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

Subject: **REPORT ON THE OUTCOME OF THE 14TH ANNUAL (2005) ODA PORTFOLIO REVIEW**

I. BACKGROUND

1. ***Mandate.*** In compliance with National Economic and Development Authority (NEDA) Board instructions and RA 8182, as amended by RA 8555, or "*The ODA Act of 1996*", the NEDA was mandated to conduct annual reviews of the status of implementation of all projects financed through Official Development Assistance (ODA), and identify causes of delays, reasons for bottlenecks, cost overruns, both actual and prospective, and continued project viability. A report must be submitted by NEDA to Congress on the outcome of the ODA Portfolio Review.

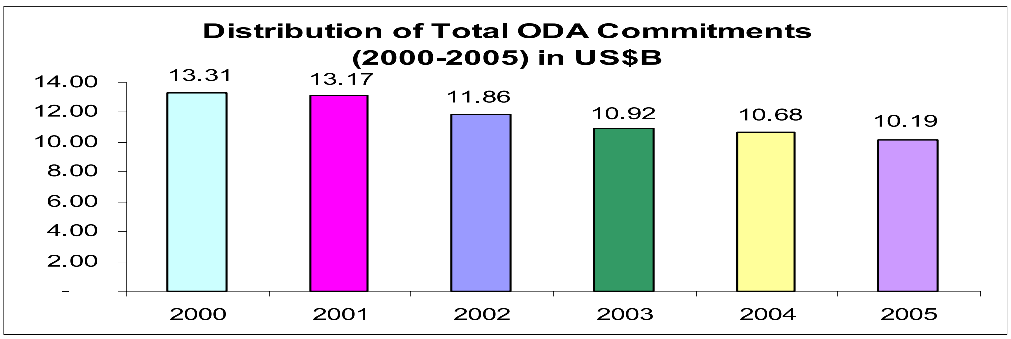
2. Pursuant to the ODA Act, the Government uses ODA to achieve equitable growth and development through priority development projects for the improvement of economic and social service facilities. This year's Review, likewise, validated the consistency of ongoing ODA projects with the Medium-Term Philippine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

3. ***Scope.*** The Review covers all active ODA-funded projects (ongoing, signed and became effective) from *01 January 2005 to 31 December 2005*, inclusive of projects completed in 2005. This year's Review was participated in by the Department of Budget and Management (DBM) and involved consultations/discussions with 32 agencies and one local government unit involved in implementing the projects under review. These are: Autonomous Region in Muslim Mindanao Social Fund for Peace and Development FMO (ASFP-FMO), 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 Agrarian Reform (DAR), 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), Laguna Lake Development Authority (LLDA), Land Bank of the Philippines (LBP), Light Rail Transit Authority (LRTA), Local Water Utilities Administration (LWUA), Metropolitan Waterworks and Sewerage System (MWSS), National Irrigation Administration (NIA), National Power Corporation (NPC), National Transmission Corporation (TransCo), North Luzon Railway Corporation (NLRC), Philippine National Railway (PNR), Philippine Ports Authority (PPA), Pasig River Rehabilitation Commission (PRRC), Philippine Merchant Marine Academy (PMMA), Philippine National Oil Company – Energy Development Corporation (PNOC–EDC), Provincial Government of Lanao del Norte (PGLDN), PHIVIDEC Industrial Authority (PIA), Subic Bay Metropolitan Authority (SBMA), Supreme Court (SC) and Technical Education and Skills Development Authority (TESDA).

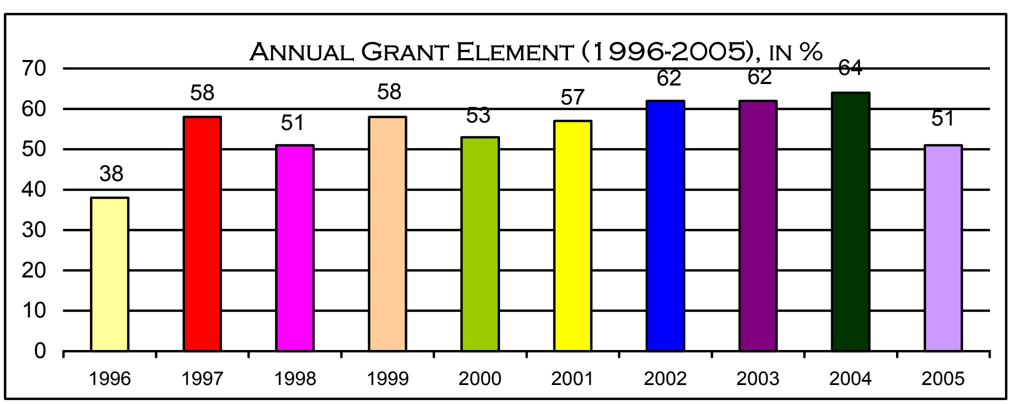
II. ODA LOANS PORTFOLIO

A. Profile of the Portfolio

4. ***Magnitude of Commitments.*** As of 31 December 2005, total net commitment is US$10.2 billion for 162 active loans, composed of 160 project loans supporting 147 projects, and two program loans. Project loans accounted for 97 percent or US$9.8 billion, while program loans, 3 percent or $0.4 billion **(Annex A-1)**. Over the last five years, ODA commitments have been observed to steadily decrease, largely as a result of Government's greater adherence to project quality and fiscal discipline. From a peak of $13.3 billion in 2000, ODA loans commitment decreased to $10.2 billion as of 31 December 2005, which is five percent lower than the 2004 figure and 23 percent lower than the 2000 figure.

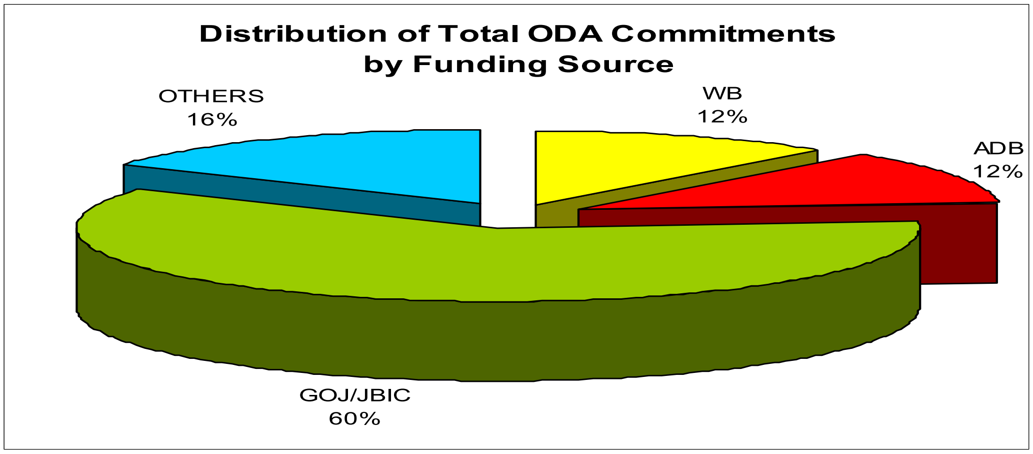


5. ***Grant Element.*** The concessionality of ODA loans is measured by its grant element. Per the ODA Act, the weighted average grant element of all ODA at anytime shall not be less than 40 percent and each ODA must contain a grant element of at least 25 percent[1]. Per DOF computation, the grant element of all ODA loans was 55 percent as of December 2005. In essence, grant element is the reduction enjoyed by the borrower when debt service payments (principal and interest) expressed at their present values discounted at 10 percent are less than the face value of the loan or loan and grant. Over the last five years, grant element of ODA loans increased from 53 percent in 2000 to 64 percent in 2004 but dropped in 2005 by thirteen percentage points (from 64 percent (2004) to 51 percent in 2005). **(Annex A-2)**

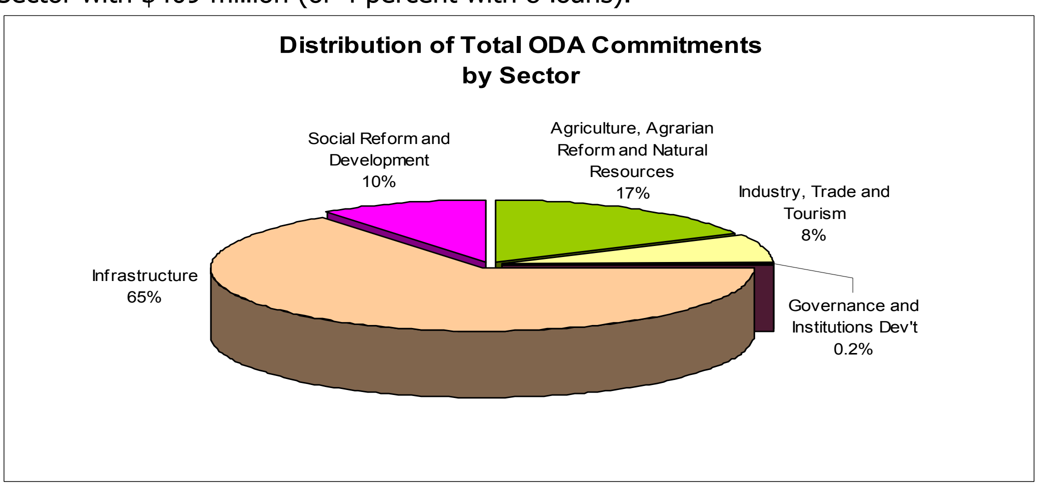


[1] Organisation for Economic Co-operation and Development (OECD) defines ODA as flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least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

