

# Final Completion Report

## Provincial Road Management Facility Phase 2 (Philippines)



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## TABLE OF CONTENTS

<b>1. EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>2. ACTIVITY SUMMARY .....</b>	<b>9</b>
2.1 Introduction.....	9
2.2 Background .....	9
2.2.1 Key Dates and Milestones .....	11
2.3 Activity Description .....	12
2.3.1 Goal, Outcomes and Component Descriptions of PRMF.....	12
2.3.2 Cross-cutting Strategies.....	14
2.3.3 Key Stakeholders.....	18
2.4 Inputs and Expenditure Profiles .....	21
2.4.1 PRMF Phase 1 Contract Requirements .....	23
2.4.2 PRMF Phase 2 Contract Requirements and Amendments.....	24
2.5 Facility Approach/Strategy and Adjustments.....	27
2.5.1 Phase 2 Financial Management and Fund Flows.....	33
2.6 Key Outputs.....	36
<b>3. GAINS FROM PRMF.....</b>	<b>38</b>
3.1 Facility Components .....	38
3.1.1 Component 1 – Enabling DILG .....	38
3.1.2 Component 2 – Enhanced Provincial Road Network Services .....	45
3.1.3 Component 3 – Capacity Development for PLGUs on LRM.....	48
3.2 Other Cross Cutting Elements .....	54
3.3 Expected Long-Term Benefits and Sustainability .....	58
<b>4. OVERALL ASSESSMENT .....</b>	<b>60</b>
4.1 Relevance of PRMF.....	60
4.2 Implementation Issues.....	63
4.2.1 Physical Works .....	63
4.2.2 Procurement .....	65
4.2.3 Information and Communications Technology .....	67
4.3 Lessons Learned .....	70
4.3.1 Program Design.....	70
4.3.2 Capacity Analysis and Development.....	71
4.3.3 Program Management.....	72
4.3.4 Technical Areas.....	73

4.4	Recommendations to Enhance Sustainability .....	74
4.5	Summary of Future Capacity Development Requirements.....	77
4.6	Design Contribution for Future Infrastructure Programs.....	79
<b>5.</b>	<b>MANAGEMENT CONSIDERATIONS AT HANDOVER.....</b>	<b>82</b>
5.1	Physical Works .....	82
5.2	Capacity Development.....	83
5.3	Knowledge Products.....	83
5.4	Human Resource Planning.....	86

## LIST OF TABLES

Table 1: Milestones.....	11
Table 2: PRMF Annual Inputs (AUD Million) .....	22
Table 3: PRMF Rehabilitation and Maintenance Achievements (in km).....	82

## LIST OF FIGURES

Figure 1: Map of the Project Area.....	12
Figure 2: PRMF Management Structure with FMG and Supporting Contractor .....	20
Figure 3: PRMF Original Budget Allocation Profile (AUD100M) .....	21
Figure 4: Adjusted Allocation (AUD103.9M) & Actual Expenditure Profile (AUD85.1M).....	21
Figure 5: PRMF Phase 1 Actual Expenditure (AUD 50.5M).....	23
Figure 6: PRMF Phase 2 (+ Extension) Final Budget (AUD 34.6M).....	24
Figure 7: Expenditure for SC Costs (Amendment 3, Budget vs. March 31 Actual Expenditure) .....	25
Figure 8: Expenditure for Physical Works (FY Allocation vs. Actual) .....	26
Figure 9: Expenditure for CD (FY Allocation vs. Actual to March 31, 2016).....	26
Figure 10: Physical Work Expenditures (Total Budget = AUD 14.5M) .....	35
Figure 11: Capacity Development Expenditures (Total Budget = AUD 3.4M) .....	35
Figure 12: Design Principles for a 5-Year Capacity and Institutional Development Intervention.....	76

## LIST OF ANNEXES

**Annex A** – The PRMF Budget and Expenditure Report

**Annex B** – Independent Final External Review of PRMF

**Annex C** – HR Recommendations for the PLGUs and DILG

**Annex D** – M&E Provincial Summary Sheets

**Annex E** – Summary of Base-line Data Collected in 2014

**Annex F** – Research Highlights

## ACRONYMS

ARRB	Australian Road Research Board
ARWS	Active Rail Web Solutions
AUD	Australian Dollar
AusAID	Australian Agency for International Development
BAC	Bids and Awards Committee
BuB	Bottom-up Budgeting
CBMC	Community-Based Maintenance Contracting
CD	Capacity Development
CDRR	Capacity Development Request and Response (system)
CID	Coffey International Development
CIME	Community Impact Monitoring and Evaluation
COA	Commission on Audit (the)
CRID	Coordinating Road Investments for Development
CSC	Civil Service Commission
DBM	Department of Budget and Management (the)
DFAT	Department of Foreign Affairs and Trade (the)
DILG	Department of the Interior and Local Government (the)
DOH	Department of Health (the)
DOT	Department of Tourism
DPWH	Department of Public Works and Highways (the)
EMP	Environmental Management Plan
EO	Executive Order
ETRACS	Enhanced Tax Revenue Assessment and Collection System
FAQC	Final Aid Quality Check
FDD	Facility Design Document
FMC	Facility Managing Contractor (Phase 1)
FMG	Facility Management Group
FSC	Facility Steering Committee
FY	Fiscal Year
GAA	General Appropriations Act
GAD	Gender and Development
GADC	General Agreement on Development Cooperation
GEODATA	Information Technology company focused on providing GIS
GIS	Geographic Information System
GoA	Government of Australia
GoP	Government of the Philippines
GPPB	Government (of the Philippines) Procurement Policy Board
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HOPE	Head of the Procuring Entity
HR	Human Resource
IA	Internal Audit
ICT	Information Communications and Technology
IPR	Independent Progress Review

IPWEA	Institute of Public Works Engineers of Australasia
IRA	Internal Revenue Allotment
IT	Information Technology
KALSADA	Konkreto at Ayos na Lansangan ang Daan tungo sa Pangkalahatang Kaunlaran (the local name for the National LRM Program that arose from NIPLRM)
LBRICS	Local Bridges and Roads Inventory Condition Survey
LES	Locally Employed Staff
LETS	Land Equity Technology Services
LGA	Local Government Academy
LGI	Land and Governance Innovations (formerly LETS)
LGU	Local Government Unit
LPP	League of Provinces of the Philippines
LRAMS	Local Road Assets Management System
LRM	Local Road Management
LRMPA	Local Road Management Performance Assessment
LRMPAT	Local Road Management Performance Assessment Tool
LRNDP	Local Road Network Development Program
LTA	Long-Term Advisor
M&E	Monitoring and Evaluation
MBA	Maintenance by Administration
MBC	Maintenance by Contract
MOA	Memorandum of Agreement
MSA	Memorandum of Subsidiary Arrangement
MSC	Most Significant Change
NG	National Government
NAMRIA	National Mapping and Resource Information Authority
NEDA	National Economic and Development Authority
NEP	National Expenditure Program
NIPLRM	National Incentive Program for Local Road Management
OPDS	Office of Project Development Services (in DILG)
PCCI	Philippine Chamber of Commerce and Industry
PDMU	Project Development Management Unit
PDP	Philippines Development Plan
PEAP	Provincial Engineers Association of the Philippines
PEO	Provincial Engineer's Office
PFM	Public Financial Management
PGIAM	Philippine Government Internal Auditing Manual
Php	Philippine Peso
PAHRODF	Philippines-Australia Human Resource and Organisational Development Facility
PIO	Provincial Information Offices
PIP	Performance Incentive Program
PLGU	Provincial Local Government Unit
PMIS	Project Management Information System
PPDO	Provincial Planning and Development Office

PRDP	Philippines Rural Development Program
PRMF	Provincial Road Management Facility (the)
PRNDP	Provincial Road Network Development Plan
PRSPMR	Provincial Road Sector Planning and Management Review
PW	Physical Works
PWIS	Physical Works Information System
RA	Republic Act
RB	Road Board (the)
RBIS	Road and Bridge Information System
RMI	Rehabilitation and Minor Improvement
SBAC	Special Bids and Awards Committee
SC	Support Contractor (Phases 2 and 3)
SFMP	Strategic Financial Management Plan
SGFH	Seal of Good Financial Housekeeping
SLRF	Special Local Roads Fund (local road maintenance fund through DILG)
SOS	Scope of Services
SPMS	Strategic Performance Management System
STA	Short-Term Advisor
TAF	The Asia Foundation
TOR	Terms of Reference
TWG	Technical Working Group
ULAP	Union of Local Authorities of the Philippine
UP	University of the Philippines
UPNEC	University of the Philippines National Engineering Centre
UoSA	University of San Agustin
VAT	Value Added Tax
WIPS	Working In Partners System
WTO	Work Task Order

## Disclaimer

This document was compiled by the core team that helped to turn around this once high risk Program. As that recovery was not an easy process, the contributors were encouraged by DFAT to be truthful about their experience, as the lessons they learned are among the most important PRMF legacy.

This Report incorporates many viewpoints including those of DFAT and Louis Berger, but it does not necessarily reflect the policy directions of either organisation. Despite its comprehensive nature, there are some questions that this Completion Report leaves partially or completely unanswered:

- Where did money from decades of unfunded road depreciation go?
- What more can be done to reverse this “underfunded infrastructure” problem?
- Will the enhanced political understanding of the history of unfunded asset depreciation produce resistance from parties with vested interest in the status quo?



## 1. EXECUTIVE SUMMARY

It describes a Program that has paved the way for a new era in the management of infrastructure in the Philippines, particularly for horizontal infrastructure managed by Local Government. The outcomes are a result of a challenging six-year learning process. The Executive Summary provides a synopsis of the Provincial Road Management Facility (PRMF) achievements and strategies to promote sustainability and it lists the main lessons learned.

### Key Achievements

Through PRMF, the Australian Government invested AUD81 Million over six years into local and central governance reforms and capacity development in support of road improvements in 10 pilot provinces in the southern Philippines. The PRMF 5<sup>th</sup> Monitoring and Evaluation (M&E) Report provides a good indication of the levels of success in local governance reform<sup>1</sup>:

- PRMF partner provinces increased their combined budgets for road rehabilitation and maintenance by 154% and 29% respectively, in comparison to base year budgets.
- Partner provinces increased the combined length of core roads in maintainable condition by 39%, from 1,698 km to 2,360 km – an increase from 62% of the core road network to 86%. For the Average province this represents an improvement of 66 km from 170 to 236 km.
- By the final quarter of 2015, partner Provincial Local Government Units (PLGUs) had collected a combined amount of Php516M in Real Property Tax, representing an 85% increase over the Php279M in 2009 for all 10 provinces, even allowing for the incomplete final Quarter data for three provinces in 2015.
- Partner PLGUs have conducted 126 internal audits covering 112 PLGU offices since 2009. This was a significant achievement from a near-zero starting point in 2009.
- The technical skills and knowledge acquired by the PLGU engineers has enabled the number of road packages designed and supervised by the Provincial Engineer's Offices (PEOs) to increase. In 2015, each PEO designed an average of 15 road packages, 64% more than the 9 designed in the base year. They supervised 33 road packages in 2015, 147% more than the 13 supervised in the base year.

Consistent with the last bullet point, the final PRMF road Rehabilitation target of 380 km was completed in 2015. PRMF also contracted 248 km of road Maintenance while leveraging PLGU funding for the maintenance of 1,756 km through the incentive scheme in 2014.

The responsiveness of the Physical Works (PW) component of PRMF was truly tested following the Bohol Earthquake in October 2013, when the original Rehabilitation target of

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<sup>1</sup> Annual road maintenance expenditure by the 10 PLGUs rose by Php15.5M and Rehabilitation by Php6.9M per province between 2009 and 2015, a combined increase of Php22.4M per year for the Average province. Property Tax income for the Average province rose by Php23.7M per year during the same period.



500 km was drastically reduced and redirected, suddenly replacing the then 444 km of procurement-ready projects with 120 km of more complex disaster-recovery works.

When this earthquake adjustment was combined with procurement delays and Phase 2 budget cuts, the entire PW portfolio for Phases 1 and 2 totalled only AUD 37M out of the AUD75M originally intended for PW. This small amount of work rehabilitated only 6.7% of the combined network of the 10 provinces, representing approximately 15% of the combined core roads.

Certain interpretations of the original PRMF Design suggest that the PW portfolio was only ever intended to function as a demonstration exercise. However, if the full budget had been spent, approximately 30% of the total core road network in the 10 provinces would have been rehabilitated in five years, which is much more than a demonstration. This difference in interpretation during PRMF Phase 1 caused micro-management of PW to become the main concern of the Facility at the expense of PRMF's underlying objective to strengthen local road management (LRM).

To put this PW portfolio into the overall sub-contracting context, PRMF Phase 2 entailed 34 PW contracts and more than 212 Capacity Development (CD) contracts. The latter produced eight new national controls relating to road planning, funding and asset auditing, and more than 300 CD responses for a combined total cost of AUD3.4M. In its final year, the outcomes of that investment were used to leverage a GoP budget allocation equivalent to approximately AUD200M for its National Incentives Program for Local Road Management (NIPLRM).

The NIPLRM was modified and re-named locally to appear as 'KALSADA'<sup>2</sup>, a program that commenced in 2016 as a trial by the Department of Budget and Management (DBM) to directly download road funds to provinces under entry criteria set by the Department of the Interior and Local Government (DILG).

As of March 28, DILG reported that 68 Provinces had qualified for Php5.4Billion (AUD153M) through the submission of 186 projects. Projects for the remaining KALSADA funds were undergoing the DILG process of Design Approval, with assistance from former PRMF staff.

As the majority of PRMF funding and management efforts were focused on improving the small number of PRMF-funded roads, the national governance outcomes underpinning the above national program did not progress well until the PW portfolio tapered off in 2015.

Although the modified NIPLRM, with its potential to generate considerable employment opportunities in 2016 and beyond, is the most tangible PRMF legacy, the Commission on Audit (COA) Review of Local Government Unit (LGU) Asset Accounting Regulations could have an equal but less visible impact. PRMF sponsored the Local Road Asset Accounting Policy Review, which resulted in the COA Memo Circular instructing LGUs to book road

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<sup>2</sup> The DILG acronym KALSADA, unfortunately starts with the word 'Konkreto', possibly misrepresenting the most appropriate road surface' theme of PRMF. Fortunately, 'KALSADA' is also the Tagalog word for 'road'. This more common understanding makes it possible to minimise the future over-use of concrete on many rural roads. The acronym KALSADA was renamed by DILG to replace the LPP title: the 'Local Road Network Development Program (LRNDP)', during the final stage of LPP input to the 2016 Budget Submission. Although 'KALSADA' had failed in two prior DILG Budget submissions in 2011 and 2013, it succeeded in 2015 with new LPP anti-corruption measures.

assets on local Balance Sheets. The Memo was approved on November 23 and was officially launched on December 1, 2015.

It will close two loopholes in the LRM sector:

### **1. The opportunity for sub-standard contracts or misdirected expenditures**

Under NIPLRM, all future capital expenditure on local roads must be recorded on LGU balance sheets. This expenditure will be audited for agreement with independently verified road inventories and for compliance with Local Road Design Standards.

### **2. Funding favours for political allies**

NIPLRM will ensure that all future national government funding allocations will be based on balance sheet asset depreciation figures rather than subjective criteria, which may be influenced by political patronage.

In parallel with contracting the COA Review, PRMF supported the League of Provinces of the Philippines (LPP) to design and submit NIPLRM as part of the President's National Expenditure Program (NEP), framing it as a truly performance-based, apolitical, funding partnership between the National Government and all provinces. Under the NIPLRM proposal, several LRM initiatives and disciplines introduced by PRMF were incorporated in the program. These include:

- **Provincial Road Network Development Plans**

The PRMF approach to road planning was adopted. This required the definition of core roads and the consultative prioritisation of rehabilitation projects. This planning process also looked at the road sector from a network perspective, basing investment recommendations on social and economic criteria. Training on this approach, embodied in the Provincial Road Network Development Plan (PRNDP) training course, was provided by DILG to 64 new provinces in the latter part of 2015, with PRMF mentors using the 10 partner provinces as case studies.

Having an operational PRNDP was the primary entry pre-requisite for the KALSADA as a pilot for direct downloading of funds to Provinces in 2016.

- **The asset-based approach to funding infrastructure as endorsed by DBM and COA**

After completing the DBM pilot of directly downloading Php6.5B to PLGUs under KALSADA in 2016, all NIPLRM annual investments and national funding entitlements from 2019 onwards are to be calculated using road-asset depreciation as the major determinant of capital funding allocations in accordance with the new COA Circular 2015-008.

DBM supported the proposed Executive Order (EO), which will make the asset-based national program funding a permanent budget line-item and a model to be expanded to fund other locally managed infrastructure. In order to qualify for future NIPLRM funding, all provincial road assets will be geo-mapped and inventoried in the Road and Bridge Information System (RBIS) developed by PRMF. This will enable these assets to be

valued and depreciated on PLGU balance sheets in compliance with the new COA Regulation on local road asset accounting practice.

This PRMF-initiated regulation removes the major fiduciary risks in the LRM sector – incomplete, sub-standard and ‘ghost’ contracts – and it provides the required long-term design and maintenance accountability for infrastructure managed by LGUs.

- **PRMF Management and Learning Tools form the ‘Standards’ for the sector**

The PRMF-sponsored LRM Manual sets the technical standards for sub-national roads. The supporting e-Learning modules, to be offered by the University of the Philippines National Engineering Centre (UPNEC) from 2016 onwards, will provide the means for new provinces to qualify for, and reinforce their understanding of, the NIPLRM entry criteria through self-paced learning. These criteria are described in Section 3.1.1.

In the process of developing the PRMF-sponsored RBIS, the Road Board (RB), as the funder of major national road initiatives, commissioned and funded a base-line road condition survey of all provincial and city roads, thereby confirming RBIS as the standard inventory tool for the local roads sector.

In addition, the PRMF-sponsored Local Road Management Performance Assessment Tool (LRMPAT) is being used to assess PLGU performance prior to and during the 2016 KALSADA pilot.

- **Capacity and system development for PLGUs to raise local revenue**

The introduction of the Enhanced Tax Revenue Assessment and Collection System (ETRACS), with follow up training on Tax Compliance Study by the Land and Governance Innovations (LGI) team, enabled PRMF partner provinces to increase local property tax collection by 85% since 2009. This additional revenue enabled these provinces to comfortably meet the proposed PLGU pre-requisite maintenance and NIPLRM capital co-funding requirements.

- **The establishment of Internal Audit Offices**

PRMF provinces are among the minority of LGUs nationwide that have fully functional internal audit systems that comply with the Philippine Government Internal Auditing Manual (PGIAM). Compliance with the NIPLRM standards will require internal audits of all PLGU road related procurement processes from 2017 onwards. DBM is now well positioned to train internal auditors for all provinces following the experience of the PRMF provinces, which are also assisting new provinces with the establishment of fully independent Internal Audit (IA) Departments.

- **Strengthened capacity of PEOs in road design**

PEOs in PRMF partner provinces have developed sufficient capacity to accomplish road design in-house and are using this capacity to design PRMF and non-PRMF roads, including the use of alternative pavement options and better management of road material resources. This provides the ability to generate in-house project submissions to NIPLRM standards and to mentor other provinces in this process.

- **Strengthened capacity of PEOs to manage road rehabilitation and maintenance**

PEOs now manage capital works and maintenance documentation and payments in accordance with schedules, enabling them to confidently submit project completion documents. This ability will qualify them for future years of National Government (NG) funding under the national incentive program Project-Acquittal rule for prior year projects.

In addition, PRMF research and innovation has led to the trial and implementation of community contracting for routine maintenance. The PRMF provinces provided mentoring in this process as an expansion to the historic Maintenance by Administration (MBA) approach. These approaches enable LGUs to better record locally funded maintenance, thereby qualifying for the NIPLRM local maintenance expenditure pre-qualification measure.

## Lessons Learned from PRMF

Certain successes and challenges have taught the PRMF team what they would do differently, given their time over. The key lessons will be relevant to any similar or follow-on program:

- **Donor investment in infrastructure can overwhelm a governance program:** The inherent challenges of building infrastructure, including procurement, contract management and expenditure deadlines, clearly dominated the PRMF.

The infrastructure component should have been used solely to reward the achievement of fundamental governance reforms. There was minimal technical or managerial reason to start the construction of gravel roads simultaneously with CD, especially in the absence of the fundamental governance controls relating to asset accounting and inventory auditing.

If CD and PW are ever combined in a future program, they should not start simultaneously nor run in parallel. The PW must be run as a series of program rewards for well-defined governance reforms. In addition, PW processes should be managed locally unless they require technologies new to the recipient country.

- **Design limitations on physical works unnecessarily limited the ability to address road network priorities:** The PRMF design limitations on PW (cost per km) dictated that funding be for works on gravel roads only, often contradicting the road priorities emanating from the Network Planning practice introduced by PRMF. From the provincial point of view the major traffic problems were usually on sealed roads.

Good practice would have dictated that the expected 'Levels of Service' should have determined all PW design decisions. If the Australian aid budget limitations were the problem, then the PRMF PW should have been clearly designated for technical experimentation on lower priority roads. It is highly likely that this PRMF design limitation was based largely on Australia's competitive advantage in gravel road construction and maintenance, which, unfortunately, has very limited applicability in the Philippines<sup>3</sup>.

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<sup>3</sup> As of March 28, 2016, none of the 186 KALSADA rehabilitation projects (approved with PRMF support) would have complied with the PRMF cost per km design specifications for Rehabilitation and Minor Improvements

That said, PRMF conducted a research study that successfully demonstrated pavement options other than concrete that work well for many provincial road traffic volumes. By using local materials these options lower the cost for construction and maintenance.

- **Proper base-line data is required to effectively target interventions:** Proper base-line data was required to quantify the history of provincial LRM expenditures and the scale of contracting businesses that these levels of investment could sustain. The market proved to be not ready for Maintenance by Contract (MBC) in most provinces due to the limited size and number of the contracts. Similarly, the absence of funding for road asset depreciation and the asset management skills gap were not recognised until historic expenditure (base-line) data was generated in 2014 (see **Annex E**).
- **Assessment of LRM capacity:** The LRM capacity of PLGUs could not be assessed properly when historic funding had been less than 20% of the road management portfolio requirements. Much time and money was spent in Phase 1 on deficient occupational competency analyses, with inputs often obtained from inappropriately qualified/experienced staff.
- **The emphasis on increasing local revenues to fund core road maintenance was over-rated:** Historic maintenance expenditures showed no inadequacy in the ability of PLGUs to fund local maintenance of core roads. However, the complete absence of depreciation-based funding meant that local maintenance funds were being re-directed into capital works, often for unpredictable but essential road impairments.
- **Assistance provided to PLGUs must be tailored to their circumstances and not be overly influenced by donor-driven expenditure targets:** The Capacity Development Request and Response (CDRR) system was designed to facilitate inexpensive customised mentoring services to all partner provinces, however PRMF expenditure lags forced it to sponsor more expensive group training in the final quarter of each Financial Year, just to consume the budget. Nevertheless, demand-driven CD proved to be more effective than supply-driven CD.
- **DILG was over-worked and under-resourced to be a fully effective primary partner for PRMF:** The DILG Office of Project Development Services (OPDS) was over-worked and under-resourced. Forcing PW procurement through DILG Regional Offices proved difficult for numerous reasons and should have been corrected sooner.

Policy momentum had to be facilitated by PRMF working within the political economy, with actors such as the LPP, COA, DBM and the Department of Public Works and Highways (DPWH), with the final result being handed over to DILG, without the required capacity in place.

- **Continuous depreciation-based funding of capital works is crucial for management of horizontal infrastructure:** The Asset Management approach provides Annual Statements in LGU Reports on infrastructure values, including depreciation, impairment and improvements, leading to greater PEO accountability to the public.

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(RMI). Provincial planners rank fixing traffic congestion ahead of rural connectivity and experimenting with new materials.

- **The Facility Management Group model works well:** The appointment by DFAT of the Facility Management Group (FMG) to work between the donor and the Support Contractor (SC) helped maintain good communications and trust between all internal and external stakeholders. Being embedded with PRMF operations, the FMG had a first-hand understanding of both the challenges and opportunities facing PRMF management.
- **Importance of an informed political economy approach:** In advising the LPP on a national performance-based, apolitical, funding partnership, PRMF followed GoA policy to work within the political economy. It did so to achieve objectives, and manage the risks arising from inadequate engagement with the primary beneficiary (DILG). This non-partisan support approach also mitigated much of the risk associated with the 3-year PLGU election cycle. COA helped leverage GoP investment in KALSADA (22 times the FDD target) through its Revised Road Asset Accounting policy. This work enabled PRMF to become a field laboratory for working within the political economy. This innovative, risk-mitigating model should influence future GoA investment and methodological decisions.

### Key Risks to the Sustainability of PRMF Outcomes

- **Failure of the NIPLRM initiative to continue beyond 2016:** PRMF Phase 2 base-line research showed that historic expenditure in the 10 partner provinces was less than 20% of what was required for the assets being managed. Therefore the KALSADA trial is a big step. It is also the only means currently available to sustain the significant PRMF advances in LRM, enabling them to be spread throughout the Philippines. NIPLRM was designed to institutionalise asset management accountability and the application of a nationwide incentives framework.

The risk of incomplete budget expenditure is high since KALSADA is being launched in as many as 74 provinces in 2016<sup>4</sup>. However, there will be no better test of individual provincial capacity than a performance-based partnership funding opportunity. A new Government is likely to allow any unfinished works to roll over into 2017.

If the KALSADA trial, with its incentives funding mandate, fails to continue beyond 2016 as was intended in the NIPLRM, the long-term method of supporting locally managed infrastructure will need to be reviewed. If on the other hand the NIPLRM funding becomes permanent, then its management at the central level will likely require technical support.

- **Trialling KALSADA without the required oversight and capacity development:** In 2015 the LPP requested that the (Australian) Department of Foreign Affairs and Trade (DFAT) consider providing CD and program management support during the 4 to 5 year rollout of NIPLRM (as described in Footnote 4). At the same time DILG made its CD request to DBM to qualify all provinces for KALSADA in 2016. Given that the latter was

<sup>4</sup> The PRMF recommendation was to commence the NIPLRM depreciation-based funding entitlements for all provinces in 2016, while the actual expansion of the PW would occur through the mentoring to 10 new provinces in 2016, 20 in 2017 and 30 in 2018. All provinces that did not consume their cumulative depreciation entitlements were to be provided with Capital Works by DPWH in years 4 and 5 of every 5-year Road Asset Review period. No province could ever be disadvantaged.

successful and that DFAT may withdraw totally from the LRM sector, there is a risk that DILG might not have the strength to push through the proposed NIPLRM permanent asset-based funding component, thereby losing its sustained funding mandate.

If this happens, KALSADA could become an election year initiative only, and the historic cycle of “build-neglect-rebuild” will not be corrected by the ongoing funding of depreciation.

- **DILG and PLGU Management Units lack required levels of expertise:** Inappropriate management structures, lower salaries and fewer career-development opportunities within government could limit the availability of appropriately qualified and experienced personnel required for KALSADA, particularly in occupations with higher demand in the private sector e.g. Geographic Information System (GIS) operators.

As Government of the Philippines (GoP) Civil Service regulations limit the true adoption of a market-sensitive Human Resources Management (HRM) culture, the capacity built by PRMF within DILG and PLGUs could be eroded. In some areas this would not necessarily be a bad thing, especially if LGUs could confidently transfer their Internal Revenue Allotment (IRA) funding for human resources (HR) into funds for commissioning work from the private sector (outsourcing). If the NIPLRM funding model becomes permanent, then its management at the central level will require additional support and LGUs will have to reform many HR practices (see HR Recommendations for PLGUs and DILG in Annex C).

- **KALSADA funds may overwhelm several PLGUs:** The 5<sup>th</sup> M&E Report shows that PRMF partner provinces had grown their cumulative Road Rehabilitation budgets by 154% but they had only grown actual expenditure by 29% since their respective base year in PRMF. This suggests that a substantial capacity gap in terms of budget expenditure remains or it could reflect the capacity-distraction effect of hosting PRMF projects. Either way, KALSADA will represent a ten-fold budget increase to the historic levels of capital works on roads in most provinces. This means that 2016 will be the judgement year in many respects. If KALSADA is unable to operate through the PLGUs, an alternate approach such as the establishment of a Rural Roads Board may need to be considered.

### Ongoing Strategies to Promote Sustainability

- **Facilitate legislation to establish the long-term legal mandate and permanent funding for KALSADA:** The establishment of legislation to underpin the permanent application of NIPLRM standards will remain a high priority for the remainder of PRMF. Beyond PRMF this will continue to be advanced by advocacy through The Asia Foundation (TAF), which is the Support Contractor for the Coordinating Road Investments for Development (CRID) program. Such legislation will provide the long-term institutional framework and funding to sustain all other PRMF governance reforms.
- **Support the DILG and PLGUs with organisational review advice:** Provide advice on organisational requirements including the structural adjustments and capacity benchmarks required to fulfil their mandates in light of the increased funding for local roads resulting from NIPLRM. This has been proposed by DFAT to be provided by the



Philippines-Australia Human Resource and Organisational Development Facility (PAHRODF).

- **Support the establishment of post-project capacity development provision:** Provide for continuing demand-driven CD through the CDRR system following its expansion to become an on-line system for all LGUs. Assist DILG to use the DBM funding to ensure that CD responses are provided through the existing DILG network of supporting Universities and Institutes. Support the commencement of CD services through DILG by UPNEC and the Local Government Academy (LGA) in the form of the e-Learning modules.

## 2. ACTIVITY SUMMARY

### 2.1 Introduction

This document is the final Completion Report for the PRMF. It summarises the issues, outputs and remaining needs of the LRM sector and the lessons learned relevant to future work in this and other sectors.

Although this Report attempts to cover the time period from the inception of PRMF in September 2009 to its completion in June 2016, its authors can only take management responsibility for Phase 2, from October 1, 2013 to June 30, 2016. The period before this, referred to as Phase 1, was managed by different entities operating under different contract, systems and structures.

The outcomes of Phase 1 will be described for the purpose of expenditure trends and lessons learned. Analyses are limited, due to the difficulty in retrieving archived data and reports from Phase 1.

The process and outcomes of Phase 2 will be reviewed and reflected upon in more detail, describing intended, unintended and even unexpected outcomes. For the purpose of this Report, Phase 2 includes the entire period managed by Louis Berger even though Contract Amendment 3, is often called PRMF Phase 3 - the Facility closure and hand-over period.

### 2.2 Background

PRMF is an initiative between the Governments of Australia and the Philippines to improve road infrastructure and local governance in 10 partner provinces in the southern Philippines. The Facility was implemented by DFAT, representing the Government of Australia (GoA), and DILG, representing the Government of the Philippines (GoP).

The Facility Design Document (FDD) was completed in 2008 and PRMF's contractual implementation began in September 2009. The Facility was described as: A roads management and governance reform program that aims to strengthen the capability and capacity of DILG and the partner provincial governments to deliver better roads to the Filipino people. The Facility assisted the following provinces in Visayas and Mindanao: Agusan del Sur, Aklan, Bohol, Bukidnon, Davao del Norte, Guimaras, Lanao del Norte, Misamis Occidental, Misamis Oriental and Surigao del Norte.

For Phase 1 the GoA engaged the company, Coffey International Development (CID) as the Facility Managing Contractor (FMC). This contract lasted from September 2009 to April 2012. After an unsuccessful attempt to transfer to a new FMC, the Australian Agency for International Development (AusAID) took direct management responsibility for the implementation of the Facility from September 2012 to September 2013. Louis Berger took over direct responsibility as Support Contractor (SC) for PRMF from October 2013 until the final closing in June 2016.<sup>5</sup>

The Facility financed: (i) a physical works program composed of rehabilitation and maintenance of core provincial roads; (ii) a capacity development program on a province-by-province basis; (iii) provision of the untied incentive fund for increase in local revenue, and (iv) capacity development for DILG.

Consistent with this, PRMF had two development objectives:

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

By the conclusion of the Facility it was expected that DILG would be able to assist provincial governments to better plan, manage and maintain their local road networks and that DILG would have developed a national program for LRM. It was also expected that the provincial governments would be maintaining and rehabilitating their core road networks, providing acceptable levels of service, connectivity and access, and that they would have the necessary institutional capacity and systems, and capabilities to manage their road network transparently and sustainably in partnership with the private sector and civil society.

While funding mostly road rehabilitation and maintenance in the provinces, the Facility supported local governance reforms to improve the quality and efficiency of public service delivery to communities and businesses. Provinces competed for extra funds through the Facility's incentive mechanism by advancing reforms in the key governance areas of sustainable road management, budgeting and expenditure management, procurement, internal audit, human resource development and management, and increasing locally-generated revenues.

Since 2009, PRMF has benefitted an estimated 153,000 families<sup>6</sup>, delivering material economic and social benefits to the communities through completed road rehabilitation projects across the partner provinces. As PRMF approaches completion, its impact is being expanded to 64 new provinces through its NIPLRM initiative (KALSADA), which is also projected to generate significant new employment during 2016.

In addition, there have been improvements in how the partner provinces do their business, including: implementing their provincial plans with appropriate resources; exercising internal control and audit procedures; generating higher local revenue; contracting out road service

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<sup>5</sup> The actual contract was signed with Louis Berger on August 20, 2013. Novation of all local labour contracts and transfer of facility management responsibility began on October 1.

<sup>6</sup> This figure is based on PRMF estimates of the number of families living in the Barangays through which PRMF-funded roads pass.

delivery using their own resources; and increasing community participation in road rehabilitation and maintenance. Some, limited, progress was also made towards the rationalisation of their HR through HR management and development plans.

### 2.2.1 Key Dates and Milestones

The following milestone deliverables were contractually fulfilled during Phase 2.

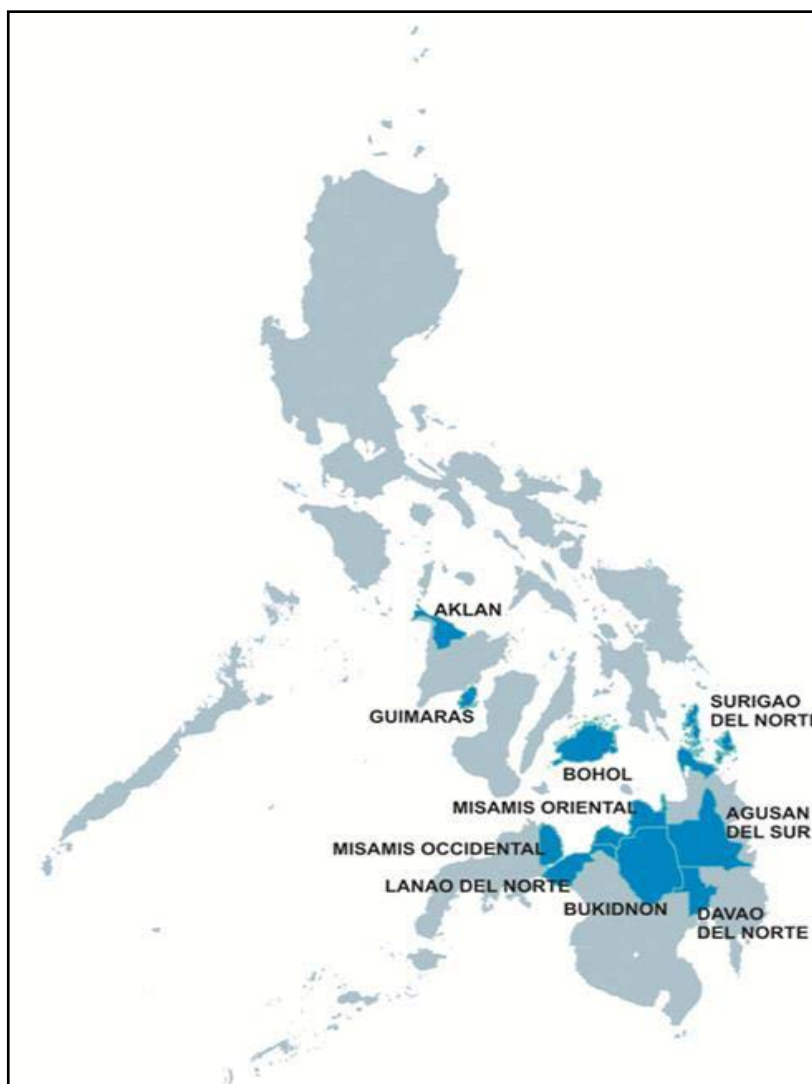
**Table 1: Milestones**

No.	Milestone/Reports Deliverables	Date
1	Safety and Security Plan	October 1, 2013
2	Mobilisation and Inception Report	October 31, 2013
3	Workforce Review	November 19, 2013
4	Quarterly Report No. 1	December 31, 2013
5	Detailed Work Plan Update and M&E Report	31 January 2014
6	Quarterly Progress Report No. 2	31 March 2014
7	Draft Annual Plan and Detailed Work Plan Update	30 April 2014
8	Annual Plan	31 May 2014
9	Quarterly Progress Report No. 3	30 June 2014
10	Communication Plan Update, Detailed Work Plan Update and M&E Report No. 2	31 July 2014
11	Sustainability Roadmap (formerly Handover Plan)	31 August 2014
12	Quarterly Progress Report No. 4	30 September 2014
13	Detailed Work Plan Update	31 October 2014
14	Quarterly Progress Report No. 5	31 December 2014
15	M&E Report No. 3	31 January 2015
16	Quarterly Progress Report No. 6 and Detailed Work Plan Updated	30 March 2015
17	Detailed Work Plan Update	30 April 2015
18	Facility Steering Committee Sustainability Roadmap	30 May 2015
19	Quarterly Progress Report No. 7	30 June 2015
20	M&E Report No. 4	31 July 2015
21	Extension Plan	31 August 2015
22	Quarterly Progress Report No. 8	30 September 2015
23	Sustainability Roadmap Update	31 October 2015
24	Quarterly Progress Report No. 9	31 December 2015
25	M&E Report No. 5	31 January 2016
26	Draft Completion Report	31 January 2016
27	Asset Disposal Report	29 February 2016
28	Final Completion Report	31 March 2016

## 2.3 Activity Description

Louis Berger was commissioned by The Commonwealth of Australia represented by AusAID (now the Development Cooperation Branch of the Department of Foreign Affairs and Trade) to undertake the PRMF, Phase 2 (Philippines) Program.

**Figure 1: Map of the Project Area**



### 2.3.1 Goal, Outcomes and Component Descriptions of PRMF

“The overall goal of the Facility was to improve the capacity of DILG and the PLGUs to deliver basic road infrastructure services, thereby increasing economic activity and improving public access to facilities and services in partner provinces in the southern Philippines.”<sup>7</sup> Once achieved, it was to be utilised as a model for adoption across all provinces.

<sup>7</sup> AusAID Request for Tender, Scope of Services, p202, 8 March 2013

PRMF had the following desired outcomes:

- DILG will be able to assist PLGUs to better plan, manage and maintain their local road networks and will have developed a national program for local road management
- PLGU's will maintain and rehabilitate their provincial core road network to a standard that provides acceptable levels of service, connectivity and access based on the agreed targets, and
- PLGU's will have greater institutional capacity, systems and capabilities to manage their provincial road network transparently and sustainably in partnership with the private sector and civil society.

In line with the three objectives, the Facility focus had three components:

- **Component 1:** Enablement of DILG to manage local road service delivery
- **Component 2:** Enhanced provincial road network management through routine annual and periodic road maintenance and selective/targeted road rehabilitation, and
- **Component 3:** Capacity building of PLGUs to conduct road sector planning and management.

An important emphasis of the Facility was on provincial road management, as such, **Components 2 and 3** were focused on five reform areas:

- The achievement of a state of sustainable road management through routine annual and periodic maintenance with selected and targeted road rehabilitation, including pilot testing new approaches such as contracting out road maintenance services.
- The introduction and strengthening of transparent and accountable budget and expenditure management systems for the road sector.
- The development of a fully functioning internal control system, including an independent internal audit, for the road sector.
- The reinforcement and extension of the local government procurement process to cover the road sector that is based on transparent competitive tendering procedures and which complies with all laws and regulations of the GoP.
- The formulation and application of a comprehensive human resource development and management plan for the road sector.

An incentive program underpinned **Components 2 and 3**, reinforcing the achievement of key reform areas for local road service delivery, particularly:

- An increase in locally generated revenues
- The contracting out of road services by each PLGU using its own funds
- The development of multi-year budgets linked to provincial plans

- The establishment of internal control procedures and internal audit, and
- The development and implementation of a multi-year human resource management and development plan to support PLGU road service delivery.

To maximise the sustainability of Facility support the SC was to:

- Promote the use of PLGU systems and discourage the creation of Facility-specific institutional arrangements within PLGU structures
- Strengthen PLGU systems and processes (including planning, budgeting, financial management, procurement, monitoring and evaluation, and quality assurance) with the intention of:
  - Using those systems to deliver Facility activities as soon as possible, and
  - Strengthening the PLGU capability and capacity to deliver their mandated public services, particularly road management and maintenance services.
- Endeavour to use provincial financial management and procurement systems once the fiduciary risks were acceptable to the GoA as deemed by the Facility Director (Phase 2).

An additional activity was overall program management and client liaison, which included the general management of all of the components of the program, and also the meetings and discussions with the client, program team and consultants delivering other DFAT programs.

### **2.3.2 Cross-cutting Strategies**

PRMF was designed to ensure that key issues that cut across a range of important policies and principles were addressed in all program activities and that they served as sustainability mechanisms. The GoA was keen to ensure that its activities improve the lives and welfare of the target beneficiaries and do no harm, particularly in conflict-affected areas. The following policy dimensions were considered in the design of PRMF:

- 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.

The analyses and discussion below provides an overview of the core policy issues. Activities and strategies were conducted on a province-by-province basis.

## **1. Governance Dimensions**

### **Anti-Corruption**

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

This risk factor was to be addressed by various CD activities on public financial management systems, budgeting, contracting, tendering, contract management processes for PW and design ensuring national standards are followed exactly. Procurement training was intended to ensure that the procurement approach and process followed the guidelines of both the GoP and the GoA.

Other anti-corruption measures included the use and training of local auditors and improved networking with civil society. Also, specific actionable components of the Facility were designed to limit the opportunity for corrupt practice, including the addition of regulatory oversight measures on the recording of capital works by PLGUs. (This sub-standard accounting for Capital Expenses was finally addressed with the assistance of COA in 2015).

### **Institutional Performance**

The issue of institutional performance was central to the integrity of PRMF. PRMF had to be able to demonstrate that the institutions and groups receiving PRMF support were adhering to the basic principles of good governance, namely that they foster participation, transparency, accountability and equity in the pursuit of their objectives.

### **Peace and Conflict**

Peace and conflict is an important concern for any donor agency working in the southern Philippines. PRMF applied the AusAID 'Indicative Checklist for Identifying Potential Peace and Conflict Impacts' and tested proposed activities against the Guiding Principles for Conflict-Sensitive Approaches to ensure that road rehabilitation and maintenance activities complied with these principles. These principles were identified when AusAID completed a review of peace, conflict and development issues in southern Philippines in 2007<sup>8</sup>, which provided a comprehensive summary of the origins of conflict in the Southern Philippines.

## **2. Social and Economic Dimensions**

### **Poverty**

Targeting poverty was an integral part of PRMF and was one of the two key criteria in the selection of provinces. Rural road development is a key contributor to alleviation of poverty.

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<sup>8</sup> Southern Philippines Peace, Conflict & Development Analysis, (AusAID), February 2007



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 also improve access for men, women and their families to essential public infrastructure and services such as health and education and administrative services, which add to household human capital.

PRMF was also designed to provide local communities with an opportunity to earn income. Road rehabilitation contractors were encouraged to contract with local communities for ongoing routine maintenance of roads. The revenues generated from these contracts provide households with a valuable source of supplementary income.

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

While roads can generate income and reduce poverty they are prime routes for the spread of infectious diseases such as influenza, malaria and HIV/AIDSs.

In the development of Provincial Annual Works and Reform Programs (PAWRP) with provinces, PRMF was designed to 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 Department of Health (DOH) and donor health activities.

In relation to health and contractor management, the PRMF initiated measures to: (i) encourage contractors to use local rather than migrant labour, and (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 work with.

