2006

OUTCOME OF THE
15th ODA PORTFOLIO REVIEW

I. BACKGROUND

Mandate

The National Economic and Development Authority (NEDA), was mandated under RA 8182 (as amended by RA 8555) or "*The ODA Act of 1996*", 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.

These annual reviews have been ongoing even before the passage of the ODA Act. Per NEDA Board Resolution No. 30 Series of 1992, the Investment Coordination Committee (ICC) was instructed to review all ongoing foreign-assisted programs and projects and their financing, in light of the large undrawn balance of these loans for which commitment fees are being paid, and the concern for further improving ODA absorptive capacity. Furthermore, NEDA Board Resolution No. 3 Series of 1999 approved the recommendation to report on project outcomes and impacts towards ensuring that the objectives of development projects are indeed achieved.

This year's Review validated the consistency of ongoing ODA projects with the Medium-Term Philippine Development Plan (MTPDP) 2004-2010 and the Medium-Term Public Investment Program (MTPIP) 2005-2010. Specific programs and projects cited in the two documents are already in various stages of implementation (pre-implementation, implementation or completion).

Coverage

The Review covered all active ODA loan-funded programs and projects (ongoing, signed and became effective) from *01 January 2006 to 31 December 2006*, inclusive of programs/projects completed within the year. This year's Review involved consultations and discussions with 30 agencies [17 National Government (NG) agencies, 9 Government Owned and/or Controlled Corporations (GOCCs), 3 Government Financial Institutions (GFIs) and 1 local government unit (LGU)] involved in implementing the programs/projects under review. (Annex 1-A for complete list of agencies/LGU consulted; Annex 1-B for list of projects reviewed.)

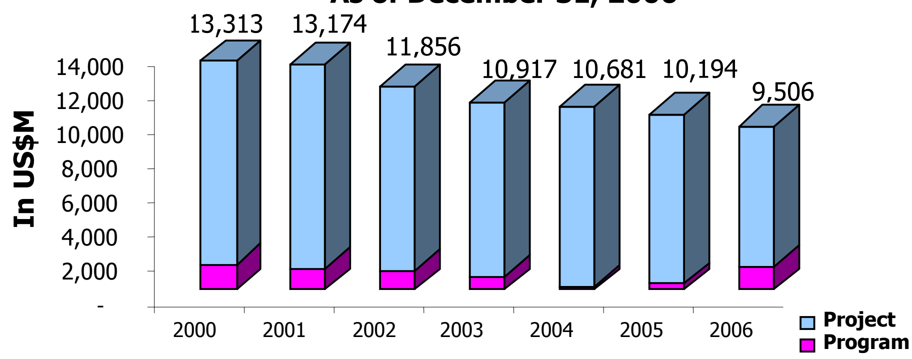
II. ODA LOANS PORTFOLIO

Magnitude

As of 31 December 2006, total loan amount reached US$9.5 billion for 141 active loans, composed of 135 project loans supporting 123 projects, and six program loans. Project loans accounted for 86 percent or US$8.2 billion of the portfolio, while program loans, 14 percent or US$1.3 billion (Annex 2-A).

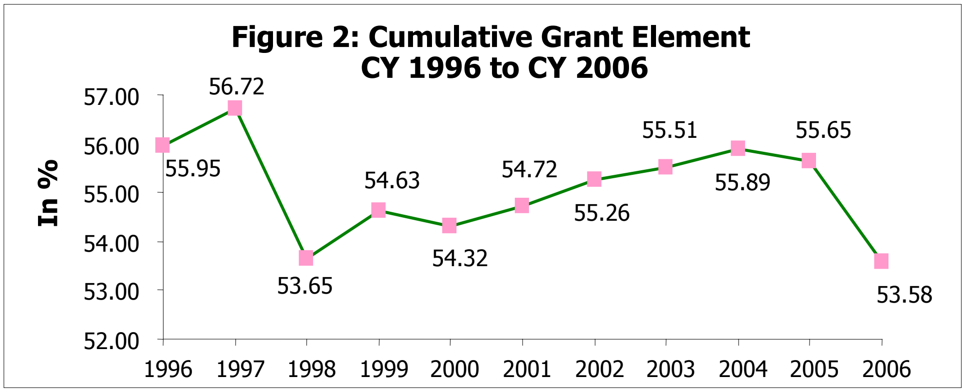
For the past seven years, ODA loans have steadily decreased, due largely to Government's conscious effort to adhere to better project quality and greater fiscal discipline. From a peak of US$13.3 billion in 2000, ODA loans decreased to US$9.5 billion as of 31 December 2006, seven percent lower than the 2005 figure and 29 percent lower than the 2000 figure.

