Australian Aid

PFMP Philippines-Australia Public Financial Management Program

Supporting the Philippines towards improved efficiency, accountability and transparency

Review of Provincial Road Financing and Management

Final Report: January, 2017

Contents

Tables

Charts

Acronyms

ADB	Asian Development Bank
AIP	Annual Investment Program
BLGD	Bureau of Local Government Development
BLGF	Bureau of Local Government Finance
BTr	Bureau of the Treasury
BuB	Bottom Up Budgeting
CE	City Engineer
CPES	Constructors' Performance Evaluation System
CO	Central Office
COA	Commission of Audit
CSO	Civil Society Organisations
DA	Department of Agriculture
DBM	Department of Budget and Management
DED	Detailed Engineering Designs
DEO	District Engineering Office
DFAT	Department of Foreign Affairs and Trade
DILG	Department of the Interior and Local Government
DOF	Department of Finance
DOLE	Department of Labor and Employment
DOT	Department of Tourism
DOTr	Department of Transportation
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
EU	European Union
FAR	Financial Accountability Report
GAA	General Appropriations Act
GPS	Global Positioning System
IRA	Internal Revenue Allotment
KALSADA	Konkreto at Ayos na Lansangan at Daan Tungo sa Pangkalahatang Kaunlaran
LCE	Local Chief Executive
LDIP	Local Development Investment Plan
LGU	Local Government Unit
LRMPA	Local Road Management Performance Assessment
LRMPAT	Local Road Management Performance Assessment Tool
NCA	Notices of Cash Allocation
NEDA	National Economic and Development Authority
NEP	National Expenditure Program
MOA	Memorandum of Agreement
M&E	Monitoring and Evaluation
MVUC	Motor Vehicle Users Charge
NTI	Notice to Implement
OPAPP	Office of the Presidential Adviser on the Peace Process
OPDS	Office of Project Development Services
PAMANA	Payapa at Masaganang Pamayan
PCF	Performance Challenge Fund
PCR	Project Completion Report

PE	Provincial Engineer
PEFA	Public Expenditure and Financial Accountability
PEO	Provincial Engineering Office
PFM	Public Financial Management
PLGU	Provincial Local Government Unit
PPDC	Provincial Planning and Development Coordinator
PPDO	Provincial Planning and Development Office
PPMIU	Provincial Program Management and Implementing Unit
PRDP	Philippine Rural Development Program
PRMF	Provincial Road Management Facility
PRNDP	Provincial Road Network Development Plan
RBIS	Roads and Bridges Information System
RbPMS	Results-based Performance Management System
RPMES	Regional Project Monitoring and Evaluation System
RM	Results Matrix
RO	Regional Office
ROD	Report of Disbursement
SGLG	Seal of Good Local Governance
SLRF	Special Local Roads Fund
SWA	Statement of Work Accomplished
TRIP	Tourism Road Infrastructure Plan

Executive Summary

The Philippines Government has indicated its intention to invest heavily in infrastructure, including in the local road network. A major new program to provide funding to provincial government to rehabilitate provincial roads was commenced in the 2016 budget. This review was initiated to assess the strengths and weaknesses of current arrangements for allocating, managing, monitoring, and evaluating funding for provincial road network development. The review was conducted in June to August 2016 and considered a number of issues, including the adequacy of provinces' own revenue sources for road maintenance and upgrading, the sources of national government funding available to supplement provincial budgets for local road development, the financial management of these funding sources, the effectiveness of monitoring and evaluation arrangements for programs implemented by provinces using national government funds, the impact of these programs on provincial administration, and the incentives and disincentives for ongoing maintenance of local roads.

Adequacy of provincial resources for road management

The Local Government Code of 1991 provides several sources of finance for provincial governments, including revenue transfers from the national government (Internal Revenue Allotment), own source revenues from local taxes and fees, and borrowing. It also imposes restrictions on how local budgets should be formulated including caps on staffing. Most local government units are highly dependent on Internal Revenue Allotment (IRA) transfers and have not made maximum use of local revenue and borrowing options. A review of the Local Government Code has identified scope to amend the code to improve local revenue generation and borrowing capacity, and to change the distribution of the IRA to recognize differences in economic conditions.

A number of studies have argued that local governments do not have adequate resources to both rehabilitate their road networks and ensure ongoing maintenance to prevent deterioration in road quality given other demands on their budget. Lack of resources directed to road maintenance and to upgrading deteriorating road sections is the primary cause of the poor quality of the local road network. The amount of expenditure that would be required to bring the road network up to an acceptable standard exceeds the resources that are available to local governments. National government resources will be required.

Sources of national government funding for local roads

There are multiple sources of national government funding (other than IRA transfers) which have an impact on local roads. They include programs which directly implement road development projects through Department of Public Works and Highways (DPWH) - Tourism Roads, Farm-to-Market Roads, and PAMANA funding to DPWH and Department of Agriculture (DA), and programs which transfer funds to local governments to implement projects themselves. The latter include the Department of the Interior and Local Government (DILG) Performance Challenge Fund (PCF), the DPWH Special Local Road Fund (SLRF), PAMANA funds administered by DILG, and the *Konkreto at Ayos na Lansangan at Daan Tungo sa Pangkalahatang Kaunlaran* (KALSADA) program initiated in 2016.[1] The largest of these is the KALSADA program which was introduced in 2016 and provides funds to provinces for road rehabilitation projects subject to conditions including that the province performs adequate maintenance of its roads. Assistance for Farm-to-Market road development is also provided by the World Bank through the Philippine Rural Development Program (PRDP).

[1] The KALSADA program will continue in 2017 as the 'Conditional Matching Grant to Provinces for Road Repair, Rehabilitation and Improvement'.

The number of different options for funding local road projects raises questions about effective coordination of local road development activities.

Financial management of national government programs

Most national programs have fund allocation mechanisms which include an element of needs-based funding. Projects implemented directly by the national government are listed in detail in the General Appropriations Act (GAA). DPWH reports to the Department of Budget and Management (DBM) in quarterly Financial Accountability Reports (FARs) on the allotment, obligation, and disbursement of funds used for local road projects.

Programs which transfer national government funds to provinces to be used for road construction and maintenance, including PCF, SLRF, PAMANA and KALSADA, use different processes for application, approval, disbursement and monitoring, and funds follow different paths from the national budget to the provincial budget. In two of the programs – PCF and KALSADA – payments are accounted for as subsidies and recorded as disbursed at the time the funds are provided to the province. SLRF and PAMANA payments are accounted for as cash advances and not recorded as spent until the project is completed. Nevertheless, the requirement to provide liquidation reports on the use of funds and the completion of projects is similar for all funding sources.

Monitoring and evaluation

Of the four direct transfer programs, only KALSADA has a clearly defined results chain. The program framework is able to articulate what it wants to achieve and provides a good basis for monitoring and evaluation. Clear performance targets are indicated and it has a complex performance measurement framework that covers road rehabilitation outputs and results related to road planning, management, procurement, budgeting, internal audit, and road asset accounting. Other programs have program theories attached to the program logic of the agencies that own the program.

While monitoring processes are clearly defined, they focus on project effectiveness and efficiency with little evidence that they monitor the quality of road rehabilitation or maintenance. This task is relegated to provinces. Monitoring of the overall quality of local roads is expected to be provided by the Roads and Bridges Information System (RBIS) as this records road condition, but this is not yet operational, and there are concerns about the functionality of the system as designed. There is also limited monitoring of ongoing maintenance efforts after project completion, except in the KALSADA program, which requires evidence of road maintenance performance as a condition of funding. There is no evidence to show that evaluation has been conducted for the different programs.

While the roles of different agencies are clear based on program guidelines, this does not necessarily mean that agencies are aware that they are expected to perform these roles or that they are actually doing it. DILG is involved in all four programs, but there are workload implications which may affect the quality of the validation processes. The different programs have different reporting requirements and timeframes, even when they are implemented by the same agency. DILG, however, is endeavoring to harmonize the requirements for the programs it implements.

Implications for provinces

The implications of the multiple sources of funding for local government administration were discussed with a few provincial officials. Funding assistance for local roads is welcomed by provinces given the many demands on their budget resources. However, the requirement to implement projects stretches the capacity of local engineering offices. Provinces that have reached their personnel services budget limit imposed under the Local Government Code are unable to hire additional staff to coordinate projects and rely on short-term contracted staff. Although some provinces have the capacity to perform the required tasks, others need capacity strengthening. As earlier indicated, reporting requirements for each program differ in terms of format, manner of submission, data requirements and timelines which increase the workload burden.

Road maintenance

There are potential disincentives for local governments to direct resources to routine road maintenance. There is strong political bias towards rehabilitation projects over maintenance, and the requirement that 20 per cent of the IRA is allocated for development projects, which may include road construction and rehabilitation, limits the amounts available for recurrent expenditure in favor of capital projects. The fact that funding is available from national government and donor programs to rehabilitate roads that have not been adequately maintained may further discourage funding for maintenance. National government funding, therefore, needs to be structured to avoid creating incentives to underinvest in maintenance. The KALSADA program requires provinces to demonstrate adequate spending on road maintenance as a condition of access to funds for rehabilitation. This does not, however, include assessment of the quality of the maintenance performed.

Conclusions

The review found that although provincial governments may have the financial capacity to fund ongoing maintenance of roads that are in fair to good condition, they do not have the resources required to rehabilitate the local road network to achieve this standard. External sources of funding are therefore necessary. There are multiple direct and indirect sources of national government funding which may impact on provincial road development, managed by different national government agencies using different allocation, appropriation, disbursement, and monitoring processes. Some funding sources are quite small with significant transaction costs for provincial administrations. Resources and capacity for effective project management and monitoring road rehabilitation projects are lacking at both local and national levels.

Among the various funding programs for provincial roads, the KALSADA program implemented in the 2016 budget has the clearest objectives and most robust implementation and monitoring arrangements, and is large enough to provide an incentive to provinces to comply with funding conditions and to make a significant difference in the quality of local roads. The requirement for provinces to demonstrate adequate expenditure on road maintenance as a condition for funding will help to counter incentives for local governments to underinvest in ongoing maintenance. However, several issues still need to be addressed. For example, a reliable system for monitoring the condition of local roads as the basis for funding decisions is not yet in place, there is no process for assessing the quality of road construction or maintenance, and arrangements for technical monitoring of project implementation could be reviewed.

Recommendations

The review recommends a number of actions that DBM, DILG and the Commission on Audit (COA) could consider. In the immediate term, these include:

- Continue to develop the Conditional Matching Grant funding model (KALSADA).
- Address potential implementation risks, including:

    - Support roll out and capacity development for the COA asset accounting policy for local roads;
    - Consider measures to address staffing and capacity constraints at the provincial level and in DILG; and
    - Consider changes to the distribution of responsibilities between DILG and DPWH in relation to supervision of local road projects.
- Review the technical functionality of RBIS and clarify arrangements and incentives for future maintenance of the database.
- Look into the relationship between OpenRoads and Roads and Bridges Information System (RBIS) and how they will complement each other.
- Conduct an evaluation of the performance of provinces in implementing road infrastructure projects through KALSADA in 2016.

Longer term steps that could be considered in relation to the resources available for local roads include:

- Review the operation of the COA asset accounting policy for local roads to ensure it provides a realistic assessment of the status of province roads and the costs of rehabilitation.
- Consider implementing performance audits of provincial road rehabilitation and maintenance.
- Consider extending the road asset accounting policy to the national road network.
- Explore options to rationalise and simplify sources of funding relevant to local roads to reduce transaction costs and increase timeliness in the disbursement of funds.
- Review proposals for amendments to the Local Government Code to improve Local Government Unit (LGU)'s own source revenue capacities and change the basis for allocation of the IRA between LGUs to include an equalization mechanism.
- Review the proportional distribution of Motor Vehicle Users Charge (MVUC) revenues between national and local roads.

