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## **Aide memoire**

### **Republic of Philippines**

### **Fisheries, Coastal Resources and Livelihood (FishCORAL) Project**

Implementation Support Mission Project Disbursements: 17 October – 7 November 2017

#### **A. Introduction**

1. The Fisheries, Coastal Resources and Livelihood (FishCORAL) Project was approved at IFAD's Executive Board in September 2015. The total project financing is US\$ 41.87 million, comprised of: an IFAD loan (No. 2000001258) of EUR27.31 million or approximately US\$ 29.42 million; an IFAD grant (No. 2000001275) of USD 0.69 million; government contributions of US\$6.121 million; and additional counterpart contributions by Local Government Units (LGUs) of US\$ 5.64 million. The Project became effective on the 26 October 2015, implementation started on 2 January 2016, and the project completion date is 31 December 2020. The Project has three investment components: i) Coastal Resource Management; ii) Livelihood Development; and iii) Project Management and Coordination.
2. As of 31 July 2017, the cumulative disbursement rate based on funds transferred to the Project was 14% for the IFAD loan and 35% for the IFAD grant. However, actual amount spent was 4% only of loan and 3% of the grant. In 2016, the Project achieved 21% of its Annual Work Plan and Budget (AWPB) target. As of 31 July 2017, project expenditure from the 2017 budget was 1%.
3. IFAD contracted Consultant – Financial Management Specialist, Edilberto Angeles for the period from 18 August and ending on 30 November 2017 for the CONVERGE and FishCORAL Projects with the objective of improving the disbursement performance and accelerate the delivery of the two IFAD-funded projects in the Philippines. The 1<sup>st</sup> part of the mission covering CONVERGE was conducted from 31 August and ended in a wrap-up meeting on 14 September 2017 at DAR HQ in Quezon City with USEC Sylvia Mallari as Chairperson with observations, recommendations and agreed actions of the mission discussed.
4. The second part of the mission covering FishCoral was undertaken from 17 October to 28 October 2017 for the review of the disbursement flow, documentation and meetings with the Project and BFAR officials and staff in the PSCO and the four RPMOs, followed by a wrap up meeting at BFAR HQ on 7 November 2017, chaired by Ms. Jessica Munoz, Project Coordinator, Project Support and Coordination Office (PSCO). Mr. Tawfiq El-Zabri of IFAD HQ also joined the discussions during the wrap-up meeting. The mission's objectives in particular included: i) assessment of the progress of project implementation; ii) identification implementation issues and bottlenecks; and iii) discussion and agreement on a set of actions to resolve identified constraints and improve project implementation.
5. In line with the TOR, the mission was conducted in BFAR HQ/Central Project Support and Coordination Office (PSCO) and the regional offices in Region 13 (Butuan), Region 5 (Naga), Region 8 (Tacloban) and ARMM (Cotabato). The mission also provided orientation training in all the regions with the presence of the PSCO Finance Officer and BFAR HQ Accountant for

compliance with IFAD's policies, approaches and procedures (including AWPB, APP, financial reports, SOEs, WAs).

6. The mission wish to express sincere appreciation to USEC Eduardo Gongona, Ms. Jessica Munoz, PSCO Finance Officer Raul de la Cruz, Finance Assistant Michelle Abulad and BFAR HQ Accounting staff Ma. LeonaraJagorin for accompanying the mission during the visits to the four Regions as well as the officials of the four BFAR Regional Offices/RPMOs led by Regional Directors, FishCoralFocal Officials and Project Managers for their kind support, assistance and cooperation, and hospitality extended to the mission;and to the PSCO Procurement Specialist Allan Urtal who was present in ARMM during the mission review and orientation training, and provided valuable inputs

