

Draft Minutes of the 26 March 2007
Special Joint ICC-Cabinet Committee and Technical Board Meeting

Minutes of the Special Joint Investment Coordination Committee
Cabinet Committee and Technical Board Meeting

26 March 2007 - 1:30 p.m.

DOF Board Room, 6/F DOF Building,
BSP Complex, Roxas Boulevard, Manila

Attendance

Members Present

1. Secretary Margarito B. Teves
Department of Finance
2. Secretary Romulo L. Neri
National Economic & Development Authority
3. Secretary Arthur C. Yap
Department of Agriculture
(Represented by Undersecretary Bernie G. Fondevilla)
4. Secretary Peter B. Favila
Department of Trade and Industry
5. Secretary Raphael P.M. Lotilla
Department of Energy
(Represented by Mr. Norman Vincent T. Martinez)
6. Dr. Vicente B. Valdepenas, Jr.
Bangko Sentral ng Pilipinas
7. Undersecretary Elmer C. Hernandez
Build-Operate-Transfer Center
(Represented by DED Corazon M. Ravara)
8. Undersecretary Manuel D. Gerochi
Department of Environment and Natural Resources

Members Not Present

Secretary Rolando G. Andaya Jr.
Department of Budget and Management

Executive Secretary Eduardo R. Ermita
Office of the President

Others Officials

9. Undersecretary Roberto B. Tan
10. Undersecretary Jeremias N. Paul
11. ADG Rolando G. Tungpalan

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DOF-CAG
NEDA *[Signature]*

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Special Joint ICC-Cabinet Committee and Technical Board Meeting**

12. Director Ruben S. Remoso	NEDA
13. Executive Director Raul V. Angeles	DTI
14. Mr. Edward P. Gosioco	DTI
15. Ms. Zenaida Villegas	DA
16. Ms. Ma. Purissima C. Villanueva	BSP
17. Ms. Marita Iris B. Laqui	BSP
18. Ms. Beryl Ang	DOF
19. Assistant Secretary Elmer Soneja	DOTC
20. Atty. Lorenzo G. Formoso III	DOTC
21. Mr. Artem Anda	DOTC
22. Ms. Norberto A. Conti	DOTC
23. Mr. Jose S. Tanqueco, Jr.	DOTC
24. Mr. Santiago Testor	DOTC
25. Mr. Ric Diaz	NIA
26. Assist. Admin. Antonio A. Galvez	NIA
27. Mr. Modesto G. Membreve	NIA
28. Ms. Julieta V. Dumandan	DENR
29. Mr. Alex C. Pascua	

ICC Secretariat

30. Director Jonathan L. Uy
31. Director Roderick M. Planta
32. AD Justina A. Adina
33. Ms. Marlene R. Vinluan
34. Ms. Jennifer A. Petilla
35. Mr. Joseph Norley Y. Capistrano
36. Ms. Marites S. Salazar
37. Ms. Lilian V. Lajom
38. Ms. Gladys T. Santos
39. Mr. Kenneth V. Tanate
40. Mr. Augusto S. Pagkalinawan
41. Mr. Ronaldo F. Corpus
42. Ms. Mary Ash Day O. Malimit
43. Ms. Violeta S. Corpus
44. Mr. Arsenio V. Visario

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I. Call to Order

As Chair, Secretary Teves called the meeting to order at 1:50 p.m.

II. Confirmation of the Agenda

The ICC adopted the following agenda:

A. ODA Projects and Request for Time/Loan Validity Extension, Change in Scope and/or Cost Adjustment

1. National Broadband Project/DOTC

2. Proposed Change in Scope, Increase in Cost and Two-Year Extension of the Implementation Period of the Bohol Irrigation Project, Stage II/NIA

B. Other Matter

Metropolitan Cebu Water District - Carmen Bulk Water Supply Project (Unsolicited BOT)

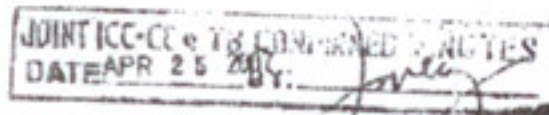
III. ODA Projects and Request for Time/Loan Validity Extension, Change in Scope and/or Cost Adjustment

A. National Broadband Project

Proponent: Department of Transportation and Communications (DOTC)

