Philippines: Technical Assistance Report-Public Investment Management Assessment

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PUBLIC INVESTMENT MANAGEMENT ASSESSMENT

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Philippines

PUBLIC INVESTMENT MANAGEMENT ASSESSMENT (PIMA)

Sailendra Pattanayak, Rui Monteiro, Ha Vu, Dick Emery, Willie du Preez, and Lewis Hawke

Technical Report

December 2018

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ACRONYMS

ASEAN	Association of South East Asian Nations
BESF	Budget of Expenditures and Sources of Financing
BLGF	Bureau of Local Government Funding
BOT	Build-Operate-Transfer Law
BPF	Budget Priorities Framework
BTr	Bureau of the Treasury
CAG	Corporate Affairs Group
CIAP	Construction Industry Association of the Philippines
CIP	Core Investment Program
COA	Commission of Audit
CRI	Credit Rating Index
DBCC	Development Budget Coordination Committee
DBM	Department of Budget Management
DILG	Department of the Interior and Local Government
DIME	Digital Imaging for Monitoring and Evaluation
DOE	Department of Education
DOF	Department of Finance
DOTI	Department of Trade and Industry
DPWH	Department of Public Works and Highways
EME	Emerging Market Economies
eNGAS	Electronic New Government Accounting System
FAD	Fiscal Affairs Department
FDI	Foreign Direct Investment
GAA	General Appropriations Act
GCG	Government Corporations Group
GFI	Government Financial Institution
GDP	Gross Domestic Product
GOCC	Government Owned and Controlled Corporations
GPPB	Government Procurement Policy Board
ICC	Investment Coordination Committee
ICT	Information and Communications Technology
IFG	International Financing Group
IMF	International Monetary Fund
InfraCom	Philippines Cabinet Infrastructure Committee
IPSAS	International Public Sector Accounting Standard
LGU	Local Government Unit
MDFO	Municipal Development Fund Office
MEF	Monitoring Evaluation Fund
MES	Monitoring and Evaluation Staff

MTFP	Medium-Term Fiscal Program
MYOA	Multiyear Obligation Authority
NEDA	National Economic and Development Authority
NEP	National Expenditure Program
NG	National Government
NSS	National Spatial Strategy
ODA	Official Development Assistance
PAP	Programs, Activities, and Projects
PDP	Philippines Development Plan
PDR	Lao Peoples Democratic Republic
PER	Public Expenditure Review
PhP	Philippine Pesos
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PIP	Public Investment Program
PIPOL	Public Investment Program Online
PMES	Project Monitoring Evaluation Services
PPP	Public Private Partnership
PRC	Professional Regulation Commission
PWDH	Public Works and Highways
RDC	Regional Development Council
RM	Results Matrix
ROW	Right of Way
TRIP	Three-year Rolling Investment Plan
TSA	Treasury Single Account
WEO	World Economic Organization
WIM	Weights in Measurement

PREFACE

At the request of the Philippine authorities, a mission from the IMF's Fiscal Affairs Department (FAD) visited the Philippines during August 9-22, 2018, to conduct a public investment management assessment (PIMA). The mission was led by Mr. Sailendra Pattanayak (Mission Head and Deputy Division Chief, FAD) and included Mr. Rui Monteiro (Technical Assistance Advisor, FAD), Ms. Ha Vu (Economist, FAD), Mr. Dick Emery and Mr. Willie Du Preez (both FAD experts), and Mr. Lewis Hawke (Lead Public Sector Specialist, World Bank Country Office). Mr. Yongzheng Yang, IMF Resident Representative in Manila, participated in all meetings with senior government officials. Ms. Jhelum Thomas from the Asian Development Bank (ADB) joined the mission for several discussions.

The mission had its initial meeting with Secretary Ernesto Pernia, Undersecretary Rolando G. Tungpalan, and Assistant Secretary Jonathan L. Uy of the National Economic and Development Authority (NEDA). The mission held several meetings with the officials of NEDA, Department of Budget Management (DBM), Department of Finance (DOF), Bureau of Local Government Funding (BLGF), Bureau of the Treasury (BTr), Government Procurement Policy Board (GPPB), Public Private Partnership Center, Government Corporations Group (GCG), International Financing Group (IFG), and the Commission on Audit (COA). The mission also held meetings with the planning, budgeting, monitoring, procurement, and maintenance staffs of the Departments of Education, Energy, Health, Public Works and Highways, and Transportation.

The mission held its concluding meeting on its key findings and recommendations with Undersecretary of NEDA, Rolando G, Tungpalan; Undersecretary of DBM, Laura Pascua; Undersecretary and Chief Economist of DOF, Gil Beltran; Assistant Secretary of DOF, Maria Edita Z. Tan; Undersecretary of Department of Energy, Jesus Christino Posadas; and the officials of various departments and agencies visited by the mission. The mission also discussed next steps and possible areas of follow-up assistance with Jonathan L. Uy, Assistant Secretary of NEDA. The mission was preceded by a workshop on the PIMA tool conducted for officials of departments, agencies, statutory bodies, and public corporations by Mr. Richard Allen, FAD expert, and Mr. Lewis Hawke, World Bank Manila office.

The mission would like to thank the Philippine authorities for the open and candid discussions and for the excellent cooperation throughout the course of its work. It is especially grateful to Mr. Lawrence Michael B. Tibon and Mr. Cali Mangilin of the Public Investment Staff of NEDA and their colleagues for their dedication in organizing numerous meetings, handling data and document requests, and coordinating meeting schedules. The mission was ably supported by Mr. Yongzheng Yang, country IMF Resident Representative, and his staff, Ms. Abegail Buenaventura and Ms. Leyana Tonga.

EXECUTIVE SUMMARY

For much of the past 25 years, Philippine general government investment has trailed that of most other Asian economies. The budgetary allocation to public investment in the Philippines declined from about 4 percent of GDP during the 1990s to about 3 percent of GDP from 2000 to 2015, but it has increased in the last few years. As a result, Philippine public capital stock remains low by emerging market standards, and its general government capital stock has eroded steadily from the early 1990s. The gap between the Philippines' capital stock and the average of ASEAN countries is more than 30 percent. The average emerging market economies' capital stock is almost 60 percentage points higher than that in the Philippines.

To help achieve infrastructure goals, the Philippine authorities are planning to nearly double the level of public investment during 2017–22. The Philippine Development Plan (PDP) 2017–22 envisages the development of strategic infrastructure, guided by the National Spatial Strategy, in key sectors such as transport, water resources, energy, information and communications technology (ICT), and social infrastructure.

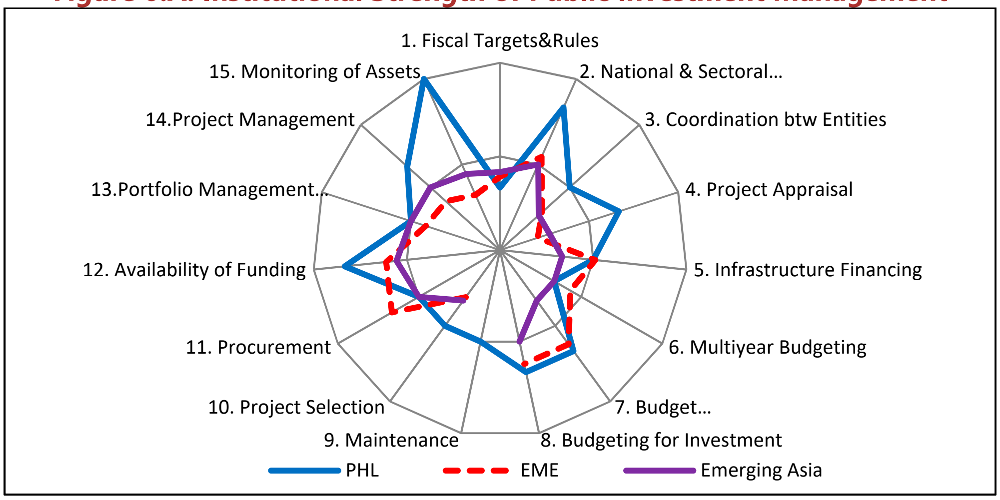
Strengthening public investment management in the Philippines would help maximize the return from the infrastructure investment in the coming years. A recent study by the IMF[1] showed that strengthening institutions for public investment management has the potential to improve the quality of infrastructure and boost its impact on growth. While public investment in the Philippines has generally improved infrastructure, it has not fully delivered the expected economic benefits, suggesting that the efficiency of public investment could be improved. Compared to the best-performing countries among emerging market economies, the Philippines has an efficiency gap of about 23 percent in translating public investment into infrastructure. In other words, although the perceived quality of infrastructure seems good, the Philippines could generate more and better infrastructure with similar public capital stock per capita by reducing the cost of producing infrastructure. Increasing public investment management efficiency to make the most of this spending is critical for the Philippines to achieve its infrastructure needs.

This report reviews public investment management practices in the Philippines, using the IMF's Public Investment Management Assessment (PIMA) methodology. The report evaluates 15 key indicators (referred to as "institutions") across the planning, allocation, and implementation phases of the public investment management cycle, identifies strengths and weaknesses in the existing public investment management framework in the Philippines, discusses the findings and the recommendations of the PIMA, and includes an operational priority action plan to improve public investment management in the short to medium term.

[1] IMF Staff Report "Making Public Investment More Efficient," 2015. http://www.imf.org/external/np/pp/eng/2015/061115.pdf.

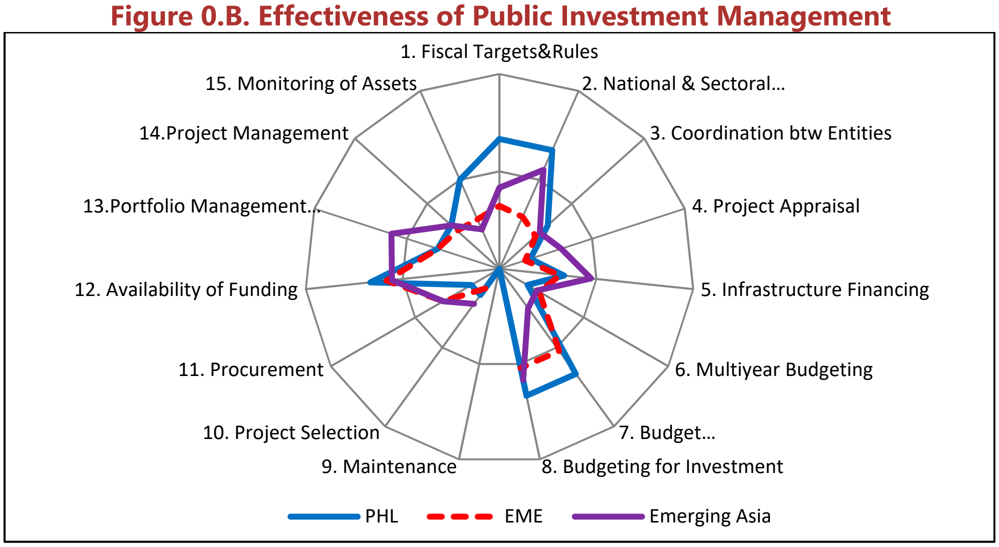
While the public investment management institutions in the Philippines are generally comparable to emerging market economies, there is scope to improve performance (see Figures 0.A and 0.B). Overall, the Philippines has better institutional framework than the average of emerging market economies, including emerging Asia, in the areas of national and sectoral planning, budget comprehensiveness and unity, budgeting for investment, availability of funding, and monitoring of assets in terms of both institutional design and effectiveness. However, in terms of effectiveness of institutions, the Philippines is weaker than its peers in the areas of project appraisal, multiyear budgeting, portfolio management and oversight, and procurement. The Philippines also shares similar weaknesses with its peers in the areas of project selection and project management. The specific institutional weaknesses of the Philippines are discussed in Section IV of this report. The findings for each of the 15 indicators are summarized in Table 0.A.

Figure 0.A. Institutional Strength of Public Investment Management



Source: IMF PIMA Missions in Emerging Asia and Emerging Market Economies (2016–18).
Note: EME = emerging market economies; PHL = the Philippines.

Figure 0.B. Effectiveness of Public Investment Management



Source: IMF PIMA missions in Emerging Asia and Emerging Market Economies (2016–18).
Note: EME = emerging market economies; PHL = the Philippines.

The report highlights institutional weaknesses that need to be addressed and proposes eight priority reform measures to strengthen the public investment management framework in the Philippines:

- **Strengthen ex-ante fiscal assessment of infrastructure projects.** While all major projects before Investment Coordination Committee (ICC) approval are currently subject to a detailed assessment of their technical, economic, financial, and social viability with inputs from relevant central agencies, the process could be further strengthened by establishing a dedicated unit within DOF, NEDA, or DBM that is responsible for conducting a thorough ex-ante assessment of projects focusing on long-term fiscal sustainability and fiscal risks, including contingent liabilities, and proposing mitigation measures for accepted risks.
- **Broaden the framework for private participation in infrastructure.** The current Build-Operate-Transfer (BOT) law does not cover all types of private participation in infrastructure, at the levels of both the national government and local government units (LGUs); although it includes some criteria for private participation that are applicable to both levels of government. As potentially private participation in infrastructure may increase in the future, particularly at the LGU level, the legal framework needs to be revamped to specify standard criteria for all types of private participation, including public-private partnerships (PPPs) and joint ventures.
- **Expand medium-term budgeting.** While a three-year medium-term fiscal program (MTFP) exists, a multiyear perspective for public investment by line departments has yet to be introduced in the budget process. Doing so is critical with the shift to annual cash-based budgeting. The multiyear perspective would help establish indicative ceilings for both ongoing and new projects by line departments for the budget and two subsequent years, as well as highlight future year commitments and allocations for projects.
- **Make project appraisal and selection more comprehensive.** Capital projects in the Philippines sometimes result in delays and cost overruns due to incomplete project preparation, including right-of-way readiness and resettlement issues that are addressed during project implementation. A more rigorous project appraisal would ensure that all elements, including right-of-way issues, are addressed before implementation starts. An independent review of feasibility studies for mega projects could be considered.
- **Improve infrastructure maintenance.** Standard methodologies for maintenance planning and costing of infrastructure assets exist for certain types of assets (such as roads and bridges), and the same practice should be extended to other sectors. It would also be beneficial to establish a central monitoring mechanism to ensure the routine maintenance of major infrastructure assets.
- **Foster effective competition in infrastructure procurement.** While there is a legal and institutional framework for transparent and competitive public procurement, competition is still not effective in practice. Many procurements result in a single bidder, precluding the benefits of competition. A study/review to identify the key factors preventing effective

competition would be helpful. Procuring agencies should be trained to address potential constraints to effective competition, such as projects that are too large, qualification criteria that are too strict, deadlines that are unrealistic, or specifications that are poorly defined. The sanctions for anticompetitive practices by bidders should be more stringent. The procurement website should be revamped to make procurement information more easily accessible to the public.

- **Improve regulations for project cost adjustments.** The existing normal practice of allowing total project cost increases of 10 percent during implementation discourages careful project planning and design and potentially incentivizes additional project spending. The regulation should specify the items to be costed and allow cost increases only for unforeseen technical issues. Cost adjustments should not be allowed to address inadequate design and planning and changes to the scope of the project.
- **Strengthen central monitoring of implementation of major projects.[2]** Currently, the central monitoring covers only projects funded through Official Development Assistance (ODA). In addition to this, lack of timely information on project implementation poses challenges to addressing problems effectively. The monitoring function could be further strengthened by requiring the Monitoring and Evaluation Staff (MES) to participate in monthly progress meetings of major projects, as well as prepare reports to senior management that flag outstanding issues and propose actions. Non-ODA major projects should be included in annual portfolio review reports.

Table 0.B provides an indicative action plan for implementing these recommendations over the short and medium term. This indicative action plan could be the basis for developing a more detailed action plan that includes the specific actions to be undertaken by the concerned agencies and their respective timelines. The detailed action plan should take account of ongoing and planned support from other development partners, such as the AusAid and the World Bank, to ensure synergy in the implementation of PIMA recommendations.[3]

[2] This report has adopted the same definition of major projects as the definition of Core Investment Programs and Projects (CIPS) in the Philippines.

[3] Support from the development partners are currently being provided under the following programs: Public Financial Management Program (PFMP); Public Financial Management for Infrastructure Program (PFM-1); Public Financial Management Program for Institutions and Infrastructure (PFMP-II); and World Bank Public Expenditure Review (PER) focusing on Infrastructure.

Table 0.A. Summary Assessment

Phase/Institution			Institutional Strength	Effectiveness	Reform Priority
A. Planning	1	**Fiscal targets and rules**	**Medium:** Limited legal debt constraints; no legal fiscal rules	**Medium:** Conservative fiscal policy has resulted in limited deficits and improving debt sustainability	
	2	**National and sectoral planning**	**High:** Published PDP, PIP including costing of projects; RM, including output and outcome indicators	**Medium:** National plans are helpful in guiding public investment but not fully published	
	3	**Coordination among entities**	**Medium:** Regional plans coordinated with national government; capital transfers not fully known in advance; SNG fiscal risks not systematically assessed	**Medium:** Major investments effectively coordinated, but investment overlaps occur in smaller projects	
	4	**Project appraisal**	**Medium:** Major projects systematically appraised, and central support available for project appraisal, but risk assessments not conducted diligently	**Low:** land issues and resettlements and detailed designs not always considered during appraisal; risk mitigation not always identified	**
	5	**Alternative infrastructure financing**	**Medium:** Established framework for private investment in infrastructure, with competition in some sectors; fiscal monitoring function being developed	**Medium:** No gateway process for preliminary assessment of fiscal risks and for post-award proactive management of fiscal risks	**
B. Allocation	6	**Multiyear budgeting**	**Medium:** No published projections of capital spending; no overall ceilings; total construction cost projections available	**Low:** No published projections; no multi-year ceilings for projects; updating of cost without effective cost validation	**
	7	**Budget comprehensive-ness and unity**	**Medium:** Budget summary tables and agency detail incorporate capital spending from all financial sources	**Medium:** Annual focus obscures implications of infrastructure on recurrent budgets	
	8	**Budgeting for investment**	**Medium:** Capital outlays appropriated on annual basis; virement from capital to current spending allowed; two-tier budgeting to prioritize ongoing projects	**High:** Multiyear contracts allowed; virement with DBM approval; effective protection of ongoing project funding	
	9	**Maintenance funding**	**Medium:** No standard methodology for the determination of routine maintenance and its costs	**Low:** Routine maintenance not costed appropriately and not adequately funded	**
	10	**Project selection**	**Medium:** Major projects reviewed by a central agency; selection criteria published; PIP includes pipeline of appraised projects	**Low:** Land and resettlement issues not completed before projects are funded	**
C. Implementation	11	**Procurement**	**Medium:** Competitive legal framework but not strict enough to lead to effective competition; transparency required	**Low:** Low competition in most public investment sectors; no systematic review of procedures to induce competition	**
	12	**Availability of funding**	**High**: Cash flow forecasts prepared monthly and updated within the obligation limits; no reported delays in cash release	**Medium:** TSA not yet fully implemented; cash forecasts not highly reliable	
	13	**Portfolio management and oversight**	**Medium:** Certain major projects centrally monitored; cross-project reallocation allowed with DBM approval; no systematic ex-post review	**Medium:** Certain major projects monitored but with significant time lag; ex-post review not systematically conducted	*
	14	**Project management**	**Medium:** Implementation plans not systematically prepared; standardized rules for project adjustments; ex-post audits for selective projects	**Medium:** Project adjustments not restricted to unforeseen technical issues; rules for cost overruns; limited ex-post audits	**
	15	**Monitoring of assets**	**High:** Public assets properly accounted for and reported in financial statements	**Medium:** Some issues with comprehensiveness of reporting and frequency of updates	

Note: DBM – Department of Budget and Management; PDF = Philippines Development Plan; PIP = Public Investment Program; RM = Results matrix; TSA = Treasury Single Account.

