

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: AB2669

Project Name	National Roads Improvement (Phase 2)
Region	EAST ASIA AND PACIFIC
Sector	Roads and highways (82%); Central government administration (18%)
Project ID	P079935
Borrower(s)	DEPARTMENT OF FINANCE (DOF)
Implementing Agency	
	Republic of the Philippines
	Department of Public Works and Highways Bonifacio Drive, Port Area Manila Philippines Tel: 304-3000 Fax: 304-3487
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	April 21, 2008
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Date of Board Approval	May 13, 2008

Country and Sector Background

1. *Recent reforms have started to deliver improved outcomes, but there are many challenges ahead.* For some years, the Philippines' per capita growth performance has lagged significantly behind other East Asian countries, and domestic and foreign investment flows have been well below the level reached by its neighbors. However recently, there have been some positive signals on growth and investment levels in the Philippines. For example, GDP expanded by 7.3 percent in 2007, the highest in decades. External imbalances remained robust, due mainly to rising remittances from migrant workers and large capital flows. The country's economy has the basis for a vibrant private sector, liberal domestic and foreign investment regimes, and good entrepreneurial capacity of its human resources. The country has also benefited substantially from strong intra-regional trade. In addition, it has a very active civil society which is a potential agent for change. Yet, political and institutional hurdles have made a long term coherent reform agenda difficult to implement in the country.

2. *Inadequate infrastructure, especially roads, is perceived as one of the serious constraints to investment and therefore to growth.*¹ As an archipelago, transport is critical to the national economy of the Philippines. The country's transport system is based largely on roads and inter-island shipping – the two modes account for almost all freight and passenger traffic.

¹ *Philippines: Meeting Infrastructure Challenges.* World Bank and Public Private Infrastructure Advisory Facility (2005).

While some progress has been made in the past few years, the efficiency of the road network in promoting growth and providing safe access has been limited by high levels of congestion, widespread poor condition of roads and bridges, inadequate connectivity, and the lack of a sustainable road safety strategy. As a result, for example, intercity freight rates in the Philippines are more than 50 percent higher than in Thailand or Vietnam.

3. ***After a period of under-investment, investment in the national road network is picking up.*** Capital expenditures on the road networks were at a low of P34 billion (0.9 percent of GDP) in 2002, and rose little during a period of fiscal constraint until 2005. Historically, private sector investment in the sector has been low due to an uncertain investment climate, poor legal environment and land acquisition problems. While funds allocated to road maintenance have risen since 2004, due to rising revenues from road users in a Special Road Support Fund (SRSuF), these were only about one third of the estimated needs in 2006 and cost recovery needs to rise further. With the recent resurgence in the economy, the capital budget and SRSuF for 2007 rose to P69 billion (1.8 percent of GDP), which could restore the sector if well prioritized, spent efficiently and sustained. The Government has made infrastructure a priority, and the 2008 budget has an additional P14.3 billion for infrastructure.

4. ***Government has moved on the road sector reform agenda but progress is variable.*** Road sector reform was initiated in 1997 and articulated in the Better Roads Philippines 2000 study (1999). The reform strategy focused on sustainable financing through road user cost recovery, and commercialization of road sector operations through establishment of a road management authority and increased private sector participation. At the institutional level, the road fund and Road Board were established in 2001 and became fully operational in 2004 and the road maintenance program was expanded. At the organizational level, the internal business processes in Department of Public Works and Highways (DPWH) are being improved; however the organization is still large and over-staffed. The proposed establishment of a road management authority did not receive political backing in 2002-04, despite extensive consultations and study of options. Given the difficulty of mobilizing legislative support for a comprehensive institutional overhaul, attention has now shifted to incremental reform and improving the efficiency of the current organizations. A Rationalization Plan was prepared for DPWH in 2006 under a national program which would move the agenda forward on this basis.

5. ***Operational performance has been mixed but the maintenance regime is improving.*** Many chronic contract performance problems relating to major civil works that had been outsourced to the private sector for many years have been overcome, especially in avoidance of disputes and in prompt and policy-compliant land acquisition. However, some operational difficulties persist, including cost over-runs, slow contract administration and, in some instances, weak quality and supervision. For road and bridge maintenance, funding has been rising but needs to be more effectively programmed and efficiently utilized — budget allocations are fragmented to District level, are not need-based, are drained by administration costs, and are exposed to risks when used for employment-generation programs. Under NRIMP-1, progress was made through a centrally-programmed preventive maintenance program, and through piloting long-term performance-based contracts which provide comprehensive management of long sections of road. Expanding and institutionalizing these approaches for the future calls for reforms in the programming and budgeting process, the control of implementation and costs, the

excessive staffing and high administrative budget, and other organizational or jurisdictional issues.

