

PD-AAK-909  
56555

PROJECT IDENTIFICATION DOCUMENT

FINANCIAL MANAGEMENT IMPROVEMENT PROJECT  
AID PROJECT NO. 492-0403

February 1988

USAID/Philippines

A

PROGRAM ASSISTANCE INITIAL PROPOSAL (PAIP)

## Table of Contents

	<u>Page</u>
PID FACESHEET	i
LIST OF ABBREVIATIONS	ii
I. BACKGROUND AND PROBLEM STATEMENT	1
A. The Financial Management Environment	1
B. Problem Statement	1
C. Description of Current Financial Management Functions	5
II. PROJECT DESCRIPTION	6
A. Project Goal and Purpose	6
B. Expected Achievements/Accomplishments	7
C. Outline of Project	7
D. Estimated Costs and Methods of Financing	8
E. Procurement/Contracting Plan	8
F. Proposed Implementation Plan	10
G. Data Collection, Monitoring and Evaluation	11
III. FACTORS AFFECTING PROJECT SELECTION	11
A. Relationship to the CDSS and Conformity With Medium-Term Philippine Development Plan (1987-1992)	11
B. Socio-economic Considerations	12
C. Relevant Experience with Similar Projects	13
D. Relationship to Other Donors	13
E. Design Strategy/Schedule	14
F. Gray Amendment Alert	15
G. Recommended Environmental Threshold Decision	15
H. Provision for Audit	15
I. AID Policy Issues	16
ANNEXES:	
A. Preliminary Logframe	
B. SGV Report, "GOP Financial Management Improvement Project"	
C. Chart, "Existing Philippine Government Financial Management Processes and Systems Observations" (Source: SGV Report found at B)	

AGENCY FOR INTERNATIONAL DEVELOPMENT  
PROJECT IDENTIFICATION DOCUMENT  
FACESHEET (PID)

1. TRANSACTION CODE  
Revision No.  
 A = Add  
 C = Change  
 D = Delete

DOCUMENT  
CODE  
1

2. COUNTRY/ENTITY  
Philippines

3. PROJECT NUMBER  
492-0403

4. BUREAU/OFFICE  
Asia and Near East  
A. Symbol ANE  
B. Code 04

5. PROJECT TITLE (maximum 40 characters)  
Financial Management Improvement Project

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION  
A. Initial FY 88  
B. Final FY 92  
C. PACD 93

7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 = )  
FUNDING SOURCE LIFE OF PROJECT  
A. AID 9,000  
B. Other U.S. 1. 2.  
C. Host Country 3,000  
D. Other Donor(s)  
TOTAL 12,000

8. PROPOSED BUDGET AID FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SDA	701B	Cod 790		500		1,000	
(2) ARDN	280B	290		2,000		8,000	
(3)							
(4)							
TOTALS				2,500		9,000	

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

10. SECONDARY PURPOSE CODE

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)  
A. Code  
B. Amount

12. PROJECT PURPOSE (maximum 480 characters)  
To strengthen and improve GOP financial management capability.

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT  
Staff: Mission staff and approximately 2 person-months of contracted technical services.  
Funds \$25,000 - PD & S

14. ORIGINATING OFFICE CLEARANCE  
Signature: FREDERICK W. SCHIECK  
Title: Mission Director  
Date Signed: MM DD YY  
15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION  
MM DD YY

16. PROJECT DOCUMENT ACTION TAKEN  
 S = Suspended CA = Conditionally Approved  
 A = Approved DD = Decision Deferred  
 D = Disapproved