6. ***Share by Funding Source***. Among funding sources, the Government of Japan through the Japan Bank for International Cooperation (GOJ-JBIC) continued to be the largest source of ODA loans, accounting for 60 percent (or $6.1 billion with 67 loans) of the total ODA, followed by the Other Sources (Australia, Austria, Belgium, China, France, Germany, International Fund for Agricultural Development (IFAD), Korea, Kuwait, NDF, Netherlands, Organization of Petroleum Exporting Countries (OPEC), Saudi Arabia, Spain, and UK) with 16 percent (or $1.6 billion with 43 loans) while Asian Development Bank (ADB) and World Bank (WB) with 12 percent or $1.2 billion each (with 28 loans and 24 loans, respectively). **(Annex A-3)**

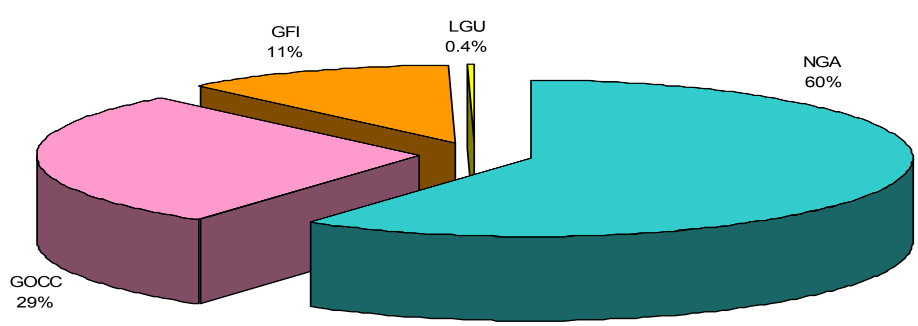


7. ***Share by Sector.*** Across development sectors, the bulk of ODA was channeled to the Infrastructure Sector, which received 87 loans with an aggregate amount of $6.6 billion or 65 percent of the total ODA loans portfolio. The second biggest recipient of ODA was the Agriculture, Natural Resources and Agrarian Reform Sector, which accounted for 17 percent of total ODA (or $1.8 billion involving 39 loans). The Social Reform and Community Development Sector has 10 percent share, accounting for $1.0 billion (with 27 loans), while Industry, Trade and Tourism Sector has an 8 percent share, accounting for $770 million, and the Governance and Institutional Development Sector has 0.2 percent share or $22 million of total ODA **(Annex A-4).** Under the Infrastructure Sector, Transportation Sector obtained the biggest share of $5.1 billion (or 50 percent with 51 loans), followed by Water Resources Sector, with $855 million (or 8 percent with 19 loans) and the Energy, Power and Electrification Sector with $409 million (or 4 percent with 8 loans).



8. ***Share by Agency Classification.*** Agencies of the National Government (NG) were responsible for administering more than half (60 percent) of the total ODA loans portfolio. This involved 108 loans with net commitment of $6.0 billion. Government-Owned and Controlled Corporations (GOCCs), on the other hand, administered 29 percent (or $2.9 billion) of the ODA portfolio involving 35 loans while Government Financing Institutions (GFIs), with $1.2 billion (or 11 percent with 18 loans). The remaining 0.4 percent of the ODA portfolio was coursed to the Local Government Units (LGUs) with $42 million **(Annex A-5).** There was a three percentage point increase in the share of NG-implemented projects, from 57 percent in 2004 to 60 percent in 2005. Conversely, a decrease in the share of GOCCs/GFIs implemented projects from 43 percent to 40 percent was noted over the same period.

Distribution of Total ODA Commitments by Agency Classification



9. ***Budget Cover.*** ODA loans may be further classified into (a) those that require budget cover (financing projects implemented by line agencies and some GOCCs e.g., NIA and LRTA and with MDFO as conduit), and (b) those that do not require budget cover (financing projects of GOCCs/GFIs and the program loans). The former accounts for 66 percent of the 2005 portfolio, compared to only 53 percent in 2000 **(Annex A-6).** The 13 loans that pass through MDFO comprised 7 percent of the ODA project loans portfolio in 2005 **(Annex A-7).** Meanwhile, the 44 ODA projects with LGU participation accounted for 19 percent of the projects portfolio, at a more or less the same level since 2000 **(Annex A-8).**

10. ***New Loans***. Thirteen new loans worth $727 million, or 7 percent of the total commitments, entered the portfolio in CY 2005. These include: (a) three loans from ADB (worth $363 million); (b) three loans from WB ($91 million); (c) two loans from Germany ($32 million); and (d) one each from Korea, Netherlands, Saudi Arabia, Swedish International Development Cooperation Agency (SIDA) and United Kingdom (UK) for $241 million **(Annex A-9).**

11. ***Loan Cancellations.*** Partial cancellations of $260 million were made in CY 2005 for 23 loans as follows: (a) 8 loans from ADB, $19 million; (b) 8 loans from GOJ-JBIC, $211 million; (c) 5 loans from WB, $23 million; and (d) 2 loans from Other Sources, $7 million. These cancellations were agreed upon with implementing and funding agencies due to: a) unutilized balance at the close of the loan; b) excess financing as a result of foreign exchange rate movement; c) low demand for relending; d) reduction in scope of projects; and, e) budget constraints. In the process, these

cancellations will generate savings for the government on commitment fees, in some cases **(Annex A-10).**

B. ODA INDICATORS OF PERFORMANCE

12. 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.

13. ***Disbursement Level.*** The disbursement level is the actual amount of disbursements (in dollar terms) from all ODA loans for the period January to December 2005. ODA disbursement level in CY 2005 posted an increase of 10 percent from last year. GOP disbursed $1,205 million in 2005 compared to $1,095 million in 2004. Disbursements in project loans, which constitute 85 percent of the ODA portfolio, increased from $1,019.5 to $1,030.4 million. **(Annex B-1)**

14. Program loan disbursement levels increased by 133 percent, from $75 million in 2004 to $175 million in 2005 because of disbursements made from two program loans, namely: Health Sector Program ($100 million) and Microfinance Development Program ($75 million). It was the Non-Bank Financial Governance Program II which accounted solely for the $75 million program loan disbursement in 2004.

15. However, several agencies which registered significant drop in disbursement levels are as follows: NLRC, DOTC, DBP, DBM, TRANSCO, DILG, DOF, PPA, LWUA, PHIVIDEC and NIA (**Annex B-2**). Reasons cited by the implementing agencies for the decrease in disbursement level were: delays encountered in procurement; low demand for credit; unavailability of counterpart funds or insufficient budget cover; and, project completion or loan closure.

16. Three sectors (Infrastructure, Trade and Industry and Governance) posted increases in disbursement levels. In contrast, the Agriculture, Natural Resources and Agrarian Reform sector, and Social Reform and Community Development sector recorded decreases of 26 percent (from $191 million to $141 million) and 9 percent (from $106 million to $97 million), respectively. The increase in Infrastructure sector disbursement is due to the following: a) award of civil work contracts under the General Santos Fishing Port and Laoag River Basin Flood Control Projects and completion of civil work contracts for the Mindanao Second Roads Improvement Project ; b) procurement of five vessels under the Subic Bay Port Development Project; c) start-up activities in the Subic-Clark-Tarlac Expressway Project; and, d) budget availability for the Cordillera Road Improvement Project and Rehab/Maintenance of Bridges on Arterial Road Project IV **(Annex B-3).**

17. Budget-dependent projects generally posted an increase in disbursement levels in 2005 over the 2004 level, by 13 percent. However, non-budget dependent projects recorded a decrease of 15 percent compared to 2004 level. The share of budget-dependent projects in terms of disbursements increased by 7 percentage points from 58 percent to 65 percent **(Annex B-4).**

18. Projects involving LGUs where MDFO serves as conduit registered a 26 percent decrease in disbursement levels from $66 million to $53 million **(Annex B-5).** The reduction in disbursements is largely noted for several WB-assisted projects due to:

a) procurement problems and difficulty in catching-up with the initial cumulative delays incurred by the LOGOFIND; and, b) completion of the Mindanao Rural Development and Regional Municipal Development Projects.