Table 0.B. Indicative Action Plan

Action	2018 / 2019	2020	2021	Responsible agency
Recommendation 1: Strengthen Ex-Ante Fiscal Assessment of Infrastructure Projects				
Designate responsible unit for fiscal assessment of infrastructure projects	Designate responsible unit (in DOF, NEDA, or DBM)			DBCC
Update guidance for more rigorous review of fiscal risks of infrastructure projects		Develop guidance		Unit in charge of fiscal assessment
Provide fiscal assessment reports to ICC on projects including risk mitigation strategy		Provide ICC fiscal assessment reports on projects		Unit in charge of fiscal assessment
Recommendation 2: Broaden Framework for Private Participation in Infrastructure				
Revise BOT Law to: (1) apply standard criteria, (2) cover all types of private participation in infrastructure projects, and (3) apply to all government levels.	Draft legal provisions	Enact revised BOT Law		PPP Center NEDA Congress
Recommendation 3: Expand Medium-Term Budgeting				
Disaggregate MTFP Capital Budget Estimate into Ongoing and New spending		Modify MTFP		DBM
Establish indicative ceilings for ongoing and new capital spending by departments		Calculate and distribute ceilings for ongoing and new capital spending		DBM in consultation with NEDA
Revise department/agency budget submissions to show baseline capital spending for budget year and two out-years by program		DBM to request agency budget submissions by program with base line projections for the medium-term	Revise NEP documents to include infrastructure estimates by program for out-years	DBM and line agency budget offices
Update TRIP and PIP accordingly to the proposed budget and submit them together with the proposed budget to the Parliament	Update TRIP and PIP accordingly to the proposed budget and submit them together with the proposed budget to the Parliament			DMB NEDA

Provide information on both originally estimated total cost as well as updated total cost of projects in the PIP	Provide information on both originally estimated total cost as well as updated total cost of projects in the PIP			NEDA Line agencies
Recommendation 4: Make Project Appraisal and Selection More Comprehensive				
Issue instructions requiring that all right-of-way and resettlement issues as well as environmental issues are resolved prior to the implementation of the project	Issue instructions/guidelines to be implemented by implementing agencies	Implement these guidelines.		NEDA ICC Line agencies
Require independent review (by external experts) for high cost and/or complex infrastructure projects	Revise guidance to require independent technical review for large projects			NEDA Line agencies
Recommendation 5: Improve Infrastructure Maintenance				
Require all agencies to develop and implement standard maintenance requirements for all types of infrastructure assets	Identify agencies that do not have standard maintenance guidance Agencies prepare guidance, if not currently available, reflecting input from technical officials	Implement guidance		DBM and/or NEDA Line agencies
Use standard methodology to prepare maintenance cost estimates of existing and planned infrastructure assets	Expand methodology to include costing principles	Revise Budget Call to require submissions on maintenance estimates based on standards and cost methodology Add maintenance costs to project appraisals		DBM NEDA Line agencies
Recommendation 6: Foster Effective Competition in Infrastructure Procurement				
Conduct review of factors preventing effective competition	Conduct a study/review of data on past procurements that resulted in a single qualified bidder or no bidder	GPPB to report to DBCC on reasons for ineffective competition on procurements	DBCC to require line agencies to correct procurement practices	GPPB NEDA DBCC

Sensitize procurement officials on potential constraints to effective competition		GPPB to provide training to agencies		GPPB Line agencies
Introduce stringent sanctions for anti-competitive practices of bidders		Introduce more stringent sanctions for anti-competitive practices		GPPB
Modify existing BOT law to prohibit anticompetitive practices in PPPs	Coordinate closely with the PCC) to ensure competition in PPPs	Amend BOT law to prohibit anticompetitive practices		PPP Center NEDA Congress PCC
Streamline administrative practices for addressing bidders' complaints, including establishing an independent review and fast-track procedures			Revise administrative practices for addressing bidder's complaints	GPPB Line agencies
Make procurement information easily accessible to the public		Improve GPPB website		GPPB
Recommendation 7: Improve Regulations for Project Cost Adjustments and Variation Orders				
Improve regulations to guide project cost adjustments and allow adjustments only for unforeseen technical issues	Revise guidelines	Implement these guidelines		NEDA DBM
Require justification and costing of variation orders in line with the revised regulations	Require justification			NEDA DBM Line agencies ICC
Submit variation orders to internal auditors and DBM within 10 working days.		Require submission of variation orders to internal auditors and DBM		DBM
Recommendation 8: Strengthen Central Monitoring of Implementation of Major Projects				
MES staff participate in monthly progress meetings of line departments and report to senior management on status, problems and proposed actions for major projects	Begin participation on a limited basis with selected departments	Provide sample management status reports on problems with proposed actions		NEDA-MES

Update monitoring template for monthly and annual reports to also include critical and actionable information for senior management	Update monitoring template for monthly and annual reports to include critical and actionable information for senior management			NEDA-MES
Encourage DBCC to act upon project specific reports on implementation problems		DBCC to require agencies to respond to infrastructure implementation problems		DBCC NEDA
Introduce Alert Mechanism (currently for only ODA projects) for major non-ODA projects	Introduce Alert Mechanism (currently for only ODA projects) for major non-ODA projects			NEDA-MES

Note: BOT = Build-Operate-Transfer; DBCC = Development Budget Coordination Committee; DBM = Department of Budget Management; DOF = Department of Finance; GPPB = Government Procurement Policy Board; ICC = Investment Coordination Committee; MES = Monitoring and Evaluation Staff; MTFP = Medium-Term Fiscal Program; NEDA = National Economic and Development Authority; ODA = Official Development Assistance; PCC = Philippine Competition Commission; PPP = Public-Private Partnership; TRIP = Three-year Rolling Investment Plan.

I. INTRODUCTION

1. **Infrastructure is a key driver to achieve economic growth and development in the Philippines.** Accelerating infrastructure development is one of the foundations for sustainable development as outlined in the Philippine Development Plan (PDP) 2017–22. According to the PDP, strategic infrastructure will be developed, guided by the National Spatial Strategy (NSS), in key sectors, including transport, water resources, energy, information and communications technology (ICT), and social infrastructure (housing, education, health, and solid waste management facilities). To achieve infrastructure development goals, the government's Build, Build, Build agenda targets infrastructure spending to reach PhP8.4 trillion (US$158.31 billion) or 7.3 percent of GDP by 2022, from 5.4 percent of GDP in 2017. This agenda is the country's most ambitious infrastructure program in history.

2. **Strengthening public investment management could help maximize the return from the infrastructure investment.** Countries with stronger public investment management have more predictable, credible, efficient, and productive investments.[4] In order to help countries to build stronger public investment management, the IMF has developed the Public Investment Management Assessment (PIMA) framework, first introduced in 2015 and revised in 2018. PIMA is a tool for assessing infrastructure governance over the full investment cycle. The PIMA framework has been well-received by countries; more than40 PIMAs have been conducted to date around the world, including six countries in Asia (Malaysia, Maldives, Mongolia, Sri Lanka, Thailand, and Timor Leste). The results and recommendations of PIMAs have triggered reforms in many countries to improve their capacity in the area of infrastructure development and maintenance, as well as to facilitate coordination among development partners to support country authorities in this area.

3. **At the request of the Philippine authorities, this report (1) identifies strengths and weaknesses in the existing public investment management framework in the Philippines; (2) discusses the findings and the recommendations of the PIMA; and (3) includes an operational priority action plan to improve public investment management in the short to medium term.** The IMF, in collaboration with the World Bank and other development partners, stands ready to provide follow-up support to the authorities to implement the recommendations and the priority action plan.

4. **The PIMA findings could guide the upcoming Public Expenditure Review (PER) that is likely to be completed with the support of the World Bank.** The PIMA provides a broad overview of institutional strengths and weaknesses along the public investment cycle. It could be complemented by the upcoming PER focusing on specific priority sectors—for example,

[4] IMF Staff Report "Making Public Investment More Efficient," 2015. http://www.imf.org/external/np/pp/eng/2015/061115.pdf

agriculture, natural resources, and environment (ANRE) sectors—for in-depth analysis of respective investment programs and projects.

II. PUBLIC INVESTMENT IN THE PHILIPPINES: CONTEXT

5. **This section provides an overview of public investment[5] in the Philippines and compares it to other countries.** Data for these comparisons cover 1990 to 2015 for 189 countries.[6] Data for the Philippines are compared to countries in ASEAN and emerging market Asian economies with comparable economic development.[7] Although public investment in the Philippines increased significantly after 2015, comparable data are not yet available beyond 2015 for regional peers and emerging Asian economies to undertake a comparative analysis. Section II. A describes recent trends in public investment and in the capital stock, and section II.B explains the composition of public investment.

6. **The share of the Philippine budget allocated to public investment declined from about 4 percent of GDP during the 1990s to about 3 percent of GDP from 2000 to 2015, but it has increased in the past few years.** The Philippines' public capital stock remains low by emerging market standards. Over three-quarters of Philippines's public investment is directed to economic and social infrastructure, which is broadly in line with the emerging market average. Public investment in the Philippines is primarily funded at the national government level.

A. Trends in Public Investment and Capital Stock

7. **For much of the past 25 years, Philippine general government investment trailed that of most other Asian economies.** Since 2000, the ratio of public investment to GDP, the Philippines' annual rate of public investment, has been approximately half that of ASEAN economies and emerging market economies (EME Asia, Figure 2.A.). In 2015, Philippine public

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[5] Data in Figures 2.A and 2.B are presented for the general government sector, comprising central government capital spending (including transfers) and net lending, and Provincial Councils' capital spending but excluding capital spending by municipal and district governments and state-owned enterprises. In other instances, as noted, the data reflect total public sector or central government.

[6] Data were developed by IMF staff drawing upon the *World Economic Outlook* (*WE*O), OECD data, and other official data, where possible.

[7] ASEAN is the Association of Southeast Asian Nations and includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. Emerging market economies comprise 93 countries in the world. EME Asia comprises Brunei Darussalam, China, India, Indonesia, Philippines, Maldives, Sri Lanka, Thailand, and Timor-Leste. The ASEAN and EME Asia groups overlap significantly.

investment was 3.3 percent of GDP, compared to ASEAN average of more than 7 percent of GDP and the EM Asia average of 6.7 percent of GDP.

8. The Philippines' general government capital stock[8] eroded steadily from the early 1990s to 2015. This trend is partly due to a series of privatization programs that the government pursued during the period.[9] The Philippines's general government capital stock was about 35 percent of GDP in 2015, a decline from approximately 50 percent of GDP in the 1990s. This indicator is low by emerging market economies standards (Figure 2.B). The gap between the Philippines' capital stock and the average of ASEAN countries is more than 30 percent. The average emerging market economies' capital stock is 93 percent of GDP, almost 60 percentage points higher than that in the Philippines. In recent years, the Philippine authorities have increased public investment (and plan for further increases in the future) to eliminate this gap in the capital stock.

Figure 2.A. General Government Investment
(Nominal, % GDP)

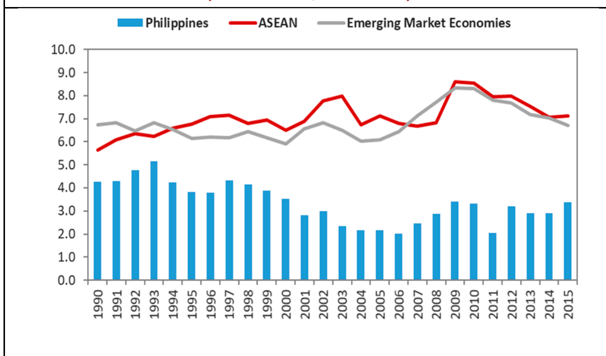
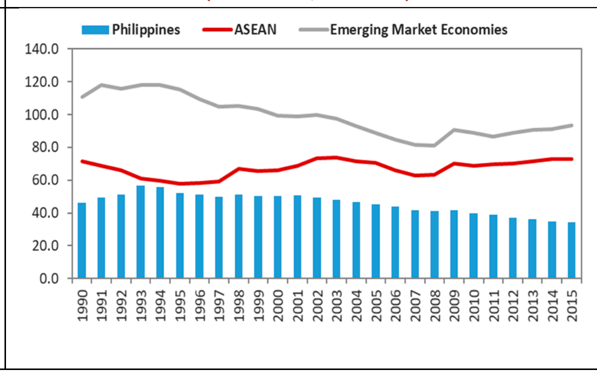


Figure 2.B. General Government Capital Stock
(Nominal, % GDP)



Source: WEO and staff estimates. Note: ASEAN = Association of South East Asian Nations.

9. In per capita terms, the Philippines' public capital stock is toward the lower end of the range of some other Asian economies. At $2,200 per person in 2015 (Figure 2.C), the Philippines' total public capital stock per capita was only higher than that of Cambodia; it was significantly below that of Malaysia, Singapore, and Thailand, and about the same as that of Indonesia, Lao PDR, and Vietnam.

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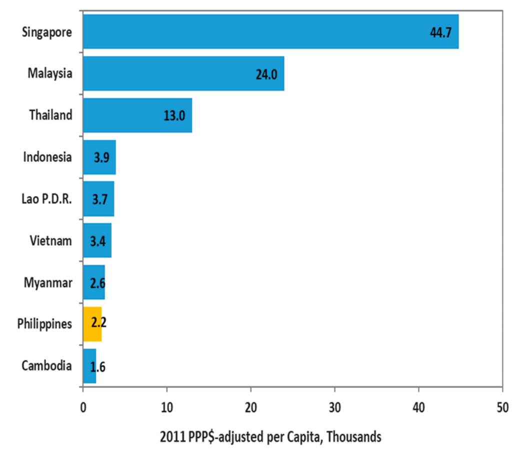
[8] *Capital stock* is defined as cumulative capital spending overtime and adjusted for a common depreciation rate by income group (advanced, emerging, and low-income countries). It is calculated by using public investment flows. The impact of the civil war is reflected in the low level of capital spending during the war time and higher level of capital spending after the war time to construct more infrastructure.

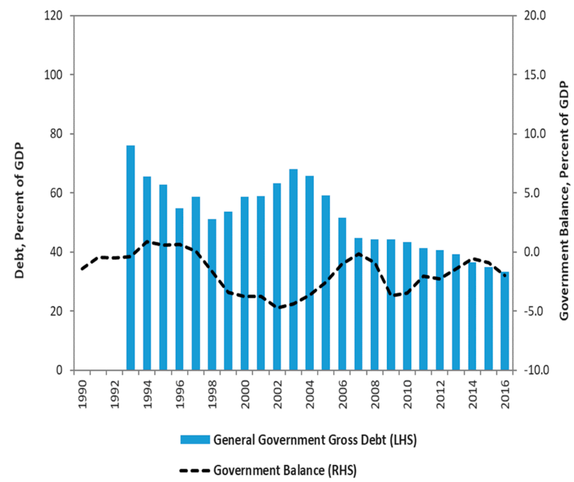
[9] The authorities launched a privatization program allowing the private sector to manage projects that it can handle more efficiently than the government, for example, projects in the water, oil, and power generation sectors. This transfer of responsibility to the private sector for some infrastructure investments could, in part, explain the decline in the trend of the general government capital stock.

Figure 2.C. 2015 Public Capital Stock per Capita
(thousands)



Source: WEO and WB database and IMF staff estimates.

Figure 2.D. 2015 Central Government Balance and Gross Debt
(% GDP)

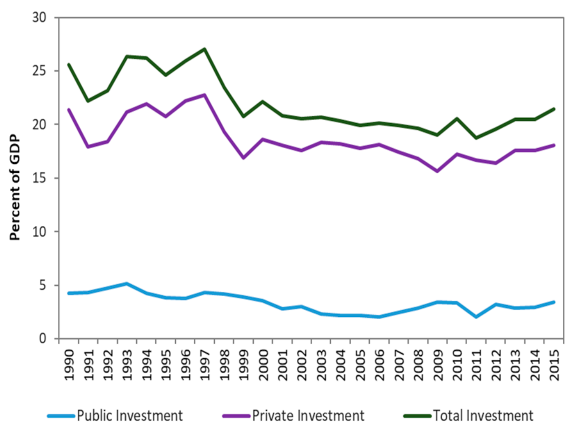
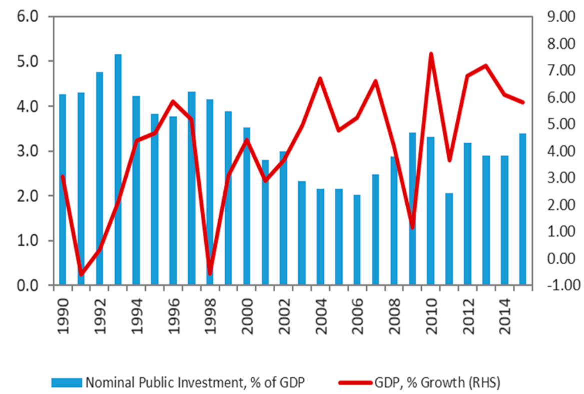


Source: WEO and IMF staff estimates.