## **B. Observations and Recommendations:**

7. The mission noteddelayed in the start of project implementation at around the beginning of 2017 only, due to late recruitment of staff andthe need of additional technical staff for improvement of implementation in the areas of the CRM, Livelihood, M&E and Procurement,delayed in contracting for the Participatory Resource Socioeconomic Assessment (PRSA) and formulation of CRM plans.The AWPBs of 2016 and 2017 were prepared and implemented relying on the yearly budgets in the Project Design Report and pressure to implement the Project immediately giving littlebearing on realistic projections and prudent management of resources.
8. There is an immediate need to for the Institution and Gender Specialist in the PSCO and Officers in the Regions to formulate work plans for improvementof the technical capacity of staff including the Community Facilitators (CF) through rigorous training and coaching. The Project has to augment the existing staff in areas of CRM, Livelihood Development, M&E, Procurement and community facilitation. The CFs recruited needs further capacity building/training specially in the assistance of formulating business plan for the POs and households and other aspects of the POs strengthening. The mission reiterated the recommendation of the last Supervision mission for the immediate recruitment of a Project Management Advisor (PMA) to be recruited at international market rates and a CRM Specialist in the PSCO. The PMA will support project governance, management, implementation, oversight of fiduciary and internal control processes, financial and resource management and provide guidance for livelihoods activities. The mission also recommended the immediate hiring of additional staffin the four regions as assessed by each RPMO such as the recruitment of CRM and Livelihood Development Officers, M&E and Officers, Procurement Officers and CFs and for Region VIII, one Finance Assistant.
9. The PIM provides that the RPMO with the support of the BFAR Regional Offices' Finance Services will be responsible for consolidating financial the reports from the region (including those from the LGUs and POs), and including the Statements of Expenditure (SOE) for submission to and consolidation by the PSCO. The financial reports submitted to the PSCO from the RPMOs are to be supported by relevant documentation (contract, proof of payment, bank statements, etc.) in line with the SOE ceilings and IFAD disbursement procedures. This will enable BFAR Central Office to submit to IFAD completeWithdrawal Applications and avoid disbursement delays. The RPMO will attach the Bank Reconciliation and Bank Statement to each SOE. The PSCO in coordination with the BFAR Central Office Finance Services will prepare and submit to IFAD the Withdrawal Applications, Reconciliation of Designated and Project Bank Accounts and SOEs.
10. Since the release of the IFAD initial advance under WA no. 1 equivalent USD4.3 million in June 2016, it was only in May 2017 that the Project submitted to IFAD WA no. 2 amounting EUR 63 thousand only (USD67 thousand) and another WA no. 3 for USD724,538 was initially submitted in October 2017 but was revised and resubmitted to IFAD on 8 November 2017 (the mission was provided with a copy by email after the wrap up meeting). The US\$ 240 thousand was advanced from the grant allocation in October 2016. The PSCO has downloaded funds to

RPMOs totalling US\$ 2.87 million (PHP133.90 million) by 31 July 2017. In Region 13, total receipts up to September 2017 amount to PHP30 million of which PHP10 million has been spent; In Region V, PHP25 million has been released, amount disbursed of PHP20 million includes advances to the LGUs; In Region VIII Amounts released were PHP28 million LP; Grant 2.15 m; GOP PHP4 M; Amounts spent PHP25.7 million LP; PHP4.1 million GPH; Grant PHP652,000 and in ARMM Receipt – PHP43 million Loan; disbursed PHP15.5 million, balance PHP27.85 million

11. The mission noted that the preparation and consolidation of SOEs is done by the PCSO from the disbursement registries provided and updated monthly by the RPMOs. This process which is not in line with the process as provided in the PIM caused significant delays, inaccuracies in the SOEs in terms of codes and amounts and unreliability of eligible expenditure in each RPMO SOE without the certification as signed by the Regional Director and Accountant. The mission recommends that the SOE is prepared by each RPMO so that correct eligible expenditure amount and code are provided and also properly certified as eligible expenditures by each RPMO so that consolidated accurate WA and SOEs are timely submitted to IFAD by BFAR HQ/PSCO. Financial Accountability Report 4 (Disbursement)- FAR and Sources and Application of Funds Report (SAFR) should be likewise be updated and done monthly and copy provided to the PSCO and Commission on Audit – COA (together with the SOEs).
12. In ARMM, E-NGAS has yet to be installed in the RPMO. The RPMO will also do the monthly update of actual disbursements of each activity item in the AWPB and prepares monthly SOE as signed by the Regional Director and Accountant (with initials of Project Manager and Finance Officer), bank reconciliation, SAFR for submission to PSCO and the COA.
13. Upon receipt of funds in the Designated Account from IFAD, the Bureau of Treasury (BTr) provides BFAR/PSCO through DBM a Notice of Funds Availability while DBM provides to BFAR Notice of Cash Allocation. As requested by BFAR, funds converted to Philippine Peso will be transferred by the BTr from the Designated Accounts to two Project Bank Accounts (Account A for the IFAD Loan and Account B for the IFAD Grant) maintained by the PSCO. The PSCO will transfer these funds to the Project Accounts, also Account A for the IFAD Loan and Account B for the IFAD Grant, (including the Government counterpart funds), to the BFAR RPMOs as advances and subsequently as replenishments against financial reports (SOEs) from each RPMO for the expenditure incurred for the Project by the regional and provincial offices, LGUs and POs. The mission noted that the Project only received a confirmation advice from Bureau of Treasury of the receipt USD67,000 from WA no. 2 in October 2017. The mission advised that BFAR should follow up the advice from the BTr especially on the receipt of the funds for WA no. 3 of USD724,538.
14. As already reported in the last Supervision mission, the Project will deliver at the most 60% of its 2017 AWPB targets in Regions V, VIII and XIII, and some of the 2017 targets in ARMM. The mission advised that for 2018, all the Regions should review very well priority activities that are achievable within the year and include realistic targets and avail the services of institutions or individuals on a per activity/output basis to expedite delivery and implementation of activities. The planning workshop of the Project is on-going from 7 to 10 November 2017, to finalize draft of 2018 AWPB considering actual expenditure as of 30 September 2017 and projected for the last quarter of 2017.
15. The mission also noted that the required clearance/authority from the Department of Budget and Management for vehicles and motorcycles was obtained only in April 2017 and for patrol motorboats (after revision of specifications from separate engine and hull to motorboat) only in August 2017. This caused also the delay in proceeding with the procurement of motorboats.
16. Delayed in procurement process of works and goods due to a) lack of capacity of Project staff to complete properly the specifications procurement requisition; b) misunderstood submission of all bidding documents with a value equivalent to USD20,000 and more to BFAR HQ/PSCO,