19. ***Disbursement Rate.*** The disbursement rate is defined as actual disbursements as a percentage of target disbursements for the period January to December 2005. Target disbursements are set on an annual and quarterly basis and agreed upon by implementing agencies and funding institutions. 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.

20. On average, implementing agencies achieved only 84 percent of the targeted disbursements of projects supported by ODA. Top implementing agencies based on disbursement rates were PHIVIDEC (392 percent), LRTA (146 percent), DOT (145 percent), DPWH (119 percent), DBM (100 percent), DOH (98 percent), DENR (95 percent), MWSS (90 percent), BCDA (89 percent), NPC (88 percent), ASFPD-FMO (87 percent), LBP (82 percent) and LWUA (81 percent). **(Annexes C-1 and C-2)**

21. On a quarterly basis, disbursement rate in first quarter is relatively high compared to the last three quarters, for example, from 103 percent to 54 percent to 74 percent to 87 percent from the first to the fourth quarters. First quarter performance has been noted to be driven by last quarter disbursements of JBIC-assisted projects, as the first quarter coincides with the closing quarter of the JBIC fiscal year **(Annex C-3).**

22. Meanwhile, an increase in disbursement rate of budget-dependent projects was recorded from 67 percent in 2004 to 91 percent in 2005. This may indicate that implementing agencies have become more realistic in targeting for the year. However, non-budget dependent projects' disbursement rate decreased from 77 percent in 2004 level to 70 percent in 2005 **(Annex C-4).**

23. ***Availment Rate.*** 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 disbursement (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 2005. Overall availment rate posted at 60 percent, two percent higher than the 58 percent availment rate in 2004. However, it may be noted that only the GOJ-JBIC portfolio is below the 2005 average availment rate because in said portfolio, loan cancellations are rare since there are no commitment fees. On one hand, 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. On the other hand, the peso equivalent of these targets have increased, sometimes implying a corresponding increase in physical targets such that additional budget would be required, or simply remain as unused balance of the loan, or surplus funds (if no additional physical targets), unless the funds are partially cancelled. **(Annex D-1).**

24. Availment rate 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. Backlogs compound commitment fees since for ADB, 0.75 percent per annum is applied on the undisbursed balance of an increasing portion of the loan (15 percent for 1st year, 45 percent for 2nd year, 85 percent for 3rd year, and 100 percent thereafter) while for WB 0.85 percent per annum on the undisbursed amount from the date of which such charges commences to accrue but not including the fourth anniversary of such date; and 0.75% per annum thereafter.

25. Among the five sectors, the social reform and development sector constituting 10% of the ODA portfolio, registered an availment rate of 72 percent, highest among the various sectors **(Annex D-2).** An increasing trend has been noted in availment rates of this sector from 49 percent in 2001, to 59 percent in 2002, to 68 percent in 2003, to 76 percent in 2004 and to 72 percent in 2005 since most of the contracts procured under this sector are supply contract and completion of some projects. On the other hand, the infrastructure sector had a rate of only 57 percent, which is three percentage points below the average. It may be noted that budget constraint, procurement and ROW issues are prevalent in this sector.

26. ***Disbursement Ratio*.** Finally, the disbursement ratio is the ratio of actual disbursements to the net loan amount available during January to December 2005. It is the indicator commonly used by the funding institutions. GOP's performance in terms of this indicator stood at 19 percent, 3 percentage points higher than the 16 percent performance in 2004. ADB recorded the highest disbursement ratio at 28 percent followed by WB with 20 percent, GOJ-JBIC at 19 percent and Other Sources at 11 percent. **(Annex E-1; Annex E-2 for project list)**

27. The ideal availment and disbursement rates are 100 percent. 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.

28. By agency classification, disbursement ratios for GFI and GOCC-implemented projects improved from 25 percent to 30 percent and 13 percent to 18 percent, respectively. Projects implemented by NGAs and LGUs, on the other hand, registered a very slight improvement of 0.4 percent **(Annex E-3)**.

29. ***Commitment Fees.*** For the ongoing projects, cumulative commitment fees paid by the government to ADB, WB and other funding institutions as of December 2005 amounted to $50.9 million. In 2005 alone, $6.0 million was paid in commitment fees. Among national government agencies, the top two agencies with commitment fees paid by GOP were DPWH and DA amounting to $1.0 million and $0.7 million, respectively. Among GFIs, DBP and LBP paid commitment fees of $0.2 million and $0.3 million, respectively. Projects that largely contribute to the $6.0 million commitment fees in 2005 are as follows: a) Pasig River Environment Management & Rehabilitation Sector Development Program (with $0.52 million); b) Infrastructure for Rural Productivity Enhancement Sector (with $0.50 million); c) MM Air Quality Improvement Project (Investment Component) (with $0.41 million); d) Sixth Road

Project (with $0.35 million); and e) Southern Philippine Irrigation Sector Project (with $0.32 million). **(Annex F-1)**

30. ***Loan Extensions.*** Fourteen loans worth $923 million or 9 percent of the ODA portfolio were extended in 2005. Five loans were extended for six months to one year, five loans for 1.5 to two years, three loans for 2.5 to three years and one loan for four years. **(Annex F-2).**

C. ACCOMPLISHMENTS, OUTPUTS AND OUTCOMES

31. ***Closed Loans***. Twenty-nine loans were reported as closed/fully availed during in CY 2005 amounting to $1.6 billion **(Annex G-1)** consisting of: eight loans from GOJ-JBIC ($829 million); six loans from ADB ($351 million); four loans from Spain ($85 million); three loans from WB ($89 million); two loans from Austria ($48 million); and one each from Australia, France, IFAD, NDF, Korea and UK (a total of $238 million).

32. At least 3 of these loans closed in 2005 have incomplete project outputs. These loans were: a) Acquisition of the Fisheries Patrol Vessels (DA/Spain); b) Clark Area Municipal Development Project (DILG/ADB); and c) Provincial Cities Water Supply Project V (LWUA/GOJ-JBIC).

33. The reasons cited by implementing agencies for the closed loans but incomplete project outputs were budget constraints and technical issues. To complete the project outputs of said projects, the implementing agencies propose the use of agency/local government/corporate funds to complete remaining project activities. **(Details in Annex G-2)**

Completed Projects (Details in Annex G-3)

<u>Infrastructure</u>

34. Of the 29 closed loans, 15 came from the Infrastructure sector. Under the ***Tulay ng Pangulo sa Barangay***, 324 bridges were constructed with a total length of 11,728.495 lineal meters while installation of 38 bridges is still ongoing. Most of these completed bridges were already turned-over to LGUs and are open to traffic. All bridge materials stipulated under the loan agreement was also fully delivered.

35. Construction of three at-grade, depressed and above grade structures interchanges involving 7.6 km completed the ***MM Interchange Construction Project*** (MMICP), Phase IV. The physical completion of the project ensured efficient flow of people, goods and services from north to south and vice versa in the Metro Manila area. Also completed under the project was the detailed engineering for interchanges proposed for construction under MMICP V, as follows: EDSA – Roosevelt Interchange; EDSA – North Ave. – West Ave. Interchange; C – 5/Kalayaan Interchange; and C – 5/Lanuza – Julia Vargas Interchange.

36. For the ***Agno and Allied Rivers Urgent Rehabilitation Project*** (AARURP) I, new channeling and channel improvement by dredging of 10.3 million cubic meter and dike heightening with a length of three kilometers was completed. Construction of the Bugallon Bridge with a length of 393 meter in the Lower Agno River and 15 kilometer revetment works in the upper Sinocalan River were also completed under AARURP. The project is expected to mitigate flood damages in the service area of

the lower Agno River Basin and upper Sinocalan River stretch protecting about 470,00 beneficiaries in Pangasinan.

37. Rehabilitation activities of all units covered under the ***Tiwi Geothermal Power Plant Rehabilitation Project*** (TGPPRP) and ***Makban Geothermal Power Plant Rehabilitation Project*** (MGPPRP) were completed and now commercially operational. The two projects will be delivering 232 and 252 megawatts respectively, feeding to the Luzon Grid. On the other hand, delivery of transmission line and substation materials and equipment for Santiago-Alicia 69 kV T/L and Daraga Substation Expansion under the EDCF-funded ***Luzon Transmission Line and Substation Project*** (LTLSP) were also completed. A wholesale electricity spot market (WESM) was established through the Electricity Market and Transmission Development Project which is envisioned to dispatch electricity generation on a competitive basis to meet power demand at a lower cost.