10. The relatively low rate of public investment occurred while the Philippines' fiscal situation has been improving, with decreasing public debt and a relatively steady central government balance. The central government fiscal deficit was very low in the 1990s, it was somewhat higher in the early 2000s; and it averaged 1.7 percent of GDP from 2012 through 2016 (Figure 2.D). The government's fiscal policy envisages the deficit to increase to 3.0 percent of GDP in 2017 and 2018.[10] The debt-to-GDP ratio declined over the past two decades, from 76 percent in 1993 to 33 percent in 2016. The government's current fiscal strategy gives priority to investment in infrastructure and enhancing social services. The President's budget proposes increasing capital spending to 5.4 percent of GDP in 2018, with a deficit of 3 percent of GDP, while debt would continue to decline.

11. Private investment in the Philippines has declined somewhat as a share of the economy, as the public investment share of the economy has remained relatively constant. Private investment in infrastructure in the Philippines in 2015 represented around18.0 percent of GDP, down from 21.3 percent at the beginning of the 1990s. Total investment in infrastructure decreased from 25.6 percent to 21.4 percent of GDP over the same period (Figure 2.E). Economic growth has been strong, particularly over the past several years (Figure 2.F).

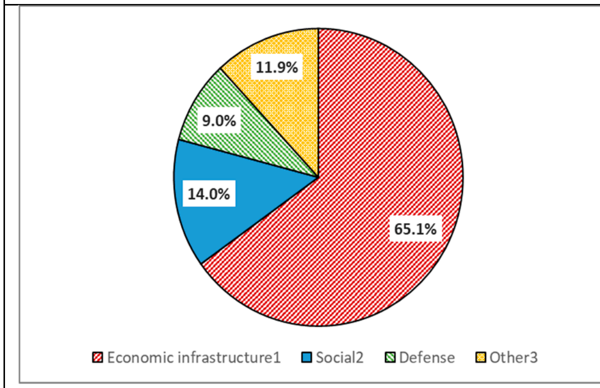
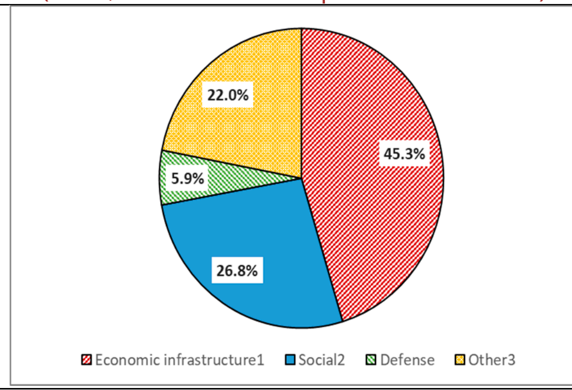
[10] IMF 2017 Article IV Country Report No. 17/334. See page 4, Philippine Selected Economic Indicators 2012–18.

Figure 2.E. Public Investment and Private Investment (Nominal, % GDP)	**Figure 2.F. Public Investment and GDP Growth** (% GDP)
	
Sources: WEO and staff estimates.	

B. Composition of Public Investment

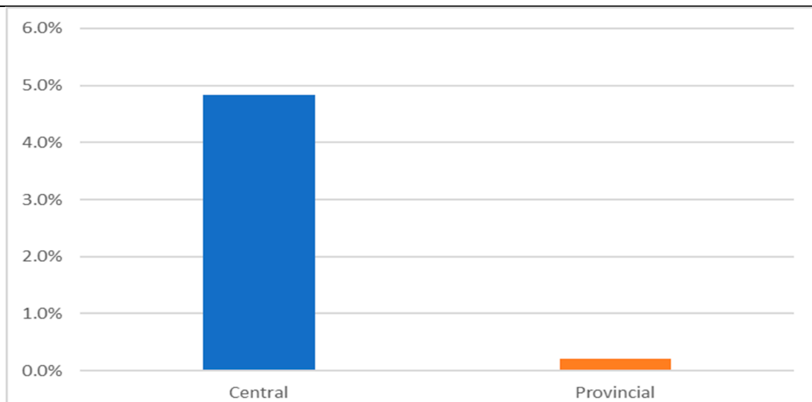
12. Just over three-quarters of the Philippines' public investment is directed to economic and social infrastructure, which is broadly in line with the emerging market average. In 2015, economic infrastructure represented 65.1 percent of total public investment in the Philippines, while social infrastructure represented 14.0 percent (Figure 2.G). Compared to the EME average of 45.3 percent (Figure 2.H), the allocation to economic infrastructure in the Philippines is quite high, reflecting the relative priority afforded to roads, railways, sea transport, airports, flood management and irrigation. In contrast, the share of public investment devoted to social infrastructure in the Philippines is much less than the emerging market economies' average (26.8 percent). Government Owned and Controlled Corporations (GOCCs) play a significant role in several sectors, including electricity, petroleum, water supply, ports, aviation, and airports.

13. Public investment in the Philippines is primarily funded at the central government level. Capital spending and net lending by the central government averaged 4.8 percent of GDP between 2014 and 2016 (Figure 2.I), whereas capital spending by local government units (LGUs) averaged 0.2 percent of GDP. Foreign financing for projects of LGUs is arranged by the central government. LGUs often play an important role in project execution, particularly in sectors such as education and health, using funding from central government line departments.

Figure 2.G. Public Investment by Function (2015, Percent of total public investment)	**Figure 2.H. EME: Public Investment by Function** (2015, Percent of total public investment)
	

Sources: ICU development expenditure execution 2011–15, and WEO and staff estimates.
1. Economic infrastructure is approximated by economic affairs and includes public investment for transportation infrastructure.
2. Social comprises public investment in education, health, housing, social protection, and recreation and culture.
3. Other includes public investment for general public services, safety and public order, and the environment.

Figure 2.I. Capital Spending by Level of Government
(2014–16 Average, % GDP)



Sources: Philippines Government, Department of Finance Annual Report 2016–Consolidated Budget; WEO and staff estimates.

14. **During the late 1990s, the Philippines began to make greater use of Public-Private Partnerships (PPPs), which produced a steady increase in the PPP capital stock.** A lull in new PPP activity occurred in the mid-2000s, but steady growth resumed from 2009, partly reflecting the expanded power infrastructure. Compared to the emerging market economies and, in particular, the emerging Asia groupings, the stock of PPPs relative to GDP in the Philippines remains quite low, albeit converging gradually to these averages (Figure 2.J). Among regional economies, the stock of PPPs in the Philippines (10.1 percent of GDP in 2014) was around one-tenth of that in Malaysia; yet about twice that of Indonesia (Figure 2.K).

Figure 2.J. Public-Private Partnerships' Capital Stock
(% GDP)

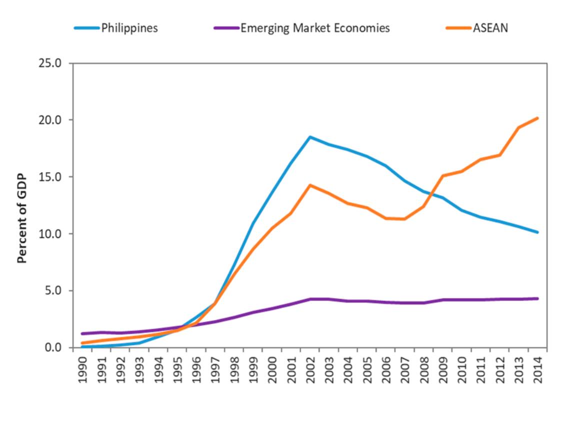
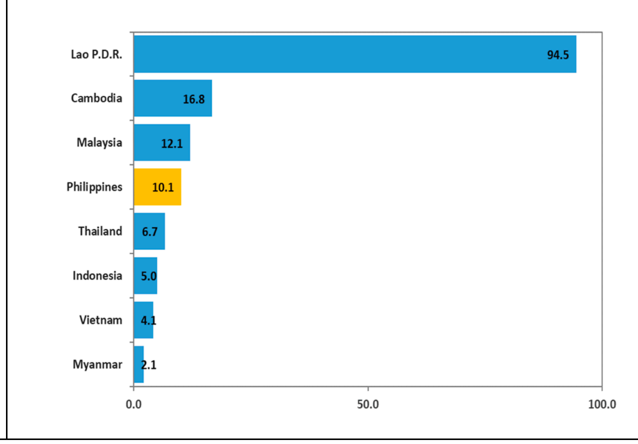


Figure 2.K. Public-Private Partnerships' Capital Stock Relative to Regional Economies, 2014
(% GDP)



Sources: WEO and staff estimates.

III. IMPACT AND EFFICIENCY OF PUBLIC INVESTMENT

15. This chapter discusses how public investment impacts infrastructure in the Philippines and the efficiency of such investment. *Efficiency* refers to the amount of infrastructure for funds expended. *More efficient* could refer to more capital goods for the same expenditure or the same amount of capital goods for a smaller expenditure. Section III.A describes perceptions of infrastructure quality and indicators for access to infrastructure. Section III,B compares these indicators to costs to assess the efficiency of investment and outlines other measures of investment performance, including execution rates and volatility.

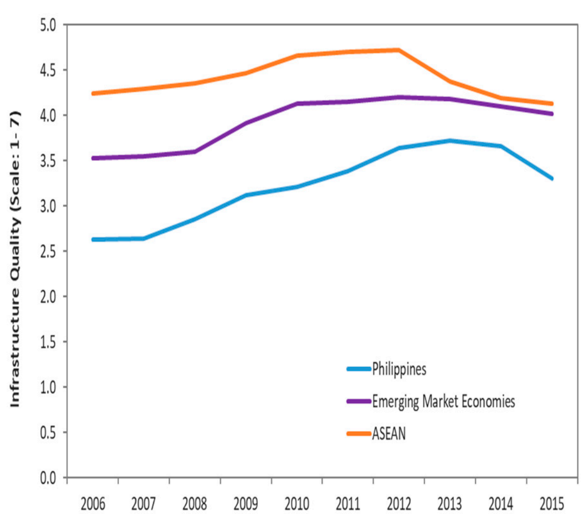
16. Although public investment in the Philippines has generally improved infrastructure, it has not fully delivered the expected economic benefits, suggesting that its efficiency could be improved. Compared to the best-performing countries among emerging market economies, the Philippines overall is 66 percent efficient in translating public investment into infrastructure. In other words, about one-third of the potential impact of public investment was lost during the public investment management process in the country. In the context of fiscal consolidation and reduced access to concessional financing, increasing public investment efficiency to make the most of this spending is critical for the Philippines to achieve infrastructure needs. Strengthening public investment management (PIM) could improve the efficiency and the impact of public investment.

A. Public Investment Impact

17. In the Philippines, the perceived quality of public infrastructure has been lower than the average for emerging market countries. On a 7-point scale, the overall score for the perceived quality of public infrastructure in the Philippines was 3.3 in 2015, according to the World Economic Forum surveys,[11] which is lower than the average of emerging market economies and emerging Asia (Figure 3.A). As shown, however, the perceived quality has been steadily rising, and the gap between the Philippines and ASEAN and Emerging Asia has been narrowing.

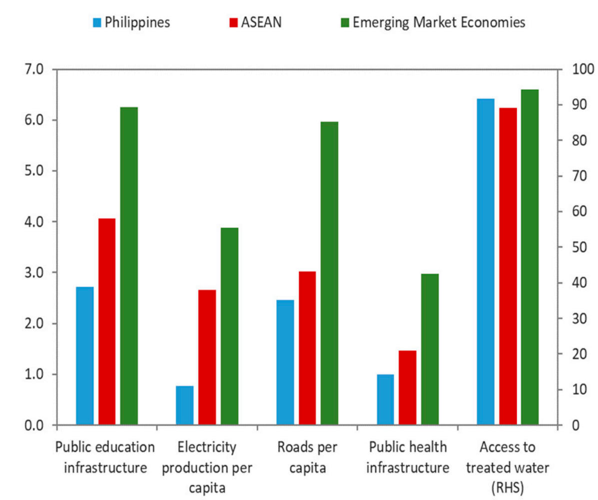
18. The Philippines offers less access to physical infrastructure than other emerging market economies. The Philippines has less infrastructure per capita for public education, electricity, roads per capita, or public health infrastructure, but it is almost comparable to other ASEAN nations on treated water (Figure 3.B). The latest World Bank report on competitiveness in South East Asia confirms that infrastructure and logistics remain an important constraint for private sector investment and exports.[12]

Figure 3.A. Perceived Infrastructure Quality
(2006-2015)



Source: World Economic Forum and staff estimates.

Figure 3.B. Volume of Infrastructure per Capita*



Source: World Bank and staff estimates.
Note: * Public education infrastructure is measured as secondary teachers per 1,000 persons; Electricity production per capita as thousands of kWh per person; Roads per capita as km per 1,000 persons; and Public health infrastructure as hospital beds per 1,000 persons. The most recent year is used for each indicator depending on the availability of data.

[11] The World Economic Forum surveys business leaders' impressions of the quality of key infrastructure services. While this indicator provides a measure of the quality of infrastructure assets, it is affected by individual perception biases.

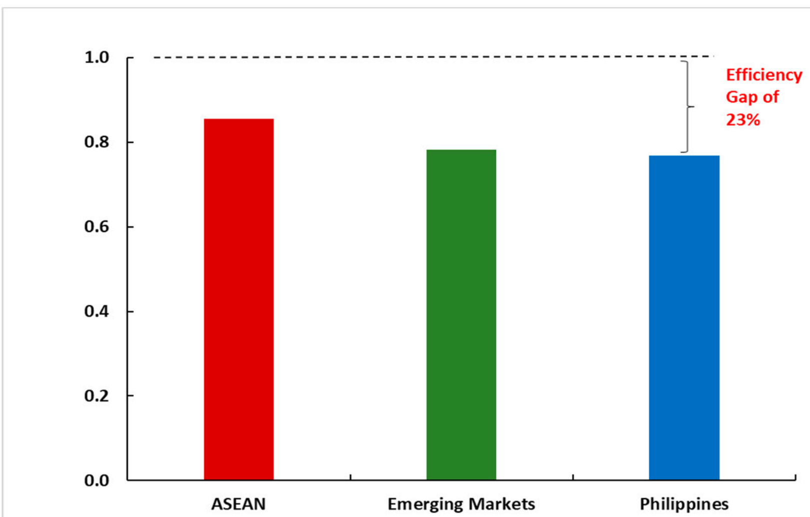
[12] See http://www.worldbank.org/en/region/sar/publication/south-asias-turn-policies-to-boost-competitiveness-and-create-the-next-export-powerhouse.

B. Public Investment Efficiency

19. The IMF has developed a methodology for estimating the efficiency of public investment. This is explained in the 2015 paper, "Making Public Investment More Efficient."[13] Simply stated, a country's performance is estimated based on an index of the output of public investment compared to its per capita public capital, or input. A "frontier" that consists of the countries achieving the highest output per unit of input is drawn. Using a consistent set of data, the performance of a total of 128 countries is compared to the frontier.

20. Based on this methodology, the efficiency of public investment in the Philippines is mixed. Compared to the best-performing countries among emerging market economies, the Philippines has an efficiency gap of about 23 percent in translating public investment into infrastructure based on perceived quality (Figure 3.C). Although the perceived quality of infrastructure seems good, the Philippines could generate more and better infrastructure with similar public capital stock per capita by reducing the cost of producing infrastructure.

Figure 3.C. Public Investment Efficiency
(Benchmark based on perceived quality of infrastructure)



Source: Staff estimates.

Note: ASEAN = Association of South East Asian Nations; EMEs = emerging market economies.

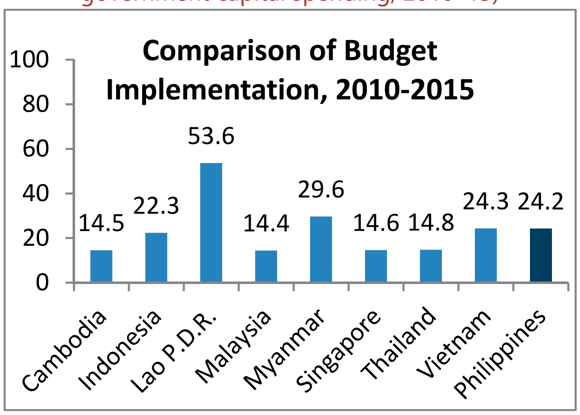
21. The Philippines' performance on other measures of public investment is also mixed. The average gap between planned and executed capital spending in the Philippines was 24.2 percent from 2010 through 2015. This was roughly the same as that for Indonesia, Myanmar, and Vietnam; dramatically better than that for Lao PDR; and not as efficient as that for Cambodia,

[13] See http://www.imf.org/external/np/pp/eng/2015/061115.pdf.

Malaysia, Singapore, and Thailand. The nature of public investment results in a relatively significant gap between proposed budgets and actual spending for these countries, due to the difficulties in scheduling and implementing capital projects (Figure 3.D). On the indicator of investment volatility, Philippine public investment was more volatile than that of its neighbors (Figure 3.E). Year-on-year public investment-to-GDP changed more in the Philippines than its neighbors. The scope of public investment in the Philippines changed by an average of 31 percent from 2010 to 2015. A more stable public investment program is easier to implement and tends to be more efficient.

Figure 3.D. Execution of Capital Expenditure[1]

(average absolute deviation from planned general government capital spending, 2010–15)

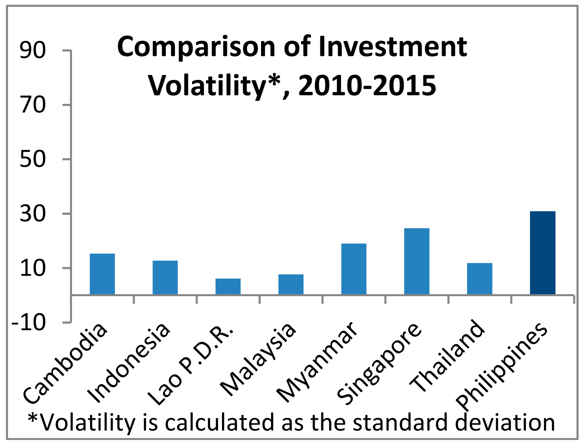


Source: Staff estimates.