then to IFAD Country Office and then to IFAD HQ for prior NOL (whereas the Letter to the Borrower provides that IFAD prior review NOL is required only for the first procurement under NCB in each district, regional and national offices for the year of procurement for each item (one each for) works, goods and services and thereafter any procurement with a value of more than USD200,000; c)lack of interested contractors or suppliers to erratic specifications in the bids causing failed biddings and low Approved Budget Allocation (ABC) on the bid; and d) processing by the BAC of the Region of all Project procurements together with procurement for the Region's operations and other projects. There is no monitoring also of actual procurement process against procurement plan.

17. With the recommendation to train staff and complete the requirements of staff in PSCO and the four regions, the Project should be able to implement the project effectively and efficiency, comply with timely submission necessary financial reports by Region and Consolidated (including certified signed SOEs) and progress reports (with comparison of Budget and Actual expenditure and physical progress and analysis of variances and initiate corrective measures) and expedite procurement and disbursement process and facilitate contracting and monitoring. The mission also advised to follow the NOL prior notice requirements of IFAD under NCB only for the first procurement of each item of works, goods and services and thereafter for procurement with a value of more than USD200,000. Hence, bidding documents for procurement under NCB with a value of USD20,000 up to USD200,000 need not be submitted to IFAD for NOL. The PIM particularly the Project Procurement Guidelines will also be revised to reflect the provisions to the Letter to the Borrower on prior NOL from IFAD.
18. The PIM provides that three BFAR RPMOs (Regions V, VIII and XIII) will download funds to the LGUs in accordance with the MOAs when LGUs can comply with the criteria defined in the Administrative Order No. 05, series of 2013 of the DA for implementing the Bottom-Up Budgeting Projects, viz:
  - Technical capacity exists to implement the project with knowledgeable staff, the equipment is functional and there is a good project implementation track record;
  - Recipient of the DILG Seal of Good Housekeeping (FY 2011 or FY 2012);
  - Completed assessment of the Public Financial Management System as required by the DBM; and
  - No un-liquidated cash advances from DA.
19. The LGUs' funds will be replenished against submission of the necessary periodic financial reports supported by relevant documentation (contract, proof of payment, bank statements, etc.) in line with the SOE ceilings and IFAD disbursement procedures.
20. In Region V, MOAs have been entered with all the 24 municipalities and cities for procurement of equipment, works and implementation of the livelihood development business plan with the POs with a total value of procurement of about PHP70 million (USD1.4 million). The mission advised for Region V to have on file the necessary documentary requirements to support adherence to the criteria for downloading of funds to LGU. The MOA provides that funds will have to be downloaded to the municipalities and cities which will be lodged as Advances and liquidate upon submission of monthly SOEs. With the limited imprest level of Designated Account of around PHP240 million (USD4.3 million), and considering the experience of delayed liquidation of advances from the LGUs, a major portion of the imprest account will be tied for a longer period of time. The mission advised to release funds by tranches with milestones and supported with planned activities. Considering the anticipated increase in disbursements for 2018 and beyond and the amounts of funds tied to advances to LGUs, the mission advised the PSCO to request increase in the imprest fund level to fully cover also the downloading of funds as advances to the RPMOs, LGUs, POs and turn around liquidations by way of reported expenditures (SOEs).