38. Under the ***Provincial Cities Water Supply Project*** (PCWSP) Phase V, 75,597 service connections in three water districts (San Jose Del Monte, Santiago and Surigaio) were installed. Pipelines and related works, including the Water Treatment Plant No. 2 in San Jose Del Monte are nearly completed. Meanwhile, the ***Manila Second Sewerage Project*** was able to complete the following contracts intended to safely dispose septage at the rate of about 700 cum/day: civil works (3), supply (4), and consulting services (2).

39. All equipment and systems of the ***Emergency Network Project*** (ENP) were fully delivered and installed. The emergency call centers in NCR and Region VIII are already operational and provide the system operator a full picture of the actual emergency situation and guide him through the incident handling to achieve a quick and efficient response to the incident. A call center handles about 1,000 legitimate calls a day. ***Clark Area Municipal Development Project*** (CAMDP) was able to complete 5 sub-projects comprising provision of solid waste management (SWM) equipment for Bamban, Mabalacat and Magalang including construction of roads and bridges in Magalang. This was complemented by trainings/workshops on Results Monitoring and Evaluation, Revenue Enhancement, Strategic Management Planning, Solid Waste Management, among others, were conducted for the LGUs.

<u>Agriculture, Agrarian Reform and Natural Resources</u>

40. For the Spanish-assisted ***Acquisition of 14 units Fisheries Management Patrol Vessels for Monitoring, Control and Surveillance***, all patrol vessels were delivered, and nine units are deployed in their respective port assignments. Bureau of Fisheries and Aquatic Resources (BFAR) is providing the Operation and Maintenance (O&M) budget, while the Philippine Coast Guard (PCG) is in charge of the manning requirements. The project is expected to derive greater economic benefits from the oceans in order to effectively manage, protect and conserve marine resources and environment; and at the same time provide the country with greater capabilities to deter all forms of illegal fishing activities and safeguard the dwindling marine resources.

41. Under DAR's ***Solar Power Technology Support*** (SPOTS) to Agrarian Reform Communities (ARCs) I, a total of 5,609 solar home lighting systems (SHLS) were installed in 98 ARCs. The project was also able to provide 139 communal lighting systems to far-flung communities in Mindanao. The provision of light has further lengthened the time devoted for Income Generating Activities (IGAs) from 4 hours to

an average of 5.5 hours. This translates to an average annual household income increment of P 5,490 mainly derived from the combined IGAs. Under the project's institutional development component, trainings on basic organizational management, administrative and financial, agri-development and sustainability, and organizational strengthening of 189 People's Organizations (POs) were conducted. Furthermore, 106 POs were provided with basic organizational management, administrative and financial, agri-development and sustainability trainings and organizational and financial systems.

Ongoing Projects

Infrastructure

42. Under the roads and bridges sub-sector, a total of 337 bridges were constructed/replaced/repaired through the ***Bridge Replacement Projects*** assisted by UK and Austria, ***Tulay ng Pangulo para sa SZOPAD*** and ***Sixth Road Project***. Also completed were the improvement of five (5) road sections under the Sixth Road Project (SRP): Kabasalan-Ipil, Ipil-Licomo and Monte Alegre-Aurora roads in Zamboanga del Sur, Monte Alegre-Molave Road in Misamis Occidental, and, Patnongon-Culasi Road in Antique; structural overlay of Iligan-Aurora Road in Lanao del Norte/Zamboanga del Sur, Calamba-Barcelona Road in Misamis Occidental/Zamboanga del Sur, Barcelona-Katipunan Road in Zamboanga del Sur and Kalibo-Nabas Road in Aklan. Phase III of the Arterial Road Links Development Project (ARLDP) was also able to complete the following sections : Sablayan, Sta Cruz Section, Occidental Mindoro; Mamburao, Abra de Ilog Section, Occidental Mindoro; Talisay Junction Toledo Road Section, Cebu City; and Junction-Toledo-Carcar Road Section, Cebu City. Meanwhile, the ***Road Network Development Project*** (RNDP) Phase II completed the construction/rehabilitation of 17.37 km of PCCP and the 15.67 meters bridge in Bayawan-Kalumboyan Road, Negros Oriental.

43. In the water transport sub-sector, 26 out of the 35 ports were constructed under the ***Social Reform Related Feeder Ports Development*** (SRRFPD) Project. Completed ports include: Polilio and Real in Quezon; Caramoan, San Jose, Tamban and Pasacao in Camarines Sur (Package A); Looc, Said, Conception in Romblon; Araceli, Liminangcong and Roxas in Palawan; Culasi and Estancia in Iloilo (Package B); Banton and Corcuera in Romblon; Alabat and Atimonan in Quezon ; Dumangas in Iloilo (Package C); and San Jacinto, Aroroy and Cataingan in Masbate; Placer, Surigao del Norte; San Sebastian, Western Samar; Mangingisda and Cuyo in Palawan (Package D). The hydraulic excavator was also delivered and accepted by the City Government of Panabo. Meanwhile, in the rail transport sub-sector, the air-conditioning of the original fleet was completed under the ***LRT Line 1 Capacity Expansion, Phase II***.

44. For the power sub-sector, the ***Electricity Market and Transmission Development Project*** (EMTDP) was able to complete installation of hardware and software for the WESM.

45. Under the water resources sector, construction of water and sanitation facilities in three barangays (Manay, Mabunao and Datu Abdul Dadia) were completed through the ***Water Districts Development Project***. The project was also able to install 1,993 units of toilet facilities, 337 units of septic tanks, 10,095 lm of sewage collector pipeline and 40 units of primary septage treatment plant. To date, at least 1,993

households are benefiting from the sanitation services provided. Meanwhile, the ***New Water Source Development Project*** (NWSDP) completed two feasibility studies for the 50 million liters per day (MLD) Wawa River Project and Angat Water Utilization and Aqueduct Improvement Project (AWUAIP), Phase 2.

Agriculture, Agrarian Reform and Natural Resources

46. For DAR's ***Agrarian Reform Communities Project*** (ARCP) I, construction/rehabilitation of 719 kms. access infrastructures were completed. Furthermore, 2,606 hectares of land were provided irrigation while 59 units of potable water system were constructed. Accomplishment under the Development Support Component of the Project includes: 378 demo farms established, 12,525 farmers/cooperators/farmer leaders trained, 400 extension services activated and 218 credit unions in 122 ARCs formed. Because of the projects undertaken by ARCP I in 101 ARCs, travel time and cost decreased by 37% and 2%, respectively. There was also an improved access to health services, education for children and availability of water. The project also promoted agricultural development by enabling the beneficiaries to have access to credit and new/improved and appropriate farming technology. Irrigation in the ARCs also improved under the project which resulted to higher hectarage planted, greater cropping intensity and crop diversification, higher yields and increased farm productivity.

47. Under the ***Western Mindanao Community Initiatives Resource Management Project*** (WMCIP), the following were completed: 100.85 km. FMR; 205 lm. hanging/foot bridges constructed; 218 sloping protection; 108 sq.m. wharf; 160 lm. rock causeway; 23 units potable water system (level II), 2 units crop driers; 6 units storage cum meeting facilities; 15 multipurpose centers; 14 units pre/post harvest facilities; 6,845 lm. flood control; 305 has. irrigation facilities; and 2 units agricultural structures. Through the infrastructure works completed, travel time was reduced by 35%, from 34 to 22 minutes; vulnerability to flooding of about 788 households being served by flood control structures was reduced; crops spared from flood damages; and incidence of landslides reduced. There was also an increased volume of farm products delivered to markets by 30% and improved access of 81 communities to extension services and other programs and services being provided by the government and non-government institutions.

48. The JBIC-assisted ***Mindanao Sustainable Settlement Area Development*** (MINSSAD) completed the following under its Rural Infrastructure Component: construction of 59 kms. farm-to-market roads (FMR), 18.8 lm bridges, 2 potable water systems, 11 barangay health stations,40 classrooms and 8 units of multi-purpose buildings.

49. The Community Investment Component of the ***Northern Mindanao Community Initiatives Project*** (NMCIREMP) installed 45.15 km FMR, 13 potable water system; and 12 units of building/structure. In support to the Indigenous People (IP), 2 legislations were also submitted by the local Sanggunian integrating Ancestral Domain Sustainable Development and Protection (ADSDP) in local development plans.

50. Development and testing of the Philippine Fisheries Information System (PhilFIS) of the ***Fisheries Resource Management Project*** (FRMP) is 99% complete. This is part of the establishment of fisheries resource management systems to address

critical issues of fisheries resource depletion of the areas covered by the project. Resource and Social Assessments (RSA) were also conducted in 16 bays while a total of 202 Resource Enhancement Projects (REP) were established and maintained.