6. ***Corruption has been a major threat to the efficiency and fairness of procurement process in the Road Sector but reforms are being introduced.*** There is a widely held perception that national and international competitive procurement have often been affected by collusion and bid-rigging among contractors, with high payoff margins (see Box 1). To counter the problem, Government has tightened rules, improved oversight, opened competition and reporting, and enforced bid ceilings in national procurement reform. Apart from bid ceilings, which the Bank's procurement policy does not support, the other corrective measures mentioned above are being put in place to strengthen international procurement under NRIMP 2. Among the business process reforms in DPWH, computerization of the contractor qualification process has improved the efficiency and transparency of procurement, and other electronic support systems are ready to be implemented. The budgeting process is also being improved at the national level to address perceptions of manipulation, especially the allocation for general maintenance and project listing in capital budgets, and to reduce the opportunity for budget realignment and authorization which at times have been instruments of cash diversion. Fighting corruption is a formidable challenge that cuts through sectors and levels of bureaucracy. A Government framework for strengthening integrity is now in place for DPWH that mitigates corruption risks through information sharing, independent monitoring involving beneficiaries, better use of communication technologies, tighter financial controls, and the broader goal of promoting integrity among staff.

Box 1: Evidence of Collusion and Bid-rigging in Road Contracts

In 2003, the Bank's supervision identified signs of bid-rigging in the procurement of two roads contracts under NRIMP-1 and rejected award of the contracts. Two further rounds of bidding in 2004 and 2006 revealed similar signs and were also rejected. The Bank's task team referred the information to the Department of Institutional Integrity (INT) in 2003, who concluded an investigation in 2007 and found that a cartel of contractors had engaged in corrupt and collusive practices in all three rounds of bidding, undermining competition in roads construction in the Philippines and inflating prices by up to 30%. These findings were disclosed to the Government of the Philippines in November 2007 for possible follow-up under Philippines law. In addition, INT has initiated the Bank's internal process for determining whether the practices detected in the investigation merit the application of Bank Group sanctions. The investigative findings were also crucial in designing mitigating measures for the new project, described in Box 2.

Rationale for Bank Involvement

7. ***Through its engagement, the Bank has the opportunity to act as a catalyst in promoting institutional integrity.*** Consistent with the Bank's country assistance strategy of building islands of good governance, this Project takes a comprehensive approach in adopting an integrity strengthening strategy that focuses on both institutional capacity-building measures and specific project-protection measures. Given the risk of leakage of resources in public works to corruption, particularly in road works, the strengthening of anti-corruption efforts and governance in the road sector and DPWH is a high priority, for both the Government and the Bank. The project can

have significant impact on the overall integrity development efforts and standards of DPWH. The project design addresses these issues, builds on government integrity programs, develops new integrity measures for the sector, provides special measures for protecting public funds and Bank funds, and involves beneficiaries in external monitoring of the effectiveness of governance measures. These are fully consistent with the Bank's own 2006 Governance and Anti-Corruption strategy.

8. ***There is a compelling case to continue the Bank's strong engagement in the Road Sector.*** Since the launch of the road sector reforms in 1997-99, the Bank has been a key development partner in reshaping the sector. The Bank's NRIMP-1 project has put in place a strong platform for further reforms in the sector and the Government has substantially met the triggers for the launch of the Phase 2 Project. NRIMP was launched in 2000 as a three-phase 10-year adaptable program to support the Government's sector reform goals and the sustainable development and operation of the National Roads System (NRS). Under this program, the road fund was established and became operational, the critical financial management and environmental safeguards processes were established, and the physical targets were achieved, albeit with a delay of two years. The Department achieved progress in developing and piloting an impressive set of business process improvements and tools designed to modernize road management and business procedures. However, legislative support could not be mobilized for a road authority for the NRS due to frequent leadership changes and severe fiscal constraint in the period 2002-06. An independent progress review of the APL triggers of Phase 1 concluded that (i) the triggers and timeframe of NRIMP-1 were over-optimistic, given the implementation capacity of DPWH, and (ii) that continuation of Bank engagement in the APL framework was fully justified, since the development objectives for NRIMP-1 had been substantially met. Given the recommendations of the independent review and the experience gained under the project on the degree of difficulty in gaining legislative support for reforms, the Bank has decided to proceed with Phase 2 but shift its approach to focus on administrative reforms, and to reschedule the legislative reforms needing legislation to Phase 3. The Table below shows progress under the triggers for Phase 2 of NRIMP.