Background

1. The National Broadband Network (NBN) project was conceptualized in view of the Cyber Corridor initiative highlighted by the President during her July 2006 State of the Nation Address, which will serve as the comprehensive solution for fast-tracking national ICT development as envisioned in the Cyber Corridor program, particularly for the provision of ICT and digital infrastructure to address the digital divide.
2. The NBN project was configured based on the results of study conducted by the Bids and Awards Committee (BAC) for ICT that was commissioned by DOTC, in response to the President's instruction during the 13 February 2007 Joint NEDA-ICC and Cabinet meeting for DOTC to sort out possible overlaps of the proposed Cyber Education Project (CEP) of the Department of Education (DepED) with existing and proposed projects of similar nature. To wit, BAC-ICT (*per joint DOTC/CICT letter to NEDA dated 1 March 2007 conveying BAC-ICT Resolution*), primarily recommended the establishment of a single national broadband network subject to the following conditions:
 - a. The project should satisfy the network requirements of government agencies for VoIP, e-Government and e-Education;
 - b. The system should be designed implemented considering the demands in areas not covered by existing services. Corollary, the system shall take into account and utilize and integrate, if possible, the existing private and public telecommunications infrastructure; and
 - c. The funding shall fully cover all requirements of the project, including those for the initial operation and maintenance.
3. With the provision of a single platform broadband network, one of the substantial impacts of the NBN proposal is that the subsequent government ICT-based projects can now be easily implemented using the NBN infrastructure. *for*



4. **Description.** The proposed project will build an Internet Protocol (IP)-based national broadband network (NBN), as a single platform infrastructure network for the implementation of ICT services such as data, voice, video/video conferencing, and Internet. This will entail upgrading of the existing government telecommunications facilities of TELOF into an IP-based network to provide more public access points and extend ICT services particularly to unserved/underserved areas.

5. **Components.** The proposed project has two (2) main components namely the: (a) the NBN Infrastructure; and (b) Network Application Systems/Services (e-Government services), as follows:

a. NBN Infrastructure. This will involve the design, site preparation, installation, commissioning for all the network technical subsystems of the NBN architecture. Training on the management, testing, operation and maintenance of the system will also be provided as well as an 18-month management assistance and technical support services.

b. Network Application Systems/Services. Based on the NBN infrastructure, the project will primarily provide Voice over Internet Protocol (VoIP) service to all government offices, and Video Conferencing system to provide real time inter-office conferencing (for limited locations only). As an option, other value-added services may be offered such as CERS for disaster alerts; and e-Government System for integrated government internet portal and technology platform.

6. **Cost and Financing.** The total project cost is estimated at PhP19,396.32 million of which PhP18,999.32 million (US\$379.99 million) and PhP397 million represent the foreign and local components, respectively. The breakdown of project cost by major activity/component is as follows: /

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Table 1: Project Cost (In Million Pesos)

Activity/Component	Year 1		Year 2		Year 3		Year 4		Total
	Loan	GOP	Loan	GOP	Loan	GOP	Loan	GOP	
1. Machineries/Equipment	2,988.93		2,878.60		2,878.60		1,919.06		10,665.19
2. Services	2,014.63		2,026.10		1,873.99		1,350.73		7,265.45
-Site Preparation and Civil Works (Backbone and Base Stations)	768.69		1,153.03		1,153.03		768.69		3,843.45
-System Implementation and Engineering	456.33		456.33		304.22		304.22		1,521.11
-Site Engineering for School Sites	277.82		416.73		416.73		277.82		1,389.11
-Services for IDC Construction and Integration	414.36								414.36
-Training	97.43								97.43
3. Managed Service and Link Charges			421.23		549.97		97.47		1,068.68
4. Project Management Cost		99.25		99.25		99.25		99.25	397.00
	5,003.56	99.25	5,325.93	99.25	5,302.56	99.25	3,367.27	99.25	18,963.32
Total	5,102.81		5,425.18		5,401.81		3,466.52		