51. In the implementation of an integrated environmental protection and management of critical ecosystems under the ***Southern Mindanao Integrated Coastal Zone Management Project*** (SMICZMP), an Environment Conservation and Protection Center (ECPC) was completed and provided with laboratory equipment. Through the ECPC, DENR including the academe and different LGUs could now undertake research and monitoring in Mt. Matumtum Protected Landscape/Saranggani Bay Protected Seascape (MMPL/SBPS). Furthermore, reforestation in 2,000 hectares and agroforestry in 3,260 hectares were implemented under the project. Trees were planted in the agro-forestry sites and are expected to bear fruits for commercial production in 2008.

<u>Industry and Services</u>

52. Constructions of five sub-projects were completed under the ***Mindanao Basic Urban Services Sector Project***, namely Mahayag, Zamboanga del Sur Municipal Hall; Dumalinao, Zamboanga del Sur Public Market; Buluan, Maguindanao Public Market; Naawan, Misamis Oriental Water Supply System, and Alicia, Zamboanga Sibugay Public Market. This bring to seven the total number of completed subprojects form the start of project implementation, benefiting 234,370 urban residents in Mindanao. A total of 26 LGUs coming from 3rd to 6th class have participated in the project, increasing the access of urban communities to basic local infrastructure. The Project has also provided technical assistance (Subproject Preparation) and credit financing to 51 LGUs, and has completed 63 project proposals. Further, the Project developed the capacity building of LGUs on the following: (i) Feasibility Studies (FS) preparation; (ii) Sub-project Implementation and Management (SPIM); (iii) Sub-project Operations and Management (SPOM); (iv) Results-Based Monitoring and Evaluation (RBME) training; and (v) Environmental Impact Assessment (EIA) training.

53. DBP approved a total of P 11. 045 billion worth of sub-loans. Of this amount, P 4.407 billion was approved for agri-hog farming, beverage, furniture manufacturing, hospital, printing, cement, power generation, transport, waste treatment, packaging through the ***Environmental Infrastructure Support Credit Program***. A total of P 2.424 billion sub-loans were approved under the ***Industrial Support Services Expansion Project*** (ISSEP) II. Meanwhile, P 1.691 billion was approved for port development, including acquisition and upgrading of vessels through the ***Domestic Shipping Modernization Project*** (DSMP) II. Other sub-loan approvals involved food processing, trading, hotel services, micro-financing, hospital /medical services, network services, printing, equipment purchase, water supply and sanitation systems, urban drainage, mini-hydro power plants, substations, transmission lines, school-building construction and purchase of computers and equipment.

<u>Social Reform and Development</u>

54. Under the Structural Regional Infrastructure (SRI) Component of WB-assisted ***ARMM Social Fund Project***, construction of Polloc Base Port Terminal and Regional Social, Welfare and Development (RESWAD) Building was completed. Seven other subprojects are currently ongoing which include: RESWAD, Sulu Provincial

Hospital, Bongao Base Port, Pangutaran, Buluan, Datu Blah, and Lamitan District Hospitals.

55. All equipment were fully delivered under the Kreditanstalt fur Wiederaufbau (kfw)-assisted ***Upgrading of the Philippine Merchant Marine Academy*** (PMMA) which includes life saving, fire fighting, teaching and ship operation simulation. The GOP-funded civil works - the safety center, simulator buildings, and site development for the safety center - were also completed.

56. DepEd is currently on the process of mainstreaming and institutionalizing ***Third Elementary Education Project***'s (TEEP) best practices, process and methods. More than 100% of the targeted elementary schools in the project areas have formulated and implemented their 3-year School Improvement Plans with the participation of the Parent-Teacher-Community Associations (PTCA) and Barangay officials. School-Based Management (SBM) TEEP Model is now for rolling-out to non-TEEP Divisions.

57. Under ***the Kapit-Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services*** (KALAHI-CIDSS), 834 out of the 1,524 sub-projects (SPs) have been implemented nationwide. Road and water systems account for the highest number of completed SPs. Around 110 SPs are nearing completion with physical progress of 90% – 99%.

58. For DSWD's ***Early Child Development Project*** (ECDP), human and physical resources that enabled 132 LGUs to effectively and efficiently implement ECD programs and services at the community level has been put in place.

D. KEY IMPLEMENTATION ISSUES (Annex H-1)

59. ***Budget Cover.*** The General Appropriations Act (GAA) for 2005 or RA 9336, provided P37 billion for foreign-assisted projects (FAPs), 12 percent lower than the proposed budget of P41.4 billion reflected in the 2005 Budget of Expenditures and Sources of Financing (BESF) but 5 percent higher than the reenacted 2004 actual budget of P35.3 billion. The 2005 FAPs allocation accounted for 4 percent of the total 2005 GAA of P919 billion and included a P32 billion capital outlay, 33 percent of the P97 billion total capital outlay in the GAA.

60. Overall, 12 out of 20 budget-dependent implementing agencies reported budget issues affecting more than 30 of their ongoing projects, classified as follows: a) delayed approval of the 2005 GAA (signed into law in March 2005); b) inadequate appropriations cover; c) delayed release of Special Allotment Release Order (SARO) and Notice of Cash Allocation (NCA); and d) confusion among projects using MDFO as conduit.

61. The limited budget provided for ODA projects over the last two years contributed to extensions in implementation schedules and closing dates of more than 13 projects implemented by DA, DAR, NIA, DENR, DOF, DOTC, DPWH, and TESDA. **(Annex H-2)** The extensions are expected to have an impact in the overall cost of implementing the project and mean delays in the delivery of benefits and outcomes that can be derived from the concerned projects.

62. As reported by DBM, total accounts payable of the National Government continues to decrease in the past three years, from P130 billion in 2002 to P80 billion in 2005.

Three agencies implementing FAPs funded by GOJ-JBIC loans reported unpaid billings of at least P2.1 billion, 54 percent lower than the reported P4.6 billion unpaid claims in 2004. The unpaid billings as of December 2005 came from DPWH with P1.1 billion, NIA with P740 million and Provincial Government of Lanao del Norte with P282 million.

63. ***Payment of Value Added Taxes*** (VAT) were advanced by consultants and contractors of GOJ-JBIC/JICA-assisted projects subject to reimbursement by concerned government agencies. However, delays in the reimbursement of VAT payments amounting to P1.185 billion were encountered for projects implemented by eight agencies i.e. DPWH, DOTC, Manila International Airport Authority (MIAA), NIA, PPA, NPC, DepEd and Benguet Provincial Government, as these were not covered by the necessary appropriations.

64. The effects of delay in the reimbursement of VAT include: a) suspension in the processing of projects under the Japan General Grant-Aid program; b) delay in the commencement of the 27th Yen Loan Package negotiation; and c) decreased confidence on GOP's capability to meet its obligations.

65. ***Procurement.*** Of the 21 civil works, 4 consulting services and 11 goods contract packages reviewed, a wide variance in procurement periods was noted. Implementing agencies reported that procurement activities from submission of bids to issuance of Notice to Proceed (NTP), takes between 1.44 months to 35 months versus the prescribed timeline of 3.2 months per Republic Act 9184 or the Government Procurement Reform Act (GPRA). GOCCs namely, BCDA, MWSS, PNOC-EDC and SBMA encountered delays in procurement in five major contracts with amounts ranging from P106 million to P14 billion, resulting in the agencies' inability to meet performance targets. **(Annex H-3)**

66. In general, the reasons cited by agencies for encountering delays in procurement were: a) high bid prices (BCDA, DOTC and DPWH); b) failure in bidding/rebidding of contracts (DepEd and PNOC-EDC); c) lengthy review process (MWSS and SC); d) changes in leadership (DAR, BCDA, ASFP-FMO); and e) lack of familiarity with RA 9184 and/or funding institutions' procurement guidelines (LWUA, DA and TESDA).

67. Improvements in procurement periods of agencies were noted in DENR and LWUA. In LWUA, procurement timeline for civil works decreased from 3.69 months to 2.91 months. The experiences of DSWD and LLDA in the KALAHI–CIDSS and Laguna de Bay Institutional Strengthening and Community Development Projects are worth highlighting as the procurement process from submission of bids to issuance of NTP took only 2.4 months and 2.6 months, respectively, less than the 3.2 months prescribed timeline under RA 9184.

68. However, in the case of the Judiciary Reform Support Project implemented by the SC, the time spent by the Court En Banc to carefully scrutinize procurement documents exceeded the timelines outlined under R.A. 9184 by 1.86 months (approximately 56 days). Consultancy contracts submitted for consideration of their technical aspects required a more thorough review by the SC en banc.