<i>Trigger Criterion for Appraisal</i>	<i>Status at Closing, March 2007</i>
a) Establishment of sustainable financing mechanism, such as a road fund	Complied. Achieved 2001, fully operational 2004. Operation needs to be strengthened and comply with IRR.
b) Submission of draft legislation for reform: Fuel levy; Independent Road Board; Independent Road Maintenance Authority.	Not complied. Extensive consultation and detailed recommendations 2001-03 but institutional and legislative action not adopted. DPWH 2006 Rationalization Plan is partial alternative. Incremental approach and reconsideration of targets recommended.*
c) Operation of financial management system at central, regional and district levels;	Complied. Achieved October 2005 at central level and pilot regional and district offices, as planned.
d) Environmental office made structural	Complied. Environmental and Social Safeguards Office (ESSO) established 2004, highly effective and fully operational. Formal structural status awaits implementation of proposed Rationalization Plan.
e) Disbursement 60 percent of NRIMP-1 loan.	Complied. Achieved October 2005.

Note: * - A related trigger has been incorporated for Phase 3

Project Objectives

9. The Program goal is the *establishment of road management arrangements which ensure the upgrading and preservation of the National Road System (NRS) in an environmentally, socially and financially sustainable manner*, as originally defined.

10. *The project development objective for Phase 2 is consistent with the objectives of the longer term NRM Program.* It is to: Improve operation, organizational effectiveness and fiduciary control in the management and financing of the national road system, to enhance road user satisfaction in the project areas and efficiency and integrity in the use of financial resources.

11. *The achievement of this development objective will be evidenced by the following outcomes or results by the close of Phase 2 of the Program:*

- (a) Administrative efficiency improved - Project delivery time reduced (with: Improved road management organization implemented, new planning and business tools applied, processing times for procurement, payments and land acquisition reduced);
- (b) Sustainability of financing for NRS asset management - Increased cost recovery from road users (with revenues to the Road Fund increased from 40 percent to at least 60 percent of asset preservation needs);
- (c) Value for money improved – Medium-term average cost of preserving national paved roads reduced (with economic prioritization of preservation program, contract cost and time over-runs reduced, long-term and preventive maintenance contracts implemented, bid price excess reduced, integrity strengthening plan targets met); and
- (d) Road user satisfaction with the National Road System improved - user survey results improved (with condition of national roads improved, length of paved roads increased).

12. The trigger criteria for appraisal of Phase 3 of the Program are as follows:

- (a) Substantive reorganization of DPWH based on a corporate audit and corporate plan consistent with the Program goals has been authorized and implemented;
- (b) Engagement of DPWH with a Road Partnership of non-governmental and private entities for the purpose of assessing road sector performance is sustained for at least three years;
- (c) Completion of annual, independent third party technical and financial audits and DPWH timely compliance with key recommendations of each audit report;
- (d) Road sector reforms have been implemented satisfactorily including: (i) Updating of Road Board mandate and regulations; (ii) Sustainable expansion of road user cost recovery authorized; (iii) Plan for institutional reform of road management is authorized and submitted for legislation.
- (e) Achievement of results in institutional capacity development components B1 and B2, including Integrity Strengthening Action Plan, reaches at least 60 percent of Results Indicators of each component; and
- (f) Loan disbursement is at least 60 percent in Category 2(c) and overall.

Project Description

13. The project will support: (a) improvement of 450 km of national arterial roads and related bridges, including upgrading of 146 km and rehabilitation or widening of 304 km; (b) delivery of a comprehensive road maintenance program through long-term performance-based contracts and preventive, routine and emergency maintenance; (c) improved organizational effectiveness and integrity of public road management services in DPWH through reforms in corporate processes, partnerships, and improvements in service delivery structures; and (d) strengthened operation of the Road Fund and a framework for subsequent sector restructuring.

