremental process of behavioural modification and attitudinal change; and.
- ii. In the development of a conflict sensitive approach the principles should be defined by five key themes:
  - ☐ Apply a peace-conflict lens across the portfolio of activities
  - ☐ Peace processes must be owned by those in conflict
  - ☐ Peace-promoting not conflict-generating development
  - ☐ Be aware; be flexible and stay the course

<sup>22</sup> Southern Philippines Peace, Conflict & Development Analysis, Australian Agency for International Development (AusAID), February 2007

- “How” programs and activities are delivered (processes) is as important as ‘what’ is being delivered (output)

312. In applying the principles and developing its approach the FMC will liaise directly with the Commission on Women (MCW). MCW raises awareness of the gender dimensions of armed conflict by drawing attention to the incidence of sexual and other forms of violence against women and the pivotal role that women must adopt as heads of household, while male members of the community are caught up in the violence. The MCW also seeks to provide leadership to Mindanaoan women in pursuit of peace and development by creating a constituency of women peace advocates. MCW receives support from AusAID for the development of its program.

### **3.4.2 Social and Economic Dimensions**

#### **3.4.2.1 Poverty**

313. Targeting poverty is an integral part of the PRMF. The IMG has consciously focused on poverty as one of the two key criteria in the selection of provinces. Rural road development is a key contributor to alleviation of poverty. Roads which link producers to markets are an important element in improving the efficiency and effectiveness of commodity value chains and reducing poverty. Value chain analysis conducted in the Philippines and elsewhere highlights that it is the pull of markets that generates the incentive for producers to produce. Poor people with limited access to markets have no incentive and virtually no chance of breaking out of poverty because they are largely restricted to a subsistence living.

314. The rehabilitation and maintenance of strategic provincial roads which link municipalities to local, regional and national markets is an essential element in any provincial poverty alleviation strategy. In addition to improving market access, these roads will also improve access of men women and their families to essential public infrastructure and services such as health and education facilities and administrative services which add to household human capital.

315. The PRMF also provides local communities with an opportunity to earn income. Prime contractors who will rehabilitate the roads will be encouraged to contract with local communities for ongoing routine maintenance of the roads. The revenues generated from these contracts should provide households with a valuable source of supplementary income.

#### **3.4.2.2 Health and HIV/AIDS**

316. While roads can generate income and reduce poverty they are prime routes for the spread of infectious diseases such as influenza, malaria and HIV/AIDS. While the prevalence of HIV/AIDS in the Philippines is relatively low by Asian standards, UNAIDS and DOH consider the epidemic to be “hidden and growing” due to: a high number of undocumented HIV/AIDS cases (estimated at 12,000 as of 2005); high rates of sexually transmitted infections; widespread high-risk behaviors; little knowledge of HIV/AIDS; low condom usage including during paid sex; active government impediments to condom access and the use of non-sterile injecting equipment among injecting drug users (IDUs) in some areas (Cebu City, General Santos City and Zamboanga City).

317. While DOH, with the assistance of donors (AusAID, WHO and UNICEF), has national and provincial programs for the surveillance and management of infectious diseases these programs rely heavily on early detection and treatment by health services at the sub-national (provincial, municipal and barangay level). Unfortunately, due to resource constraints, the public health system is frequently unable to respond to infectious disease outbreaks and the special needs of HIV/AIDS patients.

318. In the development of PAWRP with provinces (refer section 2.2.4), the PRMF will give special attention to the incidence and gender dimensions of endemic infectious diseases in its road catchment areas and actions which can be taken to support local health services in improving awareness, diagnosis and treatment of these diseases. Support could be provided directly through the PRMF incentive fund with contributions from the province or through other DOH, AusAID and donor health activities.

319. In relation to health and contractor management, the PRMF will initiate measures which will: (i) encourage contractors to use local rather than migrant labour; (ii) conduct awareness programs on infectious disease transmission and prevention (including HIV/AIDS and other sexually-transmitted diseases) for their workers and the communities they are working with.

### **3.4.2.3 Social and Gender Relations**

#### **a. The Challenge**

320. AusAID's gender policy identifies four gender equality outcomes: improved economic status of women; equal participation of women in decision making and leadership including in fragile states; improved and equitable health and education outcomes; gender equality in regional cooperation efforts including in peace building.