1 Introduction

1.1 Purpose of the Review

Despite the current positive macroeconomic outlook in the Philippines, the economy is struggling with inadequate infrastructure, particularly in the transport sector. The new Philippines administration has identified its intention to invest significantly in infrastructure in order to raise competitiveness and sustain economic performance. The administration has also expressed interest in increased devolution of resources and responsibilities to local administrations. Approximately 85 per cent of the road network of the Philippines comprises local roads which are often crucial for rural value chain development, agricultural and rural enterprise productivity, and rural tourism. Management and maintenance of local roads is a responsibility of LGUs, including provinces, cities, municipalities, and barangays, but adequate repair and maintenance of these roads has been recognized as a challenge.

This paper focuses on issues in relation to financing and management of the provincial road network. Provincial roads are the target of the recent KALSADA funding initiative implemented in the 2016 budget and are also supported through several other, smaller national government programs. The purpose of the report is to review the allocation and management of the various sources of public funding impacting on provincial road rehabilitation and maintenance, and the arrangements for monitoring the performance of provincial governments in these activities. The main focus is on programs which transfer funds to provinces to fund the implementation of road development or maintenance projects. Other national government programs finance the direct implementation of local road construction by DPWH.

The report is not an audit of the performance of provinces or national government agencies in the administration of funds or the planning and implementation of projects, but, is a review of the systems and processes that have been put in place to ensure effective allocation of resources and implementation of planned activities. The information in the report is based on a review of documentation on the various funding sources, interviews and discussions with officials in DBM, DILG, DPWH and COA, and discussions with officials from a selection of provincial governments. Details of sources are provided in the Annex.

1.2 Local Government in the Philippines

1.2.1 Local government finances

Local Government Units (LGUs) are generally referred to as a single group of budget entities, but, in fact, consist of several different levels of government. They comprise 81 provinces, 145 cities, 1,489 municipalities, and 42,036 barangays.[2] The 1991 Local Government Code (RA 7160) devolved substantial responsibilities to LGUs and established revenue sharing arrangements with the national government together with taxation assignments to support the devolved functions. LGUs have, however, tended to rely heavily on the IRA transfers from the national government rather than generating local sources of revenue. The DOF Bureau of Local Government Finance (BLGF) reports that IRA dependence across all provinces averaged 86 per cent during the period 2009-2015.

A review of the Local Government Code in 2015 found that the legislation had a number of structural deficiencies including lack of clarity in functional assignments, limitations on sources of local revenue,

[2] Source: DILG website (http://www.dilg.gov.ph/PDF_File/factsfigures/dilg-facts-figures-2016421_ef377ebdbf.pdf), however, the DBM Local Budget Memorandum 75, 2016 has slightly different figures.

inequitable distribution of inter-government transfers, and a weak debt regulatory framework (DILG, 2015a). A number of changes to the Code were proposed but current discussions on constitutional change and decentralization are likely to delay consideration of reform proposals.

1.2.2 Local government capacity

A 2004 World Bank report identified a number of administrative capacity deficiencies in the local government sector (World Bank, 2004). These included ineffective and non-transparent planning processes and weak financial management capacity. The report also noted 'formidable political economy challenges' to achieving transparent and accountable local government and a high level of corruption.

Both DILG and DBM have implemented capacity development programs aimed at improving the performance of LGU administrations in the delivery of local services including road maintenance. DILG has established a 'Seal of Good Local Governance' (SGLG) assessment which measures various aspects of local administration. The SGLG includes a 'Seal of Good Financial Housekeeping' component which uses two indicators: favorable COA audit findings and compliance with 'full disclosure' requirements in relation to transparent, publicly available financial reporting. LGUs must seek annual confirmation of their SGLG status. They then qualify for funding under DILG's Performance Challenge Fund (PCF) program. SGLG qualification also assists LGUs in other respects, including in borrowing.

DILG has also developed, with support from the Australian Government Department of Foreign Affairs and Trade (DFAT) Provincial Road Management Facility (PRMF), a Local Road Management Manual to guide local governments in executing road service delivery functions, and a Local Road Management Performance Assessment Tool (LRMPAT) which is used to assess performance in local road management (DILG, 2015b). The LRMPAT assessment is conducted by the DILG Regional Office each year. The assessment covers key aspects of local road management, including, but not limited to, organizational structure, knowledge and skills on local road management, information and other resources for local road management, effectiveness and efficiency of local road management operations, and local road management processes.

DBM has developed a local government finance manual and has also established regional interagency teams to coordinate the assistance and advice provided to LGUs by various national government agencies. In 2012, with support from the European Union (EU), DBM issued a 'Public Financial Management Assessment Tool for Local Government Units', a Public Expenditure and Financial Accountability (PEFA)-style self-assessment instrument designed to assist LGUs in evaluating their public financial management (PFM) performance (DBM, 2012). The assessments are conducted annually, and the results are validated by the DBM Regional Office. The framework covers quantitative indicators of performance in budgeting, accounting, auditing, cash management, procurement, revenue generation, and public reporting on public sector financial operations.

1.3 Local Roads

1.3.1 The local road network

Road management and maintenance was one of the functions devolved to LGUs in 1991. In this case, the assignment of functional responsibility for particular roads or sections is relatively clear. Local roads are allocated variously to provinces, cities, municipalities, and barangays. Table 1 indicates the proportional distribution of the road network between levels of government.

Table 1. Philippines Road Network Assignments

	Road km ('000)	Per cent of network	Percent paved	Av km per LGU
National	29.0	14	70	
Province	27.1	13	21	335
City	7.1	4	77	49
Municipality	15.8	8	34	11
Barangay	122.0	61	7	3

Source: PRMF Design Document 2008

There has long been concern about the adequacy of local road management by LGUs. An Asian Development Bank (ADB) transport sector assessment in 2012 identified the generally inadequate financial and technical capacities of most LGUs as a cause of the poor condition of local roads (Asian Development Bank, 2012, p. 6). The design document for the DFAT PRMF argued that as a result of ineffective or deferred maintenance, significant investment would be needed to bring the road network up to a maintainable standard (AUSAID, 2008).

1.3.2 Roads and Bridges Information System (RBIS)

The RBIS concept was originally developed by DFAT's PRMF program and is intended to establish an inventory of local road assets and their condition as the basis for identifying projects for future funding. Data on all province and city roads is currently being collected for uploading to the system by consultants funded by the Philippines Road Board. The process is expected to be finished in early 2017. The system will then be turned over to DILG, after which, local governments are expected to keep the online system up-to-date with information about road rehabilitation activities and changes in road condition.

RBIS was designed to provide a provincial, regional, and national snapshot of local road condition, and at the same time, record at least 56 variables characterizing each local road section, including important data such as length, width, pavement, road condition, number of culverts, among others. However, a cursory look at the RBIS, currently being populated with data for at least one province and one city, reveals that reporting and data extraction is limited to one LGU at a time, with no opportunity for data extraction in bulk, and limited query functionality that will enable a user to select the types of variables, conduct comparisons across LGUs, and compare road condition over time. While a management dashboard exists and reports can be generated visually, data cannot be extracted or explored. These limitations will affect the usefulness of RBIS both to DILG and to the LGUs who could potentially ground road-related planning decisions on RBIS data. These concerns about the functionality of the system have been communicated by DILG to the RBIS programmer but the issue has not been successfully resolved. As the system has not been populated yet with data from all provinces and cities, it cannot be said for certain if RBIS will serve as the definitive database for monitoring local road management performance.

1.3.3 OpenRoads Portal

The OpenRoads web portal (www.openroads.gov.ph), established by DFAT and funded through the World Bank, records details of various government and donor-funded road rehabilitation projects, including Tourism Roads, Farm-to-Market Roads, Bottom Up Budgeting (BuB) projects (including non-road projects), and KALSADA. The purpose of the website is to provide information to the public on the nature and progress of road development projects in their local area. It is intended that maintenance of the website will be transferred to DILG in the future. The site uses a mobile video application that allows digital mapping of road projects, uploading of road photos and videos, not only by government, but also by citizens so that real-time monitoring can also occur. Uploading a video and map to OpenRoads is a condition for receiving funding through the KALSADA program.

Like RBIS, OpenRoads is currently under development in terms of ensuring full functionality as well as data population. OpenRoads does not contain the same data variables as RBIS, and in its current state, is less comprehensive in terms of showing road condition. Public viewing, reporting, and data extraction is limited to six data variables only. It must be emphasized that OpenRoads currently serves project reporting purposes only and not the analysis of overall road condition of LGUs.

1.3.4 Local roads accounting policy

In November 2015, COA, with assistance from PRMF, developed revised accounting policies for local road assets (Commission on Audit, 2016). Local government roads, which were previously simply listed in a registry of infrastructure, are in future to be accounted for as assets and subject to depreciation. The policy applies to all LGUs down to barangay level. LGUs will have four years to complete an inventory and costing of local roads and enter them in asset registers. At the end of each accounting period, the LGU will prepare a 'Report on Local Road Network' as part of its accounts. Depreciation will be applied to roads recorded in the asset register and it is envisaged that funding provided for road rehabilitation will be based on information in the register on the amount required to restore assets to their original value. The asset valuation and depreciation policy will only apply to LGUs. National roads, which are under DPWH control, are not currently valued or recorded in national government accounts.

The COA accounting policy on local road asset management requires LGUs to record the historical cost of each component of each section of road, depreciated for the age of the road. A major challenge for LGUs will be establishing the original cost of each road, some of which were constructed before devolution to local government. Moreover, using historical cost rather than current replacement cost may mean that the asset ledger will not reflect the actual cost of restoring roads to their original condition – information that is key to the effective operation of the KALSADA model. Even though the circular appears to allow for replacement cost to be used if historical cost is not available, the resulting inconsistency in treatment amongst LGUs also undermines the utility of the valuations for defining funding requirements.

Although the policy has been developed by COA and issued as a memo, capacity development support to assist LGUs to implement the process had not yet been initiated. Compliance with COA's instructions on road asset accounting will be a condition of future DILG funding for road rehabilitation and DILG, therefore, plans to include support for this policy in their LGU capacity development program.

The relationship between the information recorded in the asset register and the data that will be contained in RBIS is not clear at present. It is envisaged that COA will be able to use RBIS data to validate the asset register, although the compatibility of the information in the two data sets and the incentives for LGUs to maintain RBIS, are still to be established. The potential additional workload for COA and the ability of COA auditors to evaluate information on road assets have also not been assessed.

2 Local Government Resources for Road Management

LGUs have various sources of revenues that may be available to finance road management activity. LGUs argue, however, that these sources are insufficient given the magnitude of their responsibilities in terms of ensuring the social, economic, political, environmental, and social well-being of their constituents (Section 17, Local Government Code of 1991). The annual regular income of LGUs is intended to be used for all local government expenditures, including salaries of personnel (within personnel services limitations) and programmatic expenditures for health, infrastructure, social services, and economic development, among others.

2.1 Sources of Local Government Financing

The sources of funding available to LGUs to perform the functions assigned to them in the Local Government Code include i) IRA transfers from the national government, ii) locally generated tax revenues, iii) debt financing, and iv) various national government administered programs in specific sectors.

2.1.1 Internal Revenue Allotment (IRA)

The national government provides funds to LGUs through a grant of 40 per cent of national internal revenue collections, shared between provinces, cities, municipalities, and barangays. Additional shares of specific taxes and charges, totaling around Php 35.9 billion in 2016, are also provided to some LGUs.

In 2016, the approved IRA was Php 428.6 billion, of which Php 99.9 billion was for provinces. The Local Government Code specifies that the IRA is to be allocated according to population and land area plus an 'equal sharing' component (50 per cent population, 25 per cent land area, and 25 per cent shared equally among all LGUs). The allocation formula does not, therefore, take account of the revenue raising potential of different LGUs or their particular expenditure needs. The 2015 review of the Local Government Code suggested introducing an equalization mechanism to the allocation of national government transfers.

The Local Government Code also places some restrictions on what the IRA can be used for. There is a cap on the proportion that can be spent on staff costs, twenty per cent of the IRA is expected to be used for development projects, and another five per cent of all LGU resources are to be set aside in a Disaster Risk Reduction Fund. There is no specific requirement in relation to road maintenance or rehabilitation. The DBM Regional Office reviews provinces' proposed budgets each year and may disallow them if they do not conform to the provisions of the Code.

