Republic of the Philippines
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
Saint Josemaria Escriva Drive, Ortigas Center, Pasig City

Subject: REPORT ON THE OUTCOME OF THE 13TH ANNUAL ODA PORTFOLIO REVIEW

I. OVERVIEW

1. This Review is in compliance with NEDA Board instructions and RA 8182, as amended by RA 8555, or "The ODA Act", which mandates NEDA to conduct annual reviews of the status of implementation of all projects financed through Official Development Assistance (ODA). A report must be submitted by NEDA to Congress on the outcome of the ODA Portfolio Review.

2. Pursuant to the ODA Act, the Government uses ODA to achieve equitable growth and development through priority development projects for the improvement of economic and social service facilities. As part of the Review, the consistency of ongoing ODA projects with the Medium-Term Philippine Development Plan (2004-2010) and the Medium-Term Public Investment Program (2005-2010) was validated.

3. In summary, based on several indicators, the country's ODA loans portfolio performance dipped in 2004, reversing trends of improvement in previous years. This is largely on account of the budgetary issues, the elections in 2004, and delays in procurement activities. With the Medium-Term Public Investment Program in place, priority projects identified are intended to be fully supported by the budget. Moreover, key projects of GOCCs, which encountered delays in procurement, have now started implementation. Thus, the ODA portfolio's performance is expected to improve again.

4. In the course of the Review, 29 agencies were met and consulted. These are : Autonomous Region in Muslim Mindanao Social Fund for Peace and Development PMO, Bases Conversion Development Authority (BCDA), Department of Agriculture (DA), Development Bank of the Philippines (DBP), Department of Education (DepEd), Department of Environment and Natural Resources (DENR), Department of Land Reform (DLR), Department of Finance (DOF), Department of Health (DOH), Department of Interior and Local Government (DILG), Department of Public Works and Highways (DPWH), Department of Social Welfare and Development (DSWD), Department of Tourism (DOT), Department of Transportation and Communication (DOTC), Light Rail Transit Authority (LRTA), Land Bank of the Philippines (LBP), Local Water Utilities Administration (LWUA), Metropolitan Waterworks and Sewerage System (MWSS), National Irrigation Administration (NIA), National Power Corporation/National Transmission Corporation (NPC/TransCo), Pasig River Rehabilitation Commission (PRRC), Philippine Economic Zone Authority (PEZA), Philippine Merchant Marine

Academy (PMMA), Philippine National Oil Company – Energy Development Corporation (PNOC–EDC), Philippine Ports Authority (PPA), Provincial Government of Lanao del Norte (PGLDN), Subic Bay Metropolitan Authority (SBMA), Supreme Court (SC) and Technical Education and Skills Development Authority (TESDA).

5. This report includes a section on procurement activities in ODA projects. This section will (a) look into the time it takes for the whole procurement process, from start of tender (or issuance of bid documents) to the issuance of notice to proceed (NTP); (b) review compliance of agencies with prescribed timelines in RA 9184 or the Government Procurement Reform Act, (c) identify causes of delays, and (d) recommend measures to be undertaken to streamline the procurement process, or report measures already put in place by agencies.

6. As in the previous year, this report discusses, among others, outputs and accomplishments of completed and ongoing ODA projects, the ODA portfolio performance using various indicators, commitment charges paid, and implementation issues encountered in 2004 and measures to address them.

7. The report also aims to incorporate the reporting of project outcomes and impacts as mandated in NEDA Board Resolution No. 3 s. 1999 and supported by NEDA Board Resolution No. 14 s. 1999 [(which approves the Guidelines Incorporating Results Monitoring and Evaluation (RME) in the Investment Coordination Committee (ICC) Approval Process)].

8. This report is divided into two parts: Part I provides an overview of the review process and the report's scope and contents while Part II describes the ODA loans portfolio, and discusses indicators of portfolio performance, accomplishments and outputs of completed projects, implementation issues, lessons learned and implications, future budget requirements of ongoing projects, and prospects for 2005; and outputs.

II. ODA LOANS PORTFOLIO

9. This Review covers 177 active loans with a net commitment of US$10.7 billion, composed of 176 project loans supporting 148 projects, and one (1) program loan. Project loans accounted for 99% or US$10.5 billion, while program loans, 1% or US$0.2 billion **(Annex A-1)**. Over the last four (4) years, ODA commitments have been decreasing as a result of Government's greater adherence to project quality and fiscal discipline. From a peak of US$13.3 billion in 2000, ODA loans commitment amounted to US$10.7 billion as of 31 December 2004, which is 6% lower than the 2003 figure and 23% lower than the 2000 figure.

10. The concessionality of ODA loans is measured by its grant element. As of December 2004, the grant element of all ODA loans since promulgation of ODA Act was 66 percent as computed by DOF. Per this Act, the weighted average grant element of all ODA at anytime shall not be less than 40% and each ODA

must contain a grant element of at least twenty-five percent (25%)[1]. The grant element is the reduction enjoyed by the borrower when debt service payments (principal and interest) expressed at their present values discounted at 10% are less than the face value of the loan or loan and grant. The grant element of ODA loans increased from 53% in 2000 to 62% in 2003. However, in 2004 a drop by four (4) percentage points from 62% to 58% was recorded. **(Annex A-1A)**

11. Among funding sources, the Government of Japan through the Japan Bank for International Cooperation (JBIC) remained as the largest source of ODA loans, accounting for 61% (or US$6.5 billion with 73 loans) of the total ODA, followed by the World Bank (WB) with 13% (or US$1.4 billion with 26 loans) and Asian Development Bank (ADB) accounting for 11% (or US$1.1 billion with 35 loans). Other Sources (like Australia, Austria, China, DANIDA, European Investment Bank, France, Germany, IFAD, Korea, Kuwait, NORDIC Development Fund, OPEC, Spain and United Kingdom) accounted for the remaining US$1.6 billion from 43 loans, or 15% of the total ODA loans portfolio. The amount of assistance from the Other Sources has increased by US$909 million compared to the 2000 level of US$656 million (from a share of 5% to 15%).

12. Across development sectors, the bulk of ODA was channeled to Infrastructure Development, which received 106 loans with an aggregate commitment of US$7.3 billion or 69% of the total ODA loans portfolio. Agriculture, Agrarian Reform and Natural Resources, accounted for 17%, US$1.8 billion from 41 loans. Industry and Services had 5%, US$542 million from 3 loans, while the Social Reform and Development Sector had 9%, involving US$891 million from 26 loans. In Infrastructure, Transportation obtained the biggest share of US$5.3 billion (or 51%), followed by Water Resources, US$933 million (or 9%) and the Energy, Power and Electrification, US$714 million (or 7%) **(Annex A-2)**. The social reform and development sector's share in the portfolio increased from 6% in 2000 to 9% in 2004 while the share of the industry and services sector decreased from 11% to 5% in the same period.

13. National Government (NG) agencies and local government units were responsible for implementing 56% of the ODA project loans portfolio, involving 116 loans with net commitment of US$5.9 billion. On the other hand, government-owned and controlled corporations (GOCC) and government financial institutions (GFI) administered 44% (or US$4.6 billion) of the ODA project loans portfolio involving 60 loans **(Annex A-3).** There was a substantial decrease in the share of NG-implemented projects by four (4) percentage points from 61% in 2003 to 57% in 2004. Conversely, an increase in the share of GOCCs/GFIs implemented projects from 39% to 43% was noted over the same period.