321. The Southern Philippines poses significant challenges for achieving social and gender equality. The region contains some of the poorest provinces in the country where:

- i. Many women and men struggle to meet their daily subsistence requirements while the privileged few (including women) have extreme wealth;
- ii. Government and governance in some provinces is frequently destabilized by religious and ethnic conflict and corrupt practice - mirroring the problems of fragile states which commonly place households at risk and limit their opportunity to break free from poverty; and
- iii. Participation and leadership in decision-making, while encouraged and promoted, is undermined by a lack of resources to translate decisions into action; and underlying political and social conflict.

322. While the political and social environment in the Southern Philippines is undoubtedly challenging, women are generally well placed in politics, government, business and civil society to make a contribution to addressing social and gender equality considerations. For example, some of the Governors and Mayors in the region are women, women are well represented in public administration and the social services, women's groups through civil society are active in the conflict affected areas and in peace building and, women are reasonably well represented in commerce and industry as producers, traders, professionals and managers. For example, approximately 25% of the contractors who met the PRMF assessment teams are represented by women.

323. With such strategic and widespread representation, women are well placed in the Southern Philippines to make a significant contribution to improving both social and gender equality if they are willing and have the opportunity and resources to do so. The PRMF offers both the opportunity and resources to mobilize women's representation in the pursuit of sustainable development and social and gender equality.

**b. Social and Gender Equality Considerations**

324. Road development poses both opportunities and constraints for men, women and their families. As noted, roads provide improved access to commercial markets and public infrastructure and services and are an important element in breaking the poverty cycle in disadvantaged and isolated communities.

325. At the household and community level, however, it is who has access to social and economic assets and opportunity which determines the nature of social and gender relations. In some parts of the Philippines the mobility of women and girls is limited by security and social constraints. The development of roads may bring no immediate change or benefit to their lives. However, in other areas, analysis of the operation of commodity value chains in the Philippines suggests that women occupy central positions along the value chain as producers, traders, retailers, money lenders and managers and generally have good mobility. The rehabilitation and maintenance of roads that give better access to markets and infrastructure and services is therefore likely to be of significant benefit to these women and their families.

326. On the other hand, communities and families can be negatively impacted by roads through both out and in-migration. Because some areas of the country are so poor, when given opportunities elsewhere, the most able-bodied and the best educated people migrate, usually along roads, to other areas. They leave behind communities largely comprised of the old and the very young who can become even more vulnerable without sustained support from remittances. In-migration along roads can also be source of social and economic tension particularly where indigenous communities are concerned. Cultural differences and land disputes between the indigenous communities and migrant settlers can often undermine peace, order and social relations causing women and children to feel particularly threatened.

327. Production and market linkages and migration are not the only focus of social and gender relations under the PRMF. Given that it is the provincial government which is the principal provider of public infrastructure and services it is important that gender issues be considered in the provincial planning and resource allocation process. To this end it is important that the planning and decision making process make provision for the participation of men and women so they can represent their special need and interests. This issue is taken up in section 2.2.4.2 which emphasizes the importance of considering social and gender relations in the project cycle management process and details the requirement for a Social Development and Gender Framework to guide engagement with households and communities and address the special needs of women and their children.

328. PRMF will actively promote the role of women in activity planning, decision-making, implementation and monitoring through Project Cycle Management. Through the GOP and GOA environmental impact statement requirements, it will also ensure that there is appropriate benefit and risk analysis on a gender disaggregated basis and that appropriate interventions are initiated to minimize the risks and maximize the benefits of road rehabilitation and maintenance activities should they proceed.

329. The technical design of PRMF roads will also give attention to pedestrian safety and the provision of amenities such as waiting areas and rest stops which in themselves could provide commercial opportunities. Finally as part of the contracting process, the contractors will be required to provide equal access to jobs for both men and women – both in their permanent staffing and also in the subcontracts with local communities for labour based routine road maintenance.

### 3.4.3 Environmental Considerations

330. PRMF road rehabilitation and maintenance activities are governed by the environmental laws and guidelines of the Governments of Australia (GoA) and the Philippines (GOP). To address these requirements as part of the design of the Facility, AusAID commissioned an environmental scoping exercise to determine the exact requirements that apply to the PRMF and the measures needed to address these requirements (full report at Annex 4).