[1]This graph (and graph 3.E) are based on the IMF's WEO database, which may not reflect execution rates as calculated through the annual budget; however, it allows for cross-country comparisons.

Figure 3.E. Investment Volatility*

(average 2010–15)



Source: Staff estimates.

IV. PUBLIC INVESTMENT MANAGEMENT ASSESSMENT

22. This section provides a comprehensive assessment of the quality of public investment management in the Philippines. Section IV.A and Appendix I describe the assessment framework that is applied. Sections IV.B, IV.C and IV.D analyze different features of public investment management quality, related to the planning, allocation, and implementation phases, respectively.

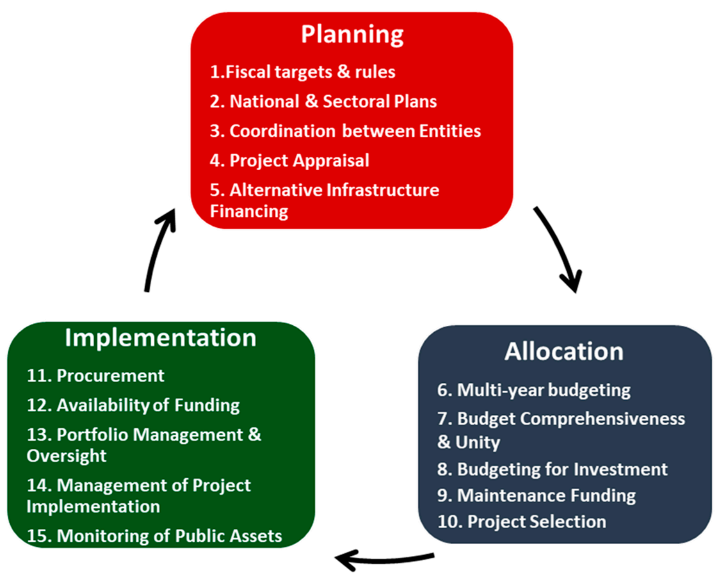
A. Public Investment Management Assessment Framework

23. The IMF has developed the PIMA framework to assess the quality of the public investment management. It identifies the strengths and weaknesses of institutions and is accompanied by practical recommendations to strengthen them and increase the efficiency and impact of public investment.

24. The PIMA framework evaluates 15 key institutions that are involved in the three major stages of the public investment cycle (as shown in Figure 4.A):

- **Planning** of investment levels for all public sector entities to ensure sustainable levels of public investment.
- **Allocation** of investments to appropriate sectors and projects.
- **Implementation** of investment projects to deliver productive and durable public assets.

Figure 4.A. The PIMA Framework



25. For each of these 15 institutions, three indicators are analyzed to develop a score that determines whether the specified criterion is met in full, in part, or not at all; scores of 10, 5, and 0 are assigned, respectively. Each of the three indicators under an institution is scored on two different measures: institutional strength and effectiveness. In addition, a score for reform priority is assessed at the institution level.

- **Institutional strength** refers to the objective facts that an organization, policies, rules, and procedures are in place. The score for an institution, which may be high, medium, or low, corresponds to the average of the institutional strength scores for each of its three indicators.

- **Effectiveness** refers to the degree to which the intended purpose is being achieved or there is a clear and useful impact. The score for an institution, which may be high, medium, or low, corresponds to the average of the effectiveness scores for each of its three indicators.
- **Reform priority** refers to whether the issues related to the institution are important to be addressed in the specific context and conditions faced by the Philippines.

The following sections provide a detailed assessment according to this methodology for each public investment management institution in the Philippines.

B. Planning Sustainable Levels of Public Investment

26. Efficient investment planning requires institutions that ensure public investment is fiscally sustainable and effectively coordinated across sectors and levels of government, and between public and private sectors. The PIMA assesses how the country does relating to the following:

- **Fiscal targets and rules**, which ensure that the government has fiscal institutions to support fiscal sustainability and facilitate medium-term planning for public investment
- **National and sectoral planning**, which ensures that public investment decisions are based on clear and realistic priorities, cost estimates, and objectives for each sector
- **Coordination among entities**, which integrates public investment plans across public sector entities, provides certainty about funding from the central government, and ensures adequate management of contingent liabilities
- **Project appraisal**, which ensures that project proposals are subject to published appraisal using standard methodology and taking account of potential risks
- **Alternative infrastructure financing**, which ensures a favorable climate for the private sector, PPPs, and public corporations to finance infrastructure.

1. Fiscal Targets and Rules *(Institutional Strength – Medium; Effectiveness – Medium; Reform Priority – Low)*

27. Fiscal policy is guided by limited legal debt constraints but is not subject to legislated fiscal rules. Local governments' ability to borrow is limited by law, with their debt servicing not allowed to exceed 20 percent of their annual estimated revenue.[14] The limit on foreign borrowing is set under the Foreign Borrowings Act (as stated in R.A. 4860) at USD10

[14] Section 324 of the Local Government Code of 1991 (R.A. 7160) states, "the amount of appropriations for debt servicing shall not exceed twenty percent (20%) of the regular income of the local government unit concerned."

billion. However, there is no legal debt limit for aggregate national government borrowing. There are also no legislated fiscal rules, such as limits on fiscal deficits or total expenditures. Nevertheless, debt, spending, and revenue targets are regularly considered in budget policy development and incorporated in the Medium-Term Fiscal Program (MTFP), and debt management practices are well developed.[15] The MTFP is approved by the Development Budget Coordination Committee (DBCC), which is a cabinet-level interagency committee of the NEDA Board, with DBM as Chair and NEDA, DOF, and Office of the President as members, and Bangko Sentral ng Pilipinas (BSP)—the central bank—as a resource institution. Budget ceilings are developed based on the MTFP. The MTFP is presented publicly in the Budget Expenditures and Sources of Financing volume of the Philippine budget. Table 4.A shows extracted deficit and debt figures from 2017–19 budget tables.

Table 4.A. Selected Fiscal Measures from the Medium-Term Fiscal Program

Fiscal Measure	2015 Actuals	2016 Actuals	2017 Actuals	2018 Program	2019 Projection	2020 Projection	2021 Projection
				(In billions of Pesos)			
Revenues	2,109	2,196	2,473	2,846	3,208	3,676	4,401
Expenditures:							
Current	1,785	1,909	2,114	2,416	2,824	2,992	3,204
Capital	436	625	714	940	995	1,307	1,586
Debt Service	309	305	310	354	400	450	501
Deficit	122	353	351	524	624	638	702
Debt	5,968	6,095	6,652	7,661	8,116	na	na
Nominal GDP	13,307	14,480	15,806	17,578	19,474	21,531	23,694
				(Percent of GDP)			
Revenues	15.8	15.2	14.2	15.2	15.5	16.2	16.5
Expenditures:							
Current	13.4	13.2	13.4	13.7	14.5	13.9	13.5
Capital	3.3	4.3	4.5	5.4	5.1	6.1	6.7
Debt Service	2.3	2.1	2.0	2.0	2.1	2.1	2.1
Defict	0.9	2.4	2.2	3.0	3.2	3.0	3.0
Debt	44.8	42.1	38.5	37.8	37.6	na	na

Sources: Philippine budgets for 2017, 2018, and 2019: BESF Tables A2 and D3.
Note: NA = not available.

28. Conservative fiscal policy has resulted in limited fiscal deficits and improved debt sustainability. Philippine budget policy has limited fiscal deficits and borrowing for most of the past 20 years; as a result, public debt has been reduced from 76 percent of GDP in 1993 to a projected debt of 38 percent of GDP in 2019. There is a legislated limit on local borrowing; the Bureau of Local Government Finance (BLGF) estimates actual local borrowing to be less than 5 percent of annual estimated revenues. The budget proposes to increase the allocation of capital spending from 4.5 percent of GDP in 2017 to 6.7 percent of GDP by 2021. Fiscal deficits, as projected in the MTFP, would increase slightly over this period, but debt is projected to continue

[15] For example, the Bureau of the Treasury (BTr) conducts debt sustainability analysis to analyze the country's debt dynamics and there is regular monitoring of risks in the debt portfolio.

to decline relative to GDP, which would grow faster than debt. Deficits and debt service are shown in Table 4.A. The Philippine government also publishes annually a "Fiscal Risk Statement" that includes analyses of debt sustainability and contingent liabilities of government. The statement is prepared by the DBM for the DBCC.

29. The planned shift from an obligation-based budget to a cash-based budget will increase the importance of the MTFP for multiyear capital projects. Under the annual cash-based budget, all cash disbursements related to investment expenditures would be expected to be made within the fiscal year plus a three-month extended payment period. This change should be reconciled with the practical constraints of many infrastructure programs and projects that typically require more than one year for completion. The authorities would provide expenditure authorization for multiyear projects by issuing multiyear obligation authority (MYOA) to cover contracts that extend beyond a budget year. To strengthen budget planning and integrate this practice with the budget process, it will be important to expand the MTFP to include outyear costs of infrastructure programs and projects.

30. Modest expansion of the MTFP and out-year budget presentations for infrastructure investment spending will improve the infrastructure program and make it more transparent to the Congress and the public. Continuing fiscal policy on the current path should ensure that budget deficits and national debt levels remain stable and sustainable. Making a distinction in the MTFP between capital investment for ongoing projects and new projects will increase the visibility of the government's current useful planning distinction between Tier 1 and Tier 2 spending. Many governments that have not given priority to the completion of ongoing works have difficulty avoiding the initiation of new projects, thereby impeding completion of projects underway. Highlighting ongoing investment will focus attention on project progress and completion. This proposal will be complemented by proposals to expand multiyear budgeting for the infrastructure program.

2. National and Sectoral Planning *(Institutional Strength — High; Effectiveness — Medium; Reform Priority — Low)*

31. National and sectoral plans exist, and the NEDA provides overall strategic guidance on national development planning with development plans, programs of costed projects and result indicators. The government publishes PDPs and public investment programs as well as sectoral masterplans. The 2017–22 PDP is anchored in the President's "0 to 10-point Socioeconomic Agenda," the Ambisyon Natin (Our Ambition) 2040, and the 2030 Sustainable Development Goals. The published PDP Results Matrices (RM) include statements and measurable targets of output and outcome indicators. Responsive to the RM outcomes and outputs, the 2017–22 Public Investment Program (PIP) sets out a list of programs, activities, and projects (PAPs) with financing estimates for the national government, as well as through PPPs

and Official Development Assistance (ODA).[16] PAPs may be implemented by the national and subnational governments, GOCCs, government financial institutions (GFIs), PPPs, and joint ventures. PIP includes estimates of total cost with annual breakdowns of individual projects without an overall financial constraint.

32. **National and sectoral plans have been generally effective in guiding the strategic selection of projects.** The PDP and PIP planning cycle is aligned with the political cycle, making planning effective in aligning projects with political priorities. Within the PIP, major projects are identified as Core Investment Programs and Projects (CIPs), which are the proposed "big ticket PAPs" subject to review and approval by the Investment Coordination Committee (ICC) or the NEDA Board. In addition, a Three-Year Rolling Infrastructure Program (TRIP) is a subset of PIP containing only national government-funded priority infrastructure PAPs; it serves as the basis for the DBM for determining the infrastructure PAPs to be included in the national government budget. RM have been used to identify priority projects and assess sectoral performance through annual Socioeconomic Reports. The updating of the PIP costs and schedules is done by implementing agencies through the PIP Online (PIPOL) system during the first quarter and in accordance with NEDA guidance. However, the 2017–22 PIP finally approved in 2017 and updated in 2018 are not published. In addition, the levels of public investment targeted by the PIP far exceed the absorptive capacity. According to the 2017–22 PIP approved by the Cabinet Committee on Infrastructure (InfraCom) Technical Board on July 25, 2017, national government-funded projects (referred to as *locally funded projects*, LFPs in the Philippines) should amount to PHP 4780 trillion for 2017–22, with an annual average amount of PHP 797 billion, whereas absorptive capacity as shown in annual average disbursement on capital spending during the previous planning period was only 395 PHP billion (see Table 4.B).

Table 4.B. Total Cost of LFPs in PIP 2017–22 and Disbursement of Capital Spending During 2011–16,

(in billions of pesos)

	2017	2018	2019	2020	2021	2022	**Average**
PIP 2017–22	575	944	905	905	735	718	**797**
	2011	2012	2013	2014	2015	2016	**Average**
GAA	262	326	411	519	621	872	**497**
Disbursement	250	357	344	352	439	625	**395**

Sources: NEDA for PIP; DBM for GAA and actual obligations.

Note: DBM = Department of Budget and Management; GAA = General Appropriations Act; NEDA = national Economic and Development Authority.

[16] Core Investment PAPs (CIPS) are those PAPs that satisfy any of the following: (1) major capital PAPs with total project cost of at least PhP2.5 billion; (2) ODA-assisted grants with total project cost of at least PhP2.5 billion or ODA loans (including program loans, namely, budget support), regardless of amount requiring national government guarantee; (3) relending activities to national government offices and/or LGUs with total project cost of at least PhP2.5 billion; (4) solicited national projects that may be financed, constructed, operated, and maintained by the private sector through the contractual arrangements or schemes authorized under R.A. 7718 or the BOT Law and its Implementing Rules and Regulations; (5) priority projects under the Joint Venture (JV) Agreement for ICC processing; and (6) administrative buildings with total project cost of at least PhP1 billion.

33. Given that the PDP for 2017–22 has been adopted and public investment planning is generally effective, there is no immediate need to improve planning. Nevertheless, the government could make certain improvements. It should publish updated PIPs on the NEDA website in a timely manner. For the upcoming revalidation of the PIP, the government should take into account the resource constraints and absorptive capacity to ensure the realism of the PIP.

3. Coordination between Central and Other Government Entities *(Institutional Strength — Medium; Effectiveness — Medium; Reform Priority — Medium)*

34. Central co-funding of major infrastructure projects at regional and local levels incentivizes coordination of capital spending, but there is no systematic ex-ante assessment of fiscal risks from projects of LGUs and GOCCs. LGU budgets are not coordinated with the national budget, although transfers from the central government are the primary funding source for LGUs, and some major investment projects of LGUs are centrally assessed and budgeted. At the planning level, the PDP is discussed with LGUs through the conduct of regional consultations and similar fora at the local level. The NEDA regional offices coordinate with them in the formulation of the Regional Development Plans (RDPs). Major LGUs publish their own investment plans, and they coordinate with the national government the investment projects that require co-funding. Capital transfers from the national government to the LGUs are largely rule-based, as specified each year in the Local Budget Memorandum issued by DBM six months before the start of the fiscal year; however, capital transfers to LGUs are not fully known in advance. Contingent liabilities and other fiscal risks created by investments of LGUs and public corporations are not systematically assessed by national government at the planning stage, whereas during implementation, the Bureau of the Treasury monitors GOCCs' fiscal risks.

35. In practice, LGUs have difficulties planning their investments that are funded by the national government through different mechanisms. In particular, the information on national government support from conditional transfers and the Local Government Support Fund (LGSF) is not available to the LGUs before their budgets are formulated. As a result, there is evidence of investment overlaps for small projects, leading to project cancelation and reallocation of funds. Current procedures may create further challenges under cash-based budgeting. The current coordination mechanisms also do not address fiscal risk mitigation of LGU and GOCC projects besides resource allocation. Borrowings by LGUs are subject to approval by the DOF, and GOCCs' borrowings—both domestic and foreign—need to go through the Corporate Affairs Group (CAG) of the DOF.[17] However, there is no comprehensive ex-ante assessment of fiscal risks in public investment.

[17] The debt-related fiscal risks of LGUs and GOCCs are reviewed as part of this review and approval process.

36. Strengthening the ex-ante assessment of infrastructure projects in terms of long-term fiscal sustainability and fiscal risks should be a priority. As part of the evaluation of the projects submitted to ICC, and prior to approval, a dedicated unit should be responsible for systematically evaluating major projects from the viewpoint of long-term fiscal sustainability, including long-term liabilities and fiscal risks such as explicit and implicit contingent liabilities. The assessment report by the dedicated unit should include the identification of mitigation measures for the accepted fiscal risks if the project is proposed for approval. Box 4.A provides examples of ex-ante fiscal assessment processes for investment projects. A culture of ex-ante fiscal-risk assessment should be fostered, as well as the active management of fiscal risks in public investment, addressing both explicit and implicit risks.

Box 4.A. Ex-Ante Fiscal Assessment Processes for Investment Projects

Countries with large public investment projects have felt the need for some type of **ex-ante fiscal assessment process**, an institutional mechanism that allows the Ministry of Finance to identify projects that may jeopardize the sustainability of public finance and scrutinize the long-term liabilities and the fiscal risks of those projects. In practice, this process facilitates dialogue among government entities, leading to the rescoping, redesign, or rescheduling of investment projects, optimizing the use of public resources, and best serving the needs of public service users and the interests of taxpayers and citizens.

Some countries developed **ex-ante fiscal assessment** processes that are actually internal review by the Treasury. In New Zealand, in *The Gateway Process: Guide for Agencies* (May 2018), the Treasury of New Zealand presents its Gateway as "an independent and confidential peer review process that examines projects and programs at key points in their lifecycles to assess their progress and to rate the likelihood of successful delivery of their outcomes."

(https://treasury.govt.nz/sites/default/files/2018-05/gateway-guide-may18.pdf).

In New Zealand, the Gateway does not stop a public investment project—although poor performance may reduce its chances of completion without redesigning. Other countries, such as South Africa, allow the Treasury to block a project at specific stages: prior to procurement, prior to contract close, and prior to any changes to a contract taking effect.

4. Project Appraisal *(Institutional Strength — Medium; Effectiveness — Low; Reform Priority — High)*

37. There is a systematic project appraisal approach, but the results are not published. *Project appraisal* in the PIMA framework refers to analyses of project viability prepared by implementing agencies (See Table 4.C for the main content of project appraisal). In the Philippines, major capital projects are subject to systematic appraisal involving standardized cost-benefit analysis, financial analysis, economic analysis, and environmental analysis, as well as technical analysis. However, such analyses are not required to be published for transparency and

for public comments[18] or to undergo independent external review. There is centralized support for project appraisal, including for PPP projects. A risk assessment covering a range of potential risks is included in the project appraisal. However, plans are not systematically prepared to mitigate these risks, and project cost estimates and budgets do not include contingency reserves to cover the possible costs associated with these risks.