Figure 1: Distribution of Ongoing ODA Loans As of December 31, 2006



Grant Element

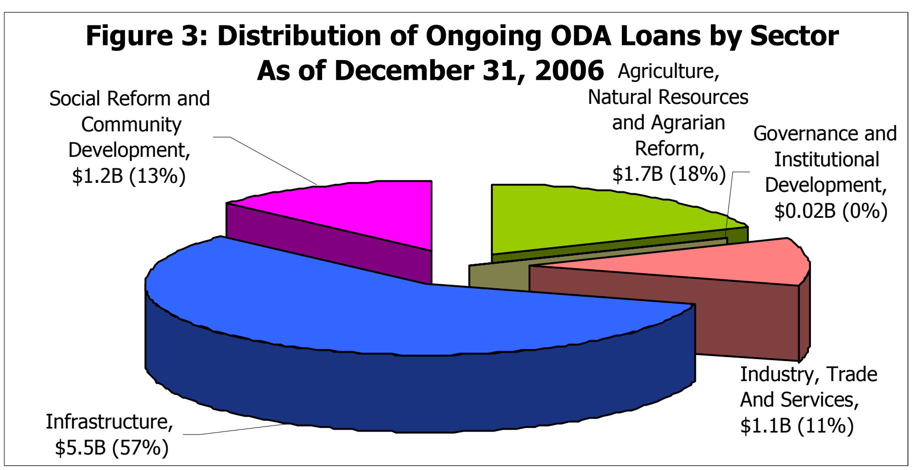
The concessionality of ODA loans is measured by their grant element. Per the ODA Act, the weighted average grant element of all ODA at anytime shall not be less than 40 percent and each ODA must contain a grant element of at least 25 percent. Per DOF computation, the grant element of all ODA loans, from effectivity of the ODA Act in 1996 to December 2006, is 54 percent. 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 a five-year period, grant element of ODA loans increased from 54 percent in 2000 to 55.89 percent in 2004 but started to drop to 55.65 percent in 2005, then to 53.58 percent in 2006. (Annex 2-B)



Distribution

By Sector

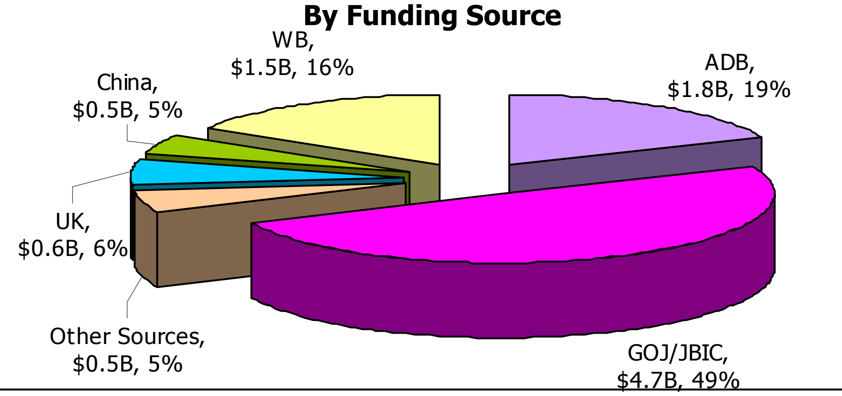
Over the last seven years, the bulk of ODA was channeled to the Infrastructure Sector, which received more than 50 percent of the total ODA loans portfolio (Annex 2-C). In 2006 alone, Infrastructure Sector accounted for 71 loans with an aggregate amount of US$5.5 billion or 57 percent. Under the said sector, Transportation sub-sector obtained the biggest share of US$4.0 billion (or 42 percent with 45 loans), followed by the Energy, Power and Electrification sub-sector with US$639 million (or 7 percent with 5 loans), Water Resources sub-sector with US$615 million (or 6 percent with 15 loans), and the Social Infrastructure sub-sector with US$199 million (or 2 percent with 6 loans). The second biggest recipient of ODA was the Agriculture, Natural Resources and Agrarian Reform Sector, which accounted for 18 percent of total ODA (or US$1.7 billion involving 33 loans) followed by the Social Reform and Community Development Sector which received a 13 percent share, accounting for US$1.2 billion (with 25 loans). Meanwhile Industry, Trade and Tourism Sector had an 11 percent share, accounting for US$1.0 billion, and the Governance and Institutional Development Sector had 0.2 percent share or US$22 million of total ODA.