21. In ARMM, the devolution of functions differs from that in the rest of the country. For Project funding and implementation, BFAR-ARMM will execute a MOA with BFAR Central Office. Contracts, purchase orders and disbursements will be approved by BFAR-ARMM in accordance with signing authority limits of the BFAR-ARMM Director, the AWPB, APP and the MOA with BFAR Central Office. BFAR-ARMM Provincial and Municipal Fisheries Coordinators will facilitate and monitor implementation of contracts, MOAs with the LGUs and sub-project agreements with POs. Disbursements and contracting will be handled by the BFAR-ARMM. Funds will be downloaded by BFAR-ARMM to the Trust Funds (Bank Accounts opened for the Project by the POs) or by way of "Advance" in accordance with their sub-project agreements or directly to contractors and suppliers.
22. For 2017, the MoA between BFAR has again been signed late (August 2017) and thus fund transmission in tranches to ARMM is expected in the last quarter of 2017. The MoA itself is not specific in making reference to a particular AWPB year, but just states that that the MOA applies for one year from the receipt of funds by the RPMO. The mission reiterated the agreed action in the last Supervision mission for the signing of a multi-year MOA up until completion date of the project.
23. Bay Management Councils have been established in Region III – 3 BMCs, Region VIII-2 BMCs with 5 as targets, Region XIII – 1 BMC of two targets and in ARMM – 2 BMCs established awaiting the execution of MOA. The PIM provides that the BMCs will: (i) coordinate the implementation of Project activities on a bay-wide scale; and (ii) ensure that municipal and city Project activities are consistent with support a unified bay approach. The municipalities and cities will finance the operations of the councils. The execution of MOAs is important to finalize relevant project activities with the municipalities and cities and incorporate a realistic and achievable plan in the AWPB.
24. The PRSA in RPMO Region XIII is being implemented while in Region 5 and ARMM, the procurement bid documents have been submitted to IFAD for NOL. The PSCO is also waiting for the IFAD NOL of the TOR. For Region VIII, the negotiation for services of a state agency for the PRSA is underway. The PRSA is critical need for rapid completion of the activity given its role in providing baseline data and informing project activities. The mission noted that with the NOL provided to the TOR by IFAD, the procurements are underway and will be completed within the year.
25. In Regions, V, VIII and XIII, where funds are downloaded by way of fund transfer and/or cheque to the LGUs and POs in accordance with the MOA, the concerned LGUs and POs will be required to submit monthly SOEs for consolidation by the RPMO and liquidation of advances. The RPMO has to provide the necessary training for the preparation of SOEs. The MOA will contain conditions for the funds released including the documentation and financial reports required to liquidate the advance.
26. The mission noted difficulty in tracing the flow of documents for review and signature in the absence of the Document Tracking System or a Log Book to record in and out of documents and advise to establish in each of the offices at PSCO and RPMOs.
27. In Region XIII, there are mounting outstanding payables with pending processing of vouchers in view of lack of documentation and required signatures to some supporting documents. The mission advised to immediately complete documentation and required signatures so payments could be processed and expenditures included in the SOEs.

### C. Summary of Recommendations and Agreed Actions

Agreed action	Responsibility	Agreed date
1. Immediate recruitment of Project Management Advisor and CRM Specialist for the PSCO	PSCO	31 December 2017
2. Immediate hiring of additional staff in the four regions as assessed by	RPMOs	31 December

each RPMO such as the recruitment of CRM and Livelihood Development Officers, M&E Officers, Procurement Officers and CFs and for Region VIII, one Finance Assistant.		2017
3. RPMO prepares SOE so that correct eligible expenditure amount and code are provided and also properly certified signed and monthly submitted to PSCO including the Financial Accountability Report 4 (Disbursement)- FAR and Sources and Application of Funds Report (SAFR), bank reconciliation and statements, to be provided as well to COA, for timely consolidation of SOEs and submission of WA to IFAD.	PSCO/RPMOs	Starting end of November 2017 and onwards, monthly
4. Install and implement E-NGAS and prepare monthly SOE, SAFR in RPMO at ARMM,	PSCO/RPMO ARMM	November 2017 for SOE and SFAR; and February 2018 for E-NGAS
4. Submit to IFAD a realistic 2018 AWPB and APP, including the 4 <sup>th</sup> Quarter disbursement plan with reported expenditure to date as of 30 September 2017	PSCO/RPMOs	30 November 2017
5. Submit to IFAD for NOL of procurement under NCB for the first procurement of each item for works, goods and services for the year and thereafter for procurement with a value of more than USD200,000. As such procurement under NCB with a value of USD200,000 and less does not require IFAD NOL and even the bidding documents are not required for submission, except for the first procurement of each item of works, goods and services. The Project procurement guidelines to be revised accordingly	PSCO/RPMOs	From 1 November and onwards, ongoing
6. Request for increase of imprest fund level of Designated account to at least USD6.0 million (to be supported with 2018 realistic budget plan and cash flow projections, and 2019 and 2020 indicative budget)	PSCO/IFAD	November 2017
7. Sign MOA with BFAR ARMM reflecting multi-year budget	PSCO/RPMO ARMM	December 2017
8. Establish Documentary Tracking System or Log Book to record in and out of the documents in all offices PSCO and RPMOs	PSCO/RPMOs	November 2017