38. In practice, the quality of project appraisals varies among line departments. There are often underestimates of cost and time for land clearance, including right-of-way and resettlements.[19] This practice leads to delays and cost overruns during implementation. For example, the Status Review of Regionally Implemented Projects of DPWH indicates that Region 1 has an accomplishment of 98.2 percent in terms of project execution; Region XI has an accomplishment of 97.45 percent; and Region XII has an accomplishment of only 49.75 percent due to right-of-way acquisition ion issues. In addition, weaknesses in technical design in some projects have led to significant changes in technical design and scope during implementation. The lack of systematic identification of risk mitigation measures during project appraisal increases the likelihood of cost overruns and delays.

39. Strengthening the quality of project appraisals is a high reform priority (see Table 4.C for key components of project appraisal)**.** Doing so would help to provide accurate information on project viability and readiness to decision makers for planning and budgeting. Adding the requirement to explicitly present and use historical data in the analyses of costs and time associated with land clearance for new projects would improve the accuracy of these estimates. In addition, publishing appraisal analyses of major projects would help to elicit comments from the public to further strengthen the quality of project preparation. Pre-implementation issues such as right-of-way and resettlement issues should be addressed before project implementation to avoid cost overruns and delays.

[18] According to the Philippine authorities, Project Evaluation Reports, which provide the results of the NEDA appraisal of projects submitted to the ICC, are considered restricted documents and are covered by the Deliberative Process Privilege until the executive agency adopts a definite proposition.

[19] There have been recent changes to use the market value as the basis for the payment for right-of-way acquisitions; previously, the absence of a standard basis for this caused implementation delays for both national and local governments. However, there is an ongoing need for sustained improvement of costing and time allocation for right-of-way acquisition and resettlement by leveraging the recent historical experience of concerned agencies.

Table 4.C. Key Components of Project Appraisal

Prefeasibility study (required for only major projects)	**Feasibility study**
• Data gathering (geographic, climate, socioeconomic, and technical)	• Compilation of all relevant data
• Project alternatives: Identification of project alternatives, comparison of alternatives (engineering, socioeconomic costs, and benefits), and recommended project alternative	• Alternative technologies for project
• Major risks (including institutional and budgetary)	• Detailed risk and sustainability assessment
• Preliminary estimate of project costs and benefits	• Detailed estimate of costs and benefits for a selected alternative with a preliminary design
• Regulatory requirements	• Assessment of social and environmental impact
• Identifying information for social impact assessment	

Source: Adapted from Rajaram, A., and others, eds., 2014, *The Power of Public Investment Management: Transforming Resources into Assets for Growth*, (Washington, DC: World Bank).

5. Alternative Infrastructure Financing *(Institutional Strength — Medium; Effectiveness — Medium; Reform Priority — High)*

40. Lack of a competitive regulatory framework constrains private investment in infrastructure. In the Philippines, private investors manage a broad range of public services, from ports to energy to water and telecommunications. Regulatory frameworks are in place, but they are generally recognized as inadequate for promoting competition, resulting in high-cost services and inefficient delivery. There is a published PPP strategy regarding investments and services procured by the government through public-private partnerships. Solicited projects benefit from preparation and procurement processes that are well defined and professionally managed; unsolicited projects undergo a formally "competitive" process that (in the Philippines, as elsewhere) generates no competition due to the first-mover advantage given to the private proponents and exacerbated by the "right-to-match" (or "Swiss Challenge"). The availability of funds and expertise for preparing and procuring PPP projects presents an obvious benefit for the projects; however, it creates a bias in favor of PPPs, potentially distorting decision-making on the preferred procurement option. The legal framework is also fragmented: for instance, PPPs have a specific procurement framework that is not governed by the public procurement act and not monitored by the Procurement board. Regarding the governance of GOCCs, the government reviews the investment plans and financial performance of only 17 major GOCCs, and there is no consolidated report on financial performance of GOCCs.

41. New government initiatives are addressing poor effective competition for private investment in infrastructure. Regulatory frameworks are in place, but the lack of effective

competitive mechanisms prevents competition for private investment in infrastructure. The PPP Center reviews and supports the development and procurement of PPP projects, but its role creates a conflict of interest that needs to be managed. DOF monitors PPP fiscal risks following contract award, but it has no formal role in filtering out or postponing projects that may jeopardize long-term fiscal sustainability. A consolidated report on investments by GOCCs is produced and disseminated within the government, but it does not cover all GOCCs; in general, national government management of GOCCs' fiscal risks is largely reactive rather than preventive. There is weak regulation and monitoring of joint ventures and other types of PPPs not covered by the BOT Law in a context where many LGUs and GOCCs are considering PPP options for their investment projects.

42. The legal and institutional framework for private participation in infrastructure should be broadened and improved. The current BOT framework does not cover all types of

Box 4.B. Approaches to Broadening Infrastructure Governance

Infrastructure is a major source of fiscal risk in many countries. Countries with large infrastructure programs have been introducing changes to their institutional framework for governing infrastructure. A few countries, such as Chile, have for many years published a yearly Report on Contingent Liabilities. Chile's report (see http://www.dipres.gob.cl/598/w3-propertyvalue-16136.html) covers explicit contingent liabilities arising from a variety of fields, including the pension system and PPPs, and presents itemized information on those risks and sensitivity analysis. In recent years, many other governments have created fiscal risk units and started publishing Fiscal Risk Statements, where public investment and infrastructure are highly visible.

Some countries with large infrastructure programs, and where the Ministries of Finance had PPP Units, have in recent years broadened the scope of those teams: Partnerships-UK was replaced by Infrastructure-UK; the French MAPPP, Mission d'Appui aux PPP, is now FinInfra, Mission d'Appui au Financement des Infrastructures, addressing all types of Infrastructure Finance; and South Africa's PPP Unit was incorporated into GTAC, the Government Technical Advisory Centre, with a mandate to provide specialized procurement support, advice on the feasibility of infrastructure projects, and knowledge management for projects undertaken.

Source: Mission.

private participation in infrastructure, both for LGUs and GOCCs. The framework should be expanded to encompass all types of long-term contracts for infrastructure and public service, including joint ventures and new modalities created by LGUs. (Box 4.B provides country examples of approaches to broadening infrastructure governance.)

C. Allocating Investments to the Right Sectors and Projects

43. Allocation of capital spending to the most productive sectors and projects requires a comprehensive, unified, and medium-term approach to capital budgeting, as well as objective criteria and competitive procedures for appraising and selecting particular

investment projects. The PIMA assesses how the country does in the institutions relating to the following:

- **Multiyear budgeting** that provides transparency and predictability regarding levels of investment by ministry, program, and project over the medium term
- **Budget comprehensiveness and unity** that ensures that all public investment, regardless of the funding channel, is authorized by the legislature and disclosed in the budget documentation; and that decisions about individual projects take account of both their immediate capital and future operating and maintenance costs
- **Budgeting for investment** that ensures the protection of continuing funding for investment projects during budget implementation
- **Maintenance funding** that ensures that routine maintenance and major improvements are adequately assessed and receive sufficient funding
- **Project selection** that ensures that projects are systematically vetted, selected based on transparent criteria, and included in a pipeline of approved projects.

6. Multiyear budgeting *(Institutional Strength — Medium; Effectiveness — Low; Reform Priority — High)*

44. The Philippines has made some progress in developing several elements of multiyear budgeting for capital spending. Three-year rolling investment programs (TRIPs) include three-year projections of capital spending of projects. The projections are identified by line departments through annual PIP updating process during the first quarter, using the PIP Online (PIPOL) system. However, TRIP is an internal document prepared by NEDA without financial constraints, approved by INFRA-COM and used by DBM to prepare the annual budget. The budget does show aggregate capital spending target in the MTFP and is supported by listings of projects in the PIP and TRIP. However, the listings are not fully consistent with the budget. More precise estimation and more comprehensive evaluation of the physical status and financial performance of the projects should occur during budget preparation. There are no multiyear ceilings for total capital spending by line department. The budget documentation does not have any multiyear ceilings; it only has a budget year ceiling for ongoing projects published in the BPF. Projections of the total construction cost of major capital projects are published in PIP, together with the annual breakdown of these costs over a six-year horizon.

45. TRIPs form the basis for the determination of infrastructure projects to be included in the national government budget. However, TRIPs are not sent together with the proposed budget to the Congress; they are not published to provide comprehensive overviews of required funding for forward years. The budget ceilings for ongoing projects are prepared by DBM in consultation with line departments and approved by DBCC. The requests made by line departments for the allocation of new investment projects (Tier 2) are still far above the available

resources.[20] Since 2016, DBM tried to enforce some discipline in the budget submissions by asking departments with a prior year execution rate below 80 percent to avoid budget requests above 20 percent of their prior budget year. In the absence of Tier 2 ceilings by departments, the global ceiling on new spending set in the BPF is not perceived as a firm constraint by individual departments. Updates of total project cost and annual breakdowns are done by implementing agencies. NEDA checks consistency with PIP and sectoral masterplans but does not have effective verification of cost projections.

46. Improving multiyear budgeting for capital spending is a high reform priority. Multiyear perspective for public investment in the budget process is critical in the context of significant increases in public investment and implementation of cash-based budget in the Philippines. Ceilings for budget year and forward years for entire capital spending including for new projects are important to improve the realism of budget requests and visibility of funding for forward years. DBM is developing, with assistance from the Australian Department of Foreign Affairs and Trade (DFAT), a framework for multiyear budgeting at the department level; this framework is expected to improve the link between the sectoral PDP and the capital projects in the PIP and TRIP with the multiyear and annual planning processes and budgetary ceilings of departments.

7. Budget Comprehensiveness and Unity *(Institutional Strength – Medium Effectiveness – Medium; Reform Priority – Low)*

47. Budget summary tables provide information on capital spending from all financial sources: national government, ODA grants and loans, LGUs, GOCCs, and PPPs. The Budget presents summary tables for ODA projects, LGU projects funded from the national government budget, national government budget-funded GOCC capital projects, and PPPs**.** The departmental tables presented in the National Expenditure Program volumes of the Budget show infrastructure spending from the national government budget and ODA-funded projects. All major capital projects are reviewed and approved through the budget process by the ICC; smaller infrastructure projects are approved by the DBM. Capital project justifications require information on both capital expenditures and related recurrent costs, but the Budget document does not provide an integrated presentation of capital and recurrent costs.

48. Budget tables are comprehensive in terms of presenting information, but infrastructure funding from all sources is not fully integrated. PPPs are not included in agency details, based on the rationale that no budget funds are required. PPPs may have no current budget costs but may result in future costs to government. Similarly, not all GOCCs are included in budget details. Section E of the BESF has 13 summary tables for GOCCs. Subsidies are budgeted to be provided to 42 organizations for an expected total of 187 billion pesos in

[20] Budget process includes hearings for ongoing projects (Tier 1) before hearings for new projects (Tier 2). See the discussion in Institution 8.

2019. The largest are expected to be the Philippines Health Institute for 67 billion, the National Irrigation Administration for 37 billion, and the Land Bank for 36 billion. Balance sheets, income statements, and cash flow statements are provided for 81 GOCCs. Of the 81 GOCCs, 19 did not provide information.; the BESF tables have no data for these entities. Budget information on capital projects from PPPs and GOCCs is reported in the budget but not integrated with other government spending. Capital and recurrent budgets of line agencies are presented together using program classification. However, the annual focus of the budget does not provide a useful integration of capital and recurrent costs for infrastructure projects, for example, no information is provided on total project costs or future year funding requirements.

49. DBM should continue efforts to improve the budget documents to better integrate infrastructure spending from different financing sources. Improving budget tables is an ongoing effort. The areas in need of strengthening are GOCC capital projects and the effects of capital spending on future recurrent budgets. The budget would be more informative if there were a summary table showing aggregate spending by source of financing. Adding a table highlighting future recurrent costs of capital projects would be useful. Such a table could show estimates of staffing required for schools to be completed over the next three years, or ongoing maintenance of roads, bridges, or power plants.

8. Budgeting for Investment *(Institutional Strength — Medium; Effectiveness — Medium; Reform Priority — Low)*

50. The General Provisions of GAA and its regulations provide a reasonable framework for the protection of capital investment during budgeting. Ongoing projects (Tier 1) are required to be considered before new projects. Annual budget estimates for Tier 1 are first prepared by the line agencies, discussed with DBM during Tier 1 hearings, and then approved by the Development Budget Coordination Committee (DBCC)[21] and included in the published BPF. The allocation of new spending is discussed later during new projects (Tier2) hearings. Outlays are appropriated on an annual basis, with multiyear obligation authority for new projects and multiyear commitments included in the budget documentation. However, information on total project costs is not included in the budget documentation. Virement from capital to current spending within a project or program is allowed with the approval of the DBM.[22]

51. In effect, capital investments are generally protected during project implementation. The two-tier budgeting approach protects funding for ongoing projects in the annual budget and over the medium term. Multiyear contracts are allowed and authorized by DBM. For projects of one-year duration, it may be difficult to protect the investment with

[21] DBCC is a Cabinet-level interagency committee of the NEDA Board, which is composed of DBM as chair, with NEDA, DOF, and the Office of the President as members, and with the Central Bank as a Resource Institution.

[22] Section 72 General Provisions Fiscal Year 2018 requires that virements/modifications in the allotments may only be done on meeting several conditionalities and the prescribed timeline to ensure timely delivery of goods and services.

appropriations on a cash basis if early procurement cannot be done in a timely manner. Insignificant amount of in-year transfers of appropriation from capital to current spending has taken place with the approval of DBM.

52. Given the overall effective protection of capital investment, the need for further improvement in this area is marginal. Nevertheless, information on total project costs should be included in the budget documentation to provide a comprehensive overview of funding required versus appropriations, obligations, and disbursements.

9. Maintenance Funding *(Institutional Strength — Medium; Effectiveness — Low; Reform Priority – High)*

53. Standard methodology for determining the routine maintenance needs exists for some, but not for all types of infrastructure assets. The *Bridge Management Manual* of the DPWH and the *Philippines Highway Maintenance Manuals* are good examples of the quality and standard of manuals required for maintenance and budgeting of maintenance for roads and bridges. However, some line departments have not developed similar standardized methodologies for determining and costing the requirements for routine maintenance. Projects prepared by line departments that are not based on a standard methodology cannot produce credible information on the requirements for routine maintenance. There is no standard methodology for determining major capital improvements to existing assets, but such capital improvements are included in national or sectoral plans. The budget includes an object of expenditure for maintenance and other costs but does not separately identify routine maintenance or major improvements. DPWH does have a program for maintenance that is presented in the budget.

54. The process for determining the routine maintenance requirements could be improved significantly. The existing practice may reflect a lack of proper planning for routine maintenance and poor or no budgeting for routine maintenance. Without standards, planning, and adequate financing, capital assets almost certainly will not last for the serviceable lifespan originally forecast or will require extensive and expensive rehabilitation at a much earlier stage in the project lifecycle than expected. Different agencies estimate the budgets for repair and renovations differently; such estimates appear to be prepared on an ad hoc basis for different projects. Routine maintenance and major improvements are not separately identified in the budget. Significant parts of allocated funds for routine maintenance and major improvements of large infrastructures are not utilized.

55. Developing a standard methodology for determining maintenance requirements for all types of infrastructure assets and budgeting for them is a high reform priority. Doing so will ensure savings in the lifecycle cost of the facilities. Current inadequate practices for determining routine maintenance may result in poorly maintained facilities. NEDA and DBM should be the drivers to implement the standard methodology and to enforce the requirement

for the implementation of such standard methodology. In some cases, the existing regulations for maintenance requirements need to be updated to prolong the life of key infrastructure assets. For example, DPWH encounters risks in relation to the prevention of damage to the road network caused by the overloading of vehicles. The processes and law enforcement at the 18 weigh stations are not on par with international standards. An example of an international good practice to be followed at the weigh stations is provided in Box 4.C. Costs developed using standard methodology should be highlighted in the budget to increase the visibility and likelihood that these essential funds will be provided.

Box 4.C. Axle Load Control

Effective Flow and Law Enforcement Processes for Weigh Stations

- All heavy vehicles above 5000 kg, inclusive of passenger busses, should be processed through a dedicated, separate medium speed weigh in motion (WIM) lane.
- All vehicles cleared by the WIM process may join normal traffic.
- All vehicles not cleared by the WIM process must proceed to the weigh deck.
- All vehicles cleared at the weigh deck may join the normal traffic again.
- All overloaded vehicles should be directed to holding areas, where the access loads should be offloaded at the cost of the operator
- Operators must be fined, and the fines must be paid before vehicles may proceed to the weigh deck again.
- Once the access loads have been off loaded, the vehicles may proceed to the weigh deck again for clearance.
- Once the vehicles have been cleared at the weigh deck, they may join normal traffic again.
- Vehicle may be scanned for road worthiness at the weigh station, if required.

Source: Mission.

10. Project Selection *(Institutional Strength — Low; Effectiveness — medium; Reform Priority – High)*

56. **Major projects are scrutinized centrally but not systematically subject to an independent review; although a project pipeline exists, projects outside the pipeline may be included in the budget.** Project proposals submitted by line departments are processed through the ICC Technical Committee, ICC Board, NEDA board for major projects (above PHP 2.5 billion) and then sent to DBM for budget funding. The selection criteria are published by the guidelines on the preparation of PIP and TRIP, as well as in the BPFs. TRIPs provide a list of projects responsive to government priorities as a pipeline of projects for considerations in budgeting, but other projects may also be selected for financing through the annual budget. Large projects are not required to be reviewed by a third party or external experts.[23]

[23] In some countries, it is a standard practice to have a third-party appraisal by independent external experts for large projects with high costs and longer time frames to ensure due diligence in the assessment of potential risks.

57. Many projects are budgeted and start implementation before completing land clearance, leading to delays and cost overruns during construction. In addition, in some cases, technical designs are not completed before budgeting, rendering inaccurate estimates of cost for budgeting. There is more funding available than projects ready for implementation, leading to inclusion of projects not yet ready for implementation in the budget. For example, the Status Review Report of Region Implemented Projects (DPWH) as of May 2018 shows that projects are delayed by 47.7 percent as a result of right-of-way, material shortages and design chances, and selection of projects that were not ready for implementation. However, these constraints should have been resolved before the projects are selected for implementation. Project pipeline does not explicitly show the appraisal status of projects that do not require ICC approval.