By Funding Source

As of December 2006, the Government of Japan through the Japan Bank for International Cooperation (GOJ-JBIC) continued to be the largest source of ODA loans, accounting for 49 percent (or US$4.7 billion with 59 loans) of the total ODA, followed by the Asian Development Bank (ADB) with 19 percent (or US$1.8 billion with 25 loans), and World Bank (WB) with 16 percent (or US$1.5 billion with 24 loans). The increasing shares of United Kingdom with six percent (or US$588 million with 7 loans) followed by China with five percent (or US$460 million with 3 loans) may be noted, with the remaining five percent or US$484 million for 17 loans coming from Other Sources (Australia, Austria, Belgium, France, Germany, International Fund for Agricultural Development [IFAD], Korea, Kuwait, NDF, Netherlands, Organization of Petroleum Exporting Countries [OPEC], Saudi Arabia, and Spain). (Annex 2-D)

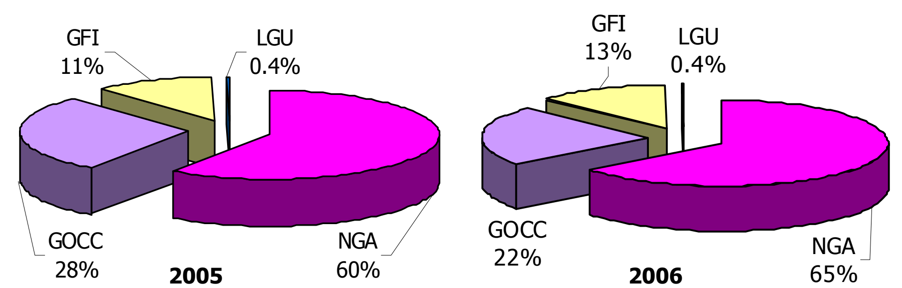
Figure 4: Distribution of Ongoing ODA Loans By Funding Source



By Agency Classification

For 2006, NG-agencies were responsible for administering more than half (65 percent) of the total ODA loans portfolio, a five percentage point increase over its share in 2005, and involved 95 loans with a loan amount of US$6.1 billion. GOCCs, conversely, administered 22 percent (or US$2.1 billion) of the ODA portfolio with 26 loans while GFIs had US$1.2 billion (or 13 percent with 19 loans). The remaining 0.4 percent of the ODA portfolio was coursed to the LGUs with US$37 million (Annex 2-E).