14. ODA loans may be further classified into (a) those that require budget cover (e.g., those financing projects implemented by line agencies and some GOCCs like NIA and those with MDFO as conduit), and (b) those that do not (i.e., those

[1] Organisation for Economic Co-operation and Development (OECD) defines ODA as flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount)

financing projects of GOCCs/GFIs and the program loans). The former accounts for 66% of the 2004 portfolio, compared to only 53% in 2000 **(Annex A-4).** The 22 loans that pass through MDFO comprised 8% of the ODA project loans portfolio in 2004 and 12% of the budget- dependent portfolio for the same period **(Annex A-5).** Meanwhile, the 48 ODA projects with LGU participation accounted for 18% of the projects portfolio, more or less stable since 2000 **(Annex A-6).**

15. All ongoing projects funded by ODA are supportive of the MTPDP 2004-2010 and are included in the MTPIP 2005-2010, except for three (3) projects: a) Pasig River Rehabilitation Project (PRRC) - only the housing component was included and other components will be included in MTPIP updating; b) Maritime Safety Improvement Project Phase C - only the budget for GOP counterpart is allocated (for the buoy base); and c) Selected Airports Project (Tacloban) - although listed in the MTPIP, it has no allocation for 2005 onwards.

16. *New Loans* – New loans worth US$733 million, or 7% of the total commitments, entered the portfolio in CY 2004. These include: (a) three loans from GOJ/JBIC (US$115 million); (b) three loans from ADB (US$74 million); (c) three loans from WB (US$75 million); and (d) one each from Belgium, China, Germany and Korea amounting to a total commitment of US$469 million **(Table 1).** The weighted average grant element of new loans was 64.8%.

17. *Loan Cancellations* – Partial cancellations of US$204million were done in 30 loans as follows: (a) ADB, US$65 million; (b) JBIC, US$91 million; (c) WB, US$28 million; and (d) Other funding institutions, US$20 million (of which US$19 million is from Germany). These cancellations were agreed upon with funding agencies due to: a) excess financing as a result of foreign exchange rate movement; b) lack of demand for relending; c) reduction in scope of projects; and d) budget constraints. In the process, these cancellations will generate savings for the government on commitment fees, in some cases **(Table 2).**

A. DEFINITION OF INDICATORS

18. Four indicators of ODA absorptive capacity are presented. These are: (1) disbursement level; (2) disbursement rate; (3) availment rate; and (4) disbursement ratio. These data on loan utilization can be used as proxy indicators of the physical performance of the different programs and projects.

19. The disbursement level is the actual amount of disbursements (in dollar terms) from all ODA loans for the period January to December 2004.

20. The disbursement rate is defined as actual disbursements as a percentage of target disbursements for a given period. Targets are set on an annual and quarterly basis, in consultation between implementing agencies and funding institutions (ADB, JBIC and WB only). This indicator reflects both on the planning and implementation capacities of agencies. Very high and very low rates can reflect poor planning (too optimistic targets or under-targeting) or poor

implementation. Annual targets should be consistent with finishing a project within its implementation schedule and the loan period.

21. The availment rate, which has been reported by the NEDA in all past portfolio reviews, is defined as the cumulative actual disbursements as a percentage of cumulative scheduled disbursements (references: loan agreement, credit agreement, appraisal report, supply contracts, or generated S-curves) reckoned from the start of implementation of all projects up to December 2004. This captures the historical performance of a project from start to completion. Backlogs incurred at the start of the implementation, if not fully recovered, can pull down the availment rate for the remainder of the project life. It is imperative that implementing agencies are able to carefully review the disbursement targets based on aforementioned references. For ADB, WB and other financing sources that charge commitment fees, the disbursement targets set at loan signing give an indication of the commitment fees that may have to be paid over the life of a project.

22. Finally, the disbursement ratio is the ratio of actual disbursements in 2004 to the net loan amount available at the beginning of 2004 plus the amount of new loans that became effective less loan cancellations during the year. It is the indicator commonly used by the funding institutions.

23. The ideal availment and disbursement rates are 100%. On the other hand, a disbursement ratio in the range of 18-20% is considered normal, based on assumptions of five-year implementation period and straight-line schedule of disbursements for a considerably large and uniformly distributed (in terms of age) pool of projects. However, disbursement ratios depend on the stage of project implementation; a 5% disbursement ratio for a project at detailed engineering stage could be acceptable.

B. PORTFOLIO PERFORMANCE

24. *Disbursement Level*. The total ODA disbursements of the country in 2004 reached US$1.1 billion, compared to US$1.4 billion in 2003, or a decrease of US$314 million or 22% **(Annex B-1).** Project loans alone registered only a 5% decrease, from US$1.1 billion to US$1.0 billion, while program loans posted a 78% decrease, from US$338 million to US$75 million.

25. In the case of program loans, GOP was able to substantially comply with major loan conditionality under the Second Non-Bank Financial Governance Program II (ADB) resulting in the release of the final tranche from this loan.

26. Agencies where significant drop in disbursement levels were noted are: ASFPD-FMO, BCDA, DENR, DOH, LRTA, PHIVIDEC and PNOC-EDC **(Annex B-2).** Reasons cited by the implementing agencies for the decrease in disbursement levels were: unavailability of counterpart funds or insufficient budget cover; changes in priorities of LGUs; completion of project or loan closure; and procurement delays.

27. All sectors posted decreases in disbursement levels except for the Industry and Services, and Infrastructure sector which recorded increase of 31 percent (from US$55 million to US$72 million) and 3 percent (from US$630 million to US$649 million), respectively. The increase in Industry and Services sector is due to the substantial increases of disbursements in the DBP portfolio as a result of the increase in the amount of sub-loans approved such as in the Industrial Support Services Expansion Project, Credit Lines for Small and Medium-size enterprises (SME), and Domestic Shipping Modernization Project II. Meanwhile, the Infrastructure sector registered an increase due to new investments such as in the NorthRail Project, Phase 1 Section 1 and LRT Line 1 Rehabilitation II, Modernization II **(Annex B-3).**

28. In general, projects whether they are budget-dependent or non-budget dependent posted decreases in disbursement levels in 2004 over the 2003 level, by 2% and 8%, respectively. The share of budget-dependent projects in terms of disbursements increased by 1.5 percentage points from 56.8% to 58.3% **(Annex B-4).**

29. Projects involving LGUs where MDFO serves as conduit registered a 22% decrease in disbursement levels from US$106 million to US$83 million **(Annex B-5).** It may be noted that the reduction of disbursement is largely due to: a) delayed release of funds in the Third Elementary Education Project, Secondary Education Development Improvement Project and Early Childhood Development Project; and b) winding-down of five (5) projects such as the Regional Municipal Development Project, Subic Bay Area Municipal Development Project, Agrarian Reform Communities Development Project, Cordillera Highland Agriculture Resource Management Project and Mindanao Rural Development Project.

30. *Disbursement Rate*. On average, implementing agencies achieved only 72% of the targeted disbursements of projects supported by ODA. Across agencies and sectors, disbursement rates vary widely indicating the need to constantly review the target-setting process of many agencies **(Annexes C-1 and C-2)**.