331. The first step was to conduct an environmental scoping review to check the following:

- i. How similar and how different are the requirements of the GOP and the GOA?
- ii. Of the two, the stronger will prevail as a control on the development and implementation of the PRMF. What is the requirement of that stronger law?

332. The conclusions of the environmental scoping exercise are as follows:

#### 3.4.4 Requirements of GOP

333. EIA – The PRMF is governed by the Philippines Environmental Impact Statement System (PEISS). While the road rehabilitation and maintenance activities are unlikely to cause adverse environmental impacts, given that the full range of locations in southern Philippines where the Facility will operate have yet to be specified, the Environmental Management Bureau (EMB) of the Department of Environment and Natural Resources (DENR) recommends the proponent (AusAID/FMC) seek an Environmental Compliance Certificate (ECC) through the conduct of a Programmatic Initial Environmental Examination (IEE).

334. A review of GOP requirements reveals that PRMF road rehabilitation and maintenance activities are unlikely to cause adverse environmental impacts and will be subject only to a relatively low level of environmental impact assessment - an IEE;

335. The PEISS requires the incorporation of environmental considerations in project planning and directs the proponent to simultaneously conduct the environmental impact study and the project planning or feasibility study. DENR-EMB advise for the GOP counterpart for the Facility (DILG) to submit the IEE application to the EMB Central Office.

#### 3.4.5 Requirements of GOA

336. **EIA** - The IEE requirements and process under the PEISS are entirely consistent with and satisfy the requirements of the GoA EIA guidance and process. The PEISS IEE requirements and process when appropriately applied and followed are in fact more stringent than the EIA requirements of EMG.

337. Under the Environment Protection and Biodiversity Conservation Act 1999 (EPBC), the environmental impacts associated with road rehabilitation and maintenance work are unlikely to be significant and can be managed by normal GoA procedures for environmental mitigation and management through an Environmental Management Plan and appropriate environmentally sensitive road design..

### Recommendations

338. **IEE preparation** - To ensure that both indirect and direct impacts of road maintenance activities are assessed, and to streamline the IEE application process, three levels of environmental assessment will be undertaken:

- i. A more strategic environmental assessment looking at both the direct and indirect impacts of planned PRMF activities in the potential 41 target provinces via a Programmatic IEE, involving limited feedback from LGU counterparts on the EIA and producing a broad-brush Environmental Management Plan (EMP) that considers broad program-level issues<sup>23</sup>; and
- ii. Localised EMPs based on province-specific issues, prepared by the FMC with local community-based feedback focusing more on direct impacts and local permitting requirements. These localised EMPs will be prepared in accordance with IEE guidance, which in turn satisfies GoA requirements;

339. While public consultation is not required for the IEE preparation phase, processing of these issues could occur via regional information gathering and dissemination sessions with provincial groupings, clustered based on geographical location and proximity. This would allow some feedback from local stakeholders without being too onerous.

340. **Environmental Management System** - An EMS is a systematic approach to managing the impacts of PRMF on the environment. This system provides a logical process framework for managing ongoing assessment and monitoring of environmental issues including referencing legal and technical guidance information. An EMS may be one of the outputs of the IEE and integrated with the Environmental Management Plan (EMP);

341. **EMPs** - Localized EMPs to manage identified location-specific issues will be prepared by the FMC for each province and monitored by the local community based committees. This should be stated explicitly in the IEE report and included as a conditionality in the ECC. To facilitate monitoring and reporting, the EMP will include appropriate indicators of effective environmental management. The indicators used in the EMP will be included in the PRMF M&E system. These province-level EMPs will then feed into the continuous improvement process of the program-level EMS.

342. The IEE will be conducted as part of the preparation for the Facility and prior to the mobilization of the FMC. The IEE will contain both an EMS and a program level EMP. The EMS in turn will contain specifications for the content of the project specific EMPs. The content of the Operations Manual to be prepared by the FMC will contain appropriate references to the DPWH, DILG and the World Bank Road Design Guidelines and in particular, those aspects related to appropriate environmental design.

## 3.5 Economic Assessment, Sustainability and Risk

### 3.5.1 Economic Assessment

343. Generally road rehabilitation and maintenance generate the highest EIRR of any type of road investment. This all depends on the volume and type of traffic using the road, and the change in travel time and vehicle operating cost before and after the intervention. To clarify what the impact of the provincial roads investments will be requires a base line assessment of traffic on the roads. A traffic survey will be undertaken in each of the target provinces.