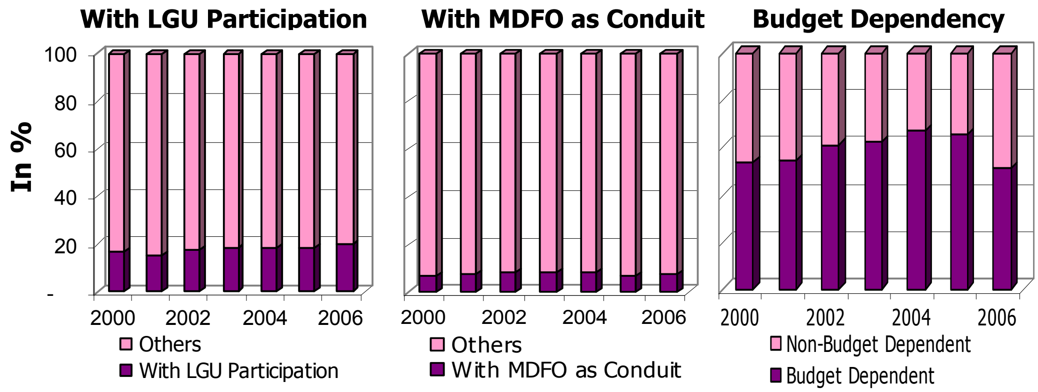
Figure 5: Distribution of Ongoing ODA Loans by Agency Classification CY 2005 vs. CY 2006



Budget Cover

ODA loans are 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 accounted for 51 percent of the 2006 portfolio, compared to 66 percent in 2005 (Annex 2-F). The 13 loans that pass through MDFO comprised 7 percent of the ODA project loans portfolio in 2006 (Annex 2-G). Meanwhile, ODA projects with LGU participation accounted for 20 percent of the projects portfolio, at more or less the same level since 2000 (Annex 2-H).

Figure 6: Distribution of Ongoing ODA Loans From CY 2000 to CY 2006



New Loans

Eight new loans worth US$1.3 billion, or 14 percent of the total loans portfolio, were signed in CY 2006 consisting of: (a) three loans from ADB worth US$674 million; (b) three loans from WB worth US$410 million; and, (c) one each from IFAD and United Kingdom (UK) for a total of US$207 million. Five of the eight loans that were signed in CY 2006 became effective within the same year (Annex 2-I).

Loan Cancellations

Partial cancellations of US$222 million were made in CY 2006 for 25 loans as follows: (a) 7 loans from ADB, US$39 million; (b) 14 loans from GOJ-JBIC, US$166 million; and (c) 4 loans from WB, US$18 million. These cancellations were agreed upon with implementing and funding agencies and were due to: (i) unutilized balance at the close of the loan; (ii) excess financing as a result of foreign exchange rate movement; (iii) low demand for relending; (iv) reduction in scope of projects; and, (v) budget constraints. In the process, these cancellations will generate savings for the Government on the payment of commitment fees, specifically for loans financed by ADB and WB (Annex 2-J).

Loan Extensions

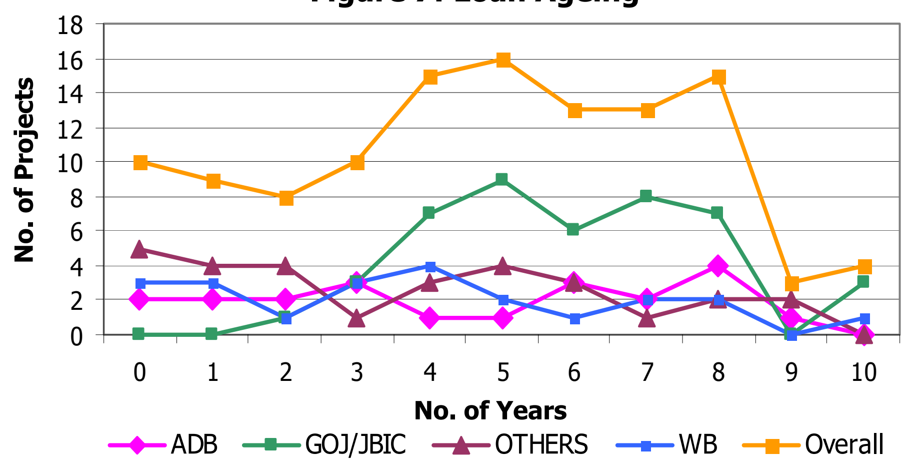
Eleven loans worth US$720 million or eight percent of the ODA loans portfolio were extended in 2006. Four loans were extended for six months to one year and seven loans for 1.5 to two years (Annex 2-K).