### **Social and Gender Relations**

AusAID's gender strategy<sup>9</sup>, within the aid context, was built around four pillars: advancing equal access to gender-responsive health and education; increasing women's voice in decision-making, leadership, and peace-building; empowering women economically and improving their livelihood security; and, ending violence against women and girls at home, in their communities, and in disaster and conflict situations.

The southern Philippines poses significant challenges for achieving social and gender equality due to poverty. However, with 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. PRMF offered both the opportunity and resources to mobilise women's representation in the pursuit of sustainable development and social and gender equality.

Road development poses both opportunities and constraints for communities. 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.

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<sup>9</sup> *Promoting opportunities for all. Gender equality and women's empowerment.* AusAID Thematic Strategy, November 2011

Also, given that PRMF focuses on provincial government, it was important that gender issues be considered in the provincial planning and resource allocation process. To this end it was important that the planning and decision making process made provision for the participation of men and women so they could represent their special need and interests. This was included and emphasised in 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.

PRMF actively promoted the role of women in activity planning, decision-making, implementation and monitoring through Project Cycle Management (see Section 3.2).

The technical design of PRMF roads also paid attention to pedestrian safety and the provision of amenities such as waiting areas and rest stops, which in themselves can provide commercial opportunities in addition to widening gender access. Finally as part of the contracting process, the contractors were 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. Environmental Considerations**

PRMF road rehabilitation and maintenance activities are governed by the environmental laws and guidelines of the GoA and the GoP. An environmental scoping exercise was conducted during the Facility design process to determine the exact requirements that apply to the PRMF and the measures needed to address these requirements. This dictated that PW contractors would be required to implement the Work, Health and Safety Plans and the Environmental Management Plans (EMP) which were to be monitored with the provincial partners during contract implementation: M&E Monitoring.

### 2.3.3 Key Stakeholders

#### Governance Arrangements

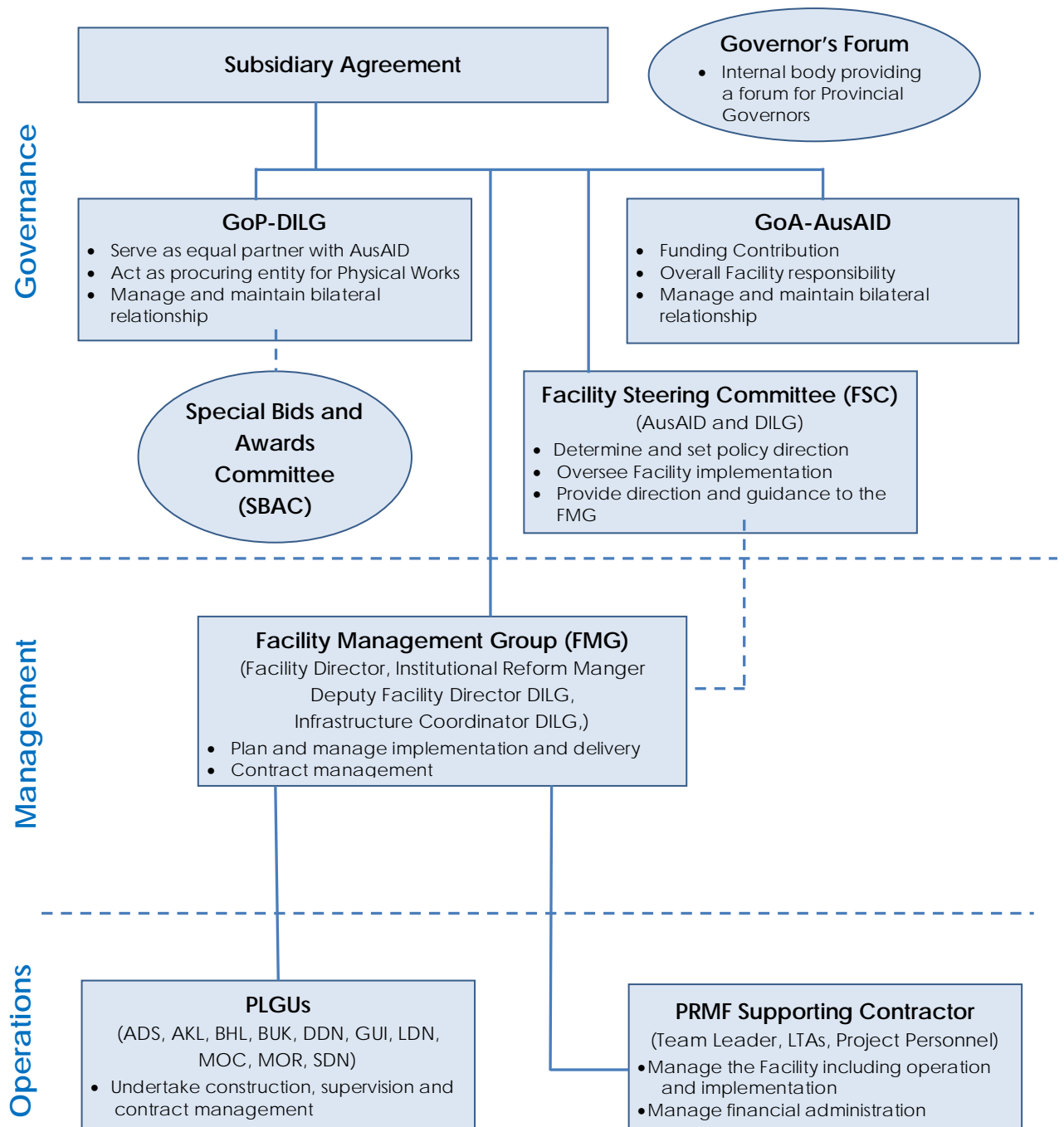
Facility Steering Committee	Governors' Forum	Facility Management Group
<p>The FSC provided the overall policy direction and guidance to oversee the implementation of the Facility.</p> <p>The FSC comprised two permanent members - a senior AusAID representative and a DILG representative at the Undersecretary level. The FSC was to meet every three months and reach decisions by mutual agreement between the members.</p> <p>Other parties were invited to join the FSC on an ad-hoc or as-required basis. Such invitees were to join the FSC in a temporary, advisory capacity and be non-voting members.</p>	<p>The Governors' Forum was convened during Phase 1 on an as-required basis and hosted by DFAT and DILG. The purpose of the Forum was to enable the Governors of the partner provinces to:</p> <ol style="list-style-type: none"> <li>remain informed on PRMF developments and implementation progress</li> <li>discuss current issues affecting the Facility and form opinions on related policies and initiatives, and</li> <li>discuss among themselves issues concerning the Facility, exchange ideas and experiences and make suggestions and recommendations for improving or strengthening the Facility.</li> </ol> <p>The Governors' Forum was an informal body with no decision-making authority for matters concerning the Facility. The Governors could submit suggestions and recommendations to DFAT and DILG for due consideration. The SC was the secretariat for the Forum.</p> <p>The Forum was not continued during Phase 2, with PRMF instead forming closer ties with the LPP, through its Technical Working Group (TWG). The LPP comprises all Provincial Governors.</p>	<p>The FMG was established at the commencement of Phase 2. It was led by the Facility Director (DFAT contracted) assisted by other persons nominated by DFAT. The DFAT Counsellor for Governance also participated in FMG policy-making and decisions, the Program Officer for Governance participated routinely, and technical personnel were co-opted as needed.</p> <p>DILG was to assign two counterparts: the Deputy Facility Director and the Infrastructure Implementation Director, who were to be accommodated in the central Facility office. The Deputy Facility Director was unable to commit to a full-time role and remained based at DILG Head Office.</p> <p>The FMG served as the information line to the FSC, ensuring that appropriate issues were brought to the attention of the FSC for resolution and that the policy decisions of the FSC were translated into appropriate implementation actions.</p> <p>The SC provided the FMG with all necessary technical, financial management, administrative and logistical support services and facilities.</p>

## Implementation Partners

The SC worked with three key partners to implement the Facility (see **Figure 2**). Other partners were to be identified and included subject to emerging needs and priorities as identified by the partners. The key partners were: DFAT, DILG and the 10 PLGUs.

DFAT	DILG	PLGUs
<p>DFAT maintained overall strategic management of the Facility by:</p> <ul style="list-style-type: none"> <li>• managing the Facility including the SC through the Facility Director</li> <li>• establishing, maintaining and supervising the FMG</li> <li>• managing the high level relationships with DILG and the PLGUs</li> <li>• managing the annual incentives program with DILG, and</li> <li>• supporting the design of the DILG successor program – NIPLRM.</li> </ul>	<p>DILG as the counterpart agency and implementing partner at the national level was to:</p> <ul style="list-style-type: none"> <li>• serve as an equal partner with DFAT</li> <li>• establish and chair the Special Bids and Awards Committees (SBAC) for each partner province using its network of regional and provincial offices</li> <li>• ensure DILG representation on all SBACs</li> <li>• provide the Deputy FD and Infrastructure Implementation Director for the FMG</li> <li>• manage the implementation of the Facility with DFAT through participation in the FMG</li> <li>• manage the high level relationships with the PLGUs</li> <li>• provide administrative oversight of the PLGUs</li> <li>• manage the annual incentives program with DFAT</li> <li>• lead the design of the new national local roads management program, and</li> <li>• progressively assume increased responsibility for the Facility implementation.</li> </ul> <p>The DILG was also the direct recipient of CD provided by PRMF. DILG did not have any supervisory role over the SC.</p>	<p>Partner PLGUs as the beneficiaries of the PW and CD were responsible for:</p> <ul style="list-style-type: none"> <li>• providing counterpart funds for the PW program and equipment to support CD activities</li> <li>• ensuring that Road Right-of-Ways were unencumbered for the implementation of PW</li> <li>• updating the Provincial Road Network Development Plan and the Road Inventory</li> <li>• preparing the Annual Physical Works Plan including Facility components</li> <li>• achieving the performance based targets agreed with the FSC for RMI support</li> <li>• preparing the Engineering Designs for the Facility Year 4 and Year 5 PW programs</li> <li>• contributing to the approach and delivery method for CD initiatives based on PLGU needs</li> <li>• ensure PLGU representation on SBACs</li> <li>• increasing the level and degree of participation in the procurement, contract management and construction supervision of the PW program, and</li> <li>• receiving coaching, mentoring, on-the-job training and CD from the SC.</li> </ul>

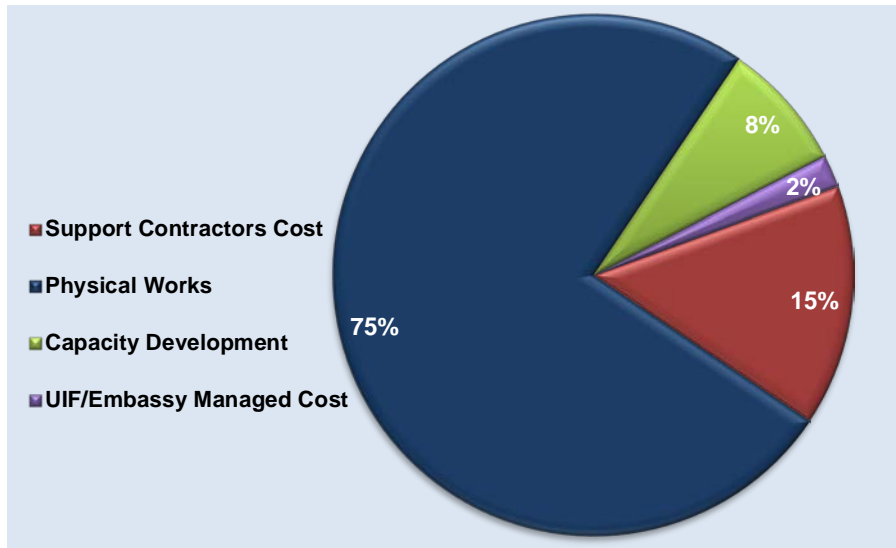
**Figure 2: PRMF Management Structure with FMG and Supporting Contractor**



## 2.4 Inputs and Expenditure Profiles

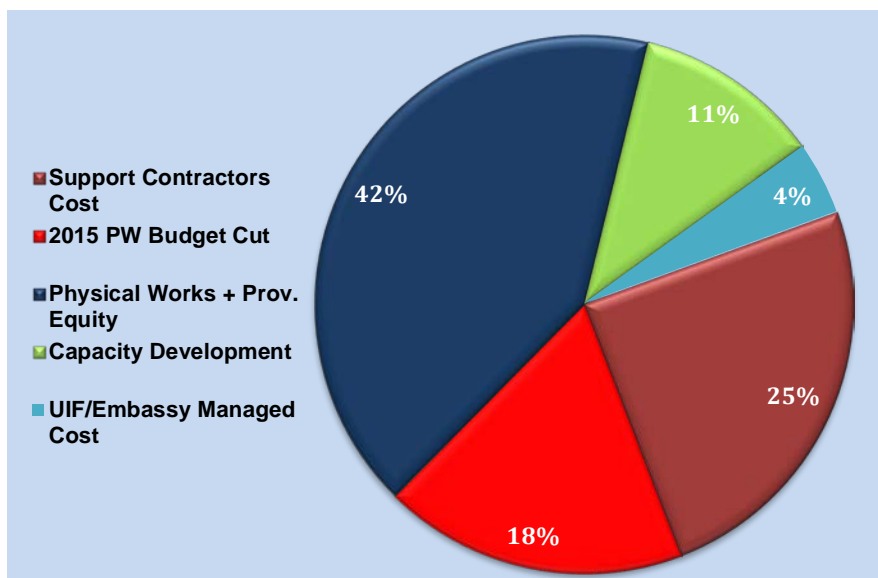
Based on the project assumptions in the FDD, the project was to cost AUD100M which was intended to pay for the support contractor (AUD15M), physical works (AUD75M), capacity development (AUD8M) and untied incentive and some for program management (AUD2M).

**Figure 3: PRMF Original Budget Allocation Profile (AUD100M)**



**Figure 4: Adjusted Allocation (AUD103.9M) & Actual Expenditure Profile (AUD85.1M)**

The allocation adjustments were the addition of AUD3.9M in Provincial Equity to PW expenditure (included in the blue section) and the PW budget reduction of AUD18.8M (shown in red) below.



It is worth noting that the total targets for PW could have been exceeded in Phase 2 if the AUD18.8M had not been cut from the budget. However, it would have been impossible to achieve the National Governance reforms without the decline in PW. Without having to focus on PW targets (following the 2015 budget cuts), efforts could be redirected toward the

achievement of the main sustainability outcomes in the NIPLRM (refer to Lessons Learned in Section 4.3.1). It is also important to note that at least two thirds of the SC costs and one third of CD costs in Phase 2 were dedicated to managing or mentoring PW: In reality, the SC costs should be reduced to approximately 15% and the CD costs to approximately 10%, making the true PW portion equal to 71% (prior to the 18% budget cut). With these adjustments the expenditure proportions would appear to be close to the original FDD (as shown in **Figure 3**).

For the purpose of discussion, the Facility management will be treated as having two phases: Phase 1 was predominantly with Coffey International Development (CID) and Phase 2 was solely with Louis Berger. The annual inputs shown in Table 2 were managed by the two contracted companies separated by a 12-month period of direct management by AusAID.

**Table 2: PRMF Annual Inputs (AUD Million)**

Cost Center	FY9-10	FY10 - 11	FY11 - 12	FY12 - 13	FY13 - 14	FY14 - 15	FY15 – 16	Total
CID	13.20	19.94	2.79	3.09				39.03
AusAID				7.53	5.12	0.97	0.48	14.10
LB					3.52	17.03	7.52	28.07
<b>DFAT Totals</b>	<b>13.20</b>	<b>19.94</b>	<b>2.79</b>	<b>10.62</b>	<b>8.64</b>	<b>18.00</b>	<b>8.00</b>	<b>81.20</b>
Provincial Equity							3.91	<b>3.91</b>
<b>Grand Total</b>								<b>85.11</b>

As shown above, Expenditure in the first 20 months of the five-year program was on target to consume the budgeted AUD100M (AUD33M in 33% of 5 years). However in FY11-12, once all PW projects designed prior to PRMF had been initiated, AusAID needed an explanation as to why the PRMF kilometre targets were not being achieved in the new PW designs. This question caused much angst and delayed budget approvals and subsequent expenditure.

The answer to the AusAID question became clear following the completion of the Phase 2 base-line data analysis: This showed that the absence of any form of Asset Rehabilitation funding since the devolution of Local Roads to LGUs in 1991, meant that the highest priority roads in most provinces were in very bad condition. Most of these roads had long outlived their design-life and were carrying far greater traffic volumes than what they had been built for. This meant that the roads that could deliver the PRMF kilometre targets, within budget, were unlikely to match the priorities coming from the Provincial Road Network Development Planning process introduced through PRMF. The Provinces genuinely believed that they needed to fix their more expensive shorter road sections first.

Table 2 shows that the AusAID fund management responsibilities extended into Phase 2. Although the AUD4M carryover PW implementation was assumed by Louis Berger (LB), these contracts were not novated to LB and were paid directly by AusAID in Phase 2.



Similarly, Provincial equity<sup>10</sup> had to be recouped in FY15-16 to complete the carry-over PW payments in the Extension period after Phase 2.

### 2.4.1 PRMF Phase 1 Contract Requirements

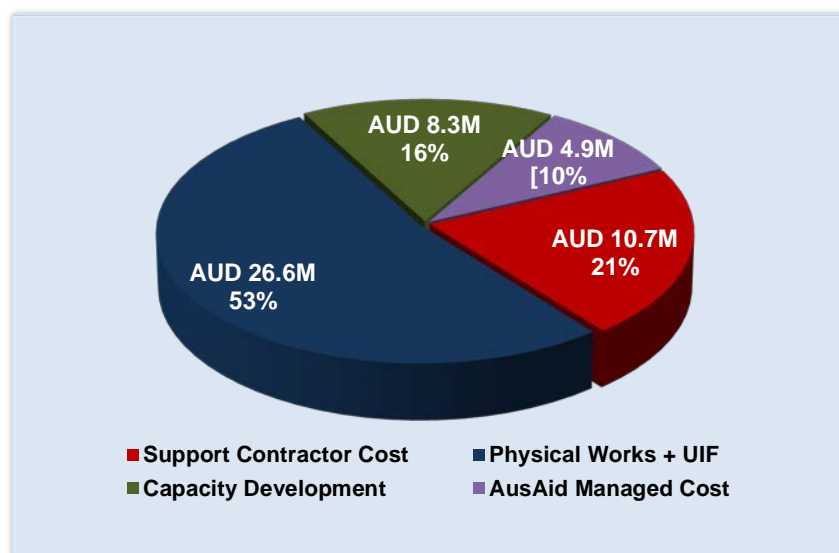
PRMF Phase 1 started in September 2009 and ended in September 2013, with almost three years of management by CID as the FMC and a year of direct management by AusAID.

The original contract was AUD15.57M for reimbursable costs – long-term advisors (LTA), short-term advisors (STA), locally-engaged staff (LES) and operations costs – and milestone payments for the implementation of PRMF from 14 September 2009 to 31 August 2014. All administration and finance personnel were considered overhead costs of the contractor.

The contract required the use of an impress fund<sup>11</sup> account (approximately AUD75-80M) to finance CD, PW and the untied incentive fund. Annual budgets under this account were controlled through the FSC-approved Annual Plan, which also served as the invoicing limit for the fiscal year. During this period contract amendments were not exercised, as all annual plan budget adjustments were agreed in the first or second quarter of each fiscal year. All adjustments in the annual plan and approved activities were required to be within the overall PRMF funding envelope for the year.

The total expenditure completed in Phase 1 amounted to AUD46.5M, which included all FMC costs and a pro-rata portion of AusAID costs. Figure 5 includes the AUD4M in PW carryover to Phase 2, which was completed by the Phase 2 team but paid directly by DFAT.

**Figure 5: PRMF Phase 1 Actual Expenditure (AUD 50.5M)**



<sup>10</sup> Provinces were required to contribute Equity amounts equivalent to 12% of the AusAID funds for PW and equipment to support CD activities. This contribution was equal to the Value Added Tax that would apply in the absence of donor funding. In Phase 1, these amounts were paid upfront by CID and AusAID to expedite suppliers and contractors. The PLGUs were required to complete their contributions after contracts were signed. In Phase 2, PRMF's procurement of road contracts through DILG using the GoP procurement guidelines, which required the PLGU 12% contribution to be in place prior to the tendering of contracts.

<sup>11</sup> Funds downloaded in advance to finance activities in the annual plan. This arrangement provided flexibility to spend funds beyond the fiscal year in case of delays in implementation.

During the period of direct management by AusAID, expenditure was managed using AusAID budgeting, expenditure and accounting procedures. Costs during this period were mainly for the novated contracts for PW, new CD activities, untied incentives and administration costs. Cost of advisers was directly managed by the Embassy. It was during this period that the impress accounting system was abolished by AusAID and hence, all allocations needed to be expended within the same fiscal year from that year forward.

#### 2.4.2 PRMF Phase 2 Contract Requirements and Amendments

PRMF Phase 2 started in October 2013 with a duration of two years and a budget of AUD29.8M, with the option to extend for 10.3 months from 19 August 2015 to 30 June 2016.

Under Amendment 2 (19 December 2013), the contract value was increased to AUD34.6M to fully fund the expanded workforce of long-term LES beginning January 1, 2014.

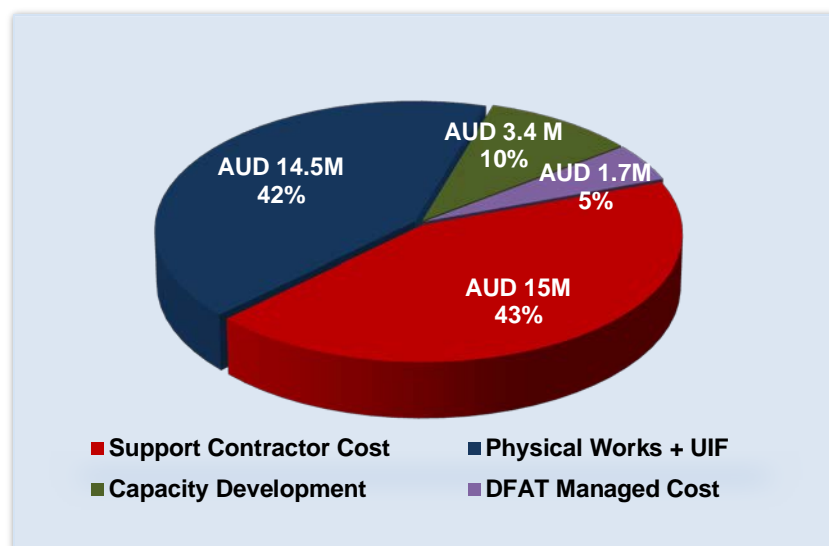
In October 2014, DFAT informed the SC of its intention to exercise the option to extend until June 2016. However, in January 2015, due to the global budget cuts in DFAT, the SC was requested to reduce the cost of the proposed Amendment 3.

On 7 August 2015, Amendment 3 was signed, with a reduced budget of AUD29M, with reductions based mainly on reducing costs on LTAs and long-term LES. The outstanding PLGU Equity contributions of AUD3.9M were to be recovered from the partner provinces to cover the majority of remaining PW costs in FY2015-16. Hence, total funding was AUD32.9M (excluding Embassy-managed costs of AUD1.7M).

Aside from SC funding, DFAT financed PRMF for AUD1.7M to cover payments related to FMG costs, COA audits and other Embassy managed costs (e.g. monitoring, travel; transition team positions).

**Figure 6** shows allocations under the four major components and corresponding percentages based on the combined funding from DFAT and PLGUs of AUD34.6M.

**Figure 6: PRMF Phase 2 (+ Extension) Final Budget (AUD 34.6M)**

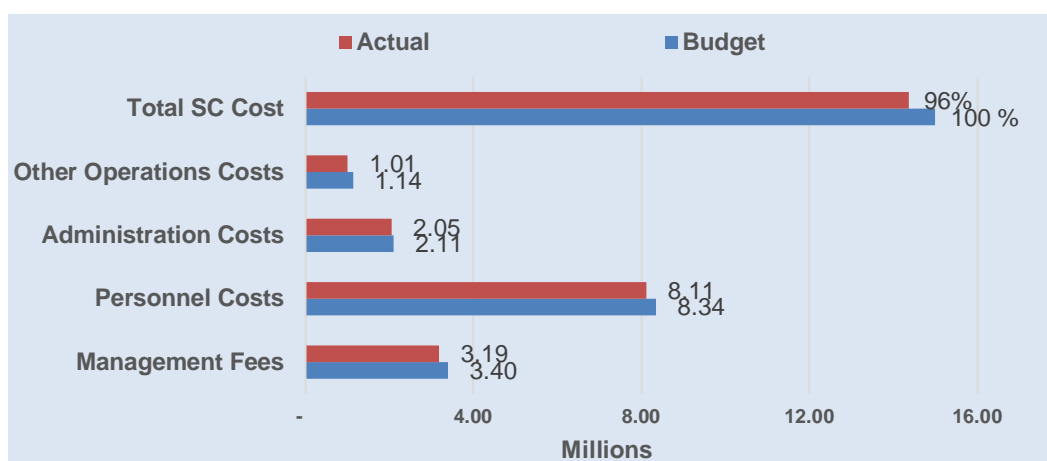


## Phase 2 Support Contractors Budget and Expenditure Performance

The AUD 15 Million budget for SC costs consisted of AUD3.4M management fees, AUD8.3M in personnel costs (112+ local positions = AUD5.8M and 11 International Advisers = AUD2.5M), AUD2.1M in administration and local travel, and AUD1.1M in other operations cost (e.g. office equipment, supplies, vehicle, vehicle maintenance and financing costs).

As of 31 March 2016, PRMF had disbursed AUD14.37M (or 96%) of the overall SC budget. Actual disbursement from the Administration budget was AUD2M as of 31 March 2016. This budget will be completely spent by June 30, 2016.

**Figure 7: Expenditure for SC Costs (Amendment 3, Budget vs. March 31 Actual Expenditure)**



## Expenditure Performance in Phase 2

### Physical Works

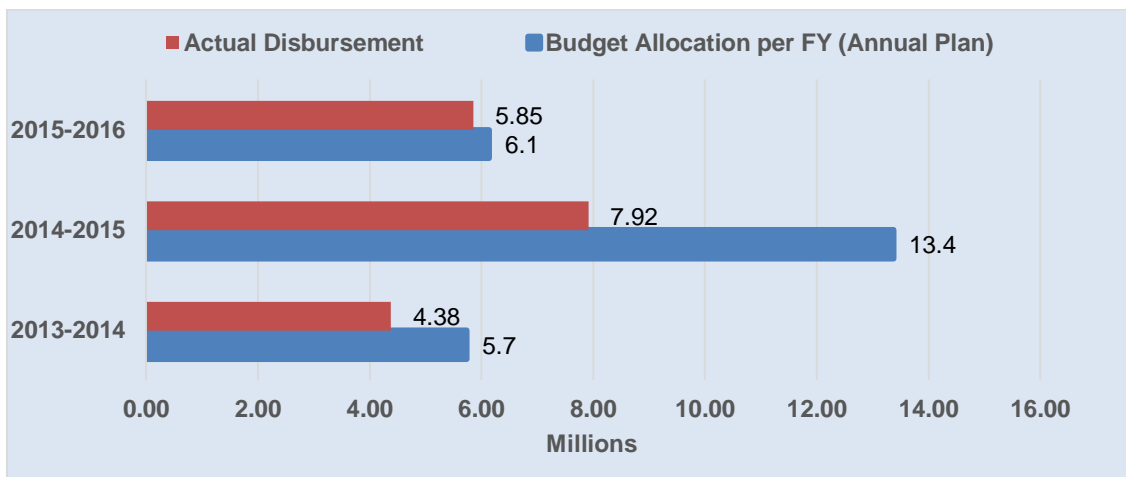
In the original contract, the budget for PW was valued at AUD17.7M, which presumably included the AUD4M intended payments for the outstanding PW projects from AusAID. These PW contracts were not novated as Louis Berger was unable to receive the VAT exemption. The settlement of these outstanding PW projects happened during 2013 to 2014 and overlapped with the PRMF Phase 2 operations.

As PRMF Phase 2 got underway in October 2013, it was immediately required to respond to the Bohol earthquake. This meant the commencement of a completely new batch of 14 road rehabilitation project designs. By mid-2014, it became obvious that the original Phase 2 PW budget of AUD17.7M was not going to be spent due to delays in the procurement process and contract management through DILG, which did not work well. This realisation later coincided with the DFAT need for budget cuts, which meant that the target for the Facility to rehabilitate approximately 500 km and maintain 700 km of provincial roads had to be reduced.

Following the GoA budget cutbacks, the PW budget was reduced to AUD14.5M for the rehabilitation of 280 km. In its final year, the PW allocation covered only those projects that had been contracted, procured and were ongoing.

As of 31 March 2016, PRMF Phase 2 had disbursed AUD14.1M in PW with all 280 km of road rehabilitation completed across all partner provinces. The total PW budget of AUD14.5M will be spent by the end of April 2016.

**Figure 8: Expenditure for Physical Works (FY Allocation vs. Actual)**



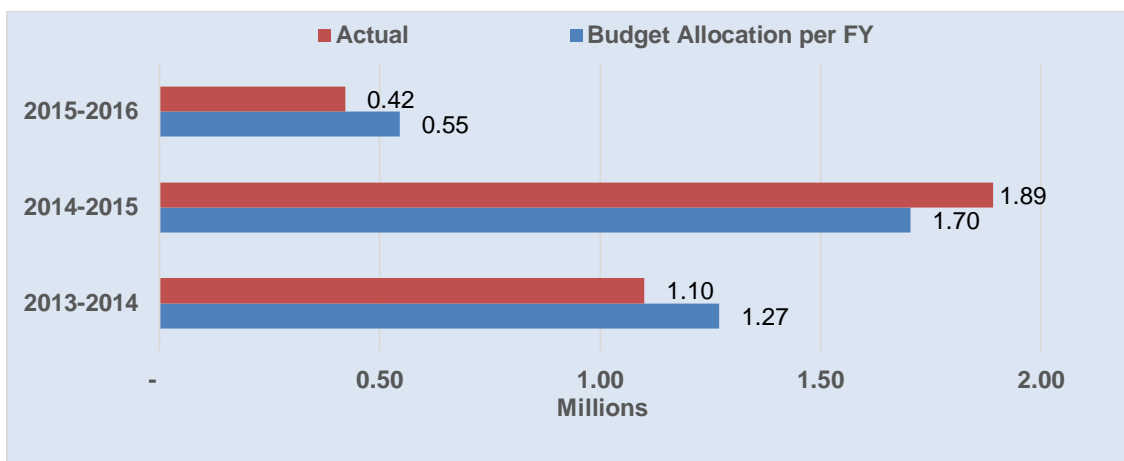
### Capacity Development

The original investment of AUD3.7M in CD, technical design and research comprised of a) AUD1M for DILG (Component 1); b) AUD325,000 for design technical assistance (Component 2); and c) AUD2.4M for the 10 Provinces (Component 3). However in Amendment 3, Component 2, which was intended to provide PLGUs with technical assistance for design, was deemed unnecessary since the focus had shifted to supporting PEOs in simpler designs for RMI roads. This allowed the NIPLRM CD initiatives to continue under Amendment 3 into 2016.

Components 1 and 3 consistently maintained expenditure close to targets, starting with 87% disbursement rate in the first year and exceeding the target by 11% in the second year.

The CD portfolio spent AUD3.4M in total, completing 160 work task orders including the activities that initiated NIPLRM.

**Figure 9: Expenditure for CD (FY Allocation vs. Actual to March 31, 2016)**



## 2.5 Facility Approach/Strategy and Adjustments

This Section provides a commentary on the Phase 1 Approach/Strategy and on the degree of success following the adjustments made to form the Phase 2 Approach/ Strategy.

### Phase 1 Approach

The original PRMF approach sought to enhance the governance capabilities of selected PLGUs in the southern Philippines through the planning, design, procurement, contract/project management, quality control and accounting for provincial road infrastructure as the exemplar learning activity. Hence the local roads management portfolio was described as the 'entry point' for governance reform, which included systems, internal controls, and human resource improvements.

By starting with a small number of provinces and having DILG as the key partner, PRMF learning processes were intended to be monitored and recorded centrally by DILG. Replication was to be achieved through a national program for LRM. It was logical for PRMF to be partnered with DILG, since it was the designated department in charge of local government policy and standards and its LGA held the sector's training mandate.

Transitional Management was the major theme in the PRMF approach. During Phase 1, the provincial context of that transition was very clearly stated:

*"Over the life of the Facility, the FMC's responsibility for planning procurement, financial management, capacity development, monitoring, evaluation and quality assurance will be transferred to each Provincial Government."*<sup>12</sup>

However, the central transition process was less well defined. The proposed value of a follow-on national program was specified at Php300M (AUD8.5M) but with no definition as to what it would fund (PW or CD or both?). Given that this Php300M was less than what would be required by just the PRMF partner provinces to continue their road rehabilitation program, there seemed to be no consideration of the remaining 71 provinces that would need to participate in a national program.

In retrospect, the PRMF approach was not fully informed and was overly reliant on the enhancement of local revenue by the PLGUs<sup>13</sup>. This approach required the PLGUs to locally

<sup>12</sup> PRMF Approach extracted from "Program of Assistance 2009 – 2014", p2., Coffey International Development

fund both the capital and maintenance cost of their roads to levels substantially above fiscal capacity even with local fiscal reforms. Given this unrealistically high PLGU hurdle in the PRMF design, it made it difficult for DILG to implement the required central reforms, if such a high increase in PLGU revenue was meant to trigger DILG into action.

From the outset PRMF was expected to promote economic growth and improve access to public services through the rehabilitation and maintenance of the core road network in the seven selected provinces. This meant that the PW component of PRMF took centre stage with its defined target of 500 km of Road Rehabilitation and 700 km of Maintenance. For the initial seven provinces these targets would have guaranteed that 26% of their combined total length of core road networks were rehabilitated during the five years of PRMF. If such an achievement was replicated and sustained by the provinces in each subsequent five-year period, then all of their core roads would be rehabilitated every 20 years – an achievement consistent with the expected life cycle of such road assets<sup>14</sup>.

This approach was both logical and highly achievable for a small Infrastructure renovation project. However, PRMF was clearly intended to be a governance reform project as shown by the delivery strategy below.

### **Phase 1 Strategy**

The Performance Incentive Program (PIP) was PRMF's main strategy to drive improvements in PLGU performance and to pursue reforms in road sector planning and management. Approximately 50% of the PRMF grant funding was tied to the PIP, which is described below:

*"In order to create conditions for sustaining reforms in road sector planning and management, it is recognised that the following key factors need to be addressed by the incentive targets:*

- 1. Increasing the overall size of the provincial budget through the generation of increased levels of local fees and taxes.*
- 2. Improving the efficiency of service delivery models to maximise the use of existing funds.*
- 3. Improving expenditure management and prioritisation/planning systems to make the most effective use of available funding.*
- 4. Improving the accountability of the provincial government to its constituency and preventing misappropriation of funds.*
- 5. Ensuring the various provincial offices have well defined human resource development programs and well trained staff to fill the positions."<sup>15</sup>*

To support sustainability, these reform targets were set under five corresponding

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<sup>13</sup> The 10 provinces historically spent Php490M per year on road maintenance and rehabilitation combined. To double this by increasing local revenue was a major achievement but still well short of the required Php2.8B required for their combined LRM portfolios. The proposed Php300M for a National Program was too low.

<sup>14</sup> PRMF estimated that the earthworks under most roads has a life of up to 100 years, the concrete drainage assets 30 – 60 years and the gravel driving surface 4 – 6 years: Accounting estimate for all components = 20 years.

<sup>15</sup> Coffey International Development "Program of Assistance 2009 – 2014"; pp 6-8,

performance criteria. The first performance criterion – increase in locally generated fees and taxes – was referred to as an “untied incentive” target, meaning the funds awarded against this target could be used for any projects eligible under the 20 Percent Development Fund<sup>16</sup>. The other four performance criteria were referred to as “tied”, meaning that the funds awarded after successful achievement had to be tied to expenditure on PW associated with gravel road rehabilitation and maintenance. This also included supporting works such as bridges and slope protection.

The logic behind this strategic mechanism for delivering the overall approach was that governance improvements resulted in PRMF funding, mainly for PW. In setting the incentive targets the FMC adhered to the following principles:

*“Targets must be custom designed for each province to drive reforms in the following areas:*

- *Increase in locally generated tax and fee revenue*
- *Increase the level of contracting-out of road service delivery by each Provincial Government using own sourced funds*
- *Development of multi-year budgets linked to provincial plans*
- *Establishment and effectiveness of Internal Control Procedures and Internal Audit*
- *Development and implementation of a multi-year Human Resource Management and Development Plan to support provincial government service delivery.”<sup>17</sup>*

This PIP strategy was to be supported by strengthening provincial government systems, some of which would link to DILG systems for funding and quality control purposes.

For several reasons, progress during Phase 1 was limited.

PIP changes were time-consuming to negotiate and achieve, and PW proved more expensive than the PRMF budget could afford. The PW comprised significant rehabilitation of severely damaged infrastructure located in short road sections totalling 120 km over three years.

Phase 1 also experienced continuous delays in disbursing funds because the FSC had to approve all contracts and individual expenditure decisions worth more than Php 10 Million. The GoP did not need this additional level of bureaucratic decision-making, especially when it did not mirror the local decision-making law. It was also contrary to the Australian policy on development assistance, which requires the use and improvement of existing systems and processes rather than the creation of additional layers of bureaucracy.

During this time the seven provinces adopted new approaches to HR and they were able to prepare their PRNDPs to support their road maintenance and rehabilitation strategies. Unfortunately, the HR changes were not based on productivity and they did not result in any significant restructuring or workflow rationalisation. Most PEO staff remained under-utilised, mainly due to lack of funding. Nevertheless, some road-related competencies showed

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<sup>16</sup> The 20 Percent Development Fund was the portion of Internal Revenue Allocation to the PLGU that could be dedicated to a pre-approved list of ‘Development Items’.

<sup>17</sup> Coffey International Development “Program of Assistance 2009 – 2014”



pockets of improvement, including geographic analysis and mapping, road selection, road design, environmental management, and construction supervision, as did community participation in the selection, implementation, and monitoring and evaluation of road projects.

The seven provinces established internal audit offices with authority and budget guaranteed through local ordinance; and, the PLGU Bids and Awards Committees (BAC) geared up to participate in the PRMF procurement process. Each province used its Strategic Financial Management Plan (SFMP) to set new local revenue generation targets and to provide budget and expenditure management.

Overall, if the original infrastructure program design had been applied, it might have resulted in quicker achievement of the stated objectives. It was certainly relevant to the Philippine Development Plan. However, several changes or different interpretations were applied to the Design as discussed below:

1. Road rehabilitation costs and technical standards exceeded provincial budgetary resources.

Actual costs increased to more than twice the Php 2 Million/km predicted in the FDD. Note: Year 1 roads were "pre-agreed" between partner provinces and AusAID prior to the FMC being contracted and prior to the creation of PRNDPs. The FMC had to take on these Year 1 roads as part of the Scope of Services (SOS). Further, the FDD cost assumptions on the scope of works did not agree with the finally approved scopes of works for Year 1 projects, which required more scope, due to the deterioration of road conditions since the FDD had been created.

2. The SOS of the FMC was more risk sensitive than originally envisioned in the FDD.

Risks were required to be fully covered by the FMC rather than shared with AusAID and partner PLGUs. The FDD scope differed from the FMC scope, meaning that what was envisioned and designed differed greatly from what was contracted. For example, AusAID insisted on using the MBC approach in the SOS, when in the FDD there was a provision that: *"in cases where MBC fails, interventions may be required to improve the MBA capacity of provinces"*. This did not happen in Phase 1 when the FMC was required to follow the SOS rather than the FDD.

3. The Phase 1 management structure did not handle policy matters well and was slow to resolve operational matters.

This was due to the onerous requirement for FSC approvals on almost everything, as stipulated in the SOS. This over-centralised decision making process did not fully incorporate the concerns of Governors to PRMF matters affecting their provinces. The Governor's Forum did not commence until late in Phase 1.

4. The CD approach followed an input model that restricted efforts to move to a beneficiary developed and driven model.

Under Phase 1, provinces prepared their HRMD Plans, which basically listed the CD needs identified by each concerned PLGU functional office. These CD activities were supposedly demand-driven but several issues suggested otherwise, these being: the failure of predicted service delivery improvements, and the poor absorptive capacity of,

or relevance to, many beneficiaries. The CD framework for Phase 1 required approval and consent from AusAID to proceed. CD delivery often resulted in a "race" to disburse PRMF provincial allocations for CD by end of the fiscal year.

Despite these changes, PRMF Phase 1 was effective in introducing administrative reforms, which subsequently improved the management of provincial roads. These were mainly plenary, technical and financial in nature, rather than decision-making and governance reforms.

Adjustments to the original design undoubtedly influenced the Terms of Reference (TOR) of the FMC, and the consequential or perceived transfer of risk from AusAID to the FMC hindered implementation. This conflict over risk management between AusAID and the FMC eventually led to the FMC's departure from the PRMF in April 2012.

PW accomplishments in Phase 1 were below the kilometre targets, however it should be noted that CID was committed to work on projects prioritised by provinces, which were often of a higher cost per kilometre than envisaged by the donor. The decision to implement sophisticated rehabilitation of badly damaged road sections should have triggered a more intensive investigation of the funding history in the sector. For example, why did the two provinces with the consistently highest road maintenance expenditure levels (measured against the DILG standard), have the lowest percentage of roads in Good or Fair condition? <sup>18</sup> Were they trying to maintain dead assets? Was the PRMF focus on maintenance too little or too late in some areas? Certainly more "Asset Management" analysis would have helped.

The SOS was more restrictive than originally envisioned in the FDD and disregarded the fact that local innovations and knowledge were used to define the FDD principles. The previously mentioned transfer of risk made it difficult to alter the SOS approach as the FMC bore all risks for program implementation. Management of risk is a significant factor in determining the emergent pathway of any program. *'Shared risk greatly enhances the potential for innovation, adaptation, learning and institutionalization.'*<sup>19</sup>

The Phase 1 management structure did not handle policy matters well and was slow to resolve operational matters, though the PRMF community engagement model in PW, while limited, did facilitate some consultation.

The major program interventions tended to be FMC interpretations and did not reflect the partners' visions. Rarely did the FMC and AusAID agree on interpretation, which was a major cause of delay and disorientation. Road rehabilitation costs and technical standards were beyond provincial budgetary resources, a fact that remained unexplored.

The PRMF followed an input model that made it difficult to move to a beneficiary-developed and driven model that encouraged national government and PLGUs to accept greater responsibility for program outcomes. The design assumption was that outside experts could provide technical solutions to fix the problem of poor road management, but this rarely held true.

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<sup>18</sup> See Annex E where the 2014 Base-line data shows that Bukidnon and Lanao Del Norte had the highest average annual maintenance expenditure levels but the lowest percentage of roads in Good or Fair condition.

<sup>19</sup> Lundberg, P, Hind, J, Coscolluela, R. July 2012. Independent Progress Report. AusAID, Manila. pp 6, 21.

The GoP and PLGUs needed to play much greater roles in program management, to build political leaders' capacities to integrate program inputs into innovative solutions and to ensure that community members comprehended their roles and responsibilities in road management. This was unsuccessful.<sup>20</sup>

After CID withdrew in April 2012, a replacement FMC was chosen but withdrew prior to appointment. From October 2012 until September 2013 an AusAID team from the Australian Embassy oversaw PRMF directly. During this time the objective was to complete ongoing road upgrade contracts and "keep the PRMF going". No new works were implemented but CD implementation continued. Six PW contracts remained when the FMG was formed and the new SC assumed responsibility for implementation in October 2013.

The decision to keep the PRMF going was courageous and unanimously applauded. There were several modifications to program design that facilitated operations into 2014, as described in the Phase 2 Approach.

## **Phase 2 Approach**

Initially, the approach to Phase 2 was to determine what was relevant and what was not, what was working and what was not, and what needed to be done to create a productive donor-SC relationship so that the Provincial Roads Management objectives could be achieved.