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<sup>23</sup> Development of this plan is voluntary and will be considered as one of the items in the TOR for the EIA consultant.

### 3.5.1.1 PRMF Objectives

344. The PRMF serves two objectives, first that it provide improved access and transport service to a number of local communities served by poor provincial roads in a selection of provinces in Mindanao and the Visayas, and second, that the investments provided under the program be used in part as incentives to achieve positive changes in institution reform those provinces in support of sustainable development and good governance. The justification for the project is therefore not entirely economic.

### 3.5.1.2 Justification for Road Investment

345. The justification for road improvement must ultimately be based on the benefits that it provides to the users of the road. In classic terms those benefits are compared in economic terms to the cost of creating the road and, if the return on the investment is sufficiently high, then the investment is justified. Normally the threshold for deciding whether the investment is justified is the long term opportunity cost of capital in the country. The World Bank and the Asian Development Bank often set that threshold rate at about 10 to 12%. However, in assessing the benefits flowing from investment in rural roads, normal economic rates of return achieved are usually much lower than the traditional threshold rates. This is because the traffic levels on the rural road are usually under 200 vehicles per day and even when travel time saving is considerable, the number of travellers who actually benefit remains small.

346. This issue has been recognized in the literature with a number of studies dealing particularly with rural roads to more precisely determine who uses the roads and how do the roads really impact on the community.<sup>24 25</sup> The issue is essentially that classic approaches to evaluating the viability of rural road development do not work very well. As noted by Pankaj, “the Bank’s method of appraisal of rural roads was unrealistic as it looked at only the small quantifiable part of their benefits, and hence gave a very low priority to rural roads.”<sup>26</sup> As a result, a number of appraisal studies were undertaken to delve more deeply into the development impacts of rural roads as they affect the life of real people.

347. The classic economic benefits considered for all types of new road development are as follows:

- i. User benefits on the new road. This includes savings in vehicle operating cost, travel time saving and accident cost saving;
- ii. User and agency benefits on the existing road resulting from lower traffic. This includes travel time savings and reduced maintenance cost due to the lower traffic;
- iii. Other generated or induced traffic benefits resulting from increased economic activity resulting from the lower generalized transport cost offered by the new road.

348. For a road maintenance project, the first category of benefits applies. Some of the second category may also apply if the longer term maintenance cost of regular routine and periodic maintenance is less than the reconstruction cost of infrequent maintenance as often practiced in the developing world. The third category of benefit applies for any type of road improvement.

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<sup>24</sup> Design and Appraisal of Rural Transport Infrastructure, Ensuring Basic Access for Rural Communities, Lebo and Shelling, World Bank Technical Paper No. 496, 2001

<sup>25</sup> Framework for Quantifying Social and Economic Benefits from Rural Road Development, Thampil Pankaj, PhD., Retired Transport Specialist, World Bank.

<sup>26</sup> Ibid, Para. 1.3

349. In addition the rural road development economists now argue that additional categories of benefit need to be addressed. These are:

- i. Net agricultural benefits are those that may result from crop switching or from increased access by the agricultural producer to markets with better quality produce;
- ii. Education benefits are the result of improved access to schools that increase enrolment, particularly for young women, and which in turn impact on the longer term productivity and economic strength of the region;
- iii. Net health benefits result from improved access to timely health care, such as prenatal clinics, acute response to accidents or illness and the improved quality of life and life expectancy that results.

350. Initially PRMF does not have the time or the resources to carry out a full agricultural, education and health access study in each of the six provinces in the first year. However, the IMG proposes to incorporate a more extensive base line survey on selected roads into the M&E system in project years 2 and 3 to learn from the results of the first year program. These results will then be used to support the selection criteria used for project design in future years. Sustainability

### **3.5.2 Sustainability**

351. Consideration of sustainability in the PRMF requires analysis at two levels:

- i. the sustainability of the elements required to improve the provincial road network; and
- ii. the sustainability of the institutional changes and reforms required to improve public administration and governance.