Eight projects were identified during the 15th ODA Portfolio Review with loan validity extensions approved by the ICC in CY 2006 (Annex 2-L). The reasons cited by implementing agencies for the extensions were: (a) Right-of-Way issues (MM Flood Control Project - West of Mangahan Floodway); (b) delayed release of budget (Southern Philippines Irrigation Sector Project); (c) more time needed for the full utilization of funds since payments are based on completion of sub-projects or specific project milestones (Local Government Finance and Development Project, Provincial Towns Water Supply I and II, LRT Line 1 Capacity Expansion Phase II Project and LGU - Urban Water and Sanitation Project Phase II); (d) additional works (MWSS New Water Source Development Project); and, (e) delay in implementation by three years caused by the issuance of a Temporary Restraining Order (Agno River Flood Control Project Phase II-A).

Loan Ageing

Of the remaining 116 ongoing loans in CY 2006, 27 projects (23 percent) are in the initial stages of implementation (0-2 years), 67 projects (58 percent) are in the critical stages of implementation (3-7 years) and 22 projects (19 percent) are expected to complete in two to three years' time (8-10 years). Projects that are on its 10th year of implementation are: Lower Agusan Development Project, Phase 2 (Flood Control Component), MM Flood Control Project Project-West of Mangahan Floodway, Social Reform Related Feeder Ports Development Project and Third Elementary Education Project. Based on the figure below, no new projects entered the JBIC portfolio in the past two years since the youngest project is now on its 2nd year. On the other hand, Other Sources contributed 9 new projects, WB with 6 projects and ADB with 4 projects.

Figure 7: Loan Ageing



III. PORTFOLIO PERFORMANCE

Financial

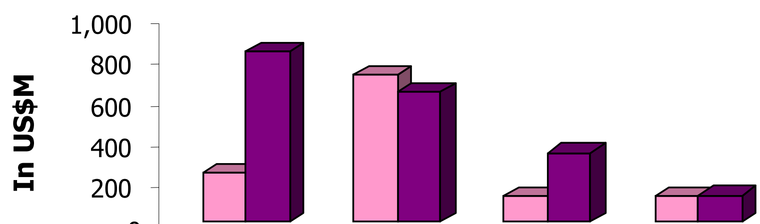
Four indicators were used to measure ODA absorptive capacity, as follows: (a) *disbursement level*; (b) *disbursement rate*; (c) *availment rate*; and (d) *disbursement ratio*.

Based on these financial indicators, overall ODA performance improved in CY 2006. The improvement in absorptive capacity can be attributed to the following factors: (a) sustained focus and actions toward addressing implementation bottlenecks (through improvements in the ICC business process, proactive Project Implementation Officers' System, sustained project-level facilitation and effective coordination with Funding Institutions); and, (b) project completion/loan closure of 25 projects amounting to US$1.7 billion or 18 percent of the total ODA loans portfolio.

Disbursement Level

Overall ODA disbursement level in CY 2006 posted an increase of 61 percent from last year. For CY 2006, GOP disbursed US$1.9 billion compared to US$1.2 billion in 2005. For project loans, GOP was able to disburse US$1.2 billion, an increase of 15 percent compared to the US$1.0 billion disbursement for CY 2005. A big increase in the disbursement level for the ADB portfolio is noted because of the contribution of four program loans that were able to disburse a total of US$750 million, a 329 percent increase from the US$175 million disbursed in 2005. (Annexes 3-A to 3-C for disaggregated disbursements by funding source, agency and sector)

Figure 8: Disbursement Level for Ongoing ODA Loans CY 2005 vs. CY 2006



	ADB	GOJ/JBIC	Others	WB
2005	240.6	714.3	124.2	126.4
2006	833.2	633.2	338.0	132.6

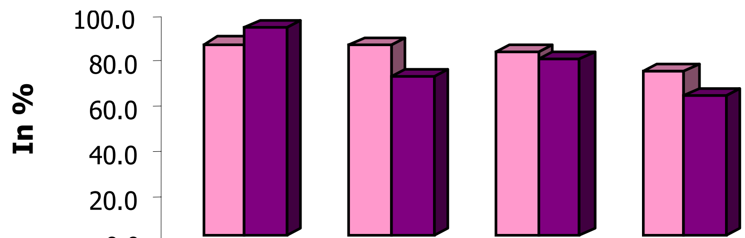
Disbursement Level: Actual amount of disbursements (in dollar terms) from all ODA loans for the period January to December 2006