2.1.2 Local taxes

The Local Government Code sets out the taxes that may be imposed by each level of government. The review of the Code found, however, that the power of LGUs to set local tax rates is seriously limited. The inadequacy of the tax bases assigned to LGUs is most pronounced in the case of provinces and municipalities. On the other hand, it was also noted that LGUs have generally not maximized their revenue raising powers due to low capacity, the complexity of the tax system, and resistance from local politicians. LGUs, therefore, tend to be dependent on national government transfers (Bureau of Local Government Finance, 2014). This dependence, it can be argued, undermines the autonomy of local government and its accountability to local voters. The link between local services and taxes is broken when services are largely funded from national transfers reducing incentives for citizens to demand improved performance (DILG, 2015a, p. 2).

2.1.3 Borrowing

LGUs have the authority to borrow to fund major investments, but some provisions of the Code constrain LGU access to credit, and the level of sub-national borrowing is low. The 2015 review of the Local Government Code made suggestions for amendments to facilitate LGU borrowing while still mitigating fiscal risks.

2.1.4 National government sector programs

In addition to the IRA and other tax sharing grants, the national government also transfers approximately Php 30.5 billion to LGUs to implement activities under various national government programs, including in education, health, and social welfare. These transfers are earmarked for specific purposes. National government transfers available for provincial road rehabilitation are described further in Section 3.

Table 2 summarizes all the sources of national government financial assistance to local government units in the 2016 budget.

Table 2. Financial Assistance to Local Government Units in the 2016 Budget, including IRA

Department or Fund	Php '000
Internal Revenue Allotment	428,619,518
Special Shares of LGUs in the Proceeds of National Taxes	36,117,970
Local Government Support Fund (including KALSADA)	19,076,671
Sector Programs (including DILG, DSWD, DOLE, Education and Health)	11,496,957
Total Financial Assistance to Local Government Units	**495,311,116**

Source: BCA report from 2016 GAA data

In addition, the national government also implements a number of programs that directly provide services designated as LGU responsibilities, including several that fund DPWH to implement local road projects. These programs are also described in Section 3.

2.2 Adequacy of LGU Finances for Road Management

Lack of sufficient funds for routine road maintenance has been identified as a major reason for the poor condition of local roads. Before the transfer of responsibility for roads in 1991, maintenance and development of the entire road network was the responsibility of DPWH. The PRMF final report argues that the capital component of local road funding was not transferred to LGUs when budget responsibility was transferred in 1991 (Louis Berger Group, 2016, p. 51). It has also been suggested that the share of the DPWH budget used for local road maintenance was not transferred to LGU budgets. However, the funding arrangements embodied in the Local Government Code did not transfer specific amounts for particular functions. It was assumed that the IRA amount, together with local government own source revenue and borrowings, would be sufficient to cover the cost of devolved responsibilities.

DILG's LRMPAT indicates that, for the road maintenance budget to be sufficient, it should allocate at least P100,000 per kilometer per year. The same amount is suggested in the Local Road Management Manual. This suggests that the approximate cost of maintaining the entire provincial road network would be Php 2.7 billion per year, or 2.71 per cent of the 2016 IRA grant for provinces (Table 3). (It should be noted that this is based on road data from 2008 and is only an indicative estimate.)

Table 3. Estimated Province Road Maintenance Requirements (at Php 100,00 per km)

	Total Local Roads (km) (PRMF data)	Estimated maintenance cost (000 Php)	IRA (2016) ('000 Php)	Maintenance as % of IRA
All LGUs	172,000	17,200,000	428,619,518	4.01
All provinces	27,100	2,710,000	99,938,408	2.71
Average per province	335	33,500	1,233,808	2.72

Whether provinces have 'sufficient' funds for road maintenance is therefore a complex question which involves not only the adequacy of the IRA, but also, the ability of the provincial government to raise additional revenue and its willingness to allocate funds to road management. Local government representatives generally argue that an increase in the size of the IRA is needed (DILG, 2015b). This would, however, increase local government dependence on national government transfers and possibly further undermine local revenue effort and local accountability to voters. As noted above, there are concerns about the formula used to distribute the IRA between LGUs which does not take account of economic conditions or revenue raising capacity in each LGU. IRA funding does not, for example, take account of the length of the road network and the cost of maintenance in each province. The IRA allocation formula is considered to disadvantage provinces relative to cities and barangays (Diokno, 2012, p. 14).

The DFAT PRMF project analyzed the road investment and maintenance budgets of ten target provinces and concluded that, historically, the provincial LGUs have had sufficient resources to manage road maintenance but insufficient revenue to fund both road rehabilitation and maintenance when the two are combined (Louis Berger Group, 2016, p. 51 and Appendix E).The project found that, over a six-year period, the average PRMF partner province spent 47 per cent of the required amount on road maintenance, or Php 26 million per year, while at the same time spending Php 23 million on road rehabilitation, which was only a fraction of the amount that needed to be spent. If these two amounts were combined, it was argued, they would equal 90 per cent of the overall road maintenance budget requirement, more than enough to cover core roads. However, even the wealthiest provinces, the report suggested, would not be able to generate the required level of local income to finance road rehabilitation.

The PRMF analysis assumes that the amounts currently being spent by these provinces on road maintenance and rehabilitation are the maximum that could be directed to these functions within the current province budget, and that if the province did not need to spend money on road rehabilitation, the authorities would use the resources that were freed up to fund ongoing road maintenance, rather than directing them to non-road expenditures. (Issues relating to incentives for road maintenance are discussed further in Section 7.)

Nevertheless, based on the assessment by the PRMF project of the amount of expenditure that would be required to bring the current road network in provinces up to an acceptable standard, there is a need for external funding to supplement the resources of LGUs in order to improve the condition of local roads. The amount of national government input required would be expected to decline over time as the standard of local roads improves, assuming adequate maintenance is performed. The remainder of this report examines the various avenues currently used to direct national government resources to local road improvement. Particular attention is paid to those programs that transfer funds to provinces for implementation of projects.

3 Sources of National Government Funding for Local Road Projects

There are multiple sources of national government funding (in addition to IRA transfers) which may be relevant to rehabilitation and maintenance of roads at other levels of government. This report considers those programs that may have an impact on provincial roads. (Several programs such as BuB and the Local Infrastructure Program of DPWH are not available to provinces.)

Relevant national government programs fall into two main categories:

1) Programs which benefit local government units but are managed and implemented directly by national government agencies. Accountability and execution remains with the national government and no actual fiscal transfer occurs (e.g. Tourism Roads and Farm-to-Market Roads constructed by DPWH).

2) Programs which transfer funds to LGUs to implement projects. Funds are transferred from the national to the local government, and planning, procurement, execution, and financial reporting becomes the responsibility of the local government (e.g. KALSADA, PCF and the SLRF).

The PAMANA program falls into both categories as it has road building components funded directly through the DPWH and DA, and also provides funds through DILG for selected LGUs to implement their own projects.

The main programs in each category that are potentially available to provincial governments for road projects are briefly described below. The financial management and monitoring and evaluation arrangements for programs which transfer funds to LGUs are discussed in Section 4 and Section 5.

3.1 Programs Implemented by the National Government

3.1.1. Tourism Road Infrastructure (Convergence Program on Enhancing Tourism Access)

This joint program of the Department of Tourism (DOT) and DPWH focuses on routes to tourist destinations which may include road sections belonging to any level of government. Projects are implemented by DPWH. Local governments are then expected to maintain the completed roads. The total allocation for tourism road construction by DPWH in 2016 is Php 24 billion.

3.1.2. Farm-to-Market Roads Regular (GAA FMR regular)

This is a joint program of the DA and DPWH mainly applicable to municipality and barangay roads but which may affect provincial roads. Projects are implemented by DPWH. Local governments are expected to take responsibility for maintenance after completion. The budget for Farm-to-Market roads in 2016 is Php 7.37 billion.

3.1.3. PAMANA (Payapa at Masaganang Pamayanan) projects implemented by the national government

A program specifically for isolated, hard-to-reach and conflict-affected communities, PAMANA provides funds to DPWH for road projects in these areas. Around 32 provinces are covered by the program. Projects are chosen by the Office of the Presidential Adviser on the Peace Process (OPAPP) based on consultations with communities. Php 6.3 billion was allocated for PAMANA roads in 2016. PAMANA funding is also provided to the DA to implement agriculture development projects. In 2015, this included 32 Farm-to-Market Road projects. Details of projects are provided on the www.pamana.net website. Most projects appear to be at the municipality or barangay level, although some are designated as regional projects and not attributed to particular LGUs.

3.2 Programs implemented by LGUs using national government funds

3.2.1 Performance Challenge Fund (PCF)

A DILG incentive fund for local government reform which provides all provinces that pass the SGLG assessment each year with a Php 7 million matching grant as a contribution to approved local projects. In 2015, 17 provinces implemented 23 road projects at a cost of Php 111 million (source: DILG Bureau of Local Government Development (BLGD)).

3.2.2 PAMANA funds devolved to local governments by DILG

In the 2016 budget, Php 1.79 billion was appropriated to DILG for PAMANA projects to be implemented by eligible LGUs. Information from the PAMANA website indicates that Php 1.26 billion of this was allocated to road projects. Funds are transferred to and administered by the provincial government, however, most projects appear to relate to municipality or barangay roads.

3.2.3 Special Local Road Fund (SLRF)

The SLRF is an earmarked revenue fund in the national budget. Five per cent of revenues from the Motor Vehicle User Charge (MVUC) are deposited in the Fund for use on the maintenance of local roads (RA8794, June 2000). Annual revenue accruing to the fund is around Php 600 million. The MVUC legislation established the Road Board, comprising the Secretaries of DPWH, the Department of Transportation (DoTr), DOF, and DBM to manage MVUC revenues. The legislation does not provide detailed guidance on how the funds are to be used. Rules and regulations on implementation were issued by DPWH in Department Order 161, 2000. Specific arrangements for allocating the SLRF between provinces and cities, the process for submitting project proposals, and the work categories that may be funded, which include regular and preventive maintenance, emergency reinstatement, and professional services for road management, are set out in DPWH Department Order 59, May 6, 2009. As the use of the fund is project-based, the focus is on periodic maintenance activities rather than ongoing maintenance.

DILG coordinates the submission of proposals and forwards them to the Road Board for consideration. DPWH, through its regional offices, manages the distribution of funds to LGUs. Both DILG and DPWH play a role in monitoring project implementation. In 2016, an amount of Php 1.2 billion was allocated from the fund. It should be noted that only 5 per cent of MVUC revenues are allocated for maintenance of local roads, and only for provinces and cities, while 80 per cent is provided to DPWH to maintain national roads. National roads, however, comprise only around 14 per cent of the total road network and province and city roads around 17 per cent with the remaining 69 percent managed by municipalities and barangays (Table 1).

3.2.4 KALSADA 2016

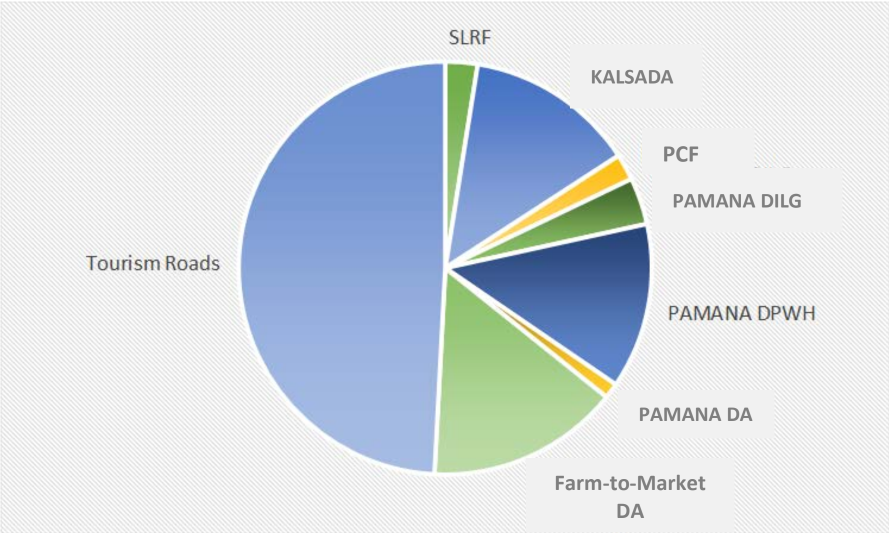
The *Konkreto at Ayos na Lansangan at Daan Tungo sa Pangkalahatang Kaunlaran* (KALSADA) program was initiated in the 2016 budget with a total allocation of Php 6.5 billion to be provided directly to provinces to implement road rehabilitation projects. The concept for the program was developed by the DFAT PRMF program and was initially proposed as a pilot in a limited number of provinces. It was extended to all provinces during preparation of the 2016 budget. The program was reviewed by the incoming administration and will continue in 2017 as the ‘Conditional Matching Grant to Provinces for Road Repair, Rehabilitation and Improvement’ with a proposed budget of Php 18 billion. The program’s main objective is local government capacity development. It also, potentially, expands available avenues for implementing the national government’s infrastructure agenda by devolving responsibility for managing road projects to local governments. DILG has been allocated funds in its budget to implement capacity building efforts in relation to the program including training in road planning and design. Provinces must demonstrate their ability to implement road projects through compliance with pre-conditions set out in the GAA. After meeting eligibility requirements, they may then apply for funding for specific projects. KALSADA is the only national program that transfers funds directly from the national government budget to province bank accounts without passing through a national government agency.