69. The North Luzon Wind Power Project (PNOC-EDC) funded by GOJ-JBIC Special Yen Loan Package (SYLP) facility encountered substantial delays in the procurement of goods and services that stems from the Special Yen Loan requirement of at least 50

percent Japanese content for goods and services and limited only to Japanese as the primary contractor/supplier. As a result, bids were more expensive than international prices leading to total project costs which are substantially higher than ICC-approved costs, thus requiring ICC reevaluation to reaffirm viability of the project. In this case, the delay in procurement is now more than a year and there is still no agreed solution. Based on current plans by PNOC-EDC, it appears that the only feasible solution to maintain economic viability is to drop the transmission line component under GOJ-JBIC financing and instead pursue this component using local funds and reduce the wind farm capacity to about 30 MW from 40 MW, which will redound to GOP savings of more than US$10 million.

70. ***MDFO Transition***. The 2005 GAA did not include appropriations under the MDFO for the implementation of projects using MDFO as a conduit because of the pending operationalization of the Municipal Finance Corporation (MFC). The budget requirements of projects passing thru MDFO were appropriated either under the implementing agency allocation or under the unprogrammed fund section of the GAA. These appropriations, in some cases had to be reverted to MDFO for its administration resulting in delays in project implementation. Specifically, DA had difficulty in transferring GOP counterpart funds for rural infrastructure component from DA to MDFO because this is not allowed under GOP rules.

71. ***LGU Participation***. A total of 44 ODA projects with direct LGU participation accounted for 18 percent of the portfolio. The ***lack of LGU equity*** is a major problem affecting project implementation particularly in the Mindanao Basic Urban Services Sector Project of DILG/LBP and Rural Water Supply and Sanitation Project V of DILG.

72. For ARCDP II, the current ***NG-LGU cost sharing policy*** of 50-50 affected the interest and capacity of LGUs to participate in the project and put up the required counterpart for the priority subprojects. As a result, eight LGUs have formally withdrawn affecting 36 proposed subprojects with an aggregate value of P219 million.

73. The ***limited technical capacity of LGUs*** particularly those in the lower income class under DOF's Local Government Finance and Development Project continue to delay project implementation. Some LGUs experienced delays in the preparation and submission of documents required during the subproject appraisal stage (i.e., conduct of surveys, preparation of engineering plans and Environmental Compliance Certificate/Certificate of Non-Coverage (ECC/CNC) from DENR and detailed engineering design stage. In the Credit Line for Solid Waste Management Project, limited capacities of LGUs in preparation of loan applications and documents to comply with Bank requirements (i.e., cost recovery for O & M and formation of autonomous units for solid waste management in the LGUs).

74. ***Project Management***. Changes in heads of agencies/management have been observed to 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. Procurement was delayed in the case of DAR's Agrarian Reform Infrastructure Support Project II due to change in leadership which required evidence of authority for the new appointee. For SBMA, new management had to review the procurement processes /decisions adopted by the previous administration.

75. Existing uncertainties in project management may imminently upset the gains of a number of subprojects implemented under the ARMM Social Fund Project - Fund Management Office (FMO). The amended version of Executive Order 124, reflecting the transition in project management from FMO to the ARMM Regional Government, is still pending with the Office of the President. The ARMM Management Organization structure, the body under the ARMM Regional Government which shall take over management of the project has not yet been finalized.

76. ***Right-of-Way/Land Acquisition***. A major problem in land acquisition is the availability of funds for payment of 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/land acquisition requirements are not fully supported by the implementing agencies as in the case of DPWH (Rehabilitation of Bridges along Arterial Roads IV, MM Flood Control Project – West of Mangahan Floodway and Lower Agusan Development Project - Flood Control Component) and DOTC (Selected Airports Phases I and II and Laguindingan Airport projects). ROW/land acquisition proved to be difficult for some projects/agencies due to rejection by owners of the final offered price (Laguindingan Airport– DOTC) and legal ownership of expropriated lots (New Iloilo Airport-DOTC).

77. It took some time before LWUA/Water District and the DPWH could resolve the ROW issue on the implementation of the National Highway Road Widening Project and the Urdaneta WD subproject under the Provincial Towns Water Supply Projects (PTWSP) I/II due to disagreements on compensation payments. Moreover, well site/spring source site acquisition problems were also encountered in Ramon (Isabela), San Miguel (Bulacan), Hermosa (Bulacan), Bugallon (Pangasinan), Tubungan (Iloilo), Malay (Aklan), San Francisco (Agusan), Pandi (Bulacan), Talugtog (N. Ecija), and Metro Hilongos (S. Leyte), in the PTWSP I/II.

78. Delayed ROW acquisition contributed to the low performance of the Subic–Clark-Tarlac Expressway Project of BCDA. ROW acquisition has been delayed for more than a year with the remaining one percent of the ROW main alignment (60-meter ROW) still unresolved, located mostly in Bataan. This is for expropriation and issuance of writs of possession from the courts. Some farmers are demanding to be paid on the improvements in their property that were already paid by BCDA.

79. PRRC's problems on ROW/land acquisition included resistance/reluctance of project affected people/relocatees, presence of illegal settlers and claimants and deferment in the acquisition of housing units. For NIA, ROW acquisition was delayed in the Banaoang Pump Irrigation Project, specifically for the tunnel outlet which traverses the lot of the Girl Scouts of the Philippines (GSP), Ilocos Sur Chapter. GSP Board refused to grant right-of-way and insisted relocation of said tunnel, but this will be very expensive according to NIA.

80. ***Increase in Costs.*** Seventeen projects in the ODA loans portfolio were reported by implementing agencies to involve cost increases amounting to an aggregate of P29 billion (Annex H-4). By implementing agency, the DPWH accounts for the bulk of the increase at 70 percent (12 projects), followed by NIA with 11 percent (3 projects), DOTC with 9 percent (1 project), and LRTA with 10 percent (1 project). By funding source, 75 percent of these cost increases or P21 billion (for 15 projects) occurred in

GOJ/JBIC-funded projects, followed by WB with P 6 billion (1 project) and China with P 1 billion (1 project). Two of these projects are still for ICC approval and the rest are still for submission to ICC by the concerned implementing agencies pending finalization of estimates earlier submitted.

81. Meanwhile, eight projects identified during the 13th ODA Portfolio Review with cost increases amounting to P 11 billion were already approved by the ICC in CY 2005. Western Mindanao Community Initiatives Project (WMCIP), whose cost increased after a decision of the implementing agency (DAR) to maximize the use of the loan proceeds, was also approved by ICC in CY 2005.

82. The common reasons cited by implementing agencies for cost increases are: a) additional civil works (changes in scope/ variation orders/ supplemental agreements); b) increase in right-of-way/ land acquisition/ resettlement costs; c) increase in unit cost of labor, materials and equipment; d) high bids (bids above Approved Budget for the Contract/Approved Agency Estimate); e) currency exchange rate movement; and, f) claims for price escalation.

83. ***Low Demand for Credit.*** For projects implemented by DBP, the low demand can be attributed to: a) wait-and-see attitude of domestic and foreign investors in light of the financial crisis; fear of a possible downgrade of the country's sovereign international rating; and Private Financing Institutions (PFIs) selective lending only to big projects to minimize risk (Industrial Support Services Expansion Project II); b) increase in prices of second-hand vessels due to peso devaluation, fuel oil crisis and series of price adjustments (Domestic Shipping Modernization Project II); c) environmental investment is not the priority of SMEs at the moment (Industrial Pollution Control Loan Project II); d) majority of LGUs do not want the Design-Build-Lease scheme which is required under the program (LGU-Urban Water Supply APL 2); e) private training institutions are reluctant to borrow from the fund given the competition from state universities and other public institutions which offer training courses at lower cost (Fund for Technical Education and Skills Development).

84. For LBP, the low demand is due to: a) limited types of project which the loan facility can finance and the unattractive sub-projects which are not income-generating (Water Districts Development Project); b) weak state of both the corporate and Small and Medium-Size Enterprises (SME) sectors that have not yet fully recovered from the negative impacts of the Asian financial crisis; c) excess liquidity in the banking system; and d) unfavorable wholesale lending environment that has been created by below market rate of DBP's wholesale lending programs (Third Rural Finance Project).

85. ***Coordination between Metro Manila Development Authority (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 (MMAQP), that led to substantial delays for these projects.

86. Given the limited time remaining for the implementation of civil works, GOP opted for the cancellation of the remaining works under the MM Interchange V in January 2006 as well as the cancellation of the EDSA Pavement Rehabilitation Component under

MMAQP. Final estimates for the DPWH and other components for cancellation are being prepared by concerned parties.