The FSC proposed the creation of an interface between the SC and AusAID and this principle was eventually adopted when the FMG was established in September 2013. The flexibility arising from the FMG arrangement facilitated rolling strategic and design changes that improved PRMF operations and effectiveness. It was also of significant benefit during the period following AusAID's integration with DFAT in improving communications and the speed of transition.

The FMG arrangement proved useful in avoiding misunderstandings about donor policy. For example, DFAT budget cuts in January 2015 required a major contract amendment while maintaining good relations between the donor and SC and beneficiary stakeholders. The Facility Director encouraged a team approach and participative decision-making that was not always comprehended by the donor, but ultimately resulted in a productive donor-contractor relationship and improved relationships with beneficiaries, particularly in the provinces.

## **Phase 2 Strategy**

The overall strategy eventually emerged from in-depth soul-searching about what was relevant and what could work within the diverse Philippines' contexts. The road rehabilitation guidelines were modified from the unrealistic standards for major rehabilitation to RMI<sup>21</sup>, and subsequently improved by the SC and adopted by the FSC within the first six months.

Increasingly, PRMF encouraged a holistic approach to PW that encompassed the landscape surrounding a given road, the community, and the weather patterns. This resulted in greater

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<sup>20</sup> Lundberg, P, Hind, J, Coscolluela, R. July 2012. Independent Progress Report. AusAID, Manila. p 7.

<sup>21</sup> In the Philippine setting, from the DPWH perspective, this RMI type of works is treated as Periodic Maintenance works. This possibly explains why RMI work was often incorrectly recorded by PLGUs as expenses in the year they occurred, rather than as capital expenses in accordance with the GoP accounting rules on Property Plant and Equipment (Asset Accounting).

attention to drainage, slope protection, road safety, access to homes and properties, and road effects on the disabled and pedestrians generally. The incentive program, partly designed during the AusAID management period, was modified to focus on governance and road management performance. Both resulted in an improvement in road kilometres rehabilitated.

The CD strategy was changed from being standardised and centrally determined to a demand-driven model. An integral part of the CD approach was mentoring and coaching and all technical personnel were trained and then required to perform these functions. The emphasis was on the use of local skills and knowledge rather than the adoption of external solutions.

PRMF consulted the Governors and national government agencies on the principle of a government-financed national program for LRM. Associated with this was the work on modifying LGU accounting rules to require tracking of roads and bridges as depreciable assets, and digital asset mapping within the RBIS. Early in the dialogue PRMF sought LPP assistance. The LPP eventually took over the political negotiations, while PRMF continued to provide technical assistance.

In advising the LPP on a national performance-based, apolitical, GoP-provincial partnership, PRMF followed GoA policy to work within the political economy. It did so to achieve objectives, and manage the risks arising from inadequate engagement from the primary beneficiary (DILG). This mitigated much of the risk that the 3-year PLGU terms constitute, in capitalising non-partisan support in PRMF provinces and the LPP. COA strongly supports the leveraged GoP investment in KALSADA (22 times the GoA target) through the road asset management policy and procedures, and RBIS. As a result of this work, PRMF became a field laboratory for working within the political economy. This innovative, risk-mitigating model should influence future GoA investment and methodological decisions.

From early in Phase 2 it was resolved to remove the DILG Regional Offices from the role of PRMF contract procurement and implementation manager. This eventually occurred but donor rules and regulations caused significant delay.

### ***2.5.1 Phase 2 Financial Management and Fund Flows***

Financial Management during Phase 2 responded successfully to two factors, which were not present during Phase 1:

- i. The Financial Reporting mismatch between the DFAT use of calendar months and the Louis Berger Accounting periods in which the sequence 4, 4 and 5 week periods comprised each quarter; and,
- ii. The inability of DFAT Manila to apply the GoA Accrual Accounting rules, forcing the deferral of June expenses into July (FY2014-2015), thereby adding to the PRMF budget and expenditure problems in the following financial year.

The constant GoA budget uncertainty imposed further complications to the Financial Management portfolio in Phase 2 with the continuous need for re-calculating and presenting different budget scenarios. As this often took priority over daily accounting procedures, the Facility had to hire a more senior finance manager and more finance team members.

On 28 January 2015, Louis Berger was advised that the value of the contract extension from August 2015 until June 2016 had been cut by approximately 60% due to the global cutbacks in the Australian foreign aid budget. This required major reprogramming to accommodate the reduced resources, including staff reductions.

Despite the above challenges, the major operational problem was the initial delay of PW payment projections with respect to contract milestone dates. Due to the large number of these transactional delays, accurate cash-flow projections were difficult to adhere to.

The graphs below (**Figures 10 and 11**) show the expenditure trends in PW and CD throughout Phase 2. Although the vertical axes have different scales, the peaks and troughs of expenditure show the impact that the PW expenditure pattern had on the CD services of PRMF.

In August 2013, a management decision was made to not initiate immediate external road design work under Component 2, hence no new works were generated from the AUD 325,000 budget line following the mobilisation of the Louis Berger team in September 2013. In hindsight this decision may have been fortuitous, as the Bohol earthquake on October 13 resulted in major adjustments to funding allocations and PW.

During the remaining 8.5 months of FY13-14, PRMF geared up to achieve the Phase 2 targets, which suddenly included 14 earthquake damaged roads. To that point, the PW team had worked with PEOs to complete the planning, selection and design processes of new projects totalling 444 km of Rehabilitation and Minor Improvement (RMI) and 517 km of Maintenance.

Due to the combined impact of the earthquake and the expenditure transfer from June to July, the PW list suffered a budget cutback of AUD5.1M. This reduced the FY13-14 and FY14-15 works program to 280 km of RMI and 71 km of Maintenance. As 15 of the 21 projects in the FY14-15 PW program had been awarded, the balance of the overall RMI list was withheld from the procurement process at the end of May 2014, due to advice that there would be further budget cutbacks.

In accordance with the above description, the PW expenditure graph (**Figure 10**) shows that no expenditure was recorded until mobilisation payments were made for the Bohol earthquake recovery works in June 2014. Despite the impacts described above, the underspent status put the continuity of PRMF at high risk as the end of FY13-14 approached.

At the February 2014 FSC meeting it was decided to double the CD budget in the FY13-14 (draft) Annual Plan, inherited from DFAT, in an attempt to show some level of expenditure performance. Fortunately negotiations on CD services had commenced immediately after mobilisation in September 2013 and the SC was able to benefit from the good service provider relations established by DFAT. Following approval of the Louis Berger format for Service Contracts on March 20, 2014, the PRMF Procurement Manager released the backlog of CD contracts and the procurement of AUD 2.4M in CD was completed by June 30. More than 50% of this work commenced in that same period, explaining the initial expenditure spike following the March 20 date on the CD graph (**Figure 11**).

After the end of FY13-14, CD expenditure became a very low priority compared to PW in all provinces.

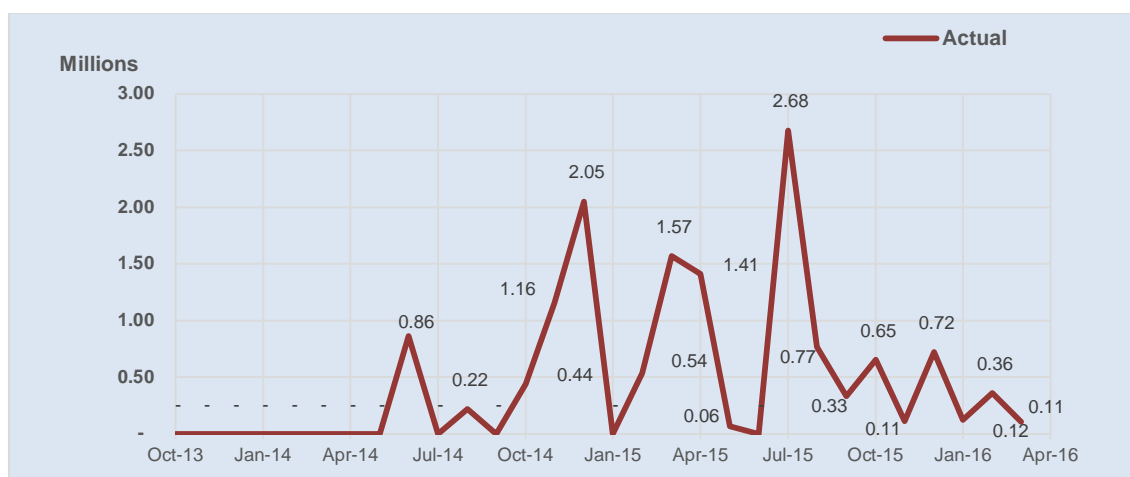
Provincial CD investments produced two more, smaller spikes in activity, one aligning with the Christmas break in PW and the other at the end of FY14-15 when provincial CD budgets would be lost if not spent.

This situation produced a major deviation from the continuous mentoring principles underpinning the CDRR system. CD expenditure returned to the Phase 1 approach centred on large group workshops intended to consume budgets and deliver outcomes quickly. Reports from the CDRR system showed attendance numbers 20 times greater than anticipated across the 10 provinces, totalling 1,414 females and 1,767 males. Corresponding expenses included high venue and food costs. This 'large group' approach was the preferred way to spend budgets quickly and to satisfy the Filipino preference for off-site training, but it was contrary to the whole mentoring intent of the CDRR approach.

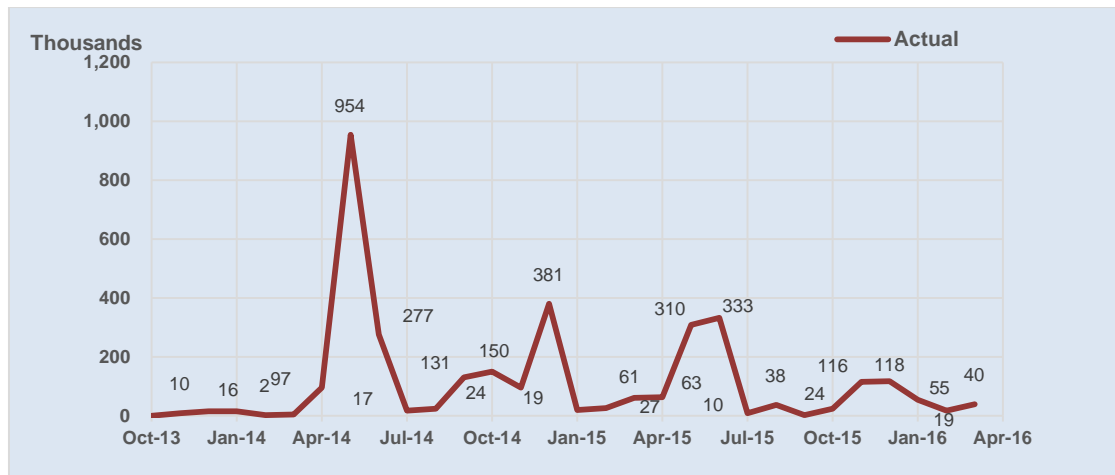
In the PW graph (**Figure 10**), December 2014 showed an exceptional improvement in disbursements following the approval of Variation Orders on 12 road contracts as well as the approval of time extensions for 8 out of 12 contracts in mid-November 2014. During the same month, five road projects turned from negative (slippage) to positive (ahead of schedule) in terms of work performance and accomplishments. Causes of slippages recorded in the previous months were due to inadequate field personnel, lack of heavy equipment, and unfavourable weather conditions.

PRMF helped the contractors improve their preparation of documents for progress billing which resulted in an increase in percentage of accomplishment billings. Gaps between progress billings and accomplishment reports narrowed from 30% to below 10% in the succeeding months. The January drop in PW expenditure was actually the delayed effect of the Christmas break on construction work. The remainder of FY14-15 saw good levels of PW expenditure until the last quarter when attention had to revert to CD work. This drop showed in the May and June 2015 PW figures.

**Figure 10: Physical Work Expenditures (Total Budget = AUD 14.5M)**



**Figure 11: Capacity Development Expenditures (Total Budget = AUD 3.4M)**



## 2.6 Key Outputs

### Phase 1

PRMF Phase 1 was implemented under two components, as proposed by the FDD:

1. Capacity building for Road Sector Planning and Management.
2. Road Network Rehabilitation and Maintenance

Outputs of the two components were listed as follows:

- Output 1.1 – Provincial Road Sector Planning and Management Review (PRSPMR)
- Output 1.2 – Five Year Provincial Road Network Development Plan (PRNDP)
- Output 1.3 – Provincial Annual Works and Reform Program (PAWRP)
- Output 1.4 – Capacity Building Plans formulated and delivered
- Output 2.1 – Priority Road Network Feasibility Studies
- Output 2.2 – Annual Physical Works Program
- Output 2.3 – Service Delivery Mechanisms Mobilised
- Output 2.4 – Physical Works Completion Reports

### Phase 2

The key outputs sought in Phase 2, as proposed in the SC's Monitoring and Evaluation Framework of October 2013, were:

- DILG National Program developed
- LRM Manual developed
- Improved Tools (LRMPAT, RBIS)
- Increased DILG Capacity
- Increased PEO capacity (design, procurement, implementation)
- Provincial roads rehabilitated
- Provincial roads maintained
- Increased PLGU capacity (planning, budgeting, IA, HR, M&E)
- Improved tools (PRNDP, SFMP)
- Increased community participation





### **3. GAINS FROM PRMF**

#### **3.1 Facility Components**

This Section details the significant gains of PRMF against the three Facility design components in Phase 2. It describes the current status of specific inputs, which have contributed to the progress against each component, the background to the current position and, where appropriate, the challenges to sustainability.

##### **3.1.1 Component 1 – Enabling DILG**

#### **The NIPLRM program is developed and implemented**

##### **Current Status**

Trialling the KALSADA program in 2016 became a top priority of GoP in an attempt to improve its infrastructure expenditure performance by using the NIPLRM standards as safeguards against potential ‘pork barrel’ problems in an election year. With the first Php 5.4 Billion in Rehabilitation funds being transferred to 68 provinces for 186 projects by the end of March and the remaining funds undergoing the DILG process of Design Approval, DBM had achieved its goal of disbursing funds quickly and fairly.

DFAT has identified that a policy monitoring and advisory role should be activated through TAF after the closure of PRMF. The Final Aid Quality Check (FAQC) meeting for PRMF also proposed that World Bank Policy Advisory Studies on the critical importance of the depreciation component of the NIPLRM be pursued.

##### **Background**

For the Philippines economy to continue to grow and to do so equitably, it is essential that provincial roads networks be improved and maintained. In contrast with national roads and municipal and city roads, PLGUs have access to fewer national funding resources and those that exist are fragmented and uncoordinated. The DBM estimates there is more than Php6B per year available for local roads across several programs, but they are not accessed or used effectively<sup>22</sup>.

The DFAT vision for PRMF was to facilitate the development of a Php300M national LRM program to support effective LRM through recurrent funding. This was intended to run alongside the existing Special Local Roads Fund (SLRF), which provides provinces with up to Php1.2B a year primarily for road maintenance. Unfortunately the SLRF has also suffered from administrative delays and incomplete expenditure.

In the latter half of 2014, PRMF analysis of historic expenditure estimated that provincial roads lost Php11.1B per year in accelerated depreciation due to inadequate capital funding<sup>23</sup>. The typical provincial response had been to divert PLGU maintenance funds into

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<sup>22</sup> Apart from road funds managed by DPWH, those managed by other line Agencies (e.g. Departments of Tourism, Agriculture) seldom attain 50% of budget expenditure. (DBM meeting – November 6, 2014)

<sup>23</sup> The PRMF Concept Paper on Asset Based Funding submitted to COA in August 2014.

road rehabilitation (capital works), hence the decline in maintenance, further shortening the asset life of the remaining serviceable roads and creating an ever-worsening sustainability problem.

The LPP, with support from PRMF, recommended that the National Government provide between Php5B and Php6B per year for PLGU capital works, in order to reverse this loss in asset value from premature deterioration of provincial roads. This proposal focused on core roads or those connecting to areas of national policy and economic significance, as identified in the PRNDPs of each province.

The NIPLRM standards, which grew out of this analysis of expenditure histories, will help sustain and scale-up gains from PRMF intervention, starting with the DBM endorsed trial in which road rehabilitation projects in 74 provinces are being funded through the General Appropriations Act (GAA) in 2016. This trial is designed to allow all provinces two years to meet all of the entry criteria.

Proposed NIPLRM criteria include:

1. The PRNDP must be in place, clearly defining core roads and prioritising proposed rehabilitation projects each year.
2. Provincial road maintenance expenditure (and the PLGU budget for road maintenance) must exceed the DILG benchmark for core roads and all past SLRF project accounts must be acquitted.
3. Provinces must submit road rehabilitation project designs and budgets including the commitment for provincial co-funding (between 10% - 30% depending on the Income Class of the Province).
4. The Seal of Good Financial Housekeeping (SGFH) must be achieved and internal auditing of procurement must be ongoing.
5. All provincial roads must be recorded in the RBIS with annual road condition inventory updates.
6. All provincial road assets must be valued and depreciated on provincial balance sheets annually.

### **Sustainability Challenges**

- Lack of political commitment to on-going funding using NIPLRM criteria could result in a return to the previous “build – neglect – re-build” cycle. Future support to the provincial road sector should focus on reinforcing political commitment, while providing technical support to funding agencies to help manage the funds dispersal and reporting processes.

## Confirmation of the Legal Mandate for the NIPLRM (KALSADA)

### Current Status

The draft Executive Order (EO) was submitted to the President's Office on December 8, 2015, but that office requested that the draft be re-submitted with endorsements from the Secretaries of DPWH and DILG to reinforce the submission by the LPP and Union of Local Authorities of the Philippines (ULAP). These endorsements are currently being sought by the LPP. For the prior three years DILG sought KALSADA funding through the GAA but this was denied, partly because DILG had no legal mandate for financing the road sector and also because KALSADA was seen as a 'lump sum' submission, which could fund 'pork barrel' promises.

This situation is now close to resolution with support from LPP and DBM. The Technical Working Group (TWG) of the LPP, facilitated by PRMF, completed the drafting of the EO that will provide the appropriate legal mandate for DILG before 2017.

### Background

To secure a legal mandate, PRMF worked with the TWG of LPP and Dr. Milwida Guevara of the Synergeia Foundation to draft an EO to authorise the NIPLRM funding partnership in perpetuity, as well as the DILG oversight role. Political constraints prevented former DILG Secretary Roxas from championing this, as it could have been misconstrued as a "Pork Barrel" fund. Working through the LPP provided good political security as any future President would be less tempted to rescind an LPP initiative than one advanced by a cabinet member from a previous administration.

Following the submission of the draft EO to the President's Office by the LPP with ULAP endorsement on December 8, the Executive Officer recommended it be resubmitted with additional endorsements from Secretary Sarmiento (DILG) and Secretary Singson (DPWH). To support the sustainability of KALSADA funding the DILG presented the KALSADA Roadmap 2017 – 2022 to the Infrastructure Committee (InfraCom) of the National Economic and Development Authority (NEDA).

### Sustainability Challenges

- **The KALSADA in 2016 does not achieve expected budget expenditure** – This risk should be of minor significance since 2017 was actually the PRMF-recommended starting year for NIPLRM, particularly from the point of view of obtaining post-PRMF CD support from donors. Given that DBM agreed (on June 4, 2015) to fund the required CD (through DILG) to have the 65 new provinces ready for 2016, then the risk of low expenditure in 2016 could still be quite high, but its significance may be low in the election year and the one following.
- **The NIPLRM Executive Order is delayed** – Given the highly political nature of these reforms, compounded by a political environment of upcoming Presidential elections, the NIPLRM (KALSADA) program might not achieve a legal mandate within the time remaining for PRMF. PRMF will attempt to build support within the GoP at provincial and national levels, and within civil society. If the LPP decides to wait until after the election

to proceed with the EO, then PRMF will respect that decision. The Governors know their allies in Congress and the Senate, and are best positioned to time the EO submission.

## **The RBIS is developed and implemented nationwide**

### **Current Status**

The Road Board-funded Local Road Survey initiative, which provides a national inventory of provincial and city roads, has reached its last hurdle, with download of road survey data into the revised RBIS imminent. The survey consortium, headed by Geodata, will assist the RB with the final adjustments to the RBIS to enable these bulk data downloads to occur. Payment to Geodata is triggered by the presence of live and accessible data in RBIS.

DFAT entered an MOA with the RB to facilitate this process in March 2016. The critical result of this effort will be the generation of asset values to inform PLGU balance sheets. These valuations initiate the depreciation values, which should underpin NIPLRM entitlements from 2017 onwards. A Tripartite MOA (DFAT, DILG and the RB) has also been drafted for possible implementation.

### **Background**

PRMF Phase 1 developed an RBIS that was little used by PRMF provinces or DILG. Servers were established in each province, which were costly to maintain, and it was difficult to retain skilled information technology personnel. It was found that road inventory, condition and traffic count data from PRMF provinces varied in consistency and quality.

PRMF Phase 2 developed a new RBIS approach that uses centralised lower cost technology and entails reduced capital and maintenance expenses. To ensure stronger DILG ownership, it was developed in collaboration with DILG as a tool for provinces to use in fulfilling SLRF requirements, thus ensuring more consistency in collecting and entering data, and improving sustainability by including financial records on roadwork histories.

The PRMF sub-contractor, Active Rail Web Solutions (ARWS), developed an RBIS data collection manual in 2014, which includes standardised data collection procedures. An extended RBIS pilot was then completed in the 10 PRMF provinces. ARWS worked with DILG and DPWH to develop the manual in harmony with broader Philippine road management standards. This enables data sharing with DPWH and the National Mapping and Resource Information Authority (NAMRIA), which can share data with NEDA for national planning, and with COA for auditing.

In late 2014 the DILG Office of Project Development Services (OPDS), SLRF Team, was successful in securing Php512M from the RB for the national survey of local road conditions, thereby enabling the rollout of the automobile-based RBIS data collection tool, and reducing the need for the just-launched manual data collection tool – the Local Road and Bridge Inventory Condition Survey (LRBICS). RB funding of this automatic data collection rollout demonstrated its commitment to using RBIS as the central database for local road data.

Having completed RBIS development in the first quarter of 2015, several changes were made due to the changed dimensions of data downloading as a result of the national survey

contract described above. Despite numerous delays with the procurement of the Survey, the RBIS handover finally occurred on December 10, 2015.

Apart from some final changes by ARWS, as requested by COA, DILG was to take over the hosting, management and maintenance of the system from March 2016 onwards. As of March 7, DILG did not have the required cloud storage or bandwidth to host the system and an agreement was made to enable the RB to host it during the 19 months of bulk data downloading.

### **Sustainability Challenges**

- **RBIS ‘ownership’ and vested interests** – Inter-departmental cooperation is essential for the effective rollout, use and sustainability of RBIS. The final changes to RBIS rest with the RB and its service provider, Geodata. DILG’s inability to acquire its cloud data management requirements meant RBIS could never achieve its full potential as a DILG and LGU management tool. The interest by RB to host and manage RBIS was the only insurance DFAT had against this risk, with the Geodata-RB relationship likely to underpin the final attempts by PRMF to help DILG to activate its in-house RBIS.

### **The LRM Manual is endorsed as the Local Road Standard**

#### **Current Status**

PRMF helped DILG to revise the LRM Manual chapter on Local Road Design Standards by incorporating the DPWH’s most recent Standards Review. DILG will issue a Memorandum Circular by the second quarter of 2016.

#### **Background**

PRMF Phase 1 assisted DILG to develop the LRM Manual, which was launched under Phase 2 in March 2014 at the LPP National Assembly.

PRMF funded the LRM Manual rollout at the Provincial Engineers Association of the Philippines (PEAP) annual general meeting in July 2015. This provided a broad opportunity to explain the operational impact of KALSADA and the availability of CD support through the e-Learning modules, which were created for NIPLRM and address five of the six KALSADA entry criteria.

The PRMF developed the e-Learning modules for in-service training on LRM Manual content. This will facilitate dissemination of the Manual content to other provinces, cities, and municipalities.

### **Sustainability Challenges**

- **Finding a permanent home and designated managers for knowledge products** – The lack of permanent positions in the DILG and lack of designated ‘product managers’ makes it difficult for CD products to be updated and disseminated. PRMF developed HR advice to DILG in November 2015 that incorporated CD product management planning and capacity requirements for future DILG staffing proposals. DFAT has requested that PRHODF follow up on this initial support in 2016.

## **LRMPAT is used to measure PLGU performance in LRM**

### **Current Status**

The LRMPAT Review was completed and handed over to DILG in March 2015, ready for national implementation. In FY15-16 PRMF had no further resources to support DILG in the LRMPAT rollout, but the offer was made to work with DILG to design a position to conduct national data analysis, aggregation and reporting. DILG is currently conducting the Local Road Management Performance Assessment (LRMPA) in batches, prioritising provincial CD support according to their inability to participate in KALSADA – supporting the least prepared first. The first national report was to be completed in early 2016.

### **Background**

DILG demonstrated commitment to the LRMPA process under the SLRF since 2010, possibly as a precursor to yet another Seal of LGU performance. The LRMPAT was piloted in 2013 with Regional DILG offices providing data for 26 provinces and 59 cities. All the provinces and cities that did not provide data in 2013 were required to submit data by 30 September 2014. To conduct the LRMPA, PRMF helped train a pool of assessors (three per region).

Following the pilot, PRMF collaborated with national and regional DILG personnel to review LRMPA indicators. PRMF also reviewed DILG capacity to manage data collection and analysis. The revised indicator list was agreed upon.

PRMF also developed two new tools: (1) a self-assessment tool for provinces to use before being assessed by DILG; and (2) a tool for the national aggregation of results.

### **Sustainability Challenges**

- **DILG OPDS understaffing** – The DILG OPDS is addressing its understaffing problems with an increase from 15 to 44 staff between 2015 and 2016 in its Local Road Sector Unit. This will help address questions about how well it can manage LRMPAT in the future. For LRMPAT to be applied effectively, sufficient personnel with appropriate expertise need to be assigned. PAHRODF has been assigned by DFAT to help draft the Terms of Reference (TOR) to assist DILG's request for the required personnel.

## **CDRR System ready for DILG to outsource Capacity Development**

### **Current Status**

The CDRR system was upgraded at the end of 2015, before being transferred to a new on-line platform. The handover to a local management entity, designated by, or within the DILG, will occur in April 2016. In 2015, the University of San Agustin (UoSA) was contracted to complete this work. PEAP supported this approach, with members being prepared to participate as both mentors and mentees.

## Background

In PRMF Phase 1, the approach to CD was mostly supply-driven, with a range of generic activities designed and implemented in each province. In Phase 2, PRMF designed a demand-driven “trouble-shooter” approach through the CDRR system. The advantage of this approach was that it built PLGU capacity where there were problems – in response to specific PLGU needs – thus providing a greater probability of staff applying strengthened capacity at work.

Through the mentoring approach, skill development was tailored to specific needs. To sustain this approach, PRMF trained and activated 124 mentors across all 10 provinces.

As of July 2015, the CDRR system had registered 280 CD requests, from which 279 learning outcomes were recorded in the workplaces of 1,414 females and 1,776 males.

PRMF will hand over the management of the system to DILG with the UoSA as a tested system management sub-contractor. This will become a key component in continuing the rollout of KALSADA beyond 2016. DILG should only have to play an oversight role. The University will earn its management fees upon satisfactory completion and recording of learning outcomes for each capacity development activity and it will commission CD responses through the existing DILG network of universities and LGA training providers.

## e-Learning modules accredited by UPNEC

### Current Status

Five e-Learning modules were developed and piloted within PRMF. Three were updated during 2015 to better match with the respective KALSADA entry criteria. UPNEC has offered to own, accredit, market and maintain these modules. The *Provincial Road Network Development Planning* module now includes the asset management concepts, which are so central to the funding formula of NIPLRM; the *Road Design* module includes the concept and practice of whole-of-life costing analysis, which will be used to approve KALSADA project submissions; and, the *Road Maintenance* module now incorporates community contracting.

### Background

Through PRMF’s strategic alliance with the LGA established at the end of 2013, the original hope was to develop five e-Learning modules on LRM and pilot three of them. The topics were: *Road Network Planning*, *Road Maintenance*, *Engineering Design*, *Construction Supervision* and *Internal Auditing of Procurement*. After struggling through five contract amendments and the subcontracting of all five-module development jobs, the LGA piloted the delivery of one module. PRMF had to commission, review and pilot all of the remaining four modules without LGA involvement.



### **3.1.2 Component 2 – Enhanced Provincial Road Network Services**

#### **Capacity of PEO engineers in road design is strengthened**

##### **Current Status**

In Phase 1, the PRMF FMC and subcontractors designed the PRMF roads targeted for rehabilitation with minimal technical involvement of PEOs. This did not facilitate PEO CD nor accommodate community consultation. For Phase 2, PEOs designed the RMI roads and the SC reviewed designs. PRMF provided training, coaching, and mentoring on all aspects of (non-bridge) road design, surveying, highway design, pavement design, drainage, and slope protection. The PEOs were also trained in Civil 3D and AutoCAD and now routinely use Civil 3D to complete design work to LRM standards.

##### **Sustainability Challenges**

- **PEO reluctance to outsource and insistence on using temporary positions** – The IRA funding formula for PLGUs provides permanence to some staff who often have out of date technical skills. The frequency of repeat training on relatively basic technical concepts between PRMF Phases 1 and 2 demonstrates this.

Low salaries for temporary positions for more technically competent, but less experienced staff, means they regularly move on. Often their skills are lost even if they stay in the PLGU, as the common practice of shifting capable personnel makes it difficult to retain capacity once created within the most relevant section of the PLGU. As engineers develop additional capacity, the temptation is to migrate to the private sector.

PRMF attempted to demonstrate to PLGUs the importance of developing and utilising such capacity in the private sector, while ensuring that experience and contract management capacities are retained internally.

#### **Safety and Environmental Planning is integrated into LRM**

##### **Current Status**

Environmental planning and construction safety were integrated into road design and implementation on PRMF roads in all the PRMF provinces, and were promoted for non-PRMF roads. While there is safety and environmental planning capacity within PLGUs, budget constraints and other reasons mean that this capacity is not always used proactively or for all planning and design. Given real budget constraints, PEOs need a better understanding of how to balance these constraints with significant environmental concerns.

##### **Background**

PRMF found that environmental and safety concerns often surface during community consultation. Environmental planning is better served when environmental experts are invited to these consultations so that priority environmental and safety concerns can be identified. This will help overcome the budgetary constraints (described above) by getting resources allocated to environmental and safety where communities are affected. Future e-



Learning modules should assist in developing greater PEO capacity in 'value engineering' in the design process.

### **Sustainability Challenges**

- **PLGUs fail to enforce the adequate environmental and safety requirements included in KALSADA** – If KALSADA's environmental planning and safety requirements are put in the 'too hard basket', PEOs could lack an incentive to really integrate these into planning road designs and implementation in resource-constrained situations. PRMF will work with DILG to emphasise the need for KALSADA or other accountability mechanisms to address these standards.

### **PLGUs use innovative materials that are appropriate to their context**

#### **Current Status**

Standard road construction materials are not available in several PRMF provinces. For example, Guimaras and Siargao Island of Surigao Del Norte paid exorbitant amounts to haul imported materials when working on PRMF Phase 1 roads. Due to the high cost, PLGUs do not follow this strategy and it is not sustainable.

During Phase 2, PRMF conducted research in Guimaras to identify alternative local materials. The initial research findings were presented at the annual conference of the Transport Science Society of the Philippines in Iloilo on 12 September 2015. The research findings, to be owned by DILG, will be provided to other provinces after being reviewed independently.

#### **Background**

PRMF has used the above results and expanded their application to a broader range of pavement options that may be generically applied to any province. This is particularly relevant to the development of KALSADA as it will provide each province with the tools necessary to identify pavement options that are tailored to their particular road considerations – terrain, traffic volume and loading, availability of materials, availability of competent contractors to undertake the work, investment requirements, design life, and whole-of-life cost. This enables provinces to make informed decisions and ensure that cost effective solutions are applied.

The pavement options under consideration range from gravel roads, the introduction of cement stabilisation, a range of bituminous solutions from tack coat and slurry seal to full asphalt cement and concrete rigid pavements.

### **PLGUs effectively manage physical works**

#### **Current Status**

PRMF PW data shows that all 10 partner PLGUs have improved abilities to manage PW.

#### **Background**

During PRMF Phase 1, the PRMF FMC managed the PW contracts. In Phase 2, construction supervision was transferred to PLGUs with PRMF assuming a Resident

Engineer role and providing coaching and mentoring.

Before PRMF, PEOs generally sent out materials for testing. PRMF helped to build in-house capacity to use the laboratory equipment received during Phase 1. PRMF Phase 2 also helped build PEO quality assurance/quality control (QA/QC) capacity.

PEOs struggled initially with project documentation so PRMF assisted with this. PEOs tended to comply with project documentation requirements on PRMF-funded projects and revert to previous behaviour for non-PRMF roads, but increasingly the provinces are taking PRMF practices as their own.

### **Sustainability Challenges**

- **Limited mentoring capacity** – The PRMF PEOs might not have time and resources to work with new PEOs to demonstrate the importance of project management best practices and maintaining project documentation. The CDRR system will have to fill this space using the resources of DILG's supporting university network.

### **PLGUs effectively carry out MBA and/or manage MBC**

#### **Current Status**

While MBC has succeeded in four provinces (Davao del Norte, Aklan, Misamis Occidental, and Agusan del Sur), it is clear that MBC will only work in certain environments. Based on this, PRMF Phase 2 helped the provinces implement MBA by providing CD on preparing works programs for routine and periodic maintenance, maintenance techniques, quantity estimation, re-graveling, and materials testing.

#### **Background**

The original intention of PRMF was to promote MBC to increase efficiency and effectiveness in local road maintenance. Phase 2 attempted to pilot this approach, but faced 11 failed procurement attempts due to lack of local contractor interest. This was largely due to the small value of contracts.

KALSADA co-funding requirements will continue to provide PLGUs with the incentive to apply MBC from their own funds. This may also apply to certain types of community maintenance contracting in the future.

PRMF emphasised the need for COA Local Road Accounting Guidelines to help provinces understand and account for their chosen maintenance options and to ensure that expenditures are recognised as 'locally funded maintenance' under KALSADA.

### **Sustainability Challenges**

- **The market is not ready for MBC** – PRMF has shown the futility of promoting MBC as a one-size-fits-all approach. While MBC has proved enormously effective in many areas across the world, the PRMF experience has shown the importance of ensuring that the market is large enough to generate contractor viability and contractor interest where other (better) work is available.

## Community contracting for routine maintenance

### Current Status

As described above, the PRMF focus on building PLGU capacity to manage MBC has had mixed success and in several provinces the approach has failed to attract interested companies. In response, PRMF piloted the Community-Based Maintenance Contracting (CBMC) approach in Guimaras, as an alternate mode to address road maintenance.

### Background

PRMF initially contracted the University of San Agustin to help organise and train a community in Guimaras to perform routine maintenance for a three-month pilot on 2 km of road that had been rehabilitated during PRMF Phase 1. The CD was completed and the work ran from October until December 2014. During the pilot, the PEO monitored on a regular basis as a partner in the research. The community performed routine maintenance (vegetation clearance, drainage clearance, minor patching) while the PEO maintained responsibility for grading and re-surfacing. Communities were paid for the volume of work completed in this first stage.

A second phase of the research was carried out on another 2 km section of the same road, over a further three month period, with the same tasks and responsibilities, but this time based on a performance contract, whereby the community was paid to ensure that the road was maintained continuously at a measurable level of performance based upon a range of agreed performance indicators. This proved to be the preferred contract modality as it was deemed more efficient to manage. The research paper also includes recent changes in procurement arrangements for community contracts produced by the GoP Procurement Policy Board (GPPB).

Following the research, the Provincial Government issued a one-year performance contract to the community to maintain the full 15.3 km of the selected road using provincial funds. Other provinces including Aklan, Davao del Norte and Lanao del Norte visited Guimaras and have started to use performance based community contracts for routine road maintenance in their provinces.

Members of the World Bank team in Manila visited the community contracting training in Aklan and are proposing to incorporate this in future World Bank initiatives in the Philippines.

### **3.1.3 Component 3 – Capacity Development for PLGUs on LRM**

#### PLGUs manage roads using a network planning approach

### Current Status

PRMF's 10 pilot provinces seem to have institutionalised the routine updating of their PRNDPs and the use of these to inform their annual investment plans. One of PRMF's most significant achievements has been the expansion of the PRNDP approach to 65 new provinces, which was completed by DILG (using PRMF mentors) in the final quarter of 2015.

Seventy-five provinces now have their PRNDP in place, thereby meeting the first KALSADA entry criterion.

Such an achievement testifies to the transition of the PRMF program from a mere pilot LRM program to one that can now lay claim to achieving nationwide impact.

## **Background**

An important PRMF focus has been to introduce a rational and objective approach to road planning that incorporates public consultation, views roads from a network perspective and increases access to services through better connectivity.

The PRMF partner provinces have all created and regularly updated PRNDPs, which are used to classify core roads and to prioritise PRMF projects, and those funded from other sources.<sup>24</sup>

## **PLGUs use GIS capacity for better planning and road design**

### **Current Status**

All 10-partner Provinces now use GIS data for Land Tax mapping and to develop PRNDPs, and are starting to use GIS data for road design and safety. The PRMF Phase 2 approach was to provide GIS training on-demand so that provinces received training only when requested and for specific tasks.

### **Background**

PRMF Phase 1 provided GIS software training, but little capacity appeared to have been retained by some provinces by the beginning of Phase 2. Phase 1 training was very technical and highly prized in the market. This created rapid staff turnover leaving the GIS under-utilised by some provincial governments. Bohol, Davao del Norte and Aklan are notable exceptions, using GIS for a range of issues such as hazard mapping and disaster preparedness, and mapping health risk issues – demonstrating use beyond the road sector.

The 2014 Rapid Capacity Assessment of GIS functions found that almost all provinces had difficulty with ArcGIS software licences, some deeming them too expensive to maintain.

Several licences installed during Phase1 were only for training, meaning that genuine licences were still pending even though the maintenance support period had expired. Although PRMF Phase 1 funded the installation of ArcGIS as ‘the’ GIS software, the price of annual licence renewals became a provincial responsibility. The Rapid Assessment found that the Php1M annual cost was beyond the means of most PLGUs, though this opinion seemed to ignore the increased local tax revenues that also came through, and depended on, the ArcGIS software.

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<sup>24</sup> Unfortunately the PRMF PW specifications were so narrow that PRMF projects actually occurred out of sequence with the PRNDP prioritisation process which was designed to use levels of demand and service to determine Design specifications and funding rather than the reverse.

## Sustainability Challenges

- **Frequent staff turnover** – Low salaries, limited fiscal capacity, and the common practice of regularly shifting personnel, makes it difficult to retain capacity. PRMF helped the PEOs comprehend the benefits of increased GIS use for planning and design and integration with other government mapping efforts.

## Tax revenue assessment and collection systems are effective

### Current Status

Nine of the 10 partner provinces have ETRACS installed<sup>25</sup>. Although results vary by province, local real property tax revenue has increased in PRMF provinces by 85% over the 2009 base-line figures. The cumulative value of this improvement is in excess of Php237M per year for all 10 provinces, which is approximately the same as the cumulative total increase in the provincial investment in road maintenance. Increased revenue collection has resulted in measurable progress toward better road sector financing and readiness for the co-funding requirement of the national incentives program.

### Background

Following ETRACS installation in Phase 1, LGI – formerly Land Equity Technology Services (LETS) – surveyed the 10 PRMF provinces on local income generation performance (dependence on IRA vs. local funds) and capability (information technology, use of GIS systems in revenue collection, staff capability). LGI completed training on local income generation in two pilot provinces – Agusan Del Sur and Guimaras. Once underway, word-of-mouth feedback encouraged the eight other PRMF partner provinces to pay for their personnel to attend the five subsequent LGI workshops. Two additional workshops were held, with personnel from four non-PRMF provinces also attending.

PRMF adopted the pre-existing idea to incentivise local revenue generation by proposing that National Government capital works funding be contingent upon PLGUs financing the maintenance of their core roads under the NIPLRM criteria.

## Increased local revenues are used for maintenance

### Current Status

PRMF partner provinces have proven that sufficient gains in local income can be generated from ETRACS and subsequent LGI training as described above.

The focus on PLGU's adopting an Asset Management approach to road sector management has been greatly assisted by the COA policy review on provincial road asset accounting and depreciation requirements. Nevertheless the COA rules have a 5-year implementation allowance and only a few people on the GoP truly understand the concept of depreciation-based capital funding being dependent on local maintenance funding as a pre-requisite.

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<sup>25</sup> Agusan Del Sur had installed its own computerised tax collection system prior to the commencement of PRMF.

## Background

When looking at the expenditure over a six-year period<sup>26</sup>, the ‘average’ PRMF partner province spends 47% of the required amount on road maintenance or Php26M per year, while at the same time spending Php23M on road rehabilitation, which is estimated to be 10% of the annual depreciation of its road network. If these two amounts were combined, they would equal 90% of the overall road maintenance budget requirement, more than enough to cover core roads. However, as most of the rehabilitation spending is on road sections that have suffered emergency impairments, the work simply has to be done, and maintenance funding must be transferred into capital works on rehabilitation.

The facts show that the capital component of local road funding was never provided to the provinces following the devolution of road management responsibilities to LGUs through the Local Government Code in 1991. Over time this led to the prevailing management approach on provincial roads across the Philippines, which is characterised by the vicious cycle of “build – neglect – rebuild”. This describes the situation where the inadequate levels of maintenance are caused by, and contribute to, the increased frequency and cost of rehabilitation works.

Due to the lack of Road Condition Inventory updates and balance sheet records, such rehabilitation contracts create exposure for incorrect payments, and incomplete or shadow contracts. Under the prior COA accounting rules, capital works transactions were only required to appear on provincial balance sheets during construction (and this was not enforced), and road condition inventories were scarcely kept, let alone routinely updated.

## Sustainability Challenges

- **KALSADA fails to continue as a depreciation-based funding mechanism** – The initiation of KALSADA gained substantial political support in the quiet period before the 2016 presidential election, with the launch of the pilot program by the President on March 15, 2016. However, some of its main proponents still need time for system and mechanisms to be installed/institutionalized in order to ensure its long-term continuous improvement-funding requirement.

Time will run out for PRMF before KALSADA takes its final shape. Any future CD support should only be provided on the condition that the framework and objectivity of the KALSADA program remains intact.

## The BAC manages road-related procurement to national standards

### Current Status

In Phase 2 the PRMF procurement team was only able to respond to a limited number of CD requests from PLGUs for procurement training, due to its preoccupation with managing the parallel procurement pathway through Regional DILG offices, as required by DFAT. Procurement delays were possibly the largest and most consistent cause for management concern in PRMF.

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<sup>26</sup> See Phase 2 Base-line Expenditure Histories in Annex E

## Background

In some respects, procurement processes were over-managed and/or misunderstood during PRMF. Any form of historic funding analyses prior to PRMF would have shown that the markets for both road rehabilitation and maintenance were extremely small in all provinces, averaging only Php 49 Million per year per province. Few contractors could afford to mobilise and make a profit from the required machinery for such a small market and they would only be tempted if they envisage that the market will grow dramatically.

The PRMF emphasis on competitiveness was premature in many areas as the sector was simply starved of funds. The average of 1.9 bidders per contract recorded in the PRMF M&E data reflects this situation.

Nevertheless PLGU procurement must follow GoP RA 9184 guidelines to meet legal compliance and ensure that checks and balances are established, procedures transparent, and PLGUs are accountable, to ensure that public procurement is competitive and exposure to corruption is minimised. The key PRMF Procurement team function was to provide administrative and technical support to DILG and PLGUs to enable effective tendering and to execute PW in accordance with RA 9184, the IRR and MSA exceptions.

PRMF Phase 2 procurements operated through DILG regional offices and SBACs, with training on RA 9184 finally provided to all partner provinces by December 11, 2015.

## Sustainability Challenges

- Increased funding for the road sector will inevitably lead to increased demand for contractors to perform the PW.

## Internal Audit Offices are fully operational and adequately funded

### Current Status

The national assessment of PLGUs on public finance and procurement requires establishment of IA capacity so that audits are conducted regularly for PLGUs to receive a passing grade. Despite this, most PLGUs have failed to comply. All PRMF partner provinces have complied.