17. COMMENTS  
18. ACTION APPROVED BY  
Signature  
Title  
19. ACTION REFERENCE  
20. ACTION DATE  
MM DD YY

LIST OF ABBREVIATIONS

AA	Advice of Allotment
ADB	Asian Development Bank
AID	U.S. Agency for International Development
AID/W	U.S. Agency for International Development, Washington
ANEPAC	U.S. AID/W Asia and Near East Bureau Project Advisory Committee
BIR	Bureau of Internal Revenue
BTR	Bureau of the Treasury
CAS	Central Accounting Service
CB	Central Bank of the Philippines
CDC	Cash Disbursement Ceilings
CDSS	Country Design Strategy Statement
CFR	U.S. Code of Federal Regulations
COA	Commission on Audit
CY	Calendar Year
DBM	Department of Budget and Management
DOF	Department of Finance
ERB	Executive Review Board
ERP	Economic Recovery Program
ERTAP	Economic Recovery Technical Assistance Project
ESF	Economic Support Funds
FY	Fiscal Year
GAA	General Appropriation Act
GAO	U.S. General Accounting Office
GOP	Government of the Philippines
IBRD	International Bank for Reconstruction and Development
IQC	Indefinite Quantity Contractor
IRM	U.S. AID/W Office of Information Resources Management
KFW	Kreditanstalt fur Wiederaufbeen
L/Comm	Letter of Commitment
LOP	Life-of-Project
MIS	Management Information System
NEDA	National Economic and Development Authority
NGEP	National Government Expenditure Plan
OBM	U.S. Office of Budget and Management
PACD	Project Activity Completion Date
PD	Presidential Decrees
PD&S	Project Design and Support Funds
PID	Project Identification Document
PP	Project Paper
PSA	Procurement Services Agent
PSC	Personal Services Contractor
RDC	Regional Development Councils
RFTP	Request-for-Technical-Proposal
RIG/A	U.S. AID Regional Inspector General/Audit
TA	Technical Assistance
U.S.	United States
UNDP	United Nations Development Programme
USAID	U.S. Agency for International Development, the Philippines
USG	United States Government
WFP	Work and Financial Plan

E

## I. BACKGROUND AND PROBLEM STATEMENT

### A. The Financial Management Environment

The Government of the Philippines' (GOP) primary role in the country's development efforts is to provide the environment necessary for private sector led, market oriented, sustained growth. In order to effectively carry out that role the GOP must ensure that (1) adequate public goods and services are provided, (2) public investment is well planned and executed, and (3) an appropriate policy framework is maintained. Since the 1986 change in administrations, the GOP has made important progress in redirecting budgetary priorities in favor of basic goods and services and in achieving external sector stability. It has also gained headway in correcting the effects of past misguided policies through policy reform and structural adjustment. However, a heavy external debt burden and a continuing scarcity of domestic financial resources still constrain the GOP's development efforts.

Public investment has slowed down to less than desirable levels, with potential adverse implications for the adequacy of public infrastructure in the medium term. The delivery of basic services is still far from adequate in many parts of the country. The continued scarcity of resources in the medium term heightens the need for the GOP to improve efficiency and accountability in the public service in order to pursue more vigorously its programs and projects. A key factor towards meeting these challenges is the improvement of the GOP's financial management system.

This project is intended to address the problems of the GOP's financial management system. These problems hinder the GOP's development efforts in several ways: first, without a precise measure of the government's financial state, resource allocation is less than optimal and monitoring of resource use is inadequate; second, public accountability is reduced because of the system's inability to provide timely and comprehensive information; third, the GOP's implementation of development programs suffers because of the financial management system's weaknesses as a whole; and fourth, system problems often thwart donor efforts to assist the GOP in its development efforts. Accordingly, it is imperative that its financial management system be improved in order to improve the GOP's overall development management capacity, and to help it achieve its development goals of poverty alleviation, employment generation, income redistribution, and durable economic growth.

### B. Problem Statement

A major part of the Aquino administration's efforts to address the deterioration of government services in the Philippines, largely brought about by excesses of the Marcos regime, has been the undertaking of an initiative to improve public accountability. The inclusion of public accountability as an area of policy reform being measured in the Mission's Budget Support Program policy dialogue with the GOP indicates the significance of this initiative.

In order to improve its public accountability, the GOP needs an overall financial management system which supports transparency in government transactions, contains adequate internal controls, and which can provide quick response to the needs of government policy-makers as decisions of public investment are made.

A Task Force of top level GOP financial managers was formed to develop a plan of action for improving the GOP's financial management system. This plan provided for taking a fresh look at all aspects of financial management; specifically budgeting, accounting, cash management, debt management, reporting, and auditing. In 1986, the Task Force requested the Mission's assistance in developing a new overall system which would provide the nucleus for integrating the system components needed at both the higher and lower levels within the GOP.

There are basically four major governmental structures, each with differing roles, that have to be considered in developing an overall financial management system for the GOP. These structures are the Departments of Budget and Management (DBM), and Finance (DOF); the implementing departments and activities (IDAs); and the Commission on Audit (COA). In simple terms the roles of each of these major players can be described as follows: the DBM is responsible for budgeting and allocating the GOP's resources to all government departments and activities; the DOF is responsible for providing the resources for the DBM to allocate; the IDAs are responsible for carrying out the GOPs' programs; and the COA is responsible for providing audit oversight and reporting on the effectiveness, efficiency, and economy of the governments' programs to various levels of management.