#### **3.5.2.1 Sustainability of the road network elements**

352. The issue of sustainability revolves around the following elements:

- i. Can the budgets of the provinces support ongoing sustainable road transport without the input of AusAID funds?
- ii. Does sufficient institutional capacity exist in the provinces or can it be created to provide for longer term sustained implementation of provincial road maintenance?
- iii. Will institutional changes achieved under this Facility be irreversible and lead to a more sustainable organisational, policy, planning and implementation structure in future?
- iv. Does contractor capacity exist or can it be created in the province to effectively undertake sustained road maintenance?

#### **a. Can Sustainable Finance be Provided in Future?**

353. The starting point of this project is the premise that once the provincial roads are rehabilitated, they can then be maintained much more cheaply and that the available budgets will be able to support the needed funding. The design team's assessment of the budget needed by the provinces to maintain the roads using only routine and periodic maintenance is about 80,000 pesos per km annually. This is the level of budget currently being used by Bukidnon and it seems by inspection to be

approximately adequate<sup>27</sup>. So the issue is whether the other provinces are also willing and able to budget that amount. At the moment, it is hard to even judge how much is being spent on the road maintenance/rehabilitation task. Part of the objective of the current expenditure review is to determine the size of the current budget and the current demand for routine and period maintenance. The budget target appears to be between 5 and 10% of total provincial expenditure. This is a sustainable target once the roads have been rehabilitated. But as noted earlier, this is only likely to be the case if there is a shift from force account to contract maintenance.

**b. Does Institutional Capacity Exist?**

354. Current institutional capacity varies widely from province to province. In some cases, many of the changes envisaged and supported by this Facility have already been achieved. Bukidnon with only 22 staff involved in road maintenance has an organization and method of operation that is a good example of where we would like to encourage the other provinces to move. So local examples of the model that we would like to encourage exist and are being implemented successfully. But within the other provinces, moving to the smaller, tighter, contracting out model is still a process which will take 10 years. AusAID's experience in other jurisdictions such as Samoa bear out this timeline. So the answer to the question posed above is, no the capacity does not now exist but it can be created by the consistent support of AusAID during the next 10 years. The fact that the model is robust can be argued from the fact that it already exists in the target provinces and it is being used effectively.

**c. Are Future Changes Irreversible?**

355. The changes that form the key components of the performance incentive program are irreversible. They are also painful for the LGU. The argument for the change from force account to contracted out maintenance is based on the following:

- i. Increased efficiency – Australian states have seen an increase in efficiency of approximately 20% on roads maintained under private contracts. Sweden reports the cost of maintenance of private roads of 50% of the agency cost of Swedish Roads Department;
- ii. Transfer of internal labour cost to direct contract payments.

356. This effectively reduces the employment of the Provincial Engineer's Office – a major negative in a government climate where employment stability through a government body is still highly prized. However, other jurisdictions (Papua New Guinea and Malaysia have shown that the private contractors are quickly able to absorb most of the redundant labour. That change in labour input is likely to be in the range of 75% of the current labour force since operations and fleet maintenance are the two largest employment divisions in the PEO. Once the staff reductions and retraining are complete, the capacity for own account operations will completely disappear. Some agencies argue for a limited capacity to be maintained to provide "step in" capacity in the event that a contractor cannot perform and the work is abandoned. However, so long as a number of contractors are being used at the same time, it is quite easy to change the contract to another firm and just carry on. So the intent of the changes is to irreversibly move the PEO to a new style of operations and a new organization size and structure.

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<sup>27</sup> The ILO sets the target for routine maintenance only if carried out by local community based contractors to be less than \$500 Aus. per Km per year. The figure of \$2,000 Aus. Per year represents the amount needed to maintain a mixture of gravel and asphalt road in Latin America.

**d. Does Contractor Capacity Exist?**

333. The IMG met with a selection of contractors in each province. The capacity exists within the contractor community to assume the ongoing work of maintaining the road. What does not yet exist is the experience in doing so. The contractors in some cases are already working effectively for the DPWH on national roads, but in most of the provinces, they are not working on provincial roads. They are very ready and willing to do so.

