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ECONOMIC GOVERNANCE REFORMS UPDATE

A Quarterly Newsletter of PEGR (April to June 2009)

'Controls awareness' raised to improve government performance

To enhance internal controls in the National Government, the Department of Budget and Management (DBM) and the Internal Audit Office of the Office of the President (OP-IAO) intensified efforts to explain the National Guidelines on Internal Control Systems (NGICS) issued in October 2008.

The National Guideline outline the principles and institutional arrangements for Departments and Agencies to design, install, implement and monitor and evaluate the adequacy of internal controls.

A series of fora has been organized to explain the NGICS to Departments and their attached agencies, with the support of PEGR.

The Guidelines, stressed by DBM at a recent forum for the Department of



NGICS Orientation for DILG Cluster of Agencies
Discovery Suites Ortigas, 07 May 2009

Interior and Local Government (DILG), "aim to enhance internal controls for government to deliver better performance. Controls are not meant for fault-finding, but to assist Management do a better job at meeting public sector mandates and expectations," explained DBM further.

At the NGICS forum for DILG, DBM and OP-IAO clarified the role of the Internal Audit Service (IAS) under the Office of the Secretary, particularly its separate evaluation function extending to attached agencies under the authority of the Secretary. In the case of the Philippine National Police, the internal audit function may be organized by the National Police Commission.

The Department of Finance, including the revenue agencies, among others, inquired DBM and OP on the adequacy controls for performance management, particularly agreeing on performance indicators, targets and measures, which are deemed management controls in themselves. This concern amplified the complementation of internal control reform with OPIF reform under the framework of improving performance management.

A forum for the Department of Justice and its attached agencies, meanwhile,



NGICS Orientation for DOF and its Attached Agencies,
Pan Pacific Manila, 29 June 2009



NGICS Orientation for DOJ Cluster of Agencies, Pan
Pacific Manila, 16 June 2009

focused on the importance of internal controls, particularly in procurement. It also clarified the role of the IAS, which is currently being organized in the Department. ADB was introduced by DBM during the forum as partner in enhancing internal controls in the justice sector.

The series of NGICS fora is being led by Usec. Laura Pascua as chair, Deputy Executive Secretary Alberto Bernardo as main speaker and Director Amelita Castillo as facilitator. DBM acts as the secretariat. Similar fora is being arranged for other Departments.

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GOP endorses Contingent Liability Management (CLM) reform

A major milestone for PEGR's Reform Agenda 006-05: "Strengthening the Management of Contingent Liabilities in Build-Operate-Transfer (BOT) Projects" was a high-level policy meeting on 25 March 2009, to endorse the proposed institutional arrangements and systems.

Officials from the Department of Finance (DoF), the National Economic and Development Authority (NEDA), the Department of Budget and Management (DBM) and AusAID attended the meeting.

This meeting saw the endorsement of the proposed institutional arrangements and systems by PEGR's subcontractor, Castalia Strategic Advisors. With the size of the GOP's explicit contingent liabilities exposure on BOT projects being assessed small, an elaborate system to manage explicit Contingent Liabilities (CL) is not justified on a cost-benefit basis for the Philippines. The proposed institutional arrangement and system is based on marginal enhancements in the current system and has DoF as the "central monitor and manager" of CLM arising from BOT projects. In particular, DoF will be responsible for (i) assessing CL exposure under a proposed BOT, as

part of ICC process; (ii) periodically re-evaluating CL exposure, continually tracking that exposure and taking action to reduce cost to Government; and (iii) evaluating and approving any CL payments claims.

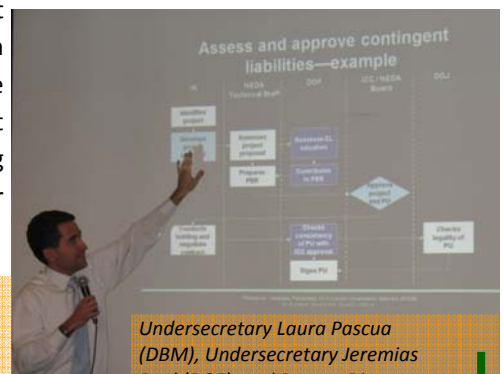
Implementing Agencies (IA) will be responsible for tracking and anticipating events that may trigger Government payments, and for taking appropriate actions to reduce the probability and severity of exposure at the project level losses. DOF is responsible for ensuring the implementing agencies are adequately carrying out this function. This will also require coordination with NEDA's overall BOT monitoring role.

