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Report of DPFS-AID
STATUS REVIEW OF ESF PROJECTS

Introduction and Background:

During the first two weeks of September, 1984 the Philippine Development Projects Fund Secretariat (DPFS) and the United States Agency for International Development (AID) reviewed the status of the Economic Support Fund (ESF) program under the 1979 Amendments to the Military Bases Agreements (ESF I).

The review was based largely on DPFS statistical reports of the progress of the ESF projects and DPFS papers on operating procedures which are appended to this report.

Participants in the review were AID Mission (USAID) and DPFS personnel responsible for implementing the ESF program and two "outside" observers, a USAID program officer recently arrived in the Philippines and the AID/Washington project development officer for the Philippine project program. These observers visited local governments and project sites in Region III.

The limited time for the review did not allow for lengthy examination of all aspects of the ESF program. This report was prepared by the AID/Washington observer based on joint discussions with USAID and DPFS. It concentrates on review conclusions and recommendations which confirm the validity of present projects and procedures or point to the desirability of revising them. Included are suggested steps to be taken for the 1985-1989 continuation of the ESF program (ESF II) recently agreed between the two Governments.

Before presenting conclusions and recommendations, this report summarizes the main characteristics of ESF project implementation and the statistical status of the program.

Implementation Characteristics:

ESF I has been implemented differently than other project programs both on the Philippine and the AID sides. The DPFS was set up under a ministerial-level Management Advisory Committee (MAC) to take overall Government of the Philippines (GOP) responsibility for use of ESF peso resources. Special accounts hold these resources until they are needed by implementing agencies, local governments and contractors in accordance with project agreements.

AID makes most ESF dollar assistance available against GOP creation of peso accounts on the basis of one year's peso requirements of the projects. Otherwise, AID project management is similar to that for the regular Development Assistance (DA) program.

Recent economic difficulties have caused a tightening of the normally close controls of the GOP over project spending. Various stages of the flow of funds to projects have been restricted under austerity measures. The Cash Disbursement Certificate (CDC) stage (a GOP control measure requiring Office of Budget and Management release of disbursing authority subsequent to the allotment and obligation stage) has been particularly tight. Special approval procedures for contracts over two million pesos also led to delays in implementation of subprojects.

Despite these temporary difficulties, the program is making progress. August reports indicate that disbursements due to have occurred over the previous six months are now taking place. DPFS is seeking permanent facilitation of prompt ESF project approvals and disbursements.

Although there are many steps in the implementation process between first request for a subproject and final liquidation of accounts for the subproject, a momentum is building for smoother functioning of the ESF machinery.

Of particular concern to the two Governments is the thorough checking of each project achievement before disbursement for it. This thoroughness may even delay implementation, but it is essential to assure that ESF resources go only for the agreed purposes. DPFS and USAID records and tracking systems provide this assurance through more detailed accounting for ESF funds than most DA programs provide.

Statistical Status:

The trend from a gradual start to a later rapid pace of implementation is seen for most projects. The exceptions have specific problems not connected to general DPFS-USAID ESF program procedures.

The initial years generally show only planning and organizing activities for projects which thereafter "pick up steam" and show substantial rates of disbursement. The causes of initial project implementation delays are all understandable in view of the origins of each year's program. However, future multiyear planning should facilitate more prompt disbursement under ESF II.

Even projects without special problems are up to one year behind the original plan that project peso funds be used within about one year. Fortunately, August DPFS reports indicate substantially improved disbursements. September and October results should confirm the approach to planned levels of disbursement.

Conclusions and Recommendations:

The principal findings of the Status Review are presented below against (i) the strategic issues and (ii) the questions about program mix and lessons learned put to the review at its start. third section presents overall findings.

I. Strategic Issues

A. Is the ESF program as currently structured consistent with GOP/USAID priorities, especially in the present economic climate?

1. A general vote of confidence (see Part III, p. 12) is in order -- with some footnotes:

a. The program was highly vulnerable to delays when the flow of financial releases (especially CDCs) or of approvals (contract approvals by the Executive Committee) was disrupted due to crisis conditions in the economy or changes in administrative structures. Apparently most of these delays have been overcome, and DPFS/USAID are seeking further ways to reduce administrative and financial delays (including seeking to require only one CDC for establishing a commercial bank account for all the pesos corresponding to each dollar disbursement).

b. These implementation delays made it impossible to achieve the dollar disbursement rates the two Governments had hoped.

c. One year appears to be the maximum delay in most projects. That is, physical and financial implementation progress is not more than one year delayed from the schedules at the time of project agreements. Those schedules generally foresaw completion of each year's activity under each project within a year; experience is that up to two years is required for completion of many project activities, and Rural Energy components are farther behind schedule.

d. August data reflect disbursements that, but for one-time factors, would have occurred six months earlier. If September and October results show "normal" implementation, it will be possible to establish how soon each year's activity under each project can be completed.

e. Project progress reports should include measures of physical achievement. AID "accrued expenditure" reporting is an acceptable method of establishing progress at a stage earlier than final liquidation of financial accounts. USAID and DPFS can document faster implementation progress by using this reporting mechanism.