Disbursement Rate

Disbursement rate averaged at 80 percent of the target disbursements of ODA-assisted projects compared to the 83 percent achieved in CY 2005. There are noted decreases in the GOJ-JBIC and WB portfolios of 14.3 and 10.7 percentage points, from last year's levels of 85.2 and 73.1 percent, respectively, but an increase in the disbursement rate for ADB loans due to the big disbursements contributed by its four ongoing program loans. 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.

Factors cited by implementing agencies for the decrease in disbursement rate were: (a) budget constraints; (b) delays in the procurement and processing of contracts/subproject preparations and award of contracts; (c) delays in submission/processing of documents to effect disbursements; (d) low demand for relending facility; (e) delayed acquisition of right-of-way; (f) scaling down in project scope; (g) adjustment in land use plan; and, (h) poor performance of contractors. (Annexes 4-A to 4-C for details of disbursement rate categorized by funding source, by agency and by sector)

Figure 9: Disbursement Rate of Ongoing ODA Loans CY 2005 vs. CY 2006



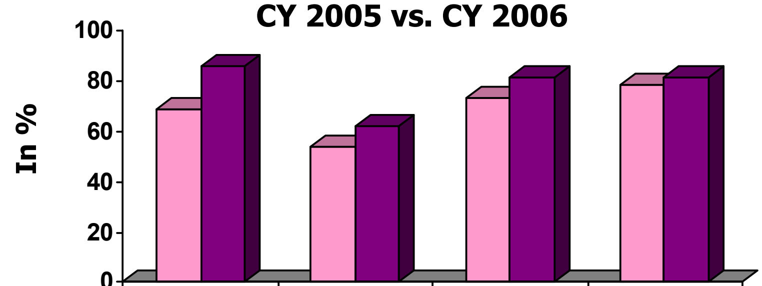
	ADB	GOJ/JBIC	Others	WB
2005	85.3	85.2	81.9	73.1
2006	92.4	70.9	78.8	62.4

Disbursement Rate: Actual disbursements as a percentage of target disbursements for the period January to December 2006

Availment Rate

Availment rate increased by 11 percentage points, from 60 percent in CY 2005 to 71 percent in CY 2006. It may be noted that only the GOJ-JBIC portfolio is below the 2006 overall availment rate because in said portfolio, loan cancellations are infrequent since there are no commitment fees. (Annexes 5-A to 5-B for disaggregated data by funding source and by sector)

Figure 10: Availment Rate of Ongoing ODA Loans CY 2005 vs. CY 2006



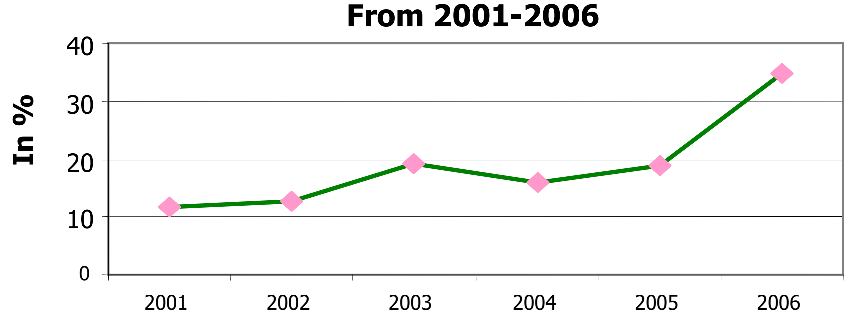
	ADB	GOJ/JBIC	Others	WB
2005	68.5	53.8	72.7	77.9
2006	85.4	61.8	80.9	81.1

Availment Rate: Cumulative actual disbursements as a percentage of cumulative scheduled disbursement reckoned from the start of implementation of all projects up to December 2006