Part A: National Road Improvement and Asset Preservation

14. **Component A.1: National Road Improvement (estimated cost US\$238.5 million, incl. US\$123.9 million loan).** Works and services for road upgrading, rehabilitation and widening, bridge replacement, and landslide rehabilitation, totaling approximately 450 km of roads and about 1,000 m bridges on the arterial National Road Network.

15. **Component A.2: Road Asset Preservation (estimated cost US\$280.8 million, incl. US\$86.9 million loan).** The coverage of preservation works on the national road network will be expanded in partnership with the Road Board, including financing on a sector-wide basis, and comprehensive long-term performance-based maintenance, as follows:

A2.1 Long-term Maintenance (US\$152.3 million, incl. US\$52.1 million loan) — support for long-term performance-based contracts of about five-year duration for comprehensive maintenance on about 1,000 km length of the arterial road network including the Strong Republic Nautical Highway (5 percent coverage of the paved length of NRS); and

A2.2 Preventive Maintenance (US\$32.0 million loan) — finance for an 11 percent slice of the national road maintenance program in partnership with the Road Board, supporting preventive maintenance of about 1,200 km of the national road network annually over four years, through a sector-wide approach and mechanism for reimbursement to the Road Fund.

A2.3 Maintenance Services (US\$2.8 million loan) — advisory support for implementation of the asset preservation program and for improving the service delivery of routine/general maintenance under DPWH/SRSuF.

Part B: Institutional and Capacity Development

16. **Component B.1: Business Process Improvements (estimated cost US\$47.1 million, incl. US\$18.0 million loan and US\$4.1 million grant).** The modern business tools for planning, financial management and procurement that were designed and piloted under NRIMP-1 will be institutionalized and implemented in all regional and a majority of district offices of DPWH, including expansion of the communications networks and computerization, conduct of regular asset surveys, and strengthening internal controls and internal audit.

17. **Component B.2: Corporate Effectiveness (estimated cost US\$7.5 million, incl. US\$1.1 million loan and US\$6.4 million grant).** This will upgrade and modernize the corporate structure, processes and operating codes of DPWH to make it a user responsive,

transparent, and efficient public sector agency with high integrity standards, and will enable effective participation by road users and citizens, through four subcomponents, i.e.:

B.2.1: Organizational Effectiveness. Enhancement of DPWH effectiveness through an institutional audit and organizational restructuring, including national initiatives on rationalization, corporate standards, integrity, performance management and leadership.

B.2.2: Road Partnerships. Support for a multi-stakeholder partnership of road users and non-governmental organizations for improving responsiveness and transparency in the road sector, for communicating with DPWH, Road Board and various government agencies.

B.2.3: Road Management Service Delivery. Support for a pilot trial of options for commercializing the current operations of district engineering offices to improve service delivery of road maintenance and other functions.

B.2.4: Integrity Support. Support for strengthening the fiduciary integrity of the project implementation, through independent technical audit, parallel procurement evaluation, and strengthening institutional integrity.

18. **Component B.3: Strategic Sector Reform (estimated cost US\$1.2 million, loan).** Support to strengthen the operations of the Road Board and update its mandate, review road cost recovery, and to revisit options for restructuring the management and delivery of services in the sector.

19. **Component B.4: Training and Workshops (estimated cost US\$0.3 million, loan).** Activities for facilitating achievement of the Project objectives and related skills development.

Lessons Learned from Past Operations in the Country/Sector

20. ***Cost and Time Over-runs need to be reduced through improved Procurement and Contract Management.*** In both the network upgrading and preventive maintenance components of Phase 1, there were significant internal delays in the procurement process and completion which resulted in frequent quantity, time and cost increases. Contract administration improved over previous experience, but the application of penalties was uneven. Payment processing improved but uneven release of funds resulted in payment delays to some contractors, and poor cash flow contributed to delays in execution of works. A lengthy approval process for variation orders and supplemental agreements, which was intended to tighten control over cost increases, instead contributed to the delays. Under NRIMP-2 the new business processes supporting procurement and contract administration, developed under NRIMP-1, will be applied, together with a series of improved contract provisions.