31. On a quarterly basis, disbursement rates in 2004 fluctuated from one quarter to another, for example, from 91% to 72% to 47% to 72% from the first to the fourth quarters. First quarter performance has been noted to be driven by JBIC-assisted projects, as the first quarter coincides with the closing quarter of the JBIC fiscal year **(Annex C-3).** Disbursement rates of non-budget dependent projects improved from 73% in 2001 to 74% in 2002 to 90% in 2003, until a drop from 90% to 76% was recorded in 2004. Similarly, disbursement rates of budget-dependent projects were also increasing from 74% in 2001 to 82% in 2002 to 84% in 2003, but also decreased to 67% in 2004 **(Annex C-4).** It may be noted that for non-budget dependent projects the decrease was due to delayed award of contracts, low demand from LGUs, low demand for credit, delayed implementation of contracts/additional works, and delayed payment of progress billings. For the budget-dependent projects the decrease in

disbursement rate was due to re-enacted budget for 2004, delayed procurement and delayed payment of progress billings.

32. *Availment Rate*. Availment rate in 2004 was 58%, three percentage points lower than the 61% recorded in 2003 **(Annex D-1).** However, it may be noted that only the JBIC portfolio is below the 2004 average availment rate. It may be noted that in JBIC portfolio cancellations are rare because there are no commitment fees. Since availment rate is a function of targets in foreign currencies which are determined as early as the time of the signing of the loan agreement, the peso equivalent of these targets have increased, sometimes implying a corresponding increase in physical targets, and additional budget requirement unless the funds are cancelled. Backlogs in project startup, if not addressed fully early on, will adversely affect availment rates until the loan closing date. (This is also true for other funding institutions).

33. The social reform and development sector registered an availment rate of 74%, highest among the different sectors **(Annex D-2).** An upward trend has been noted in availment rates of this sector from 49% in 2001, to 59% in 2002, to 68% in 2003 and to 74% in 2004. On the other hand, the infrastructure sector had a rate of only 55%, which is three percentage points below the average. It may be noted that budget constraint, procurement and ROW issues are prevalent in this sector.

34. *Disbursement Ratio*. The average disbursement ratio for the three biggest portfolios was 16%, three percentage points lower than the 19% recorded in 2003 **(Annex E-1).** ADB recorded a 24.5% disbursement ratio, WB 18.5%, while JBIC registered 12.1%. Again, it may be noted that partial loan cancellation is rare in the JBIC portfolio because no commitment fees are charged for undisbursed amounts. It may be recalled that funding institutions called on GOP to raise its disbursement ratio to 20% by 2004 during the 2002 Consultative Group Meeting.

35. *Loan Extensions*. Seventy-six loans worth US$3.6 billion or 34 percent of the ODA portfolio, including 38 loans which closed in 2004 (of which 11 loans were not fully availed) amounting US$1.4 billion, were on extended periods of 2.0 years average beyond their original loan closing dates **(Table 3).** This is higher than the 66 loans reported in 2003. Of the 38 ongoing loans which have exceeded original duration, 19 loans require extensions of more than one year, while 19 loans require less than a year.

36. *Additional Budget/Funding Requirements*. Thirty-one projects will require additional budget/funding **(Table 4)** with an aggregate amount of about P41 billion. Five (5) of these projects with increases in cost were approved by the ICC in 2004.

37. In general, the following are the justifications given by IAs for the additional budget requirements: (a) change in scope/additional works; (b) increase in right-

of-way (ROW) acquisition cost; (c) high bids; (d) claims for price escalation; and (e) foreign exchange rate movement.

38. *Commitment Fees.* For the ongoing projects, cumulative commitment fees paid by the government to ADB, WB and other funding institutions as of December 2004, amounted to US$48.8 million. In 2004 alone, US$7.5 million was paid in commitment fees. Among national government agencies, commitment fees paid by GOP for DPWH and DA projects were US$1.2 million and US$0.8 million, respectively. Among GFIs, DBP and LBP paid commitment fees of US$0.3 million and US$0.4 million, respectively. **(Annex F-1)**

C. ACCOMPLISHMENTS AND OUTPUTS OF PROJECTS

39. Of the thirty-eight loans closed in CY 2004, twenty-eight loans amounting to US$1.2 billion were reported as closed/fully availed during the year **(Table 5)** consisting of: ten loans from ADB (US$255 million); five loans from GOJ-JBIC (US$357 million); four loans from WB (US$224 million); two loans from Spain and France (US$22 million and US$33 million, respectively); and one each from Austria, Australia, EIB, OPEC and UK (a total of US$293 million).

40. At least 12 loans were closed in 2004 with incomplete project outputs. These loans were : a) Land Administration and Management Project (DENR/WB) ; b) President's Bridge Program II (DILG/Austria) ; c) Tulay ng Pangulo sa Barangay (DPWH/UK); d) Third Airports (DOTC/ADB) ; e) Telepono Sa Barangay 2 (DOTC/France) ; f) Global Maritime Distress Signal System (DOTC/France) ; g) LGU Private Infrastructure Development Facility (LBP/ADB) ; h) Provincial Cities Water Supply Project IV (LWUA/JBIC) ; i) Expansion and Rehabilitation of Baguio Water System (LWUA/Australia); j) Small Towns Water Supply Sector Project (LWUA/ADB) ; k) Malitubog-Maridagao Irrigation Project (NIA/JBIC); and l) Rural Water Supply and Sanitation Project (DPWH/DILG/DOH/ADB).

41. The reasons cited by implementing agencies for the incomplete project outputs were: a) budget constraints; b) legal and technical issues; c) lack of LGU counterpart funds; d) right-of-way acquisition; and e) project design. To complete the project outputs of said projects, the implementing agencies propose: a) the use of agency/local government/corporate funds to complete remaining project activities; and b) the preparation of a second phase of the project to finance the remaining requirements. **(Details in Table 5-A)**

Completed Projects/Closed Loans (Table 6)

<u>Infrastructure</u>

42. Under the Second Mandaue-Mactan Bridge Project Phase II, accomplishments include: four (4) lane roadway (4.464 kilometer) and pre-stressed concrete bridge with a length of 319 meters over Mananga River. Travel time from southern to northern Cebu is cut by approximately one hour as this bypasses the central business district of Cebu City. . Meanwhile, under the Tulay ng Pangulo

sa Barangay, construction of 32 "Tulay Ng Pangulo sa Barangay" with a total length of 978 lineal meters and 142 "Tulay Ng Pangulo sa SZOPAD/Mindanao" with a total length of 2,778 lineal meters were completed. These projects were able to deliver on its objective of supporting the growth of agricultural, industrial, fishing, commercial and tourism areas by providing a faster, safer and more reliable road network.

43. For Rural Water Supply and Sanitation Project, 5,966 Level I water supply and 61,235 sanitation facilities were constructed/ rehabilitated, and 4,172 barangay water supply associations were formed/organized to provide level I (point source) water supply and sanitation facilities to 20 Social Reform Agenda priority (poor) provinces.