Each of these major players has to be capable of (1) maintaining records which accurately and adequately reflect the receipt and allocation (or expenditure) of the resources under their control, and (2) reporting on the flow of funds in and out in a format useful to any users requiring such information. Accordingly, it is obvious that an interrelated and integrated system for maintaining and reporting financial data is needed before these major players can effectively carry out their respective responsibilities. Such a system must provide for data to freely flow up, down, and across the various levels involved.

The Mission agrees that there is a need to assist the GOP in the development of a new overall financial management system. The Mission believes, and the Task Force concurs, that its efforts should be directed toward designing a core system, based on the financial management requirements of the four major players, into one which can ultimately be expanded to include all GOP activities. This approach is based on the premise that A.I.D. can best contribute to the solution of the GOP's overall problem by focusing its project efforts on this key element of the system, and by serving as the focal point around which other on-going efforts at lower levels will be coordinated and integrated. In a realistic effort to address the immediate impact needs of the current administration, our approach will be designed to produce both short- and long-term improvements.

In order to better understand the problems of the GOP's existing financial management systems, the Mission commissioned the prestigious local public accounting firm of Sycip, Gorres, Velayo and Company, (SGV) Certified Public Accountants, to perform an initial study of selected systems, interview system users, and make specific recommendations on areas where obvious improvements were needed (See Annex B). Selected findings of SGV's study are presented below.

--The present financial management systems and procedures--budgeting, accounting, treasury, and auditing--have to be rationalized so that protection and efficient use of government assets, as well as performance monitoring, becomes a primary consideration.

--The thrust in auditing is biased in favor of preaudits. Although the scope of auditing includes compliance, financial, and performance audits, COA has put more emphasis on compliance preaudits. This condition is partly due to the government's weak internal control system, which does not ensure the proper safeguarding of financial resources.

--Due to the absence of policies on bad debts, huge balances of receivables have accumulated in the books of government agencies. For this problem to be corrected, receivables should be evaluated, and collection efforts should be intensified.

--Budget formulation - expected results are not properly and clearly defined. Budget estimates do not include expected outputs. Thus, there is no standard by which performance of agencies and units can be measured.

--Counterpart funds for foreign assisted projects are not made available on time. The unavailability of counterpart funds, which is largely due to poor planning, delays the release of foreign funds. As a result, projects and programs are also delayed.

--There are no project accounting reports. The government's accounting system does not require departments to prepare project (some of which are foreign assisted) reports to monitor and control performance.

--There are no financial reports that provide management with timely information on critical areas of operations. The financial management systems have not responded adequately to management demands for prompt and relevant information necessary for policy and decision making. Financial reports generated by the system are geared primarily toward only meeting the requirements of COA, DBM, and the BTR.

In summary, SGV concluded that the GOP's financial management system needs to be streamlined and systematized. It stated that the system's various elements were not properly linked to promote effective achievement of objectives, proper monitoring and control of performance, and efficient use of

resources. SGV reported that this lack of system integration and systematization further resulted in the GOP's inability to effectively relate specific management elements to the attainment of its national objectives.

As a conceptual framework for addressing the various problems of the GOP's financial management system, SGV briefly described the nature of the deficiencies related to four key elements of the existing system--policy, organization, procedures, and resources--as follows.

Policy: Current government policies and practices relating to compensation, accountability for the management of assets (such as cash, receivables, and fixed assets), and the allocation and disbursement of funds constrain the efficient operations of the government agencies and prevent the implementation of an appropriate management control system.

Organization: The organizational structure of the government financial management system does not provide the basic mechanism for effective planning, performance monitoring, and proper control over fund use. The functions or thrusts of the various agencies need to be redefined and realigned to avoid duplication of functions, provide adequate control, and promote interagency coordination. Linkages between the different elements of the system need to be strengthened, so that the overall system will support executive decision making and development.

Procedures: The present financial management system's procedures related to budgeting, accounting, treasury, and auditing--have to be rationalized so that the protection and efficient use of government assets, as well as performance monitoring, become primary considerations.