For projects with contingent liabilities with a high probability of being called (and not controlled by Government), the IA includes the expected payments on that liability in the coming fiscal year as part of its budget appropriation. DBM confirms with DOF that this reflects the appropriate expected value in the contingent liability database, before including this in the budget estimates for consideration by the DBCC.

DOF assesses the validity of any payment claim, which may be made directly to DOF or forwarded by implementing agencies. Monitoring should mean DOF is aware of upcoming claims in advance. If a claim is found to be valid, DOF informs DBM of the need for a payment. Payment is made by the Bureau of Treasury, subject to any necessary appropriations or approvals.

Additionally, one key decision is on the approach to evaluate explicit contingent liabilities, which combines the probabilistic "stochastic" approach and the modified scenario analysis. This approach will allow the GOP to manage contingent liabilities, together with other pressing payment responsibilities of the GOP such as direct liabilities arising from operational shortfalls.

Mr Alfonso Guzman of Castalia Strategic Advisor, sub-contractor for this reform



Undersecretary Laura Pascua (DBM), Undersecretary Jeremias Paul (DOF), and Deputy Director-General Rolando Tungpalan (NEDA)



Undersecretary Jeremias Paul (DOF), Deputy Director-General Rolando Tungpalan (NEDA), and Counsellor Andrew Egan (AusAID)



Director Gisela Lopez (DBM), Director Stella Laureano (DOF), Director Charisse Hipolito (DOF) and Director Soledad Cruz (DOF)



NEDA's InfraCom pushes for Phase 2 of infra reforms

Chaired by the National Economic and Development Authority's (NEDA) Deputy Director-General Rolando G. Tungpalan and Assistant Director-General Ruben S. Reinoso, a meeting with the Government of the Philippines' Infrastructure Committee (INFRACOM) was held on 21 May 2009 primarily to discuss the recommendations of two recently completed PEGR Reform Agendas on Infrastructure - RA008-01: *Developing a Methodology and Framework for National Transport Policy and Planning*, and RA009-01: *Managing Truck Overloading in the Philippines*. The meeting was attended by 37 representatives from various government agencies involved in transport infrastructure.

A consensus to proceed to Phase 2 of the reforms was reached from the participants.

RA008-01: *Developing a Methodology and Framework for National Transport Policy and Planning (NTPP)* was an AusAID assisted reform activity carried out in 2008 under PEGR. This RA was aimed at reviewing past planning exercises regarding lessons learned, assessment of transport institutions capability towards enhanced transport planning and coordination and more rational policy development in the

Philippines. The activity intended to provide recommendations for an appropriate approach to transport planning and policy formulation that would serve as the initial foundation for a future National Transport Plan (NTP) and a Medium-Term Public Investment Program (MTPIP).

"NEDA will take a more active role in transport planning rather than just being an oversight agency", DDG Tungpalan said at the meeting.

Assistant Secretary Elmer Soneja of the Department of Transportation and Communications (DOTC) in his presentation, stressed the role of DOTC as the proposed apex entity for modal coordination while DPWH and other transport agencies such as the Civil Aviation Authority of the Philippines (CAAP), Land Transportation and Franchising Regulatory Board (LTFRB), Land Transportation Office (LTO), Maritime Industry Authority (MARINA), Philippine National Railways (PNR), and Philippine Ports Authority (PPA) would be seen as primary responsible for the agency transport planning.

RA009-01: *Managing Truck Overloading in the Philippines (TOL)* was another AusAID assisted reform activity undertaken in 2008 under PEGR. This activity aimed at maximizing the usage and efficiency of existing transport

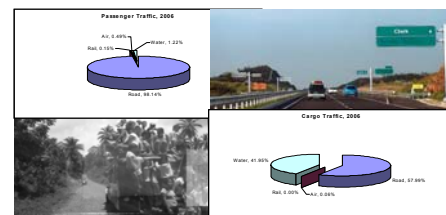


Photo taken from subcontractor's (KBR) report on RA009-1: NTPP to NEDA's InfraCom

infrastructure, through its underlying operational capacity and minimizing the need for unnecessary expenditure. It presented possible solutions to the overloading problem in ways that would be acceptable to the major stakeholders. The current costs for society of truck overloading are estimated at a staggering P320 Billion over 15 years.