### Background

One of the significant PRMF Phase 1 achievements was the introduction of IA Offices in the initial seven PLGUs and successful CD to support them. The PRMF Provinces are now among the few with functional IA systems that comply with the GoP Internal Auditing Manual.

PRMF Phase 2 continued to build on these achievements, helping to establish IA Offices and train staff in all 10 provinces. Audits cover the whole of government, including budget, treasury, planning, and procurement.

This initiative represents possibly the most tangible local governance reform achievement by PRMF, impacting provincial government beyond local road management. The three new PRMF provinces conducted audits of their PEOs in 2015.



Under KALSADA, PRMF will hand-back to DBM its mandate to strengthen IA Office capacity and institutionalisation. PRMF has helped partner PLGUs prepare staff for mentoring roles, but apart from this DBM will drive this initiative through its Public Financial Management (PFM) training and SGFH.

### **Sustainability Challenges**

- **Long-term receptiveness of provincial governors** – Governors may not value the IA Offices and have them established in name only to qualify for KALSADA funding. COA will expose any such rorts through its external audits and any un-actioned audit findings from COA will deny the SGFH and with it, KALSADA funding.

## **PLGUs adopt Strategic Performance Management and HR Systems**

### **Current Status**

In spite of its success in staff development, PRMF has had minimal impact on the structure and staffing levels in its partner PLGUs and their PEOs.

The IRA to each province has historically dictated how many positions can be filled by each Governor. Consequently, PLGU departments often have bloated structures containing misalignments between staffing levels, qualifications and functional requirements. Often PLGUs pay for unneeded personnel while being unable to fulfil their mandates adequately. Due to Plantilla (permanency) staff caps, capacity gaps cannot always be filled using additional positions.

With respect to qualifying for future NIPLRM funding, capacity gaps will continue to be addressed through the CDRR system, once DILG agrees how it will be locally managed. Given that the average province will stand to lose the opportunity to win Php100M per year in National Government funding, the private sector will no doubt develop a market for certain technical skills which will help PEOs to outsource the work required to win such funding for road rehabilitation projects.

### **Background**

PRMF Phase 1 produced Human Resource Management Development Plans (essentially staff development programs) for each province, but these contained no mandate or advice on how to relocate or remove unproductive personnel or increase productivity. The focus was on improving existing staff skills and preventing unqualified appointments.

The PLGUs had already become significantly overstaffed and underqualified in some areas before PRMF. In order to actually get work done, it was often necessary to hire cheaper and often transient Job Order staff over and above their approved structure. For example, PEO staffing averaged between 40% and 100% over the approved Plantilla establishment<sup>27</sup>. Some of the more recent growth was due to the early PRMF-driven need for new skills and technology, so it is possible that the productivity per PEO staff member could have declined further since 2009.

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<sup>27</sup> This data is from the 3rd M&E Report for PRMF.



There are no measures of productivity per staff member or section, which should have been produced by PAHRODF.

From an M&E perspective, the concept of monitoring competency-based appointments as an indicator of human resource functionality has been problematic due to measurement and verification difficulties. This is further complicated as job competencies were determined by opinion polling of incumbent and surrounding staff rather than by interviews with true job experts in the jobs concerned. PRMF Phase 2 base-line expenditure history showed that most target PLGUs had only ever been funded to levels sufficient for 20% of their work portfolios, so the PAHRODF's use of self-rated competencies is highly questionable.

As a result of this data, the PRMF Phase 2 M&E skills verification survey focused only on skills developed by, or as a result of, PRMF Phase 2 CD support.

PRMF Phase 2 attention was on building PLGU capacity to conduct workforce reviews and assess staff capacity needs against functional requirements. The PEOs in Bohol and Aklan asked PRMF to conduct workforce reviews to help rationalise their workforces. PRMF completed review workshops in Aklan and Bohol, however the process stalled when the inevitable problem of removing redundant staff arose.

Changes to the Aklan PEO were completed in 2015 once the Governor was able to approve the appointment of 10 new Engineers without having to use voluntary redundancy packages to fund the new positions.

### **Sustainability Challenges**

- **Governors refuse to rationalise PEO structures** – Organisational restructuring with possible layoffs in PLGUs is politically controversial and could meet with resistance from governors. PRMF respects the importance of maximising employment and avoiding the disruptive effects of policy-driven unemployment in the Philippines. PRMF will support PEOs in advocating changes for strengthening capacity to gain KALSADA funding, but voluntary retrenchments will only be suggested where impending KALSADA work will generate employment opportunities which will absorb any such lay-offs.

## **3.2 Other Cross Cutting Elements**

### **Increased Public Participation in LRM**

Following the respective launches of the PRMF Phase 2 strategies on community engagement and gender mainstreaming, both were well adopted by the 10 partner PLGUs in their local road planning, design, and contract implementation processes. All PRMF provinces diligently implement community stakeholder consultations at all levels of their local road management. It has become the normal process for women to be part of all community consultations. This was done not only for compliance, but because the LGUs truly value the inputs of the community, and women in particular. Most of the LGUs mentioned that community participation made their work more efficient, effective and relevant: "Less problems pop up after the roadwork is underway."

Since its inception, PRMF facilitated the initial community engagement and gender inclusiveness steps by widening public participation in the PRNDP process, during which future roadworks are prioritised. Since 2010, communities have been regularly consulted in the design verification process and in most provinces public contributions were subsequently encouraged throughout the implementation process. Community approaches to maintenance finally ‘put the icing’ on this approach during the latter part of Phase 2.

In two PRMF provinces, Surigao del Norte and Bohol, the CRID program was successful in building multilateral consensus on road investment planning that included stakeholders from the government, communities, NGOs, and the private sector. Although the PRMF team was not really engaged in this parallel (DFAT-funded) local road planning process, few, if any of its outcomes conflicted with the PRNDP, which was endorsed by the respective Governors. This comes as no surprise; nevertheless it is difficult to compare the community and gender inclusiveness performance of CRID with that of PRMF and its partner provinces as they move forward.

PRMF was designed to positively impact both women and men in terms of their access to economic and social services. Road projects were designed, fully aware of women’s access issues, as well as that of other vulnerable people. The PRMF approach was to encourage the mainstreaming of gender into all levels of LRM with its PLGU partners. This is reflected in the LRM Manual, which is now the DILG ‘standard-practice’ document. In the Manual, gender consideration has been mainstreamed into public participation in design, implementation, environmental consideration, and in the evaluation of local road projects.

## **Gender and Development**

Gender was a cross-cutting theme recognised and incorporated where relevant in PRMF implementation. Since the beginning of PRMF it strived to mainstream gender equality and social inclusion principles by integrating them into all stages of its programming cycle. This is reflected in the LRM Manual, which was adopted by DILG as the standard on local roads. In the manual, gender consideration has been mainstreamed into ensuring public participation in design, implementation, and environmental consideration, as a cross-cutting theme, and in the evaluation of local road projects.

In 2014 PRMF issued its Gender and Development (GAD) Strategy ensuring explicit mainstreaming of concerns on women and other marginalised or special needs groups. This meant working closely with LGUs to build their knowledge on how to include gender dimensions into road sector management processes and policy development.

Provincial Managers worked with each PLGU GAD focal person to identify province-specific activities. The gaps identified were addressed by various CD initiatives to strengthen the PLGU capacity. Although 19 activities were focused mainly on GAD, the bigger story was that by July 2015, the CDRR system showed a cumulative total of 280 CDRs received with 279 Learning Outcomes recorded for 1,414 female and 1,776 male PLGU staff – an encouraging outcome for a male-dominated sector.

Partner LGUs are mandated to invest resources to achieve their GAD goals and projects based on national regulation e.g. use of 5% of total LGU budget for GAD programs, projects, activities, and services.

PLGUs have different gender priorities. With PRMF's assistance, the LGUs became strategic with their interventions and various activities were implemented. Some of the partner provinces invested resources from the allocated CD budget or used their PRMF untied incentive funds with a provincial 'top-up' to benefit women directly. These included training programs such as *Mainstreaming Gender into M&E* and *Gender and Social Inclusion on Design Detailed Engineering*. Women also led community road maintenance activities.

Other provinces incorporated gender into customised PRMF-sponsored CD programs like the session on "the identification and analysis of the social safeguards" conducted in Aklan as part of the course on the Feasibility study on rural infrastructure projects.

As previously discussed, gender has been mainstreamed by the PLGUs in their local road planning, design and implementation. All PRMF provinces diligently implemented community stakeholder consultations at all levels of their local road management. It has become the normal process for women to be part of all community consultations. LGUs have learned to truly value the inputs of the community, and women in particular. Largely, this is because the designs have been more appropriate to the needs of the community and, as such, they became more encouraged to participate in all levels of LRM.

Three provinces (Aklan, Guimaras, and Davao del Norte) are continuing the CBMC model by contracting community organisations using their own funds for the routine maintenance of roads, and Misamis Oriental obtained community commitment for the same. Most of the community groups implementing CBMC have a high representation of mothers who are seeking additional income to help their families. Mothers says it is more practical for them to participate in such an activity as their time is more flexible than their husbands who have daily jobs. This is one PRMF initiative that categorically demonstrates how LGUs now value the contribution of women on LRM.

The PRMF encouragement of gender sensitive career opportunities in LRM were greatly appreciated by PLGU partners, with women officers gaining increasing responsibilities and rewards in this sector. Women also figured prominently as role models leading national LRM Policy changes and managing KALSADA; and in the provision of the UP courses supporting LGUs to qualify for KALSADA. These are big changes to a formerly a male-dominated sector.

PRMF Communications staff used the Most Significant Change (MSC) technique to encourage PLGU staff to share their GAD experiences and stories. The stories were consistent in highlighting and signifying the value of women's participation at all levels of LRM.

## **Communications**

PRMF formulated and implemented a Communication Plan that principally focused on providing opportunities to raise public awareness and gain stakeholder buy-in through developing communication materials for the program and DFAT.

Participative communications was the fundamental strategy. As such, communications also became an avenue to enhance the capacity of the PLGU Provincial Information Offices (PIOs).

Generally the PIOs were functional, but some had significant capacity gaps. The lower capacity PIOs lacked systems, equipment and skills. In many cases, PLGU personnel did not perceive the value of internal communications, focusing instead on external communications and media campaigns for political image gains rather than more general public engagement. Though probably relevant, many other PLGU accomplishments were not well covered.

PRMF conducted workshops in each province to discuss the importance of developing greater linkages between the PIO and M&E staff, as effective communication requires good data, and M&E needs good communication with stakeholders. PRMF conducted workshops on story writing and on the MSC approach for evaluation and communication.

The MSC approach allowed stakeholders to participate in identifying stories of change that described the impact of PRMF activities. Some 88 impact stories were gathered and documented. These stories reflect two levels of change, both the capacity changes of individuals and the institutional gains of the unit of which the individuals are part. All stories have been compiled and produced into a documentary video, which will be provided to DFAT with the handover of knowledge products.

Externally, PRMF produced media releases that were published in print both by local and national media outlets. These statements covered milestone events of PRMF including visits of GoA delegates and representatives, turnovers and launching of tools and other systems. Information materials such as fact sheets and internal newsletters were also developed to ensure consistency of messaging and to communicate what PRMF was all about.

### **Institutionalisation of M&E Systems**

While the primary focus of PRMF's M&E efforts was to measure the Facility's performance in order to provide PRMF and DFAT with a better understanding of the degree to which the program was meeting its goals and objectives, a secondary focus was to build capacity within PLGUs and DILG to monitor and evaluate the effectiveness of LRM systems.

PRMF worked closely with PLGU Monitoring Committees, particularly with the Provincial Planning and Development Office (PPDO) representatives, in the data collection process for PRMF's own M&E reporting. The PRMF M&E Specialist visited all PRMF provinces to conduct an assessment of the capacity of each PLGU's M&E unit in responding to the M&E requirements of the Provincial Government and the Regional Project Monitoring & Evaluation System, examining their legal standing, data collection and analysis tools, and their effectiveness in reporting on all on-going programs and projects in the province.

Despite its success for PRMF work, it is fair to say that the institutionalisation of PRMF M&E systems fell short of what was hoped for. This shortcoming can be attributed to several factors:

- **Inadequate alignment of PRMF indicators with DILG's emerging M&E framework**  
In the wake of the PRMF-supported revision of LRMPAT, there was a good opportunity to adapt many of the PRMF indicators to better align with the newly revised indicators in LRMPAT. This would have allowed for the PRMF's M&E efforts to simultaneously build capacity within PLGUs and DILG to collect this now-required data.

- **Lack of DILG interest/capacity/resources**

DILG was constrained in the resources it had to monitor LRM (now being addressed). While waiting for the LRMPAT review, DILG efforts to improve M&E systems were swamped by other demands.

- **Weak institutional incentives and capacity at the PLGU level**

PLGUs face M&E reporting requirements across sectors that are characterised by an excessive number of often poorly defined indicators. PLGUs often lack the staff with the appropriate capacity to effectively and regularly report on these GoP-mandated indicators. Given the burdens PLGUs face in reporting against these indicators, it is not surprising that support for (additional) PRMF-unique indicators may not have been a high priority. This need for better alignment of PRMF indicators with existing PLGU indicators was understood but never fully achieved. Given more time, this would have allowed PRMF another angle for PLGU capacity building, thereby yielding more accurate and consistent data, since the few PRMF indicators which did use existing data collection mechanisms, proved more reliable e.g. Real Property Tax collection and Actual Expenditure.

On a positive note, the KALSADA program agrees with what were the proposed NIPLRM criteria that include some key performance measurements from the PRMF M&E Framework, such as the existence of a current PRNDP; provincial road rehabilitation co-funding capacity; and the PLGU budget for road maintenance. As a condition to qualify for GoP funding, PLGUs will have sufficient incentive to report on these indicators.

## **Fraud Prevention**

When the SC assumed responsibility for PRMF it undertook the first ever DFAT Fraud Prevention training of trainers. Subsequently the SC conducted workshops with its own personnel, discussing what fraud is, fraud prevention methods, and to whom it should be reported: During Phase 2, seven reports of fraud were investigated, with one validated and resulting in punitive action.

Under the new KALSADA funding paradigm, PRMF will hand back to COA the training responsibility to strengthen fraud prevention controls. The COA Policy Review on Local Road Asset Accounting is in itself the major fraud prevention gain resulting from the PRMF.

### **3.3 Expected Long-Term Benefits and Sustainability**

The PRMF goal was “to improve the capacity of the DILG and the PLGUs to deliver basic road infrastructure in order to increase economic activity and improve public access to facilities and services in partner provinces in the southern Philippines.”<sup>28</sup>

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<sup>28</sup> AusAID Request for Tender, Scope of Services, p202, 8 March 2013

While the Final External Review<sup>29</sup> team commented on long-term impacts of the Program during implementation, PRMF was responsible for capacity outcomes in the following key reform areas:

- Planning, budgeting, and expenditure management
- Scope and design capacity for road rehabilitation, minor improvement and maintenance
- Procurement process
- Road rehabilitation, minor improvement and maintenance contract management
- Internal control systems, and
- Human Resources and HR systems.

The key PRMF design innovation was the linking of funding support for the management of infrastructure works with progress in governance reform. Although this achieved variable degrees of success in motivating change across the provinces, a new and more permanent funding incentive has been developed with PRMF support to improve and expand on the PRMF incentivised approach.

The development of NIPLRM and the ensuing KALSADA program and its proposed permanent annual investments in sub-national roads, is critical for long-term reform and CD sustainability. It will help sustain an institutional framework that continues to provide incentives for effective LRM. Several of the KALSADA entry requirements, originating from PRMF reforms, provide the basis for broader reforms within PLGU services.

In response to the Independent Progress Review (IPR) of Phase 1 and other evaluations, PRMF Phase 2 adopted a new emphasis on CD and sustainable institutional reform, with the management of physical road works utilised as the entry point. During PRMF Phase 2, the SC took a much more innovative, advisory and support role than previously, while helping DILG and PLGUs to become more active.

Several changes were introduced through the PRMF Phase 2 approach, including:

- Promotion of an Asset Management approach in a National LRM Policy, whereby roads will be valued on LGU Balance sheets and annual accounts will record capital improvements and depreciation. The intention of this approach was to develop an objective, non-partisan and more transparent asset-based approach to the funding of maintenance and rehabilitation from local and national sources
- Greater emphasis on road network planning to serve basic needs for mobility, connectivity, circulation and access, where the core and secondary provincial roads are integral to the overall network (including municipal and barangay roads where appropriate)
- A shift from supply-driven CD to a demand-driven approach through the CDRR system, designed to capitalise on inter-LGU mentoring. This approach addressed immediate capacity gaps and avoided duplication of CD in areas where adequate capacity existed
- A shift in design responsibility for RMI from the SC to PEOs, with the SC providing support through mentoring and quality assurance roles

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<sup>29</sup> Lundberg, Final External Review, PRMF, March 2016. See Annex B

- The SC worked with the FMG and DILG to shift procurement and contract management responsibility to PLGUs. Although this transition was completed towards the end of PRMF, it enabled Facility operations to align with both National and international agreements on the use of existing local systems as opposed to developing new parallel systems
- Commissioning of studies on alternative pavement materials to find and test more affordable locally-sourced materials in a range of pavement options
- The exploration of several maintenance approaches due to the consistently poor market response to MBC. Alternatives include MBA, community contracting for routine maintenance, and agency-to-agency agreements e.g. PLGU to Municipality.

To maximise PRMF sustainability the GoP will need to:

- Understand and support the logic behind the 2016 trial of KALSADA, particularly that the value of funds directly downloaded from DBM to 74 PLGUs under the GAA was based on the best estimate of their Annual Asset Depreciation
- Facilitate the Legislation (beginning with the EO) to empower the permanent depreciation-based funding formula and all other provisions of KALSADA in perpetuity
- Strengthen PLGU local road planning systems and procedures, and
- Utilise Peer-To-Peer mentoring and coaching to deliver CD effectively.

## **4. OVERALL ASSESSMENT**

### **4.1 Relevance of PRMF**

The relevance of the PRMF Program is based on its attention to the Philippines Development Plan 2011-16 (PDP) and the GoP's decentralisation focus.

The PDP is built on five key strategies:

1. To boost competitiveness in the productive sectors to generate massive employment.
2. To improve access to financing to address the evolving needs of a diverse public.
3. To invest massively in infrastructure.
4. To promote transparent and responsive governance, and
5. To develop human resources through improved social services and protection.

PRMF can demonstrate its attention to all of the above strategies, though its effort has specifically addressed strategies 3, 4 and 5. The PRMF approach likewise links to the goals of the GoP decentralisation focus, which aims to improve access to provincial services, especially for the poor, and to develop infrastructure that results in 100% connectivity between national, provincial and barangay roads. This is logical, as most public infrastructure to some extent relies on the connectivity of road assets.



PRMFs PW and CD interventions; its LRM tools and products; and its support to government policy development, have remained relevant to its counterparts – particularly DILG and the 10 partner provinces – throughout the Facility’s tenure.

The Philippines has a population of 100 million with an extensive road network estimated at 201,000 km, of which 85% falls under the jurisdiction of local governments. The PRMF program design recognised that the Philippine Republic had been falling behind benchmark countries in Asia with respect to the quality of its rural road infrastructure. Adequate provision of rural infrastructure services was necessary to promote equitable agricultural development, foster rural growth, and increase access to social facilities that provide health, education, and agricultural services. Micro-level studies suggest that rural areas that are well-endowed with infrastructure services generate large multiplier effects with higher growth and lower poverty incidence compared to infrastructure-deficient areas. In the absence of functional road networks, the policies and institutional measures to promote rural development are unlikely to succeed.

PRMF has helped provincial and national stakeholders to reform and develop political, governance and funding systems for achieving GoP policy aims, while simultaneously improving transparency and accountability. PRMF has contributed to GoP strategy and policies by helping PLGUs improve LRM, governance and connectivity.

### **Improvements to LRM funding**

Historically, the PLGUs have had sufficient resources to manage road maintenance but insufficient revenue for road rehabilitation and maintenance when the two are combined. They have received little national money, but this changed significantly in 2016 with the implementation of the KALSADA program – a program that evolved from the PRMF NIPLRM base-line data analysis.

PRMF and GoP counterparts developed a depreciation-based local road funding system within which the GoP will contribute to provincial rehabilitation through a permanent, depreciation-based budget. This will ensure objective allocations for road projects that have been prioritised in PRNDPs.

PRMF’s drive to introduce roads asset management as a core requirement for government funding of local roads, ultimately led to COA implementing policies and procedures requiring LGUs to track their roads and bridges as depreciable assets. The COA Review of Local Road Asset Accounting changed the basis for LRM accounting and asset management to facilitate the permanent recording of capital works and road asset depreciation on LGU balance sheets. This will enable audits of work done against the geo-mapped and photographed road-condition inventory.

DILG convinced the RB provided to fund (Php512M) national Local Road Survey, which seemed to guarantee the national rollout of RBIS to capture the first Local Road condition inventory across the Philippines. The RB contracted the independent Road Condition Survey, which will upload data for the RBIS rollout, and the GoP has provided Php6.5B for the KALSADA program. This is 22 times the DFAT target established for the PRMF Phase 2 for leveraging GoP funding.



The KALSADA investment will save the GoP Php 11.1 Billion per year through its reversal of preventable and premature losses in road asset values. It is estimated that this new national funding for LRM will result in significant new employment opportunities as LGUs take advantage of increased funding to upgrade their local road networks.

Financial management is fundamental to road maintenance quality, and management changes have improved program efficiency and resource use, helping to improve PLGU expenditure and internal financial controls. The efforts to institutionalise ETRACs resulted in an increase in revenue collection. M&E data shows that these positive local income trends in all PLGUs are reflected in allocations to LRM.

### **Relevance of road design and physical works**

Following a slow, and at times confused start to the PRMF Program, the introduction of the FMG provided the necessary communication interface between the SC and DFAT to enable more effective strategies to be implemented, and consequently a more appropriate partnership framework between PRMF and PLGUs for PW and CD.

The flexibility arising from the FMG arrangement facilitated rolling strategic and design changes that improved PRMF operations and effectiveness. The road rehabilitation scope was changed so that targets were more realistic. The incentive program was modified to address governance and LRM performance needs and resulted in an increase in rehabilitated kilometres. Changes in engineering design from major to minor rehabilitation allowed hard surfacing on steep slopes and access across drainage for neighbouring properties, addressing access for the disabled, and protecting and sustaining drainage. The changed scope also emphasised control of water on slopes and near roads with significant effect.

PW contracts were eventually novated from the DILG to PLGUs. The requirement that DILG procure all PRMF PW projects was not constructive and against Australian government and international development assistance policy. This approach made it difficult to build trust between DFAT and beneficiaries because they believed that DFAT did not trust them. DFAT did not initially release reports on PLGU fiduciary transparency and financial capacity, but the Facility Director eventually released the reports to inform CD planning, and to establish stronger relationships with the PLGUs and governors.

PRMF succeeded in widening public participation in the PRNDP process, during which roads are prioritised. Communities are now regularly consulted in design verification in most provinces and public contributions are incorporated into the implementation process. See Section 3.2 Increased public participation in LRM.

### **Building the capacity of the local roads sector**

The PRMF Phase 2 focus on CD targeted all levels of the LRM sector, though specific emphasis was on PLGUs, particularly their PEOs. Provision of targeted CD was highly relevant to the GoP goal for connectivity of its roads network, with an emphasis on effective planning and accountability for the maintenance and rehabilitation of local roads.

During Phase 2 of PRMF, 280 demand-driven CD requests were processed, generating 279 learning outcomes for 1,776 male and 1,414 female staff of the LGUs. M&E reporting linked

learning outcomes to PLGU capacity improvements. The changed CD approach from one-size-fits-all to demand-driven had significant, positive effect.

### **Supporting communities**

Ultimately the PRMF Program was about supporting communities through inputs at all levels of government, which ultimately aimed to improve road conditions, accessibility and connectivity at local level.

As well as capacity building of government departments, PRMF provided specific input to remote and disadvantaged communities, as demonstrated through the community contracting research and pilots. PRMF provided technical assistance to pilot and test community-based contracting for road maintenance, to explore ways to enable as many provinces as possible to replicate the model. PRMF promoted community contracting as one of the options for the SLRF and provincial-funded road maintenance, and succeeded in having community contracting recognised within the PLGU Maintenance co-funding component of KALSADA.

Community contracting is one method of supplementing community income, particularly in regional areas. See 3.1.2 Community contracting for routine maintenance.

As well as supporting PEOs in the LRM process, PRMF mentors also supported private contractors in their dealings with PEOs by providing contractor briefing meetings on the completion of tender documents and on subsequent procurement and contracting processes.

As PRMF comes to a close, the Facility's priorities remained consistent with GoP policies, specifically by:

- assisting the LPP in gaining support for, and implementing, NIPLRM standards (through KALSADA). Fostering dialogue between the LPP and GoP on the KALSADA program was successful, and this now has a life of its own
- implementing COA road asset management policy and procedures
- handing over the e-Learning modules and technical operations manuals
- providing CD for provinces on road asset management, and to national implementing agencies on national program operations
- rolling out the implementation of RBIS, and
- assisting in the design of a future program to support governance in infrastructure.

## **4.2 Implementation Issues**

### **4.2.1 Physical Works**

The degree of difficulty in completing the PRMF PW targets was the cause of much frustration throughout the Program. Several issues have been discussed already, including problems with externally commissioned designs, problems with procurement, budget

uncertainties, and cutbacks. Despite the validity of these factors this problem still justifies further investigation, particularly from a CD viewpoint.

The PEOs in the 10 partner provinces varied considerably in size, with the smallest province, Guimaras, having only 100 km of provincial roads compared to Misamis Oriental with 1,054 km. Most were closer to the average of 579 km, with 75% of all of these being gravel roads.

Unfortunately the 2014 base-line data on road expenditure histories was not able to define the parallel histories of other infrastructure works in each province due to weaknesses in the Asset Accounting processes, meaning it is impossible to determine what proportion of the overall PEO portfolio that roads represent. Nevertheless the data did show that the average number of Engineers in each PEO was quite high at 25, with more than half of these being Civil Engineers with more than 10 years of experience in the PEO.

This profile of qualifications and experience suggests that PEOs should have been capable of commissioning and managing the rehabilitation of the 500 km of PRMF gravel roads. Given their tenure, it is highly likely that these same staff built most of the 4,248 km of the existing gravel roads in the first place. It is possible that the PRMF assumption that the PRMF team had to show the PEOs how to do everything, could have been incorrect in some provinces.

During Phase 1, the FMC actually managed the implementation of PW contracts. They did this by employing Construction Supervision Teams (CST) consisting of non-PEO locals deployed in each province, under technical supervision from Makati. Part of the CST role was to provide coaching and mentoring on construction supervision and contract management to the PEOs. However, the PEOs were barely engaged in the process, due mainly to the expenditure pressure on the PRMF team.

PRMF Phase 2 also assumed that PEOs needed extensive support to manage the design and rehabilitation of gravel roads. However, the Phase 2 PW team was requested to use the CDRR system, which required mentoring requests to come directly from PEOs. This approach could not offend those PEOs that could do the work already.

By the eventual completion of all PW contracts from Phase 2 (completed under the Amendment 3 extension period), the following issues in contract implementation had been recorded, repeatedly, in monthly PW Reports:

- Delayed starts due to adverse seasonal weather, requiring extension to completion dates for most contracts
- Inadequate deployment of contractors' personnel contrary to contractual requirements
- Inadequate materials-testing equipment and/or the failure to deploy materials or project engineers by some contractors, resulted in quality control issues such as oversized aggregates, inadequate compaction, poor workmanship
- Problems accessing quarry sources due to factors such as weak bridge structures, right-of-way claims by private individuals, and flooding
- Contractors had difficulty in complying with documentary requirements for progress billings, variation orders or time extensions

- Cash flow problems experienced by some contractors which resulted in delayed procurement or delivery of materials, mobilisation of equipment and other resources
- Design issues, mostly related to inappropriate location/design of drainage and slope protection structures, and
- Limited PEO resources in some provinces (personnel and service vehicles) required to supervise project activities, resulting in delayed approvals of work requests, materials test results, and other documents requiring PEO approval.

The frequency of the above PW issues in Phase 2 suggests that the “mentoring only” focus was more difficult to manage than the “we manage, you watch” approach used in Phase 1. A mix of the two approaches may have been worthy of consideration.

If a PEO benchmarking process had been completed prior to the commencement of PRMF, it would have enabled a closer analysis of the small pockets of high productivity within the overall LRM sector. This analysis could have explained why some PEO projects progressed well with minimal assistance, while others simply waited for help, no matter how long things took. Contractor proficiency was probably also a major determining factor.

#### **4.2.2 Procurement**

##### **Implementation Issues**

Procurement processes differed throughout the three phases of PRMF, as PRMF and stakeholders attempted to find a mutually satisfactory process. PW procurement was undoubtedly one of the major issues throughout the Program and impacted significantly on the PW delivered.

Year 1 PW projects were procured by the PRMF FMC. Members of the PRMF BAC came from the Procurement Team, headed by the Procurement Coordinator. Other members were from the PLGU and DILG Provincial Offices. All bid related activities were conducted in the Makati Office.

Changes were made and bid related activities for the Year 2 projects were held in the Provincial Offices with the same Bids and Awards Committee (BAC) composition, TWG and BAC Secretariat members. Despite these changes, continued delays were encountered. This along with other risk management issues prompted AusAID Manila to take over the Facility management from the previous FMC.

As a general rule, PRMF procured rehabilitation and maintenance works used the default method of competitive public bidding, as prescribed in RA 9184. Philippine bidding documents issued by the GPPB were used but modified to incorporate amendments and exceptions as provided in Section 8 of the Memorandum of Subsidiary Arrangement (MSA).

AusAID initially considered two alternatives to improve the pace of procurement, during the Transition phase and Phase 2:

- a. AusAID to procure works using the Commonwealth Procurement Rule (CPR), and
- b. AusAID to act as the procurement entity pursuant to GoP procurement law (RA 9184), with the Manila post and the PRMF as Executing Agency.

The DILG felt that to use CPR would mean a missed opportunity to strengthen the procurement skills of DILG staff or provincial officials who would normally be members of the BACs.

With both of the above options found to be unsound, AusAID and DILG developed a third option in which DILG would act as procurement entity under RA 9184. In addition to its technical, legal and administrative suitability, this option better reflected the PRMF spirit of partnership and shared accountabilities. It would also reduce legal risk to AusAID associated with owning new PW contracts. DILG would take any legal action required to enforce the new contracts.

A Memorandum Circular was issued by the Secretary of DILG to implement the arrangement. Under the Memorandum Circular No. 14; S-2013, the DILG created a Special Bids and Awards Committee (SBAC) in each of the DILG Regional Offices whose region contained one or more PRMF Partner Province.

Each DILG Regional Office was to administer the procurement process, with the Regional Director as the Head of the Procuring Entity (HOPE), PLGU and PRMF staff as SBAC and TWG members and one PRMF senior staff as a voting member. Provincial PRMF staff would head the TWG. Members were to come from the DILG Project Development Management Office (PDMU) augmented by Provincial Government technical staff. AusAID as Safeguard Manager, would exercise power of “No Objections” over the approval of the following:

- a. Bid Documents and Invitations to Bid
- b. Bid Evaluation and Award Reports (with recommendation for award), and
- c. Final Contracts.

### **Problems encountered with the PRMF Phase 2 Procurement process**

With Louis Berger as the SC and DILG as procuring entity, delays became immediate and regular. The PRMF procurement team was still required to lead the procurement process as DILG Regional staff needed to learn the process.

With the enormity of DILG workloads, especially following major natural disasters, DILG could not focus solely on procurement of PRMF projects. Procurement timelines became sideline priorities and the approval of procurement documents were sometimes delayed. The awarding of contracts also took time to be approved by the DILG Regional Director concerned.

Contract management and project monitoring was often considered a secondary role by the DILG Regional Office due to its lack of technical expertise compared to PLGUs and PRMF. Even in the eventual Novation of Contracts from DILG Regional offices to Provincial Governments, agreed dates were missed, and the coordination and misunderstandings between local officials and DILG staff resulted in further delays.

With assistance from the PRMF procurement team, misunderstandings on the novation process were resolved beyond recourse and settled once and for all.

There were several other less complex and contentious procurement issues, but all contributed to delays.

The original PRMF Phase 2 intent was for DILG Regional Offices to assist the SC with PW procurement by authorising SBACs, until the Facility Director deemed that the PLGU BACs had sufficient fiduciary capacity to conduct the procurement. Unfortunately this process of approval did not eventuate, as it would have required an Amendment to the Memorandum of Subsidiary Arrangement.

Despite commendable efforts by DILG Regional Offices, several factors caused delays with PRMF Phase 2 procurement, these being:

1. That PRMF did not activate its AUD325,000 to commission immediate external design work upon commencement in August 2013.
2. Delays with the finalisation and forwarding of approved designs and bidding documents to Regional DILG Offices.
3. The high frequency of non-compliant bidders, and hence, repeat tenders.
4. The competition of PRMF work with the mandated responsibilities of DILG Regional Offices.

### ***4.2.3 Information and Communications Technology***

PRMF Phase 1 provided support for ICT-GIS intervention to its 10 partner provinces and DILG.

According to the Work Package No. 09-1.2-1 “Geographic Information System (GIS) Development”, GIS is a key component of the PRNDP as well as for DILG to improve their road inventory data to support their systems in relation to information gathering, storage, analysis and dissemination for the integrated monitoring and evaluation purposes.<sup>30</sup>

The PRMF ICT-GIS team was commissioned to implement the Work Package from April 2010-August 2011. This included the purchase of computing infrastructure and CD activities to successfully implement Information and Communication Technology (ICT) and GIS to support the road sector departments and other local government functions of the partner PLGUs.<sup>31</sup>

The total estimated cost of the ICT-GIS Work Package was AUD2.5M with 12% provincial counterpart contribution of AUD0.3M.<sup>32</sup>

During Phase 1 implementation there were issues and challenges confronted by the partner PLGUs and DILG. These included: the timing of training programs; the mismatch between participant skills and training content; the lack of human resource capacity in systems development, implementation and maintenance; and the cost of software and hardware and associated subscriptions and licenses e.g. ArcGIS.

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<sup>30</sup> PRMF Work Package No. 09-1.2-1 “Geographic Information System (GIS) Development, November 27, 2009.

<sup>31</sup> PRMF Completion Report on ICT/GIS Work Packages, September 2012.

<sup>32</sup> PRMF Work Package No: WP-07 Information Technology and GIS Architecture Package for 7 Partner Provinces, May 24, 2010.

During the PRMF Transition Phase (September, 2012) AusAID management put a hold on all PRMF ICT-GIS systems and interventions. The prioritised core activities relating to ICT-GIS support were listed in the Detailed Work Plan for FY2013-2014. There was no annual plan for 2012-2013 during the transition under AusAID management).

The ICT and GIS assessments during this period exposed that “not all of it [*the systems*] is optimally configured, essential for good LRM, replicable or sustainable beyond PRMF.”<sup>33</sup> It was envisaged that a new system and architecture would be introduced to efficiently sustain the LRM-oriented ICT systems.

The PRMF (draft) annual plan of FY13-14 indicated that a ‘cloud-based’ RBIS would be deployed by DILG. All LGUs and DILG were to be trained and oriented on the system. The intervention support for each partner PLGU was to be completed on a case-by-case basis.

The PRMF Phase 2 strategy under Louis Berger as the new SC, was to take over the activities in the FY13-14 Detailed Work Plan. This approach was more tailored to fit the dynamics and needs of the partner provinces. The main ICT-GIS activities included the following:

- Completion of the ETRACS and LGI local income enhancements projects
- Review of RBIS to ensure it would be transferrable to DILG
- Development of LRM e-Learning modules in partnership with the LGA
- Development of a new system for Capacity Development Request and Response (CDRR) and Work Task Order (WTO), and
- Management of WTOs for ICT-GIS relating to road inventory and other PLGU users.

Several complaints from the provinces regarding missing GIS software licenses were reported in Phase 2. These concerns were recorded in the CDRR system and responded to through meetings with the concerned departments of the PLGUs. To correct the missing GIS licenses issue, PRMF commissioned Geodata to perform a rapid assessment to determine the implementation flaws of Phase 1.

The rapid assessment by Geodata (June 2014) discovered flaws in the distribution and maintenance of the GIS equipment and software. It was noted that the PRMF Phase 1 work package for ICT and GIS provided ICT equipment, software and training to operationalise the enterprise architecture of the province and capitalise on the use of GIS to support connectivity between the road-related departments. The findings of the assessment<sup>34</sup> were as follows:

1. GIS software licenses were lost and no documentation was available on the receipt.
2. The mechanics of uninstallation and reinstallation of the software through the de-authorisation process were not met. This caused the software to be unusable at times.

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<sup>33</sup> PRMF Annual Plan FY13-14 (Draft), AusAID, p15

<sup>34</sup> Assessment of GIS Implementation for the 7 Partner Provinces of PRMF, GEODATA, June 2014.

3. The unavailability of the GIS licensed copy caused some provinces to use counterfeit versions of the software.
4. A number of computers provided for GIS capability were damaged due to wear and tear during the usage period.
5. Loss of trained personnel managing the GIS and ICT capability.
6. No follow-up training was conducted after PRMF Phase 1, resulting in some personnel losing their level of skill as their skills were not used.
7. The non-permanence of core GIS staff in the PLGU led to the failure to fully implement GIS capability.
8. There were no plans to fund and sustain GIS capability, and it was not on PLGU priority lists due to the high cost of maintaining the equipment and software subscription and upgrades.

The LRM e-Learning partnership with LGA was a journey in the slow lane. The partnership was initiated with LGA in Jan 2014 with regular discussions and communication with LGA officers during 2014. Contract administration work took 12 months to finalise the mechanics of the training development and an implementation plan for five initial modules.

The pilot training on the single completed module – that PRMF had to develop – was successfully completed on 30 April 2015<sup>35</sup>.

There were gaps in the implementation timelines:

- Drafting of a MOA and service contract took five months to be finalised and signed
- Extensive discussions took place on how the modules and training were to be designed
- The revelation that LGA had no expertise nor procurement ability to develop the first (or any of the five) e-Learning modules
- PRMF amended the contract three times to remove module development work and extend the timelines
- The development of the first module was outsourced by PRMF to GMST Multimedia
- Coordination with the LGA was difficult. Different sets of officers were assigned and there were internal issues with the officers organising the implementation of the training not being oriented or briefed about the task
- The IT platform was not available in LGA to host the e-Learning modules in Moodle.<sup>36</sup>

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<sup>35</sup> Final Report on Pilot e-Learning Course on Local Road Planning, DILG-LGA May 2015.

<sup>36</sup> Moodle is an open source course management system used by institutions around the world to provide an organised interface for e-learning or learning over the Internet.



## 4.3 Lessons Learned

During PRMF implementation the successes and challenges have provided programmatic insights that can help shape future improvements in the sector; and the design of possible follow-on activities. The key lessons learned are grouped under four headings: Program Design; Capacity Analysis and Development; Program Management; and Technical Areas.

### 4.3.1 Program Design

- **Donor investment in infrastructure with its inherent procurement, contract management and expenditure deadline challenges can overwhelm a governance program**

The infrastructure component should have been used only to reward the achievement of verified governance reforms. If CD and PW are ever combined in a future program, they should not start simultaneously nor run in parallel. If the PW must be included, it should run as a series of rewards, and projects should be managed locally unless they contain technologies not currently available in the recipient country.

- **PRMF design limitations on physical works enforced the funding of works on gravel roads only, contradicting the road priorities emanating from the Network Planning practice introduced by PRMF**

The expected 'Levels of Service' should have determined all PW design decisions and not the Australian aid budget limitations. It is highly likely that this PRMF design limitation was based largely on Australia's competitive advantage in gravel road construction and maintenance, which, unfortunately, has very limited applicability in the Philippines.

- **Managing procurement and contract management through DILG Regions created a less than optimal parallel system**

The intent during Phase 2 was for DILG to manage the road works procurement and the SC to provide technical support and expertise. This was intended as an interim approach since PLGUs were considered (by DFAT) as being unprepared for procurement.

This donor-driven parallel management process proved impractical. Despite their best efforts, DILG Regional Offices did not have the capacity to do this work in addition to existing mandated responsibilities. This, along with delays in PRMF design processes and non-compliant tenders, caused significant delays in procurement.

- **PRMF design assumptions should have been underpinned by proper base-line data**

The expectation for increased local revenues to fund core road maintenance and rehabilitation was ill-informed. Historic PLGU maintenance expenditures showed a good level of financial ability to locally fund the maintenance of core roads, but in the absence of any form of depreciation-based funding, local maintenance funds were continually re-directed into Capital Works. The problem was with the National Government.

Proper base-line data on the history of provincial LRM expenditures would have shown the very limited scale of contracting businesses that these levels of investment could

sustain. Hence the PRMF emphasis on outsourcing maintenance was unrealistic in many areas.

### **4.3.2 Capacity Analysis and Development**

- **LRM capacity cannot be clearly demonstrated nor assessed in any LGU when its historic funding has been less than 20% of that required to manage their local road asset portfolio**

PRMF Phase 2 base-line research (completed in mid-2014) showed road expenditure histories in the 10 partner provinces had only ever funded 47% of the requirement for maintenance and 10% of the requirement for rehabilitation – less than 20% of the overall requirement for the assets being managed.

Job competency descriptors and capacity assessments are virtually meaningless on any department that has only been funded at 20% of the required level for its management portfolio. A historic funding threshold of at least 60% would be required for PEOs to acquire the necessary tools, equipment, and other resources to actually demonstrate LRM capacity. This funding limitation rendered most of the well-intentioned PAHRODF competency analysis work useless. Furthermore, much time and money was wasted on flawed occupational competency analyses based on consensus workshops populated with unqualified participants.<sup>37</sup>

- **The absence of funding for road asset depreciation and the asset management skills gaps were not recognised until 2014**

Based on the findings of the base-line research, PRMF Phase 2 was able to highlight the 24-year absence of any accounting and funding for local road asset depreciation. This was partly due to the absence of a credible Local Road Asset Inventory, which is a basic tool and source of information for Road Asset Management.

The LPP and COA instantly took up the cause to correct these deficiencies by working on the policy reform requiring local road assets to be properly booked in the LGU balance sheet. Without these transparency measures of road asset booking and depreciation, road investment programming in the Philippines will always remain vulnerable to fraud.

In the five years of PAHRODF skills analysis funded by PRMF, the absence of asset management skills was never identified and not one of the Australian Scholarships was in Australia's most obvious competitive advantage in local government – Asset Management. An Australian HR advisor experienced in Local Government would have helped PAHRODF.

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<sup>37</sup> The standard 'Developing a Curriculum' or DACUM process for defining job competencies using highly competent and experienced incumbents was not used.

- **Assistance provided to PLGUs must not be overly driven by donor expenditure targets**

The CDRR system was designed to facilitate (inexpensive) customised mentoring services to all partner provinces, but PRMF expenditure lags forced it to provide gluts of expensive group training in the final quarter of each Australian Financial Year.

- **Assistance needs to be tailored to the receptivity of local institutions**

As noted in the IPR, PRMF Phase 1 adopted a one-size-fits-all approach, which led to rejection of some deliverables e.g. the Physical Works Information System (PWIS), and the Project Management Information System (PMIS), or requiring significant revision to others such as LRMPAT and RBIS. During Phase 2, PRMF engaged with partners to ensure that products under development were compatible with host government systems and realistically reflected their capacity to use them.

All CD activities for the provinces were designed and managed locally with central support. Just-in-time customised responsiveness was the major goal, with mentoring playing a larger role than formal coursework.

Despite all these efforts some systems and associated skills and attitudinal changes were never truly adopted by the local incumbents and no amount of customisation could change the fact that the wrong people had security of tenure in many PLGUs. The PAHRODF interventions could do nothing to challenge that fact, as key workflow and technical appointments had been required prior to any DFAT funding of PW.

- **The need for PEO restructuring still remains**

It is critical that PEOs restructure and rationalise staffing levels to increase productivity in preparation for new KALSADA workloads. PRMF Phase 1 produced Human Resources Management Development Plans for each province, but these were not coupled with any form of performance benchmarking or organisational reviews.

Unfortunately – and critically – PLGUs have not yet rationalised to increase productivity. Therefore the average PRMF-funded staff development activity catered to 30 instead of the three or four key officers required. It appears that there is insufficient political will for rationalisation, as doing so could create a political backlash or indirectly reduce IRA funding entitlements.