**3.5.2.2 Sustainability of the Institutional Elements**

357. If provinces wish to improve their road sector planning and management in support of broad-based sustainable development they will be required to engage in a reform process that strengthens provincial administration through:

- i. Multi-year revenue and expenditure planning.
- ii. Application of the principles of sustainable and participatory development planning, good governance and project cycle management;
- iii. Improved procurement and internal audit to support contracting out and financial management;
- iv. Increased tax revenue collection to support the ongoing provision and maintenance of public infrastructure and services; and.
- v. Human Resource Management and Development in support of each of the above

358. The scope for achieving and sustaining these principles rests with the preparedness of the provincial political and administrative executive to (i) adopt them in the first place and then, (ii) over successive administrations, to ensure that they become part of the process of routine annual project cycle management. Competing political and administrative agendas within provincial government coupled with the appointment of new governors and administrations following LGU elections will undoubtedly test the sustainability of these principles and may require successive provincial administrations to periodically review and restate their commitment.

**3.5.3 Risk and Risk Management****3.5.3.1 External Assumptions**

359. Even if PRMF controls those risks which are within its power to influence, the success of the Project will depend on several key assumptions regarding external factors being met, namely:

- i. That events do not endanger the safety of PRMF staff or consultants.
- ii. That external events, including local and international political or economic events, do not alienate stakeholders and potential partners to the extent that it is not possible to gain their cooperation.
- iii. That PRMF is not disrupted by other force majeure events.

360. The New People's Army has cells in most provinces in the Southern Philippines and is particularly active in region 10 and 11 in Mindanao. Islamic militants are active in the Autonomous Region of Muslim Mindanao which includes the provinces of Tawi-Tawi, Basilan and Sulu. Both groups have the capacity to endanger the safety of PRMF staff and to bring about force majeure events if they decide to directly target the delivery of PRMF activities in conflict affected provinces.

361. While the IMG recognizes that these groups have the potential to severely disrupt PRMF operations in conflict affected areas, it believes that the presence of these groups should not deter AusAID from seeking to contribute to the peace building and conflict resolution through its development assistance program. To this end the PRMF strategy (refer section 2.3.5.1) provides for the inclusion of one conflict affected province in the program. The IMG and the FMC will agree on a plan of action and timetable for the mobilisation of PRMF activities in this province.

### **3.5.3.2 Risk Assessment and Mitigation**

#### **a. Design Risk**

362. The principal design risk is the PRMF timeframe. AusAID envisages that the initial Management Services contract will be for 5 years with scope for a further phase of similar duration subject to performance and AusAID approval. While it is technically feasible to rehabilitate and maintain selected provincial road networks in the initial contract period, the scope for putting in place the planning, budget and institutional reform processes required to sustain these networks and facilitate the process of sustainable development planning and good governance within the same timeframe is more problematic. To consolidate institutional reform, a long-term PRMF commitment (possibly 10-15 years) built around progressive engagement with successive provincial governors and their administrations is required.

363. In sum, PRMF will need to be re-contracted over multiple phases if it is to achieve the dual objective of improving provincial roads and leveraging administrative reform. However, such an approach must inevitably deal with the associated risks of contract change resulting in changed teams, different approaches and changed stakeholder relationships. These risks are made more manageable if there is a seamless transition between the teams implementing each phase. This would require the IMG to be very proactive in managing the transition process to ensure the timely appointment of appropriate personnel and ongoing communication with key stakeholders.

#### **b. Implementation Risks**

364. The principal implementation risk to the PRMF is the failure to achieve institutional reform with respect to:

- i. Rationalizing the functions and operations of the Provincial Engineering Offices in relation to outsourcing and contract management;
- ii. Securing acceptance from the political and administrative executive who control the planning and budget process of the need for a separate appropriation in the provincial budget for rehabilitation and maintenance activities in order to sustain essential infrastructure and services;
- iii. Increasing the local revenue base and managing public finances more effectively.
- iv. Adopting a more participatory, transparent, accountable and equitable approach to sustainable development planning and financial management at the provincial level.

365. There is moderate to high risk that these institutional reforms will not be achieved because:

- i. Of opposition from Provincial and Municipal Engineering Offices to the PRMF proposals for outsourcing and contract management because of its impact on their personal job security.