3.2.5 Farm-to-Market Roads funded by the World Bank Philippine Rural Development Program (FMR-PRDP)

A World Bank project to support rural development includes US$354 million (Php 16.4 billion) from 2014 to 2020 for ‘value chain infrastructure’ such as bridges and farm-to-market roads. The project is coordinated by the DA and its regional offices, however, infrastructure investments are managed by provincial LGUs through provincial Program Management and Implementing Unit (PPMIU) set up for this purpose. PPMIUs also manage projects on behalf of lower levels of local government within the province. LGUs will be expected to meet 10 per cent of the cost of each project and assume responsibility for maintenance of the investment. The program will operate in all provinces and provide support to around 700 of the 1500 municipalities (World Bank, 2014). The PRDP program is closely managed by the World Bank and has therefore not been included in the analysis of financial management and monitoring and evaluation.

Chart 1 shows the relative size of various sources of national government funding potentially available for rehabilitation or maintenance of provincial roads. Of these only KALSADA is exclusively earmarked for provincial roads. SLRF funding is available to both provinces and cities. Tourism, Farm-to-Market, and PAMANA road funding applies to all levels of local government. PCF and PAMANA grants through DILG are not targeted at roads, however, it appears that a relatively large proportion of these programs are used by LGUs to implement road development projects. It is difficult to identify the exact amounts of national government funds used for road development at the provincial level.

Chart 1. National Government Funds Available for Local Road Development 2016
(not including BuB and the Local Infrastructure Program)



4 Financial Management of National Government Programs

An effective government program should allocate resources on a transparent and equitable basis to address needs. The financial management arrangements should ensure that funds are used as intended, that projects are implemented in a timely manner, and that transaction costs for local administrations are reasonable relative to the resources provided. The financial management arrangements for national programs, if implemented as planned, would achieve these objectives.

4.1 Allocation of Resources to Provinces and Projects

The basis for distributing funds between LGUs varies, but most programs have reasonably transparent allocation mechanisms and include an element of needs-based funding.

The amount of investment in Tourism roads or Farm-to-Market roads in each province is determined by the Tourism Road Infrastructure Plan (TRIP) and the Farm-to-Market Road network plan which are based on development priorities in the sector and the need for road improvement. Lists of projects are provided in the

GAA under the relevant program classification. The list of PAMANA road projects implemented by DPWH and the DA is based on consultations with local communities about their needs.

In relation to transfer programs, both the SLRF and KALSADA allocate funding based on a formula intended to reflect need. The SLRF allocates funds to provinces and cities based on length of road network and number of registered vehicles as proxies for road maintenance requirements. The amount of funding available to each province from the KALSADA program in 2016 was calculated based on criteria set out in the GAA, including whether the province is an identified development priority (10%), prior performance in completing SLRF projects (40%), percentage of fair to good roads, as an indicator of road maintenance performance (30 %), and the need for road upgrading, indicated by the percentage of unpaved roads (20%).

The regional allocations for PAMANA funds managed by DILG are based on the annual program developed by the national PAMANA Steering Committee and are shown in the GAA. The allocation to particular LGUs within each region is based on project submissions which are assessed by the Regional or Provincial Peace and Order Councils and approved by the DILG Regional Director.

Only the PCF provides a flat amount of Php 7 million per qualified province regardless of identified needs.

4.2 Financial Management Processes for Local Road Funding

4.2.1 National government programs

Road building programs implemented directly by the national government through DPWH follow the normal appropriation, allocation, disbursement, and reporting arrangements for national government funds, although there are slight variations between programs. Funds for tourism roads are appropriated directly to DPWH in the GAA and a list of the proposed projects and their cost is provided under the Tourism Infrastructure sub-heading. The budget for Farm-to-Market roads, on the other hand, is appropriated to the DA and the list of FMR projects is included in the DA budget. The appropriations for these projects are, however, released by DBM directly to DPWH.

Funds for DPWH PAMANA projects in 2016 were also appropriated to DPWH in the GAA but are included with other projects under the heading of ‘Various Infrastructure Projects’ and not separately identified in the DPWH budget. (In the 2017 National Expenditure Program (NEP), funds for these projects are appropriated to OPAPP rather than DPWH and the list of projects is reported under the OPAPP budget.)

National government agencies are required to submit a quarterly FAR to DBM and Congress, which summarizes the status of their allotments received, sub-allotments, obligations, and disbursements against each appropriation item in the budget. DPWH reports in its FAR on all projects it implements, regardless of the source of the appropriation.

4.2.2 Financial management arrangements for transfer programs

Programs which transfer national government funds to LGUs for road construction, rehabilitation, and maintenance follow different paths from the national government budget to the provincial budget and are subject to different financial administration arrangements.

- PCF and PAMANA funds are appropriated to DILG and administered by the DILG Regional offices.
- The SLRF is an ‘automatic appropriation’ which is additional to the general appropriations of DPWH. Funds are released to DPWH and administered by DPWH Regional or local offices.

- KALSADA funding forms part of the 'Local Government Support Fund' appropriated in the GAA under 'Allocations to Local Government Units'. DBM issues allotments and Notices of Cash Allocation (NCA) to the Bureau of Treasury (BTr) which then transfers funds directly to province bank accounts.

Detailed financial management arrangements for each of the programs which transfer funds to provinces to implement road projects are described below.

Performance Challenge Fund (PCF)

PCF funding for LGUs is managed by DILG Regional Offices. Management arrangements for the PCF are set out in DILG Memorandum Circular 2015-111 Sept. 28, 2015.

Funding process for PCFs subsidy

- DILG releases the list of provinces that have met the Seal of Good Local Governance (SGLG) conditions.
- DILG Central Office (CO) sub allots the PCF appropriation amounts to the relevant DILG Regional Office (RO) and cash is deposited in the DILG RO bank account.
- The Regional Office (RO) issues a Notice of Eligibility for PCF funding.
- The provinces submit their Annual Investment Program (AIP) and proposed projects for the year to the DILG RO.
- The DILG RO signs a Memorandum of Agreement (MOA) with the LGU.
- The DILG RO releases a check to deposit cash to the province Trust Fund account.
- Provinces then have 30 calendar days to submit a detailed project proposal and supporting documents including engineering designs, program of works, and pictures of the site.
- The DILG RO then issues a Notice to Implement (NTI) authorizing the start of project implementation. The province can then access the funds in its account.
- The province must provide monthly progress reports five days after the end of each month. Projects must be completed within 12 months of receipt of the NTI.
- Within 10 days of project completion, the province must submit relevant documentation including a project completion report (PCR), certificate of acceptance, physical accomplishment report with high resolution pictures, and a copy of the final report of disbursement received by COA.
- Unexpended balances may be retained by the province for use on enhancements to the project without seeking DILG approval.

The timeline for the issue of Notice of Eligibility for funding and the deadline for submission of province AIPs is not specified in the guidelines.

Although the PCF payment is accounted for as a 'subsidy' rather than a cash advance, and is recorded as a disbursement by DILG at the time funds are transferred to the LGU bank account, the LGU must provide documentation on project implementation and funds disbursement as would be required for a cash advance, and funds for new projects are not released until documents on previous projects have been submitted.

DILG reports to DBM on the use of the PCF funds in its quarterly FAR. Scanned copies of the signed FAR are uploaded under the 'Transparency Seal' link on the DILG website. As of 31 March 2016, the DILG FAR indicated that only 0.3 per cent of the 2016 PCF budget had been obligated, indicating that LGUs do not receive funds until well after the start of the financial year. The end-of-year FAR for 2015, however, suggests that most of the available funds had been disbursed to LGU bank accounts before the end of the year, although projects may not have been implemented by this date.

The PCF website (pcf.dilg.gov.ph/) provides information on the program, including annual and quarterly summary information on amounts allocated per region, as well as, quarterly reports and a project database which provides information on projects up to 2015.

PAMANA DILG Fund

A number of national and local PAMANA bodies have been set up to manage PAMANA funding including a national PAMANA-DILG Steering Committee; Regional and Provincial Peace and Order Councils; Regional and Provincial Technical Working Groups; and National and Regional Project Management Teams.

Procedures for the administration of PAMANA DILG funding are set out in the DILG-OPAPP Joint Memo Circular 01/2012. Eligible LGUs are those previously identified and prioritized, based on the criteria set by OPAPP, in close coordination with the Security Sector, or as defined by the relevant Peace Agreements.

Funding process for PAMANA DILG program

- The total funds available for eligible provinces in each Region is determined by the national PAMANA committee during annual budget preparation.
- Project proposals are submitted by eligible LGUs to DILG local offices, reviewed by Provincial or Regional Technical Working Groups and approved by the Provincial or Regional Peace and Order Councils. Final approval is given by the DILG Regional Director.
- A MOA is signed between the DILG RO and the LGU.
- The DILG RO operates a Trust Account for the management of PAMANA funds. Appropriations allotted to DILG CO by DBM are sub-allotted to the DILG RO and cash is deposited in the PAMANA Trust Account.
- The implementing provinces must set up an equivalent Special Trust Account for PAMANA funds.
- The DILG RO transfers cash to the province Trust Account in two tranches. The first tranche comprises 80% of the total. The remaining 20% is transferred after the first 80% is utilized and a Certificate of Completion is received.
- The province is responsible for overseeing the project and submits monthly financial and physical accomplishment reports to the Regional PAMANA Project Management Team.
- Liquidation of fund releases, following COA procedures, is made to the DILG RO.
- Unexpended balances are to be returned to the DILG RO account.

As in the case of the PCF, the timeframe for project submission and approval is not clearly specified in the guidelines.

The Special Provisions relating to the DILG budget for PAMANA state that DILG is to submit quarterly reports on the implementation of the program to OPAPP and to post these reports on the DILG website. There is no specific PAMANA report on the DILG website, however, DILG reports to DBM on allotments, obligations, and disbursement of funds for PAMANA in its quarterly FAR which is available on the website. As of 31 March 2016, 28 per cent of the PAMANA funds were reported as obligated. The final FAR for 2015 indicated that 2.4 billion of the 3.1 billion budget (around 75 per cent) had been disbursed.

Details of individual PAMANA projects managed by all agencies are reported on the PAMANA website (pamana.net).

Special Local Road Fund (DILG)

Management arrangements for the SLRF are set out in DPWH Department Order No. 161/2000, DPWH Department Order No. 59/2005, DPWH Department Order No. 24/2006, and DPWH Department Order No. 42/2008. The Road Board determines the amount that will be withdrawn from the Fund each year. This amount is provided to DPWH through the Special Provisions in the DPWH budget in the GAA. A MOA between DPWH and DILG in 2003 delineates responsibilities for utilization of the SLRF between the two departments and gives DILG a significant role in monitoring project implementation and reconciling budget utilization. Resources from the SLRF, up to 1 per cent of the fund amount, are provided to DILG to undertake these responsibilities.