2. The present economic climate underscores the need to obtain significant development benefits for the investment of the scarce resources available to the Philippines. While the ESF program originated from agreements relating to the Military Bases, both parties have made noteworthy efforts to obtain maximum development benefits from the use of ESF resources. It is timely, however, to review the development results of ESF investments.

B. What are the implications for future ESF planning?

1. The delay factor should be better determined (as indicated above) within the next few months. It now seems that about as much resources are being disbursed per quarter as are made available each quarter, but the picture is uneven between projects within the program. The relative rate of resource use will be a factor in allocating future resources among the several projects.

2. The relative development merits of projects should also be given weight in future resource allocations. For example, there are faster uses of resources under the RDF project than under MDF, but MDF reaches lower levels of government and increases community involvement. This justifies slower drawdown (and higher administrative costs) under MDF.

3. Where there is neither rapid resource drawdown nor significant development achievement (as in Rural Energy), thorough reexamination of the project is in order.

II. Program Mix and Lessons Learned

What are the lessons learned from ESF experience for various activities to meet perceived needs, effectively transfer resources, be expeditiously implemented and properly managed? What are the implications for future allocations among ESF activities?

1. Some general observations first (then a review project-by-project):

- a. It should be assumed that the ESF II project program will continue on a longer than year-to-year basis. Planning should be put on a two- and five-year projection basis and revised annually.
- b. The need for rapid disbursement remains, but it can be tempered by concerns for development merit. Within the activities that clearly are fast disbursing, there are possibilities for more ambitious development activities if they can be undertaken in discrete annual phases. Examples might be river control and drainage activities.
- c. Project close-out requires accounting for the last centavo of project funds under Schools I. It is expected that Fixed Amount Reimbursement (FAR) procedures will avoid these difficulties for future projects. Close-out plans should be part of future amendments adding more funds or new project agreements.
- d. CDC-related delays seem to achieve no purpose of either Government. Arrangements to avoid future delays should be in place before further project agreements are put into effect. Solutions, possibly similar to those for IBRD loan activities, should be pursued urgently.
- e. Maintenance problems have already been observed for roads and are uncertain for markets (but are not known for schools). It is clearly inadequate to rely only on standard formulae for allocating funds for maintenance purposes. Possibly, design standards for some roads are too low.

Unless better arrangements are made for maintenance, it will be difficult to justify further investments in subprojects for which maintenance performance continues too low.

f. Tensions between levels of government are inevitable in projects involving balancing their interests.

No mayor or governor can be faulted for seeking the maximum benefits for the community he represents. The DPFS and central ministries have responsibilities for wise use of national funds and for compliance with national policies and project agreements.

These tensions are desirable when they result in each level of government making sure of the soundness of its position when dealing with another level. They are undesirable when they result in delayed implementation or in reduced benefits to the ultimate beneficiaries. Generally a good balance between local and central interests has been struck.

However, the benefits of greater local participation need continuing emphasis. Implementation is almost always better, and benefit flows greater, when there is greater local participation in project selection, design and management. This practical advantage is in addition to the specific project objective of MDF and RDF to increase local government units' capabilities to serve community needs.

USAID and DPFS should be willing to take the extra time and make the extra effort to ensure maximum local participation, even when higher level considerations make it impossible to accede to local requests. Local participation is particularly important when longer-term ESF planning takes place. More and more of this planning should be conducted in the regions, provinces, cities and municipalities.

g. DPFS engineering workload will increase. Up to the present USAID engineering staff have performed near 100% design and monitoring reviews of subprojects; in FY 1985 and beyond, more of this workload must be assumed by DPFS. DPFS and USAID should consult on the adequacy of DPFS architect and engineering (a/e) resources for this increased workload. Project Design funds should be used to contract for sufficient staff, and joint reviews should evaluate a/e contractor performance.

h. Now is the time to plan for expanded project activities. USAID and DPFS have to resolve a number of strategic and policy questions before they can design projects beyond 1985. They must also obtain higher level approvals -- and should complete consultations with the local governments -- before they go to detailed project design. This process must begin now if we are to have sound project activities ready for financing in FY 1986.

i. Major issues yet to be resolved include: possible integrated area development vs. growth center approaches, area vs. sector program expansion, public vs. private enterprise approaches, provision of infrastructure only vs. institutional development assistance, and "rural" standards vs. the designing projects to require less maintenance. It is not desirable for this review to attempt to resolve these issues (particularly before they have been aired among the interested parties), but it is essential that USAID and DPFS start resolving them if there is to be a sound program in FY 1986.