*Machineries/Equipment costs are inclusive of CIF Manila, without taxes

7. The foreign component amounting to PhP18,999.32 million (US\$379.99 million) is proposed to be financed through an Official Development Assistance (ODA) Loan from China (i.e., Concession Buyer's Credit of Chinese Government with a 10-year term including 3-year grace period and 7-year repayment period). The loan interest is assumed to be at a maximum of 4% p.a., and the principal amount of the loan will be repaid in 14 equal and consecutive semi-annual installments, the first one falling due 3.5 years after the first drawdown under the loan agreement.
8. The local component amounting to PhP397 million refers to the costs of the management team from DOTC that will be dedicated to the NBN project (at PhP99.25 million per year for the 4-year implementation period to cover the personnel, office expenses, travel expenses, among others).
9. Within the implementation period and infrastructure buildup, there will be an 18-month Technology Transfer Period, during which there will be a Managed Service contract costing PhP743.78 million (US\$14.88 million) covering the operations and management of the whole network. Link charges amounting to PhP324.9 million is for the interim solution of using local service providers, the financing of which will also be sourced through the same ODA Loan. The total operations and maintenance (O&M) costs is estimated at PhP11,511.62 million throughout the 15-year life of the project.
10. **Institutional Arrangements.** The proponent/implementing agency of the proposed project is DOTC through TELOF as the telecommunications operating arm of the government for providing such services in several localities in the

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country, particularly in areas where no such private sector services are available.
The NBN will be operated and maintained by DOTC-TELOF.

11. In order to meet the critical aspects of the build-out plan of the project, a Project Management Office (PMO) will be formed by DOTC (from qualified TELOF personnel) who will be dedicated to the NBN and who will manage and

coordinate all aspects of the construction phase together with the contractors
Project Management Team.

12. **Implementation Schedule.** The proposed project is estimated to be implemented over a period of four (4) years, with an estimated project life of 15 years. The infrastructure built for the NBN project has a sustainable lifespan of at least 15 years.

13. The first 18 months of the project will be devoted to the infrastructure buildup and development of major NBN subsystems. Meanwhile that the transmission infrastructure and IP backbone is being setup, and as early as the pre-operational phase of the project, several base stations will be deployed in areas not yet covered by the backbone so as to serve the urgent need for broadband network access. In this case, interconnection with the local commercial network (private operator) will be necessary, which can be implemented through Virtual Private Network (VPN) technologies.

14. **Economic Analysis.** The economic cost estimates of the project include the (a) investment costs and (b) operating and maintenance costs. Shadow price factors of 1.2 and 0.6 were applied on all foreign exchange and unskilled labor costs, respectively.

15. The proponent identified the following quantifiable direct economic benefits on various cost savings and/or avoided costs components to government accruing from the services and network applications to be provided by the broadband network:

➤ *Benefits to Government Offices:*

- a. *Savings from retirement of old government communications network.*
- b. *Savings on communication expenses due to VoIP.*
- c. *Savings on Internet connection*
- d. *Savings on centralized IDC.*

➤ *Benefits to Education:*

- e. *Savings from School Internet connection.*

16. Considering the abovementioned adjustments and assumptions, the results of the NPV and EIRR indicate that the project is economically viable. The NPV was calculated to be PhP4,413.15 million while the EIRR is 20.15% against a 15% hurdle rate. *W*

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17. In addition, notwithstanding the socio-economic benefits of ICT in other various sectors other foreseen unquantifiable economic benefit that may be derived from the project includes potential savings from "paperless" transactions particularly for all government offices connected to the broadband network. However, cost estimates from this could not be computed since transactions/procedures vary for all offices.

18. More importantly, using a single broadband network, subsequent government ICT-based projects can be easily implemented and can ride on the NBN. It will do away with duplicating construction and operating cost for each and every ICT projects if projects continue to build or negotiate leases on their own.

19. Financial analysis of the project is not included since the subject project is not supposed to be revenue-generating. However, since the economic benefits are based on government savings, the foregoing economic analysis may be applicable as a proxy financial indicator.

Concerns/Issues

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On the Possible Overlap of the NBN Project with the Cyber Education Project (CEP) of DepED.

20. The CEP was previously approved by the NEDA-ICC last 19 March 2007. The main objective of the CEP is to accelerate the provision of equitable access to quality education through the use of Information and Communication Technology (ICT), which will involve the use of satellite-based interactive facilities intended for real-time broadcasting of instructions/lectures.