During the meeting, the INFRACOM endorsed the two PEGR Infrastructure Reforms to proceed into their second phases with modifications. It was also decided that INFRACOM will act as the Steering Committee for both reforms with technical guidance from the Inter-Agency Technical Committee on Transport Planning (IATCTP) acting as the Implementation Team.

RA008-02: *Formulating a National Transport Plan (NTP) and a National Transport Policy*, and RA009-02: *Managing Truck Overloading - Preparation of Pilot Implementation*, are now being tendered

Please visit the PEGR website for more details regarding these RAs .

DPWH prepares IA Plan, conforms with National Guidelines

The Department of Public Works and Highways formulated its Internal Audit (IA) Plan following the standards and institutional arrangements prescribed by the National Guidelines on Internal Control Systems (NGICS).

The Internal Audit Service (IAS) of the Department used PEGR's report on the baseline assessment of DPWH's internal control system to determine the 'audit universe' and recommend to the Secretary priority auditable areas based on the deficiencies and

weaknesses of internal controls documented in the baseline report.

The baseline report was earlier submitted to and accepted by World Bank as one of the milestones for the effectiveness of the National Roads Improvement and Management Project Phase II (or NRIMP 2).

The IA Plan was approved by the Secretary and is the basis for IAS to conduct full-cycle audits in DPWH. The Secretary has issued a memorandum to all DPWH units approving the IA Plan and authorizing the internal audit

function. IAS is now in the audit performance phase.

PEGR through Queensland University of Technology and the Development Academy of the Philippines has provided training and mentoring in all phases of IA work. Coaching sessions are being undertaken, including the formulation of templates to assist IAS perform its functions in accordance with the NGICS.

DPWH is the first Department to have an IA Plan conforming to the requirements of the NGICS.

Analyzing Outputs - OPIF-based Budget Performance Assessment Workshop in DBM

By Shiela Villaluz, member of reform team for RA-002-05: Institutionalizing OPIF in DBM

On May 28, 2009, a workshop on assessing the efficiency of government agencies in producing specified outputs for end beneficiaries was held at Department of Budget and Management. This activity supported by RA002-05 kicked off a series of coaching and mentoring activities for DBM and 10 Departments on how to report, monitor and evaluate budget performance based on the Organizational Performance Indicator Framework (OPIF).

Under OPIF, which is results based budgeting, agencies' performance is assessed not simply on the basis of financial performance but on how they spent government funds to produce their target Major Final Outputs (MFOs), or goods and services delivered to end beneficiaries or external clients. The Workshop used guidelines prepared by the Tribal Helm consultants to analyze agencies performance in delivering MFOs in terms of evaluating variances against a class of performance measures incorporating quantity, quality, timeliness and cost. The analyses undertaken in this manner enable the budget analyst to make a

recommendation as to whether funding levels should be maintained or changed.

Presentations at the workshop emphasized the objective of DBM to strengthen the link of OPIF to the budget process and routinely use OPIF information to continuously improve decision-making over the next budget cycles.

It is expected that OPIF-based assessment results will be used for the first time in producing the annual Budget Performance Assessment Report to the President and Congress on agencies' performance in delivering MFOs and capital projects funded in the General Appropriations Act. In effect, this seeks to improve the utilization of OPIF information in budget decision-making at the department level, DBM and Congress.

A total of 195 DBM officials and budget analysts participated in the workshop held at the DBM Arcache Multipurpose Hall. The Tribal HELM consultants developed guidelines to assist analyses of MFOs and a set of computer-simulation exercises using live data taken from Budget



Performance Reports (BPA) for FY 2008 submitted by agencies last February 2009. Participants worked on spreadsheets in computing variances between target and actual performance of agencies, and against this background formulated informed analyses across a set of interrelated quantitative, qualitative, timeliness and cost performance indicators that characterize an agency's MFO.

The BPA workshop also identified procedural and policy issues on institutionalizing OPIF in DBM and the departments. These will form part of the OPIF Manual and set of OPIF-based Budget Guidelines and Memoranda to be formulated and issued by DBM to cascade OPIF to all government agencies in the months to come. These outputs are aimed at embedding a performance-oriented culture in the departments, which is the goal of PEGR assisted OPIF Reform Agenda.