In this connection, the FY 1984 program is an example of what happens when outside circumstances require that resources be released at a faster rate than USAID/DPFS planning could accommodate. While FY 1984 program results are expected to be acceptable, we might have made better uses of the funds if USAID/DPFS had more development-oriented plans at an earlier stage in the decision process.

j. Evaluation and reporting of "success stories" is inadequate. So far USAID and DPFS managers have had to concentrate on rapid implementation to meet agreed disbursement objectives. However, support for the program increasingly depends on the ability of program advocates to demonstrate development benefits for the target populations. Reports of benefits reaching Washington provide only limited support for the advocates of further ESF project assistance.

To meet this need, outside evaluations are required in the next year in at least these areas:

(i) Schools have been completed under Schools I, are under construction under Schools II, and are parts of MDF and RDF. Also under consideration is greater emphasis on high schools and on trade and special schools. An evaluation with outside U.S. and Philippine participation can both establish the successes of past programs and justify new directions. Evaluators should include local government and education representatives.

(ii) Roads should be completed within the next six months. We should promptly evaluate benefits and validate design standards and maintenance procedures. Outside evaluators should represent both engineering and local government (institutional development) approaches.

(iii) Markets will begin to be completed early in 1965. With substantial further investments in markets planned, an interim outside evaluation of markets should establish benefits and appraise institutional development assistance (possibly combined with appraising other assistance to municipalities for tax and general administrative development). Local government and outside institutional development evaluators should participate.

[The following are project-specific comments.]

2. Schools I was the first ESF project. It was essentially an extension of existing programs to draw promptly on available ESF funds. A significant close-out/accounting problem is being resolved -- and is expected to be avoided in future projects. It was highly successful, showing that 697 schools could be constructed to high standards in a short time. The schools were immediately used to meet community needs.

3. Project Design is the second ESF project, essentially to make possible design and administration of the ESF project program. No problems have been noted in the Status Review, but focus was on the other projects. Some other findings (need for engineering services, for evaluations, and for accelerated planning) in this review may increase requirements for Project Design funds.

4. Municipal Development Fund (MPF) was the first "fund" approach to meeting local government units' (LGU) needs through investments of ESF resources. It expanded LGU involvement in infrastructure development at the city and municipality level. Institutional development is not only an objective but also an operating concern.

Compared to RDF, more management time is required for the amount of resources moved, but MDF has a good record on implementation of infrastructure and an excellent record of community involvement in the planning and implementation process. This desirable project seems a good candidate for further ESF assistance.

5. Regional Development Fund (RDF), exclusive of FY 84 amendments, is the continuation of infrastructure assistance to and through the provinces started in the 1960's under the Provincial Development Assistance Program (PDAP). RDF has an excellent record of implementation and is moving resources as fast as any current ESF project.

RDF is the prime candidate for future ESF investments.

6. RDF FY 1984 Amendment (aka Local Roads and Schools II) was a response to the need for rapid disbursement of ESF assistance early in FY 1984. It drew on past experience that these two infrastructure activities could be implemented promptly by existing administrative mechanisms. While implementation was somewhat delayed by circumstances outside USAID/DPFS control, delays seem to have been overcome. Evaluations of the effectiveness of schools and roads should take place (see above) before these components are given more resources.

7. Clark Access Road is the only activity on the reverted baselands. As such it should be completed despite contractor failure and delay in obtaining rights of way. The takeover of implementation responsibility by Tarlac Province (with the Governor's resolution of the rights-of-way problem) seems likely to lead to successful completion of the road. However, other project elements may require further social and environmental analyses; these analyses should not be delayed further.

6. Public Markets originally sought to meet needs in twelve growth centers; it now appears adequate only for six. While this indicates potential for use of more ESF funds, it also points to a need for better design/cost estimates in the future. It is still not clear what the results of institutional development technical assistance have been, but outside evaluation (see above) of markets in general may offer suggestions for improving this aspect of the project.

9. Rural Energy (RE) is the most troubled of the ESF projects. USAID and the DPFS are aware of the problems of the three component activities, but have not decided on corrective measures. The implementing agencies lack funds to continue normal implementation, and they seek ESF funds to cover what were previously to have been GOP counterpart costs.

The RE approach -- to use indigenous wood-based resources to replace imported petroleum -- continues a development interest of the two Governments. However, two years of experience with RE shows few successes and many difficulties. The technical and economic bases of the RE project need reexamination in the light of this experience. This reexamination should be completed before new starts are made under RE.