Funding process for Special Local Road Fund

- The Road Board calculates the amount available to each province and city based on population and road length data provided by DILG.
- DILG informs LGUs of their SLRF allocation and the process for preparing project proposals.
- Provinces and cities submit a rolling multi-year work program and an annual work program to DILG. The annual work program is to include information on regular maintenance funded from the province's own source funds, as well as, proposed maintenance and asset preservation projects to be funded from the SLRF.
- DILG submits consolidated proposals to the DPWH Road Board.
- The SLRF appropriation is released to DPWH by DBM and funds are sub allotted to the relevant DPWH District Engineering Offices (DEOs).
- The DPWH RO/DEO signs a MOA with the province for each project.
- A cash advance is then issued to the province's Road Fund Disbursement Trust Fund Account. (Previously, funds were released in two tranches but now only one payment is made.)
- The province submits a quarterly Report of Expenditure to the DPWH DEO, with a copy also to the DILG Central Office (Office of the Project Development Services), within fifteen days after the end of each quarter.
- The DPWH RO may inspect progress of project implementation. The DPWH RO and the province conduct a joint final inspection of each completed project and issue a Certificate of Completion for each.
- The province prepares reports on project implementation and submits a consolidated Annual Report to the DPWH DEO not later than 20 February of each year.
- Unexpended amounts are returned to the DPWH RO account. Future releases of SLRF funds are dependent on liquidation of the existing cash advances.

There does not appear to be a time limit on project implementation and funds liquidation, but further SLRF funding is conditional on liquidation of previous cash advances, and eligibility for KALSADA funding takes account of effective implementation of SLRF projects.

The DPWH FAR, available on the DPWH website, provides information on allotments, obligations, and disbursements for the Fund, although this is somewhat difficult to identify as it is reported as 'Motor Vehicle User Charge Fund', rather than the SLRF referred to in the GAA. Up to 31 March 2016, no funds had been allocated from the Fund. The final FAR for 2015 shows that only Php 192 million of the total Php 1.2 billion budget was recorded as 'disbursed' with around Php 942 million shown as unpaid obligations suggesting that projects had not yet been implemented, or that project liquidation documents had not yet been received or processed.

KALSADA 2016

Eligibility and allocation criteria for the KALSADA program in 2016 were specified in the GAA and application processes were communicated to provinces by DILG and DBM. No formal guidelines or procedures have been issued so far. To date, the program has been managed largely by the DILG Central Office. DILG is responsible for calculating the amount available for each province based on the funding formula and providing capacity development assistance to provinces on the requirements for accessing the funds.

Funding Process for KALSADA 2016

- To become eligible, provinces need to submit documents to DILG to demonstrate that they meet the criteria set out in the GAA including compliance with DILG's Seal of Good Financial Housekeeping; SLRF project completion rate; a Provincial Road Network Development Plan (PRNDP) with technical plans and cost estimates for priority projects; proof of disbursement of previous year's maintenance budget for roads; a local road management assessment report; and a commitment to fund the cost of maintenance and repairs.
- Provinces also submit their most recent PFM Assessment Report, reviewed by the DBM RO, to DBM.
- DILG CO determines eligibility for funding based on receipt of required documents.
- DILG CO reviews the PRNDP and approves the proposed projects.
- DILG CO advises DBM of the amounts approved and DBM issues an NCA to the BTr. BTr then transfers funds to province bank accounts. Funds are recorded as disbursed by the national government when transferred to provinces.
- Funds released to the province are recorded as Trust Funds to be used for the specified purpose. Counterpart funds provided by the province are also placed in the Trust Account.
- The province submits a monthly monitoring report to DILG.
- The province submits a PCR to DILG within one month after completion including a certificate of acceptance of the project, and copy of COA Inspection Report.
- The province is also required to upload a video of the completed road to the openroads.ph website.

For the 2016 financial year, the application processes for KALSADA commenced in late 2015 and funds were released to most eligible provinces in the first quarter of 2016.

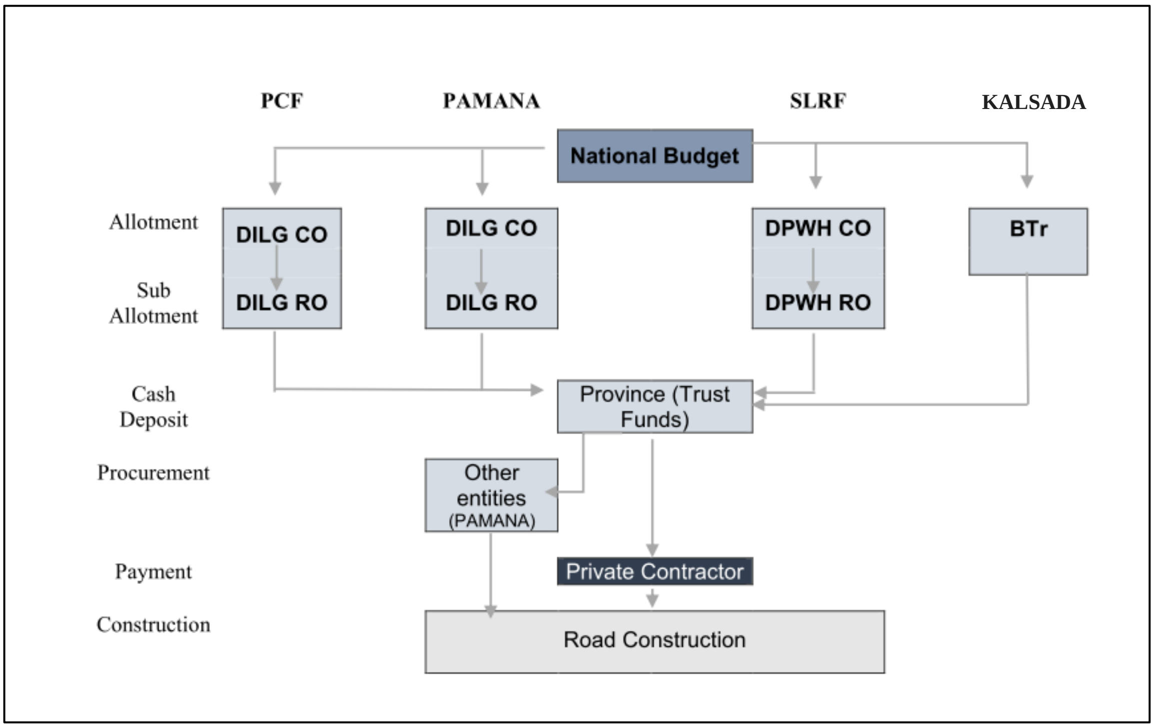
The GAA specifies that provinces should submit quarterly reports on financial and physical accomplishments to DBM, the House, and the Senate. It does not appear, however, that provinces currently report directly to DBM and this may not be appropriate in any case as DBM is not involved in either funds allocation or project monitoring. Reports on project implementation are submitted to DILG, while the BTr provides a FAR on the disbursement of funds. There was initially some confusion in DBM about which Bureau had responsibility for the KALSADA budget and the reporting arrangements for these funds but it has now been agreed that the Local Government and Regional Coordination Bureau (formerly Public Expenditure Management Bureau), which is responsible for LGU finances, should have overall responsibility for the program.

Diagram of funding flows

Chart 2 below illustrates the flow of funds from the National Budget to the Provincial Trust Fund accounts for the four transfer programs.

Financial and physical reports back to the central government do not necessarily follow the same paths as cash disbursements. For example, SLRF grants are disbursed by DPWH but monitoring is undertaken by DILG. Although two of the funds are treated as untied subsidies, similar to the IRA, rather than as cash advances, the requirement to provide liquidation reports on the use of funds and the implementation of projects is similar for all funding sources. One of the things largely missing from the general guidelines for these programs is an indication of the timeframe for submission and approval of projects, transfer of funds, and implementation of projects.

Chart 2. Flow of National Funds to Provinces



5 Monitoring and Evaluation of Direct Transfer Programs

The implementation arrangements for national government programs for local roads need to ensure that resources are allocated effectively (i.e. to roads that are priority/core roads, are in need of repair, and are not included in any other program), that the work is actually performed on the identified roads, that the quality of the work is adequate, and that the rehabilitated road assets are adequately maintained after project completion to protect the value of the national government investment.

The Philippine government adopted a results-based monitoring and evaluation (M&E) framework with the issuance by former President Aquino of Administrative Order Number 25, supporting the creation of a unified and integrated Results-based Performance Management System (RbPMS). For the first time, the Philippine Development Plan 2011-2016 was accompanied by a Results Matrix (RM) that outlines how each program, project, and activity of government agencies and instrumentalities contributes to the accomplishment of a major output, leading to outcomes, and the achievement of goals for each sector. The RM is the basis not only for monitoring and evaluation, but also for the grant of performance-based allowances, incentives, and compensation of government personnel.

Within this system, results frameworks or results matrices were also developed for each direct transfer program, along with a system of M&E. For programs and projects involving several agencies, a coordination mechanism was defined to facilitate M&E efforts. The review of M&E systems for these direct transfer programs affecting roads focused on the following key aspects – clarity of program theory, M&E systems and processes, and stakeholders and roles. The findings of this review are discussed below.

5.1 Clarity of program theory

Only SLRF and KALSADA have an explicitly-articulated roads agenda. This is to be expected because PCF and PAMANA do not specifically target local road rehabilitation and maintenance. Nevertheless, PCF and PAMANA contribute to local road management because, while road projects are not targeted, several provinces use these funds to rehabilitate or maintain deteriorating road sections. In 2015, for example, a total of Php 110 million was invested by 17 provinces in 23 road projects using PCF. Of the Php 1.8 billion PAMANA funds under DILG, at least Php 1.4 billion is invested in road projects by LGUs in 2016.

While the four different programs have clearly articulated goals, only KALSADA has a clearly defined results chain. SLRF's goals are about preservation of road assets, more efficient road transport operations, and satisfaction of road users. PCF positions itself as a reform agenda, where the grant of funds to provinces is dependent on the level of transparency and accountability, planning, fiscal management, and performance monitoring. PAMANA wants to strengthen peace-building, reconstruction, and development in conflict-prone areas. Finally, KALSADA is described as a governance reform with roads upgrading and rehabilitation as a litmus test for the quality and sustainability of fiscal management and local road management in the LGU.

PAMANA and PCF have program theories but are attached to the program logic of the agency that "owns" the program. For example, PAMANA has a results framework that leads to peace and development in areas affected by conflict, with DILG's PAMANA only contributing to overall program-intended outcomes and impact envisioned by OPAPP. Thus, there is no DILG-specific results framework. PCF's program goals are attached to DILG's overall results framework where the grant of PCF incentives are attached to the result "access to financial resources in the form of subsidies, loans, and other financing mode for social infrastructure and other basic services facilitated". Thus, PCF goals are "output-level" results in the overall DILG agency framework.

Despite being a DILG program, KALSADA's program theory, while consistent with DILG's overall results chain, articulates clearly what it intends to achieve at outputs, outcomes, and impact levels. KALSADA's results chain is presented in Table 4 below.

While the results chain has some inconsistencies with results-based monitoring framework terminologies (e.g. upgrading and rehabilitation of roads are largely outputs than outcomes, and capacity development services are more of activities than outputs), the program framework is able to articulate what it wants to achieve and provides a good basis for M&E activities. For some variables in the results chain, very clear performance targets are indicated. For example, in the case of roads, the target is 832 kilometers of provincial roads rehabilitated and maintained.

Table 4. Results Chain - KALSADA

Impact	• Socio-economic growth/poverty reduction sustained in the long term • National-local road connectivity in the medium term • Local roads maintained by the LGU in the medium term
Outcomes	• Provinces and cities invest in local road maintenance • All unpaved provincial and city roads are upgraded by 2022 • 832 km damaged paved core provincial roads and 1,901 km damaged paved city roads rehabilitated by 2018 and 2019, respectively • LGUs LRM/PFM capacities increased from 2015 baseline
Outputs	• Reform assistance services and incentives provided to LGUs • Capacity development services provided to LGUs

The KALSADA program, while largely a funding modality to rehabilitate provincial roads, has a complex performance measurement framework that covers not only road rehabilitation outputs but also other results related to road planning, local road management, procurement, budgeting, internal audit, and road asset accounting. Performance indicators are well-defined for every year of program implementation up to 2020. An example of targeted results for the year 2016 is shown in Table 5 below.