87. ***Legal Cases.*** On the Agno River Flood Control Project – Phase II, a case alleging that there was irregularity and anomaly in the bidding and award of the contract to the lowest bidder was filed with the Supreme Court in 2002. In April 2005, the SC upheld the dismissal of the petition/complaint and clarified that the advisory made by the Regional Trial Court to DPWH (that it must seriously consider awarding to the third lowest bidder) has no binding/legal effect. Despite the SC decision, the DPWH was able to issue the Notice to Proceed to the lowest bidder only in February 2006 because of the need to further study implications on unit cost prices given the three and a half year delay in contract award.

88. Under the Southern Mindanao Integrated Coastal Zone Management Project, the legal and institutional personality of the Environmental Conservation and Protection Center (ECPC) has to be resolved between the DENR and the Provincial Government of Sarangani.

E. MEASURES TAKEN TO IMPROVE PORTFOLIO PERFORMANCE IN 2005

89. Various measures were undertaken in 2005 by oversight and implementing agencies to address the issues that impede implementation, as follows:

Overall Measures

90. GOP continued to focus on public expenditure management (PEM) reforms to ensure adequate resources are made available for developmental programs and projects. Planning, budgeting, monitoring and evaluation systems were reviewed through technical assistance from ODA partners with the end view of establishing a performance – based /outcome - oriented culture in fiscal management.

91. The review included the Medium-Term Philippine Development Plan (MTPDP), Strategy Planning Matrices (SPM), Medium-Term Public Investment Program (MTPIP), Efficiency and Effectiveness Review (EER), Organization Performance Indicator Framework (OPIF), Medium-Term Fiscal Program (MTFP), Medium-Term Expenditure Framework (MTEF), budget preparation and Programs, Activities and Projects (PAP) formulation, Agency Performance Review (APR), Socio-Economic Report (SER) and ODA Performance Review.

92. To facilitate doing business and encourage more investments in the country, EO 428 dated May 18, 2005 was issued by PGMA which directed all national government departments and GOCCs to simplify rules and regulations and reduce reportorial requirements. This aims to allow the industry to devote maximum effort and time to their operation and expansion rather than to compliance with excessive bureaucratic requirements. Under the EO, LGUs are also encouraged to adopt similar measures.

93. Policy changes were adopted by funding institutions (GOJ-JBIC and WB) in project cost sharing ratios. WB's new policy provides the flexibility to permit Bank financing up to 100 percent of cost of individual projects and activities, where appropriate, within the context of an overall cost sharing framework. GOJ-JBIC also offered to increase its disbursement ratio (financing ratio) to the highest possible limit based on actual requirements provided that it will be limited to existing loan amounts. The

financing flexibility in both funding institutions will help address budget constraints as it will ease pressure on GOP to put up the much needed counterpart funding requirements of FAPs.

On Budget-Related Issues

94. Budget-dependent agencies constantly coordinated with DBM on the matters of cash shortages and budget allocation, presenting them with various options for fund realignment. Among others, due to uncertainty of DILG's sourcing of NG grant funds, this led DILG and LBP to request for a change of financing mix of subprojects under Mindanao Basic Urban Services Support (MBUSS) Project. ADB approved on 5 July 2005 the new financing mix for subprojects which is 90% loan proceeds (ADB-80% plus LBP-10%) and 10% LGU equity. In other projects, LGUs withdrew participation in sub-projects, paving the way for the entry of new LGUs in some instances and cancellation of loan allocations in others.

95. As committed to the Japanese government, concerned agencies have allocated funds in their 2006 budgets for the reimbursement of VAT payments. Some P667 million or 56 percent of total claims is scheduled for payment in 2006. With this amount, cumulative payment of VAT claims is expected to reach 89 percent of total VAT claims by end of 2006.

On Procurement

96. EO 423 dated April 30, 2005 repealed EO 109-A prescribing the rules and procedures on the review and approval of government contracts to conform with RA 9184 or the Government Procurement Reform Act. The EO simplified and further defined details of the procurement process in a number of areas (policies requiring public bidding, scope, approval of government contracts, exceptions, signing authorities, other applicable law, joint venture agreements, submission of government contracts) to allow NG agencies, GOCCs and LGUs to secure the goods and services when needed.

97. Various initiatives on procurement were reported by different implementing agencies. MWSS has streamlined its procurement procedures particularly contract approval. This is now a pre-condition to the new pipeline project (Development Support for MWSS Financial Strengthening) for WB financing. LWUA and the Resident Engineers assisted Bid and Award Committees (BAC) of the Water Districts conduct briefings on major requirement of RA 9184 and standard tendering procedures for KfW project, and participate in pre-bid conferences and opening of bids. Invitations to Bid are now posted in the Government Electronic Procurement System (GEPS) and in the LWUA website to facilitate procurement. Several procurement training sessions were conducted for DA units and agencies while DILG training/seminars on funding institution Guidelines on Procurement have been conducted for LGUs.

On MDFO

98. While the scheme of transferring GOP counterpart fund under DA budget to MDFO was being reviewed, DA downloaded GOP counterpart funds to LGUs through the DA-Regional Field Units under Memorandum of Agreements to implement its projects using the MDFO conduit. DAR closely coordinated with MDFO and DBM to resolve budget issues of its ongoing projects and those lined up for priority implementation. Also, on 30 June 2005, DOF-MDFO-Policy Governing Board issued "Resolution

Approving the Transfer of Special Allotment Release Order (SARO) from DAR to the MDFO for ARCDP 2 and ARCP". MDFO administers funds for the rural infrastructure of these projects.

99. A special provision was included in the 2006 National Expenditure Program providing for the authorized transfer of appropriation from DA to DPWH for the implementation of farm-to-market roads. Specifically the provision states that "the appropriations provided for capital outlays for the DA intended construction of farm–to–market roads shall be released to the DPWH, provided that DA in coordination with LGUs, the resident farmers and fisherfolks shall identify the respective locations or sites where the appropriate projects shall be constructed. LGUs shall provide a counterpart of not less than 10 percent of the project cost, subject to their IRA level."

<u>On Cost Increase</u>

100. ICC approved restructuring in 33 projects as follows: a) loan validity extensions: for more than one year – 8 projects and by one year or less – 5 projects; b) change in scope – 8 projects; c) increase in cost - 15 projects. **(Annex H-5 for list of projects)**

101. In the ICC Cabinet meeting on 29 July 2005, it was agreed that: i) all agencies review their respective internal policies on eligibility for foreign exchange payments to ensure that only imported goods, equipment, services, etc. will be payable in foreign currency; ii) DBM should consider amending DBM-DOF-COA Circular No. 2-97 to include guidelines on components of projects eligible for foreign exchange payments ; iii) concerned agencies should ask Local Government Units (LGUs) to shoulder partially/fully any cost increase in right-of-way (ROW) relocation, etc., so that LGUs will help in keeping ROW and relocation costs at original or reasonable level; iv) proper incentives/disincentives should be set-up in order that PMO will ensure cost efficiency.

102. 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 2005 to address issues affecting project implementation, share good practices, and be apprised of recent policies and procedures on ODA.

103. In a resolution dated 2 December 2005, PIOs committed to contain cost increases in ongoing ODA projects. The PIOs further committed to : a) adopt other measures that shall drastically minimize and contain project cost increases and report such measures to ICC for monitoring; and b) advocate the conduct of value engineering studies for projects with cost increase of 20% or more, prior to submission to ICC for re-appraisal.

104. In line with the reform efforts of DPWH in strengthening the control and monitoring of FAPs vis-a-vis the ICC approved cost, DPWH issued Department Order (DO) No. 68 series of 2005 dated June 22, 2005 which requires pre-investment clearance for

FAPs with cost overruns. The DO defines the approval process flowchart within the department for: a) overall project cost; b) procurement; and c) contract implementation.

On Credit

105. GFIs continued their thrusts on economic pump-priming and program-type lending to strategic sectors like infrastructure, SMEs, agriculture, education, health care, housing, microfinance and environment. Funds were also made available to support industries and help create an enabling environment for LGUs and the private sector. The GFIs also expanded the list of eligible sub-projects that can tap the ODA facility and conducted vigorous promotional activities to educate clients/borrowers in the areas of environment and large water supply projects. Constant follow-ups were conducted with the LGUs and MFIs and assistance were extended in the completion of the documentation requirements.

On ROW/Land Acquisition

106. On ROW/Land Acquisition, meetings and site inspections were held to resolve the ROW issue. Prolonged negotiations were conducted with lot owners and in some cases, alternative sites were considered. NIA continued to take to court unresolved ROW cases. For Banaoang PIP, the expropriation complaint was filed, as well as an ex-parte motion for the issuance of writ of possession for which a motion was granted by the court.

On Project Management

107. PMO tenure of the Judicial Reform Support Project of SC was addressed with the issuance of Memorandum Order No.20-2005 last 5 May 2005. With the DBM subsequently amending the PMO's Notice of Staffing and Compensation Allocation, PMO staff now holds regular/permanent appointments.