58. The need for more stringent selection criteria is immediate to ensure implementation readiness of projects before the implementation starts. There should be requirement to complete land clearance before approval of project funding in the budget. In addition, all major projects should be subject to a review by a third party to ensure their quality and readiness. These measures would help avoid the selection of projects that are not ready for implementation for funding, and thereby avoid delays and cost overruns during project implementation.

D. Delivering Productive and Durable Public Assets

59. The timely and cost-effective implementation of public investment projects require institutions that ensure projects are fully funded, transparently monitored, and effectively managed. The PIMA assesses how the country does in the institutions relating to the following:

- **Procurement** that ensures that investment projects are tendered in a competitive and transparent manner
- **Availability of funding** that allows for the planning and commitment of investment projects, based on reliable forecasts and timely cash flows from the Treasury
- **Portfolio management and oversight** that ensures adequate oversight exercised over implementation of the entire public investment portfolio to address project implementation issues effectively
- **Management of project implementation** that identifies accountable project managers working in accordance with approved implementation plans, provides standardized procedures and guidelines for project adjustments, and ensures independent auditing of projects
- **Monitoring of public assets** that ensures assets are properly recorded and reported and that their depreciation is recognized in financial statements.

11. Procurement *(Institutional Strength — Medium; Effectiveness — Low; Reform Priority — High)*

60. The current procurement law and regulations generally provide a pro-competition and transparent framework, but they are not strict enough to induce effective competition. Measures such as "blacklisting" to prevent anti-competitive behavior are weaker than in countries with effective pro-competition policies. Moreover, formally competitive procedures include provisions such as the right-to-match for unsolicited proposals that potentially prevent effective competition.[24] Procurement monitoring is fragmented, with the GPPB addressing only the tenders under the Public Procurement Act. There is no independent body to review complaints, and there are no fast-track judicial procedures. The line agencies post online their procurement needs; the PhilGEPs—the procurement website of GPPB—publishes online the opportunities for bidding.

61. In practice, effective competition in public procurement is limited, as there are many instances of only one qualified bidder. As the PDP notes, the competition environment remains weak in the Philippines, for reasons that go beyond geographical fragmentation, and includes, among others, government control of the entry and expansion of market players and the protection of vested interests. Competition for the construction and operation of investment projects is poor, and even nonexistent for some projects. Reasons for low competition are not systematically investigated, and poor practices—for example, poor contractual specifications, unnecessarily large tenders combining several projects, short deadlines for submission and selection of bids, overly strict qualification criteria, and cartelization by bidders—are not actively discouraged. The public has limited access to procurement information. Online monitoring systems are in place, and a procurement transparency framework is defined, but access to information requires registration, and information on complex contracts is not fully available.

62. Effective competition in infrastructure procurement should be fostered. Ex-post infrastructure procurement reviews should aim to identify the factors preventing effective competition. Procurement officials should be sensitized to potential constraints to effective competition. Stringent sanctions for bidders involved in anti-competitive practices should be introduced in the legal framework, leading to effective deterrence. Anti-competitive provisions (such as the right-to-match in unsolicited proposals for PPPs) should be identified and eliminated. Administrative and judicial processes for addressing bidders' complaints should be revised, including independent review and fast-track procedures. Procurement information, including full proactive disclosure of contracts, should be made easily accessible to the public, with no barriers to full download of data and contracts.

[24] A recent World Bank report recommends avoiding the use of the "right-to-match", also known as "Swiss Challenge." The same report presents several options for dealing with unsolicited proposals. For more details, see *Policy Guidelines for Managing Unsolicited Proposals in Infrastructure Projects,* World Bank (2018).

12. Availability of Funding *(Institutional Strength – High; Effectiveness – Medium; Reform Priority – Low)*

63. Agencies are required to prepare budget execution plans prior to the beginning of the fiscal year. Agencies prepare three plans: estimated obligations by quarter, physical targets by quarter, and projected monthly disbursements by month. The plans are submitted to DBM using the Unified Reporting System and reviewed and posted on the DBM website within five days. Appropriated funds are released to agencies by Section 3 of the General Appropriations Act, which serves as an allotment order. Section 95 of the GAA General Provisions requires a monthly financial report on obligations and expenditures. Section 96 requires quarterly reports on financial and physical progress. Cash flow reports are prepared monthly and updated within the obligation limits. Cash for project outlays is normally released in a timely manner, based on the appropriation. ODA funding is generally integrated into the government bank account structure, unless development partners require otherwise.

64. A Treasury single account (TSA) system is not yet fully implemented, and cash forecasts have yet to be reliable. TSA reform is underway but has yet to consolidate all government cash flows. Some ODA project funding, particularly those used to directly pay suppliers, use donor accounts. Some trust funds have legal authority to maintain special accounts outside of the TSA. BTr monitors cash disbursements as they occur; BTr and DBM review the forecast twice a month to ensure cash availability. Notwithstanding the incomplete coverage of the TSA and some reporting issues, it does not appear that payment delays are an issue in the Philippines.

65. The procedures established by DBM, the BTr and the GAA seem to provide a good framework for ensuring the availability of funding. Efforts should continue to broaden the coverage of the TSA and to improve the quality of cash forecasting and reporting. Providing feedback to agencies when cash forecasts or execution reports are found to be inaccurate can provide an effective incentive for improvement.

13. Portfolio Management and Oversight *(Institutional Strength — Medium; Effectiveness — Medium; Reform Priority — High)*

66. **The institutional design for the oversight of implementation of the public investment portfolio is relatively adequate.** Executive Order No. 230 requires NEDA to monitor and evaluate plan implementation, NEDA National Development Office to monitor sectoral performances, and NEDA Regional Development Offices to monitor regional and interregional plan implementation.[25] General Provisions allow reallocation of funds between projects during implementation within a program with approval of the department secretary, and between programs with approval of DBM. However, there is no systematic monitoring of the reallocation of funds. Ex-post reviews are not systematically required for all major projects.[26] Ex-post reviews are often required by multilateral donors for ODA projects but are not systematically required for major LPFs.[27] NEDA is required by the ODA Act of 1996 to submit the annual ODA Portfolio Review report to the Congress in June of the following year.

67. **NEDA monitors certain major projects, focusing mainly on ODA-funded projects.** NEDA reviews annual project costs and physical progress quarterly and annually for ODA projects and regional projects, but it only provides annual reviews for major LFPs.[28] These reviews report the status of major projects, including financial and physical performance, key implementation issues, their causes, and actions taken by concerned agencies to facilitate project implementation. However, some reviews provide information with significant time lags, some as long as six months. In addition, LFP portfolio reviews may be incomplete due to the lack of information submitted by line departments. For example, the report on the status of LFP as of

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[25] Pursuant to Executive Order No. 376 (s. 1989), the Regional Project Monitoring and Evaluation System envisions monitoring and evaluating all development projects (economic, social, infrastructure, and other development projects) at the regional, provincial, city, and municipal levels. These development projects may be funded from national government and locally generated resources. At the regional level, the projects to be monitored may include projects contained in the Regional Investment Program (RDIP), other foreign- assisted or nationally-funded projects implemented and managed at the regional level and the regional components of national projects. For PPPs, the PPP Center is mandated by the BOT Law and Executive Order No. 8, as amended by Executive Order No. 136, to monitor and facilitate the implementation of the priority PPP programs and projects of implementing agencies, including those of LGUs. The Department of Interior and Local Government (DILG) has launched the LGU P4 initiative, while PPP Center has its own projects database.

[26] NEDA and DBM, through Joint Memorandum Circular (JMC) 2015-01, established a National Evaluation Policy Framework (NEPF) for the conduct of evaluations in the public sector that requires implementing agencies and other government organizations to evaluate programs/projects supported by ODA and local funds at least once at the end of their program or project lifecycle, or more frequently, as necessary. The implementing rules and regulations (IRR) for the JMC are still being prepared. Agencies will have to include the conduct of evaluations in their respective annual budgets in the future.

[27] Major projects are defined as those that exceed PHP 2.5 billion.

[28] NEDA Regional Offices (NROs) coordinate the quarterly reporting of Regional Project Monitoring Committees (RPMCs) on the financial and physical progress of projects in the regions. Meanwhile, the NEDA Monitoring and Evaluation Staff (NEDA-MES) is establishing a quarterly monitoring and reporting mechanism on the performance of major LFPs that have undergone ICC review and approval.

December 2016 dated July 5, 2017, covers 29 projects for which implementing agencies provided updates. NEDA could not report on other 12 major LFPs because it did not receive updates from line departments. NEDA often conducts ex-post reviews of projects for ODA projects but not systematically for major LFPs.

Chile has developed a process of ex-post review that could serve as a model for the Philippines (Box 4.D). The government-financed Monitoring and Evaluation Fund is available to conduct ex-post reviews for a small sample of projects.[29] Line departments have reallocated funds among projects during implementation with the approval of DBM, as required by the General Provisions. However, without a systematic monitoring of the reallocation, it is difficult to track and consolidate the reallocations.

68. The need to improve the monitoring of implementation of major projects is high. The lack of complete and timely project monitoring poses challenges to effectively address the implementation problems of major projects. Effective project monitoring is particularly important in the context of the Build, Build, Build program with 75 flagship projects. Monitoring needs to be more proactive to report issues as well as to propose actions to address them. Moreover, reports should be limited to relevant information in clear format to help senior management make decisions to effectively address project issues and mitigate project risks. To support the Build, Build, Build initiative, the Project Facilitation, Monitoring, and Innovation (PFMI) taskforce was established by NEDA, DBM, and DOF in September 2017.[30]

[29] NEDA publishes a manual for the conduct of ex-post evaluation of public sector projects; NROs use the manual in their ex-post evaluations.

[30] The PFMI taskforce is responsible for the following: (1) recommending government-wide operational measures to resolve development and implementation issues, risks, and bottlenecks of infrastructure flagship projects (IFPs); and (2) facilitating deployment of resources to implement and provide oversight of agencies to fast-track development and implementation of IFPs.

Box 4.D. Chile: Ex-Post Reviews of Projects

The ex-post review evaluation procedures of the National Investment System (SNI) comprises two stages: evaluation and in-depth ex-post evaluation of the outcomes.

First stage:

A representative sample of investment initiatives (including pre-investment studies, projects, and investment programs) completed during the past two years are analyzed. The sample consists of 8–10 percent of all projects. Compliance with or divergence of project implementation from the ex-ante project specifications is analyzed concerning: total cost, outputs, procedures, and schedules.

The evaluation covers the role of all stakeholders, owners, and sponsors of investment projects, Ministry of Social Development, related agencies at subnational levels, and sectoral ministries. The evaluation is sent to the National Congress.

Second stage:

In-depth ex-post evaluations of specific projects are undertaken after the projects have been operating for at least five years. They determine whether the anticipated benefits have been realized, and if not, investigations of how and why the projections failed are undertaken. In these cases, all internal and external aspects are analyzed with respect to the operations of the project.

These ex-post evaluations were initially applied to projects financed by the Regional Development Fund (FNDR) and executed by subnational governments; they have gradually expanded to projects financed by sectoral ministries. These reports are published on the Ministry of Social Development website: http://sni.ministeriodesarrollosocial.gob.cl/.

Role of the Ministry of Finance:

Ministry of Finance is in charge of developing the framework for evaluating and monitoring public investment. MSD, the successor of the Ministry of Planning, is responsible for conducting the evaluations of public investment. External experts, as well as staff, conduct the evaluations.

Source: Mission.

14. Management of Project Implementation *(Institutional Strength — Medium, Effectiveness — medium; Reform Priority – High)*

69. Line departments systematically identify senior responsible officers for major investment projects, and implementation plans are prepared prior to budget approval by some agencies, such as the Department of Public Works and Highways. Major line departments monitor projects, for example, DPWH has a well-defined and functional project management unit (PMU) with senior personnel involvement. There are standard rules and procedures for project adjustments; these rules are applied, but they do not trigger a fundamental review and reappraisal of the project's rationale. There is a fixed upper limit for project cost adjustments in the Internal Rate of Return (IRR); line departments are allowed to implement cost adjustments to the limit of 10 percent, but cost adjustments above 10 percent to the limit of 20 percent require DBM approval. Project implementation plans are not compiled for all projects before project implementation, but all line departments refer to the region plans. The regional plans do not indicate the details to be followed during implementation of projects. Some major capital projects are subject to ex-post external audit, and information on the results of the audit is published by the external auditor.

70. Project management capacity and practices vary across departments. Some departments lack project implementation plans and detailed guidelines for specific reasons for applying the cost adjustments. In contrast, the DPWH has an effective monitoring system for its projects. DPWH's Status Review of Region Implemented Projects is a comprehensive report but lacks some critical management information. It shows that 49.58 percent of projects have not yet started by May 2018, without providing reasons for the delays. DPWH holds monthly coordination meetings. There are standard rules to define the circumstances and procedures to be followed for variations and cost adjustments. The lack of specific qualifications for project adjustment has the potential for abuse. Project adjustments have been used to rectify issues, not only unforeseen technical issues but also to address design deficiencies, as well as weak planning, poor feasibility study, and changes to project scope. Ex-post external audits are a potentially useful source of information on project implementation, but COA only conducts these reviews on limited projects. Ex-post audits are published.

71. Financial regulations and procurement regulations should contain guidance on project cost adjustment, and explanations for delays should be provided in progress reports. Project cost adjustments are largely driven by such factors as project execution, right-of-way, resettlement, design changes, and foreign exchange fluctuation. Information in the Status Review of Regionally Implemented Projects (DPWH) could include such information as provided in Box 4.E. All line departments involved in capital infrastructure projects should consider the implementation of the Status Review Report by DPWH as a reporting tool. Regulations to guide the specific reasons permitted for cost adjustments should be improved. Box 4.E lists the project adjustment costs that should be identified. Cost adjustments should only be permitted for unforeseen technical issues during the implementation phase. Cost adjustments should not be permitted to rectify poor planning, lack of inadequate design, and scope changes. The lessons learned from the ex-post audits should be fed back into the system. Implementation plans should be available prior to implementation, indicating the procurement option, finance options, senior personnel available to manage the project, and institutional readiness. Issues related to right-of-way acquisition and resettlement should be addressed before project implementation to minimize project cost adjustments. A harmonized reporting tool for infrastructure projects implemented by departments could also be considered.

Box 4.E. Project Cost Breakdown

Component		Revised cost	Original cost estimates	Percentage change
i.	Initial project preparation			
ii.	Land Acquisition			
iii.	Utility relocation			
iv.	Construction/establishment/demobilization/ rehabilitation (with the breakdown of the activities)			
v.	Annual cost			
vi.	Consultancy—Local			
vii.	Consultancy—Foreign			
viii.	Maintenance and operation			
ix.	Tax and duties			
x.	Disaster risk reduction			
xi.	Contingencies			
xii.	Risk mitigation cost			
xiii.	Other please specify			
Total				

15. Monitoring of Public Assets *(Institutional Strength – High; Effectiveness – Medium; Reform Priority – Low)*

72. **Accounting policies and procedures are in place to account for and report on public assets in financial statements.** The COA is responsible for establishing accounting standards, policies, reporting systems and the chart of accounts and for auditing the financial statements. Accounting standards are based on 31 of 41 International Public Sector Accounting Standards (IPSAS), with some modifications to address the specific requirements of the Philippines. The COA has developed three charts of accounts and three accounting manuals, one each for the national government, LGUs, and GOCCs. Nonfinancial asset registers are required to be maintained by respective departments/agencies. The COA requires that nonfinancial assets be recorded in government financial accounts, based on COA guidelines; nonfinancial asset values are based on the acquisition cost of the assets. The depreciation of nonfinancial assets is recorded in operating statements, based on rules established by COA. Depreciation is straight-lined and based on the life of the specific asset, adjusted by agency criteria. For example, infrastructure assets have a life range of 20 to 50 years, and watercrafts have a life range of 10 to 25 years. These ranges are expected to be adjusted by agencies to reflect their experiences with similar assets.

73. **There are some issues with respect to the comprehensiveness and frequency of updates of underlying accounting records for the preparation of financial reports.** IPSAS allows a three-year implementation period for revised standards. The current version began in

2017 and is still being implemented. COA developed the Electronic New Government Accounting System (eNGAS), which has been implemented by 533 national government agencies, representing approximately 65 percent of the total number of agencies. Only 175 LGUs have implemented the system, and COA provides training on the system to agencies and entities to facilitate its use. Implementation is incremental due to capacity constraints of several entities. The budget documents include summary tables showing the balance sheets, income statements, and cash flow statements of GOCCs, but a significant number of GOCCs does not submit financial statements. Accordingly, the tables present incomplete data. Inconsistencies exist between the government accounts and financial reports and the underlying accounting records. Asset registers are required, but they appeared not to be updated on a regular basis. There was no evidence that financial statements were being used to support management of public assets, for example to ensure proper maintenance to maximize the life of infrastructure assets.

74. Capacity building and implementation of asset management are incremental processes. The design of the Philippine asset reporting is good. COA and central agencies need to continue to develop the capacity to use these tools effectively, particularly in the LGUs and GOCCs, to facilitate the improved management of infrastructure.

V. RECOMMENDATIONS

75. This section presents the mission's recommendations on how to effectively address the weaknesses identified in public investment management in the Philippines.

RECOMMENDATION 1: Strengthen Ex-Ante Fiscal Assessment of Infrastructure Projects

Issue: Although the financial viability and fiscal implications of public investment projects subject to ICC approval are reviewed during the appraisal stage,[31] a systematic ex-ante assessment—including from the point of view of the long-term fiscal sustainability and the identification and mitigation of fiscal risks—is lacking.

Recommendations:

- As part of the evaluation of a project submitted to ICC, and prior to approval, the government should designate a dedicated unit (for example, in DOF, NEDA or DBM) charged with evaluating and reporting on its fiscal implications.

[31] The ICC Secretariat, in close coordination with DOF, evaluates the viability, financing, and corresponding fiscal risks, including contingent liabilities. Pursuant to ICC Guidelines and Procedures, the functions of the ICC include reviewing the fiscal, monetary, and balance of payments implications of major capital projects (MCPs) and recommending to the President the timetable of the implementation of these projects and programs on a regular basis.