21. ***Satisfactory Utilization of Funds is Critical to Confidence in Road Fund Mechanism and Sector Reform.*** Although the administration of revenue collection was generally satisfactory, confidence in the Road Fund and Board – and more generally in sector reform - was weakened by the appearance of political influence and entitlement in the allocation and utilization of the funds. Operation of the Board improved with sound technical advice but requires more discipline in the prioritization of funds and also a more effective and better informed voice of road users and citizens. The good experience with the pilot long-term performance-based maintenance program and prioritized preventive maintenance program has led the Road Board and DPWH to extend these to ensure the efficient use of maintenance

resources. The Project will partner with the Board to finance an expanded maintenance program, strengthen operational procedures, strengthen citizen voice, and review the direction of reform.

22. ***Modernization of technical and business processes requires corresponding reforms at the organizational level in order to be sustainable.*** While the development of improved planning, financial management and other processes was successful under NRIMP-1, the new tools are not yet fully understood and utilized. The process has been a model of participatory and consultative approach, with good management champions of the reforms and new business processes. Nevertheless parts of the organization, including parts of management, are still bound by outmoded norms, methods and practices. Staffing issues are emerging since, despite extensive training inputs, the skilled staff are migrating to the private sector. The substantial operation and maintenance costs of information technology are also emerging. The Department has undertaken several strategic reassessment exercises across the agency to identify the areas of disconnect between the new business processes and the existing corporate culture. The findings point to the need for a corporate audit, to reexamine the core functions, the organization, capacity and staffing, given the new business systems and processes in place.

23. ***Restructuring at the sector level requires broad-based, strong client ownership and is an incremental process.*** The twin-pronged approach of internal business process improvements within the agency, and parallel sector and institutional reforms, has been partially successful. The technical and business process reforms gathered momentum through the design and pilot phases, and the reform of financing through cost recovery became operational, but the reform for separating policy from operations did not gain traction. Despite the early support of top management who set the original reform agenda, the scale of restructuring the large department later at a time of political uncertainty proved overwhelming. Under Phase 2, an incremental approach has been adopted based on consultations within and with DPWH. This will build on the achievements to date but modify the reform goals to a realistic target and monitor the progress made in achieving the goals with the following five key elements, i.e.:

- Continuation of the road improvement program, with emphasis on stimulating large domestic firm capacity and improving long-term durability and performance of road pavements;
- Improving the coverage and management of the road preservation program, through augmenting the Road Fund and partnering with the Road Board, consolidating road maintenance works into performance-based and larger contracts, and encouraging socially-responsive private sector participation;
- Fostering public accountability in the sector and enhancing the use of funds through a strong citizen voice and a focus on the results and impacts achieved in both physical and institutional performance;
- Adopting a more incremental and calibrated approach to sector reform, which would improve business and corporate processes first, pilot a more commercial approach to the entire sector, and use these to shape appropriate sector wide restructuring; and
- Reducing corruption in the sector through a comprehensive approach based on prevention, deterrence, enforcement of sanctions, education, and public-private partnerships.

24. *Corruption is heavily influenced by both internal and external environments, so remedial measures need to be comprehensive and targets realistic.* The Integrity Strengthening Action Plan for DPWH, which supports and runs in parallel with the project, draws on experience under Phase 1. This showed that while many improvements had been made in procurement processes internally and through project controls, vulnerabilities remained in the bid evaluation and approval processes and in external pressures that limit competition in the industry and result in prevalent over-pricing through collusion. Financial audit findings pointed to numerous internal control weaknesses, and project selection in the general capital budget reflected a fragmented and distorted approach to budget allocation under external influence. The project design has to face this wide range of vulnerabilities with a choice between seeking sustainable systemic change and a narrower ring-fencing of the project. The project adopts the systemic approach, but with specific protections for the project. The Integrity Strengthening Action Plan (ISAP) aims to control corruption in procurement for the project, based on the analysis of risks and the risk environment, and is supported by the range of measures incorporated in the financial management controls implemented through the project (see Box 2). The plan extends also to cover institutional capacity building actions to strengthen the governance environment in the road sector and reduce corruption at the agency and transaction levels.

Box 2: Key Anti-Corruption Mitigation Measures in NRIMP-2

The NRIMP-2 project incorporates a comprehensive range of measures designed to build institutional capacity and governance, to strengthen the fiduciary controls over the use of loan proceeds, and to strengthen social accountability and the demand for good governance from civil society. Many of these measures have been strengthened due to the incorporation of lessons learned from NRIMP1 and discussions with Government on appropriate measures to mitigate the systemic risks identified in the NRIMP INT investigation.