21. The intended primary beneficiaries of the CEP will be the public elementary and secondary schools to improve delivery of basic education curriculum, covering 26,618 public schools nationwide that will be provided with satellite-based interactive facilities. Meanwhile the NBN project proposes to cover 23,549 schools nationwide through its infrastructure network.

22. While the NBN project will also have the public schools as beneficiaries, it will be more on the provision of infrastructure for connectivity. On the other hand, the CEP has an infrastructure component at PhP18,767.66 million of which approximately 90% (PhP16,890.89) will be for the provision of school equipment/facilities (i.e., computers, TV monitors, LAN connections, among others). Hence, only 10% (1,876.77) is accounted for transmission via the VSAT solution.

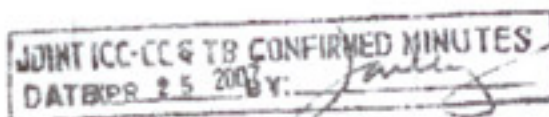
23. The CEP, as approved by NEDA-ICC included in its proposal 4,282 elementary and high schools in the 1st and 2nd class cities that are proposed to be served using the NBN project as backbone network.

24. Assuming the NBN project will only cover the above allocated 4,282 schools (per CEP proposal), the project will no longer be economically viable with a computed economic NPV of negative PhP1,581.45 million and an EIRR of 13.01%. *hw*

- 313 25. However, there was an earlier indication from the Chinese Government that it will
314 not fund the components of the NBN project which cater to e-education
315 component. In this regard, instead of catering to schools, the NBN may provide
316 coverage to barangay offices. With the assumption of barangay coverage for NBN
317 project of 23,549 barangays (about 56% of 41,982 total barangays nationwide)
318 and 2,000 NGA offices, the economic NPV of the project is computed at
319 PhP652.13 and an EIRR of 15.8%. With this, the option to provide connectivity to
320 local government offices such as barangay offices may be explored, so as to
321 optimize utilization of the NBN infrastructure.
- 322 26. Considering the nature and scope of the project, close coordination and clear-cut
323 arrangement among the concerned agencies must be ensured. A Memorandum of
324 Understanding (MOU) among these agencies may need to be drafted to define the
325 relationship and responsibilities of the parties in the utilization of the network.
- 326 27. DOTC has yet to secure ECC from DENR for the project.
- 327 28. DOTC has yet to submit the DBM-certificate of the approved budget strategy for
328 the project.
- 329 29. DOTC must ensure dedicated allotment of the proposed 3.5GHz band for the
330 NBN network.
- 331 30. **ICC Secretariat Recommendation.** In line with the government's thrust of
332 promoting digital infrastructure development for provision of ICT services across
333 the country to address the digital divide, the Secretariat favorably recommends the
334 project subject to the resolution of the above issues, especially on the replacement
335 of school beneficiaries with barangay offices.

341 Discussion with the Secretariat:

342 Terms and conditions



- 343 31. Secretary Neri noted that the terms and conditions for the proposed loan for the
344 project are not as concessional as those for other Chinese-assisted projects such as
345 the Northrail and the CEP projects. With an annual interest rate of 4% and a
346 repayment period of 10 years, inclusive of 3 years grace period, Secretary Neri
347 added that the terms are actually almost commercial.

348 On project costs

- 349 32. Secretary Neri noted that among the alternatives being presented by the
350 Secretariat were one in which the schools not covered by the CEP were
351 considered, and one which excluded said schools. He inquired on whether school
352 site engineering cost amounting to almost PhP1.4 million will be dropped in the
353 event that the schools are excluded from the project. He also sought clarification
354 if the expense would be the same if the barangay offices, instead of the schools,
355 are considered as project beneficiaries. The Secretariat confirmed that the site
356 engineering cost will be dropped if the schools are excluded and that the cost
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would be the same if the barangays offices, instead of the schools, are considered as project beneficiaries.

On economic benefits

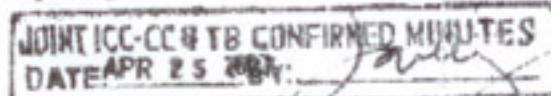
33. Secretary Neri inquired on how savings will be generated as a result of the retirement of old equipment. The Secretariat clarified that savings will be generated as the proponent will no longer have to buy expensive and non-readily available spare parts for the old analog system, as well as eliminate the cost for regular site inspection/network trouble-shooting and the required manpower due to the computerized/automatic network management feature, thereby resulting in savings in terms of operations and maintenance costs. The Secretariat added that the old equipment will not be sold and in fact, some of them will still be used.