Institutionalization of OPIF in DBM and other government agencies sustained

On 14 April 2009, Budget Secretary Rolando G. Andaya issued an Office Order for the Creation of Implementation Team for the Organizational Performance Indicator Framework (OPIF). This action embodies DBM's commitment to pursue its reform efforts through the institutionalization of the OPIF, foremost in its management and technical staff and in both the oversight and implementing agencies.

The Team is chaired by Undersecretaries Laura B. Pascua and Mario L. Relampagos, co-chaired by

Assistant Secretary Evelyn Guerrero. The team is represented by team leaders from: Rural Development Sector, Governance Sector, Social Services Sector, Infrastructure Sector, Defense and Public Safety Sector, State Universities and Colleges, Budget Operational Policy and, Fiscal Policy.

This team will ensure and continue to build a performance-based/outcome-oriented culture in the DBM and in National Government Agencies (NGAs) by embedding OPIF in the budget processes. It endeavors to strengthen the capacity of DBM to operationalize

OPIF in the preparation, operation and accountability phases of budgeting.

They will be working with PEGR consultants who will serve as resource persons and other necessary assistance. At present, the Team is working hand-in-hand with consultants of PEGR's RA002-05: *Institutionalizing a Performance-Based/Outcome-Oriented Culture in the DBM and Government Departments and Further Strengthening the Capacity of DBM to embed and Operationalize the OPIF.*

Ongoing Reform Agendas in a Glance

PUBLIC FISCAL MANAGEMENT REFORMS

RA002-05: Institutionalizing a Performance-Based/Outcome-Oriented Culture in DBM and Government Departments and Further Strengthening the Capacity of DBM to Embed and Operationalize the Organizational Performance Indicator Framework (OPIF)

The consultants continue to hold discussions with the National Economic and Development Authority (NEDA), Commission on Audit (COA) and the Civil Service Commission (CSC) to get their feedback on the OPIF reporting, monitoring and evaluation framework.

A training session to assess performance of departments was held on 28 May for technical staff of DBM as part of the coaching and mentoring of DBM to use OPIF information for budget preparation and decision making.

A Budget Performance Assessment guideline was developed by the consultants for use of the technical staff of DBM during the budget preparation for FY2010.

INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT REFORMS

RA010-01: Enhancing Internal Controls and Internal Audit Systems in DepEd

The reform team has been augmented with two additional international experts and one local expert on internal controls and internal audit. These experts will assist the reform team in doing capacity development following the results of the baseline assessment at DepEd.

INFRASTRUCTURE DEVELOPMENT REFORMS

RA006-04: Strengthening the Public-Private Partnership (PPP) in the National Road Sector through Capacity Building of DPWH and NEDA

This reform activity was officially completed in May 2009.

RA006-05: Strengthening the Management of Contingent Liabilities in Build-Operate-Transfer (BOT) Projects

One critical enhancement of this reform activity is the development of methodological toolkits for both the implementing and oversight agencies.

A significant immediate result of this RA is that the signed key agreements arising from the 25 March 2009 high level meeting will be used by the DOF as supporting documentation for the DPS III of ADB because the CL methodologies were jointly developed by the three oversight agencies.

RA006-07: Institution Strengthening of NEDA and other Oversight Agencies on Value Engineering, Contract Preparation and Performance Monitoring of Infrastructure Projects

Consultants has prepared standardized PPP contracts for urban mass rail, bulk water, IT and solid waste management sectors; model PPP bidding documents; and guidelines for line agencies to structure PPPs. They have also prepared an electronic PPP contract drafting tool as a software application to help draft the contracts in sectors or types of BOTs for which models have not been drafted.

Specific recommendations on monitoring, management and evaluation of infrastructure projects, including risks are also being developed.

RA007-02: Independent Procurement Assessor for DPWH

This reform activity is expected to run for 22 months or until January 2011.

RA007-01: Financial Management Service to DPWH

Activities currently being undertaken includes continues training to improve Financial Reporting, liaison with other PEGR programs such as the ICS-IA (RA007-07) and Road Watch (RA007-04), roll-out of e-NGAS and e-Budget Modules to Districts, including Testing and Training, monitoring of operations, updating bidding documents for Information Technology (IT) Procurements and completion of parallel testing of e-Budget in the Central Office and roll-out of the e-Budget to eight (8) District Offices in Region IV-A.