Table 5. KALSADA Performance Indicators and Targets for 2016

Performance Area	Performance Indicator	Targets for 2016
Road rehabilitation	Length of roads rehabilitated or improved	814 kilometers
Road planning	Presence of a Provincial Road Network Development Plan (PRNDP)	74 provinces – first version, compliant with PRNDP processes
Local road management	Presence of personnel skilled in preparing road design, construction management, and maintenance management	All provinces
Procurement	Number of KALSADA projects that undergo public bidding	100% of KALSADA projects undergo public bidding
Budgeting	Number of provinces which allocates budget for road maintenance for all maintainable roads (fair to good)	19 provinces
Internal audit	Number of provinces with an organized internal audit office with staff, budget, and internal audit plan	74 provinces
Road asset accounting	Number of provinces that were able to book its road assets	74 provinces have booked at least 25% of roads as assets in its books of accounts (consistent with COA guidelines)

To achieve these targets, the program is structured as an incentive mechanism where provinces not meeting the required standards (e.g. road rehabilitation and maintenance targets, SGLG, PFM indicators, among others) do not become eligible for funding. In this way, continued participation in the program is dependent on provinces' meeting a set of performance targets which DILG will monitor on a year-to-year basis.

5.2 M&E processes to assess road improvement, rehabilitation, and maintenance

While monitoring processes are clearly defined, these are largely focused on project effectiveness and efficiency.[3] There is little evidence to show that monitoring focuses on the quality of road rehabilitation or

[3] By project effectiveness, we mean the ability of the recipient provinces to complete the project based on design, while project efficiency is the ability of the province to execute the project within budget and time allocation.

maintenance. Each of the programs has clearly defined the baseline, midline, and end-line data variables that need to be collected and reported on by provincial governments. However, these are focused on how the projects will be executed (baseline), how much physical and financial progress has been accomplished over time (midline), and how the project is completed (end-line). The assessment of quality is left to the recipient provincial government to perform, or to regulatory agencies such as COA, although in each of these programs, DILG personnel at the national, regional, provincial, city, or municipal level are expected to undertake site or field visit monitoring.

There is also a clearly defined reporting mechanism for each program, but the general impression is that it is more focused on quantity than quality reporting. It is only in the KALSADA program that quality assurance/quality control is required, and that the province is expected to undertake an assessment of contractor performance using the Constructor's Performance Evaluation System. However, if you refer back to KALSADA's performance measurement framework, the target for 2016 is 814 kilometers of road rehabilitated or improved, without any mention of quality.

Monitoring of the quality of road rehabilitation or improvement, as well as the general improvement of provincial road networks, is dependent on the RBIS, developed for DILG by the PRMF project, but this system is not yet operational. A contract to undertake a road condition survey and to obtain global positioning system (GPS) road centerline and road and bridge inventory data to be processed and uploaded to the RBIS is currently being implemented, and data will likely be uploaded in the first quarter of 2017. Provinces will take the lead in subsequent data collection. A successful implementation of RBIS would be very valuable for ascertaining actual road condition, as well as, determining improvements in provincial road network condition over time. There is no way yet of ascertaining whether the current system will be able to provide this information as the process has barely started. Concerns about the functionality of the system, as currently designed, were discussed above.

Because monitoring for most programs is project-focused, there is no evidence to show that there is any monitoring of maintenance activity after construction/rehabilitation. For PAMANA and PCF, monitoring is done up to project completion. Post-completion monitoring, as to whether or not the provincial government maintains the road that has been rehabilitated, is not a requirement, although for PAMANA, DILG is required to ensure that post-rehabilitation maintenance of roads is budgeted for. For SLRF and KALSADA, the collection of an annual road inventory at the beginning of each annual funding cycle can serve as a way to assess whether road projects funded either through rehabilitation (KALSADA) or maintenance (SLRF) in the previous years have been properly maintained. However, there is no evidence to show that (1) provinces regularly update their road inventories, or (2) that DILG Office of Project Development Services (OPDS) uses the annual inventories to monitor changes in road condition over time. DILG OPDS admits that some provinces submit the same inventory each year without sufficient updating – something that is hoped to be solved through the use of RBIS.

The proposal to use www.openroads.ph, an online portal that provides data on different road projects, cannot address this problem. The portal will only show the current projects being undertaken, unless an additional feature is added to give stakeholders the opportunity to post road status updates even after project completion, and incentives are provided to encourage them to do so.

There is no evidence to show that evaluation has been conducted for the different programs. For both KALSADA and PAMANA, an impact evaluation is included as part of the program guidelines. For PAMANA, impact evaluation is indicated to be done within 2-3 years from project implementation using participatory methods. For KALSADA, DILG together with the Provincial Planning and Development Office (PPDO), is expected to conduct impact evaluation; no other details are provided in the guidelines. For the other programs, evaluation processes seem to be not required.

5.3 Stakeholders and roles

Roles of different agencies are clear in the generation, validation, and use of performance information. Largely, generation of performance information is the responsibility of provinces. Validation is the responsibility of implementing agencies. All agencies involved in the program are assumed to use performance data for decision-making purposes. The table below shows the different agencies involved in each of the programs and their corresponding roles in the generation, validation, and use of performance data.

Table 6. Stakeholders and Roles

	PCF	PAMANA	KALSADA	SLRF
Data generation	**LGU** – submits inventories, plans, designs, cost estimates, pictures, financial and physical reports **DILG** – submits reports	**LGU** – submits inventories, plans, designs, cost estimates, pictures, financial and physical reports **DILG** – submits reports to OPAPP	**LGU** – submits inventories, plans, designs, cost estimates, pictures, financial and physical reports **DILG** – submits reports to Congress	**LGU** – submits inventories, plans, designs, cost estimates, pictures, financial and physical reports **DILG** – submits reports to the Road Board
Data validation	**DILG BLGD**– monitors and validates performance data **DILG regional offices, provincial offices** – conducts monitoring	**OPAPP** – validates agency reports **DILG OPDS** – coordinates reporting **DILG sub-national offices** – to monitor project implementation **Civil Society Organizations (CSO)** – as third party monitors	**DBM** – financial monitoring **COA** – inspection of completed projects, ascertainment of compliance with road asset booking **DILG** – overall monitoring and evaluation	**DPWH** – financial and physical monitoring in coordination with DILG **DILG RO/OPDS** – conducts both physical and financial monitoring, and also site visits
Data use	**DILG** – uses the performance data to validate quality of governance	**OPAPP** – reviews program effectiveness **DILG** – assesses project performance and supports provinces	**DBM** – to assess quality of PFM **DILG** – to design appropriate capacity building interventions, to decide whether province will be included in future rounds of the program	**DPWH** – to determine quality of work **DILG** – to design appropriate interventions, decide whether to include province **Road Board** – to assess implementation

While roles are clear based on program guidelines, this does not necessarily mean that agencies are aware that they are expected to perform these roles, or that they are actually doing it. For example, in the case of KALSADA, due to the newness of the program, DBM and COA seemed to not know their functions in the program or be aware of the expectations. At DBM, this has been addressed by the decision during 2016 to concentrate responsibility for all aspects of local government funding in a single Bureau. For SLRF, evidence is not available as to how actively DPWH is involved in data validation processes. This seems to point to the lack of coordination mechanisms among the different agencies involved in the programs. This problem does not seem to exist with PCF because of the fact that PCF is a program internal to DILG with no inter-agency mechanism involved.

Ensuring project completion is the main responsibility of participating provinces, while validation of results is DILG's primary task. This has several implications. First, the degree of success will largely be dependent on the quality of governance of the provincial government. This alludes to the research finding that provinces with higher capacity are in the best position to use that capacity to achieve better governance results (Troland, 2014). This means that DILG has the big challenge to ensure that provincial capacity is supported to achieve intended outcomes. Second, monitoring responsibility is a huge task for DILG, given the number of provinces it has to monitor and the different projects it implements. The four programs reviewed here are just a few of the programs for LGUs that DILG is responsible for. Third, if validation is limited to review of paper reports, it is likely that monitoring of quality will be sacrificed (e.g. projects are completed, and funds disbursed, but the quality of rehabilitated roads is not verified).

DILG's operational structure is top-heavy. There are many bureaus at the central office level implementing several programs, but at the municipal and city levels, there is only one person coordinating and monitoring all programs. Given the fact that there is a very low staff-to-LGU ratio in central office bureaus, it is very likely that some of the validation and monitoring work will be consigned to sub-national offices (region, province, city, or municipality). This will have serious workload implications potentially affecting the quality of the validation processes. However, in the case of the KALSADA program, DILG made the conscious decision to centrally manage implementation with less involvement of regional offices while monitoring functions are shared with provincial offices.

To date, the team that is in-charge of reviewing road-related projects within the Office of Project Development Services (OPDS) at DILG only includes 29 people (including 7 engineers) covering the M&E task of all KALSADA, BuB roads, and SLRF projects across the country.

5.4 Variations in monitoring practices

The different programs have different reporting requirements, even when they are implemented by the same agency. DILG is involved in the implementation of the four programs covered by this assessment, even though their funding sources vary. Even within the same office at DILG, as in the case of OPDS which implements SLRF, KALSADA, and PAMANA, it was admitted by key personnel that the current reporting requirements are still to be harmonized.

Table 7 shows the different reporting requirements for the four programs. As indicated in the table, there are very few reporting requirements that are common across the four programs. What is common across project monitoring processes is that reporting needs to be done both for physical and financial progress. This is consistent with the National Economic and Development Authority (NEDA)'s Regional Project Monitoring and Evaluation System (RPMES) Guidelines. Data capture forms for these two reporting areas vary across the different programs and the frequency of reporting also varies significantly.

Table 7. Documentary Requirements for Monitoring

	PCF	PAMANA	KALSADA	SLRF
Baseline	• Project Proposal inclusive of - Program of Work - Detailed Estimates, - Detailed Engineering Design - Bar Chart/S-curve - Engineering certifications • Pictures of the proposed site in high resolution (preferably taken in two angles) • Memorandum of	• Project proposal • Detailed Engineering Design (infra), or Detailed Technical Design (non-infra) as appropriate • Procurement Plan • Physical and Financial Plans • Program of Works, Detailed Estimates • Certification that the project is not located in a no-build zone	• Approved Provincial Road Network Development Plan (PRNDP) • Local Road Management Performance Assessment (LRMPA) Report • Project List • Detailed Engineering Designs (DED) • AIP • Route shoot of approved KALSADA	• Road inventory • Individual work programs which include the descriptions, work category, detailed estimate of proposed works • Detailed cost estimates, which provides breakdown of direct material, labor, equipment, and indirect cost • Detailed plans, including

	PCF	PAMANA	KALSADA	SLRF
	Agreement, Annual Investment Program (AIP), or LDIP (page indicating the project)		projects • Physical and Financial Accomplishment Report Maintenance Projects • Public Financial Management (PFM) Assessment Report	drawings and sketches • Pictures of the road to be maintained • LRMPA
Mid-line	• Monthly Accomplishment Reports through Statement of Work Accomplished (SWA) • 2 High-resolution (preferably geo-tagged) jpeg photos of the project taken from two angles	• Monthly project monitoring report that shows both physical and financial accomplishments of the project	• Monthly data capture monitoring report to DILG • Quarterly financial and physical accomplishment report to Congress and DBM • LGU assesses contractor performance using CPES Guidelines • LGU conducts regular QA inspection	• Annual Report certified by the PE/CE and the Provincial/City Treasurer showing physical and financial accomplishments. • Quarterly Audited Report of Expenditure
End-line	Project completion report that includes • Certificate of Project Completion by the Local Chief Executive (LCE) Certificate of Acceptance • Copy of the Report of Disbursement (ROD) duly received by the local COA • 2 High-resolution (preferably geo-tagged) jpeg photos of the project taken from two angles • LCE testimonies	1. Project completion report 2. Certificate of acceptance of the project issued or signed by the recipient or beneficiaries; 3. COA certification of Liquidation of 100% of the project fund; and, 4. Others, as deemed necessary	5.Project Completion Report (PCR) within one (1) month after completion, which should include the following documents 6.Certificate of acceptance of the project issued or signed by the implementing Provincial Local Government Unit (PLGU) 7.Copy of COA Inspection Report 8.Others, as deemed necessary 9.LGU is also required to upload a Route shoot at openroads.ph	10. Joint Certificate of Completion for projects completed 11. A Liquidation Report of the full cash advances

5.5 M&E and road management performance

In at least two programs, KALSADA and SLRF, the capacity of provinces in local roads management is independently assessed. In both programs, provinces are required to undertake a Local Roads Management Performance Assessment Tool (LRMPAT) using the LRMPAT administered by trained DILG personnel. Compliance with this process is a requirement to avail of funding support.