- The designated unit should conduct the evaluation from the viewpoint of long-term fiscal sustainability, systematically assessing the long-term liabilities and fiscal risks, including explicit and implicit contingent liabilities.
- The assessment should include the identification of mitigation measures for accepted risks if the project is proposed for approval.
- A strong practice of ex-ante fiscal risk assessment should be fostered, as well as the active management of fiscal risks in public investment and the creation of a summary report with warning indicators and mitigation strategies.

This approach of assessing the fiscal implications of infrastructure projects from the viewpoint of long-term fiscal sustainability complements the budget reforms that the government is seeking through the proposed Budget Reform Bill (BRB). There may be a need to revise the ICC guidelines and procedures to institutionalize ex-ante fiscal assessment, based on international good practices, as part of the ICC process, and to possibly designate DOF[32] as the responsible agency to systematically evaluate major projects.

Outputs:

- Fiscal assessment reports submitted by the dedicated unit for each large project prior to presentation to the ICC.
- Systematic assessment of the long-term liabilities and fiscal risks of projects.
- Mitigation strategies for accepted risks, recorded in regularly updated fiscal risk reports.

Implementation measures:

- Designate the responsible unit for fiscal assessment of infrastructure projects, irrespective of their proposed mode of financing.
- Update guidance for more rigorous review of the fiscal risks associated with investment projects.
- Provide ICC fiscal assessment reports on projects, including risk mitigation strategy for accepted risks.

Actors involved: NEDA, DOF, DBM, and respective line departments and agencies.

Difficulties and risks:

- Establishing methodologies for assessing the long-term fiscal affordability of projects and the impact of the explicit and implicit fiscal risks.
- Adding the long-term fiscal affordability assessment without disturbing the established and well-functioning NEDA project assessment.

[32] DOF has a dedicated unit that reviews PPP projects' fiscal viability and handles contingent liabilities. Also, the Department, through the BTr, prepares the Fiscal Risks Statement annually as part of the budget documents. The Corporate Affairs Group (CAG) of the DOF monitors the financial performance of GOCCs and their impact on fiscal position.

- Capacity-building may be needed for conducting thorough ex-ante assessments of projects that focus on long-term fiscal sustainability and fiscal risks, including contingent liabilities, and propose mitigation measures for accepted risks.

RECOMMENDATION 2: Broaden the Framework for Private Participation in Infrastructure

Issue: The current BOT framework law does not cover all types of private participation in infrastructure. GOCCs and LGUs may resort to non-BOT projects with private participation, such as joint ventures, not covered by the current legal framework. Capacity is also a major concern for LGUs.

Recommendations:

- The legal and institutional framework covering PPPs should be broadened to encompass all types of long-term contracts with the private sector for infrastructure provision and public service delivery, such as joint ventures, concessions, long-term service contracts.
- The revised legal framework should be applicable to both national government and LGUs.[33]

Outputs:

- Revised PPP framework law that covers BOT and other types of private participation for infrastructure provision.[34]
- Regulations that cover the PPP Center, mandating it to collect information and review all types of PPP projects undertaken by the national government and LGUs.
- Regulations for monitoring and managing fiscal risks from all PPP-type projects procured by national government, public corporations, and LGUs.
- Review of the provisions of the Government Procurement Reform Act (GPRA) that limit the participation of foreign bidders may need to be undertaken.

Implementation measures:

- Revise the BOT Law to: (1) apply standard criteria, (2) cover all types of private participation in infrastructure projects, and (3) apply it to at all government levels.

[33] Given the increase in LGU engagement in PPPs, the Department of the Interior and Local Government (DILG) has launched the Local Public-Private Partnership for the People (LGU P4) initiative, which should be incorporated in the revised/broadened BOT Law to guide the development and implementation of PPPs throughout the country.

[34] An updating of the BOT Law is needed to clarify criteria and requirements for the various PPP modes, including joint ventures and for the different levels of public sector entities (NGAs, GOCCs, and LGUs). Before updating the legal framework, an appropriate regulatory impact assessment could usefully be conducted to determine the effects of broadening the framework for private participation. Based on this assessment, the necessary institutional and regulatory arrangements could be developed.

Actors involved: NEDA, PPP Center, and BTr.

Difficulties and risks:

- Creating legislation broad enough to submit subnational governments to a national framework, while allowing them the freedom to create their own legal frameworks for PPPs in accordance with national rules. Ideally, the PPP framework should operate within the national public procurement framework, extended to accommodate the procurement of complex projects, such as PPPs, and to allow the Procurement Board to monitor PPP procurement as well as traditional procurement; any subnational PPP-like framework should operate within the new all-encompassing national PPP framework.
- Creating the required legislation and protocols that allow the timely flow of information to the PPP Center and fiscal risk managers.
- Managing the conflict of interest in the PPP Center between its role as project structurer (focusing on the efficiency and effectiveness of public investment) and its role as PPP promotor (potentially biasing decisions in favor of PPPs).

RECOMMENDATION 3: Expand Multiyear Budgeting

Issue: Limiting the budget to an annual focus obscures the future implications of multiyear capital projects and the impact of infrastructure spending on future recurrent budgets. Future year obligations are not included in either department or sector presentations. In the budget preparation process, ceilings for capital spending for only Tier 1 projects over three years are prepared by DBM in consultation with line departments and approved by the DBCC. BPF includes multiyear ceilings.

Recommendation:

- Medium-term budgeting for infrastructure programs should be expanded in parallel with the new cash-based budget to identify and present the out-year implications of infrastructure programs and projects. These concepts should be integrated into planning and budgeting for these programs to recognize their longer-term nature. To provide the multiyear perspective, there should be three-year baseline forecasts for ongoing projects (bottom-up) and three-year estimated ceilings for both ongoing and new projects (top-down). This would help present future obligations and complement the presentation of the annual cash-based budget to provide the Parliament with a more comprehensive view of how much has been obligated and would be obligated beyond the annual appropriation.

Outputs:

- MTFP separately identifying funding for ongoing and new capital projects.
- Improved budget decisions on infrastructure highlighting completion of ongoing works and initiation of new projects.

- Budget documentation, by program, showing the baseline for infrastructure programs for two forward years in addition to the budget year.
- Both TRIP and PIP updated according to the proposed budget and submitted with the proposed budget to the Parliament.
- PIP showing both the originally estimated total cost and the updated total cost of projects.

Implementation measures:

- Divide MTFP Capital Budget Estimate into ongoing and new spending.
- Establish indicative ceilings for ongoing and new projects by department.
- Revise agency budget submissions to show baseline capital spending for two out-years by program.
- Update TRIP and PIP according to the proposed budget and submit them together with the proposed budget to the Parliament
- Provide information on both the originally estimated total cost and the updated total cost of projects in the PIP.

Actors involved: DBM, NEDA, and line agencies.

Difficulties and risks:

- Establishing ceilings for Tier 2 capital budgets could constrain line agencies with respect to the number of new projects. Such ceilings would, however, reduce the agencies' work on a wish list of new projects where funding is not likely to be available.
- Budget information in the National Expenditure Program is very detailed. Including out-year baselines could add to an overload of information. Presenting baseline information by program, except for major projects, would reduce the burden of added detail.

RECOMMENDATION 4: Make Project Appraisal and Selection More Comprehensive

Issue: The Philippines PIM framework does not always facilitate proper preparation, evaluation, or prioritization of major projects. Implementing major projects without detailed appraisal results in delays and cost escalation, as well as significant complications for implementation and budgeting. The failure to complete right-of-way and address resettlement issues prior to project submission impedes the implementation of major projects and results in project delays and cost overruns.[35]

[35] If public investment projects are funded with outstanding right-of-way and/or resettlement issues, concerned implementing agencies would likely have a low budget utilization rate due to non-implementation of funded projects.

Recommendation:

- All right-of-way and resettlement issues, as well as other environmental and social safeguards issues, should be resolved prior to project implementation and preferably before the completion of the project appraisal process.

Outputs:

- Inclusion of the total cost for land and resettlement issues that result in a credible and accurate feasibility study.
- Maintaining a prioritized major project pipeline that contains only those projects that have clearly met criteria for financial viability and readiness.
- Potential major projects subject to scrutiny and value-for-money and fiscal risk analysis by NEDA before entering the PIP.
- Cost estimates that are comprehensive and kept up to date.
- Consideration of total costs before approval of any project, including such factors as taxes, exchange rate fluctuation projections, and risk mitigation measures.
- Protection of funding that supports major projects selected from the national pipeline.
- Projects no longer delayed during the implementation stage, with large cost implications.

Implementation measures:

- Issue instructions requiring that all right-of-way and resettlement, as well as environmental, issues are resolved prior to project implementation.[36]
- Require independent review by external experts for high cost or complex projects, wherever possible, and improve the capacity of concerned implementing agencies for project appraisal and selection.

Actors involved: Line departments involved in capital projects, DBM, and NEDA.

RECOMMENDATION 5: Improve Infrastructure Maintenance Funding

Issue: The lack of application of a standard methodology for maintenance planning and costing, including asset impairment due to natural calamity

Recommendations:

- Agencies should be required to develop detailed standard methodologies to be used for the determination of maintenance planning required for capital projects.
- Technical officials of line agencies should be involved in the preparation of the standard methodology, which should be checked by an independent reviewer.

[36] The enactment of the Right-of-Way Act and its IRR in 2016 and the formulation of the National Resettlement Policy Framework (NRPF) have already been initiated by the government to streamline and facilitate the acquisition of right-of-way for infrastructure projects.

- Costing principles in standard methodology should be included to ensure the financial integrity of the data and results.

Outputs:

- Standard methodology for determining the maintenance requirements for capital projects harmonized among line agencies.
- More uniform, accurate, and reliable costing of maintenance for budgeting purposes.
- More realistic lifecycle cost of the capital projects.
- Maintenance costs taken into consideration in the project planning stage.
- Better maintained facilities to benefit the Philippine population in general.

Implementation measures:

- Require all agencies to develop and implement standard maintenance requirements for all types of infrastructure assets.
- Use standard methodology to prepare maintenance cost estimates of existing and planned infrastructure assets.

Actors involved: Line departments involved in capital projects, DBM, and NEDA.

RECOMMENDATION 6: Foster Effective Competition in Infrastructure Procurement

Issue: A legal and institutional framework for transparent and competitive public procurement exists, but competition is still not effective in practice, as there are several instances of a single qualified bidder in response to tender. Actual results are far from the goals stated in the procurement legislation, Competition Act, and the Philippine Development Plan.

Recommendations:

- Procurement plans should include measures to promote competition, and ex-post infrastructure procurement reviews should aim at identifying the key factors preventing effective competition.
- Procurement officials should be sensitized to the potential constraints to effective competition.
- Stringent sanctions for bidders involved in anti-competitive practices should be enforced, leading to effective deterrence.[37]
- Anti-competitive provisions, such as the right-to-match in unsolicited proposals for PPPs, should be reviewed and eliminated.

[37] Strict implementation of sanctions under the existing laws must be ensured, and additional measures to mitigate or eliminate unlawful actions—such as ensuring that blacklisted bidders are prevented from participating in procurement processes under a different entity—could be introduced.

- Administrative and judicial processes for addressing bidders' complaints should be revised, including independent review and fast-track procedures.[38]
- Procurement information (including full proactive disclosure of contracts) should be made easily accessible to the public, with no barriers to the full download of data and contracts.[39]

Outputs:

- Revised regulations requiring procurement plans to include measures to promote competition
- Study/review of infrastructure procurements undertaken during the past 5-7 years to identify the factors preventing effective competition.
- Training for line department procurement staff regarding potential constraints to effective competition.
- Provisions for stringent sanctions for bidders involved in anti-competitive practices.
- Streamlined administrative and judicial processes for addressing bidders' complaints, including fast-track procedures.
- Revamped website with comprehensive procurement information, including full proactive disclosure of contracts and easy accessibility to the public.

Implementation measures:

- Conduct review of factors preventing effective competition.
- Sensitize procurement officials on potential constraints to effective competition.
- Introduce stringent sanctions for the anti-competitive practices of bidders.
- Modify revised BOT legislation to prohibit anticompetitive practices, such as the right to match.
- Revise administrative and judicial practices for addressing bidders' complaints, including establishing an independent review and fast-track procedures.
- Make procurement information easily accessible to the public.

Actors involved: GPPB, Philippine Competition Commission, PPP Center, line departments, project steering committees, and project managers.

Difficulties and risks:

- Establishing pro-competition practices, looking beyond procedures and focusing on results.

[38] For addressing bidder complaints and fast-tracking of procedures, the Department of Trade and Industry (DTI) of the Philippines is conducting a streamlining of documentary requirements and re-engineering of processes in compliance to RA 11032 or the Ease of Doing Business Act of 2018. This initiative will likely provide timely and appropriate responses and services to stakeholders.

[39] Line agencies post online their procurement needs and the PhilGEPs also publishes online the bidding opportunities; however, it is difficult for the public to get access to procurement data without going through a registration process.

- Establishing an effective proactive information disclosure culture related to tender processes and contracts.

RECOMMENDATION 7: Improve Regulations for Project Cost Adjustments and Variation Orders

Issue: Practice of increasing total project cost by 10 percent during project implementation increases fiscal costs, discourages careful project planning and design, and incentivizes unnecessary additional project spending.

Recommendations:

- Regulations should be improved to provide guidance for project cost adjustments.
- Justification and costing of variation orders should be required.
- Variation orders should be submitted to internal auditors and DBM within 10 working days.

Outputs:

- Contract price adjustments only allowed for real unforeseen events/externalities[40] that could not have been envisaged during the planning, technical evaluation, and design phases.
- Project managers involved from project inception, not only at the implementation stage, so that they can guide the project through appraisal, selection, procurement, and implementation phases.
- Control over final project costs

Implementation measures:

- Audit/review current practices to identify the major reasons for frequent and generalized use of provisions designed for unforeseen events.
- Change/tighten guidelines, as necessary, in the IRR to specify in detail the reasons allowed for contract price adjustments.[41]
- Ensure the following for variation orders or project adjustment process:
    - Variation order less than 10 percent.
    - Motivation and costing of variation order.
    - Approval of variation order: information on variation forwarded to internal auditors, as well as DBM, within 10 working days.

[40] For example, unforeseen economic conditions—such as exchange rate depreciation and changes in law specific only to industry or sector—can result in changes in project costs.

[41] For example, the current practice of introducing new work items not included in the original contract (within the 10 percent allowance) needs to be restricted to genuinely unforeseen cases.

Actors involved: GPPB, DBM, NEDA, and ICC.

RECOMMENDATION 8: Strengthen Central Monitoring of Implementation of Major Projects

Issue: Current central monitoring focuses on ODA projects and has incomplete information on major national government-funded major projects. In addition, project reports are prepared only quarterly, with information that often lag six months or information that is incomplete due to lack of information submitted by line departments. These pose challenges to effectively address project problems. Other major monitoring activities are conducted by NEDA-MES, and mechanisms are in place to supplement the regular updates submitted by IAs and to discuss and resolve issues on the implementation of programs/projects.[42] However, there is need for further reform to improve the timeliness of the monitoring and effectively solve problems as they arise.

Recommendations:

- NEDA Monitoring and Evaluation Staff (MES) should monitor all major projects in a more timely manner. Monitoring should cover not only ODA projects but also locally funded major projects.
- Monitoring reports should be prepared on a monthly basis, with additional relevant information that could be useful for senior management to address project problems effectively.
- Information should be collected first-hand from project managers and monthly progress meetings instead of from reports submitted by line departments.

Outputs:

- Monthly progress reports to senior management on problems and proposed actions for all major projects, including ODA and national government-funded projects (See Table 5.A).
- Annual portfolio review reports to provide the Congress and public an overview of status of all major projects including ODA and national government funded projects.

Implementation measures:

- Ensure MES staff participate in monthly progress meetings of line departments and report to senior management on status, problems, and proposed actions in a timely manner to effectively solve the problems as they arise. Staff could also identify upcoming challenges and provide proposals to address them.

[42] These include (1) quarterly Project Implementation Officers' and National Project Monitoring Committee meetings, (2) project monitoring visits and joint review missions with IAs and development partners; (3) biennial Good Practice Awards to recognize IAs that developed good practices in implementing their programs/projects; and (4) conduct of problem solving sessions and facilitation meetings as frequently as required.

- Update monitoring template for monthly and annual reports to include critical and actionable information for senior management.
- Encourage DBCC to act on project-specific reports on implementation problems.
- Introduce the Alert Mechanism (currently used for only ODA projects) for major non-ODA projects.
- Consider replicating the DPWH monitoring practices in other departments, as relevant and appropriate to the needs and specific characteristics of the respective sectors.

Actors involved: NEDA, line departments having major projects, and PPP Center.[43]

Difficulties and risks:

- NEDA-MES may not have enough staff for the proposed monitoring mechanism. Given the importance of and the immediate need to closely monitor major projects for the PDP, there should be consideration of increasing staff capacity in NEDA-MES. In addition, a monitoring system could be introduced to allow project managers to update project status on a timely basis (see Box 5.A for example of Malaysia).[44]

Box 5.A. Malaysia Project Monitoring System

The Malaysia Project Monitoring System called SPP II assists the government in the effective monitoring of all projects. The system is an award-winning tool that generates monitoring reports that can be used for weekly monitoring by ministries and agencies, as well as for producing monthly monitoring reports for senior management. Yearly reports are generated to enable government officials to have a condensed view of the status and progress of all projects.

The objective of the system is to monitor the financial and physical progress and status of all projects, overall and in terms of the execution of government funding. It also identifies project risks on a monthly basis to empower project managers and central agencies to act quickly when problems are identified.

The system measures projects through the California Expenditure Curve (S-curve) principal, which indicates percent time lapsed versus percent money spent, and generates an early warning on project issues and risks.

The system contains vital project information, such as the Geographic Information System (GIS) Module that enable system users to have a clear view of the physical location of the project. This information is important to enhance the ability to monitor progress by region.

The SPP II system generates a Problem Identification Report that identifies all categories of issues that were not well-managed during the year and that resulted in cost and time overruns. The purpose of the Problem Identification Report is to compile a lessons learned matrix.

Reports are simple to understand and can be interpreted by technical, financial, and political personnel.

Source: IMF mission.

[43] The PPP Center is mandated by the BOT Law and Executive Order No. 8, as amended by Executive Order No. 136, to monitor and facilitate the implementation of the priority PPP programs and projects of implementing agencies, including LGUs.