44. As regards the Metro Cebu Development Project III (Cebu South Reclamation), completion of the physical activities for the additional works (Stage I-1 for road network, water and power facilities and other support activities) would further enhance the saleability of the reclamation area.

45. Under the Leyte-Bohol Interconnection Project, 115 kms 138/69 kv T/L and 54 kms 500 kv T/L were energized. Likewise, 88 kms 230 kv T/L under the Luzon Grid Transmission Project were energized. For the Power Transmission Reinforcement Project, erection and installation works of 71 steel towers and 22 steel poles were completed to meet future demands for adequate and reliable power supply in selected areas.

46. For the Small Towns Water Supply Sector Project, completion of the construction activities in 97 Water District (WD) subprojects (with a total production of 24,000m^3/day for 85,000 service connections) would provide potable water to 500,000 beneficiaries and reduce non-revenue water by 21%. Under the Provincial Cities Water Supply Project IV, water supply facilities were completed in Masbate-Mobo (to benefit 42,000 residents of 18 barangays including the town proper of the two municipalities), Tarlac (to benefit 145,242 residents of 31 barangays including the city proper) and Bacolod City (to benefit 292,913 residents of 25 barangays including the city proper).

47. Under the Nationwide Air Navigation Facilities Modernization Project Phase III, civil works and installation of equipment for the power supply system and alternating current (AC) were completed in the remaining airport site of Masbate (out of 25 project sites). For the Davao International Airport Development Project (which aims to provide safety and security to air transport commuters), the completed modernization and rehabilitation works included the following: the landing strip of the existing runway; dual access taxiway; new passenger terminal; cargo terminal; and airlifting and air navigation facilities.

48. For the ADB-assisted Philippine Regional Municipal Development Project, completed facilities included: Puerto Princesa's bus and jeepney terminal and motorpool equipment shed; Tagbilaran's motorpool equipment shed and delivery of solid waste management (SWM) equipment; and Iligan City's drainage

improvement, bus and jeepney terminal and widening of the national road (Junction Roxas and Quezon Avenue) and the Mandulog Bridge.

Agriculture, Agrarian Reform and Natural Resources

49. Under the DENR's Land Administration and Management Project (LAMP), 504 free patents were issued/registered, 637 completed patent applications were submitted to the Registry of Deeds (ROD) for registration, 497 Cadastral Index Map (CIM) sheets were produced and 73,291 parcels were plotted. The One-Stop-Shop (OSS) operation and training manuals were produced and a procedure for the detection of fraudulent and fake titles including documentation of the procedures in Judicial Titling was developed. The project was also able to establish the Barangay Advocacy Group (BAG) and Barangay Integrated Land Information System (BILIS), and dissemination of information to stakeholders and general public was facilitated.

50. The ADB-assisted Cordillera Highlands Agricultural Resources Management Project completed the following: maintenance of 3,215 hectares and protection of 6,560 hectares of established plantations, and monitoring and evaluation of activities of NGOs regarding inventory assessment of established plantations to increase the disposable incomes of small farm-holder families in the covered area.

51. For the Grain Sector Development Project, 3 irrigation systems and 15 Agrarian Training Institute (ATI) centers were rehabilitated, 4 techno-demos were conducted, 44 farmer field schools were established and several trainings conducted, and the Bureau of Agrarian Statistics (BAS) local area network was operationalized. Meanwhile, under the Mindanao Rural Development Project, rehabilitation of 145 farm-to-market roads (FMR) subprojects (with total length of 687 km), 9 one-lane bridges (with total length of 175 linear meters), 28 units of water supply system/spring development (Level II), and rehabilitation of 43 irrigation projects (with a total service area of 5,791 ha) were completed. The 1,583 investment community-based/small infrastructure projects with total fund release of P197 million (benefiting 37,779 households as economic investment projects and 16,818 individuals as actual users of small infrastructure projects) were also implemented. The project was also able to assist in the preparation of 1,416 barangay development plans (BDPs), integration of 1,341 BDPs into municipal development plans (MDPs), and integration of 55 MDPs into provincial development plan and establishment of 64 technodemo farms in cooperation with municipal LGUs.

Social Reform and Development

52. Under the SZOPAD Social Fund, 250 of the completed 320 subprojects (includes classrooms, health centers, madrasah or muslim school, etc.) were officially turned over to the beneficiary communities to improve access to basic infrastructure and services in depressed areas and communities, provide livelihood and employment opportunities for disadvantaged groups. Also completed was the

institutional strengthening mechanism for planning, implementation and monitoring of the development strategy for the SZOPAD.

53. For the Upgrading of the Zamboanga City Medical Center, various medical and technical equipment (computers) were turned over to the Zamboanga City Medical Center, medical staffs underwent orientation and demonstration on the various equipment, and non-medical staffs were trained on the maintenance of the equipment which resulted in the availability of improved/better health and medical services and facilities to the people of Zamboanga City.

54. Meanwhile, under the Upgrading of the Medical Equipment of Department of Emergency Medical Services (DEMS) of PGH, all the equipment delivered (5-9 container vans and other medical equipment) would be helpful in reducing the loss of valuable human lives by improving the responsiveness, capability and quality of DEMS to deliver emergency care at any given circumstances. As regards the Hospital Development Project, 75 hospitals/health centers nationwide were provided with various medical equipment and supplies.

55. For the Integrated Community Health Services Project, 150 health facilities in four (4) provinces (Apayao, Guimaras, Kalinga and Palawan) were constructed, critical health systems in 4 provinces such as health service planning system, health care financing system, health and management information system, hospital operations and management system, and human resources development system were designed and implemented, and Simplified Rural Health Module and referral system was developed.

56. Under the Upgrading of the Eulogio Rodriguez, Sr. Memorial Hospital, various medical equipment were provided to the hospital's major units such as radiology section, intensive care unit (ICU), out-patient department (OPD), including the laboratory, dental, and ophthalmology units.

<u>Industry and Services</u>

57. The ADB-assisted LGU Private Infrastructure Project Development Facility which provided financial assistance to LGUs for project development, completed feasibility studies (F/S) for only two (2) subprojects (i.e. Davao del Norte Integrated Water Resource Development Project and Modernization of Olongapo City Public Utilities Department).

Ongoing Projects

<u>Infrastructure</u>

58. Under the roads and bridges sub-sector, overall 104 bridges were constructed/repaired/retrofitted and 267 kilometers of concrete pavement were completed. These included the rehabilitation of the San Juanico Bridge in Samar and Leyte (2.79 kms), Calbiga-San Juanico Bridge Section in Samar and Leyte (46.24 kms) under Arterial Road Links Development Project III, and the Tabon-

Tabon-Sibagan-Bayugan Section (34.14 kms) and Tagum-Carmen Section in Davao del Norte (12.05 kms) under PJHL Mindanao Section Rehabilitation I.

59. Under air transport sub-sector, rectification works on the runway (asphalt overlay) for Tacloban airport were completed and all equipment for both Tacloban and Bacolod airports were delivered, inspected, and accepted under Selected Airports Phases I and II. For the Laguindingan Airport Project, site acquisition and perimeter fencing were ongoing.

60. For the power sub-sector, all equipment and materials were delivered, and operational testing is ongoing under the Wholesale Electricity Spot Market (WESM) component of the Electricity Market and Transmission Development Project.