Another indicator used to gauge the effectiveness of LGU's road management practices is their 'percent of roads in good to fair condition', which in itself is a good indicator of an LGU's ability to implement a good local road management program. It also takes into account year-to-year improvement by using the increase or decrease of this ratio from one period to another as a primary measure of consistency in intentions and outputs. An accurate way of conducting road condition inventory is important in these programs to ensure that the rating provinces get is reflective of the actual condition of the road network.

This type of measurement is not available in other programs, primarily because these programs (PCF and PAMANA) are not specifically designed to improve road condition.

6 Implications of National Government Funding for Provinces

There are numerous potential sources of financing for local road development and maintenance in addition to the IRA and own source revenues. Most of these have potential impact on provincial roads, although in some cases, such as Farm-to-Market roads, the impact is likely to be small. Two funding programs (PAMANA and PRDP) require the province to coordinate projects on behalf of other levels of government. The implications of these multiple sources of funding for local government finances, workload, business processes, and reporting requirements were discussed with a number of provincial officials. The main issues they raised are discussed below.

6.1 Implications for funding for local roads

Any funding assistance that would augment provincial financial resources is always embraced by provinces. Provincial financial capacity to maintain roads is dwarfed by their other responsibilities in the social, economic, political, environmental, and social sectors (Section 17, Local Government Code of 1991). In the case of Bohol, for example, to fund the maintenance of 834 kilometers of road, 68 per cent of which is in maintainable condition, Bohol allocates a budget of roughly Php 50 million, equal to an overall annual budget per kilometer of only Php 46,000, compared to DILG's recommendation of at least Php 100,000 per kilometer per year, which is regarded as grossly inadequate considering the road surface (80% gravel), terrain (predominantly rolling to mountainous) and weather conditions (rainy at least 40% of the year).

At the same time, the province also needs to fund rehabilitation of important road sections. However, provinces contend that road rehabilitation projects are more difficult for them to fund. Thus, when they do rehabilitation projects, they are only able to finance shorter road lengths. According to Nueva Viscaya Provincial Planning and Development Coordinator (PPDC), for example, funding provided by the KALSADA program was the first time that the province was able to implement, on its own, a concreting road project of almost eight kilometers in length. Projects of this size have normally only been undertaken by national government agencies and bilateral donors. Given these funding and revenue limitations, projects that increase provincial capacity to rehabilitate and maintain roads are generally welcomed by provinces.

6.2 Implications for workload and business processes

The capacity of local engineering offices is tested by the direct national-to-local funding modality. Direct national-to-local transfers not only provide additional funding but also instigates capacity-building of different offices involved in local road management as they are required to perform the tasks on their own. Although most PPDCs do not mind if local road projects are managed directly by national government agencies, as long as provinces have a say on the nature, type, and location of the projects to be implemented and are involved in monitoring the performance of the projects over time, implementing the project on their own allows them an opportunity to exercise control and accountability, in the true spirit of decentralization.

Managing the road projects requires that local engineering offices are able to design roads, as well as, monitor contractor performance because all of these tasks are done by the provincial team. However, it has to be noted that Provincial Engineering Offices (PEOs) in most provinces are structured with funding limitations in mind. Thus, for provinces like Eastern Samar, the PEO needs to balance time and workload to be able to respond to various project requirements. While they are able to do the work, it will have the tendency to overburden the engineering team, especially during times when deadlines for the submission of requirements come one after another. According to some PPDCs, current PEO structures are not ready to manage several projects at the same time – largely due to the fact that they are not used to these processes yet.

To build local capacity, the response of most agencies, such as DILG, is to conduct trainings or learning visits, or actual task simulation. These are necessary interventions, but, do not address the major problem of the provinces which is a lack of people to do the work. Provinces that have already reached their personnel services budget limit will not be able to hire additional people, and will, therefore, rely on contractual personnel who cannot be sent to DILG training sessions and may leave government after a short period of time.

However, current government systems allow provinces to monitor road projects efficiently, though the capacity of provinces to undertake this differs depending on quantity and quality of provincial staff. Current systems at the provincial level support monitoring of local road management practices. The Provincial Accountant's Office looks into proper financial recording and reporting, the Bids and Awards Committee ensures compliance with procurement laws, the Provincial Engineer's Office does contract management and supervision as well as monitoring of road works, and the PPDO handles overall project monitoring reviews, as well as, the social and economic implications of road projects.

Some provinces are well-positioned to undertake these tasks but there are others whose capacity needs to be strengthened as indicated by the results of the 2016 Local Road Management Performance assessment. A few provinces, including those that were recipients of PRMF funding, underwent two to five years of technical capacity building assistance, but others were not able to take advantage of a similar experience. DILG, however, has allocated a substantial portion of its 2016 and 2017 budgets to building provincial capacity in key areas such as road design, contractor assessment, road asset accounting and internal audit, among others.

6.3 Implications for reporting requirements

Provinces recognize that the requirements of the different funding programs that impact on roads are differentiated in terms of format, manner of submission, and timelines. They understand that this is partly because the programs have different objectives and are implemented by different agencies. However, they have also noted that even for projects implemented by DILG, there are different requirements and forms. Provinces expressed the need to harmonize these reporting requirements based on purpose or objective. For example, monthly monitoring reports could be formatted in the same way for the different projects, and the dates for submission could be made the same for all as well. (For example, PCF requires a Statement of Work Accomplished every 5th of the month; KALSADA requires Monthly Data Capture and Monitoring Report every 25th of the month.)

The variables included in data collection can also be harmonized. For example, PCF requires testimonies of local chief executives while PAMANA engages CSOs as third party monitors. KALSADA has a very sophisticated quality assurance and quality control monitoring system which is not required for other funding modalities. PAMANA requires a certificate of acceptance of the project issued or signed by the recipient or beneficiaries, while KALSADA requires a COA inspection report.

6.4 Implications for overall absorptive capacity

Absorptive capacity of provinces needs to be considered in the design of programs that involve material amounts. As earlier indicated, the size of provincial organizational structures is a product of their resource endowments. Well-resourced provinces tend to have larger structures because their ability to hire is better as compared to the others with limited revenues (and especially considering the personnel services cap). Several provinces consider the capacity of their workforce to implement and monitor the projects before they submit proposals. Some programs also require counterpart funding from the province (e.g. KALSADA, SLRF, and PRDP) and so they also consider the ability of their annual budget to provide counterpart funds. Provinces prioritize KALSADA and PRDP because the amount of funding available is material as compared to other funding modalities. They would rather spend their resources, both human and financial, on KALSADA than on small projects. There are times, for example, that some provinces do not use the SLRF allocation for the year.

Structural capacity constraints, as earlier indicated, cannot be solved by training. It requires material investments not just in personnel, but also, in necessary equipment. The regular conduct of inventory, for example, not only requires staff but also transportation equipment, as well as technical equipment to record and store inventory results. The requirements associated with program delivery that are instigated by funding external to the provinces need to be carefully assessed to avoid the risk of projects not being completed and sustained because of capacity constraints.

7 The Problem of Road Maintenance

It has been noted that many LGUs appear to adopt a 'build-neglect-rebuild' approach, allowing roads to deteriorate to the point where major reconstruction is required. Several of the national government funding programs for local roads have, therefore, been designed to address this tendency.

7.1 Incentives and disincentives for provincial effort on road maintenance

Several provisions of the Local Government Code and national government funding arrangements may provide a disincentive to provinces to provide sufficient funds for routine maintenance. The requirement to allocate 20 per cent of the IRA to development projects, for example, may produce a bias towards road rehabilitation at the expense of regular maintenance. In addition, the existence of national government and donor-funded programs that provide external funding for local road building and rehabilitation may create a moral hazard, encouraging LGUs to allow roads to deteriorate until external funding becomes unavoidable, thus, enabling them to divert recurrent maintenance funds to other purposes. The political and economic impact of road construction activity may also encourage local authorities to favor visible capital projects over less obvious routine repairs and maintenance.

7.2 National government incentives

The national government has responded to possible under-funding of road maintenance by requiring LGUs to demonstrate adequate spending on road maintenance as a condition for access to national government funds for road rehabilitation. The success of this incentive depends, however, on the ability of national government agencies to monitor LGU performance in road maintenance. The KALSADA program requires several items of evidence on the adequacy of road maintenance:

- The PRNDP must include information on amounts budgeted for road maintenance;
- The LRMPA conducted by the DILG RO includes indicators on budgeting and planning for maintenance; and
- Evidence of the actual expenditure of funds for road maintenance in the previous year is also required.

The amount of funding provided is also higher for those provinces that have a larger proportion of roads in ‘fair to good’ condition, which is an indication that the province has maintained its roads over time.

Local government financial accounts are prepared according to COA’s local government accounting manual and use a standard chart of accounts which includes an item for Repair and Maintenance of Roads. The accounts are audited by COA and it can be assumed that the information provided by provinces on road maintenance expenditure is a reliable reflection of the amount actually disbursed. COA does not, however, conduct performance audits of road maintenance to verify that adequate, quality maintenance was actually performed using the funds allocated. There are also questions about the reliability of data on the ‘fair to good’ roads indicator of quality.

8 Conclusions

Based on the assessment of financial management, M&E processes, the review concluded that, of the various models currently used to transfer resources to provinces for road rehabilitation and maintenance, the KALSADA program has, at least conceptually, the most comprehensive and robust eligibility and M&E arrangements. The program is also large enough to provide a meaningful incentive to provinces to comply with obligations in relation to capacity development and ongoing road management. A number of issues could be addressed, however, to ensure that the program achieves all its objectives. The program also needs to be considered in the context of the multiple parallel national government programs impacting on province roads and their different planning, funding, and monitoring arrangements. The main finding relating to overall funding arrangements for provincial roads, and to the KALSADA program specifically, are identified below.

Adequacy of provincial resources for road management

Maintenance

Based on DILG guidelines, annual road maintenance costs should form a significant component of province recurrent budgets (approximately 2 to 3 per cent) if the quality of the local road network is to be adequately maintained. However, there are incentives for local authorities to divert recurrent maintenance costs to other purposes, and constraints in the Local Government Code on the ability of LGUs to enlarge their budgets by raising additional revenue to supplement IRA transfers. The capacity of provinces to generate own source revenues could be improved through changes to revenue and expenditure assignments in the Local Government Code.

Road Rehabilitation

There is, at present, no reliable assessment of the current condition of local roads and the amount that would be required to bring the provincial road network up to an acceptable standard. It is generally agreed, however, that local roads require considerable investment and that provinces would not have the resources that would be required to rehabilitate their road networks. National government funding is therefore necessary.

There is a risk, however, that national funding for road rehabilitation will further undermine incentives for provinces to perform road maintenance unless reliable safeguards are in place.

National government funding for local roads

There are multiple direct and indirect sources of national government funding impacting on provincial road development, which involve multiple government agencies, and different planning, implementation, and monitoring arrangements. The number of different options for funding local road projects raises questions about the coordination of local road development plans given capacity constraints at the local government level.

Most funding sources are allocated between provinces on the basis of need using various proxy measures. Future mechanisms for assessing road maintenance requirements based on asset values or road inventory systems may improve the allocation of funds to match needs but these require further development.