[44] NEDA manages the ODA Monitoring System (ODAMS). NEDA has an ongoing contract to develop a new system to facilitate updating by line agencies and NEDA regional offices.

Table 5.A. Proposed Table for Monthly Monitoring Report to Senior Management

Project title	TPC (PHP million)	Disburse-ment rate (%)	Time lapsed (%)	Physical comple-tion (%)	Status (preliminary design, detailed design, land clearance, procurement, construction)	Implementation period	Time overrun (days)	Cost overrun (PHP million)	Remarks (issues, risks)	Actions taken/to be taken	Date when issue resolved

Appendix I. PIMA Questionnaire

A. Planning Sustainable Levels of Public Investment				
1. Fiscal targets and rules: Does the government have fiscal institutions to support fiscal sustainability and to facilitate medium-term planning for public investment?				
1.a.	Is there a target or limit for government to ensure debt sustainability?	There is no target or limit to ensure debt sustainability.	There is at least one target or limit to ensure central government debt sustainability.	There is at least one target or limit to ensure general government debt sustainability.
1.b.	Is fiscal policy guided by one or more permanent fiscal rules?	There are no permanent fiscal rules.	There is at least one permanent fiscal rule applicable to central government.	There is at least one permanent fiscal rule applicable to central government, and at least one comparable rule applicable to a major additional component of general government, such as subnational government (SNG).
1.c	Is there a medium-term fiscal framework (MTFF) to align budget preparation with fiscal policy?	There is no MTFF prepared prior to budget preparation.	There is an MTFF prepared prior to budget preparation but it is limited to fiscal aggregates, such as expenditure, revenue, the deficit, or total borrowing.	There is an MTFF prepared prior to budget preparation, which includes fiscal aggregates and allows distinctions between recurrent and capital spending, and ongoing and new projects.
2. National and Sectoral Planning: Are investment allocation decisions based on sectoral and inter-sectoral strategies?				
2.a.	Does the government prepare national and sectoral strategies for public investment?	National or sectoral public investment strategies or plans are prepared, covering only some projects found in the budget.	National or sectoral public investment strategies or plans are published covering projects funded through the budget.	Both national and sectoral public investment strategies or plans are published and cover all projects funded through the budget regardless of financing source (for example, donor, public corporation (PC), or PPP

2.b.	Are the government's national and sectoral strategies or plans for public investment costed?	The government's investment strategies or plans include no cost information on planned public investment.	The government's investment strategies include broad estimates of aggregate and sectoral investment plans.	The government's investment strategies include costing of individual, major investment projects within an overall financial constraint.
2.c.	Do sector strategies include measurable targets for the outputs and outcomes of investment projects?	Sector strategies do not include measurable targets for outputs or outcomes.	Sector strategies include measurable targets for outputs (for example, miles of roads constructed).	Sector strategies include measurable targets for both outputs and outcomes (for example, reduction in traffic congestion).
3.	**Coordination between Entities: Is there effective coordination of the investment plans of central and other government entities?**			
3.a.	Is capital spending by SNGs coordinated with the central government?	Capital spending plans of SNGs are not submitted to, or discussed, with central government.	Major SNG capital spending plans are published alongside central government investments, but there are no formal discussions between the central government and SNGs on investment priorities.	Major SNG capital spending plans are published alongside central government investments, and there are formal discussions between central government and SNGs on investment priorities.
3.b	Does the central government have a transparent, rule-based system for making capital transfers to SNGs, and for providing timely information on such transfers?	The central government does not have a transparent rule-based system for making capital transfers to SNGs.	The central government uses a transparent rule-based system for making capital transfers to SNGs, but SNGs are notified about expected transfers less than six months before the start of each fiscal year.	The central government uses a transparent rule-based system for making capital transfers to SNGs, and expected transfers are made known to SNGs at least six months before the start of each fiscal year.
3.c	Are contingent liabilities arising from capital projects of SNGs, PCs, and PPPs reported to the central government?	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are not reported to the central government.	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are reported to the central government, but are generally not presented in the central government's budget documents.	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are reported to the central government, and are presented in full in the central government's budget documents.

4.	**Project Appraisal: Are project proposals subject to systematic project appraisal?**			
4.a.	Are major capital projects subject to rigorous technical, economic, and financial analysis?	Major capital projects are not systematically subject to rigorous, technical, economic, and financial analysis.	Major projects are systematically subject to rigorous technical, economic, and financial analysis.	Major projects are systematically subject to rigorous technical, economic, and financial analysis, and selected results of this analysis are published or undergo independent external review.
4.b.	Is there a standard methodology and central support for the appraisal of projects?	There is no standard methodology or central support for project appraisal.	There is either a standard methodology or central support for project appraisal.	There is both a standard methodology and central support for project appraisal.
4.c.	Are risks taken into account in conducting project appraisals?	Risks are not systematically assessed as part of the project appraisal.	A risk assessment covering a range of potential risks is included in the project appraisal.	A risk assessment covering a range of potential risks is included in the project appraisal, and plans are prepared to mitigate these risks.
5.	**Alternative Infrastructure Financing: Is there a favorable climate for the private sector, PPPs, and PCs to finance in infrastructure?**			
5.a.	Does the regulatory framework support competition in contestable markets for economic infrastructure (for example, power, water, telecommunications, and transport)?	Provision of economic infrastructure is restricted to domestic monopolies, or there are few established economic regulators.	There is competition in some economic infrastructure markets, and a few economic regulators have been established.	There is competition in major economic infrastructure markets, and economic regulators are independent and well established.

5.b.	Has the government published a strategy/policy for PPPs, and a legal/regulatory framework which guides the preparation, selection, and management of PPP projects?	There is no published strategy/policy framework for PPPs, and the legal/regulatory framework is weak.	A PPP strategy/policy has been published, but the legal/regulatory framework is weak.	A PPP strategy/policy has been published, and there is a strong legal/regulatory framework that guides the preparation, selection, and management of PPP projects.
5.c.	Does the government oversee the investment plans of public corporations (PCs) and monitor their financial performance?	The government does not systematically review the investment plans of PCs.	The government reviews the investment plans of PCs, but does not publish a consolidated report on these plans or the financial performance of PCs.	The government reviews and publishes a consolidated report on the investment plans and financial performance of PCs.
B.	**Ensuring Public Investment is Allocated to the Right Sectors and Projects**			
6.	**Multiyear Budgeting: Does the government prepare medium-term projections of capital spending on a full-cost basis?**			
6.a.	Is capital spending by ministry or sector forecasted over a multiyear horizon?	No projections of capital spending are published beyond the budget year.	Projections of total capital spending are published over a three- to five-year horizon.	Projections of capital spending disaggregated by ministry or sector are published over a three- to five-year horizon.
6.b	Are there multiyear ceilings on capital expenditure by ministry, sector, or program?	There are no multiyear ceilings on capital expenditure by ministry, sector, or program.	There are indicative multiyear ceilings on capital expenditure by ministry, sector, or program.	There are binding multiyear ceilings on capital expenditure by ministry, sector, or program.
6.c.	Are projections of the total construction cost of major capital projects published?	Projections of the total construction cost of major capital projects are not published.	Projections of the total construction cost of major capital projects are published.	Projections of the total construction cost of major capital projects are published, together with the annual breakdown of these cost over a three- to five-year horizon.

7.	**Budget Comprehensiveness and Unity: To what extent is capital spending, and related recurrent spending, undertaken through the budget process?**			
7.a.	Is capital spending mostly undertaken through the budget?	Significant capital spending is undertaken by extrabudgetary entities, with no legislative authorization or disclosure in the budget documentation.	Significant capital spending is undertaken by extrabudgetary entities, but with legislative authorization and disclosure in the budget documentation.	Little or no capital spending is undertaken by extrabudgetary entities.
7.b.	Are all capital projects, regardless of financing source, shown in the budget documentation?	Capital projects are not comprehensively presented in the budget documentation, including PPPs, externally financed, and PCs' projects.	Most capital projects are included in the budget documentation, but either PPPs, externally financed, or PCs' projects are not shown.	All capital projects, regardless of financing sources, are included in the budget documentation.
7.c	Are capital and recurrent budgets prepared and presented together in the budget?	Capital and recurrent budgets are prepared by separate ministries, and/or presented in separate budget documents.	Capital and recurrent budgets are prepared by a single ministry and presented together in the budget documents, but without using a program or functional classification.	Capital and recurrent budgets are prepared by a single ministry and presented together in the budget documents, using a program or functional classification.
8.	**Budgeting for Investment: Are investment projects protected during budget implementation?**			
8.a.	Are total project outlays appropriated by the legislature at the time of a project's commencement?	Outlays are appropriated on an annual basis, but information on total project costs is not included in the budget documentation.	Outlays are appropriated on an annual basis, and information on total project costs is included in the budget documentation.	Outlays are appropriated on an annual basis and information on total project costs, and multiyear commitments is included in the budget documentation.
8.b	Are in-year transfers of appropriations (virement) from capital to current spending prevented?	There are no limitations on virement from capital to current spending.	The finance ministry may approve virement from capital to current spending.	Virement from capital to current spending requires the approval of the legislature.

8.c	Is the completion of ongoing projects given priority over starting new projects?	There is no mechanism in place to protect funding of ongoing projects.	There is a mechanism to protect funding for ongoing projects in the annual budget.	There is a mechanism to protect funding for ongoing projects in the annual budget and over the medium term.
9. Maintenance Funding: Are routine maintenance and major improvements receiving adequate funding?				
9.a	Is there a standard methodology for estimating routine maintenance needs and budget funding?	There is no standard methodology for determining the needs for routine maintenance.	There is a standard methodology for determining the needs for routine maintenance and its cost.	There is a standard methodology for determining the needs for routine maintenance and its cost, and the appropriate amounts are generally allocated in the budget.
9.b	Is there a standard methodology for determining major improvements (for example, renovations, reconstructions, enlargements) to existing assets, and are they included in national and sectoral investment plans?	There is no standard methodology for determining major improvements, and they are not included in national or sectoral plans.	There is a standard methodology for determining major improvements, but they are not included in national or sectoral plans.	There is a standard methodology for determining major improvements, and they are included in national or sectoral plans.
9.c	Can expenditures relating to routine maintenance and major improvements be identified in the budget?	Routine maintenance and major improvements are not systematically identified in the budget.	Routine maintenance and major improvements are systematically identified in the budget.	Routine maintenance and major improvements are systematically identified in the budget, and are reported.
10. Project Selection: Are there institutions and procedures in place to guide project selection?				
10.a	Does the government undertake a central review of major project appraisals before decisions are taken to include projects in the budget?	Major projects (including donor- or PPP-funded) are not reviewed by a central ministry prior to inclusion in the budget.	Major projects (including donor- or PPP-funded) are reviewed by a central ministry prior to inclusion in the budget.	All major projects (including donor- or PPP-funded) are scrutinized by a central ministry, with input from an independent agency or experts prior to inclusion in the budget.

10.b	Does the government publish and adhere to standard criteria, and stipulate a required process for project selection?	There are no published criteria or a required process for project selection.	There are published criteria for project selection, but projects can be selected without going through the required process.	There are published criteria for project selection, and generally projects are selected through the required process.
10.c	Does the government maintain a pipeline of appraised investment projects for inclusion in the annual budget?	The government does not maintain a pipeline of appraised investment projects.	The government maintains a pipeline of appraised investment projects but other projects may be selected for financing through the annual budget.	The government maintains a comprehensive pipeline of appraised investment projects, which is used for selecting projects for inclusion in the annual budget, and over the medium term.
C.	**Delivering Productive and Durable Public Assets**			
11. Procurement				
11.a	Is the procurement process for major capital projects open and transparent?	Few major projects are tendered in a competitive process, and the public has limited access to procurement information.	Many major projects are tendered in a competitive process, but the public has only limited access to procurement information.	Most major projects are tendered in a competitive process, and the public has access to complete, reliable, and timely procurement information.
11.b	Is there a system in place to ensure that procurement is monitored adequately?	There is no procurement database, or the information is incomplete or not timely for most phases of the procurement process.	There is a procurement database with reasonably complete information, but no standard analytical reports are produced from the database.	There is a procurement database with reasonably complete information, and standard analytical reports are produced to support a formal monitoring system.
11.c	Are procurement complaints review process conducted in a fair and timely manner?	Procurement complaints are not reviewed by an independent body.	Procurement complaints are reviewed by an independent body, but the recommendations of this body are not produced on a timely basis, nor published, nor rigorously enforced.	Procurement complaints are reviewed by an independent body whose recommendations are timely, published, and rigorously enforced.
12. Availability of Funding: Is financing for capital spending made available in a timely manner?				

12.a	Are ministries/agencies able to plan and commit expenditure on capital projects in advance on the basis of reliable cash-flow forecasts?	Cash-flow forecasts are not prepared or updated regularly, and ministries/agencies are not provided with commitment ceilings in a timely manner.	Cash-flow forecasts are prepared or updated quarterly, and ministries/agencies are provided with commitment ceilings at least a quarter in advance.	Cash-flow forecasts are prepared or updated monthly, and ministries/agencies are provided with commitment ceilings for the full fiscal year.
12.b	Is cash for project outlays released in a timely manner?	The financing of project outlays is frequently subject to cash rationing.	Cash for project outlays is sometimes released with delays.	Cash for project outlays is normally released in a timely manner, based on the appropriation.
12.c	Is external (donor) funding of capital projects fully integrated into the main government bank account structure?	External financing is largely held in commercial bank accounts outside the central bank.	External financing is held at the central bank, but is not part of the main government bank account structure.	External financing is fully integrated into the main government bank account structure.
13. Portfolio Management and Oversight: Is adequate oversight exercised over implementation of the entire public investment portfolio?				
13.a	Are major capital projects subject to monitoring during project implementation?	Most major capital projects are not monitored during project implementation.	For most major projects, annual project costs, as well as physical progress, are monitored during project implementation.	For all major projects, total project costs, as well as physical progress, are centrally monitored during project implementation.
13.b	Can funds be reallocated between investment projects during implementation?	Funds cannot be reallocated between projects during implementation.	Funds can be reallocated between projects during implementation, but not using systematic monitoring and transparent procedures.	Funds can be reallocated between projects during implementation, using systematic monitoring and transparent procedures.

13.c	Does the government adjust project implementation policies and procedures by systematically conducting ex post reviews of projects that have completed their construction phase?	Ex-post reviews of major projects are neither systematically required nor frequently conducted.	Ex-post reviews of major projects, focusing on project costs, deliverables, and outputs, are sometimes conducted.	Ex-post reviews of major projects focusing on project costs, deliverables, and outputs are conducted regularly by an independent entity or experts, and are used to adjust project implementation policies and procedures.
14. Management of Project Implementation: Are capital projects well managed and controlled during the execution stage?				
14.a.	Do ministries/agencies have effective project management arrangements in place?	Ministries/agencies do not systematically identify senior responsible officers for major investment projects, and implementation plans are not prepared prior to budget approval.	Ministries/agencies systematically identify senior responsible officers for major investment projects, but implementation plans are not prepared prior to budget approval.	Ministries/agencies systematically identify senior responsible officers for major investment projects, and implementation plans are prepared prior to budget approval.
14.b.	Has the government issued rules, procedures, and guidelines for project adjustments that are applied systematically across all major projects?	There are no standardized rules and procedures for project adjustments.	For major projects, there are standardized rules and procedures for project adjustments, but do not include, if required, a fundamental review and reappraisal of a project's rationale, costs, and expected outputs.	For all projects, there are standardized rules and procedures for project adjustments and, if required, include a fundamental review of the project's rationale, costs, and expected outputs.
14.c	Are ex-post audits of capital projects routinely undertaken?	Major capital projects are usually not subject to ex-post external audits.	Some major capital projects are subject to ex-post external audit, information on which is published by the external auditor.	Most major capital projects are subject to ex-post external audit, information on which is regularly published and scrutinized by the legislature.
15. Monitoring of Public Assets: Is the value of assets properly accounted for and reported in financial statements?				

15.a	Are asset registers updated by surveys of the stocks, values, and conditions of public assets regularly?	Asset registers are neither comprehensive nor updated regularly.	Asset registers are either comprehensive or updated regularly at reasonable intervals.	Asset registers are comprehensive and updated regularly at reasonable intervals.
15.b	Are nonfinancial asset values recorded in the government financial accounts?	Government financial accounts do not include the value of non-financial assets.	Government financial accounts include the value of some non-financial assets, which are revalued irregularly.	Government financial accounts include the value of most nonfinancial assets, which are revalued regularly.
15.c	Is the depreciation of fixed assets captured in the government's operating statements?	The depreciation of fixed assets is not recorded in operating statements.	The depreciation of fixed assets is recorded in operating statements, based on statistical estimates.	The depreciation of fixed assets is recorded in operating expenditures, based on asset-specific assumptions.
Cross-cutting issues				
A	**IT support.** Is there a comprehensive computerized information system for public investment projects to support decision making and monitoring?			
B	**Legal Framework.** Is there a legal and regulatory framework that supports institutional arrangements, mandates, coverage, procedures, standards, and accountability for effective PIM?			
C	**Staff capacity.** Does staff capacity (number of staff and/or their knowledge, skills, and experience) and clarity of roles and responsibilities support effective PIM institutions?			

Appendix II. PIMA Detailed Scores for the Philippines

The following color coding is used in presenting the scores.

Score	1	2	3
Color			

A. Planning		
	Institutional strength	Effectiveness
1.a	2	3
1.b	1	2
1.c	2	2
2.a	3	2
2.b	2	2
2.c	3	3
3.a	3	2
3.b	2	2
3.c	1	1
4.a	2	1
4.b	3	2
4.c	2	1
5.a	2	2
5.b	2	2
5.c	2	1

B. Allocation		
	Institutional strength	Effectiveness
6.a	1	1
6.b	1	1
6.c	3	2
7.a	2	3
7.b	3	2
7.c	2	2
8.a	1	2
8.b	2	3
8.c	3	3
9.a	2	1
9.b	2	1
9.c	2	1
10.a	2	1
10.b	2	2
10.c	2	1

C. Implementation		
	Institutional strength	Effectiveness
11.a	2	1
11.b	3	2
11.c	1	1
12.a	3	3
12.b	3	2
12.c	2	2
13.a	2	2
13.b	2	2
13.c	2	1
14.a	2	2
14.b	3	2
14.c	2	1
15.a	3	2
15.b	3	2
15.c	3	2