Resources: The GOP's personnel and computer equipment resources are inadequate. Personnel need more orientation and training in order to better understand the objectives and operations of the national financial management system. The lack of proper computer equipment and inadequate accounting systems also hamper the efficient and prompt processing of data.

The GOP is undertaking to improve its present financial management system through redesign and automation because of the many benefits to be derived from an improved system. The DBM has made this redesign and automation effort one of its top priorities for the tenure of the Aquino administration. The proposed project will support the GOP's redesign and automation effort by addressing the problems outlined in the four conceptual areas above, and by contributing towards a management information system which will provide decision makers reliable, timely, and needed information related to available resources.

The project also responds to the concerns raised by the U.S. General Accounting Office (GAO) in its report to the AID Administrator dated November 5, 1984. That report discussed financial management problems GAO identified in developing countries and the impact such problems had on development

assistance efforts. The report stated that poor accounting, budgeting, and auditing capabilities in developing countries eroded the performance of development programs, and that there was a need for more systematic donor agency attention to related training and technical assistance. GAO recommended that A.I.D. encourage formal donor cooperation to address these needs and establish a clearly defined commitment to financial management training and technical assistance.

### C. Description of Current Financial Management Functions

At present there are six key national units, involved in varying degrees, in carrying out GOP financial management functions. The units are (1) the Congress, (2) the National Economic and Development Authority (NEDA), (3) DBM, (4) DOF, (5) COA, and (6) the Central Bank (CB). These units, together with various line agencies and local government units, are involved in one or more of the planning, budgeting, revenue collection, accounting and auditing functions. Each of these functions is briefly described below (for a more detailed description see Annex C).

The planning and budgeting cycle starts when local government units prepare and submit their fiscal requests to their respective Regional Development Councils (RDCs). The RDCs develop, consolidate, and prioritize plans and submit them to an executive committee composed of cabinet heads of line agencies. NEDA consolidates approved regional plans into a national development plan which is used by DBM in preparing the annual national budget (with input from local government units and national government agencies). The President submits the national budget to the Congress for its approval and authorization.

Once the annual budget is enacted by Congress, DBM releases appropriations based on the General Appropriations Act. This Act becomes the basis for releasing funds to the agencies and units. Government revenues are derived from tax, non-tax, and capital gains incomes, as well as from foreign and domestic grants and loans. Cash revenues are controlled and managed by the DOF's Bureau of Treasury (BTR), which also maintains financial records and prepares combined financial reports on the basis of accrual and cash data received from line agencies and units.

The accounting function is carried out by several government agencies. Four sets of central GOP financial records are maintained for the General Fund appropriated by the General Appropriations Act. One set is maintained by each government agency and used to record the details of their collections and expenditures transactions. The second set is maintained by BTR and is used to record all cash transactions such as collections of revenues, and repayments of advances and government loans. The third set is maintained by COA and is used to record General Fund appropriations and releases of allotments. The fourth set is maintained by DBM to record releases of allotments and funding warrants.

COA formulates accounting and auditing guidelines; approves the establishment and change of accounting systems of government entities;

performs financial, compliance, performance and special audits; maintains financial records of the national government; prepares combined financial reports based on accrual, obligation, and cash data received from line agencies and units; and submits annual reports covering the financial condition and operations of the national government to the Congress and the President.

The project as currently envisioned will only deal directly with three (DBM, DOF, and COA) of the six units described above and one line agency. However, the system that will be developed will provide the linkages and the financial information necessary to satisfy the needs of the three units not directly involved in the project.

## II. PROJECT DESCRIPTION

### A. Project Goal and Purpose

The goal of this project is to support sustained economic growth by assisting the GOP to better plan and manage its financial resources. This project will provide direct and indirect benefits to the entire populace of the Philippines by enabling the GOP to better understand and plan its economic initiatives and programs through improved knowledge and management of its financial resources. The project will also provide a financial management system that will enable the government to pursue its policy objective of decentralization through strengthened sub-national information linkages to central operations.

The purpose of this project is to strengthen and improve the GOP's financial management capability. This will be done by supporting the GOP's initiative to develop an integrated budgeting, accounting, auditing, and management reporting system through redesign and automation. A.I.D.'s \$9 million grant will be used over a five-year period to assist in an indepth needs assessment of the current system, the design of new integrated system for four key financial structures of the GOP, and to automate and test the system on a pilot basis.