61. In the water resources sub-sector, construction of the following facilities were completed: (i) 29 on-site sewage treatment plants in 21 densely populated residential areas (Manila Second Sewerage Project); (ii) two pumping stations and two floodgates (Metro Manila Flood Control Project–West of Mangahan Floodway); and (iii) Hector Mendoza Bridge (Agno River Flood Control Project Phase II-B). in addition, dredging and Pilot Channel Excavation at Pasac Delta Area and Third River were also completed under the Pinatubo Hazard Urgent Mitigation Project II.

Agriculture, Natural Resources and Agrarian Reform Sector

62. Under Agrarian Reform Communities Project, about 533 kms farm-to-market roads (FMRs) were constructed/rehabilitated, 856 hectares of agricultural land were provided with irrigation water, and 45 units of potable water supply systems were constructed. For the Mindanao Sustainable Settlement Area Development Project, construction of 4.67 kms FMRs and 18.80 lm bridges were completed while 15 FMRs (53.092 kms), one potable water supply system, four multi-purpose buildings and 6 school classrooms are still ongoing.

63. NIA accomplished the following activities: provided irrigation to 33,322 hectares of new areas and rehabilitated 129,248 hectares existing irrigation systems; completed irrigation management transfer (IMT) consultations/negotiations for 18 national irrigation systems (NIS) where improvement works were being undertaken; organized 65 new irrigators associations (IAs); strengthened the capacity 673 existing IAs; signed 222 new Memorandum of Agreements (MOAs) between IA and NIA; renewed 810 MOAs; and trained 23,500 farmers.

Industry and Services

64. Under the LGU Support Credit Program, 37 LGU projects under the following categories were completed namely: two (2) for housing and health, twenty-six (26) for water supply/flood control/sanitation and nine (9) for forestry and sewerage/solid waste. For the Third Rural Finance Project, 121 subloans

amounting to P2.105 B were provided to large and small and medium enterprises (SMEs) for the year, and 13,054 cumulative jobs were created.

Social Reform and Development

65. Nationwide implementation of the Fixed Dose Combination to address tuberculosis has commenced with the award of the contract for the supply of TB drugs amounting to US$7.11 million (66% of the US$10.82 million actual requirement), and about US$0.97 million (64%) worth of vaccines for the rabies control program were contracted and delivered under the Social Expenditure Management Project, Phase II. Meanwhile, under the Investment Component of the Metro Manila Air Quality Improvement Sector Development Program, the equipment were procured and installed at various air public health monitoring sites in Metro Manila, and the manuals on Health Risk Assessment, Epidemiological Study on Sentinel Communities and health Risk Perception Survey were completed and disseminated to different stakeholders including international agencies (ADB, WHO, etc.).

66. Under the Social Expenditures Management Project II, 1,271 classrooms were constructed/rehabilitated, 1,411 classrooms repaired and maintained and 11,078,634 copies of textbooks and teacher manuals of different titles were delivered. In the Secondary Education Development and Improvement Project, 185 classrooms were constructed, 1.4 million textbooks and 48,782 teacher's manuals were delivered and supplied. For the Third Elementary Education Project, 4,977 classrooms were constructed/rehabilitated; 61,306 teachers, district supervisors and school managers attended various division-based trainings; and more than 1.3 million instructional materials and textbooks were delivered.

67. Under the KALAHI Project, out of the 740 approved sub-projects, 317 were completed as follows: 83 potable water supply systems, 63 farm-to-market roads; 25 schoolbuildings; 33 day-care centers; 41 health stations; multi-purpose buildings; and 64 electrification, corn mill, pump boat, etc.

D. KEY IMPLEMENTATION ISSUES

68. *Budget Cover.* The reenacted General Appropriations Act (GAA) provided P33.5 billion for foreign-assisted projects (FAPs) in 2004, 15% lower than the proposed budget of P39.4 billion as reflected in the 2004 Budget of Expenditures and Sources of Financing (BESF), and seven (7) percent lower than the 2003 actual budget of P 35.9 billion. The capital outlay portion of the budget for ODA projects in 2004, amounting to P29 billion, accounted for 31% of the P93 billion total NG capital outlays. The total NG budget in 2004 was P861.6 billion.

69. The 2004 reenacted budget affected implementation of most ongoing projects particularly those with increasing budget requirements, and new projects (e.g., Laguna de Bay Institutional Strengthening and Community Participation Project,

General Santos Fishport Complex Expansion/Improvement Project, ARMM Social Fund for Peace and Development Project, Arterial Road Bypass Project Phase I-Plaridel and Cabanatuan and Central Mindanao Road Project.)

70. Fifteen out of 19 budget-dependent implementing agencies/units reported budget issues: projects not in the GAA, projects which have unprogrammed budgets in the GAA, projects which have physical accomplishments whose financial requirements exceeded the available budget cover for the year, and projects using MDFO as conduit.

71. Eight (8) implementing agencies reported that contractors and consultants have unpaid billings of at least P4.6 billion in the JBIC portfolio. DPWH and LRTA reported that unpaid claims of their contractors and consultants in the JBIC portfolio as of February 2005 amounted to P1.6 billion and P1.2 billion, respectively.

72. The limited budget provided for implementation of some ODA projects in the past few years led to extension of implementation schedules in projects of DPWH, DILG and DOTC. This is expected to result in cost overruns.

73. Under existing grant/loan agreements with GOJ-JICA and GOJ-JBIC, local taxes levied on contracts funded by Japanese loans and grants cannot be charged against the proceeds of GOJ-JICA/JBIC assistance. These taxes are advanced by contractors subject to reimbursement by the government agency. However, in a number of agencies, said amounts to reimburse the VAT paid by the contractors were not covered by appropriations. As of December 2004, a total of P371 million worth of taxes have not been reimbursed to these contractors and consultants.

74. *Procurement*. Of the 32 civil works, 24 consulting services and 20 goods contract packages reviewed, it was noted that there is a wide range of procurement periods. Agencies reported that procurement activities from submission of bids to issuance of notice to proceed, takes between 2.5 months to 28 months versus the prescribed timeline of 3.2 months per Republic Act 9184. A number of GOCCs (BCDA, LRTA, PNOC-EDC and SBMA) encountered delays in procurement with contract amounts ranging from P3.7 billion to P21 billion, resulting in inability to meet performance targets.

75. In general, the reasons for procurement delays were: (a) failure in bidding/rebidding of contracts (DILG, NPC/TransCo, DA/BFAR, NIA, PRRC, and DOTC); (b) complaints filed by losing bidders (DPWH); (c) lengthy review process (MWSS and DOTC/LRTA); (d) difficulty in compliance with documentation requirements; (e) changes in project scope (BCDA); and (f) changes in leadership.

76. Some improvements in procurement periods of agencies were noted. In DPWH's procurement of civil works, the average number of months from submission of bids to issuance of NTP decreased from 9.44 months in 2003 to only 6.4 months

in 2004. In LWUA, procurement timeline for civil works decreased from 12 months to 3.69 months. The experience of the DPWH in the Sustainable Environmental Management in Northern Palawan Project is worth highlighting as the procurement process from submission of bids to issuance of NTP took only 3.6 months, very close to the 3.2 months prescribed timeline in RA 9184.