Future CD support needs to be extremely well-targeted as per the original design and intent of the mentoring services offered through the CDRR system.

### **4.3.3 Program Management**

- **Co-location with the DILG SLRF unit may have produced a more effective primary partner for the PRMF**

While all attention was focused on keeping PRMF in close proximity to DFAT, the SLRF and the OPDS units within DILG were too distant. For example, in 2013, how was it possible for these departments to reject three LRM systems prior to their launch after three years of supposedly joint development?

In their defence, the DILG team was obviously too over-worked and under-resourced to be a fully available partner. Therefore in Phase 2, the LRM Policy momentum had to be facilitated through other actors including the LPP, without whose support the KALSADA program would have never been considered in the 2016 budget hearings.

As a result of this distance between the primary Program partners, many of the DILG leaders still have an incomplete understanding of the position that continuous depreciation-based funding of capital works is crucial for the development of the Philippines, as well as for the management of horizontal infrastructure. They do not fully understand the significance of the Asset Management approach, which provides Annual Statements to the public on infrastructure values, including depreciation, impairment and improvements, leading to stronger government accountability.

- **KALSADA is a critical first step to the creation of an institutional setting for effective LRM**

To sustain PRMF reforms and to meet the fiscal costs of capital works to offset road asset depreciation, it is imperative to institutionalise the KALSADA capital works funding partnership. As described earlier, PLGUs are capable of mobilising revenue for maintaining their core road networks but do not have the fiscal capacity to finance capital works necessary to offset road asset depreciation over time. This is unlikely to change in the near future without central government intervention. Even the wealthiest provinces could not generate the required level of local income.

To sustain PRMF reforms and meet the capital cost of road asset depreciation, a KALSADA funding partnership was developed to ensure National Government funding for capital works in exchange for PLGUs meeting certain conditions. The conditions include: fully funding maintenance of core roads, up-to-date PRNDPs, adoption of road asset management accounting rules, and maintaining the SGFH.

A road asset management approach will provide a way for COA and PLGUs to value road assets and to improve road investment programming, as it uses depreciation as an objective basis for prioritising road investments.

The end result is increasing accountability and public knowledge on LRM and expenditure, which will provide incentive for PLGUs to maintain road assets, better through improved routine and periodic maintenance and rehabilitation.

#### **4.3.4 Technical Areas**

- **Implementation of the PRMF Phase 2 Incentives Program Component became difficult when distortions were introduced early in the allocation of funds**

The basis for providing incentives for LRM should be performance. However the introduction of distortions in the allocation of funds to provinces under the PRMF Phase 2 Incentive Program Component made its implementation challenging.

Performance-based criteria were undermined to address the significant funding requirements of the three new PRMF provinces – Aklan, Davao del Norte, and Lanao del Norte – and the urgent need for rehabilitation of roads that were destroyed by the

earthquake in Bohol in October 2013. Despite the distortions, performance in local road maintenance within the provinces was still remarkable at 1754 km in a six-month period.

- **Maintenance by Contract lacks market viability in most provinces**

Provinces need to adopt maintenance approaches that best reflect their individual situation.

MBC does not presently have broad commercial viability or acceptance at province level. Despite ongoing attempts to find ways to make MBC work, very few contractors were interested and bids frequently failed.

PRMF encouraged flexibility that allowed provinces to adopt approaches that best reflected their economic situations, locations and reality. In addition to MBC, alternative approaches included MBA, Agency-to-Agency Agreements, and community labour-based or performance-based contracts. These options have been written into the revised e-Learning module on *Local Road Maintenance*.

- **The Australian approach to gravel road construction and maintenance has limited applicability in the Philippines**

The highly efficient periodic grading and rolling of Australian gravel roads enables the continuous reclamation of gravel from the wide shouldered roads that exemplify the Australian road infrastructure. The narrow roadways and necessarily deep roadside drainage makes this practice almost impossible in the Philippines. Australian topsoils are generally shallow and subsoils contain little biomass with an abundance of 'cut and fill' opportunities for road builders. In the Philippines, the reverse is normally the case with deep topsoils and an abundance of organic material in often 'soupy' subsoils. This explains the common preference for, and logic behind, concrete roads.

- **Alternative pavement options to concrete are suitable for many provincial road traffic volumes**

The PRMF pavement research in Guimaras produced a relatively dust free, smooth surfaced gravel road with a cement slurry finish that, by early 2016, had survived three heavy typhoons with no damage. The construction cost per kilometre was Php3M compared to the concrete option for that location costing Php21M per km. This and other similar design options will be promoted as part of the whole-of-life costing analysis that will be applied to future KALSADA proposals.

#### **4.4 Recommendations to Enhance Sustainability**

- **Establish the KALSADA program requirements under the auspices of DILG or a subordinate agency such as a Rural Roads Board<sup>38</sup>**

To sustain improved PLGU capacity and the strengthened LRM systems and processes developed under PRMF, it is critical that DILG establish effective supervision of the KALSADA program to provide incentives and sustain relevant, effective LRM practices. The core roads maintenance expenditure requirements for each PLGU must be

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<sup>38</sup> The model used in Thailand was considered in making this statement.

institutionalised as a prerequisite for accessing National Government capital works funding for road rehabilitation projects under KALSADA.

Throughout all six years of PRMF operations, DILG has struggled with its own enormous management portfolio, with insufficient human and operational resources. Operational pressures have limited DILG's strength in the management of new systems and CD. Therefore, to be effective its ability to provide policy guidance for a large national LRM program must be supported.

PRMF has provided specific assistance (including through three WTOs) to build the internal structure and capacity required to manage KALSADA. Unfortunately this restructuring assistance was unable to be activated and hence the DILG ability to initiate and continue to manage KALSADA is a matter of concern. This could also be the case for the RBIS.

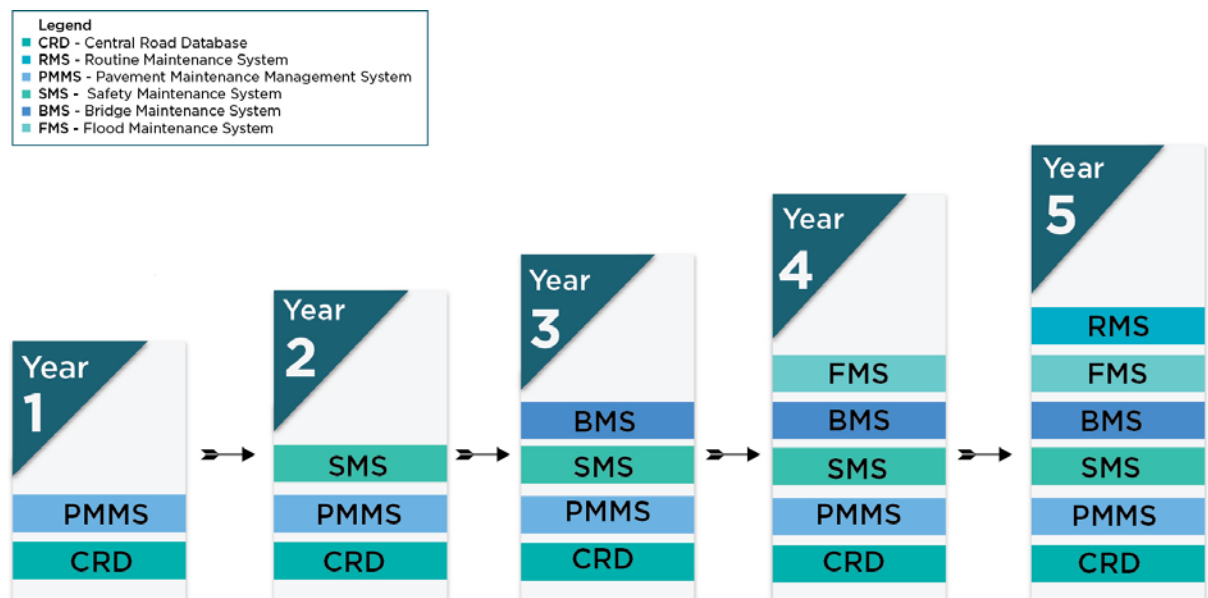
In the event that DILG is unable to manage KALSADA and the LRM systems, along with its own CD and that of the LGUs, then the workload may need to be segregated or reassigned. For example, the LPP may need to lobby for the establishment of a Regional version of the Road Board to work with the PLGUs to manage KALSADA, with representation from DBM, DPWH, DILG and other departments that have road management responsibilities. This would require changes to the Law that created the RB, which is apparently up for review in 2016.

In the interests of establishing the national and regional management structures for KALSADA and RBIS, now is the right time for the LPP, DBM and DPWH to encourage the GoP to seek bi-lateral or multi-lateral donor assistance to provide CD support for the next three to five years. This CD would be relatively inexpensive and would not require any funding for PW. The emphases would be on road asset management systems, depreciation-based funding, review of detailed engineering designs, and financial management and internal auditing at all levels. Potential donors could design a five-year capacity and institutional development intervention based on the principles embodied in **Figure 12**.

- **Assist DILG and PEO personnel in adopting road asset management accounting**

PRMF worked with COA to introduce PLGUs and DILG to a road asset management approach that requires the PLGUs to record road assets on their balance sheets and report total road asset values to the public annually. Road maintenance will continue to be recorded as operational expenses as distinct from capital works (rehabilitation) expenditure. All road assets will be subject to depreciation schedules and periodic independent inventory verifications.

**Figure 12: Design Principles for a 5-Year Capacity and Institutional Development Intervention**



- **Establish post-project capacity development providers**

PRMF provided ongoing CD development to strengthen PLGU LRM capacity. Investments were made to strengthen the potential for the LGA and non-government companies and educational institutions to ensure that there will be continued CD for current PRMF provinces, new provinces and cities.

This led to the following handover process for the CDRR system and e-Learning modules.

The University of San Agustin, with service delivery support from the existing DILG network of eight universities and the PEAP, will pilot the new on-line CDRR system. This will make the system ready for DILG to consider the option of sub-contracting the ongoing operation of the system, possibly as a Public/Private sector partnership with the University. Under this model the actual CD services could be funded (in 2016) from the DBM allocation for KALSADA Capacity Development.

The e-Learning modules will be offered through the UPNEC. Successful participants will be awarded Module Certificates by the University with official recognition from the Civil Service Commission (CSC) to ensure career path advancements are justifiable.

- **Embed better practice in priority planning for LRM**

Although partially built into the design of the national program, as detailed though the use of the RBIS and accountability through depreciation audited by COA, the spatial connectivity considerations nevertheless need to be embedded into the PLGU planning processes to ensure access for tourism, agriculture, industry and other economic opportunities; access to social services such as medical and educational facilities; and as part of a network for disaster preparedness.

This requires development based on the PRNDPs and utilisation of GIS tools so that planning is holistic and incorporates all roads (including city, municipal and barangay roads), and considers how they connect to the national highway and other transport nodes such as airports and sea ports. This planning can also be linked to footpaths and footbridges, and to provide access through intermediate modes of transport (IMTs) including bicycles, motorcycles, and carabao, to more remote and poor indigenous communities.

- **Establish a culture of rational and cost effective pavement selection**

Throughout the provinces there has tended to be a culture of two choices – gravel or concrete. The findings of the PRMF pavement research in Guimaras need to be expanded into a broader range of pavement options that may be applied generically to any province.

This will be relevant under KALSADA, as it will result in pavement choices that are tailored to the particular provincial road characteristics, and the landscape within which the road is located. This will enable provinces to make informed decisions and ensure cost effective solutions. The pavement considerations should include gravel roads, cement stabilised aggregate base, a range of bituminous solutions, and concrete rigid pavements. This development would support the use of the RBIS within the national program in linking investments to asset depreciation values.

- **Collect data on program outcomes and impacts**

As PRMF approaches completion, the SC has continued to pursue higher-level governance outcomes. The SC placed more emphasis on evaluation of the PRMF and commissioned an independent review of its impacts (**Annex B**).

The PRMF M&E team verified learning outcomes in the 10 partner provinces by December 2015. Data collection has been used to build PLGU M&E unit capacity.

#### **4.5 Summary of Future Capacity Development Requirements**

In order to summarise future CD requirements, the risks to the sustainability and expansion of PRMF outcomes must be revisited. They include the following:

##### **Delays in the implementation of new road asset accounting rules**

Under the GoP Accounting Policy, the COA Review of LGU Asset Accounting Regulations must allow LGUs five years to fully comply with the new Policy provisions, requiring roads to be depreciated as part of the LGU's Property Plant and Equipment (PPE) assets. The depreciation basis for KALSADA funding offers an opportunity to incentivise this process if DBM and DILG understand the opportunity.

Targeted Scholarships and Advisor support in the area of Asset Management should be used to expand such understanding.



## **Hosting and managing the road asset inventory system (RBIS)**

In order to qualify for future KALSADA funding, all provincial road assets must be geo-mapped and inventoried in RBIS. The ability and readiness of DILG to host and officially declare the RBIS (or any alternative) as its inventory system has been problematic.

Targeted information technology support may be required to ensure this process is completed or transferred elsewhere in the GoP.

## **Endorsement of management tools which form the 'Standards' for the LRM sector**

DILG has owned the LRM Manual since March 2014 yet didn't complete its launch-day commitment to have DPWH endorse its technical standards for LRM. The supporting e-Learning modules had to be offered by UPNEC from 2016 onwards, as the LGA proved incapable of developing, owning and reviewing these products.

Targeted study tours and academic exchanges with Australian Universities would help these modules form the backbone of UP post-graduate qualifications.

## **Expanding the establishment of Internal Audit Offices**

Since PRMF provinces are among the minority of LGUs nationwide that have functional internal audit units, the DBM should be assisted to train internal auditors for all new provinces and to assist LGUs in setting up fully independent IA Departments.

## **Developing private sector capacity in road design to overcome HR limitations**

Although PRMF invested heavily in helping PEOs develop sufficient capacity to accomplish road designs in-house, the path of least resistance and quicker returns would be to increase private sector participation in this area. In many cases it was easier to find young mentors than to train older PEO staff.

A future CD program should commission support for members of the PEAP to upskill in this area. The model established by the Institute of Public Works Engineers of Australasia (IPWEA) could be adopted. IPWEA has facilitated a semi-formal on-line (email) forum that connects engineers and allows them to raise issues or solve queries through their own network.

## **Managing implementation of 2016 KALSADA road rehabilitation projects**

The KALSADA Management Unit needs operational mentoring during 2016 and assistance with the end of year review of the KALSADA policy and approach. This will be the first year for PEOs to actually manage a capital works and maintenance program under KALSADA.

Abilities will differ, but in the end a decision will need to be made whether to continue working through the LGUs or to explore some form of Regional Road Board. Another option may be to partner less capable provinces with more capable provinces in each region, or with the DPWH. Asset Management Policy Advisors and experienced Infrastructure Program Managers will be needed to help with analysis and decision-making.

## **Continuation of PRMF Strategies to Promote Sustainability**

- **Facilitate legislation to establish the long-term legal mandate and permanent funding for KALSADA**

The establishment of legislation to underpin KALSADA permanence will remain a high priority for the remainder of the PRMF program and beyond through assistance from TAF. DFAT has indicated that it will provide funding through TAF to continue promotion of the underlying NIPLRM criteria and the long-term institutional framework and funding to sustain all other PRMF governance reforms.

- **Support DILG and PLGUs with organisational review advice**

Provide follow up to PRMF advice on organisational requirements including the structural adjustments and capacity benchmarks required to fulfil new management mandates that arise from the increased funding for local roads through KALSADA.

- **Support the establishment of post-project capacity development provision**

Provide for continuing demand-driven CD through the CDRR system following its expansion to become an on-line system for all LGUs. Provide management support to ensure that CD responses are provided through the existing DILG network of supporting Universities and Institutes. Support the implementation of the Memorandum of Agreement (MOA) between DILG and UPNEC for the e-Learning modules.

Additional CD should be augmented through relevant, focused CD provided by GoP departments, within their particular sphere of responsibility. For example, DBM can provide CD intervention on Internal Audit.

- **Capacity building to oversee and manage KALSADA**

DILG currently manages the SLRF but spent less than half of the required Php2.6B for road maintenance between 2011 and 2014. KALSADA has already generated significantly greater capital funding for road rehabilitation works, up to Php6.5B per year for direct downloading – eventually to all provinces.

Any PRMF successor program should focus on strengthening the management capability of the KALSADA Secretariat and a Program Management Office to administer this new funding. If not in DILG, this office could sit under the supervision of the RB or under the NEDA Infrastructure Committee (InfraCom). Either way, DILG could still focus on entry criteria, outsourcing CD and inventory validation of completed works.

## **4.6 Design Contribution for Future Infrastructure Programs**

As outlined previously in this report, the PRMF and its stakeholder partners have made significant contributions to establishing a stable launching base for the GoP to implement necessary improvements to the management of LRM in the Philippines.

While the GoP appears poised to act on this framework for effective LRM, the authors of this Completion Report are of the firm belief that additional donor support is necessary to cement

the framework and mechanisms for effective and transparent management of local roads, so that the benefits are long-term and on-going.

DFAT has not signalled any intention to support a follow-up program, but the opinions and recommendations included in this Report could be useful to any donor or multi-lateral agency interested in the development of governance in the infrastructure sector.

In providing recommendations for future support activities, PRMF recognised that its own hands-on contribution to achieving LRM could potentially be seen as too 'inwardly-focused'. To prevent this potential risk, the Facility Director and PRMF Team Leader commissioned an independent review of follow-on programs.

The Final External Review was provided by Paul Lundberg. Mr Lundberg was the author of the IPR of Phase 1 and the 2015 External Review of PRMF Phase 2. The full review is in **Annex B**.

Mr Lundberg's views largely reflect those of PRMF, though in some cases there are differences of opinion in how certain aspects of support could be provided. A summary follows.

Mr Lundberg recommends the establishment of a Local Road Management Support Facility (LRMSF), whose primary role would be to expand the successful PRMF Phase 2 demand-driven capacity building model to, potentially, all provinces in the Philippines.

The three outcomes of LRMSF would be:

1. DILG/DBM effectively incentivise LGUs to plan, manage and maintain local road networks through a program for local road management.
2. LGUs have the institutional capacity and systems in place to qualify annually for continued KALSADA financing for local road management.
3. LGUs rehabilitate and maintain their local road network in a condition that meets targeted levels of service and connectivity, transparently and sustainably in partnership with the private sector and civil society.

It is clear to both PRMF and the independent review team that readiness for, and implementation of, funding through KALSADA is the catalyst for acceptance and implementation of effective and transparent LRM for LGUs. However, some of its main proponents still misrepresent or do not understand its long-term continuous improvement funding requirement. Time will run out for PRMF before KALSADA takes its final shape. It is the view of the authors of this Report that any future CD support should only be provided on the condition that the framework and objectivity of the KALSADA program remain intact.

The KALSADA program arose from the PRMF-designed NIPLRM. At the core of NIPLRM is the requirement for depreciation-based funding for road asset management and a range of pavement options based on whole-of-life-costing. It is in these key areas where LGU capacity building is desperately required and, as such, building skills and expertise would be an essential focus of the proposed LRMSF.

The LRMSF would support systems and governance, not physical works.

The independent review sees important roles for existing stakeholder departments in the road sector, specifically DILG, DPWH, RB, DBM, COA, NEDA, as well as input from private sector entities such as the national Chamber of Commerce and Industry. It also sees roles for PAHRODF and CRID – both DFAT funded bodies – in the CD process. This would of course be dependent on whether the GoA is prepared to provide funding for a follow-up Program.

The reviewer sees DILG (OPDS) as having responsibility for the capacity building aspects of LRMSF, including: assurance that provinces have complied with the accession requirements, oversight of networked technical assistance provision, institutionalisation and expansion of the existing LRMPAT as the overall rating/incentive system encompassing governance aspects, technical capacity building, assessment of provincial road management and facilitation of citizen/business engagement and gender access.

Preliminary designs for the LRMSF are included in full at **Annex B**, but in summary they describe an approach that coordinates all national stakeholders in road network development in the Philippines, as captured in the following extract from the review paper.

*“The introduction of the national KALSADA local road management funding vehicle now provides an excellent opportunity for all donors to coalesce around a common approach, one driven by the need for a rational and coordinated road network management system rather than individual agency and donor prerogatives. The KALSADA program is getting off to a fast start, but there are a number of potential gaps in preparation and capacity that may hinder the full and effective utilization of the financial resources being made available to the provinces by the central government.”*

## 5. MANAGEMENT CONSIDERATIONS AT HANDOVER

### 5.1 Physical Works

In the original contract, the target for road rehabilitation was 500 km, and 700 km for maintenance. Under PRMF Phase 1, including contracts continuing into PRMF Phase 2, 120.35 km had been rehabilitated and 162.06 km of road maintenance was completed. The low completion rate for rehabilitated roads was due to the PRMF Phase 1 selection of higher cost (higher priority) rehabilitation projects, which averaged Php5.68M per km. If Phase 1 had worked on the same type of road works that were undertaken in Phase 2, their Rehabilitation tally would have been approximately 342 km.

To redeem matters, the PRMF Phase 2 Team, in consultation with the FMG, revised the guidelines. In agreement with partner provinces, PRMF Phase 2 focused on roads that were important for connectivity and which constituted cost-effective investment in rehabilitation, which was more in line with the DFAT budget limitations. Although promoted by PRMF as a more sustainable approach and in line with provincial capacities<sup>39</sup>, because the new projects yielded greater distances for the money (with RMI road costs averaging less than Php2M per kilometre), the truth was they were simpler and generally less travelled roads which would not have been anywhere near top priority if subjected to an honest PRNDP process. The PRMF Phase 2 portfolio committed to projects totalling 260 km for RMI, and 86.20 km for maintenance. (This revised target included the Bohol earthquake PW adjustments described earlier).

The tail-end projects that make up the above targets were completed in March, 2016. These projects were based on the adjusted PRMF PW funding of AUD14.481M, part of which will come from the recoupment of PLGU equity of AUD3.9M during the PRMF extension period.

**Table 3: PRMF Rehabilitation and Maintenance Achievements (in km)**

Province	Rehabilitation			Maintenance		
	Phase 1	Phase 2	Total	Phase 1	Phase 2	Total
Agusan Del Sur	19.3	10.2	29.5	26.4	9.0	35.4
Bohol	25.6	120.3	145.9	48.2		48.2
Bukidnon	4.8	11.1	15.9	-		
Guimaras	19.0	13.1	32.2	10.5		10.5
Misamis Occidental	18.8	6.2	25.0	30.6	15.6	46.2
Misamis Oriental	22.4	6.2	28.6	43.7		43.7
Surigao Del Norte	10.5	5.2	15.8	2.7		3.1
Aklan	-	31.4	31.4	-	27.9	27.9
Davao Del Norte	-	26.2	26.2	-	33.7	33.7
Lanao Del Norte	-	29.9	29.9	-	0.0	0.0
<b>Total</b>	<b>120.35</b>	<b>260.00</b>	<b>380.35</b>	<b>162.1</b>	<b>86.2</b>	<b>248.26</b>

<sup>39</sup> Any statement that the reduction in cost per kilometre was in keeping with PLGU capacity is questionable as 9 PRMF and 64 non-PRMF partner provinces have subsequently submitted KALSADA projects from their PRNDPs averaging Php10m per km.

## Handover Actions Completed

- **PLGUs granted the authority to oversee the Defects Liability Period** – DFAT authorised PLGUs to oversee the defect liability period and release the final payment based upon PEO certification.
- **The process for shifting contract management to PLGUs was approved** – PRMF Culmination Ceremonies in each Province required the signatures of DILG, Governor and SC on the Notice of Substitution and the Novation Deeds.
- **Warranty periods extending beyond the end of the PRMF contract are managed** – The SC has administered the release (or return) of all final physical works payments.

## 5.2 Capacity Development

The Phase 2 CD budget for Components 1 and 3 of the PRMF contract were fully spent by June 30, 2015. Under the Extension Work Plan, eight WTOs were funded to roll over into FY15-16 to get KALSADA into the 2016 GAA (national budget) and to institutionalise the COA Review on Local Road Asset Accounting, both of which were completed in December 2015. The Extension Work Plan also funded four new WTOs to support the 2016 national rollout of KALSADA by DILG and the hand-over of the CDRR system and e-Learning modules to local Universities.

The CD activities required in the Extension Work Plan were essentially funded from the unspent Component 2 of PRMF Phase 2. This funding was intended to provide PLGUs with technical assistance for PW design work, but this was not utilised, as the Phase 2 focus was on supporting PEOs to do less complex designs for RMI roads.

All CD contractual payments will be completed by May 15, 2016 and the budget described above will be fully spent.

## 5.3 Knowledge Products

### Phase 1

The Phase 1 Knowledge Products were transferred to DILG and archived during the AusAID management period. They are listed in three categories:

1. Those commissioned by AusAID to assess base-line and progress towards the governance reforms and operational targets, these being:
  - Programmatic Initial Environmental Examination Report (URS Australia).
  - Midterm Review and Assessment of PRNDPs of PRMF Partner Provinces (Draft-Final Paper) (URCS)
  - PRNDPs – all PRMF provincial partners
  - Provincial Annual Works and Reform Program.
2. Management tools which were virtually unique to AusAID and/or PRMF projects, these being:
  - PRMF Maintenance Implementation Guidelines (First edition)
  - PRMF Physical Works Procurement Guidelines

- Guidelines on Grant of Honoraria for personnel involved in PRMF procurement of Civil Works
  - PRMF Operational Guidelines Rehabilitation and Minor Improvement Works for Provincial Gravel Roads
  - PRMF Capacity Development Framework 2013-2015 (Draft)
  - Capacity Development Report Community Impact Monitoring and Evaluation (CIME) (SDS)
  - PRMF M&E Six-monthly Report June-Dec 2012
  - Concept Paper on Managing Sustainability in PRMF
  - PRMF Monitoring and Evaluation Framework
  - Capacity Development Program Guidelines
  - Capacity Development Framework
3. Those intended to be used as management or learning tools by local partners, these being:
- Local Road Management Manual – Draft Final
  - Local Road Management Performance Assessment Manual v3 – DILG
  - Final Report – Technical review & whole of life cycle cost analysis of the Philippines Provincial Road Management Facility
  - Local Road Management Assessment Manual version 3 (Draft)
  - Public Engagement Strategy
  - Comparative Analysis between Road Maintenance by Administration and by Contract – all PRMF partner provinces
  - PRMF Graduation Strategy
  - Provincial Strategic Financial Management Plan (SFMP) – All PRMF partner provinces.

## **Phase 2**

During the AusAID management period, DILG chose not to activate several of the Knowledge Products from Phase 1. Those chosen to be used and improved were transferred to Phase 2 for Review. All of these contractually required knowledge products were managed through centrally managed WTOs and were subsequently transferred to DILG prior to 2016. These included:

- The (revised) Road and Bridge Information System
- The (revised) Local Roads Management Performance Assessment Tool, and
- The Local Roads Management Manual.

In addition, PRMF research results on Pavement Options and Community Contracting were provided to DILG in conjunction with the Asset Disposal Report on 29 February 2016.

Other knowledge products, developed in partnership with the intended owner, were produced by PRMF, over and above the head contract requirements:

- The COA Policy Review was always owned by COA
- The LRM e-Learning modules are subject to licence agreements with LGA and UP.

The final group of centrally managed WTOs was for the purchase of existing knowledge products:

- All ETRACS training programs were pre-existing products of the ICT Company, Rameses.
- Arc Info software was a GIS product sold under an ESRI distributor Licence by the local company, Geodata.

### **PRMF provincially managed knowledge products**

The two Phases of PRMF developed knowledge products that can serve as reference to other provinces and in implementing the KALSADA program. Some of these knowledge products were developed with full assistance of PRMF during Phase 1, which were essential in, and required for, achieving provincial incentive targets in PRMF. Applying these documents in the various areas of planning, budgeting, execution and monitoring, and the updating of these knowledge products occurred in Phase 2 as requested by the Provinces with in-house technical assistance from PRMF.

These PRMF PLGU knowledge products include:

- Executive – Legislative Agendas
- Provincial Road Network Development Plans
- Human Resource Management Plans
- Environmental Management Plans
- Environmental Management Systems
- Road Safety Plans
- Strategic Financial Management Plans
- Internal Audit Operations Manuals
- Information and Communication Technology Plans
- Staff and Skills Inventories
- Public Engagement Strategies
- Provincial Development Investment Plans
- Information System Strategic Plans.

As a result of demand-driven approach to CD in Phase 2, PRMF support was provided to improve several local knowledge products whose intellectual property rights remained with the respective PLGU. These covered areas such as internal audit and controls and implementation of sub-activities in approved plans, where the PLGUs were able to identify and produce unique knowledge products. Examples from this list include:

- Annual Internal Audit Plans
- Fuel Management Systems
- Job Description Writing Manuals
- Succession Planning Processes
- Records Management Systems
- Training Development and Management Manuals
- Human Resource Information System Manuals
- Community Road Mapping
- Monitoring and Evaluation Process Guides
- Localised Construction Supervision and Contract Management Manuals.



## 5.4 Human Resource Planning

While PRMF will not be directly involved in organisational restructuring it does however recognise that the key partners in the KALSADA road funding process (DILG and PLGUs) are mostly not prepared for the program's long-term implementation. They do not, in the main, have the appropriate organisational structures or overall staff capabilities required to effectively manage the anticipated increase in workload and/or eligibility and compliance requirements.

In November 2015, PRMF undertook preliminary research to determine a benchmark for organisational structures of PEO offices. This benchmark identified the types of roles that need to be performed; the expertise required to perform these roles; and the number of staff required to effectively perform these roles. It anticipated that roles and required expertise will mostly be consistent across all PLGUs, though staff numbers will vary according to specific provincial factors such as the size of the road network, availability of technology, remoteness.

The benchmarking exercise involved interviews and a study of the current organisational structures and operations of some of the better performing PEOs, as well as identified District Engineering Offices of the DPWH. It also looked at the requirements of KALSADA and how this will impact on respective units.

PRMF developed a Discussion Paper for DILG, which considers the overall workforce requirements of its SLRF Unit and its regional offices in meeting the anticipated large increase in workload with the implementation of KALSADA. The content was not intended to be precise, but rather to prompt communication and action on organisational change. The Discussion Paper was presented to DILG via the FSC in September 2015 (see **Annex C**).

To ensure a sustainable approach to PLGU organisational and staff performance evaluation, PRMF also produced a Discussion Paper on PEO structures and key roles. Its content and directions align with the earlier PRMF recommendation that PLGUs adopt and implement the Civil Service Commission's Strategic Performance Management System (SPMS), which was established through Executive Order No. 80 in 2012. This could provide PLGUs with a firmer basis for individual staff evaluations and broader organisational change.

The Team Leader and Facility Director commissioned WTO 163 to ensure that the progressive downsizing of PRMF still provides optimum support to DILG, DBM and COA in the 2016 trial and longer term implementation of depreciation-based funding for LRM.

# Annex A

## The PRMF Budget and Expenditure Report

DESCRIPTION	Phase 2 & 3 Budget	FY 13-14	FY 14-15	YTD FY 15-16	Total Disbursement	Balance Remaining	% Spent
Core Management Fee - Milestone payments	2,615,071	538,891	1,014,384	946,339	2,499,614	115,457	96%
Core Management Fee - Performance payments	613,358	112,929	225,859	193,749	532,538	80,820	87%
Non-Core Management Fees	171,767	-	129,867	23,001	152,869	18,898	89%
Long Term Adviser Costs	1,676,323	550,352	805,598	271,077	1,627,027	49,296	97%
Short Term Adviser Costs	151,433	60,373	7,942	75,321	143,636	7,796	95%
Long Term Locally Engaged Personnel Costs	5,666,424	1,068,029	2,721,177	1,817,946	5,607,153	59,271	99%
Short Term Locally Engaged Personnel Costs	140,925	56,905	34,392	30,809	122,107	18,818	87%
Adviser Support Costs	709,806	177,394	272,593	163,490	613,477	96,330	86%
<b>Total Support Costs</b>	<b>11,745,106</b>	<b>2,564,873</b>	<b>5,211,812</b>	<b>3,521,734</b>	<b>11,298,420</b>	<b>446,687</b>	<b>96%</b>
Component 1: DILG Innovation, Research, Capacity Development	1,177,000	148,383	737,231	180,435	1,066,048	110,952	91%
Component 2: Design, Technical Assistance, Preparation	-	-	-	-	-	-	0%
Component 3: PLGU Capacity Development	2,258,332	952,303	1,153,519	241,132	2,346,954	(88,622)	104%
<b>Total Non-Core Services</b>	<b>3,435,332</b>	<b>1,100,686</b>	<b>1,890,750</b>	<b>421,566</b>	<b>3,413,002</b>	<b>22,329</b>	<b>99%</b>
Grants (Untied Incentives), Physical Works	14,481,373	-	8,318,826	5,853,567	14,172,393	308,980	98%
Office Equip, Supplies, Vehicle, etc.	720,464	117,084	426,380	135,824	679,288	41,176	94%
Administration Costs	2,109,016	620,489	950,618	483,074	2,054,181	54,836	97%
<b>Total Core Services</b>	<b>17,310,854</b>	<b>737,573</b>	<b>9,695,824</b>	<b>6,472,465</b>	<b>16,905,862</b>	<b>404,992</b>	<b>98%</b>
Financing of Operational Costs	414,924	35,619	231,731	66,700	334,051	80,872	81%
<b>TOTAL LBG DISBURSEMENT (including financing costs)</b>	<b>32,906,216</b>	<b>4,438,752</b>	<b>17,030,118</b>	<b>10,482,465</b>	<b>31,951,335</b>	<b>954,881</b>	<b>97%</b>
DFAT Managed Costs (includes PW-Y2 under AusAID account)	5,653,836	4,203,954	969,882	360,000	5,533,836	120,000	98%
<b>GRAND TOTAL PRMF</b>	<b>38,560,052</b>	<b>8,642,706</b>	<b>18,000,000</b>	<b>10,842,465</b>	<b>37,485,171</b>	<b>1,074,881</b>	<b>97%</b>
Less: PLGU Equity Share	(3,916,200)	-	-	(3,616,314)	(3,616,314)	(299,886)	92%
<b>TOTAL DFAT ALLOCATION</b>	<b>28,990,016</b>	<b>4,438,752</b>	<b>17,030,118</b>	<b>6,866,151</b>	<b>28,335,021</b>	<b>654,994</b>	<b>98%</b>

# Annex B

## Independent Final External Review of PRMF

## Section 1: Introduction

A three-member external team was requested to undertake a final evaluation of the DFAT-funded, Louis Berger-implemented Provincial Road Management Facility (PRMF) in the Philippines. The team was composed of one international and two national consultants. The international member did not go to the Philippines and the two nationals were not authorized to travel beyond their home locations. However, two members of the team had been involved in both the 2012 and 2015 evaluations of PRMF, with the third involved in the 2015 evaluation. Therefore, all of the team members had a good understanding of the project from its inception and could provide succinct assessments of the accomplishments over the life of the project.

The primary information available to the consultants was the final report of the project, plus periodic monitoring and other reports produced by the project. As one national consultant was home-based in a PRMF province (Bohol) and the other in a non-PRMF province (Negros Occidental), the team elected to conduct brief case studies of the present situation on local road management to provide some independent data to support a comparative analysis of the efficacy of PRMF interventions.

The evaluation is broken into two distinct parts. The first involves an assessment of what was accomplished during the life of the project, with a breakdown and comparison between the periods where the project was implemented under different guidance from the Australian Government and with different contractors. The second section of this report represents the team's proposals regarding the nature and content of future Australian-assisted projects on local road management in the Philippines. This section is again divided into two parts: a brief design of a capacity development support project to back up the Government's LRM program, KALSADA, and specifics about what the Australian Government can do before a successor project is approved.

### 1.1 Assessment of PRMF Achievements

#### 1.1.1 Project Phases

PRMF implementation was divided into three distinct phases. The first (2009-2012) was initiated in seven provinces, with three additional provinces added in 2011. This phase was implemented by Coffey International as the Facility Management Consultant (FMC). The FMC disengaged with the Australian Government in April 2012, closing their offices in September. A different FMC was selected, without tender, to replace Coffey, but eventually declined to accept the offer. The operations of the first phase had been characterized by a high level of discord between the Australian Government and the FMC. An external evaluation, completed in June 2012, identified that the most serious impediments to the achievement of expected project outcomes were the result of inappropriate design-and-control decisions made by the Australian Government.

From October 2012 to September 2013, PRMF was directly implemented by the Australian Embassy. This period was characterized by an expectation that no new interventions would be undertaken, but existing contracts were to be completed. During this period, the Australian Government undertook to write a new Request for Proposals that was heavily based on the recommendations of the 2012 evaluation.

In September, Louis Berger was awarded the contract to complete PRMF. A management innovation was introduced when a Facility Management Group, hired directly by the Australian Government with additional seconded Government of the Philippines personnel, was inserted as the liaison and daily supervisor between the Embassy and the FMC. Both the end-date and the value of the contract changed several times during this phase of the project, with a 60% reduction in remaining funding announced on 25 January 2015. The project is now expected to be fully closed by June 2016.

## 1.2 Overview of PRMF

The following sections provide an overview of the accomplishments of the first phases of PRMF, the modifications to the project strategy and approach during the final phase, and the observed changes, mostly improvements, in outcomes achieved.

### 1.2.1 Relevance

The initial design of PRMF was considered to be highly relevant to the existing situation of poor local road management. PRMF was well aligned with the Australian Cooperation Strategy and the Philippine national development agenda. However, project implementation was overly concentrated on project-managed road repair and minor administrative reforms, paying little attention to critical processes, such as decision-making at provincial and national levels.

At the time of the first evaluation in mid-2012, the program was essentially unknown to key policy makers. Long after PRMF had begun operations, a major paper<sup>40</sup> came out on the importance of proper local road management for the national economy. The paper received front-page coverage in the *Business Mirror* of March 14, 2012. The paper emphasized key factors contributing to underinvestment in local roads, particularly weak local capacity for planning and budgeting, lack of a good local road inventory and weak local fiscal capacity. Although each of these was a critical element of capacity development of PRMF, the project was not mentioned. Fortunately, Phase 2 of the project was able to shift to a more policy-informing approach and the original intent of the project - to transform the way local roads are managed - is now more of a political reality. The national/provincial dialogue process facilitated by PRMF also led to a significant breakthrough in national recognition of the impossibility for LGUs to bring their roads to a state of sustainably maintainable condition due to the paucity of financial resources provided through the Internal Revenue Allotment (IRA) and local revenues.

Nevertheless, the first phase of PRMF did have a positive effect on changing provincial attitudes towards the way they address local road management (LRM). The most critically important aspect of the PRMF approach, initiated in phase one, involved engaging provinces to view LRM from an integrated perspective, which began to be evidenced in greater shared responsibility for outputs across work units.

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<sup>40</sup> Llanto, G. M. Investing in Local Roads for Economic Growth. Philippines Institute for Development Studies, 2011.

### **1.2.2 Effectiveness**

However, effectiveness of the first phase was seriously constrained because of the risk allocation framework adopted in the Scope of Services (SOS) that resulted in the Facility Management Consultant (FMC) being fearful of allowing the LGUs to be engaged at any meaningful level in articulating the approach taken by the project. This was a serious error in judgment on the part of the Australian Government because the management of risk is a significant factor in determining the emergent pathway of any program. Shared risk greatly enhances the potential for innovation, adaptation, learning and institutionalization. When risk is not shared, a project does not represent a viable partnership mode of operation.

Unfortunately, the SOS demanded that the vision of what PRMF should accomplish was entirely that of the FMC (with AusAID approval) and not that of the LGUs. The resultant one-size-fits-all approach to both physical works and capacity development reduced local ownership and held back the institutionalization of reform. The constraints introduced by the SOS for Phase I led to serious delays in delivery. The change in the project incentive payment framework, initiated during the Embassy-managed interregnum, from compliance on completion of required capacity development tasks to one that included performance measures in governance and road management helped to improve delivery.

An issue that was raised in the first evaluation and has continued throughout the life of PRMF is whether the approach of foreign donor agencies to mix physical works financing with an agency-prescribed capacity development program is effective in achieving policy and governance reforms. The evidence from both phases of PRMF indicate that the time-bound contractual nature of the physical works tends to dominate the project implementation cycle and the massive influx of external resources tends to overwhelm local capacities such that attention is riveted on complying with immediate requirements and meeting physical accomplishment targets with little attention to achieving long-term institutional transformation.

### **1.2.3 Efficiency**

This FMC-driven approach also led to a reduction in the efficiency of resource use with high transaction costs. The excessive demands placed on the LGU staff to complete the lengthy reporting requirements on capacity development interventions resulted in significant amounts of unpaid overtime. While this labour was essentially free, the utility of the outputs did little to improve the project's value for money.

Unfortunately, PRMF Phase 1 got off on the wrong foot even before the FMC arrived to manage the project. The Australian Embassy had decided that the project should start off with highly visible 'signature projects' designed to totally rehabilitate a severely damaged segment of road in each of the provinces. This led to an inordinate amount of time and resources being concentrated on what, in the overall scheme of the FDD, were minor aspects of a provincial road management strategy aimed at building provincial capacity. This objective was not achieved as the design and construction were carried out by external agencies without provincial involvement. This decision was taken to carry out the road repairs in this manner because the SOS placed full risk and liability on the FMC. As an example, the design of the initial road segment in Bukidnon province involved unit costs that vastly exceeded that which any province would be able to sustain because of the FMC's

need to build to a higher standard. In that instance, the cost per kilometre of the drainage ditches alone was the same as what an average province would spend on an entire road surface reconstruction. These unit costs and technical standards could not be matched by any rational expectation of future provincial budgetary resource levels.

The Australian Government decision to start PRMF by selecting a badly damaged road section for sophisticated rehabilitation proved to be counterproductive by orienting the project towards externally designed and implemented technical solutions that could not be sustained with the level of road management funding available to provinces rather than building local decision-making capacity. This outmoded concept further engrained the tendency of local chief executives to depend on external financial and technical assistance in order to fix LRM problems. There is some evidence to suggest that provinces that had been selected for PRMF had already begun to reduce their budget allocations for road maintenance in anticipation of the foreign largesse that was to come.

The 2012 evaluation and the ARRB study both argued that this major rehabilitation orientation did not generate value for money and made no sense institutionally. Nevertheless, it took the Phase 2 team nearly five months before Rehabilitation with Minor Improvements (RMI) became the approved practice.

#### **1.2.4 Financial review**

The first evaluation found a curious attitude among nearly all AusAID staff, particularly the Filipinos, that value for money in PRMF would be undermined if LGUs were allowed to make decisions on how that money could be used. Thus, during Phase 1, the FMC was required to be the legal contract holder for all physical works, despite the fact that the province was required to create a special bids and awards committee to select the contractor (with FMC involvement).

The 2012 evaluation argued that the national government, particularly the DILG, needed to be more fully engaged in the direction of PRMF. Unfortunately, during the interregnum when AusAID itself managed the project, the joint decision was made to have DILG regional offices to take over the ownership of these contracts, a task that goes far beyond its guidance and oversight mandate and undermines the legal prerogatives of the Provincial Governors under Philippine law. Nevertheless, for a number of reasons, it took nearly two years for the PRMF 2 team to eliminate the role of the DILG from procurement and contract management.

In the end, no procurement by provinces ever occurred, which seriously undermined the efficacy of. All PW contract novations were only done as part of the PRMF closure handover. This was despite the fact that five provinces (Davao del Norte of PRMF and other non-PRMF provinces) passed standard Australian Government financial assessments (PFMAT and APCPI), but until the end of the project, they were never given final WIPS clearance, which would have allowed them to directly spend Australian funds. It is doubly unfortunate that the donor kept the results of these assessment as confidential documents until it was too late to make use of them for PRMF programming, completely nullifying their value for incentivizing reform. One can only imagine the impact that would have been generated when one province was given the authority to spend donor funds directly because it had successfully restructured and supervised its internal financial management procedures. That could have



been seen as a real incentive for reform in procurement, internal auditing, accounting and engineering practices. Instead, PRMF was required to plod along using systems that matched neither Australian nor Philippine standards.