The need for a good financial management system is critical because such a system's outputs help to ensure that a country's resources are being well managed by providing data needed to make better and more effective management and policy decisions. An improved financial management system will also enable government programs to be implemented at a more expeditious rate while providing enhanced controls. Project results can be immediately utilized in various phases of development management: in public finance administration by the DOF; in budgeting, program/project appraisal, prioritization, and monitoring by the DBM; in project execution, monitoring, and financial accountability by implementing agencies (including local Government units) and in auditing and reporting by the COA.

### Expected Achievements and Accomplishments

Upon completion of the project, the GOP shall have:

1. Designed workable systems that can be automated where appropriate;
2. Implemented the new system on a pilot basis in selected central departments down through selected regional offices of a designated implementing department;
3. Acquired and/or trained the appropriate resources (system manuals, hardware, software, and personnel) necessary to test the new designs on a pilot basis; and
4. Tested the effectiveness and feasibility of policy reforms and organizational strengthening.

### C. Outline of Project

The project will provide the resources to needed to design, test, and implement an improved financial management system in three selected GOP financial management departments as well as in a selected technical department. A technical services contract with a major US accounting firm will provide the overall direction of the systems' design and implementation efforts. The contractor will conduct a detailed system analysis of existing financial management systems as well as assist in the promotion of policy reform, organizational strengthening, adoption of new procedures, and upgrading of the GOP's financial management resource base on a pilot basis.

### Systems Review and Analysis

The project will fund systems reviews to identify and define in detail the current weaknesses, and recommended strategies for improvements. The adequacy and relevance of current accounting policies and procedures, budgetary and control systems, and internal controls will also be evaluated, and recommended strategies for bringing about needed improvements will be defined. A.I.D. and the GOP will review and endorse the contractors proposed recommendations for improvements as appropriate.

During the system reviews it is envisioned that a number of areas will be identified where immediate corrective action can be taken to solve existing problems. This approach, in addition to ensuring the optimum utilization of existing resources, will also help speed up the implementation of the new systems--even before the more formal overall system designs are ready for testing. These early interventions will either be integrated into the overall system designs or adjusted as appropriate.

While the bulk of the automated equipment will not be procured until the systems designs are approved, some equipment such as industry standard mainframes will be procured early in the life of the project. This early commodity procurement will enable and facilitate the testing of improvements

to existing systems and provide useful input for the subsequent systems development process.

#### Implementation of the Systems Designs and Upgrading of Resource Bases

Once the basic systems designs have been completed, the project will begin implementing, testing, documenting, and installing systems. A.I.D. will also provide technical services, training, and commodities to promote policy and organizational reforms nationwide, and to upgrade the GOP's human and material resource bases. This will include providing technical services to perform the analyses and documentation required by all appropriate units to undertake policy reform and organizational strengthening. It is anticipated that these technical services will be provided through a contract with a U.S. accounting/management consulting firm in a joint venture with a local subcontractor. Approximately 1,265 person-months of local and 70 person-months of expatriate technical services will be provided under the project. Training will be performed primarily in the Philippines.

#### D. Estimated Cost and Methods of Financing

1. Estimated Cost of Project Inputs: As Table 1 reflects, total project costs are estimated at \$12 million over a five year life-of-project (A.I.D.'s contribution is estimated at \$9 million and the GOP's at \$3 million). The project will be incrementally funded beginning in FY 1988. The first obligation is estimated at \$2.5 million, composed of \$.5 million from the Special Development Section 106 Account and \$2.0 million from the ARDN Account. Future year obligations will be subject to the availability of funds. About \$3 million will be added in each of the second and fourth years of the project. The planned PACD of the project is June 30, 1993. The final funding is scheduled in FY 1992.

2. Methods of Financing: It is anticipated that TA and training required under the proposed project will be implemented under the direct contracting mode and financed by A.I.D. direct payments. The bulk of the commodities purchased will be financed through a bank L/Com, the use of which will be justified in the Project Paper (PP). Related services will probably be contracted via the direct contracting mode with direct payments. Services for evaluation, data collection, and monitoring may be completed by PSCs and/or IQCs and financed by direct payments.

#### E. Procurement/Contracting Plan

Contracting actions under this project will involve technical services and commodities (computer hardware, software and supplies). The technical services contract for policy reform analysis and required documentation of improved procedures and information systems will also include required training services. It is envisioned that these services will be procured competitively from U.S. firms or U.S./Philippine joint venture firms, and that the contract will be a direct AID contract. Commodities will have their

source/origin in the United States or the Philippines. At this time, it does not appear that any procurement or contracting waivers will be required. However, compatibility is always an issue in the procurement of computer hardware. The Mission will seek the advice and guidance of IRM prior to the finalization of computer specifications.