34. Secretary Neri sought clarification on how VoIP savings translate into benefits for the government. The Secretariat replied that with the project, the government will reduce its fixed line subscription by as much as 50% and its fax and mobile phone costs by about 80%.

35. With regard to Secretary Neri's inquiry on how the benefits resulting from having a centralized IDC are quantified, the Secretariat explained that the IDC can host all government applications software and databases. Thus, eliminating individual data centers and corresponding O&M cost.

36. Secretary Neri also inquired on how the savings in education was quantified, as well as on the assumptions used in estimating such savings. He noted that savings in internet connection cannot be considered as a benefit given that the government does not have much internet connection. The Secretariat confirmed that it basically considered savings in internet connection in its analysis since without the project, the government is expected to eventually provide connections to all schools using private services, thus requiring internet services subscription.

Government involvement



37. Undersecretary Paul inquired on the basic rationale for government intervention regarding the provision of connection services to the extent of creating its own connection infrastructure, given the presence of private sector players in said industry, as well as the advent of text messaging and other technologies.

38. The Secretariat clarified that the project was conceptualized in view of the President's Cyber Corridor initiative, which highlighted the emerging need for a single platform for multiple users to address the digital divide between urban and rural areas. The Secretariat further explained that private commercial operators tend to invest only in financially viable (i.e. urban) areas, thereby leaving the rural areas behind. It added that the current DOTC proposal is envisioned to ensure savings from the government expenditures in terms of VoIP connections and internet service, as well as, operation and maintenance of the Department's old equipment. The technical solution being proposed is a WIMAX system which will build upon the existing TELOF facilities, to be upgraded and overlaid with

IP-based digital lines. A total of 145 microwave relay stations will be installed, including regional cluster base stations.

39. Secretary Neri commented that the presentation of benefits focused more on the benefits of the government from the project rather than on the advantages of having a single platform which can cater to the needs of multiple users.

Overlap between the NBN and CEP

40. Secretary Teves inquired on how the NBN project compares with the CEP in terms of the level of technology to be applied.

41. MBM Valdepeñas added that the overlap between the two projects, if any, may perhaps be resolved and avoided.

42. Secretary Neri raised his concern on the proposed Chinese offer to provide 4G services given the information from the Chinese Embassy that China itself is still in the process of developing its 3G technology. He also reiterated his earlier comment with regards to the concessionality of the terms of the project financing.

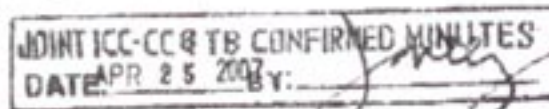
Discussion with the Proponent

Issues raised by the Secretariat.

43. The Secretariat conveyed to DOTC the summary of the concerns raised by the Committee on the NBN project specifically with regards to (1) the definition, quantification and computation of the project benefits, (2) the rationale of government venturing into the project despite private sector provision of similar services, (3) the current proposal's advantages over the CEP, (4) whether the Chinese are capable of providing 4G technology given that China is still in the process of developing its 3G technology and (5) the concessionality of the financing terms for the project.

44. Secretary Neri also observed that the justification for the current project is the same as the one used in pushing thru with past government projects such as the *Telepono sa Barangay*.

Clarification on technology



45. Assistant Secretary Formoso clarified that the 3G and 4G technologies refer to mobile networks while the current proposal involves the installation of a fixed network. Hence, it is more appropriate to refer to the proposal as involving the next generation network (NGN) technology.

46. In response to the issue on the China's non-subscription to 3G technology, Assistant Secretary Formoso added that China's policy decision not to be an early adopter of said system as it prefers to wait for the technology to mature. This notwithstanding, ZTE is one of the primary installers of 3G systems all over the world. It also supplies some of the NGN requirements of Philippine carriers such

460 a. Digital and Bayantel. Assistant Secretary Formoso also informed that China,
461 for its part, has fully adopted NGN.