On Legal Issue

108. On the legal and institutional personality of the Environmental Conservation and Protection Center (ECPC) under SMICZMP, a policy paper was prepared by the DENR, proposing the transformation of the ECPC into a SEC registered non-stock, non-profit organization, which will be named ECPC Inc. ECPC Inc. shall be a GOCC attached to the Provincial Government of Sarangani and shall be created on the basis of RA7610. Likewise, a Conditional Deed of Donation has been drafted in favor of the Provincial Government of Sarangani.

F. MEASURES FOR 2006 AND BEYOND

Oversight Agencies and Entities

109. There is an urgent need to resolve the issue on the status of the MDFO as an institution as agencies and projects continue to be affected by the uncertainty and confusion brought about by its supposed-to-be transition to MFC. A universal scheme of transferring GOP counterpart funds, currently allocated under IA budgets, to MDFO has to be mutually agreed among **DBM, DOF and IAs** to ensure smooth implementation of projects using the MDFO conduit.

110. As already confirmed by the DBCC in 2004, **DBM and DOF** should finalize mechanisms to operationalize the charging of commitment fees to agency budgets with the objective of making agencies accountable for the total cost of projects.

111. To enhance the wholesale lending environment for credit relending projects, **National Credit Council (NCC)** should strictly enforce EO 138 which specifies that interest rates charged for government credit programs should not be lower than the prevailing market rate. Moreover, subsidized wholesale operations (below market-pricing) should be restricted to non-commercial lending.

112. **The Investment Coordination Committee (ICC)** should ensure that implementing agencies should shift focus to achieving greater efficiency in delivering services by reducing administrative, project management, and consultancy costs. Present methodologies for estimating overhead costs based on project costs that may provide skewed incentives to agencies should be reviewed.

113. **ICC** should set up proper incentives/disincentives system in order that PMO will ensure cost efficiency and timely completion of project. At present, a PMO can even claim additional PMO allocation if there are cost increases in a project, based on allowable 3.5% share of PMO allocation pegged to the total project cost.

114. **ICC** should cause the review of the General Engineering Supervision and Administration (GESA) allocation in NIA projects which roughly constitutes 9 percent of total base cost. This amount is over and above the management fee amounting to 5 percent of total base cost included in the project cost. As a result, administration and management cost adds up to 13 percent of total base cost of the project; as compared with DPWH, the administrative cost is 3.5 % of total project cost.

115. Funding projects under Special Yen Loans proved costly. Notwithstanding the seeming highly concessional terms of the financing window, the imposed 50% Japanese content of goods led to bids which are much more expensive than international prices resulting in procurement delays. To lower the bids that are more comparable to international prices, **DOF** should request JBIC's reconsideration for a lower Japanese content in future tied loans, say 30% as is the current requirement under Japan's Special Term for Economic Partnership.

116. With the increasing share of tied loans in the ODA portfolio, **ICC** should conduct a thorough review of projects that involve mainly tied supply of goods and equipment and employ direct payment method of disbursement.

117. The Government Procurement Policy Board (**GPPB**) should review internal policies on eligibility for foreign exchange payments to ensure that only imported goods, equipment, services, etc. will be payable in foreign currency so that cost increases due to forex movement can be reduced; and liabilities of consultants, contractors and even agency officials for cost increases should be defined and established.

<u>GFI</u>

118. **GFIs** to develop/refine its performance monitoring system involving projects with LGU participation, to include monitoring the achievement of outputs and outcomes of the various sub-projects, aside from the cost efficiency and/or financial performance.

This is in compliance to NEDA Board Resolutions No. 3 (s. 1999) for "***ICC and the Implementing Agencies to Report on Project Outcomes and Impacts Towards Ensuring that the Objectives of Development Projects are Attained"*** and No. 14 (s.1999) "***Approving the Guidelines on Incorporating Results Monitoring and Evaluation in the ICC Approval Process***". This is also in line with calls from funding institutions to strengthen focus on project outcomes during project implementation.

Implementing Agencies

119. **Implementing agencies,** in the design of new projects, should consider realistic targets and deliverables with the end-view of coming up with a more manageable and reasonable sizes of loans, in light of the magnitude of loan cancellations over the years.

120. **Implementing agencies** should institutionalize the conduct of impact evaluation for completed projects, taking into consideration the relevance, efficiency, effectiveness impact and sustainability of these projects and document lessons learned, as these should input to packaging of proposed projects. Best practices/approaches should be shared among implementing agencies.

121. **Implementing agencies** should closely supervise the implementation of project components as approved by ICC and should immediately report any deviation in project cost, scope and implementation period. The ODA Act of 1996 or RA 8182 stipulates that projects with cost overruns regardless of cause should be remanded to the ICC for reappraisal. The reappraisal will determine the continued viability of the projects and the reasonable levels of cost overruns that shall be the basis for recommending additional appropriations to be included in the annual national expenditure program to be submitted to Congress.

122. **NIA** should institutionalize cost control mechanisms in order to minimize or avoid projects' cost increases for ICC action, as such can be avoided if in-house reviews are done. Other measures which should be looked at include: better estimation of contract costs by NIA, closer coordination among planning, contracting and implementation phases to tighten costs and put early flags when cost overrun is impending; better coordination among Central, Regional and District/field offices, for timely decision-making.

123. **DILG** should review the role of LGUs in right-of-way acquisition and resettlement so that LGUs can take greater responsibility for fast-tracking projects in their vicinity.

124. **IAs** should conduct cleaning up of their respective portfolios to rid out underperforming projects. Specifically, **DPWH** which has the biggest ODA portfolio should present all projects with prospective overruns to the ICC for approval within 2006 so that budgetary requirements for succeeding years can already be secured and thus avoid delay in implementation. This shall be done at the earliest possible time to provide NEDA Secretariat ample time to evaluate and also to avoid instances wherein re-evaluations are done within the project's loan closing month.

125. As reported by various agencies, partial cancellations of about US$200 million dollars from 10 projects are foreseen in CY 2006, as a result of reduction in scope,

unutilized loan balance, budget constraints, and foreign exchange movement. **(Annex H-6)**

G. BUDGET OUTLAY AND REQUIREMENTS

126. Budget requirements of ongoing FAPs for succeeding years, as submitted by the various agencies are as follows: P56 billion for 2006, P60 billion for 2007, P31 billion for 2008, P12 billion for CY 2009, P4 billion for CY 2010 and P3 billion for 2011 onwards. **(Annex H-7)**

H. PROSPECTS IN 2006

127. Under the 2006 National Expenditure Program (NEP), some P56 billion has been allocated for the implementation of FAPs representing a P19 billion increase (50 percent) over the 2005 allocation of P37 billion. Specifically, the 2006 NEP allocation is broken down into P39 billion loan proceeds, P16 billion GOP counterpart and P0.56 billion grant proceeds. The loan proceeds, if fully disbursed, translates to US$730 million, which is nine percent higher than the 2005 actual disbursement of US$670 million, excluding carry over budgets from 2005.

128. A major threat, however, is the non-passage of the GAA as this would mean projects will continue to suffer from budgetary shortfalls. Said threat will greatly affect the implementation of some 46 projects which are scheduled to be completed in the next two years. A reenacted budget would mean a shortfall of P19 billion on the 2006 requirements of FAPs (P56 billion) despite the P2.9 billion that will be made available from 19 completed projects in 2005. This will also undermine the portfolio clean-up undertaken by GOJ-JBIC with GOP in 2005 as budget constraints could still be an issue in project implementation. A lump-sum amount (Unprogrammed Fund) allocated to specifically address the budgetary shortfall in projects needing budgetary augmentation must be established although projects will be competing for the limited budget that can be made available.

129. The issuance of Notices to Proceed (NTPs) in a number of big contracts implemented by GOCCs in 2005 are expected to result in substantial disbursements that will continue to pull-up the GOCCs' performance indicators in 2006.

130. With the measures taken by GFIs to improve its ODA portfolio such as improved project features, extension of loan validity and cancellation of excess funds, it is anticipated that disbursement performance will improve in 2006. Complementing the ongoing marketing and promotional efforts to move GFI credit facilities are the gradual recovery of the economy and implementation of more programs to promote SME financing.

131. The draft ICC and DBCC Resolution on "***Providing Incentives for Improving Local Government Performance through the NG-LGU Partnership***" is expected to be finalized in 2006. The current NG-LGU cost sharing scheme provides a maximum 50% NG grant to activities devolved to LGUs. With the finalization of the ICC-DBCC resolution, an additional 20% NG grant for LGUs will be provided to serve as incentives to LGUs that are participating in nationally-identified programs and projects and have delivered commitments based on the LGU reform program.