RA007-04: Supporting the Road Partnership (Road Watch)

The Road Sector Report Card (RSSRC) is being finalized. Several meetings in May 2009 were held with the DPWH Bantay Lansangan Coordination Committee (BLCC) to get general agreement on the format with performance rating of DPWH.

The Bantay Lansangan sustainability plan was finalized for discussion with the BL stakeholders.

The Road Users Satisfaction Survey (RUSS) by the Social Weather Stations has been finalized. BL also continue to conduct data gathering, analysis of systems and calibration of computer programs for road network analysis.

RA007-07: Strengthening Internal Controls and Internal Audit Systems in DPWH

Major work undertaken for this period included: (a) the Internal Audit Plan has been approved by the DPWH Secretary and submitted to World Bank; (b) the proposal for the creation of a Management Division has been submitted to Usec. Bonoan for discussion at the ExeCom; and (c) the formulation of a Capacity Development Plan for the DPWH-Internal Audit Service, the Management Division and the HR-Training Unit.

PEGR congratulates Deputy Executive Secretary Alberto A. Bernardo

Excerpts from the Facility Director's letter to DES Bernardo in 30 March 2009

The PEGR team congratulates Atty. Alberto Bernardo on his recent appointment as Deputy Executive Secretary in the Office of the President.

Through the reform of internal control systems and internal audit, PEGR was a constant witness to DES Bernardo's persistence and patience in pushing the cause of integrity, performance and accountability in the Philippines public service.

PEGR values working with reform champions like DES Bernardo whose leadership and commitment are crucial to deepening internal control outcomes at DPWH and DepEd, as well as in other Departments and Agencies. PEGR

appreciates his valuable efforts not only in formulating the National Guidelines on Internal Control Systems (NGICS), but also in communicating the Guidelines to a wider public and making the Generic Internal Audit Manual consistent with these.

PEGR wishes him success in his endeavors and more energy to perform the mandates and expectations of his new position.

DES Bernardo is a member of PEGR's Implementation Team for ICS/IA Reform.



Upcoming Tender Opportunities

RA010-02: Assistance to the Department of Budget and Management (DBM), Office of the President-Internal Audit Office (OP-IAO) and the Inter-Agency Reference Panel (RP) in Rolling Out the Implementation of the National Guidelines on Internal Control Systems (NGICS)

This reform agenda will be implemented for a period of 6-7 months. It includes: (1) assistance to DBM, OP-IAO and the RP in communications and advocacy; (2) modules-based assistance to Departments and Agencies on NGICS implementation, using "learning-by-doing" and laboratory type approaches for undertaking internal controls monitoring and management improvement, as well as internal audits; and (3) visit to another jurisdiction to study how internal control systems reinforce performance management in a sector-specific context.

International and local experts with combined expertise in the fields of public internal control systems and internal audit, with emphasis in drawing up training modules, set of instructions and mentoring approaches to a wide range of Departments and Agencies will be preferred for this reform activity. Familiarity with the National Guidelines on Internal Control Systems (NGICS) is also essential. The NGICS can be downloaded from the PEGR website. A link to the document is provided at the bottom of the Upcoming Tender Notification for this RA.

Tender notifications are posted at the PEGR website: www.pegr.org.ph and Coffey International Development website: www.coffey.com

RA006-07 Phase 2: Institutionalizing Value Analysis at the National Economic and Development Authority (NEDA) and the Department of Public Works and Highways (DPWH)

This RA will help NEDA develop an analytical framework and procedural guidance for Value Analysis (VA) in project preparation and then use that as a framework for infrastructure line agencies following revisions in the Government's project approval system. It will also assist DPWH in developing requisite internal processes for VA and to apply a business case approach for potential PPP projects to strengthen initial stages of the project development cycle.

This RA will be undertaken over 5 - 6 months.

Specifically, this RA will comprise:

- » training and coaching and mentoring to key staff of NEDA and DPWH;
- » development of internal processes and guidelines to procure and manage external advisors and integrate the study findings in the project cycle; and
- » technical support to a local association of value engineers to ensure sustainability of the VA discipline.

PEGR is being implemented under a partnering arrangement between the Department of Budget and Management (DBM), National Economic and Development Authority (NEDA), Department of Finance (DOF), the Australian Agency for International Development (AusAID) and Coffey International Development (Coffey ID).

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