We must reexamine the general wood-based energy situation of the Philippines. It is possible that stable dollar petroleum prices while exchange rates went against the peso have increased the price advantage of wood-based fuels to the point where consumption is rising faster than supply. If this is the case, there may be no further need for project intervention to increase uses of wood-based fuels. Instead, emphasis may be shifted to improving supply only.

Necessary surveys of national (and, where needed, local) wood-based fuel supply, demand and prices can be conducted by Philippine researchers under Project Design or RE funding. USAID and DPFS should consult at once on the scope for such a survey and on whether outside expertise can be brought to bear on analyzing its results.

Whatever the results of this survey, there will be interest in improving methods of producing fuel wood. The question then arises whether the present implementing agencies have the mix of capabilities for this task.

Their past successes have been in organizing rural people for development in different technical fields, and they may must consider whether they can acquire the necessary technical capacity for this new area.

If they decide they want to increase their permanent capabilities for renewable fuel wood production, USAID and DPFS should start design of systems to obtain the need expertise for the implementing agencies. If they can't afford this technical capability permanently due to lack of funds, RE design should be revised to provide for contract services during the life of the project only.

Whatever the decision for future activities, subprojects already undertaken should be surveyed to determine whether adequate opportunities have been given for them to work. If surveys find inoperative subprojects still viable, the rural people should be provided adequate resources to make these subprojects work. Where subprojects are found not viable, the lessons learned should be drawn upon for project redesign.

a. Gasifiers component has some successes which should also be studied. Economic analysis should quantify costs and benefits of functioning units to determine the cost effectiveness of the system, including the cost to the project of making the technology available to the rural users. Further, the basic technology so far tried should be evaluated against alternate technologies. Gasifier design should be compared with available alternates, possibly including gasifiers working directly from wood instead of using charcoal.

b. Charcoal units have also been successful and should be evaluated as for gasifiers. The proposed market survey will presumably indicate the merits of further investment in the charcoal component.

Clearly, the wood-growing side requires more emphasis. Moreover, more should be learned about charcoal technology, especially the tradeoffs between producing higher quality charcoal and costs of doing so. If the wood resource is becoming increasingly valuable in the marketplace, better use must be made of it than originally planned.

c. Dendrothermal generation of electric power is of questionable feasibility at some of the original sites for RE. Site selection should be based on both the alternate non-petroleum-based generation planned for the site and the estimated sustainable wood fuel yield of the site.

Site selection and feasibility confirmation should precede any further financing of this component. Feasibility appraisal should not be limited to the original unit size or any original location. For example, it may make the most sense to put all available resources in a Bohol plant with more than one unit.

III. OVERALL ASSESSMENT

The objectives of the two Governments for the ESF I program have generally been achieved. Transfers of dollars have occurred, but with some delay, to comply with joint undertakings at the time of the 1979 Amendments to the Bases Agreements. Many millions of dollars and pesos worth of infrastructure are in place, under construction or coming off the drawing board. Local communities have been involved in the development process to a greater extent than before.

The preceding sections of this report note problems encountered over five years in eleven separate units of the \$200 million ESF I program. What those sections don't show is also to be noted: all the problems were discovered in a timely manner through the diligence of the USAID/DPFS implementers of ESF I. Some examples:

An outside observer found galvanized iron roofing materials are rusting sooner than formerly in schools and similar structures. The DPFS had already dealt with the problem (local sheets have thinner galvanized layers than formerly); DPFS now requires baked paint treatment for galvanized sheets before their use for roofing.

The observer found some local government units wanted more projects than the DPFS would approve. Every instance discussed proved to have been given thorough consideration by DPFS and to have been rejected only on well founded grounds. This has required considerable patience in the face of some vociferous local government leaders.

- There is a temptation to regard this kind of grant assistance (originating outside the normal development planning process) as of minimal development use. However, USAID and DPFS consistently got the maximum development value they could out of the projects. Where development played a secondary role, the decision on the particular project was not in the hands of USAID or the DPFS.
- Similar temptation to laxity in accounting for the ESF resources has been resisted. If USAID and DPFS err in any direction, it is in overemphasis on double-checking and accounting in full detail for all ESF resources.

The overall conclusion of the review is that the mechanism for administration of ESF I is sound and is carrying out the intentions of the two Governments. This mechanism is capable of planning sound future ESF projects on the basis of experience with ESF I, the personal dedication, and the high professional caliber of the two organizations.

The overall recommendation of the review is that the two Governments now put USAID and DPFS staffs to work planning wise uses of future ESF project resources.

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