Table 1

ESTIMATED PROJECT BUDGET  
(\$000's)

<u>Project Inputs</u>	<u>A.I.D.</u>	<u>GOP</u>	<u>TOTAL</u>
Technical Services	\$5,500	\$1,000	\$6,500
Commodities (hardware, software, publications, books, etc.)	2,000	1,000	3,000
Training	1,000	500	1,500
Audit/evaluation/data collection	350	250	600
Contingency	<u>150</u>	<u>250</u>	<u>400</u>
T o t a l	<u>\$9,000</u>	<u>\$3,000</u>	<u>\$12,000</u>

Table 2

ILLUSTRATIVE METHODS OF FINANCING CHART  
(\$000's)

<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Estimated Amount</u>
TA, Direct AID contract	Direct Payment	\$5,500
Commodities, direct contract	Bank L/Com	1,890
Procurement Services Agent, direct contract	Direct L/Com	110
Training, direct AID contract	Direct Payment	1,000
Evaluation, monitoring, and data collection, PSCs or IQCs, direct contract	Direct Payment	350
Contingency	Direct Payment	<u>150</u>
T o t a l		<u>\$9,000</u>

F. Proposed Implementation Plan

1. Project Implementation: It is expected that the Project Agreement will be signed during the third quarter of FY 88. A tentative timetable for implementation milestones is depicted in the chart form below:

Project Implementation Timetable

Activity	Y E A R				
	1	2	3	4	5
Project agreement signed	Month 0				
Initial systems inventory	Month 9				
Contracting for major technical services	Month 9				
Systems objectives and requirements study		Month 12			
Development of conceptual systems designs		Month 17			
GOP and USAID review and approval of conceptual designs		Month 18			
Development of detailed systems designs and pilot testing plan			Month 26		
GOP and USAID review and approval of detailed designs			Month 28		
Long-range implementation planning and budgeting		Month 18			
Policy/procedural reforms formulation/implementation					Month 54
Commodity procurement				Month 34	
Implementation of immediate improvements				Month 45	
Development of new modules				Month 45	
Systems testing at central and regional levels				Month 48	
Adjustments to systems designs				Month 50	
Systems installation and training					Month 54
Midterm project evaluation			Month 34		
Final project evaluation					Month 54
PACD					Month 60

NOTE: Broken lines indicate that activity occurs intermittently during specified time.

2. GOP Implementing Agency: The existing advisory committee on financial management improvement shall provide overall policy and direction for the project. The membership of the committee consists of representatives from the DBM (lead agency); DOF; COA; NEDA; the Central Bank and the Office of the President. It is anticipated that day-to-day project implementation responsibilities will be handled primarily by DBM, although it is possible that the President's Management Office may also be involved. The PP will discuss implementation responsibilities in greater detail.

3. USAID Responsible Offices: Overall responsibility for project management will be assigned during the PP preparation stage. The Mission is currently evaluating its total project portfolio to ensure that the workload is properly assigned. Given current workload requirements, the Mission does not believe that current staffing will be able to handle the implementation and monitoring requirements envisioned under this Project. Accordingly, the Mission may hire a U.S. PSC specifically for this project.

#### G. Data Collection, Monitoring, and Evaluation

A data collection, monitoring and evaluation plan will be presented in the Project Paper. The Plan will establish a feedback system to provide timely information for managing Project implementation and monitoring progress. This plan will include:

- Identification of important users of information; their priority questions; and key indicators to be used;
- Selection of the means (surveys, studies, etc.) that will be used to answer users' priority questions;
- A description of counterpart support and involvement in information collection activities; and
- A budget for the above activities.

### III. FACTORS AFFECTING PROJECT SELECTION AND FURTHER DEVELOPMENT

#### A. Relationship to the CDSS and Conformity With Medium-Term Philippine Development Plan (1987-1992)

In its medium term development plan for the period 1987 through 1992, the GOP formulated policies and strategies toward development administration and plan implementation. One such strategy is the improvement of institutional processes for plan formulation, implementation, and monitoring. The following items are included in this major strategy:

1. Strengthening of the planning-programming-budgeting linkages;

2. Adopting more efficacious institutional collaboration in planning, investing, programming, and budgeting at various levels of the government;
3. Instituting measures to improve the budgetary review process;
4. Adopting innovative approaches to multiyear financial planning;
5. Implementing a system of accountability and responsibility for project managers; and
6. Ensuring public accountability of government institutions through improved performance evaluation.