Appropriation, disbursement, and reporting arrangements for transfer programs vary. Two programs (SLRF and PAMANA) are treated as cash advances, while PCF and KALSADA are accounted for as subsidies and recorded as disbursed when funds are transferred to the province. All four programs, however, impose similar project approval, reporting, and financial liquidation requirements. Planning and distribution of KALSADA funds was achieved early in the 2016 fiscal year, but in several other programs, there are lengthy delays in actual project implementation following approval of the annual budget. National government funds are provided for the cost of projects, but there is no mechanism to supplement the staff resources required by the LGU to plan, implement, and monitor projects.

Some sources of funding for road projects are quite small with significant transaction costs for province administrations to the point that some provinces are unwilling to participate. PCF, for example, provides Php 7 million per province, and SLRF in 2016 would provide on average around Php 5 million per city or province, compared with KALSADA amounts which range from Php 43 million to Php 127 million.

The allocation of MVUC revenues to national and local roads does not reflect the relative size of the road networks and their maintenance requirements.

Monitoring and evaluation

Monitoring systems are in place for all direct transfer programs, but there is a need to harmonize M&E requirements for national transfers related to road rehabilitation and maintenance, as well as, inter-agency coordination mechanisms in terms of monitoring and evaluating local road management performance, especially within the context of KALSADA.

Reporting requirements for all programs are extensive and it is not clear that either the provinces, or DILG, DBM, and COA have sufficient staff resources or expertise to implement and monitor all aspects of the program.

The requirement to manage larger road rehabilitation projects is a capacity challenge for some provinces. Programs that involve national to local transfers should seriously take into consideration the absorptive capacity of provinces, especially the local engineering offices, in terms of designing, implementing, monitoring, and evaluating road projects.

Project data are reported on various program websites including PAMANA, PCF, the Road Board, and the OpenRoads portal. The quality and timeliness of reporting on financial and physical performance varies in relation to how comprehensive the data is, how up-to-date, and how clearly it is presented. The Road Board website for SLRF, for example, only reports projects up to 2013. Reports on the obligation and disbursement of program funds are provided separately on Departmental websites.

KALSADA

KALSADA stands out as the transfer program with the most explicit theory of change and performance matrix, not only covering local road improvements, but also changes in local road management practices – a precondition to ensuring sustainable road rehabilitation and maintenance. The mechanics of the program also promotes road maintenance, while at the same time, improving local capacity to undertake road rehabilitation.

However, a working system to monitor the condition of local roads as a basis for funding decisions is not yet in place. The monitoring system should be able to monitor the impact of road rehabilitation activity as well as the performance of provinces in maintaining roads in good and fair condition.

- RBIS is not yet operational and the system needs to be improved in terms of its capacity to show year-to-year performance and comparison of performance across jurisdictions, functionalities in reporting and analytics, and management dashboard features that would allow DILG and the LGUs to make timely and strategic decisions. RBIS also remains a system that is only accessible to DILG and the LGUs. The public does not have access to this system as a tool for citizen monitoring.
- OpenRoads is not yet fully developed and still remains a project reporting system that tracks performance of individual projects, but not necessarily the condition of all local roads over time. OpenRoads allows recording of 52 variables related to the status and condition of road projects but does not include essential information on carriageway width, surface type, pavement, shoulders, side slope, sidewalks, ditches, lightings, signs, guardrails, bridges, and culverts, among others.
- The COA accounting policy on road assets, if implemented effectively, would assist in monitoring the condition of local roads and the cost of rehabilitation, however, the use of historical costs will present a challenge for LGUs and may not provide an accurate reflection of the real cost of rehabilitation.
- The relationship between the road asset ledger and RBIS data, the basis for COA audits of asset ledgers, and the incentives for provinces to update RBIS to reflect road management improvements or impairment, need to be clarified.

The proposed arrangements for monitoring ongoing road maintenance performance as a condition of funding will assess the amount of expenditure on maintenance, but will not necessarily assess the quality of road maintenance. An additional mechanism such as periodic COA road maintenance performance audits would improve monitoring.

Some of the measures proposed for improving province road management are ambitious and will require staff resources and capacities that may not be available in all provinces. For example,

- Maintaining RBIS will require good internet connectivity and adequate capacity in the use of IT.
- The COA asset valuation policy imposes a significant initial workload on provinces.

The division of responsibilities between DILG and DPWH could be reassessed. Within DILG, a small infrastructure unit in the OPDS oversees the implementation of a range of road rehabilitation and maintenance projects, performing functions similar to DPWH but with less resources. There is a need to revisit the reasoning behind why the functions of M&E of local road projects are delegated to DILG, and why the mandate of DPWH cannot include this function. If DPWH focused on improvements in road infrastructure condition, DILG could focus on M&E of local road management processes and performance.

9 Recommendations

The following immediate term and longer term actions could be considered by DBM, DILG, and COA.

Short term actions

Funding for provincial roads

1. Continue to develop the Conditional Matching Grant program model (KALSADA) as a mechanism to provide additional funds to provinces for road rehabilitation contingent on adequate performance in ongoing road maintenance. The current program has the most robust eligibility and monitoring arrangements, and has sufficient resources to provide a meaningful incentive for compliance with road maintenance commitments. As the quality of the provincial road network improves the amount of national government funding required should decline, assuming maintenance commitments are met. Extension to other levels of government (municipalities, cities) could be considered once effectiveness in provinces is demonstrated. (DBM, DILG)
2. Address potential implementation risks in the Conditional Grant program, including:
    - Support roll out and capacity development in relation to the COA asset accounting policy for local roads, clarify the source of data to be used for COA audits of road asset registers, and consider potential implications for COA workload in verifying LGU road asset ledgers.
    - Consider measures to address staffing and capacity constraints at the provincial level, and in DILG central and local (e.g. regional and provincial) offices. Interventions in this area should begin with a careful analysis of capacity constraints that affect local road management practices on the part of provinces, and program delivery on the part of DILG local offices. There is also a need to rethink the role of regional DILG offices in the management and delivery of the program. (DILG)
    - Consider changes to the distribution of responsibilities between DILG and DPWH to give DPWH the lead role in relation to supervision of road project implementation, allowing DILG to focus on monitoring overall road management performance and capacity. The level of DILG staff resources required for adequate monitoring should also be assessed. (DILG and DPWH)

Monitoring and Evaluation

3. Review the functionality of RBIS to ensure that it is able to provide comprehensive and accessible data on the condition of local road networks and priorities for rehabilitation for use in planning, monitoring, and funding allocation. Clarify technical arrangements and incentives for future maintenance of the database as a reliable record of road condition and repair priorities. (Road Board, DILG)
4. Consider looking into how OpenRoads and RBIS will be able to complement each other’s function and not duplicate efforts that yield the same data or achieve the same purpose, especially as both are planned to be housed within DILG. (DILG)
5. Coordinate and harmonize M&E functions to ensure that each aspect of road management practices of LGUs is adequately monitored. Ensure that in the process of standardizing procedures, assessment of quality of both rehabilitation and maintenance work are assessed and measured. (DILG)
6. Conduct an evaluation of the performance of provinces in the implementation of road infrastructure services through KALSADA in 2016, as well as, in the targeted reform areas to determine areas for improvement in program implementation.

Longer term options

Road asset accounting

1. Review the operation of the COA asset accounting policy for local roads after implementation to ensure that it provides a realistic assessment of the current status of province roads and the actual cost of restoring roads to acceptable condition.
2. Consider implementing performance audits of the quality of provincial road rehabilitation and maintenance. (COA)
3. Consider extending the road asset accounting policy to include national roads to provide a comprehensive assessment of the value and condition of the total road network. (COA, DILG, DPWH)

LGU finances

4. Explore options to rationalize and simplify sources of funding relevant to local roads to reduce transaction costs and increase the effectiveness and timeliness of the disbursement of funds. For example:
    - PCF grants are intended as an incentive for compliance with good governance standards and are relatively small amounts. They could be provided as untied subsidies to qualifying LGUs without the need to submit and liquidate specific projects or provide matching funding. This would increase the incentive effect of the fund and accelerate disbursement. (DILG)
    - In the case of the SLRF, ensuring that the Fund is used for the purposes defined in the MVUC legislation could be achieved using LRMPAT data and COA reports to verify that the province spent an adequate amount on road maintenance, rather than requiring information on specific projects. SLRF funds could then be released promptly at the start of the year to be used for any road maintenance activity. (Road Board)
    - In the longer term, if the practice of earmarking MVUC revenues is maintained, the proportional distribution of resources between national and local roads in the MVUC legislation could also be reviewed. (Road Board)
5. Take steps to standardize the allocation, disbursement, monitoring, and reporting arrangements for road projects administered by DILG under different funding programs. (DILG)
6. Pursue previous suggestions for amendments to the Local Government Code to:
    - Facilitate own source revenue generation, increase borrowing capacity and clarify functional assignments between levels of government (DILG, DBM); and
    - Change the basis for allocation of the IRA between LGUs to include an equalization mechanism to take account of economic disadvantage and revenue raising potential. (DILG, DBM)
7. Consider reducing constraints on how LGUs may allocate their budgets, for LGUs with demonstrated good performance in local governance, to enable them to address local economic conditions and priorities. (DILG, DBM)

10 Data sources

Interviews

National government officials

DILG

Rolyn Zambales, Director-OPDS
Rosalina Ylaya, Asst. Director-OPDS
Annaliza Bonagua, Director-BLGD
Dennis Villasenor, Asst. Director-BLGD
Jenifer Galorport
Zaldy Masangkay, National Barangay Operations Office
Virginia Clavel, BLGD
Cheryl Agustin, OPDS
Bong Fernandez, OPDS
Catherine Joy Leon

DPWH Road Board

Ms. Beng DLR Romero, Project Manager

DBM

USec Janet Abuel
Dir. Leila Rivera, PEMB

COA

Dir. Gloria Jose
Dir. Carmen Antasuda
Dir. Amie Valdez
Ms. Donabel Ronzales

Province officials

Ms. Arlene Pascual, Bulacan (Region III, Luzon)
Engr. Edgardo Sabado, Nueva Viscaya (Region II, Luzon)
Mr. Samson Nervez, Eastern Samar (Region VIII, Visayas)
Atty. John Titus Vistal, Bohol (Region VII, Visayas)
Engr. Josie Jean Rabanoz, Davao del Norte (Region XI, Mindanao
Ms. Terry Calamba, Misamis Occidental (Region X, Mindanao)

Websites

www.dpwh.gov.ph
www.dilg.gov.ph
www.dbm.gov.ph
www.pamana.net
www.roadboard.gov.ph
www.pcf.dilg.gov.ph

www.openroads.ph

References

Asian Development Bank, 2012. Philippines: Transport Sector Assessment, Strategy and Roadmap.

AUSAID, 2008. Philippines Provincial Road Management Facility (PRMF) Facility Design Document.

Bureau of Local Government Finance, 2014. IRA Dependency. Dataset available at http://data.gov.ph/catalogue/dataset/internal-revenue-allotment-dependency-of-local-government-units/resource/026b08b6-8a44-4a9d-b1f2-670429667b75

Commission on Audit, 2015. Accounting and Reporting Guidelines on the Local Roads Asset Management System (No. 2015–8). Manila.

DBM, 2012. Public Financial Management Assessment Tool for Local Government Units (PFMAT for LGUs).

DILG, 2015a. Review of the Fiscal Provisions of the 1991 Local Government Code.

DILG, 2015b. Local Road Management Performance Assessment Manual (Revised March 2015). Department of the Interior and Local Government Office of Project Development Services.

Diokno, B., 2012. Fiscal decentralisation after 20 years. The Philippine Review of Economics XLIX, 9–26.

Louis Berger Group, 2016. Provincial Road Management Facility Phase 2 (Philippines) Final Completion Report.

Troland, E., 2014. Can Fiscal Transfers Increase Local Revenue Collection? Evidence from the Philippines. http://sites.bu.edu/neudc/files/2014/10/paper_413.pdf (accessed 8.8.16).

World Bank, 2014. Project Appraisal Document: Philippines Rural Development Project (No. Report No: 74097-PH).

World Bank, 2004. Philippines: Decentralization in the Philippines. Strengthening Local Government Financing and Resource Management in the Short Term.