- ii. The political executive (governors, mayors and barangay captains) see no advantage in increasing their budget allocations for asset rehabilitation and management over that allocated for new infrastructure and services.
- iii. The political executive is unable or unwilling to increase local taxes to raise revenue and to demand greater accountability and transparency in the management of public finances.
- iv. The political executive and the administration prefer the system of annual incremental planning over a more participatory approach to multi-year revenue and expenditure planning in order to maintain their position and authority over the planning and budget process.
- v. The LGU elections in 2010 (and subsequent elections) require PRMF PAWRP to be renegotiated with new governors and administrations less reform minded.

366. These risks can be ameliorated by:

- i. First identifying champions at the political, administrative, civil society and private sector level prepared to take the reform process forward. This begins with the signing of the MOA and the joint commitment of the Governor and senior government officials to pursuing and achieving these principles. This will necessitate developing:
  - ☐ awareness and advocacy programs which highlight the importance of asset management and revenue generation and the comparative benefits of outsourcing and targeting key political and administrative decision makers and private sector and civil society constituencies;
  - ☐ an informed constituency at the barangay, municipal, and civil society level which actively participates in the provincial planning and decision-making process and supports a balance between revenue and expenditure planning for (i) new infrastructure and services and (ii) the rehabilitation and maintenance of existing assets, including roads; and
  - ☐ a human resource management and development plan that improves both technical and institution capacity to support the achievement of effective road sector planning and management.

### 3.5.3.3 Corruption Risk

367. Corruption is a major risk for the program. In the Philippines projects with contracting opportunities are often highly prized and contested by local politicians and contractors. Some members of this group will consistently seek to bend the rules in their own favour regardless of the systems and procedures put in place to support transparency and accountability of the contracting process. In addition provincial public servants will often seek to leverage informal 'facilitation fees' to expedite the selection and approval process. Use of partner Government systems is key to ensuring sustainability of the program and complying with the Paris Declaration on aid effectiveness but also exposes AusAID to greater risk of misappropriation of funds. To protect against misappropriation PRMF will carry out a full review of the systems and capacity of each province, and management of funds will be given to those provinces that have acceptable financial management, project development, monitoring and control systems and capacity. Build provincial capacity through technical assistance, PRMF will target increased transparency in decision making, processes around budgets/planning, internal audit and accountability and increase community involvement in key areas of Facility monitoring.

368. The Operations Policy and Support Branch (OPS) is currently developing guidelines on the expenditure of AusAID funds through country systems. The FMC will refer to the OPS for guidance prior to any transfer of responsibility for fund management to the provinces.

#### **3.5.3.4 Conflict**

369. AusAID acknowledges that the Southern Philippines is a conflict affected area but, despite the risks, has chosen to focus its country assistance program in this region where it believes it can make a contribution to poverty alleviation, the promotion of peace and conflict resolution. The PRMF strategy provides for one conflict affected province to be included in the program. The final selection of this province will be made by AusAID in consultation with the GoP and the FMC. The selection process will be guided by AusAID's 'Indicative Checklist for Identifying Potential Peace and Conflict Impacts'. The FMC will be required to develop a special plan of action which demonstrates a conflict sensitive approach which seeks to support the achievement of the PRMF development objectives and 'do no harm'.

370. The majority of the target provinces are located in northern Mindanao where the Communist Party of the Philippines - New Peoples' Army (CPP-NPA) is known to be active. While Region 10 and CARAGA Region have stable peace and security situation, there is always that potential risk of disruption of activities, particularly the civil works, as a result of activities of the rebel group, thereby exposing the FMC personnel to danger. One way of addressing this at the start of Facility implementation is through social preparation that could be undertaken as part of the preparation of Environmental Management Plan for each province. The provincial engagement and assessment that the IMG is currently undertaking are also paving the way for the social preparation. The FMC could also capitalize on the network established by AusAID through its other programs and engagement with donors and GOP agencies in Mindanao. These entities serve as valuable sources of information on the peace and security situation in the region.

371. Annex 6 provides a more detailed framework for risk and risk management by project component. A full risk assessment matrix will be prepared for each province as part of the development of the provincial profile. Examples of the provincial risk level assessment are included in the risk matrix of the Misamis Occidental and Bohol provincial assessment reports included as annex 8.