The proposed project will support these GOP policies and strategies by introducing a management information system which will provide decision-makers with reliable, timely, and needed information related to available resources. This should enable the GOP to better manage and plan its resource allocations and to improve overall program implementation.

It is generally accepted by the host country and major donors that the GOP's financial management system needs to be upgraded. The principal theme of AID's CDSS is that there are significant structural constraints in the form of inappropriate policies and institutions which impede growth and the efficient use of financial and human resources. One such impediment is the archaic, highly centralized financial accounting and auditing systems presently being used by the GOP.

The development of effective local governments and the decentralization and devolution of power from Manila is a common theme linking AID programs. Past efforts were aimed at improving the technical and administrative capacities of local governments to plan, finance, and carry out development activities at the village and provincial levels. The strategy of the proposed project continues to focus, among other things, on improving the capability of the GOP, both at the national and local government levels, to provide services and improve their budgeting, accounting, reporting, and auditing systems so as to support sustained economic growth. The project also addresses the concerns raised by the GAO in a report to the AID Administrator dated November 5, 1984. That report stated that poor accounting, budgeting, and auditing capabilities in developing countries was eroding the performance of development programs. It recommended that AID encourage formal donor cooperation to address these needs and to establish a clearly defined commitment to financial management training and technical assistance.

#### B. Socio-economic Considerations

Because of the diffuse nature of the Project's benefits, a standard economic rate of return analysis is not envisioned. Instead, cost effectiveness will be a major consideration in the identification of appropriate forms of technical services and the approaches to designing the

improved system. Sustainability of the new system and replicability of pilot activities will be primary project implementation considerations.

The immediate beneficiaries of the Project will be the GOP and its decision-makers who will have access to reliable, timely and needed information on which to base policy initiation and program implementation efforts. Those GOP individuals who will participate in training activities under the Project will also benefit directly by acquiring new skills and responsibilities. Indirect beneficiaries will include those who are affected by decisions leading to rationalized policy formulation.

During PP development, attention will be focused on the effect the proposed project may have on those individuals who may be displaced or otherwise have their current skills minimized through the introduction of an automated system. Wherever possible, those selected for training should be those individuals who need to upgrade their skills in order to work more effectively within the new automated system.

#### C. Relevant Experience with Similar Projects

The Mission is aware of projects similar to the one proposed, in Honduras and Bolivia, and a large-scale effort in the Sahel. Within the Philippines, there are several projects with components related to the improvement of financial management. The Mission plans to assess these efforts and incorporate the relevant lessons learned in the PP. The proposed Project will be one well-suited to replication in other countries seeking to address the concerns raised in the GAO's November 1984 Report on financial management problems in developing countries.

#### D. Relationship to Other Donors

The donor community shares both the USG's and the GOP's perceived need to improve the Philippines' public financial management systems. For instance, a 1984 International Bank for Reconstruction and Development (IBRD) study on "Philippine Public Expenditures and Their Financing" observed that while the Philippines' budgetary system is designed to give authorities control over national government expenditures, the system is complicated and involves nine separate steps from authorization to disbursement. Further, the study observed that little progress had been achieved in ensuring that appropriations, obligations, and disbursements within the system actually match. However, so far none of the other donors have provided direct assistance for making the system improvements currently envisioned under the proposed Project.

The IBRD has been principally instrumental in encouraging the GOP to improve prioritization of capital expenditures through a periodic public investment programming exercise. This action is now being formally supported through the recently approved Economic Recovery Program (ERP) loan. The ERP will provide resources to the GOP for general imports in three tranches against progress in the areas of tax reform, public expenditures, public

financial corporations, and trade liberalization. The companion IBRD technical assistance (TA) loan to the ERP, the Economic Recovery Technical Assistance Project (ERTAP), will among other activities, enable the GOP BTR to integrate its entire information system and to prepare a Management Information System (MIS) development plan. The MIS will help the BTR to establish more effective procedures for monitoring and reporting of government expenditures, including the financial assistance provided to the government corporations.