462 *Concessionality*

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465 47. On the issue of the concessionality of the proposed project financing as compared
466 with the Northrail and Southrail projects, Assistant Secretary Formoso explained
467 that the proposed terms maybe subject to future negotiation with the Chinese
468 Government.

469 *Consistency with government telecommunications policy*

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472 48. In response to MBM Valdepeñas' inquiry on whether the project is consistent with
473 the government's telecommunications policy as articulated in the MTPDP,
474 Assistant Secretary Formoso explained that RA 7925 includes a provision for a
475 national broadband network for government use.

476 *DOTC implementation capability*

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479 49. Regarding concerns on DOTC's capability to implement projects, Assistant
480 Secretary Formoso clarified that almost all of the communications projects
481 implemented by the Department have been implemented in accordance with
482 schedule, except for a few which were affected by contract disputes. On the other
483 hand, these facilities are no longer being used to their maximum level since they
484 are based on an old technology and also with the advent of cellular mobile
485 technology.

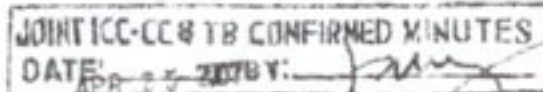
486 *CEP-NBN overlap*

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489 50. Assistant Secretary Formoso confirmed that there is an overlap between the NBN
490 and the CEP projects, specifically with regards to the communication/transmission
491 aspect, that the Department is trying to resolve. He added that the NBN is
492 versatile enough to handle VoIP, e-governance and e-education applications, as
493 well as election-related reporting.
- 494
495 51. On Secretary Teves' inquiry on possible underutilization of technology, Assistant
496 Secretary Formoso confirmed that there would definitely be some underutilization
497 on both projects, even as he reiterated his suggestion that a versatile network
498 capable of responding to all types of requirements be used as it is simpler to
499 maintain a single network.
- 500
501 52. Assistant Secretary Formoso also explained that the two projects utilize different
502 types of technologies. Satellite technology, which is proposed to be applied to the
503 Cyber Education Project, has not been widely used as a main transmission mode
504 given cost and related considerations. NBN, for its part, is configured for multi-
505 purpose applications while the Cyber Education Project is being configured to be
506 a single purpose network. *W*



Savings

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512 53. As for the project benefits, Assistant Secretary Formoso said that savings will be
513 realized from having VoIP given the government's PhP3 billion
514 telecommunications expenses in the last two years. Such savings, however, will
515 exclude those for mobile communications as the NBN does not have a mobile
516 component.
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518 54. In addition, Assistant Secretary Formoso explained that calls made within the
519 network would be toll-free while calls outside the network would be subject to
520 interconnection charges. He added that the VoIP savings have already been
521 discounted on the assumption that interconnection charges will have to be paid.
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523 55. Secretary Neri raised that such may have to be clarified with the President as it
524 may not be consistent with her understanding of the project.
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526 56. On Undersecretary Paul's inquiry on how the savings as a result of the retirement
527 of old equipment were derived, Assistant Secretary Formoso explained that the
528 increase in maintenance costs is a result of the higher cost of production of spare
529 parts, among others.



Benefits to education

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533 57. Regarding MBM Valdepeñas' inquiry on why benefits to education were still
534 considered given that DepEd has its own CEP, Assistant Secretary Formoso
535 explained that the inclusion of such benefit is consistent with the Department's
536 view on the establishment of a single network. He added that having a single-based
537 network creates a lot of opportunities for savings in terms of efficiency of
538 services, which are sometimes difficult to quantify and compute.
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Possible CEP-NBN complementation

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542 58. Secretary Neri noted the Chinese Government's position that the NBN and the
543 Cyber Education projects be treated separately. He added that while the Chinese
544 Embassy, in a letter, has expressed readiness to show flexibility should DepEd and
545 DOTC reach an agreement, Secretary Lapus has already indicated his preference
546 that the CEP network be dedicated to education. Secretary Mendoza, in shared,
547 has also expressed readiness to remove the schools as part of the NBN project
548 design.
549
550 59. Secretary Neri noted that the basic overlap seems to be in the antenna. The CEP
551 antenna, he added, would be basically satellite-based and with limited internet
552 capability. The ZTE antenna, on the other hand, will have multiple applications
553 and in fact, maybe used to complement the CEP antenna once the schools require
554 full internet access. The cost of this overlap is around PhP 4 billion to PhP5
555 billion.
556
557 60. Secretary Neri also brought up the possibility of using the broadband technology
558 for barangay application, which could also be made available for schools in the
559 future if they fall within the 30 kilometer radius of the base stations. He added

that the overlap may perhaps be tolerable if the project would cover the entire country.