## 4 PRMF Activity Development

### 4.1 Progress to Date

372. AusAID approved the establishment of the Infrastructure Management Group (IMG) and commissioned it to oversee further development of the PRMF design through to approval and implementation. Central to this process is the completion of:

- i. Provincial Assessments of seven provinces to assist the FMC mobilise the PRMF plans and agreements with selected provinces.
- ii. A programmatic environment assessment to meet GoP requirements prior to mobilisation;
- iii. A study of Procurement processes and a comparison with Commonwealth procurement guidelines;
- iv. Road traffic surveys for seven provinces;
- v. Road segment designs, and contract packages, for the first year physical works program for six provinces (excluding Misamis Oriental – designs will be responsibility of FMC).

373. The work in progress undertaken by the IMG is discussed below.

#### 4.1.1 Provincial Assessment Profiles

374. The provincial assessments are essential for progressing the PRMF through to implementation. The intent is to combine provincial road network analysis with an assessment of the province's planning and financial management processes and capacity to determine the nature and extent of support which could be delivered through the PRMF to achieve its dual objectives of :

- i. Improving the maintenance of the provincial road network; and
- ii. Improving public administration in support of sustainable development and good governance.

375. The provincial road network analysis details the nature and extent of the provincial road network, its condition, the institutional and funding arrangement for its development and maintenance, an analysis of the principal problems and issues that need to be addressed and conclusions and recommendations.

376. The public financial management assessment will review the principal sources of revenue, the planning and financial management system detail the principal problems and issues and summarize conclusions and recommendations.

377. Once completed, the profiles will be used by the IMG, FMC, provinces and national agencies to assess the scope for proceeding with developing plans and agreements which can be supported by the PRMF or other donors.

378. To date the IMG has commissioned the preparation of provincial profiles in seven provinces (Bohol, Giumaras, Agusan Del Sur, Bukidnon, Misamis Occidental, Misamis Oriental, and Surago Del Norte).

379. The IMG anticipates that all seven assessments will be completed by mobilisation. A summary assessment comparing six of the seven provinces is at Annex 8.

## 4.2 Interim IMG Work Plan

380. Agreement has been reached with the GoP to undertake a programmatic environmental assessment to meet GoP requirements prior to mobilisation. AusAID expects to contract this assessment in the first half of calendar 2009 for completion prior to mobilisation. The FMC will be required to develop location specific environmental assessments and management plans.

381. A study of procurement practises has been completed and is attached at Annex 5.

382. A contract for designing rehabilitation and maintenance works for specific road segments (to make up the first year physical works program) is being negotiated. It is expected that road designs and associated contract annexes will be completed prior to mobilisation.

## 4.3 Timeframe Duration and Budget

383. PRMF will be implemented over five years. A Facility Management Contractor will be appointed in the first quarter of 2009. AusAID anticipates allocating a budget of AU\$100 million over 5 years. This figure is inclusive of all AusAID grants, contract fees and management costs for the mobilization and implementation of the two PRMF components:

- i. .Capacity Building for Provincial Road Sector Planning and Management; and
- ii. Provincial Road Network Rehabilitation and Maintenance Program.

384. Details of each Provincial Government financial contribution to the PRMF will be itemised in Facility Memoranda of Agreement and subsequent annual plans.

385. The principal financing mechanism for PRMF will be the establishment of a Imprest Account (SPA) which will be managed by FMC. The FMC shall be responsible for preparing an Operations Manual that details the financial and management arrangements and operational procedures relating to the management of the Imprest Account and other Facility monies.

### 4.3.1 Funds Disbursement

386. All funds will be managed by the FMC through an Imprest Account. The FMC imprest account as a minimum will include:

- i. clear and appropriate management arrangements defining roles and responsibilities for the FMC and the PRMF principal project partner agency;
- ii. tight eligibility criteria for use of the funds;
- iii. sound planning systems, linked to the overall project Annual Plan;
- iv. clear financial management processes, particularly for approving use of funds; and
- v. simple and appropriate structure and reporting requirements

387. In relation to reporting the FMC will be required to:

- i. certify that procurement under the account is in accordance with GoP procurement requirements, suitably amended to meet Commonwealth Procurement Guidelines (as specified in the MOA to be signed by each province);

- ii. certify completed acquittals before they are submitted to AusAID including a statement of appropriate expenditure and full GST acquittals and reconciliations;
- iii. monitor the performance of the Bank at which the account is held, and keep AusAID advised of any problems; and
- iv. maintain imprest-related assets on the overall project assets register (jointly with the PRMF principal project partner, as appropriate).