The Asian Development Bank (ADB) will provide a TA and computer equipment grant of \$500,000 for the public investment program monitoring system of the NEDA. The United Nations Development Programme (UNDP) is also expected to provide a \$127,500 grant for the BTR's public debt monitoring and control functions. In addition, the West German Kreditanstalt fur Wiederaufbau (KfW) has indicated a willingness to provide assistance for the GOP's tax collection efforts. NEDA is currently reviewing a Bureau of Internal Revenue (BIR) proposal for using the KfW assistance in implementing the new value added tax. The Mission might also consider joint funding for this activity next year.

IBRD appraisal efforts for a forthcoming Public Corporate Sector Rationalization loan have resulted in the preliminary identification of TA and computerization requirements of GOP agencies engaged in financial management such as the COA, Central Bank (CB), DBM, NEDA and DOF. For example, DBM has identified TA and computerization needs for its accounting system for the non-financial public corporate sector. NEDA's National Accounts Staff has identified TA requirements for public sector accounts development. Some of these non-financial government corporate sector reform requirements will be funded by other donors. For instance, the ADB will provide a \$400,000 TA grant for advisory services and computer equipment for the DOF's Government Corporate Affairs Office and its Government Corporate Monitoring and Coordinating Committee. This grant will enable these entities to better monitor and evaluate the performance of the government corporations that will be retained.

NEDA will be responsible for coordination of other donor input to ensure complementarity and avoid duplication.

#### E. Design Strategy/Schedule

The project is scheduled for an FY 1988 start. Below is the planned design schedule:

<u>Planned Activity</u>	<u>Proposed Date</u>
-PID sent to AID/W	February 1988
-AID/W Approval Received	February 1988
-Project Paper Development	March-June 1988
-Project Authorized	July 1988

The above schedule assumes a redelegation of authority for the Mission to approve the PP and authorize the Project.

The PP will be developed by the Mission Project Committee in conjunction with the relevant GOP agencies. It is anticipated that the services of a contractor will be required to perform the technical, institutional, and social soundness analyses. The Mission will acquire these services through the IQC and/or PSC mechanisms.

Given the available expertise within the Mission, the fact that the proposed Project's expected LOP will not exceed 10 years and no waivers are required at this time, the Mission requests that once the PID is approved, it be redelegated authority to approve the PP and authorize the Project.

#### F. Gray Amendment Alert

The Mission has given full consideration to the potential involvement of small and/or economically and socially disadvantaged enterprises and has determined that there is potential for Gray Amendment qualifying firms in the following areas of project implementation:

While competition for technical services will be open to any firm, the RFTP published in the Commerce Business Daily Notice will encourage the participation of Gray Amendment qualifying firms as the prime contractor or subcontractors in accordance with Part 1A of the Federal Acquisition Regulations. All selection criteria being found equal, the participation of such firms may become the determining factor for selection.

Every effort will be made to limit technical services for project evaluations to Gray Amendment qualifying firms on a competitive basis. To the extent feasible, commodity procurement will be split so that a Gray Amendment qualifying PSA will be used for the procurement of computer equipment and supplies.

#### G. Recommended Environmental Threshold Decision

Section 22 CFR 216.2(c)(1) excludes certain actions from the requirement for an Initial Environmental Examination, an Environmental Examination, or an Environmental Impact Statement. Actions excluded are those which do not have an effect on the natural or physical environment, i.e., education, technical assistance or training programs. The technical services, training, and computer equipment to be provided under this Project will restructure and develop a new GOP financial management system, and as such will have no direct impact on the environment.

#### H. Provision for Audit

The budget includes \$15,000 for external auditing services, should it be needed. It is expected that RIG/A and/or COA will perform routine audits related to this Project. AID assessments regarding the need for auditing services will be presented in the PP.

I. AID Policy Issues and Concerns

Replicability

What assurance does the Mission have that the new financial management system, as designed and implemented on a pilot basis, will be replicated government-wide?

The GOP has stated a commitment to implement an improved financial management system throughout the nation. This Project will assist the GOP achieve needed policy and organizational changes government-wide. While its systems design and information management upgrading will be limited to a pilot-scale effort, it is anticipated that subsequent replication government-wide will not be as costly per affected unit as the initial effort. Therefore, GOP budget resources should be sufficient to replicate the system at the national GOP agency level. Other donor assistance may be sought to finance the eventual replication at the regional, provincial, and local government unit levels.