77. As regards projects funded by GOJ-JBIC Special Yen Loans, the agencies were requested to document their experiences with respect to procurement process with respect to the requirement for 50% Japanese content and limited to Japanese contractors only, for the New Iloilo Airport Development Project (DOTC), 2nd Magsaysay Bridge and Butuan Bypass Project (DPWH), Northern Luzon Wind Power Project (PNOC-EDC) and Subic – Clark - Tarlac Expressway Project.

78. *MDFO/MFC Transition*. Executive Order No. 252 on the conversion of the Municipal Development Fund Office (MDFO) to Municipal Finance Corporation (MFC) was issued in December 2003, and MFC was made an affiliate of the Land Bank of the Philippines in June 2004. In 2004, the reenacted GAA did not include appropriations for MDFO relending to LGUs. As a result, some projects using the MDFO/MFC conduit were affected.

79. The transfer of national government grants to LGUs with ongoing projects continued to be a problem even if the NG budget is available, because of the absence of a mechanism acceptable to both MDFO and DBM. Joint recommendation by DBM and MDFO of the feasible mechanism is awaited.

80. *LGU Participation.* ODA projects with direct LGU participation accounted for 18 percent of the portfolio. The lack of LGU equity is a major problem. A number of local government units (LGUs) withdrew participation in the projects due to the NG-LGU cost sharing scheme for LGU-devolved programs. An example is the Agrarian Reform Communities Development Project of the Department of Land Reform wherein out of five (5) approved subprojects only one (1) was implemented because of the minimum 50% required LGU counterpart. As of December 2004, five (5) LGUs formally withdrew their applications and 12 LGUs have not submitted any subprojects for approval for the past two (2) years.

81. The lack of LGU equity also affected implementation of the Rural Water Supply and Sanitation Project V of the DILG in the provinces of Mindoro Oriental and Nueva Vizcaya. Requisite project preparatory activities particularly on capacitating LGUs took longer than expected. In some cases, this resulted in the reallocation of programmed LGU to other LGU priorities.

82. The limited technical capacity of LGUs under DOF's Local Government Finance and Development Project likewise delayed implementation. Some LGUs had difficulties in complying with pre-qualification requirements, documentary requirements for clearances, and preparation of detailed engineering designs. In addition, there is competition posed by other available LGU financing facilities (GFIs and NGAs-led).

83. *Right-of-Way Acquisition.* Many agencies have reported positive experiences with RA 8974 commonly known as the "Expropriations Law". Notable is the experience of BCDA in acquiring a total of 645 hectares of land in 2.7 years under the Subic-Clark-Tarlac Expressway Project. BCDA attributes the expeditious acquisition of right-of-way to: a) constant follow-up with the courts by competent BCDA lawyers of their expropriation cases; b) availability of funds for payment to landowners; and c) incentives to BCDA ROW acquisition teams.

84. A major problem in land acquisition is the availability of funds for payment to landowners. The law requires the implementing agency to deposit the payment of 100% BIR zonal value or proffered value of the property to be acquired with a government bank after filing the petition on eminent domain case. With budget constraints, the ROW acquisition requirements may not be fully supported by the implementing agencies.

85. However, some agencies still encountered difficulties in ROW acquisition. LWUA had difficulty in securing DPWH/LGU excavation permits for its water supply projects. NIA and DPWH encountered problems in processing claims of landowners without proof of ownership. PRRC experienced problems with ROW acquisition because land donation takes a long time.

86. As in prior years' reviews, some agencies reported that differences in guidelines of GOP and funding institutions contributed to delays in ROW acquisition in the Sixth Road Project and Third Airport Development Project.

87. *Increase in Costs.* Thirty-one (31) projects in the ODA loans portfolio were reported by implementing agencies to involve cost increases amounting to P41 billion **(Table 4).** Of this amount, P10.6 billion (25%) was approved by ICC in 2004 and early 2005, P15.7 billion (37%) are either under evaluation by the ICC Secretariat or for ICC approval, and P16 billion (38%) are still for submission to ICC by the concerned agencies (but initial estimates were submitted to the Secretariat).

88. By implementing agency, the DPWH accounts for the biggest share of cost increase with 80% or P33 billion (for 21 projects) followed by NIA and DOTC with 5%, PRRC with 4%, PNOC and TESDA with 2% each, and NPC and PMMA with 1%.

89. Half of these cost increases or P21 billion (for 21 projects) occurred in projects funded by GOJ-JBIC, followed by ADB with P11 billion or 27% (4 projects), and World Bank with P7 billion or 16% (2 projects). It may be noted that GOJ-JBIC accounts for 61% of the total ongoing ODA loans portfolio, followed by World Bank with13% and ADB with 11%.

90. *2004 Elections.* There was a slowing down in approval of sub-projects involving LGUs as many local officials postponed loan negotiation/signing after the

elections. Likewise, some ROW acquisition and relocation activities were postponed after the elections.

91. *Changes in Leadership.* Changes in LGU leadership as a result of the elections could mean changes in LGU priorities and project management teams and could substantially delay project implementation. Affected projects include the Water Districts Development Project and Rural Water Supply and Sanitation Project.

92. Changes in heads of agencies have likewise been observed to have significant impact on implementation of ODA projects. This resulted in delays in award of contracts, because of repeated reviews of contracts for due diligence, or in certain cases, even changes in project design. In the case of TESDA, there was a change of Director-General twice in 2004, and the change in leadership eventually led to the appointment of new project managers of all ongoing projects.

93. *Credit/Relending Facilities Issues*. Financial indicators of GFIs (DBP and LBP) showed signs of recovery. Disbursement levels increased from US$157 million in 2003 to US$171 million in 2004. Availment rate and disbursement ratio increased by eight (8) and five (5) percentage points, for the same period, respectively.

94. But in general, GFIs still claim that demand for credit remained low. They attribute the low demand to the wait-and-see attitude of the private sector with respect to the investment climate, selective lending to big projects of the Private Financial Institutions (PFIs) in order to minimize risks, and the limited capability of some conduit rural banks to package medium- to long-term loans.

95. EO 138, issued in 1999, directs government entities involved in the implementation of credit programs to adopt the credit policy guidelines formulated by the National Credit Council. It specifies that interest rates charged for government credit programs should not be lower than the prevailing market rates. However, some wholesale lending programs charge below market rate thereby affecting other wholesale lending programs. A policy issue that needs to be clarified is on the concessionality of available ODA loans, in particular the relending facilities of JBIC and KfW compared to other sources. It is therefore necessary to define the policy on who should benefit from the greater concessionality of some ODA loans: NG, GFIs or the borrowers?

96. While EO 138 limits GFIs to providing wholesale funds to PFIs (except in sectors not adequately served by the PFIs), GFIs continue to perform both wholesale and retail lending operations. On its part, DBP explained that its charter states that as a development bank it can do both. DBP reported that they have been efficient in marketing both lending windows and that they usually apply retail lending programs to projects with long gestation periods.

97. *Coordination between MMDA and DPWH.* Metro Manila Development Authority raised issues on the design or implementation of certain road projects in Metro

Manila such as the MM Interchange Construction Project V, and the EDSA Pavement Rehabilitation Component of the Metro Manila Air Quality Project, which led to the delay of these projects. For the MM Air Quality Project, MMDA in April 2005 concurred with the rehabilitation of the road section between Buendia Avenue to Kamias. In the case of MM Interchange V, DPWH may cancel the loan.