### **1.2.5 Sustainability**

The sustainability of the approach and outputs generated during PRMF I was highly questionable. Some of the reforms introduced did lead to changes in attitude, but use of incentive funds to induce near-term behaviour change reduced the potential for long-term viability of the introduced systems. Further, the national government had not been well engaged due, again, to the SOS-driven incentive structure that led the FMC to attempt to undertake all aspects of the project solely on its own. This inwardly looking perspective proved to be inadequate in handling policy issues and slow in resolving operational constraints.

PRMF 1 represented a totally technical orientation to reform. Technical solutions are best when applied to 'known knowns'. Unfortunately, the assumptions in the FDD that drove the technical orientation of the project were wrong, and therefore, the solutions were not known. In all approaches to development, there is a need to appreciate the superiority of adaptive systems solutions over technical ones because there are simply too many unknown unknowns when attempting to apply successful reforms from one context to another. In the case of Philippine LRM, an adaptive systems approach is required because the society had not yet developed a sustainable solution. The political turn taken in Phase Two has helped to put Philippine thinking regarding LRM on a better path, and hopefully one that continues to adapt as new knowledge is obtained. External expertise will still be required, as presented in the section below on future scenarios, but the leadership has to be taken by the system's political stakeholders.

### **1.2.6 Monitoring and Evaluation**

There was no meaningful monitoring and evaluation effort introduced in the first phase. Some, rather impractical methods were introduced, but these were only undertaken to qualify for the incentive fund payments. There was an inordinately protracted disagreement between AusAID and the FMC over the structure of M&E framework, which resulted in only one progress report being produced over the course of two and a half years. This report was essentially useless as it was a strictly superficial rendering of FMC activities with no analysis of key issues addressed. Importantly, the program theory was never clarified, resulting in a continued mismatch between intention and implementation. The report also seriously overstated the effect of the project on the capability of LGUs to improve their LRM practices, failing to recognize the limited potential to institutionalize externally designed and imposed models of reform.

The project design did include the use of a Technical Monitoring Group (TMG). This was a mixed team of national and international, internal and external advisors that undertook four insightful monitoring studies during phase 1. Unfortunately, the issues the TMG raised and their recommended modifications were never taken up by AusAID or the FMC. Despite the clear and honest assessments of the TWG during Phase 1, for unknown reasons, AusAID did not continue its operation, neither during the AusAID managed interregnum nor in Phase 2.

### **1.2.7 Analysis and Learning**

One can state categorically that there was absolutely no analysis and learning taking place during the first phase. There were no tests conducted on the three key assumptions of the project design: gravel surfaces, contracted maintenance and LGU revenue potential. The first two would not be formally questioned, and found wanting, until the ARRB study in 2012. Even then, it took the Phase II team a year to correct these obvious design flaws. Although experiments on road surfacing and citizen engagement in road maintenance were introduced in Phase 2, these were still seriously limited due to the continued heavy emphasis on physical works completion. The third was only disproven when studies were conducted under Phase 2 in connection with the newly introduced concept of road asset valuation and it was found that, in essence, the structure of the IRA in the early 1990s had inadequately anticipated the revenue requirements for LRM. It was also apparent that local revenues, even if increasing on an annual basis, would not be able to fill even the basic requirements for local road management.—In addition, a review of procurement practices showed conclusively that the constraints on procurement stemmed far more from organizational dynamics than from any lack of technical knowledge.

Although still constrained by typical donor attitudes about the lack of capacity in beneficiaries, PRMF 2 was able to show that recognizing and supporting innovations emanating from the provinces was a sustainable approach to reform. This was most evident in the different ways that provincial governments began to address LRM after getting new ideas and techniques from PRMF.

## **1.3 Progress Perceived**

The foregoing recitation of the limitations of the first phase of PRMF should not be taken to imply that none of its initiatives were successful, although it is highly possible that if the implementation management approach of Phase I had been continued throughout the life of the project far fewer would have been sustained.

### **1.3.1 PRNDP**

First, and most critical, all of the provinces involved in PRMF completed, and updated, a Provincial Road Network Development Plan (PRNDP). This was one of the major new ideas introduced in Phase 1 and was sustained in Phase II. The completion of a PRNDP is now one of the key pre-requisites for an LGU to be able to access funding from KALSADA. Despite nearly a quarter-century of LGU management of local roads, no one had actually engaged them in producing a comprehensive mapping and prioritization of all road segments under provincial management. The production of the PRNDP facilitated the evolution in receptivity to the more comprehensive Roads and Bridges Information System (RBIS) as a means of accurately tracking horizontal infrastructure as depreciable assets that was accomplished, beginning in early 2015, through the combined efforts of PRMF, COA and the Road Board. The initial approach to Geographic Analysis introduced in Phase 1 needed to be significantly modified for the RBIS, but a critical spatial orientation had been introduced, including initial conceptual links between road selection and design and environmental considerations that was elaborated upon with the Phase 2 landscape approach to selection and design involving community consultations.

The value of the PRNDP to LRM is illustrated in the Bohol case, which notes that the PRNDP showed that its maintainable core road length increased by 93 kilometres as compared to 2009 base figures. The PRNDP shows that 100% core roads are now maintainable, up from 83% prior to PRMF. Although the road condition surveys have been conducted each year since PRMF started, the PRMF-induced traffic surveys have not been conducted since 2012, indicating a low level of utility for the tool by the province. The fact that some of this improvement would be the result of the significant increase in external support to the province following the earthquake does not detract from the utility of the PRNDP to quantify these changes.

In contrast, the PRNDP of (non-PRMF supported) Negros Occidental indicates that not all provincial roads are yet included in the assets of the province, and that records vary among the offices of the Provincial Engineer, Provincial Accountant, and the Government Assets Management Office. This small case indicates that the capacity (or even awareness) to objectively scope, design and manage improved road rehabilitation and maintenance would not have been possible without a PRMF-type intervention to broaden the Government conceptualization of the problem, its causes and potential solutions leading to a desired end-goal (sustainable LRM).

### **1.3.2 Community Engagement**

There was also evidence from PRMF I that civil society had been invited to participate in LRM for the first time in most of the provinces. Nevertheless, in a country noted for its broad participatory approach to development, engagement of communities in PRMF remained weak, although it was improved in Phase II by using a more comprehensive landscape approach to road planning, which also more seriously attempted to enhance community participation. However, while PRMF community engagement improved in the second phase, the 2015 evaluation found that it was still limited in information, and consultation, mission opportunities for deeper collaboration. The PRMF II team contends that it took the points made in the 2015 evaluation seriously and made more significant increase in citizen engagement. The evaluation team did not have an opportunity to substantiate those changes and the M&E report only provided limited information to show if participation, both in quantity and quality, has significantly improved.

### **1.3.3 Internal Audit Office**

The administrative efforts by PRMF I also resulted in most provinces completing the process to establish a comprehensive human resources plan. These plans will face their first serious test following the elections of 2016 when there will be strong pressure to put politically linked staff into posts, whether qualified or not. However, it is the creation, legalization and budgeting of the Internal Audit Office (IAO) in all PRMF provinces by 2011 that will likely have significant long-term influence.

The utility of PRMF assistance in this area was evident during the work on this evaluation. A brief case study was conducted in Negros Occidental, as a counter-factual non-PRMF province. After the brief questioning of the IAO by the evaluator, the Unit paid a visit to Aklan, a PRMF province. That visit illustrated to them what an IAO could accomplish and they arranged to get more intensive support from Aklan in the future.

The Bohol case indicates that the IAO is functioning very well and has established itself as one of the learning hubs for the new PRMF provinces. Although compliance monitoring rate remains low, coverage for risk assessments and internal audits is significantly higher.

### 1.3.4 Local Revenue Generation

Local revenue generation, particularly for use in LRM, was a major objective of the original PRMF design. As a result of the efforts carried out during both phases, all provinces prepared a Strategic Financial Management Plan (SFMP). This will no doubt be of continued assistance to the provinces, as the average province across the country remains dependent on IRA for 85% of its expenditures. According to the project monitoring data, all PRMF provinces increased their local revenues by a considerable margin over the baseline, and in comparison with selected non-PRMF provinces. However, as noted above, detailed analyses carried out in Phase 2 revealed that no amount of own-source revenue generation would enable provinces to adequately fund and manage their local road portfolios, even if all increases could be allocated to LRM<sup>41</sup>, as the gap between requirements and potential generation is too great.

The Bohol case study showed its own-source revenue collection increased by 258% (Php 23 Million to Php 82 Million) from the base year of 2009. However, as an example of the difficulty of sustaining road maintenance from own-source revenues (possibly due to political considerations), its road maintenance budget in 2015 had decreased by more than 60% during that same period. This decline may also be linked to the radical increase in road rehabilitation expenditures after the 2012 earthquake, but reduced maintenance leads eventually to greater need for more expensive rehabilitation. However, while local revenue generation increased steadily, the road maintenance budget has fluctuated significantly from year to year as noted in the next table. Therefore, there is as yet a poor correlation between revenue collection and budget allocation for road maintenance. This is true as well in the case of Negros Occidental.

Category	2009	2010	2011	2012	2013	2014	2015	Trends
Real Property Tax	22,789,181	28,096,741	26,709,233	30,989,490	32,249,960	32,896,601	81,592,542	
PRNDP Maintenance Budget	N/A	-	37,760,000	38,900,000	48,560,000	40,000,000	47,700,000	
PRNDP Rehabilitation Budget	N/A	192,570,000	71,450,000	113,210,000	78,880,000	15,400,000	11,990,000	
Maintenance Budget	53,724,794	41,410,714	52,755,000	36,000,000	36,056,405	48,338,000	38,692,358	
Rehabilitation Budget	93,848,532	126,818,000	71,500,000	125,670,828	101,363,125	110,700,000	225,500,000	
Maintenance Expenditures	59,376,682	45,539,164	9,709,963	37,836,321	24,628,202	49,103,789	13,924,385	
Rehabilitation Expenditures	62,481,372	104,688,820	25,700,047	41,438,234	73,076,513	87,083,183	41,965,945	

### 1.3.5 Asset Management

The introduction of the asset management and depreciation concept for provincial horizontal infrastructure (primarily roads, bridges, culverts, drainage, and slope protection) in Phase Two can be characterized as the most significant intervention by PRMF. This innovation has had a significant, and potentially long-lasting impact on the way Government perceives the cost of maintaining rural roads. The Commission on Audit (COA) became intrigued by the idea in 2014 after receiving the PRMF concept note for discussion. This was followed by a

<sup>41</sup> This of course is impossible as 50% of all revenue collected through real property tax must, by law, be allocated to school building construction and repair.

series of dialogues between provincial and national bodies (see Political Approach below) supporting the advocacy efforts that eventually resulted in the KALSADA programmatic allocation of Php 6.5 Billion for LRM in 74 provinces in 2016. All provinces are now required by COA to prepare a full categorization of all road and bridge assets.

However, the Bohol case study has pointed out that provinces, even long-standing, active PRMF provinces remain essentially in the dark regarding the procedures for implementing the new asset recording. At the time of the case study in February 2016, Bohol Province did not think they would be able to comply with the requirements. They also don't believe that COA will have the capacity to give them proper guidance on how to implement the procedures because of their lack of personnel. They assume they will have to interpret the guidelines on their own, but they indicate that the greatest stumbling block will be the determination of the original construction cost baseline figures. The situation is worse for non-PRMF provinces like Negros Occidental, whose Accountant, GSO, IAU and PEO have admitted to being unprepared to implement the COA directive.

### **1.3.6 Procurement**

Improved procurement procedures and practices was intended as an outcome of PRMF. However, the fiduciary risk-averse approach taken by the Australian Embassy served to undermine progress in this area. During the first phase of PRMF, although the provinces were involved in reorganizing their Bids and Awards Committee (BAC) in relation to the procurement of road reconstruction and maintenance contracts, the incentive to carefully monitor the actions and decisions of the BAC was reduced as the FMC maintained control (and liability) over the supervision of the contracts after the award was granted. During the interregnum, the Embassy novated all contracts to the DILG, a position maintained until late in the project.

The Bohol case review indicates that procurement practices in one of the more reformed provinces remains unchanged. The PRMF M&E data tend to substantiate this finding. It would appear that the risk-averse approach of creating a Special Bids and Awards Committee (BAC) in each PRMF province reduced the potential for reform in the formal BAC, fully managed by the local government.

### **1.3.7 PRMF Management**

Sometimes it is easier for an evaluator to identify shortcomings rather than positive shifts in mindset on the part of the donor. One of the most significant changes in the structure of PRMF during Phase 2 was the creation of a Facility Management Group (FMG) to serve as liaison between the Australian Embassy and the FMC. This change in the project structure, initiated by the Australian Embassy, greatly improved communication and speeded implementation by mitigating the strongly adversarial relationship that had existed between AusAID and the FMC during Phase 1. During Phase 1, the Embassy staff held the opinion that only their opinions were correct and the FMC was only on the right path if it was abjectly following orders. As noted, many of those orders ran counter to the project's ability to achieve its stated objectives and seriously reduced the value-for-money of the project interventions. The Philippines is fortunate that the FMC initially selected to replace the failed first contractor refused the task, ultimately leading to a major revision in the project design and the creation of the FMG as a technically-qualified and politically-sensitive liaison.



Without this change, it is doubtful many of the innovations introduced during Phase 2 would have been possible.

### **1.3.8 Capacity Development**

The capacity development approach taken during Phase 1 was academic, standardized and disconnected from road management work, partly as all rehabilitation work was carried out by the FMC and external contractors. The need to shift from a unified, regimented capacity development orientation to one that is demand-driven and tailored to specific needs of specific locations was one important recommendation of the 2012 evaluation. Fortunately, this shift was incorporated into Phase 2, thus enabling the new FMC to follow this completely different path. The transformation was clearly apparent when the 2014-2015 evaluation was undertaken, with LGUs praising the new approach as far more effectively matching their needs. Nevertheless, as noted, there remain gaps in the capacity-building outcomes as indicated by the small case study conducted by the evaluation team in Bohol, particularly in procurement and in the new area of asset management.

### **1.3.9 Political Approach and KALSADA**

Without a doubt, the introduction of a political orientation to the project was the most significant shift in approach, and the one with the greatest strategic impact on LGU road management. The 2012 evaluation strongly argued that achievement of PRMF program objectives would not be possible without a programmatic shift that incentivized political leaders to integrate PRMF program assistance into their own LRM solutions. Ultimately, the significant national budget allocation for LRM in 2016 under the KALSADA project is clear evidence of the potential impact of appropriate international catalytic interventions into a political decision-making process.

Taking a political approach here does not mean that the project team merely attempted to cajole politicians to back their ideas. The process of transforming PRMF into a 'policy experiment'<sup>42</sup> began with the introduction of the idea that provincial roads should be conceived of as depreciable assets. The Philippine Commission on Audit (COA) became interested in the idea and, in mid-2014, following the PRMF submission of a concept paper on modifying the way LRM should be funded for discussion. This caught the attention of the national Road Board, the Secretary of DILG, the Department of Budget and Management (DBM), the National Economic Development Authority (NEDA) and the League of Provinces of the Philippines (LPP). PRMF was agile enough to acquire the services of a highly respected NGO to facilitate a lengthy series of dialogues between provinces (both in and outside of PRMF) with the national government. Initially, the discussion was centred around the creation of a National Program for Local Road Management (NPLRM) that had been envisioned in the original FDD. However, it was important, and instructive, that PRMF did not attempt to put itself at the forefront of this dialogue by attempting to stay within the FDD vision, but relied upon the LPP to be the main advocate for enhanced resource allocations from the national government. As with all political decisions, a convenient synergy of factors facilitated agreement, including the failure of the national government to spend its budget and the impending Presidential election of 2016. Nevertheless, PRMF played an important

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<sup>42</sup> Rondinelli, Dennis A. Development Projects as Policy Experiments: An Adaptive Approach to Development Administration. 2<sup>nd</sup> edition, Routledge, 1993.

catalytic role in providing the technical introduction of depreciable asset management into LRM, providing objective analyses on the state of local roads, and documenting the inadequacy of own-source revenues to address the problem. The eventual result was a completely different package known as KALSADA, to be financed initially by a Php 6.5 billion fund for LRM in 2016, with the (still uncertain) possibility of extending this allocation in perpetuity.

It also needs to be stated that the success of the PRMF 2 team would not have been possible without having the efforts of the first phase to build upon. One of the strongest selling points for the national government was the perceived improved capacity of PRMF projects to handle LRM. As a result, the KALSADA national management team drew up a set of criteria to substantiate the capacity of a province to handle the additional funds with most of these coming from PRMF administrative and technical capacity building interventions, most of which were introduced in Phase 1. However, there is also conflicting data in the PRMF M&E findings that raise questions as to whether the core problem is lack of funds or lack of capacity to spend funds budgeted. The first year implementation of KALSADA may provide evidence that provide support to one of these two options.

However, the demands from DILG for a lengthy list of requirements for accession to KALSADA funds may be viewed by the provinces as inadequately thought through. The provinces suspect that DILG (OPDS) is not ready to implement KALSADA nationwide (and PRMF recommended that the original NPLRM be initiated in only ten provinces in 2016, building to a nationwide coverage by 2019), that the project has been rushed and that systems are not yet in place to properly coordinate the different processes. In fact, Bohol province opines that if it, a long-standing PRMF province, is having difficulties with the requirements, how much more difficult would it be for other non-PRMF provinces to cope? (This issue is taken up in section two on proposals for future support).

## **Section 2: Preliminary Concept Note for a follow-on Australian Government project in support of Local Road Management in the Philippines**

### **2.1 Introduction**

The Provincial Road Management Facility (PRMF) has completed its term, but there is no clear vision, nor apparent intention within DFAT to support a follow on support project. The following note is intended to provide some preliminary thoughts on how and why such a project should be designed and funded. In addition, a preliminary assistance activity is also outlined to indicate the critical interventions that should be taken up with the assistance of pre-existing projects currently being funded by the Australian Government. This note also could be useful should the development of infrastructure and governance be of interest to other donors or multi-lateral agencies.

This concept note outlines the issues and approaches proposed for continuing the successful Australian support to PRMF. The proposed project would be called the Local Road Management Support Facility (LRMSF). The LRMSF would have an expected life of 4 years with a budget of AUD14 million. The time and budget would be divided into a preliminary phase, implemented by existing Australian-supported projects and a full project phase, implemented as a Government-To-Government process. The purpose of LRMSF would be to expand the successful PRMF Phase 2 capacity building model to, potentially, all provinces in the country by engaging and building networks of technical assistance providers already existing in the Philippines. In so doing, the Facility would deepen the capacity of Philippine LGUs to undertake local road management practices in compliance with the expectations of the KALSADA LRM financing vehicle.

### **2.2 Key challenges and issues**

In 2012, Gilbert Llanto<sup>43</sup> articulated the importance of local road management to the economy of the nation. His key recommendations were to improve the procurement for local road management, create an efficient local road network and increase financial resources available for road maintenance. Also in 2012, ARRB study<sup>44</sup> identified the key constraint to effective LRM as insufficient financial resources to undertake both maintenance and rehabilitation at a level necessary to ensure the provincial road network is kept in economically viable condition. Analyses conducted during PRMF Phase 2 substantiated the basic contention of both of these studies, but also determined that generally, PLGUs can afford to maintain roads.

The Independent Program Review of PRMF Phase 1 conducted in 2012 strongly suggested that capacity building be shifted from a centrally determined set of modules to a more demand-driven approach. PRMF Phase 2 chose to follow this recommendation to good effect. Nevertheless, there remain critical LRM capacity gaps among the ten PRMF

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<sup>43</sup> Llanto, G. M. Investing in Local Roads for Economic Growth. Philippines Institute for Development Studies, 2011.

<sup>44</sup> ARRB Final Report - Technical review & whole of life cycle cost analysis of the Philippines Provincial Road Management Facility, 2012



provinces and many more provinces across the country have yet to address LRM in a systematic manner.

A major hurdle that faces many provinces is the lack of consultation by national agencies in road project implementation funded by different donors, which result in uncoordinated road network development and possible duplication of effort as well as a potential waste of time and money. At the time of the 2015 mid-term evaluation of PRMF Phase 2, Guimaras Province, a very small island with a scattered rural population, was the recipient of assistance from PRMF, CRID, PRDP, SLRF, DA and DPWH activities. Each one had a different rationale, strategy, implementation approach and funding criteria, but all were operating at the same time and using essentially the same set of personnel from the province. Currently, Negros Occidental's newly-formulated PRNDP (hurriedly done in compliance with KALSADA requirements) proposes the creation of a Provincial Road Management Committee to exercise more effective oversight and make sense out of the different roads-related projects currently being implemented.

The introduction of the national KALSADA local road management funding vehicle now provides an excellent opportunity for all donors to coalesce around a common approach, one driven by the need for a rational and coordinated road network management system rather than individual agency and donor prerogatives. The KALSADA program is getting off to a fast start, but there are a number of potential gaps in preparation and capacity that may hinder the full and effective utilization of the financial resources being made available to the provinces by the central government. The experience of implementing the KALSADA program in 2016 will provide substantial evidence for updating this concept note.

The current situation in two provinces (one PRMF and the other not) have been included here to provide a level of detail in the preparedness of provinces and possible stumbling blocks for implementation.

### **2.2.1 Negros Occidental Province (non-PRMF)**

Negros Occidental is one of the largest provinces in the Philippines. At present, the nationally managed road length is three times the length of provincially managed roads. However, in spite of the reduced road length of provincial roads, 55% are gravel surfaced with only 4% in good condition while 21% are in poor condition. In addition, the segments covered with asphalt are generally in bad condition.

The province has historically had difficulty in road management due to a lack of strategic planning and prioritization of road segments, as well as a lack of correlation between increased local revenues and funds allocated for road maintenance. For example, roads that get upgraded are done on the basis of selection by the Governor/PEO while maintenance prioritization and repairs are based on current conditions or political discretion. Also, while local revenues have increased on an annual basis, budgets for road maintenance have remained stagnant over the last three years. As a result, road-working equipment such as graders and dump trucks remain under-utilized or lent to LGU's free of charge, with the PEO continuing to assume the costs of repairs and maintenance.

Currently, in its attempts to gather the data required for accession to KALSADA funding, it was discovered that road assets with on-going road works are not included in the

Accountant's list until the projects are completed and paid for, while records for those segments that are included differ amongst the files of the PEO, PAccO (Provincial Accounts Office) and the Government Assets Management Office. The Provincial Accountant's current Registry of Public Infrastructure, for instance, still lists roads within the territorial jurisdiction of five cities (Escalante, Sagay, Cadiz, Bago and Kabankalan). Moreover, there is as yet no clear provincial policy for implementation of the LRAMS (Local Road Assets Management System) as mandated by COA Circular 2015-008 dated Nov. 23, 2015. The province currently uses the DILG SLRF road project selection criteria, which is composed of the following factors: physical condition 25%, economic benefit 30%, social benefit 25%, environmental impact 15%, and legal or right of way considerations 5%. The Department of Tourism (DOT), on the other hand, has its Tourism Road Infrastructure Program Prioritization Criteria (TRIPPC), the World Bank's PRDP follows the Value-Chain approach like CRID (Coordinating Roads and Investments for Development) which has other criteria (to precisely put some sense of order in the way road networks are planned and managed). The CRID, incidentally, is DFAT-funded, but has not always been open about its activities with the PRMF. The PRMF, on-the-other-hand, has shared much data and information with the CRID, and always has participated in CRID activities when requested.

The province now recognizes that an integrated road management structure is necessary and proposes the creation of a Provincial Road Management Committee (PRMC), "in order to have (a) clearer appreciation of road maintenance, project prioritization, funding and implementation". The PRMC is also envisioned to take the lead in officially adopting standard construction and contract management manuals to be used in design, procurement and project implementation. The current Negros Occidental Road Network Development Strategy is based on the Provincial Development Vision and the PRNDP's Priority Road Selection Strategy, which includes Core Road Network prioritization and a Road Asset Management Strategy. The approach for determining road and asset management strategy, however, only involves completing the inventory of roads and identifying the necessary funding for road improvement.

The province organized a Provincial Road Management Committee (PRMC), which will focus on where the PEO currently seeks to build its capability to manage Maintenance by Contract and by Administration involving both business and community partners. In particular, barangay involvement in basic maintenance, especially of drainage networks, is seen as a crucial aspect of strategic road network management.

There is a separate "special projects group" in charge of the DA-PRDP (Philippine Rural Development Program). The PPMIU (Provincial Project Management Implementing Unit) was created in August 2013 by Executive Order No. 13-013, which defined its composition, organizational structure and functions. The PPMIU operates as an autonomous unit – with its membership expanded by a second Executive Order in November 2014 - and is seemingly the most effective implementing arm of the PLGU. It is composed of personnel seconded from other departments plus Job Order personnel. The projects managed by the PPMIU consist of concrete paving and bridge construction, involving over 70 km of road surface and 310 lm of bridge construction worth over Php 1.2 billion.

The provincial M&E strategy is codified in EO 14-010, Series of 2014, creating the Provincial Project Monitoring Committee. This is based on the NEDA Regional Project M&E system that was approved by President Corazon Aquino. The PPMC is chaired by the PPDO and

includes the director of the Negros Economic Development Foundation, and the President of the Sugar Industry Foundation. The committee is mandated to monitor all provincial projects with regard to their costs and benefits. The committee oversees implementation and monitors from 15 offices and departments within the provincial government.

The first year commitment from KALSADA was not nearly what the province had expected. It had allocated Php 200 Million as counterpart financing in order to receive some Php 500 Million from KALSADA, but found that it had only been allocated Php 56 Million. Setting aside the issue of “performance shortfalls” on the part of the province that led to the lower-than-expected allocation, this indicates that provinces do have resources that can be set aside for road management if the incentive is right to stimulate that budget allocation. However, without this stimulus, the province assesses that the desired road quality cannot be achieved only with provincial resources, and so, anticipates receiving more KALSADA funding next year following a successful implementation of the allocation in 2016.

### **2.2.2 Bohol Province**

Bohol was one of the original PRMF provinces and has been diligent in adopting both administrative and road management improvement over the past six years. The provinces total road length is 6,000 km, but, in contrast with Negros Occidental, only 11% is covered by national management, 15% by provincial, 5% by municipal, 1% by city, and a full 68% is under barangay management, the weakest and least resource endowed level of administration in the country. The estimated asset value of total road network in Bohol is Php 6,700,000,000, with a currently estimated annual depreciation of Php 334 Million.

It would appear that barangays are quite active in creating new routes as the total road length is estimated to increase at a rate of 3% per year. This breakdown provides a good rationale for the need of a total local road system approach rather than concentrating on a single level. The option, similar to what Bukidnon has done with Maintenance by Administration, could be for the province to receive financial resources from the centre, and then reallocate these to municipalities for maintaining and upgrading barangay roads through a carefully monitored implementation mechanism.

Given that Bohol was in PRMF for six years, its preparedness for KALSADA accession is quite advanced. Its PRNDP has been completed, updated and is regularly monitored. Despite the effects of the October 2013 earthquake, all of its provincial roads are now maintainable. It has been able to increase its local collections by 252% since 2009, but although its road rehabilitation budget has increased 140% during the same period, its maintenance budget decreased by 30%, probably due to reconstruction efforts after the earthquake that damaged several roads and bridges, and is totally inadequate to maintain current roads. However, even with the significant increase in its rehabilitation budget it has a gap of Php 273 Million per year based on asset management calculations.

With regards to its administrative capacity, despite the years under PRMF tutelage, Bohol cannot point to any real improvement in its procurement systems since the start of PRMF. A major factor in generating this gap can be explained by the fiduciary risk minimization strategy of the PRMF design, which did not allow provinces to directly control the implementation of road maintenance or rehabilitation contracts, and the strong focus on compliance with procurement laws, rather than creating systemic transformation of

procurement processes that would discourage corrupt practices. This seriously limited the potential for the project to induce institutionalized change in procurement procedures, as there was no opportunity to put theory to practice. In contrast, the new internal audit system is functioning well and the IAO is serving as learning hub for other provinces.

In addition, Bohol has one of the highest percentages of filled plantilla positions in the country. It has also created its Provincial Road Investments Board (the CRID assisted with this) to lead reform efforts in the sector, established a multi-sectoral and multi-agency monitoring team to assess performance, and pioneered the province-wide implementation of the ETRACS.

### **2.3 Government of Philippines and financing context**

The KALSADA central government local road management financing vehicle has been funded for 2016 with PhP 6.5 Billion. Some PhP 6.0 Billion has been allocated to 66 provinces at varying levels (remaining provinces have yet to complete their requirements). Implementation of the program got started quickly to meet budget utilization requirements, but there are two key concerns. First, is the concern that the program funding will not be continued under a new administration following the Presidential election in May 2016 and, second, given the speed of start-up, necessary preparatory work has been severely limited, with many provinces, even those with six years of PRMF support, finding it difficult to complete all of the administrative requirements on time.

Key requirements for PLGU accession to KALSADA financing include the following: receipt of the Seal of Good Financial Management; passing the NBM (National Budget Memoranda 118 & 119) and Project Performance (% SLRF completion rate). Documents that must be produced and submitted include: PRNDP approved by PDC and adopted by the SP; completed road project list; completed Local Road Management Performance Assessment (LRMPA); detailed engineering designs for the requested road project funds; authentication that the required LGU share (depending on the class of province) has either been approved for the 2016 AIP or was included in a 2015 supplemental budget; a complete 'ROUTESHOOT' of roads has been uploaded in the Open Roads Portal of DBM; Public Financial Management Assessment report for FY 2014 complete; Accomplishment reports (physical and financial) of road maintenance completed as of 15 Dec 2015; completion of the Local Road Assets Management System (LRAMS), plus registry of all public infrastructure and a listing of all current construction projects in progress. The COA LRAMS (Circular 2015-008) detailing the original cost and depreciation schedule for all horizontal assets must be completed within four years, with at least 25% completed in 2016.

The KALSADA was launched nationally by the President on March 15, 2016. The ULAP has submitted an endorsement to the President for an Executive Order to continue KALSADA financing flow in perpetuity. It is hoped that this will be achieved prior to the end of this Presidential term.

### **2.4 Rationale for Australian Investment**

Australia funded the PRMF for six years starting in 2010. The implementation of PRMF has brought Australia to the realization that progress on improving the governance of road management at the local level is connected not only to building the capacity of local officials

on the technical aspects of planning, procurement and management of physical works contracts but is also linked to current limitations affecting development efforts in the Philippines, such as- financial resources limitations, the serious inability of the government to expend entire budgets, geographic variation, a slow economy, politics and imperfect social cohesion.

Significant learning took place during that time, with the project finally being capable of facilitating substantial change in the set of ten PLGUs that received direct assistance to design and maintain local roads, when sufficient funding is available. Critically, the Australian aid was vital in catalysing the creation of the KALSADA program, through the LPP, by illustrating what could be done with improved LGU capacity in local road management.

Australia recognizes the need to enhance the overall economy of the Philippines, and particularly, the equitable and inclusive nature of growth. Continuing to focus on improving the quality of local roads in a sustainable manner is an optimal approach to accomplishing this. However, even among the ten PRMF provinces, there are still many technical gaps in capacity, and it is likely that many other provinces will be in the same situation, thereby requiring sustained attention to facilitate the optimal utilization of the national financial resources being put into KALSADA. Ongoing assistance, however, should not include Australian spending on physical works; the focus must be on the systems and governance.

## 2.5 Governance and Implementing Partners

### 2.5.1 KALSADA Oversight Committee

The draft Executive Order proposes the creation of a Local Road Network Management Committee, which will perform the policy-setting, coordination and oversight functions.

**The Office of Project Development Services (OPDS) of the Department of Interior and Local Government (DILG)** would have the overall responsibility for the implementation of LRMSF. This would include assurance that provinces have complied with the accession requirements, oversight of networked TA provision, establishment of a Seal of Good Local Road Management as the overall rating system encompassing all of the separate tools and criteria, appraisal, approval and monitoring of provincial road proposals and facilitation of citizen engagement and gender access.

DILG has substantial experience with capacity assessment, measurement and ranking tools for LGUs. DILG has steadily expanded the number of tools to assess the performance and use of funds by LGUs. Their efforts have been tested several times when LGUs complained, but the DILG has not backed off and the result has been a steady improvement in the quality of administration and utilization of budget by LGUs over the past 25 years. The DILG would need, however, to improve its internal systems and management because it does have a reputation for tardiness and inefficiency.

**The Department of Budget and Management (DBM)** would be the owner of the KALSADA budget, ensuring that the utilization of the national resources have been appropriately allocated among qualifying provinces and tracking that the funds have been expended in line with utilization rate expectations. The budget allocation is incorporated into the Local

Government Support Fund (LGSF) under the 2016 General Appropriations Act (GAA). This fund is directly downloaded to recipient LGUs by the DBM upon completion of all requirements. An official notice addressed to Governors is jointly signed by the Secretaries of DBM and DILG.

**The Department of Public Works and Highways (DPWH)** would have technical oversight of the Physical Works quality assessment. This would provide an internal, but still third party, assessment of the technical quality of selected road segments to ensure that both provinces and DILG pay close attention to quality as well as utilization rates. The DPWH would use the Local Road Technical Guidelines as the basis for their assessment.

The **Philippine Road Board** would serve to provide continual assessment of quality RBIS use and upgrades and guide the allocation of technical assistances to provinces where it is most needed.

**The Commission on Audit (COA)** would have the oversight and capacity building for asset management and depreciation recording system, and auditing road asset management expenditure and results.

The National Economic Development Agency (**NEDA**) regional M&E system (created under EO 376 signed by President Corazon Aquino) involves the OP, DILG, DBM, concerned agencies, NGOs and the RDC. This is an important system to build upon. The Negros Occidental case example (above) illustrates its value and use by that province.

**National Anti-Poverty Commission (NAPC)** would be engaged in the oversight committee to assess whether continued national investment in LRM actually does have the potential to reduce poverty, particularly rural, across the nation.

The national **Chamber of Commerce and Industry** would be engaged to provide inputs on the utility of KALSADA investments for local economic development and to facilitate engagement for LGUs with investors from outside their territories. The PCCI and its local chambers were engaged in the implementation of the CfC/CRID (Coordinating Roads and Investments for Development) project, which precisely seeks to achieve “broader private sector engagement, sustained economic growth and inclusive development” by working with “provincial governments, national agencies and the private sector to introduce and sustain reforms in road and infrastructure investments”, which are determined through the use of Value Chain Analysis in identifying strategic road links (SRLs).

## **2.5.2 Facility Management Team**

The Australian-funded Facility should be overseen by an FMG, composed similarly as at present in PRMF Phase 2, but perhaps with the addition of seconded staff from other NGAs in addition to DILG<sup>45</sup>. The role of the FMG during the life of the Facility would be two-fold. First, to serve as a liaison between DFAT, GoP and the DFAT-funded projects tapped to carry out specific tasks to initiate work on the LRMSF to ensure the KALSADA vehicle is fully

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<sup>45</sup> The DILG had some difficulties in honouring all aspects of the seconding arrangements sought and agreed during PRMF Phase 2. The DFAT or other donor would need to be vigilant when entering into such arrangements, so that those involved are not unreasonably disadvantaged, or the Facility overall, is not affected negatively in achieving agreed objectives.



operationalized. The second task would be to prepare the draft design of the full project that would be created as a government-to-government mechanism, without requiring an FMC intermediary. The FMG would continue to provide the liaison function, ensuring that the G2G mechanism was implemented in full compliance with all applicable Australian Government rules and regulations.

During the preliminary phase (see Timeline below), DFAT would finance additional resources for two existing Australian funded projects, tentatively proposed here as: PAHRODF and CfC/CRID. The two projects would play discrete, and complementary roles during the preliminary phase and their involvement would be eliminated once the full project has been designed, approved and initiated. PAHRODF would focus on the creation and operationalization of the professional networks of technical service providers. CfC/CRID would focus on the assessment of KALSADA implementation progress and constraints, the review and upgrade of the LRMPAT incentive rating system and the 3rdparty monitoring and evaluation mechanism. Both would work with the FMG (in consultation with government and private stakeholders) on the design of the full project.

## 2.6 Program Design

The creation of the KALSADA funding vehicle has initiated a new business model for financing local road management. The LRMSF would support DILG to create an incentive mechanism that encourages LGUs to upgrade their skills associated with LRM. The focus would be on building problem-solving and accountability processes in LGUs as the natural way of improving local road management. This capacity would be important in a number of contexts including: improving delivery of road management services, improving provincial public financial management, promoting citizen and private sector involvement in public decisions particularly related to road management.

The incentive mechanism would be guided by the establishment of the DILG LRM Performance Appraisal Tool for LGUs, known as LRMPAT. This rating is based on specified criteria in 1) public financial management qualifications, 2) assessment of local road management performance, including local revenue allocation for LRM and 3) effectiveness of engagement of private sector and citizens in local road management decisions.

LRMSF will place its capacity development emphasis on working with existing government training facilities and consortia of private universities and professional organizations to build local government capacity. However, of potentially greater, and longer-lasting, value for sustained capacity development would be the encouragement, and partial financial assistance, of LGUs to learn from each other. This could involve, among others, basic cross visits, collaborative seminars, or establishment of professional groups of LGU technicians.

### 2.6.1 Development Outcomes

The development outcome of LRMSF will be:

*A business model for national support to Philippine local governments aimed at achieving sustainable local road management with strong citizen and local business participation is institutionalized across the country.*

The three outcomes of LRMSF would be:

1. *DILG/DBM effectively incentivize LGUs to plan, manage and maintain local road networks through a program for local road management;*
2. *LGUs have the institutional capacity and systems in place to qualify annually for continued KALSADA financing for local road management;*
3. *LGUs rehabilitate and maintain their local road network in a condition that meets targeted levels of service and connectivity, transparently and sustainably in partnership with the private sector and civil society.*

### **2.6.2 Program Structure**

This concept note emphasizes that technical capacity development will be done in a demand-driven manner in all three areas (PFM, LRM, citizen engagement). Although there would be no obligatory training/interventions, a set of facilitator organizations (independent from those that would provide the interventions) would be available to assist LGUs in identifying their weaknesses.

The following provides a brief overview of some of the possible interventions that could be undertaken by LRMSF:

#### *a. Public Finance Management*

Few provincial governments have transparent and accountable systems in place to track and manage their expenditures, or impose taxes and fees as required by the LGC. Support under this component could include the following:

- Continued support to provinces to implement ETRACS and to utilize increased revenues for road management
- Support to obtain PFMAT (from DBM) and APCPI (from GPPB) qualifications
- Establishment of Internal Audit Offices and building their capacity
- Transparent and accountable LRM procurement practices
- Accounting and depreciation of horizontal assets

#### *b. Local Road Management*

Developing an evidence-based decision-making and governing-for-results framework at the local level was one of the main objectives of PRMF. The programme will stress not only performance measurement (collection and reporting of data), but also performance management – the use of this data in decision and policy-making. Support under this component could include:

- Creation of a Provincial Road Management Board that will oversee the formulation and execution of a PRNDP linked to overall provincial planning strategy and employing the CRID approach



- Expansion, update and use of the RBIS.
- Creation of a mechanism to effectively track/manage the progress of all road rehabilitation and maintenance projects against plan and budget
- Design and monitor service improvement action plans to be carried out by the respective Province departments.
- Creation of mechanisms to engage citizens and private sector in road maintenance
- Upgrade PEO technical capacity in road design and implementation
- Support Municipalities to build their road maintenance capacity (e.g. Bukidnon?)
- Establish local monitoring and evaluation system for road management based on NEDA guidance

### *c. Engagement of citizens and private sector*

Based on the experience of PRMF, a focused approach in the work with local CSOs and CBOs remains necessary. In addition, the Australian support to CRID has established the basis for private sector engagement in prioritization of road management based on economic principles. Support that could be made available may include:

- Private sector involvement in the identification of infrastructure projects that will strengthen economic sectors/sub-sectors, which are economic drivers of the Province.
- Support to increase participation of civil society in procurement monitoring, as mandated by law.
- Support to the Provincial Council and respective Budget Committee to prepare public budget consultations following the annual budget cycle.
- Co-production of goods and services by engaging communities and private sector in performing tasks normally managed solely by government
- Developing a clear system of registering road management grievances.
- Youth civic engagement to monitor the quality of transportation service delivery including crowd-sourced road use experience

## **2.6.3 Implementation and Delivery Approach**

### *a. Timeline*

The Time frame for the initial project should be four years with a total budget of AUD 14 million, with some possibly sourced from multi-donor contributions.

### *b. Preliminary Phase*

The full LRMSF would be preceded by a preliminary phase, from July 2016 to June 2017. The budget for this preliminary phase will be AUD one million. The activities would focus on:

1. Design of the full project approach and management structure
2. Design of LRM rating/incentive mechanism
3. Creation of technical assistance networks and initiation of support
4. Conducting research on the implementation of the KALSADA local road financing policy

*c. Design of the full project approach and management structure*

The tasks for the FMG would be to facilitate dialogue among the key stakeholders in the national government and LGUs, together with private sector and civil society to collaboratively design the full details of the full project. Lessons learned during the preliminary phase would be critical inputs to this process. The two on-going projects, PAHRODF and CfC/CRID would provide technical inputs to this process.

*d. Assessment and possible improvements of LRMPAT rating/incentive mechanism*

The DILG would be supported by CfC/CRID to review and possibly upgrade the LRM Performance Appraisal Tool. This tool would be available for provincial, city and municipality levels to further deepen the understanding and acceptance of modern road management norms, to understand the systemic, multi-level, nature of local road networks and to incentivize LGUs to access relevant technical assistance in order to qualify for national financial resources, private sector loans or partnerships.

The effective use of LRMPAT as an incentivizing mechanism would be fundamental to a shift from technical to a systems style of programming by enabling partners to understand and improve their own systems if it contains a good mix of monetary and non-monetary incentives, by becoming the norm for the approval of continued road management budget allocations to LGUs. The LRMPAT, if tied to enhanced budget allocations, would serve as an incentive for LGUs to access TA providers that can help in boosting their overall rating.

*e. Creation of technical assistance networks and initiation of support*

The PAHRODF would assist DILG and its Local Government Academy (LGA) to establish a system of outsourcing technical capacity support to provinces by identifying Philippine academic institutes, professional organizations, NGOs and firms that could provide various aspects of the capacity development work in specific provinces. The work to be carried would consist of specific, and narrowly defined, interventions to support project management systems, skills training, procedural enhancement, and mentoring and facilitation packages to open collaborative relations with non-government actors in civil society and private sector. The interventions would be output focused and would require specified levels of local government contribution and approval.

Each province would be guided to submit a proposal to DILG for LRMSF technical expertise / training / training materials / development goods that are needed to achieve physical works and institutional reform and capacity development results necessary to improve LRM ratings.

The TA providers would operate as independent entities, but would be regulated in their charges and the general orientation of their support. The specifics of individual

course/intervention content would be determined by the need of the individual LGUs. All payments would be made by PAHRODF and verified by the FMG.

The program would also utilize an entrepreneurial approach by immediately engaging with interested LGUs to provide peer support on compliance requirements to their colleagues. The process would be structured to build upon small successes and to expand the range of support as provinces illustrate the interest to effectively utilize it.

#### *f. KALSADA Policy Implementation*

While carrying out the pilot process, DILG will continuously assess the issue of utility of the LRMSF capacity interventions. This will be necessary to devise a systems approach that will be able to become integral to a national approach to local road management under DILG direction.

Support may include:

- A national dialogue concerning the nature of governance of local road management. LRMSF would focus on the need to ensure that the national approach will be fully understood by all provinces and all their concerned offices.
- Engagement with the national offices, such as NEDA, DBM, DPWH, DILG, DA, DAR, DOT, DTI and NAPC on the role of local roads in improving accessibility and development needs of the poor.
- Undertaking a rapid appraisal of the progress and constraints experiences in KALSADA from a large sample of provinces covering all development regions of the country to provide feedback to the government on ways and means of improving KALSADA implementation beginning in 2017.

#### *g. Full Project Implementation*

The full project implementation would cover the period of July 2017 through June 2020 with a budget of AUD 13 million. The lessons that emerge from the preliminary assistance phase would be documented, and noted as lessons designed to improve implementation. In September 2016, CfC/CRID would assist DILG to orchestrate a series of regional workshops to explain the revised rules for KALSADA and the options for obtaining technical assistance on a demand-driven basis, with moderate cost-sharing.