61. Secretary Neri noted that the Scenario 3 presented by the Secretariat does not include education and instead considers barangay offices as beneficiaries. This, however, does not preclude education application if schools fall within the WiMAX coverage areas. This system would mean that the schools would be using the broadband network more once they have enough computers, while the satellites would be basically used to capture lessons from the broadcasting centers. Under said scenario, savings in terms of internet access to education maybe realized.

62. MBM Valdepeñas raised the need to include the provision of local extension services for farmers to enable them to increase their productivity thru access to information on modern agricultural methods.

Other possible scenarios

63. On the suggestion to develop a scenario in which the project cost and benefits are expanded, Secretary Neri responded that the Chinese Government has indicated its limited capability to finance projects.

64. ADG Tungpalan instead suggested that a variation of Scenario 2 be developed, in which barangay offices are added until the 15% economic rate of return is achieved.

Scenario 3 consideration

65. Undersecretary Paul inquired on whether the same benefits used in the other scenarios, particularly the savings to education, were applied in Scenario 3. He also raised the issue on whether government really needs to come up with its own backbone as services are already being provided by the private sector. He also inquired on whether the proposal includes a mechanism for cost recovery.

66. It was noted that access to private systems require financial means, and government as well as most families do not have the financial capability to access said systems.

67. ADG Tungpalan also commented that while the project does not include cost recovery, savings will be earned as without the project, government will have to spend in terms of telecommunications bills.

Implications on the ICC-approved CEP

68. Secretary Teves inquired on the possibility of deferring the full implementation of the CEP until the Committee has obtained additional information related to the NBN alternative. He added that Committee should be able to guide the President as far as the issues involving the projects are concerned.

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609 69. Secretary Neri suggested that the issues be discussed to the President, including
610 those on the benefits and the concessionality of the financing terms.

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612 70. As to concern on the implication of the NBN discussions on the earlier ICC
613 decision to approve the CEP, the Secretariat explained that one justification for
614 the Cyber Education Project is that 3rd to 5th class schools will have difficulty with
615 broadband technology because of their lack of access to the required applications
616 as the market is not yet providing the service. In addition, the VSAT technology
617 proposed to be used is also less vulnerable to climatological interference.

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619 71. Undersecretary Fondevilla noted that the committed bandwidth for the Cyber
620 Education Project is only 3 mbps and sharing this bandwidth among many users
621 will cause the system to slow down or even crash. Hence, connection will have to
622 be regulated and this will pose a problem as the project involves about 27,000
623 schools. He added that additional investment will have to be made once demand
624 for bandwidth increases as a result of higher rate of use. The NBN, on the other
625 hand, will use the expandable WiMAX technology, which does not involve the
626 sharing of bandwidth.

627 Action Taken.

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629 72. The Committee recommended to the DOTC to refine the NBN proposal along the
630 following:

- 631
632 a) Alternatively develop its application to the 23,549 barangays, instead of
633 focusing school buildings, thus refining DOTC's estimated economic
634 benefits of the NBN project. This is expected to improve the economic
635 viability of the project (estimated at least with a NPV of PhP 0.7 billion,
636 EIRR of 15.8%).
637
638 b) Pursue concessionality of the proposed Chinese financing at least equal to
639 that provided for the DepEd's CyberEd project; and,
640
641 c) In relation to the available broadband services from the private sector,
642 establish clearly the public sector savings of having such a government
643 backbone by not using private sector providers, as well as introduce cost-
644 recovery measures, where applicable.
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648 B. Proposed Change in Scope, Increase in Cost and Two-Year Extension of the
649 Implementation Period of the Bohol Irrigation Project, Stage II/NIA

650 Proponent: National Irrigation Administration (NIA)

651
652 Background

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654 1. The NIA is proposing the following:

- 655 a. the extension of BHIP II project implementation period from December 2005
656 to December 2007 due to implementation delays; and *for*
657
658