98. *Legal Cases.* On the Agno River Flood Control Project – Phase II, the case alleging that there was irregularity and anomaly in the bidding and award of the contract to the lowest bidder remained pending since 2002 with the Supreme Court. In April 2005, the SC upheld the dismissal of the petition/complaint and clarified that the advisory made by the Regional Court to DPWH that it must seriously consider awarding to the third lowest bidder has no binding/legal effect.

99. Regarding the Mindanao Container Terminal Project, a TRO was issued by a RTC in April 2004 for the PHIVIDEC Industrial Authority to cease and desist from engaging in cargo handling operations at the Mindanao Container Terminal for cargoes not owned or consigned to the locators in the PHIVIDEC Industrial Estate. In January 2005, the Court of Appeals allowed PHIVIDEC to operate.

E. MEASURES TAKEN TO IMPROVE PORTFOLIO PERFORMANCE IN 2004

100. To provide the development framework of the government in support of the 10-point agenda and the National Development Agenda, the President issued Memorandum Order No. 156 Approving and Adopting the Medium-Term Philippine Development Plan 2004-2010 and its accompanying Medium-Term Public Investment Program (MTPIP) 2005-2010 on 13 December 2004. ODA priority projects included in the 2004-2010 MTPDP/MTPIP will be implemented with full budgetary support. Along this line, DBM issued in August 2004, a programming and budgeting guideline for 2006-2010 containing the policies for consideration in the formulation of the MTPIP and future budgets.

101. To ensure multi-year budgetary support to foreign-assisted projects (FAPs), DBM issued Circular Letter No. 2004-12 on 27 October 2004 on providing a Multi-Year Obligational Authority (MYOA) to agencies that voluntarily commit to give priority to and include annual budgetary requirements of projects whose funding strategy indicates that the annual budgetary requirements of FAPS may be accommodated within their annual budgetary ceiling over a period of time. Under the multi-year contract (MYC) to be entered into by the agencies, the liability of the government to liquidate obligations shall be limited only to the extent of the programmed appropriation released for the purpose. The agency shall commit to include the funding requirements for the remaining portions of the contract in its annual budget proposals until the project is completed.

102. In line with the decentralization policy of GOP, the Investment Coordination Committee (ICC) and the Development Budget Coordination Committee (DBCC) amended the policy on national government (NG) assistance to devolved

activities in a memorandum dated 20 August 2004. The NG shall no longer provide grant/subsidy to devolved programs, activities and projects (PAPs). In cases where LGUs would need additional resources, they can avail of loans from the Municipal Finance Corporation (MFC) or other government financing institutions (GFIs). This policy shall be applied to all proposed PAPs with budget implications starting 2005.

103. DPWH likewise issued Department Order No. 203 which requires all bids/financial proposals under foreign-assisted projects to be submitted in Philippine pesos. It also requires that all contract prices be dominated and payable in Philippine pesos only. It aims to reduce the vulnerability of project cost of foreign exchange movements. As this order has been contested by funding institutions, further amendments are expected to define specific items eligible for foreign exchange payment.

104. To ensure efficiency in the design and implementation of foreign-assisted projects given the funding constraints faced by the government, DPWH issued Department Order (DO) No. 204 on 28 October 2004 prescribing limitations on variation orders (VOs) for civil works contracts that are still to be advertised for bidding or negotiated. DO 204 limits the cumulative amount of VOs to not more than 10% of the original contract cost, provided that the sum of the said cumulative VOs and the original contract cost shall not exceed the Approved Budget for the Contract (ABC), as applicable.

105. Project Implementation Officers (PIO) continued to keep close supervision over ODA project implementation. PIOs are senior officials (of Undersecretary or Assistant Secretary rank) designated in all agencies implementing ODA-funded projects. Their main responsibilities are to lead the agencies in implementing catch-up programs for delayed and slow-moving projects, to closely monitor progress of implementation and to coordinate with concerned agencies to resolve bottlenecks. The PIOs together with oversight agencies met quarterly in 2004 to address issues affecting project implementation, share good practices, and be apprised of recent policies and procedures on ODA.

106. In the preparation of the 2005 budget, DBM instructed agencies to focus existing resources on the core functions of the agency. Programs and projects which are no longer relevant to their major final outputs (MFOs) must be eliminated. DBM also instructed the agencies to prioritize funding commitments for ongoing and newly approved FAPs in accordance with the approved budget strategy.

107. To enable greater participation of Filipino constructors and consultants in foreign-assisted infrastructure projects, EO 278 was issued by the President on 2 February 2004 prescribing guidelines for project loan negotiations and packaging of government foreign-assisted infrastructure projects. The EO provides, among others, that large government infrastructure projects shall be packaged into separable work components without sacrificing the technical integrity of the structure and should take into account Filipino capabilities. Complex and/or multi-disciplinary infrastructure projects requiring varied competencies shall also

be packaged into separate work components. In the loan negotiation, the government panel shall ensure that the loan agreement does not contain provisions which discriminate against Filipinos and limit their participation in the project.

108. On procurement, the harmonized bidding documents for national bidding have been completed; common training design for the regions were completed and made available through State Universities and Colleges (SUCs) nationwide; and agency procurement manuals were completed and for rolling out to all agencies in 2005.

109. Upon recommendation of the DBM to the President in a memorandum dated 2 November 2004, the P344.331 million VAT advanced by Japanese contractors and consultants will be reimbursed within three (3) years beginning 2005 for the national government agencies and five (5) years for the Benguet Provincial Government. This will include settlement of unpaid VAT up to Dec. 31, 2003 for GOJ-JICA-assisted projects. It was agreed that for 2004 onwards, the implementing agencies will regularly include in their budget request an amount for VAT payment. As reported by DBM, P219 million or 59% of the outstanding VAT of P371 million is programmed for payment in 2005, and as of May 2005, Special Allotment Release Order (SARO) amounting to P191 million was already released to DepEd, DOH and DPWH for VAT payments. In order to address the VAT problem, a steering committee was formed , chaired by DOF and composed of representatives from DFA, DBM, NEDA, Embassy of Japan, JBIC and JICA.

110. The ICC approved restructuring in the following projects: a) loan extensions (for more than one year—7 projects: Expansion of Dual Education and Training, Domestic Shipping Modernization II, Sixth Road, Tiwi and Makban Geothermal Power Plant Partial Rehabilitation, Fisheries Resource Management, and Batangas Port Development II), and for a year or less--2 projects: (Provincial Cities Water Supply IV, and Credit Line for SMEs); b) change in scope of 2 projects (Southern Mindanao Integrated Coastal Zone Management, and Batangas Port Development II); c) increase in cost of 5 projects (Expansion of Dual Education and Training, Upgrading of the Philippine Merchant Marine Academy, Sixth Road, Power Transmission Reinforcement-Calamba Tower 50-Binan 230 kV T/L Component, and Credit Lines for SMEs); and d) full/partial cancellation for 4 projects (Expansion of Dual Education and Training, Maritime Safety Improvement IV, Fisheries Resource Management, and Marine Disaster Response Management, and Marine Disaster Response and Environment Protection System).