All components of the preliminary phase would continue as the core of the full project. The nature of the project implementation approach would not change from that devised in the preliminary phase: Institutionalization of a national business plan to incentivize LGUs to improve the quality of their local road management programs, in close association with citizens and private sector.

#### **2.6.4 Monitoring and Evaluation**

The CfC/CRID would be supported to design and implement a 3<sup>rd</sup> party monitoring mechanism that would provide reliable data to the FMG and the KALSADA oversight committee made up of national government agencies.

### **2.6.5 Risk and Risk Management**

The operating environment will not pose significant risks as the parameters of the KALSADA program have already been established and the preponderance of the financial resources will be that of the national government. The Government of Australia will not be responsible for the quality of road contracting or physical works implementation.

Nevertheless, the FMG will establish a clearly communicated set of fiduciary safeguards that will ensure that the TA network provides assistance that is relevant, of high quality, timely and cost efficient.

LGUs will be allocated a set percentage of their KALSADA road fund for TA and will be required to provide a 10% local counterpart fund. These funds will not be allowed to be used for road management or for capacity building except within the areas specified in the project assistance packages and within the network of TA provides as approved rates for service.

### **2.6.6 Value for Money**

The entire program would be designed to be catalytic and follow an institutional development approach. The focus of all TA interventions would be to minimize individual training and optimize organizational team capacity exercises to ensure that sustainability would be ensured.

Financing of road maintenance and reconstruction would be entirely the responsibility of national government.

LGUs could be awarded incentives to access additional TA upon 3<sup>rd</sup> party verification of road maintenance achievements greater than the funded level.

## Section 3: Capacity Development

Foreign funded infrastructure programs are typically of three types: 1) strict infrastructure 'design and build'; 2) mixed physical works plus associated technical capacity training and third, programs that focus on providing policy, and 3) technical capacity support for government entities at many levels to enable them to conceptualize and manage the effective and efficient use of available funds for infrastructure development. This short note argues for the third approach as the most suitable in middle-income countries, such as the Philippines.

The second phase of PRMF undertook a valuable decision to shift from a pre-determined approach to Capacity Development (CD) in favour of one that is demand-driven. The distinction here should be clear. The Phase 1 approach required that all partner LGUs undertake the same set of CD interventions, whether the partner recognized the need or not. Partly this approach was mandated by the project design that allocated financial incentive payments to LGUs that achieved outputs resulting from specified CD interventions. During the first evaluation in 2012, it became clear that many LGU employees worked long hours at uncompensated overtime in order to produce the requisite documentation to show achievement of outputs in order that their LGU would qualify for the incentive funds.

The shift to a demand-driven approach, while remaining within the PRMF project parameters, facilitated a rapid expansion of both the nature and type of CD interventions. It is well advised that this approach be continued for any subsequent DFAT-supported program involving CD, whether associated with infrastructure management or other aspects of development or governance reform.

One of the most salient effects of a demand-driven approach is that it forces the donor and implementer to avoid attempting to achieve 'quick wins' that match some externally perceived value, but which invariably have little meaning for the local partner. Globally, this 'quick wins' approach has usually been followed by a succession of failures to achieve long-term goals. This failure is then ascribed to a lack of 'political will' by the partner's leadership, when, in fact, it is far more likely that the failure stemmed from a lack of understanding of the key incentives and motivations that drive human behaviour in that particular time and context.

Future CD initiatives supported by DFAT should use an organizational development approach to building capacities. Technical assistance has often overemphasized individual skills development as the key means to develop capacity within organizations, while the whole organization has rarely been the focus. As a result, one often encounters situations where trained individuals are often unable to use their new skills because of internal organizational constraints, or they realize they can make more money with their new skills if they go elsewhere, or they are replaced by others following an election.

The value of adding a political (larger organizational realm) element to the PRMF policy work was clearly brought out in the dialogues leading up to the creation of the KALSADA program. This was fundamentally a capacity development approach (through building awareness, understanding and acceptance) that achieved a specific, policy-informing outcome. The same approach can be applied whether the problem is infrastructure, social, financial or environmental management. Workshops provide a consensus approach to first understand

a problem and then to create organizational solutions based on locally existing capacities. Further technical support can then be more easily applied once the local teams have realized their actual need for additional assistance, rather than having it imposed upon them a priori.

A second critical element in future CD interventions would be to continually seek to facilitate simple, direct action, and to avoid creating overly elaborate systems. By using a workshop dialogue approach with key decision makers, influencers and program managers to identify problems and possible solutions, a project can help to focus the attention of the partners on what is doable, accomplish that, and proceed to build on the lessons learned and address new gaps that have been identified.

Direct action should be followed by support for the celebration of success at all levels. Far more than monetary incentives, the 'power of celebration' among peers can serve to deepen the willingness of partners to take on increasingly difficult tasks. This also helps partners to recognize that large problems are typically made up of smaller ones that have approachable solutions. As partners recognize their capacity to solve small problems, they deepen their understanding that technical assistance is merely a supportive intervention that can help them to solve their own problems. For example, in the case of Davao del Norte, the procurement assessment pointed to areas where they needed to improve, while in Aklan, the PFMAT also proved an essential look at weaknesses in revenue generation and the lack of correspondence between accounting and treasury records.

Using a common participatory approach to all CD interventions helps to create versatility in the use of methods that enhance cross-sectoral fertilization. Despite criticisms, overemphasizing process can be a virtue when addressing capacity gaps in LGUs. Processes that are shown to work in one area can easily be transferred within the organization when using methods with multi-sectoral compatibility, such as the widely popular Technologies of Participation that have been in wide use across many sectors in the Philippines since the mid-1990s. This sharing helps to institutionalize the process within organizations...and beyond.

When approaching CD from a demand-driven orientation, the strategy must be to encourage the identification of a diversity of possible solutions, including innovative ones, and the application of those that are most appropriate in terms of do-ability, effectiveness and sustainability. In all cases, a project should avoid restrictive solution application at all costs. The impediments introduced in PRMF by the requirement for gravel surfaced roads, in areas of high rainfall, or demanding the creation of a contracting approach to maintenance illustrate this point clearly. While operating as a unitary government, the Philippines is made up of a diverse set of landscapes, cultures and political environments. Focusing on measuring results and evaluating outcomes rather than prescribing methods is a tested means of facilitating innovation within the public sector. An unavoidable assumption, however, when making room for innovation is that mistakes can be made. When capacity building is driven by locally defined incentives, it is incumbent upon the end user to recognize when to correct/adjust/rectify in order to sustain the learning process.

Finally, a demand driven approach requires that the external agent encourage its partners to build alliances for sustained progress. However, this does not mean one must create project-owned networks, but rather to make the best use of the existing capacity in the

country, particularly through universities and technical/professional associations. The auditors, engineers, planners, IT specialists and others who work in each LGU need to be encouraged and facilitated to join or form peer support groups to help in identifying solutions to commonly-faced problems. Exchange visits among peers who have addressed common problems can be an excellent way to create the awareness in an LGU that they are not isolated and they do not need to reinvent solutions to every problem. It is highly possible that another LGU has faced a similar problem and has tested a solution approach that may be adapted to the conditions of other localities. This was particularly true with internal audit, with Bohol serving as a learning hub when Aklan and Lanao del Norte visited the province and learned a lot. Davao del Norte became quite adept at public finance practices and, in turn, served as an inspiration for Bohol. This approach has been well articulated in the CDRR system initiated in PRMF Phase 2.

Sustainable capacity development rarely stems from training that is designed and delivered solely by an international aid agency and its contracted implementing partners. The best that can be hoped for is that an external catalyst, such as, in the case of PRMF, the identification of the need for a Local Roads Asset Management System, accompanied by adequate national government intervention (fund support and CD) as a means of attaining sustainable Local Road Management (LRM), can stimulate the thinking and action of LGU's and individuals at many levels, resulting in a chain of solutions conceptualized, owned and implemented by critical partners at many levels of government and civil society.

# Annex C

## HR Recommendations for the DILG and PLGUs



## Discussion Paper

### **Strengthening of DILG to support KALSADA implementation**

#### **Introduction**

It is important to note that the views expressed within this Discussion Paper are those of an independent workforce planning consultant working primarily for the Provincial Roads Management Facility (PRMF). This paper was not commissioned by the Department of Interior and Local Government (DILG) but at the request of PRMF – in association with DILG's Special Local Roads Funding (SLRF) unit.

The views expressed are intended to provide an overview of the current situation and what type of approach could be implemented to enable DILG and its relevant units to effectively manage the anticipated major increase in funding opportunities in the road sector and the increased workload that will accompany this.

It is understood that DILG has several different areas of responsibility. This paper focuses only on the road sector.

#### **Background and Current Scenario**

The Special Local Roads Fund (SLRF) Unit currently oversees applications for funding for the SLRF program and BuB (Bottom up Budgeting) program, with approximately 950 funding requests in 2015 collectively. With increase in BuB and additional requests through KALSADA, applications across the three funding sources are likely to exceed 2400 in 2016.

The monetary value of these programs is currently about Php 1.4 Billion, but is expected to increase dramatically, particularly through the introduction of KALSADA, to nearly Php 13 Billion.

The process begins with the Local Government Units (LGUs), which prioritise projects and produce preliminary plans and costings. Upon receipt of notification from the DILG Office of Project Development Support (OPDS) via the DILG Regional Office, the Project List is forwarded to the Regional Office. The Regional Office collates the lists from all LGUs within the region and forwards to the SLRF Unit.

SLRF undertakes checks for eligibility and compliance, before forwarding to OPDS for approval. SLRF forwards its advice to OPDS, which in turn forwards its recommendations to the Road Board for decision on approval (SLRF funding only). If approved, the Roads Board advises the Department of Budget and Management, which then allocates funding.

This process takes between 1 and 3 months.

Many activities identified as roles of the DILG Regional Offices within this process are being undertaken by the SLRF Unit due to lack of capability at Regional level. This in turn reduces the effectiveness of SLRF to complete its core functions or to provide necessary support.

## Model for Consideration

The roads portfolio of the DILG requires considerable additional resources to maintain current services and to position itself for effective management of the anticipated increased funding, particularly through the implementation of KALSADA, which begins in 2016.

There are two broad approaches required to meet DILG's commitments to the road sector:

- Short-term strategies - that provide enough support to maintain existing roles and services and manage the anticipated increase in demand and workload.
- Long-term solutions – that establish sustainable staffing levels and resources to provide on-going service and support to stakeholders.

The overall rationale framing this paper is that specific skills need to be available where they are needed most, that is, design, construction, advisory and supervisory skills at Provincial and Regional levels; program management, policy and procedural skills within Central Units.

Given that the core customers of DILG are the Provinces and Local Government Units (LGUs) and that the core business outcome is to support improvement to road infrastructure, it seems logical that DILG needs capacity at this level. With this in mind, the second of the approaches i.e. long-term solutions, is discussed first.

## Long-Term Solutions

Building the capacity of DILG's Provincial and Regional Offices to enable effective management and monitoring of road projects is critical to the long-term sustainability of current and proposed funding and associated construction.

An exercise was conducted with PRMF professional staff to identify what roles are undertaken by engineering personnel at each level and what their key roles are likely to be. The results of this exercise is at Attachment A. Following is a summary of the professional staff's input:

At Provincial level there is a need for one roads engineer with expertise in Materials and QA/QC. See note below *A Flexible Workforce*. This person provides 'hands-on' advice and project monitoring to LGUs, and reporting of project progress to DILG Regional Offices. This role needs to be supported by administrative support and have regular access to a vehicle.

At Regional level it is suggested that a roads Engineering Team be in place within the Project Management Development Unit (PDMU). The Team of approximately six will undertake detailed review of project designs and costings from the LGUs and provide advice to DILG Central with regard to their accuracy. The team will have a role in supporting the Provincial engineer with advice and project supervision, as well as providing relief for absences or in cases of conflicting deadlines. Regional Offices will require administrative support and sufficient travel budget to enable effective support to Provincial Offices.

At Central Office level there will be little requirement for engineering expertise, but greater requirement for database and administrative personnel. The Unit/s will provide overall program management; undertake criteria assessments of funding applications; develop and

disseminate procedures for funding applications and approvals; and coordinate associated training for Provincial and Regional staff.

As mentioned previously, this approach is intended to place specific skills at specific locations within the workflow process, according to where it is most needed. A summary is provided below:

Location	Key Focus / Role	Expertise Required
Provinces	Oversight and reporting on construction; provision of advice to PLGUs	Engineer
Regional Offices (PDMU)	Detailed review of designs and costings; inspections of projects; support to Provincial Office	Engineers
Central	Overall funding oversight Policy and procedure development, monitoring and dissemination	Database and systems; administration and funds management

### A Flexible Workforce

It is understood that current road monitoring capacity at DILG Provincial and Regional offices varies considerably. Likewise the demand for DILG services will also vary.

During the workforce planning stage of any organisational review it will be necessary to consider the specific capacity and demand for services. It may be that permanent (road-specific) expertise is not required in each Province and that service can be provided on an "as required" basis.

The benefits of where staff are placed will need to consider both the cost and the manner in which service to Provinces is provided. The concept of a flexible, 'mobile' team at Regional level should be examined.

This mobile team could provide services when and where required, dependent on the specific works taking place within Provinces. This mobility will require adequate budget to cover travel and associated costs, but may prove cost-effective by negating the need for permanent officers in Provinces where there is insufficient activity to maintain permanent staff.

A further strategy for consideration is to empower Regional Offices to outsource monitoring and reporting roles where relevant. For example, where road building or maintenance is minimal, it may be a more cost-effective and time-effective to use locally-based expertise as required, rather than to send staff from a Regional Office for what may only require minimal time commitment.

### Short-Term Strategies

Short-term is intended to imply what it says: 'short'-term. Strategies discussed here are intended to guide DILG Central during the interim phase as the capacity building and resourcing of Provincial and Regional Offices is taking place i.e. during 2016.

The goal should be to have functional structures operating at Regional and Provincial levels by the start of 2017.

During 2016 Units such as SLRF and the Office of Project Development Services (OPDS) will continue to do everything that they are doing now, but with a significant increase in volume due to the implementation of KALSADA and possibly other funding sources. These Units will also continue to undertake several functions that should be undertaken at Regional and/or Provincial level.

It does not seem appropriate to undertake a major structural revision of SLRF/OPDS Units at this time. This should happen after the structures in Provinces and Regional Offices are in place and positions filled.

A proposed interim framework for the SLRF Unit is included as Attachment B. The intention of the framework is to assist the Unit in managing the anticipated increase in funding applications, while actively implementing functions associated with the capacity building of Regional Offices and Provincial Offices.

The number of positions included within the proposed framework is only a guide and will depend on the volume of work that arises from applications from new sources. It is understood that additional funding will be available for staffing levels via a percentage from the funding source allocations.

Key components of this framework are:

- Changing of the name and positions within *Technical Services* to *Evaluation Services* to reflect the administrative focus of assessing funding applications. Positions with *Evaluation Services* should be interchangeable i.e. able to move between Programs dependent on the volume of work.
- Separating the funding applications assessment process into three sections to align with the identified funding sources – KALSADA, BuB – LA, and SLRF. Each section will be headed by a Program Coordinator.
- Inclusion of a Document Controller position.
- Addition of a Capacity Implementation Team, which will drive the process of finalising organisational structures of Regional Offices and Provincial Offices; recruiting to the identified positions; and providing intensive training, orientation and induction to new staff.

A summary of proposed new positions within SLRF and an overview of their roles follows:

Position	Summary of Roles
Program Coordinator	<p>Coordinate the workflow of funding applications from LGUs for the particular Funding Program.</p> <p>Prepare and disseminate Assessment Services reports for the designated Program so that data collected can be used effectively to inform DILG management and improve the Unit/Department's service to stakeholders.</p>

Position	Summary of Roles
	<p>Provides specialist advice to colleagues and customers on the policies and procedures applicable to their Program responsibility.</p> <p>The three Program Coordinators will work together so that workload is evenly spread and service to the Unit's customers is prompt and reliable.</p>
Evaluation Officer	Undertake checks of LGU Project Lists to determine eligibility and compliance of projects submitted against the criteria of the particular funding program and prepare advice for authorising bodies.
Engineer - Monitoring	<p>Provide advice, support and relevant information to staff of the Regional Offices on road funding policies and procedures to enable them to provide timely service to LGUs.</p> <p>Guide Assessment Officers in determining the eligibility and compliance of roads projects within LGU Project Lists through the provision of advice and instruction as required.</p>
Document Controller	<p>The document controller is responsible for the referencing, storage and retrieval of all records associated with applications for road funding.</p> <p>Monitors the flow of documentation between the Unit and other departments to identify the progress of required action (e.g. authorisation, advice) in order to minimise delays in the processing of requests.</p>
Workforce Planning (Function)	<p>Determine appropriate organisational structures for Regional and Provincial Offices to maximise efficiency and output.</p> <p>Prepare Terms of Reference for positions and liaise with recruitment and DILG human resources to establish salary rates.</p>
Recruitment (Function)	<p>Coordinate the process of advertising and recruiting staff for the Regional and Provincial Offices.</p> <p>Liaise with Workforce Planning to establish personnel requirements, salaries.</p>
Orientation, induction and mentoring (Function)	<p>Provide initial induction and orientation to new staff, particularly in relation to the various funding programs and associated requirements.</p> <p>Provide on-going mentoring for new staff as required.</p>

## **Summary**

The above discussion provides only an option for DILG to consider. However, regardless of what direction the department chooses to take, the following points will be consistent:

- The need to have relevant expertise at the appropriate location i.e. where it is most effectively used and most needed.
- The importance of teamwork is critical. Multi-skilling and strategies to provide additional human resources as required, so that processes are not delayed when a team member is unavailable.
- The process to implement improvements must begin immediately. Prolonged delay will only result in bigger 'roadblocks', which ultimately will adversely affect the DILG (road units) core commitment to building and maintaining better, safer roads.
- Appropriate budget must be available at all levels of the organisation. Firstly to implement identified organisational change, secondly to provide the identified capacity, and finally, to maintain service levels.

It is hoped that this Discussion Paper is of value to DILG.

## **Provincial Engineering Office - Human Resource Requirements**

### **Executive Summary**

From 2016 the Government of the Philippines (GoP) will inject P6.5B annually into the provincial road networks.

The KALSADA program is a performance-based approach to funding for local road rehabilitation, with funding available to all provinces that meet its eligibility criteria. The criteria centres on effective planning, implementation and assets accountability throughout the local roads management process.

It is anticipated that most Provincial Local Government Units (PLGUs) will meet eligibility criteria by early 2016, with the remainder likely to follow by 2017. Based on this informed assumption, provinces can expect to see an inflow of approximately Php100Million annually (depending on their province rating and project readiness) to use for identified road rehabilitation projects.

The issue for many provinces will not be whether they meet the criteria to access funding (though this will be an issue for some), but whether they have the capability to maximize the benefits of the increased funding which, in theory, means greater volume of road rehabilitation works.

Base-line data suggests that many provinces lack organizational capacity at the delivery point – the Provincial Engineers Offices (PEOs).

This Discussion Paper examines the current scenario within Provinces, specifically the PEOs, with regard to workforce suitability and capability to, firstly, meet KALSADA eligibility criteria and obtain funding, and secondly, to be positioned to implement and complete the rehabilitation projects for which it is funded.

This Paper discusses a generalized approach to the review of PEO capacity and suggests strategies to implement improvement processes – strategies that are applicable to all provinces. However, it is important to note that all provinces are different and it is acknowledged that a “one size fits all” approach is not appropriate when it comes to re-aligning PEO organizational structures.

This Paper provides resources that are indicative only. It is the role of the PLGU to determine the specific requirements of their structure/s so that they reflect the social and environmental factors that are unique to their province.

The aim of this Discussion Paper is to provide a guide to the types of structures, and associated positions and expertise that PEOs will need to adopt to build and maintain the required human resources capacity to maximize the benefits of the introduction of KALSADA.

## **Introduction and Purpose**

Pending final Presidential approval, the Government of the Philippines (GoP) will launch its partnership funding program, KALSADA, with the Provinces, in 2016.

This Php6.5b trial year of performance-based funding for PLGUs on local road rehabilitation, will precede a long-term funding commitment, which is intended to be 'politically inert', with the emphasis being on asset values and depreciation as the major determinant of capital funding entitlements. KALSADA will provide capital works funding for road rehabilitation, with the pre-requisite road maintenance expenditure to be recorded as operational expenses. All road assets will be subject to depreciation schedules and periodic independent inventory reporting.

This is a different way of doing things for many Provinces and, as such, will require different strategies in order to benefit from the increased funding that will be available. It is also likely that there will be a significant increase in capital works activities – if Provinces have the capacity to take advantage of the budget increase.

It is important to note that initial research for this Discussion Paper, via direct interviews with PEOs and through anecdotal commentary, suggests that most Provinces believe that they are well positioned to access funding as soon as it is available and many already have project-ready designs for identified road rehabilitation activities.

This 'picture of readiness' is in contrast to evidence collected through feedback to the monitoring and evaluation process undertaken by the PRMF, with regard to its capacity building initiatives, and from baseline data that shows the difficulty that Provinces have had in effectively utilizing previous funding. Frequent reference is made for the need to review organizational structures of several Provincial Engineers Offices (PEOs).

In marrying these contrasting opinions, it would appear that each PLGU will be at a different stage of preparedness for the introduction of KALSADA.

This Discussion Paper considers that all Provinces will be different and will have varying degrees of need for capacity building and organizational review. As such there is no attempt to determine an 'ideal' model for PEOs, rather to identify key functions (particularly relating to the introduction of KALSADA) that will be common across all Provinces and the core skills, knowledge and experience required to carry out these functions.

While this paper targets the capacity needs of PEOs, it has also been necessary to consider the relative capacity of the PLGU Human Resource Divisions, as many of the requirements for change within (some) PEOs will be driven by their Human Resources Divisions.

Several resources are provided in this paper, which may be used by PLGUs/PEOs as a guide to any review of organizational needs, specifically in relation to new demands arising from the introduction of KALSADA. Resources include: a Checklist of expertise required; indicative organizational structures and accompanying sample Terms of Reference for positions within these structures. See Attachments.



## Background<sup>46</sup>

Base-line research conducted by the PRMF and completed in mid-2014 showed road expenditure histories in the 10 partner provinces in which it operated, had only ever funded 47% of the requirement for maintenance and 10% of the requirement for rehabilitation - less than 20% of the overall requirement for the assets being managed.

In the latter half of 2014, PRMF analysis of historic expenditure estimated that provincial roads lost Php11.1 Billion per year in accelerated depreciation due to inadequate capital funding. The KALSADA program, which grew out of this analysis, will help sustain and scale-up gains.

The road asset management approach will provide a way for PLGUs to value road assets. This will provide needed information for PLGUs in managing the assets and how depreciation impacts on value over time. The result will be increasing accountability and public knowledge of local road management and expenditure. This approach will provide incentive for PLGUs to maintain road assets better through improved routine and periodic maintenance and rehabilitation.

For Provinces to be eligible for KALSADA funding they must be able to meet the following criteria:

- A Provincial Road Network Development Plan (PRNDP) must be in place and up to date, clearly defining Core Roads and prioritizing rehabilitation projects.
- Provincial road maintenance expenditure must exceed the DILG benchmark for Core Roads and all past SLRF project accounts must be acquitted.
- Provinces must submit road rehabilitation project designs and budgets including the commitment for provincial co-funding.
- The Seal of Good Financial Housekeeping (SGFH) must be achieved and internal auditing of procurement must be ongoing.
- All provincial roads assets will be inventoried in the Roads and Bridges Information System (RBIS) with annual road condition inventory updates.
- All provincial road assets must be valued and depreciated on provincial balance sheets, in compliance with the new Commission on Audit (COA) Regulation on local road asset accounting practice.

Adherence to the KALSADA eligibility criteria and the emphasis on road asset management and inventory will impact on current practices within PLGU Units, particularly the Provincial Engineers Office (PEO). It will be necessary for some PLGUs to re-structure their PEOs.

The GoP Internal Revenue Allotment (IRA) to each province has historically dictated how many positions each Governor can fill. Consequently, PLGU departments often have bloated staff cadres with structures misaligned between departments and functional requirements;

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<sup>46</sup> Source: PRMF Sustainability Roadmap, October 31, 2015

hence PLGUs pay for unneeded personnel while being unable to fulfil their mandates with appropriately skilled staff. Due to Plantilla (permanency) staff caps, capacity gaps cannot always be filled using additional positions.

Low salaries for temporary positions for more technically competent, but less experienced staff, means they regularly move on. As skilled personnel develop additional capacity, the temptation is to migrate to the private sector.

## **The Case for Organizational Review of PEO Offices**

### **Staffing levels and skills**

In terms of organizational structures, each Province is different. There are many reasons for this, such as population, geography, size (and complexity) of the road networks, availability of revenue. This paper does not provide specific analysis of what is an ideal structure – one size does not fit all. Rather, the advice provided focuses on the essential components required in the workforce structures of Provincial Engineers Offices (PEOs).

It is acknowledged that many PEOs are fully functional and well prepared for increased opportunities through KALSADA.

In respect of PEOs, some of the components of an effective workforce include:

### **Having skills, knowledge and expertise where they are needed**

In many cases, the structures and staffing levels of PEOs have evolved over many years, but often the skills base and overall unit capability has not kept pace. This is due to several reasons:

- Permanently funded (plantilla) positions are prized and, as such, incumbents are understandably reluctant to relinquish these posts, even though they may no longer have appropriate skills for the position.
- High-achieving staff move on to other positions elsewhere and are either not replaced or replaced with temporary staff, often with lesser qualifications and experience.
- Salaries for appropriately skilled and experienced staff, particularly temporaries, are not competitive in the market and, as such, they move to the private sector or other government departments.

The result of the above is that, while PEO establishment figures may indicate full staffing or at least a sufficient level of staffing to meet its needs, the true picture is that many of the staff is not sufficiently skilled to actively contribute to the PEO's outputs.

### Strategies

Those Provinces that have identified weaknesses in their PEO's capacity should conduct a workforce review to identify the knowledge, skills and experience required for a fully functioning Unit; and compare this data to the currently available knowledge, skills and experience. See Page 6

## **Having sufficient numbers of skilled staff to achieve the work goals**

In many Provinces the pool of suitably qualified and skilled people is limited and competition from the private sector or better-paying government departments, means that Provinces may need to employ less skilled/experienced staff, often as temporary employees.

### Strategies

Undertake a salary review to identify benchmark salaries (government and private sector) for each position classification. This will enable the PLGU to identify appropriate salary rates to be able to attract – and retain – appropriately skilled and qualified personnel.

It is understood that PLGUs have budget restraints, however the increased funding generated for KALSADA projects allows for certain project preparation costs (including labour costs) to be included within the PLGU's co-contribution to the funding, which would offset increase. Likewise, an associated workforce review would likely identify positions that are outdated and no longer required by the Unit.

Undertake a workforce review to identify what skills and knowledge is available and how best to use this to the benefit of the unit. See Page 4-5.

Please note: While an overall review of the PEOs should be undertaken as a single exercise, it is not recommended to attempt to implement overall PEO re-structuring in one process. Rather an approach that identifies priorities (e.g. bottlenecks within the PEO processes) and addresses these progressively is viewed as a more realistic method, as it allows PEO functions to continue while improvements are implemented.

## **Flexibility in job roles**

In many cases Provinces do not have the pool of talent to enable specialization, nor, in most cases, is there the budget to allow for this. For example, in most Provinces many engineers will have dual roles between road and non-road infrastructure. This is not necessarily an issue as it provides variety for the employee while being cost-effective and a flexible use of resources for the PEO. However it does require effective workforce planning and recruitment practices.

### Strategies

Identify core skills and qualifications required for each position. Develop, where required, new positions that focus on all infrastructure rather than just roads or other.

## **Having 'back-up' for every position**

Even in cases where PEOs have a full complement of staff there is often not the depth of knowledge and expertise within the unit to be able to adequately fill the void when a position incumbent is absent for a significant length of time e.g. illness, secondment to another unit, recreation leave. This often leads to situations where the workflow stops and the associated project likewise stops.

### Strategies

No person/position is indispensable. A Workforce Planning Strategy needs to be adopted by the PLGU, which considers how unit capacity can be maintained. The strategy will formalize the organization's approach to succession planning through opportunities such as on going mentoring and coaching and 'acting' arrangements. See Page 6

### **Maintaining skills and knowledge to current standards**

Anecdotal evidence suggests that many staff currently holding positions within PEOs lack currency in terms of skills and knowledge.

### Strategies

As part of a broader workforce review, it is suggested that a training needs analysis be conducted to identify where there are skills gaps between the position holder and the requirements of the position, as identified in the Terms of Reference (Position Description) for the position. If possible the skills gaps will be addressed through targeted professional development, though if this is not possible alternative strategies may be required e.g. redeployment/redundancy, followed by recruitment of appropriately skilled and qualified personnel.

### **Outsourcing as an option**

PEOs need to consider the use of external providers as an option in addressing each of the above listed skills requirements. Outsourcing is a useful tool when in-house capability is not available, for instance, where the project component requires specialized skill and/or equipment; where the activity is infrequent and does not justify having permanent in-house capacity e.g. designs for bridge construction; or where staff capability is lacking e.g. during absence of a position-holder.

Under KALSADA provisions, the cost of outsourcing expertise can be included as contribution to the PLGU's co-funding requirement and, as such, remains a cost-effective alternative to in-house input.

Outsourcing will most likely be the easiest method in terms of accounting for PLGU co-funding under the proposed KALSADA audit guidelines.

### **The Role of the PLGU Human Resources Division in Workforce Review**

The Human Resources Management function of PLGUs is undertaken by a central HR division within each Province and as such has broad responsibilities beyond those of just the PEO. This paper does not specifically look at organizational structures of the PLGU Human Resources Divisions, but provides recommendations as to activities it should be incorporating within its overall responsibilities, which will benefit all units within its structure.

### **Workforce Planning Strategy**

Even in more developed countries the response to organizational re-structuring tends to be reactionary, rather than pro-active and few resources are generally allocated to genuine workforce "planning". It is unlikely that Provinces will have sufficient resources to dedicate a

position/s to planning for future needs, but there are several strategies that could be implemented that will assist in achieving workforce stability. For example:

Establishing a Professional Development Plan – Formal professional development plans should be developed for each PLGU division. In the case of the PEO the plan would need to identify the changing needs of the engineering sector and capture the overall knowledge and skills required by the Office.

A similar exercise was undertaken through Human Resource Management Development Plans, which were created in 2010. These plans may provide useful data for future professional development planning; provided that they remain current/relevant and that they target specific unit and individual needs, rather than more broadly-focused “soft” competencies.

Any professional development within the PEO should be specifically targeted to bolster its collective skills bank so that it can manage its operations now and into the near future – particularly as the implementation of KALSADA begins to impact.

For the PEO, the professional development planning process will require close examination of individual position requirements and the specific skills and knowledge required to undertake the position’s roles and responsibilities effectively. The identified expertise is then aligned to those currently held by the incumbent. The gap in expertise then becomes the target for training and is noted accordingly in the PEO’s and the individual’s professional development plan.

This process would be managed by the Human Resources Division, though the Provincial Engineer will have ownership of the findings and responsibility for identifying solutions e.g. formal training or workshops, mentoring and/or coaching, short-term secondment.

The Human Resources Division will collate data from the respective divisions. Assuming the professional development data is consistently collected and analysed, then the Human Resources Division will be able to identify where the required skills of one division may be available in another division. This approach can provide a cost-effective (and targeted) approach to upskilling, through a coaching or mentoring arrangement, or even through transfer of staff within the PLGU, to a position more suited to their expertise and/or more valuable to the organization as a whole.

Performance Appraisal Scheme – Accompanying a professional development plan should be a tool for formally assessing an employee’s progress. As well as rating an employee’s general work performance (e.g. outputs, attendance, teamwork) it should also be used, as a measure of an employee’s professional development against previously identified development needs).

It is suggested that PLGUs review the suitability of the Civil Service Commission’s Strategic Performance Management System (SPMS), which could provide PLGUs with a formal (and consistent) basis for measuring individual staff performance against their position role and the success or otherwise of targeted professional development in developing their expertise.

## **Rationalization Plan**

PLGUs must have a formal Change Management Plan (more commonly referred to in the Philippines as a Rationalization Plan) that clearly states how it will manage any workforce review process.

Many GoP Departments have such plans, for example the DPWH.

In many westernised countries the aim of workforce reviews tends to be in streamlining the workforce to create leaner organization structures and minimize expenditure on personnel. It is important to note that this Discussion Paper does not support this approach in the current Philippine economic and social environment.

Employment is critical in contributing to overall foreign aid goals of reducing poverty and improving living standards. As such, this paper errs on the side of over-staffing, rather than what would be considered 'optimum' levels in more developed countries.

However, it remains that, to be effective, PEOs must have the right people in the right positions.

It is likely that any serious review of PEO workforce requirements will identify staff who simply do not have the required expertise to be positioned within the PEO or that some positions are unnecessary to the role of the PEO. These people/positions need to be replaced.

A Rationalization Plan must consider options for excess staff, including:

- Redeployment – where an employee is transferred to another division within the PLGU, to another government entity or to the private sector
- Re-training – up-skilling to provide the staff member with new or updated skills that can be used elsewhere in the organisation
- Redundancy – as a last resort, employees may need to be paid out. In such cases it may be necessary to provide additional support/guidance e.g. career planning and advice, referral to support agencies.

## **Recruitment Strategy**

Filling positions is easy. Filling positions with the right person is not so easy.

As previously mentioned, many Provinces operate in areas where there is a limited pool of appropriately qualified and skilled people. Employers offering the best incentives package will generally have first choice in selecting personnel. Incentives include:

- Competitive salary – salaries that equivalent to those offered by other employers in the same industry
- Opportunities for advancement – a career pathway through the organization
- Additional benefits in working with the PLGU e.g. lifestyle/cost of living; accommodation allowances.

PLGUs should also consider the employment of trainees. Trainees are generally younger people who are currently studying or have recently completed their studies and are seeking entry to the workforce. As entry level employees, trainees salaries are generally lower but can provide valuable support to the workforce.

Salaries offered by PLGUs are often below those of government departments and the private sector. This alone is a significant inhibitor to attracting suitable personnel. It is recommended that PLGUs undertake a salaries review as a means of ensuring competitiveness in the market.

A Salaries Review should establish a benchmark of salary rates and parameters for each classification of staff, by reviewing equivalent PLGU salaries to those of other government entities and the private sector.

It is understood that funding for KALSADA requires co-contribution, which can include salaries for contribution to KALSADA projects. This approach will allow some flexibility for PLGUs to raise salary levels to market levels.

The capture of salaries in the KALSADA co-funding, will however, require an auditable job numbering and timesheet reconciliation process to be in place.

**ATTACHMENT A****Local Roads Management – PEO Requirements - CHECKLIST**

Function	Essential Within PEO	Preferred Within PEO	Function could be outsourced	Key Roles	Indicative Positions (PEO Personnel) *see associated TOR	PLGU/PEO Expertise Yes/No
Road Network Planning	✓			PRNDP, holistic planning; GIS; assets management and inventory, RBIS; collection and analysis of data; reporting; prioritizing works	Planning & Design Engineer*  Spatial Systems Specialist*	
		✓	✓	Prepare initial plans and costings for PRNDP and budgeting purposes This step may be eliminated if DEDs are prepared in advance and used for planning purposes	Road Assets Technician*  Environmental Specialist	
			✓	Environmental/Safety inputs could be outsourced		
Community / Stakeholder / Government Liaison	✓			Consultation and feedback, right of passage, government liaison re policy, standards updates, BAC rep	Liaison Officer (legal)*  Provincial Engineer*	
			✓	Some liaison may be outsourced dependent on frequency of specific consultation e.g. through PLGU Communications Officer	Planning & Design Engineer  Environmental Specialist	
			✓	Environmental/Safety inputs could be outsourced		
Detailed	✓			Full surveys, specifications and	Planning & Design	



Function	Essential Within PEO	Preferred Within PEO	Function could be outsourced	Key Roles	Indicative Positions (PEO Personnel) *see associated TOR	PLGU/PEO Expertise Yes/No
Engineering Designs (DED)			✓	costings. CAD, Civil3D  Specialized one-off works e.g. bridge design may be outsourced	Engineer  Drafting  Spatial Systems Specialist  Geodetic/Geometric/Survey Engineer	
Procurement	✓  ✓		✓	Documentation for bids, Requests for Quotations, monitoring, records management; RA9184, GPPB  BAC (PEO representatives + external members)	Procurement Specialist*  Contracts Officer*  Budget Officer  Planning & Design Engineer  Liaison Officer	
Contract Management	✓			Preparation and monitoring of contracts, specifications and contractor compliance, progress payment advice	Contract Management Spec*  Construction Engineer*  QA/QC Engineer*	
Works Supervision	✓			Contractor standards and compliance with contract (MBC); Supervision of	Construction Engineer	

Function	Essential Within PEO	Preferred Within PEO	Function could be outsourced	Key Roles	Indicative Positions (PEO Personnel) *see associated TOR	PLGU/PEO Expertise Yes/No
		✓	✓	works (MBA)  Materials Testing maybe outsourced - dependent on volume of projects and accreditation requirements	QA/QC Engineer  Material Engineer*  Lab Technician	
Quality Assurance / Quality Control	✓	✓	✓	QA policies and procedures, monitoring of overall process from design to completion  Materials testing may (need to) be outsourced. Accredited personnel and facilities are required	QA/QC Engineer  Civil Engineer (with accreditation) if undertaking materials testing	
Project Completion	✓			Coordination of PEO inputs and assessment, Issuance of Certificate of Completion	Provincial Engineer DED Team	
Inventory Update		✓		Update of road inventory system, data maintenance and reporting	Road Assets Technician	
Whole of Project	✓  ✓  ✓			Document control, records management  Policy review and updates  Internal Audit (PLGU Central Office)	Document Controller*  Provincial Engineer Liaison Officer	
Human Resources Management	✓			Workforce planning; rationalization plan; recruitment; performance	Human Resources Manager	

Function	Essential Within PEO	Preferred Within PEO	Function could be outsourced	Key Roles	Indicative Positions (PEO Personnel) *see associated TOR	PLGU/PEO Expertise Yes/No
		✓	✓	appraisal; professional development plan; salaries review  Workforce planning may outsourced for one-off approach	Workforce Planning Spec*	
Finance	✓			Budget management and reporting; assets accounting (policies, procedures and rules)	Finance Manager	
Information Systems & Technology	✓			RBIS; ETRACS; Spatial Systems; user training	Systems & Tech Officer*	
Management	✓			Funding applications; revenue collection; community consultation; communications	Provincial Management  Provincial Engineer  Communications Officer (PIO)*	

# ATTACHMENTS

## **Attachment A** - Checklist

## **Attachment B** - Indicative Overview Org Charts

PEO – Functions Overview (B1)

PEO – Indicative Structure (B2)

## **Attachment C** - Indicative Terms of Reference (Position Descriptions)

- Communications Officer (PIO)
- Construction Engineer
- Contracts Management Specialist
- Contracts Officer
- Document Controller
- Liaison Officer (Legal)
- Materials Engineer
- Planning & Design Engineer
- Provincial Engineer
- Procurement Specialist
- Procurement Officer
- QA/QC Engineer
- Road Assets Technician
- Spatial Systems Specialist
- Workforce Planning Specification

# Annex D

## **M&E Findings and Provincial Summary Sheets**

(Extracted from PRMF 5<sup>th</sup> M&E Report, December 31, 2015)

## 1. Agusan del Sur

### Overview

During the life of the PRMF, due to significant investments in rehabilitation, Agusan del Sur saw its maintainable core road network increase by 193% to 387 km, which is 95% of its core road network. Its current maintenance budget falls short of the low threshold of Php 100,000 per km, but its maintenance budget has been increasing every year, so there is reason to hope that it will achieve budget adequacy in the near future. Maintenance budget expenditures have followed maintenance budgets closely, so budgeting and execution seems to be going well in this area. While rehabilitation budgets have risen over the course of the PRMF, rehabilitation expenditures have been volatile, suggesting perhaps the need to better build in funding for unexpected impairments due to natural disaster or misuse. Finally, Agusan del Sur's RPT collection has been increasing every year through 2015 as well, rising 106% over 2009, so own-revenue sources of funding are growing, promising sustainability.

**Table 1: PRMF Investment – Agusan del Sur**

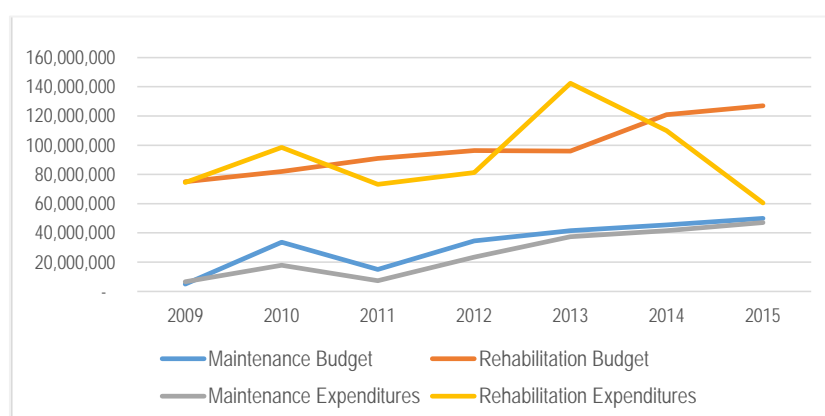
Category	Phase 1	Phase 2	Cumulative
PRMF Rehabilitation Road Length (km)	19.3	10.2	29.5
PRMF Maintenance Road Length (km)	26.4	9.0	35.4
PRMF Rehabilitation Cost (Php)	116,345,103	19,124,369	135,469,472
PRMF Maintenance Cost (Php)	6,258,274	3,405,019	9,663,294

**Table 2: Current Road Network and Maintenance Budget – Agusan del Sur**

Category	Value
Total Road Network (km)	631
Core Road Network (km)	408
Core Road Network in Maintainable Condition (km)	387
2015 Maintenance Budget per Km (Php)	79,239

**Table 3: Trends in Road Sector Financial Management – Agusan del Sur**

Category	2009	2010	2011	2012	2013	2014	2015	Trends
Real Property Tax	21,149,071	24,175,986	33,402,574	28,027,487	39,806,445	37,880,079	43,554,151	
PRNDP Maintenance Budget	5,000,000	33,585,293	15,000,000	35,000,000	41,000,000	51,000,000	50,000,000	
PRNDP Rehabilitation Budget	75,000,000	82,000,000	91,000,000	96,355,000	96,000,000	120,854,000	124,000,000	
Maintenance Budget	5,000,000	33,585,293	15,000,000	34,500,000	41,500,000	45,500,000	50,000,000	
Rehabilitation Budget	75,000,000	82,000,000	91,000,000	96,355,000	96,000,000	120,854,000	127,045,092	
Maintenance Expenditures	6,525,265	17,900,011	7,283,602	23,396,990	37,465,841	41,472,239	47,142,224	
Rehabilitation Expenditures	74,498,065	98,450,679	73,271,336	81,329,952	142,313,399	109,917,493	60,463,927	

**Figure 1: Budgets vs. Expenditures – Agusan del Sur**

## 2. Aklan

### Overview

During the course of the PRMF, Aklan successfully brought 100% of its core road network into maintainable condition. While Aklan has increased its maintenance budget significantly since the beginning of the PRMF (by 42% since 2013), the budget is currently inadequate to fund its total road network, although it would be adequate to fund its core road network. Its RPT has risen 97% since 2009 to Php 155 million in 2015, providing more than adequate budgetary resources for both maintenance and rehabilitation. Aklan has sharply increased its rehabilitation budget, up from Php 14 Million in 2013 to Php 78 Million in 2015. In terms of its expenditures, its maintenance spending follows its budget quite closely, but there has been a growing gap between its rehabilitation budget and expenditures, suggesting that there have been absorptive capacity issues as its budget has grown that have caused budget execution to suffer.