- a. **Use of an Independent Procurement Evaluator (IPE)** to improve the transparency and integrity of procurement processes, through independent monitoring of key steps of the procurement process.
- b. **Further enhanced procurement controls** to ensure the reliability of contract cost estimates, detect over-pricing through bid analysis, enhance supervision control over contract variations and disseminate complaints mechanism in bid documents.
- c. **Adoption by Government of the 2006 Guidelines** for Procurement under IBRD Loans and Credits, which include enhanced provisions for combating fraud and corruption.
- d. Strengthening **internal controls and internal audit capacity** in DPWH in order to address key deficiencies revealed by official audits of the agency. Two conditions of project effectiveness cover: a) internal audit assistance and internal control systems; and b) qualifications and sufficiency of project financial management staff.
- e. **Adoption of Enhanced Business Processes** - With increased use of computerized business systems and enhanced processes for procurement and financial management (developed by DPWH under NRIMP-1), the efficiency of transaction processing would be improved and the opportunities for interference would be reduced.
- f. **Independent Oversight by Civil Society** – A coalition of citizen and road user groups has been established, named “RoadWatch” (“Bantay Lansangan”), to strengthen the voice and influence of citizens in ensuring transparency and proper use of public funds for roads, and to counter corruption at high levels of government and society.

- g. **Partnership with the Road Board in Management of the Road Fund** – Assistance to the Road Board and its Secretariat to apply strong transparent procedures for administering the special funds, and to produce more efficient, equitable and needs-based expenditure programs.

Financing

Source:	(US\$ m.)
BORROWER	333.52
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	232.00
AUSTRALIAN AGENCY FOR INTERNATIONAL DEVELOPMENT	10.50
Total	576.02

Implementation

A. Partnership arrangements

25. *The project would operate in a cofinancing partnership with the Government's Road Board.* It would finance a slice of the Board's annual program on road maintenance in a sector-wide approach over four years and provide capacity-building support. The terms of the partnership are defined in a Memorandum of Understanding regarding the procedures and monitoring to be applied based on strengthened national systems. The program comprises: (i) the long-term performance-based maintenance program, costing US\$152 million and financed 64/36 percent by the SRSuF through counterpart funds of about US\$100 million and loan funds of about US\$52 million disbursed on a transaction basis; (ii) a four-year slice of the preventive maintenance program, in which about US\$91 million from the SRSuF is supplemented by a contribution of US\$32 million from the loan, on a reimbursement basis subject to disbursement conditions relating to the operational procedures; (iii) services to support BOM in supervision of the maintenance program; and (iv) advisory services to enhance operations of the Board, and review strategies for further road sector reform (both services financed by the loan).

26. *The Australian Agency for International Development (AusAID) will provide grant cofinancing.* It would support selected governance and human resource development elements of the capacity development component (totaling US\$10.5 million equivalent). The funding would be provided through two Technical Assistance Facilities — the Philippines-Australia Partnership for Economic Governance Reforms (PEGR) of March 2005 and the Philippines-Australia Human Resource Development Facility (PAHRDF) of August 2004. The Facilities are managed jointly by the Governments of Australia and Philippines in Manila. Goods and services funded under the Facilities would be procured and administered by the management team of each Facility under Australian government procedures. The activities supported include: (i) B.1 (a) Financial management and internal control systems; and building internal audit capacity; (ii) B.2.1 Organizational Effectiveness, including internal assessment and development of a reorganization plan for DPWH; (iii) B.2.2 Road Partnerships, including operational support for the new road sector citizen group, Road Watch; and (iv) B.2.4 Integrity Support, including independent procurement evaluation, and technical audits.

B. Institutional and Implementation Arrangements

27. ***The Department of Public Works and Highways (DPWH) will be responsible for executing the project.*** Government oversight is provided by DBM for budget execution, NEDA for development planning and authorization of the project scope and cost, and DOF for execution of the legal agreement. To ensure achievement of the Program goals and results, these agencies will meet at least annually with the Bank and Cofinancier to review program performance and progress on policy matters. A Project Steering Committee (PSC), comprising Office, Bureau and Division heads in DPWH, will be responsible for general administration, coordinating and monitoring implementation of the Project.