111. The revised ICC guidelines was adopted in August 2004 to help ensure the timeliness of the ICC review and approval process. The updated guidelines was posted in the NEDA website www.neda.gov.ph for greater transparency of ICC action and to facilitate public access to information.

112. GOP continued to adopt budget-support types of loan such as the Diversified Farm Income and Market Development Project of the Department of Agriculture

(DA), after the experience with Social Expenditure Management Project (SEMP). Loan funds would be used to support core functions of an implementing agency. Strengthening effectiveness of an agency's public investments and interventions is envisioned without increasing budgetary requirements.

MEASURES FOR 2005 AND BEYOND

113. Improve focus on achieving results; for new projects, ensure baselines are established at first year of implementation. It is also important that annual performance indicators and targets be established and agreed upon among the oversight, implementing and funding agencies at project start-up.

114. Establish formal monitoring and evaluation mechanisms with Other funding institutions. Moreover, there is need to clarify implementation protocols at the time of loan negotiations. Some delays in project implementation were attributed to unclear procedures of some funding institutions.

115. Devote full attention to start–up operations of new projects. The start–up of new projects was reported by WB in nine (9) out of its 26 ongoing projects: Social Expenditure Management Project II, LGU Urban Water, Agrarian Reform Communities Development Project II, ARMM Social Fund, KALAHI, Judicial Reform, LISCOP, Rural Power and Diversified Farms. There is also a need to strengthen projects "readiness filters" to support quality-at-entry of new projects. GOP, especially oversight agencies, should ensure that adequate preparation has been undertaken prior to loan signing such that agencies can undertake significant project scope immediately at start - up.

116. Where co-financing arrangements exist, harmonize procurement and disbursement guidelines. Some projects are co-financed by two or more funding institutions with distinct set of procurement and disbursement guidelines. Harmonizing these guidelines as early as project start-up would help ensure smooth project implementation.

117. For sector/program loans, consider more reasonable sizes of loans and broader scope to minimize partial cancellations and payment of unnecessary commitment fees; strengthen project preparation to firm–up credit demand and pipeline of projects. Due to over-estimated project cost and loan amounts, some projects have requested partial cancellations.

118. Address structure/staffing of PMOs in respective agency rationalization pursuant to EO 366. The EO aims to attain improved government performance, institute reforms that would transform the bureaucracy into an efficient and results-oriented structure.

119. Simplify rules and regulations and reduce reportorial requirements in government transactions to conform with EO 428. The EO aims to eliminate duplication and unnecessary requirements from business and industry, thereby allowing them to devote maximum effort and time to operation and expansion rather than comply

with bureaucratic requirements. An example is in the processing of billings of contractors, where in one case, 15 steps/activities are required before payments are made.

120. In 2004, the DBM together with DOF and COA started the review of Joint Circular No. 2-97 which provides guidelines for foreign-assisted projects implemented by NG agencies and GOCCs. Proposed amendments include the following : a) incorporate the procedure for charging/accounting commitment fees under the agency ceilings, as approved by the ICC; b) include guidelines on components of projects eligible for forex payments; c) define acceptable implementation periods, since extended implementation periods increase project costs; d) efficient use of special accounts; and e) incentives for IAs for cost-efficiency.

121. On Budget - Review experience of RA 8150, otherwise known as the Public Works and Highways Infrastructure Program Act of 1995 which provided for a Four-Year Public Works and Highways Infrastructure Program towards ensuring full and continuous multiyear budget support to priority projects.

122. Continue to explore budget-support type of loans for other NG agencies. DepEd and DA are implementing the Social Expenditure Management Program and the Diversified Farm Income and Market Development Project. In this type of loans, agencies have better management of the project as loans funds can be used to support core functions of an agency.

123. Pursue JBIC portfolio clean-up as agreed with the Japanese government during the RP-Japan Dialogue in November 2004 by: a) reviewing consistency of the projects with the MTPDP and MTPIP; and b) ensuring "full budget cover" for ongoing projects, and where this is not possible, to consider scaling down and partial/full cancellation of loans for projects, such that all remaining projects, after the clean-up will have "full budget cover". Initial review shows that: a) agencies with no budget cover issue are all GOCCs/GFIs, DA, DLR, DOT, DENR, DepEd, NIA, PCSD, ARMM-SF and PGNS; agency with budget cover risk is DPWH; and agencies with budget cover issue are DILG, DOTC, and PGLDN (MIRIDP).

124. On procurement of contracts, IAs should: a) share lessons learned and good practices in procurement; b) shorten and reduce required number of signatures for procurement and other transactions; c) consider higher threshold for international competitive bidding in order that more national competitive bidding will be undertaken; d) look more deeply into cases of high bids (bids way above agency estimates); and e) document experiences in JBIC Special Yen Loans.

125. On the MDFO/MFC issue, DBM and MDFO to jointly prescribe appropriate mode of release of NG grant to LGUs for ongoing projects; alternatively, IAs to consider amending loan agreements on MDFO as conduit.

126. On LGU Participation, IAs should synchronize project cycles with the local elections such that key activities like sub-project approvals and relocation are

done before election years. More important, ensure high quality of projects so that the probability of continuing them and acceptance by the succeeding officials is high.

H. BUDGET OUTLAY AND REQUIREMENTS (Table 10)

127. Budget requirements of ongoing FAPs for succeeding years, as submitted by agencies are as follows: about P42 billion for CY 2005, P56 billion for 2006, P39 billion for CY 2007, P20 billion for CY 2008, and P9 billion for CY 2009 and P4 billion for 2010 onwards.

I. PROSPECTS IN 2005

128. With the MTPDP and MTPIP now in place, the budgetary requirements of FAPs are expected to be fully supported and implementation will proceed as scheduled. In this regard, a mechanism for setting realistic disbursement targets should be put in place at the start of the year to have firmer basis for planning project implementation.

129. Most projects of GOCCs with delayed procurement have been resolved. Under the BCDA Subic- Clark-Tarlac Expressway Project, the Notices to Proceed (NTPs) for the P21 billion civil works contract were issued to the contractors on 21 March 2005; actual start of construction is scheduled in April 2005. For the Northern Negros Geothermal Project of PNOC-EDC, the NTP for the P3.7 billion 40 MW Power Plant contract was issued to the contractor on 3 March 2005. In LRTA's LRT Line 1 Capacity Expansion Project Phase II- Package A, the contract amounting to P6.2 billion was awarded in December 2004 and NTP was issued on 15 March 2005. It is expected that these big projects will pull-up the GOCC's performance indicators in 2005.

130. For CY 2005 , the GAA loan proceeds for FAPs (P26.672 billion) if fully disbursed translates to only US$493 million, which is 17% lower than the 2004 actual disbursement of US$594 million, excluding carry over budgets from 2004.

131. The JBIC portfolio clean- up is expected to be completed by July 2005. The desired outcome is that budget constraints affecting the portfolio will no longer be an issue after the clean –up until completion of the projects.

132. *Possible Cancellations in 2005* – Partial and full cancellations of about US$327million dollars from 16 projects are foreseen in CY 2005, as a result of reduction in scope, unutilized loan balance, budget constraints, and foreign exchange movement.