**Table 4: PRMF Investment – Aklan**

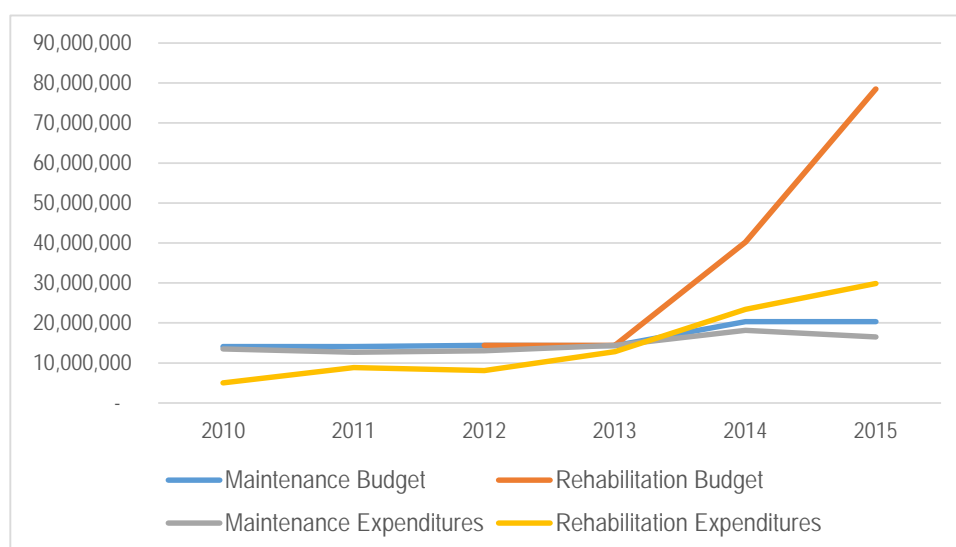
Category	Phase 1	Phase 2	Cumulative
PRMF Rehabilitation Road Length (km)	-	31.4	31.4
PRMF Maintenance Road Length (km)	-	27.9	27.9
PRMF Rehabilitation Cost (Php)	-	42,099,854	42,099,854
PRMF Maintenance Cost (Php)	-	11,357,673	11,357,673

**Table 5: Current Road Network and Maintenance Budget – Aklan**

Category	Value
Total Road Network (km)	285
Core Road Network (km)	184
Core Road Network in Maintainable Condition (km)	184
2015 Maintenance Budget per Km (Php)	71,447

**Table 6: Trends in Road Sector Financial Management– Aklan**

Category	2009	2010	2011	2012	2013	2014	2015	Trends
Real Property Tax	78,704,049	131,512,341	168,509,982	160,324,916	164,558,066	103,638,343	154,826,798	
PRNDP Maintenance Budget	No Data	N/A	N/A	14,406,505	14,314,759	20,362,345	20,362,998	
PRNDP Rehabilitation Budget	No Data	N/A	N/A	4,800,000	25,869,429	39,700,000	61,000,000	
Maintenance Budget	16,000,000	14,136,505	14,136,505	14,406,505	14,314,759	20,362,345	20,362,398	
Rehabilitation Budget	No Data	No Data	No Data	14,406,505	14,384,951	40,204,545	78,497,678	
Maintenance Expenditures	No Data	13,511,037	12,683,405	13,021,719	14,384,951	18,135,708	16,505,725	
Rehabilitation Expenditures	No Data	5,000,000	8,823,011	8,120,000	12,850,000	23,400,000	29,905,473	

**Figure 2: Budgets vs. Expenditures – Aklan**

### 3. Bohol

#### Overview

Over the course of the PRMF, Bohol successfully brought 100% (up from 84%) of its core road network into maintainable condition, an achievement even more remarkable when the 2013 earthquake is taken into account. Bohol has successfully increased its RPT by 258% from Php 23 Million to Php 82 Million, providing ample budget resources. Its maintenance budget declined by 28% over the course of the program and is inadequate both for its total and core road networks. In contrast, its rehabilitation budget has risen dramatically by 140% from Php 94 Million in 2009 to Php 226 Million in 2015. While these dual trends would be normally a concern, given the 2013 earthquake, there is probably good reason why Bohol shifted budget resources from maintenance to rehabilitation. Maintenance expenditures are roughly in line with its budgets while rehabilitation expenditures tend to be quite below the budget each year, suggesting budget execution issues that need to be addressed. (The significant divergence in 2015 is overstated since the expenditure data is currently only through September 2015).



**Table 7: PRMF Investment – Bohol**

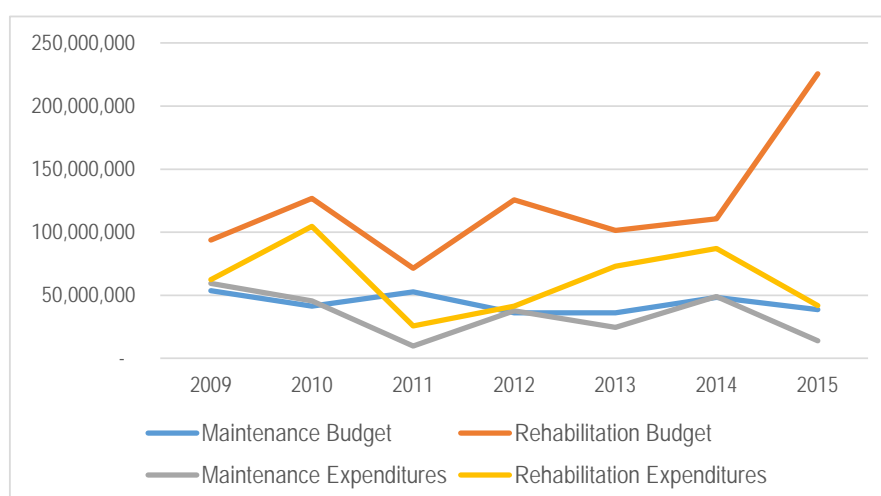
Category	Phase 1	Phase 2	Cumulative
PRMF Rehabilitation Road Length (km)	25.6	120.3	145.9
PRMF Maintenance Road Length (km)	48.2	-	48.2
PRMF Rehabilitation Cost (Php)	115,799,896	240,950,589	356,750,485
PRMF Maintenance Cost (Php)	4,726,378	-	4,726,378

**Table 8: Current Road Network and Maintenance Budget – Bohol**

Category	Value
Total Road Network (km)	834
Core Road Network (km)	565
Core Road Network in Maintainable Condition (km)	565
2015 Maintenance Budget per Km (Php)	46,394

**Table 9: Trends in Road Sector Financial Management – Bohol**

Category	2009	2010	2011	2012	2013	2014	2015	Trends
Real Property Tax	22,789,181	28,096,741	26,709,233	30,989,490	32,249,960	32,896,601	81,592,542	
PRNDP Maintenance Budget	N/A	-	37,760,000	38,900,000	48,560,000	40,000,000	47,700,000	
PRNDP Rehabilitation Budget	N/A	192,570,000	71,450,000	113,210,000	78,880,000	15,400,000	11,990,000	
Maintenance Budget	53,724,794	41,410,714	52,755,000	36,000,000	36,056,405	48,338,000	38,692,358	
Rehabilitation Budget	93,848,532	126,818,000	71,500,000	125,670,828	101,363,125	110,700,000	225,500,000	
Maintenance Expenditures	59,376,682	45,539,164	9,709,963	37,836,321	24,628,202	49,103,789	13,924,385	
Rehabilitation Expenditures	62,481,372	104,688,820	25,700,047	41,438,234	73,076,513	87,083,183	41,965,945	

**Figure 3: Budgets vs. Expenditures – Bohol**

## 4. Bukidnon

### Overview

Over the course of the PRMF, Bukidnon increased its maintainable core road network from 41% to 54%. Bukidnon has successfully increased its RPT by 21% from Php 52 Million to Php 63 Million, providing more than sufficient budget resources to cover maintenance for its core road network, although it would still be quite short to do the same for its total road network. It has increased its maintenance budget by 81% since 2009 and has the distinction of being the only province to have a maintenance budget adequate to cover its total road network, which means it far exceeds what would be needed to cover just its core road network. In fact, it could be argued that Bukidnon is one of the few cases where it probably needs to shift some funding from maintenance to rehabilitation so that it can increase the size of its maintainable road network. Its rehabilitation budget is significantly lower than its maintenance budget and is at a level that suggests it's not keeping up with the kinds of capital works investments required to offset depreciation over time. Apart from a spike in 2012 and 2013 and no funding in 2014, the rehabilitation budget has remained flat. Maintenance expenditures have largely tracked with budgets except in 2013 and 2015 where there was significant underspending. Rehabilitation expenditures have also tracked with budgets for the years we have data (2009-12).

**Table 10: PRMF Investment – Bukidnon**

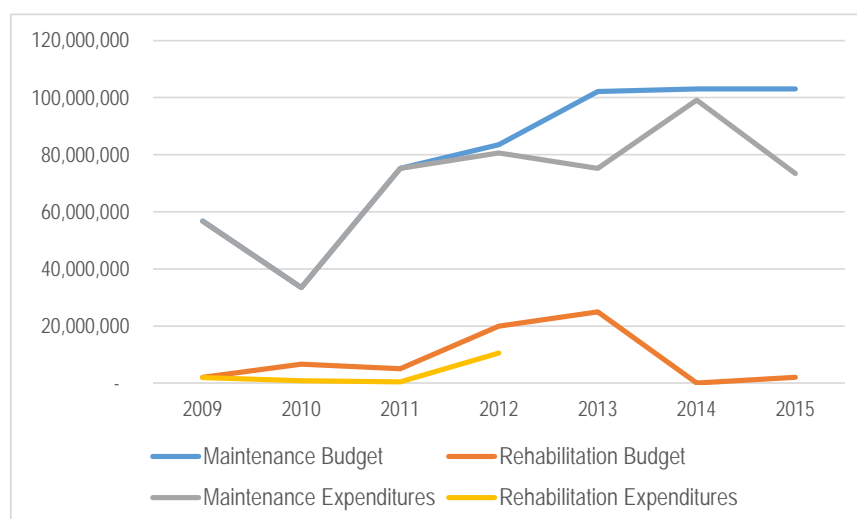
Category	Phase 1	Phase 2	Cumulative
PRMF Rehabilitation Road Length (km)	4.8	11.1	15.9
PRMF Maintenance Road Length (km)	-	-	0
PRMF Rehabilitation Cost (Php)	37,469,575	21,442,972	58,912,547
PRMF Maintenance Cost (Php)	-	-	-

**Table 11: Current Road Network and Maintenance Budget – Bukidnon**

Category	Value
Total Road Network (km)	852
Core Road Network (km)	283
Core Road Network in Maintainable Condition (km)	151
2015 Maintenance Budget per Km (Php)	120,892

**Table 12: Trends in Road Sector Financial Management – Bukidnon**

Category	2009	2010	2011	2012	2013	2014	2015	Trends
Real Property Tax	51,960,422	70,299,755	72,041,603	64,572,204	60,449,175	30,964,952	62,927,370	
PRNDP Maintenance Budget	N/A	67,425,000	70,480,000	74,812,000	81,663,000	88,346,000	94,612,000	
PRNDP Rehabilitation Budget	-	53,603,000	37,958,000	85,377,000	89,989,000	6,949,600	27,000,000	
Maintenance Budget	56,797,730	33,439,436	75,225,000	83,562,496	102,120,000	103,000,000	103,000,000	
Rehabilitation Budget	2,000,000	6,662,015	5,078,387	20,000,000	25,000,000	-	2,000,000	
Maintenance Expenditures	56,723,417	33,439,436	75,225,000	80,620,996	75,214,898	99,128,458	73,369,231	
Rehabilitation Expenditures	1,897,624	814,021	483,994	10,537,889	No Data	No Data	No Data	

**Figure 4: Budgets vs. Expenditures – Bukidnon**

## 5. Davao del Norte

### Overview

Over the course of the PRMF, Davao del Norte successfully brought 100% (up from 88%) of its core road network into maintainable condition. Davao del Norte has successfully increased its RPT by 58% from Php 33 Million to Php 53 Million, providing more than sufficient budget resources to cover maintenance for its core road network, although it would be quite short to do the same for its total road network. Its maintenance budget stayed virtually the same over the course of the program and is inadequate for its total road network but is more than sufficient for its core road network. Its maintenance budget is significantly higher than its rehabilitation budget, which may indicate an appropriate prioritization of maintenance. Its rehabilitation budget has risen dramatically by 160% from Php 8 Million in 2010 to Php 20 Million in 2015, although since 2013, when the PRMF was launched in Davao del Norte there has been no change. Maintenance expenditures are roughly in line with its budgets, although in 2015 there was under-spending. In the past two years, while rehabilitation budgets have increased sharply, rehabilitation expenditures have fallen slightly. While there could be some time lag on larger projects, this suggests possible issues with absorptive capacity that are leading to budget execution problems.

**Table 13: PRMF Investment – Davao del Norte**

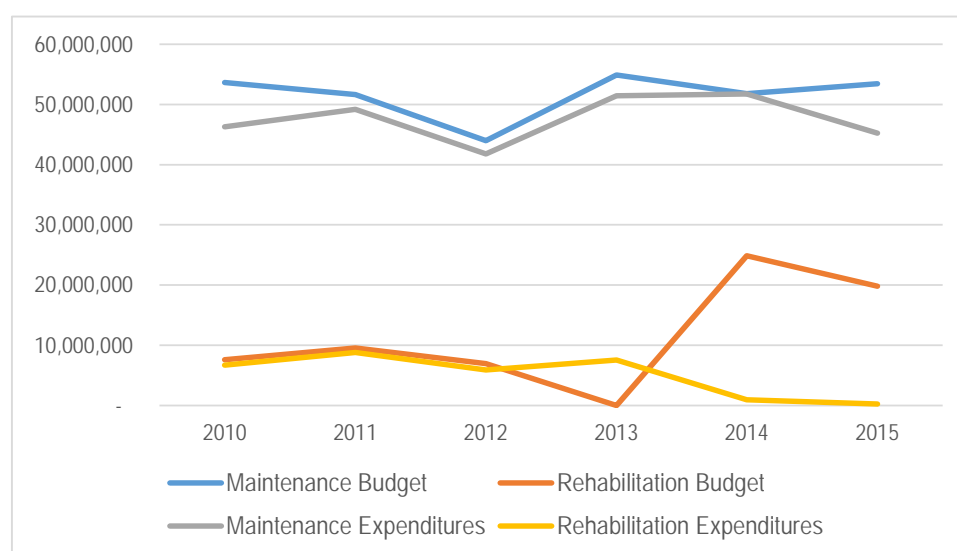
Category	Phase 1	Phase 2	Cumulative
PRMF Rehabilitation Road Length (km)	-	26.2	26.2
PRMF Maintenance Road Length (km)	-	33.7	33.7
PRMF Rehabilitation Cost (Php)	-	50,832,979	50,832,979
PRMF Maintenance Cost (Php)	-	9,197,827	9,197,827

**Table 14: Current Road Network and Maintenance Budget – Davao del Norte**

Category	Value
Total Road Network (km)	881
Core Road Network (km)	216
Core Road Network in Maintainable Condition (km)	216
2015 Maintenance Budget per Km (Php)	60,690

**Table 15: Trends in Road Sector Financial Management – Davao del Norte**

Category	2009	2010	2011	2012	2013	2014	2015	Trends
Real Property Tax	33,484,725	37,530,646	40,672,812	39,356,380	44,188,152	55,200,538	52,920,353	
PRNDP Maintenance Budget	No Data	N/A	N/A	N/A	N/A	64,367,327	65,188,260	
PRNDP Rehabilitation Budget	No Data	N/A	N/A	N/A	N/A	88,663,680	276,445,648	
Maintenance Budget	No Data	53,646,750	51,644,463	44,003,738	54,899,467	51,793,464	53,468,000	
Rehabilitation Budget	No Data	7,611,853	9,574,199	6,930,000	19,539,538.00	24,890,168	19,800,000	
Maintenance Expenditures	No Data	46,307,949	49,188,887	41,806,164	51,444,716	51,727,873	45,238,217	
Rehabilitation Expenditures	No Data	6,711,643	8,813,687	5,873,428	7,547,706	944,154	247,172	

**Figure 5: Budgets vs. Expenditures – Davao del Norte**

## 6. Guimaras

### Overview

Over the course of the PRMF, Guimaras successfully brought its maintainable core road network from 85% to 96%. Guimaras has successfully increased its RPT by 32% through 2014 (2015 data was not available) from Php 4.4 Million to Php 5.8 Million, providing more than sufficient budgetary resources to cover maintenance for its core road network, although it is insufficient for its total road network. Its maintenance budget increased 26% from 2009 and is inadequate for its total road network but is more than sufficient for its core road network. Its rehabilitation budget vacillated each year through 2014, ranging from a low of

Php 2 Million to a high of Php 8 Million and then in 2015, for reasons that are not clear, no funds were allocated to rehabilitation. Thus, while Guimaras is taking the funding of maintenance seriously, it needs to work on setting aside regular funding toward restoring assets to protect against normal depreciation. Maintenance expenditures largely tracked with budgets through 2012 and then significantly exceeded budgets in 2014 and 2015, suggesting either inadequate maintenance funding and/or that rehabilitation expenditures were incorrectly classified as maintenance, resulting in unexpected expenditures, perhaps due to weather-related impairments. Rehabilitation expenditures have been volatile, rising to multiples of the budget in three years (2010, 2011, and 2013) and then in 2015, the year with no rehabilitation budget, reaching Php 22 Million through September, which is multiples of previous year budgets. This suggests that Guimaras is grossly under-funding rehabilitation and not building in sufficient room for things like emergency repairs due to impairments caused by weather or misuse.

**Table 16: PRMF Investment – Guimaras**

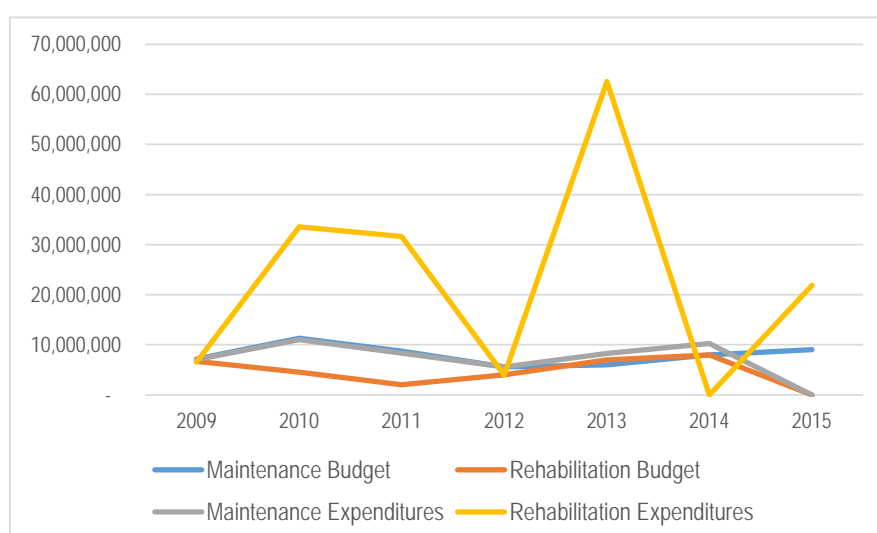
Category	Phase 1	Phase 2	Cumulative
PRMF Rehabilitation Road Length (km)	19.0	13.1	32.1
PRMF Maintenance Road Length (km)	10.5	-	10.5
PRMF Rehabilitation Cost (Php)	131,944,222	21,885,191	153,829,413
PRMF Maintenance Cost (Php)	2,312,309	-	2,312,309

**Table 17: Current Road Network and Maintenance Budget – Guimaras**

Category	Value
Total Road Network (km)	121
Core Road Network (km)	54
Core Road Network in Maintainable Condition (km)	52
2015 Maintenance Budget per Km (Php)	74,380

**Table 18: Trends in Road Sector Financial Management – Guimaras**

Category	2009	2010	2011	2012	2013	2014	2015	Trends
Real Property Tax	4,422,364	6,149,491	3,626,994	3,701,367	4,077,221	5,815,542	273,825	
PRNDP Maintenance Budget	N/A	2,933,467	10,151,267	23,466,582	23,604,288	25,404,092	28,177,580	
PRNDP Rehabilitation Budget	-	71,170,355	38,596,728	46,587,900	63,708,078	39,762,817	45,701,242	
Maintenance Budget	7,170,876	11,305,000	8,750,000	5,582,000	6,000,000	8,000,000	9,000,000	
Rehabilitation Budget	6,700,000	4,529,201	2,000,000	4,000,000	7,000,000	8,000,000	-	
Maintenance Expenditures	7,023,933	11,031,740	8,298,186	5,581,449	8,240,449	10,268,492	-	
Rehabilitation Expenditures	6,487,779	33,559,875	31,613,781	3,935,755	62,593,707	-	21,885,191	

**Figure 6: Budgets vs. Expenditures – Guimaras**

## 7. Lanao del Norte

### Overview

Over the course of the PRMF, Lanao del Norte successfully brought 100% (up from 90%) of its core road network into maintainable condition. Lanao del Norte has successfully increased its RPT by 124% from Php 20 Million to Php 45 million, providing more than sufficient budget resources to cover maintenance for both its core road and total road networks. Its maintenance budget has been quite volatile, spiking in 2012. It is not clear why but its maintenance budget has plummeted 65% since 2009 (by 80% since 2013 when the PRMF was launched) and is insufficient for even its core road network, although its budget in all earlier years would have been adequate even for its total road network. Its rehabilitation budget has been inconsistent with three years (2010-12) with no funding allocated to rehabilitation followed by two years at Php 20 million and then a drop to Php 15 Million in 2015. This raises questions as to whether Lanao del Norte is devoting sufficient resources to capital works to restore road assets as they deteriorate over time in order to offset depreciation. Both maintenance and rehabilitation expenditures have fallen significantly short of budgets, indicating problems with budget execution. The exception is 2015, where maintenance expenditures reached Php 45 Million against a budget of Php 8 Million. This seems due to both the under-budgeting for maintenance mentioned earlier as well as to a likely misclassification of rehabilitation spending as maintenance spending.

**Table 19: PRMF Investment – Lanao del Norte**

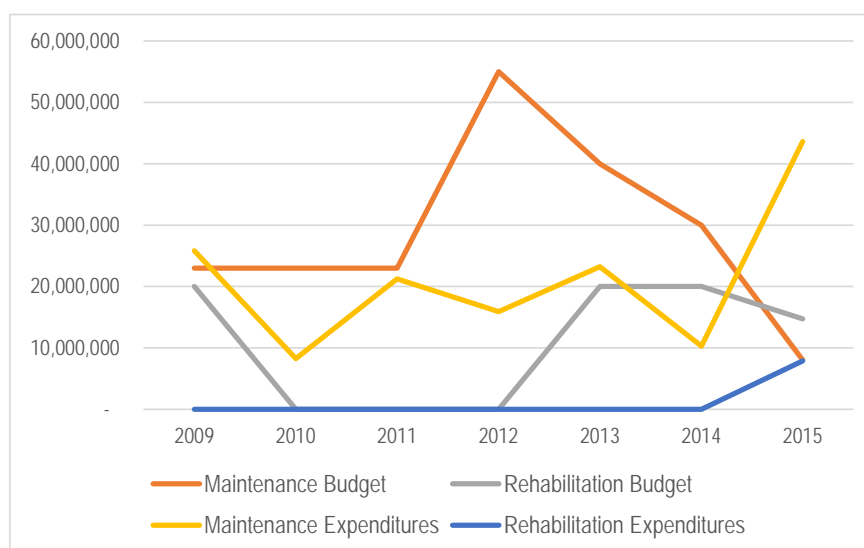
Category	Phase 1	Phase 2	Cumulative
PRMF Rehabilitation Road Length (km)	-	29.9	29.9
PRMF Maintenance Road Length (km)	-	-	0
PRMF Rehabilitation Cost (Php)	-	50,243,554	50,243,554
PRMF Maintenance Cost (Php)	-	-	-

**Table 20: Current Road Network and Maintenance Budget – Lanao del Norte**

Category	Value
Total Road Network (km)	178
Core Road Network (km)	138
Core Road Network in Maintainable Condition (km)	138
2015 Maintenance Budget per Km (Php)	45,057

**Table 21: Trends in Road Sector Financial Management – Lanao del Norte**

Category	2009	2010	2011	2012	2013	2014	2015	Trends
Real Property Tax	19,991,746	31,133,476	39,909,849	38,481,992	37,061,638	31,797,158	44,831,273	
PRNDP Maintenance Budget	N/A	N/A	N/A	N/A	No Data	No Data	20,000,000	
PRNDP Rehabilitation Budget	N/A	N/A	N/A	N/A	No Data	No Data	52,010,832	
Maintenance Budget	23,000,000	23,000,000	23,000,000	55,000,000	40,000,000	30,000,000	8,020,210	
Rehabilitation Budget	20,000,000	-	-	-	20,000,000	20,000,000	14,717,609	
Maintenance Expenditures	25,837,053	8,275,928	21,241,304	15,922,196	23,216,067	10,275,710	43,607,002	
Rehabilitation Expenditures	-	-	-	-	-	-	7,892,191	

**Figure 7: Budgets vs. Expenditures – Lanao del Norte**

## 8. Misamis Occidental

### Overview

Over the course of the PRMF, Misamis Occidental successfully brought 100% (up from 61% -- an improvement of 100 km) of its core road network into maintainable condition. Misamis Occidental has successfully increased its RPT by 49% from Php 8 Million to Php 12 Million, which is still insufficient to cover maintenance for even its core road network. Its maintenance budget grew by 76% from Php 5 Million in 2010 to close to Php 9 Million in 2015, but this is still grossly inadequate to properly cover the maintenance needs of even its core road network, which means its road network will likely suffer accelerated depreciation.

There was a spike in 2014 to Php 24 Million. It is not clear the reason for this, but it is likely due to a rehabilitation need. If so, the PLGU likely failed to book the improvements as an asset. Its rehabilitation budget has risen dramatically by 401% from Php 7 Million in 2012 (in prior years, no funding had been allocated to rehabilitation) to Php 34 Million in 2015, although no rehabilitation funding was budgeted in 2014. On the surface, it appears that Misamis Occidental would do well to re-allocate half of this to maintenance in order to bring its maintenance budget to an adequate level. Maintenance expenditures are roughly in line with its budgets, although in 2013 there was under-spending. (2015 data expenditure data, which is only through September, seems to indicate that there will be under-spending in this year as well.). The rehabilitation expenditures tracked with the budget in 2012 and significantly exceed it in 2013. We are still waiting on 2015 data have fallen slightly to see how it performed this year.

**Table 22: PRMF Investment – Misamis Occidental**

Category	Phase 1	Phase 2	Cumulative
PRMF Rehabilitation Road Length (km)	18.8	6.2	25.0
PRMF Maintenance Road Length (km)	30.6	15.6	46.2
PRMF Rehabilitation Cost (Php)	81,121,595	10,942,097	92,063,692
PRMF Maintenance Cost (Php)	3,538,906	6,654,767	10,193,673

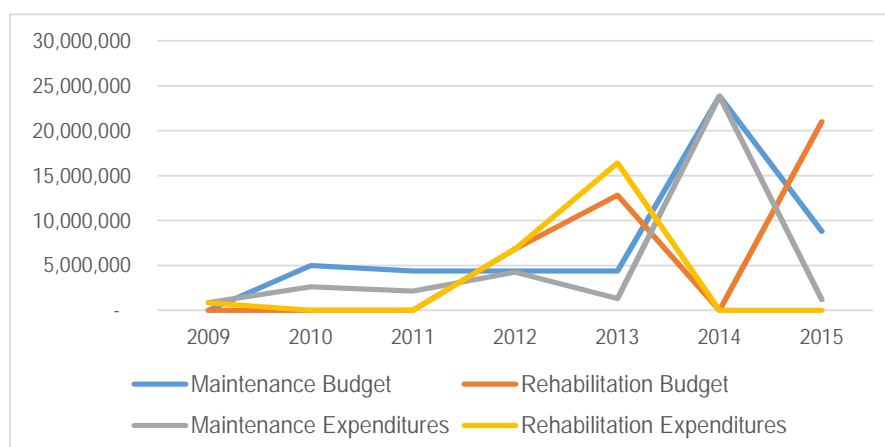
**Table 23: Current Road Network and Maintenance Budget – Misamis Occidental**

Category	Value
Total Road Network (km)	504
Core Road Network (km)	259
Core Road Network in Maintainable Condition (km)	259
2015 Maintenance Budget per Km (Php)	17,466

**Table 24: Trends in Road Sector Financial Management – Misamis Occidental**

Category	2009	2010	2011	2012	2013	2014	2015	Trends
Real Property Tax	8,312,505	11,071,385	12,260,688	14,101,587	11,878,557	12,511,244	12,421,291	
PRNDP Maintenance Budget	N/A	3,903,308	9,959,120	15,588,665	17,008,137	19,753,183	11,290,000	
PRNDP Rehabilitation Budget	N/A	53,000,000	68,300,000	50,975,880	69,940,000	72,472,500	287,780,000	
Maintenance Budget	-	5,000,000	4,400,000	4,400,000	4,400,000	23,845,119	8,803,000	
Rehabilitation Budget	-	-	-	6,850,000	12,829,000	-	21,000,000	
Maintenance Expenditures	869,988	2,635,000	2,169,337	4,249,855	1,308,455	23,845,119	1,208,565	
Rehabilitation Expenditures	830,630	-	-	6,840,000	16,409,782	-	-	



**Figure 8: Budgets vs. Expenditures – Misamis Occidental**

## 9. Misamis Oriental

### Overview

Over the course of the PRMF, Misamis Oriental successfully brought its maintainable core road network to 64% from 46%, which involved upgrading 89 km of road. Misamis Oriental has increased its RPT by 30% from Php 31 Million to Php 40 Million (down from a high of Php 69 Million in 2012), which is more than sufficient to cover maintenance for its core road network but is still short of what is needed for its total road network. Its maintenance budget has not grown since 2013 – the first year for which data was provided – although it spiked to Php 85 Million in 2014. It is not clear the reason for this, but it is likely due to a rehabilitation need. If so, the PLGU likely failed to book the improvements as an asset. The current maintenance budget still falls short of what is needed to maintain its core road network, let alone its total road network. Its rehabilitation budget has risen dramatically by 481% from Php 22 Million in 2010 to Php 128 Million in 2015. Its rehabilitation budgets have experienced volatile ups and downs, including no budget for 2014. It would do well to have more sustained funding that could both address usual lifecycle capital improvements to offset depreciation as well as emergency-related needs due to weather and other causes. For the years that we have data (2013-15), maintenance expenditures track exactly with budgets, except 2015 where we have incomplete data. However, the precision with which they track raises some questions as to the quality of the data. Rehabilitation expenditures have a similar story, exactly tracking from 2011 through 2014 and then fall short in 2015 where the data only goes through September 2015. This is possibly because they inherited a big deficit from the previous administration.

**Table 25: PRMF Investment – Misamis Oriental**

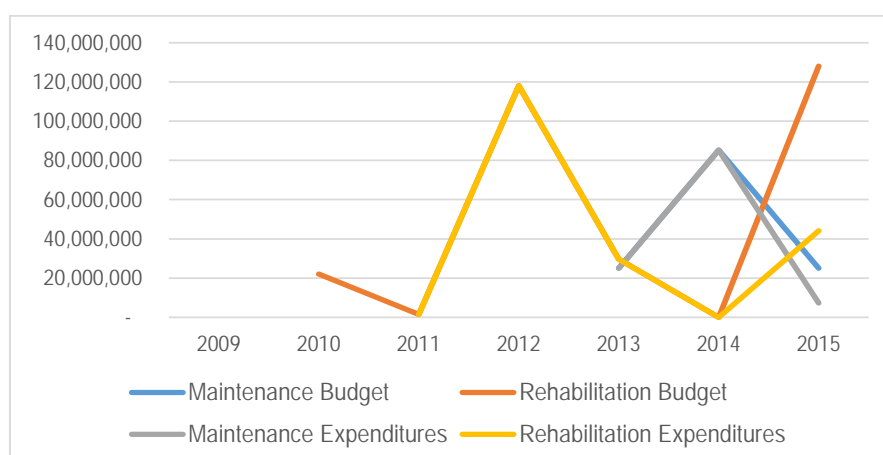
Category	Phase 1	Phase 2	Cumulative
PRMF Rehabilitation Road Length (km)	22.4	5.5	27.9
PRMF Maintenance Road Length (km)	43.7	-	43.7
PRMF Rehabilitation Cost (Php)	134,546,191	14,751,630	149,297,820
PRMF Maintenance Cost (Php)	5,359,308	-	5,359,308

**Table 26: Current Road Network and Maintenance Budget – Misamis Oriental**

Category	Value
Total Road Network (km)	1066
Core Road Network (km)	479
Core Road Network in Maintainable Condition (km)	308
2015 Maintenance Budget per Km (Php)	23,452

**Table 27: Trends in Road Sector Financial Management – Misamis Oriental**

Category	2009	2010	2011	2012	2013	2014	2015	Trends
Real Property Tax	31,021,187	30,554,836	38,976,900	68,586,912	43,206,198	44,344,186	40,229,640.26	
PRNDP Maintenance Budget	N/A	20,630,000	59,160,000	74,604,000	82,510,000	85,250,000	49,600,000	
PRNDP Rehabilitation Budget	N/A	113,000,000	83,040,000	112,200,000	88,200,000	72,000,000	13,810,000	
Maintenance Budget	No Data	No Data	No Data	No Data	25,040,000	85,260,000	25,000,000	
Rehabilitation Budget	No Data	22,040,000	1,500,000	118,050,000	29,720,000	-	128,014,000	
Maintenance Expenditures	No Data	No Data	No Data	No Data	25,040,000	85,260,000	7,225,000	
Rehabilitation Expenditures	No Data	No Data	1,500,000	118,050,000	29,720,000	-	44,087,000	

**Figure 9: Budgets vs. Expenditures – Misamis Oriental**

## 10. Surigao del Norte

### Overview

Over the course of the PRMF, Surigao del Norte has increased its maintainable core road network from 45% to 69%. Surigao del Norte has successfully increased its RPT by 195% from Php 8 Million to Php 22 Million, providing more than sufficient budget resources to cover maintenance for its core road network, although this would be insufficient for its total road network. The data for its budgets and expenditures are included below but it appears likely that the numbers for rehabilitation and maintenance are not disaggregated since for both budgets and expenditures they are exactly the same except in two instances. As such, analysis of maintenance budgeting and spending compared with rehabilitation budgeting and spending is not possible. Expenditures for both are largely in line with budgets except for 2015, but expenditure reporting in this year only runs through September 2015, so this in part explains the gap. Also, Php 130 Million of the budgeted Php 151 Million for 2015 is for a

bridge project, which could involve some lag in spending. It is important for Surigao del Norte to begin disaggregating rehabilitation and maintenance budgeting and spending so that its allocations can be tracked for effectiveness.

**Table 28: PRMF Investment – Surigao del Norte**

Category	Phase 1	Phase 2	Cumulative
PRMF Rehabilitation Road Length (km)	10.5	5.2	15.8
PRMF Maintenance Road Length (km)	2.7	-	2.7
PRMF Rehabilitation Cost (Php)	73,606,632	9,543,601	83,150,233
PRMF Maintenance Cost (Php)	526,195	-	526,195

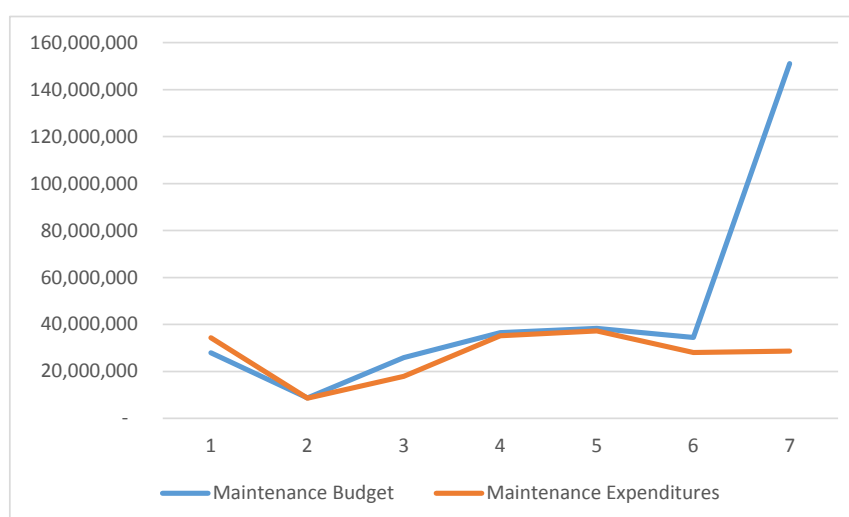
**Table 29: Current Road Network and Maintenance Budget – Surigao del Norte**

Category	Value
Total Road Network (km)	315
Core Road Network (km)	146
Core Road Network in Maintainable Condition (km)	100

**Table 30: Trends in Road Sector Financial Management – Surigao del Norte**

Category	2009	2010	2011	2012	2013	2014	2015	Trends
Real Property Tax	7,566,372	10,093,714	10,441,556	16,453,568	11,964,753	16,253,385	22,312,791	
PRNDP Maintenance Budget	-	8,970,000	18,900,000	No Data	No Data	No Data	14,292,000	
PRNDP Rehabilitation Budget	-	8,970,000	18,900,000	11,430,000	No Data	No Data	216,408,000	
Maintenance Budget	27,996,086	8,707,672	25,885,263	36,564,321	38,300,948	34,508,686	151,110,351	
Rehabilitation Budget	27,996,086	8,707,672	25,885,263	36,564,321	38,300,948	34,508,686	-	
Maintenance Expenditures	34,408,203	8,687,590	17,973,128	35,219,718	37,294,163	28,136,112	28,730,360	
Rehabilitation Expenditures	34,408,203	8,687,590	17,973,128	35,219,718	37,294,163	18,596,135	28,730,360	

**Figure 10: Budgets vs. Expenditures – Surigao del Norte**



# Annex E

## Summary of Baseline Data Collected in 2014

### LGI Verification of PEO Base-line Data: Average Annual Expenditure & Portfolio Profiles (2008-2013)

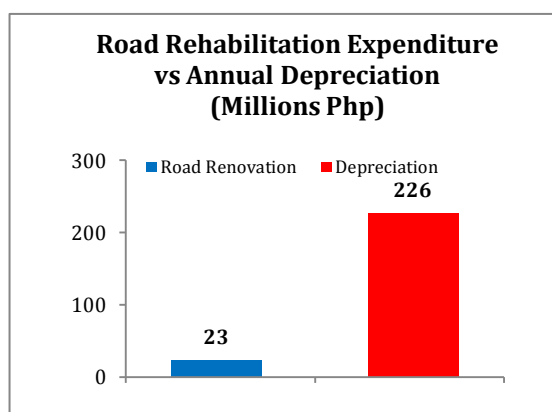
PROVINCE NAME	ADS	AKL	BHL	BUK	DDN	GUI	LDN	MOC	MOR	SDN	Ave.
<b>PEO</b>											
Number of Engineers	37	34	25	15	57	12	14	14	25	14	25
Total PEO staff	140	100	115	140	393	58	116	161	281	150	165
<b>Provincial Road Network</b>											
Total Network - Kilometres	631	285	834	852	881	121	178	504	1066	315	567
Core Roads - Kilometres	408	184	564	143	216	54	135	244	364	165	248
Core Roads % of Total Network	65%	65%	68%	17%	25%	45%	76%	48%	34%	52%	44%
Good or Fair Condition Kilometres	248	174	457	147	190	92	29	195	770	240	254
% of Network in Good or Fair Condition	39%	61%	55%	17%	22%	76%	16%	39%	72%	76%	45%
Total Network Valuation (estimate)*	5048	2280	6672	6816	7048	968	1424	4032	8528	2520	4534
Annual Depreciation (estimate)**	252	114	334	341	346	48	71	202	426	126	226
<b>Road Maintenance</b>											
Average Spent per year (Php Millions)	16	13	35	77	45	7	15	5	35	16	26
Recommended maintenance cost/yr***	63	29	83	85	88	12	18	50	107	32	57
Actual as % of Recommended Maint.	25%	45%	42%	90%	51%	58%	83%	10%	33%	50%	47%
<b>Road Renovation Works</b>											
Average Spent per year (Php Millions)	94	9	61	11	11	6	7	9	12	10	23
Rehabilitation as % of Depreciation	37%	8%	18%	3%	3%	12%	10%	4%	3%	8%	10%

\* Php 8 Million per Kilometre will be used until superseded by actual RBIS data

\*\* Depreciation estimates are based on a 20 year straight-line asset life, until superseded by design data

\*\*\* Average Maintenance cost is PhP 100,000 per Kilometre as per DILG recommendation

#### The 6-year Average Expenditure versus Fund Requirements for 'the Average' PRMF Partner Province



# Annex F

## Research Highlights

## PRMF Research and Innovation Projects

1. **Completion of Two Principal Researches.** There were two principal studies undertaken under Phase 2 of the PRMF that are technical issues relevant to the road management functions of partner provinces:

- a. **Assessment of Pavement Options for Local Roads. (Abstract)** Due to local fiscal constraints, most provincial governments have difficulty ensuring their provincial roads provide the necessary accessibility and mobility for people and goods under their jurisdiction. Provincial governments do not have the luxury of resources that can be used to fully pave its entire provincial road network. This research assessed appropriate pavement options for local roads with the Province of Guimaras as the study area.

The research undertook a comparative assessment of pavement options available for the study area – gravel, asphalt, concrete and cement-stabilized aggregate base (CSAB). The assessment included cost comparisons, pavement performance, roughness index, and life cycle costs. The study also assisted the PEO of Guimaras in designing and constructing a trial section of CSAB pavement using its Wirtgen Road Recycler Heavy Equipment.

The study arrived at an optimum ratio (strength and cost) for the CSAB pavement of 5.7% cement content for a mix of 1 part soil and 2 parts aggregate. The CSAB pavement has the lowest cost (followed by gravel, asphalt and concrete) but it has comparable strength to a concrete pavement. However, in terms of indicative pavement roughness, asphalt has the lowest index followed by the CSAB pavement with concrete and gravel pavements having higher roughness.

- b. **Piloting of Community-Based Road Maintenance Contracting Model. (Abstract)** The research tested and piloted the model of community-based maintenance contracting as an alternative to common implementation modes of local road maintenance (e.g. maintenance-by-contract, maintenance-by-administration, and agency-to-agency arrangements). The research informed the partner provinces on the way to engage and seek the participation of the community towards the routine maintenance of their local roads.

The PRMF partnered with the University of San Agustin and the Province of Guimaras to pilot a community-based routine road maintenance contract. Guimaras has shown openness and commitment to pilot this initiative.

The study team - coordinating with the province - organized and capacitated a community association of the said road. The project showed that the community can be engaged as a partner of the local government for the routine maintenance of local roads, as an alternative approach to maintenance-by administration and maintenance-by-contract, which has not been successful in a number of partner provinces. Furthermore, the Community-Based Road Maintenance Contracting Model is now being replicated in the Provinces of Aklan, Davao del Norte and Misamis Oriental. Aklan and Davao del Norte have awarded and are now implementing their community-based road maintenance contracts for a number of provincial roads. Meanwhile, Misamis Oriental has oriented and has obtained a

committed agreement from a community (barangay) to undertake the routine maintenance of a PRMF rehabilitated road.

2. **Presentation/Publication of Researches.** The two abovementioned research papers were presented and published in various fora/journals on development studies, respectively:

a. **Assessment of Pavement Options for Local Road**

- i. **Conference: 22nd Annual Conference of the Transportation Science Society of the Philippines (TSSP)**, 12 September 2014, Iloilo City, Philippines.
- ii. **Conference: 11th International Conference of the Eastern Asia Society for Transportation Studies (EASTS)**, 11-14 September 2015, Cebu City, Philippines.
- iii. **Publication: Scientific Augustinian Journal (International Standard Serial No. 1655-485X)**, Vol. 7, No. 1, December 2014, University of San Agustin, Iloilo City, Philippines.
- iv. **Publication: Proceedings of the Eastern Asia Society for Transportation Studies. (International Standard Serial No. 1881-1132)**, Vol. 10, 2015, Tokyo, Japan.

b. **Piloting of Community-Based Road Maintenance Contracting Model**

- i. **Conference: 11th International Conference of the Eastern Asia Society for Transportation Studies (EASTS)**, 11-14 September 2015, Cebu City, Philippines.
- ii. **Publication: Augustinian Journal for Social Sciences (International Standard Serial No. 1655-3535)**, Vol. 18, No. 1, November 2015, University of San Agustin, Iloilo City, Philippines.