28. ***The project will be implemented by existing offices of DPWH under the management of a Program Management Office (PMO).*** The PMO will be responsible for procurement preparation, contract administration, and monitoring of implementation and results, through three component managers, as follows:

- Road Improvement component manager will manage the implementation of component A.1, comprising works and services;
- The Asset Preservation component manager will coordinate component A.2 through the Road Program Office and Bureau of Maintenance (BOM), and contracts will be implemented through the Regional and District Offices;
- The Institutional and Capacity Development component manager will manage and supervise the institutional capacity building component (B.1, B.2 and B.4), and will provide coordination for the services under the grant co-financing; and
- The Road Board Secretariat will manage the procurement and implementation of advisory services for the sector reform task (B.3).

29. ***Project financial management (FM) will be managed through the existing Controller and Financial Management Services (CFMS) and PMO Office.*** The main FM system (under CFMS) will be used to maintain the books of accounts, monitor the Designated Account (DA) and prepare the Project Financial Reports required by the Bank. The subsystem under the PMO does initial screening of transactions, prepares disbursement vouchers, SOEs and Withdrawal Applications for the DA, manages DA, and prepares other financial management reports. DPWH will appoint a qualified financial management head and a core of financial management staff with an adequate number of qualified accountants and supervisors for the Project FM. Internal controls and audits will be strengthened for both the Project and Department by an independent internal audit firm. The project will be subjected to a semi-annual internal audit review with corresponding reports submitted no later than a month after the review period. An Annual Audit Report for the project will be required to be submitted by the Commission on Audit, the government's auditor, no later than six months after the end of the fiscal year to the Bank.

30. ***For procurement, technical aspects will be conducted by the implementing offices mentioned above, and commercial aspects including evaluation and award will be conducted by the Procurement Office.*** This office will use national e-procurement procedures, which are approved by the World Bank, ADB and JIBC, and new RIMSS procurement systems. Award decisions will be made by the DPWH Bid and Award Committee (BAC). Under integrity

provisions, all project procurement will be subject to independent parallel evaluation by the Independent Procurement Evaluator (IPE), which will be made available for the BAC decisions and reported to the DPWH Management Committee, GPPB and the Bank. An independent project technical audit (ITA) will audit cost estimates and contract prices including amendments, implementation quality, and verification of outputs, on a hybrid targeted and sampling basis, with reporting similar to the IPE plus to the civil society road partnership group.

Sustainability

31. ***The government has confirmed its support for the NRIM program through its request to proceed with the second phase.*** This support is reinforced by the inclusion of all physical and institutional activity investments planned for NRIMP-2 in its medium-term development plan (MTPDP) for 2005-2010. DPWH conducted an internal evaluation of the two phases of internal business process reforms which have now been completed (RIMSS-1 and -2), and decided, in view of their limited capacity, to consolidate the developments to date through full implementation and mainstreaming of those processes and to minimize new process developments. Top management support for the new processes has varied during Phase 1 but middle management support has been strong and the development process has been highly participatory. The design of Phase 2 therefore focuses on strengthening the sustainability of the primary business processes.

32. ***DPWH support for the maintenance program reforms has been demonstrated.*** DPWH has scaled up the preventive maintenance program in 2008 from general allocations, and the Road Board intends to partner with the Bank in strengthening the main preventive maintenance program. DPWH also has voluntarily scaled up the long-term performance-based maintenance concept four-fold and gained support from the Road Board for providing the counterpart funding. These programs, together with the reforms of the general maintenance program and commercialization pilot, provide a practical incremental approach to achieving sector-wide reform in road management. An effective non-government multi-stakeholder partnership (Road Watch) has been established in 2007 which is expected to improve oversight and counter adverse influence.

33. ***At the sector level, support for the Road Fund concept has been steady but cautious.*** Revenues rose, but DBM controlled releases from the fund at low levels during the period of fiscal constraint 2003-2004. As there was little political or government commitment for major institutional change in the sector in the past four years, the proposed incremental approach to reform is considered more sustainable in the medium term. As the Board has not been fully effective in preventing political influence on the allocations and implementation of the maintenance program, its move to enter into a partnership agreement with the Bank for this Project to strengthen the management of the funds is a strong positive commitment.

Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Cultural Property (OPN 11.03 , being revised as OP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Indigenous Peoples (OP/BP 4.10)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP 7.60)*	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

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Web: <http://www.worldbank.org/infoshop>

Table 1: National Road Improvement Works under Proposed NRIMP Phase 2

Road Name (Section)	Description of Improvements
Surigao-Davao Coastal Road (Jct. Bacuag-Claver), Mindanao	Upgrading of 22.0 km gravel road to 2-lane concrete pavement, incl. re-blocking existing sections. (Re-bid portion of original contract)
Surigao-Davao Coastal Road (Manay-Mati), Mindanao	Rehabilitation of intermittent concrete road and upgrading 30 km gravel to concrete pavement. (31% remaining portion from NRIMP-1)
Magapit-Sta Ana (Magapit-Mission), Luzon	Secondary NR, upgrading of 29.2 km gravel road section to 2-lane concrete pavement, 6.7m width, gravel shoulders of 1.5m. km 553+700-km 596+200. EIRR 18.8%. Abbrev. RAP
Mindoro East Coast (Bongabon-Jct. Roxas PR), Mindoro	Rehabilitation and local realignment of 24.9 km low-standard concrete Provincial road to 2-lane concrete pavement 6.7 m gravel shoulders 1.5m, plus upgrading 13.6 km from gravel to concrete. Replacement of temporary and old permanent bridges. EIRR 20%. Full RAP.
Zarraga-Ivisan, Panay (bridges)	Replacement of three 2-lane bridges, and rehabilitation of 3 2-lane bridges, located within area of contract CP-LM-2.3. Abbr. RAP
Bacolod-Kabankalan (Bacolod-Bago), Negros	Widening 13.3 km existing 2-lane sections of asphalt and concrete pavements to 4 lanes with asphalt pavement & overlay; rehabilitation and widening 6 bridges. EIRR 36.2%. Abbrev. RAP.
Surigao-Davao Coastal Road (2.5A Surigao Prov Bdy-Lanuza, 2.5B Lanuza-Cortez), Mindanao	Rehabilitation of 35.0 km concrete road and upgrading of 35.1 km gravel road to 6.1 m concrete pavement in hilly sections of remaining 140 km link to Marihatag, including replacement of 10 bridges. EIRR 21.8%. Abbrev. RAP
Malalag-Malita-J.A.Santos (Malita-Don Marcelino), Mindanao	Upgrading of 28.4 km gravel and 3.5 km concrete section of arterial NR to 6.1 m wide concrete pavement, with reduced gradient standards. EIRR 24.9%. Abbrev. RAP.
Digos-Cotabato City, Mindanao	Rehabilitation of 81 km and replacement of 80.3 km of existing 2-lane concrete pavement (excl. asphalt overlay) on 6.7 m width 2.5 m gravel shoulders on EW Lateral Arterial NR. EIRR 45.8%. Abbrev. RAP.
Cotabato City- Marawi City (Parang-Malabang), Mindanao	Rehabilitation of existing 2-lane concrete pavement 6.1 m width, on inter-regional arterial NR, without improvement of sub-standard geometry. EIRR 15.2%. Full RAP.
Marcos Highway, Manila	Reconstruction/ rehabilitation 4.7 km 8-lane urban arterial highway, and flood risk mgt construction of 6 km box culvert drainage. EIRR 27.2%. No RAP. [Transferred from MMURTRIP]
Landslide Risk Mitigation Mindanao	Slope stabilization retaining walls and drainage treatments: Digos-Gen. Santos City Road, 39 sites; and Davao-Calinan-Buda Road, 4 sites. EIRR 31.7% and 44.9%. Abbr RAP

Table 2: Long-Term Maintenance and Preventive Maintenance Programs on National Roads under Proposed NRIMP-2

Road Name (Section)	Implementation Period
North Luzon (Manila North Road: Monumento-Agoo/Aringay Bdy)	2008 – 2012
South Luzon (Pagsanjan-Lucena, Tiaong-Lucena Jct, Pagbilao-Camarines Norte, Lucena Diversion)	2008 – 2012
Mindoro East Coast (Calapan-Socorro-Bongabon Jct.)	2008 - 2012
Panay Island (Pr. Bdy-Caticlan-Kalibo-Capiz bdy.)	2008 - 2012
Panay Island (Zarraga-Ivisan)	2008 - 2012
Negros Island (Escalante-Vallehermoso)	2009 - 2013
Mindanao Island (Davao City-Digos Road)	2008 - 2012
Mindanao Island (Tagum-Mati Road)	2008 - 2012