Disbursement Ratio

Finally, the disbursement ratio is the ratio of actual disbursements to the net loan amount available during January to December 2006. This is the indicator commonly used by the funding institutions. GOP's performance in terms of this indicator stood at 35 percent, 16 percentage points higher than the 19 percent performance in 2005 and the highest so far recorded. ADB recorded the highest disbursement ratio at 67 percent followed by Other Sources with 28 percent, WB at 25 percent and GOJ-JBIC at 24 percent. (Annexes 6-A to 6-B for disaggregated disbursement ratios by funding source and by agency classification)

Figure 11: Disbursement Ratio of Ongoing ODA Loans From 2001-2006



Disbursement Ratio: Ratio of actual disbursement for the period to the net loan amount available at the beginning of the year

Commitment Fees

In 2006 alone, US$5.7 million was paid in commitment fees. Among NG agencies, the top two agencies with commitment fees paid were DOF and DA amounting to US$1.3 million and US$0.7 million, respectively. Among GFIs, LBP and DBP paid commitment fees of US$0.4 million and US$0.2 million, respectively (Annex 7). Projects that largely contribute to the US$5.7 million commitment fees in 2006 are as follows: (a) Health Sector Development

Program (with US$0.75 million); (b) Infrastructure for Rural Productivity Enhancement Sector (with US$0.50 million); (c) Pasig River Environment Management and Rehabilitation Sector Development Program (with US$0.47 million); (d) Microfinance Development Program (with US$0.41 million); and, (e) MM Air Quality Improvement Project (Investment Component) (with US$0.38 million).

Physical

Completed Projects

Outcomes already exhibited by projects completed in CY 2006 are as follows:

- The completion of ***Northern Negros Geothermal Plant*** contributed an additional 40 megawatts (MW) geothermal power to the country's power grid. Among others, the project involved the drilling of 18 wells, a fluid collection re-injection system, 24 km 138 kilovolts (KV) transmission line and a power plant with a gross capacity of 49.4 MW. When the plant is put in operation in early 2007, the project's output will form part of the increased share of indigenous sources to the total energy mix, in line with the sector objective of reducing the country's dependence on imported fuels;

- Six loans from the Roads and Bridges sub-sector of the DPWH Portfolio closed. A total of 268.76 kilometer (km) road sections were completed through the following: ***Philippine-Japan Friendship Highway Mindanao Section Rehabilitation Project I*** (Contract Packages 7 and 8); ***Arterial Road Links Development Project III*** (Cebu South Coastal Road); ***Sixth Road Project and Rural Road Network Development Project.*** The ***National Roads Bridge Replacement Project*** was able to replace 157 temporary and weakened bridges using steel beam and truss technology. This is 98% of the total bridges replaced in 2006, the remaining of which was done through the ***Sixth Road Project***, which completed nineteen new bridges and also retrofitted one bridge; and,

- From the Flood Control sub-sector, also under the DPWH portfolio, two loans closed namely: Engineering Services for ***Pasig-Marikina Channel Improvement Project*** and ***Pinatubo Hazard Urgent Mitigation Project (PHUMP) II***. Under the former, value engineering study was completed and was presented to the Infrastructure Committee. On the other hand, the following are the major accomplishments of PHUMP II: improvement of the southwest corner of Megadike (raised by 4 meters with a total length of 10.25 km); Gapan-San Fernando-Olongapo (GSO) road widened to four lanes (1.7 km); construction of Gugu bridge and its right dike (3.5 km); construction of Mancatian bridge and approaches; asphalting of the crest of the east Megadike and construction of Maliualu bridge. Urgent and short-term flood control structures under PHUMP II have already shortened inundation period from 40 to 26 days, with flood levels reduced from 0.3-0.9 meters to the present range of 0.3-0.6

meters. The completion of Mancatian Bridge and access road already improved the traffic condition in the area. Based on traffic count conducted in 1999, Average Annual Daily Traffic (AADT) on the Angeles-Porac section was 4,029 and traffic volume converging in the GSO and MacArthur intersection was 81,993. It took about 30-45 minutes to negotiate this section at any time of the day. At present, time required is only 8-10 minutes, a 22-35 minute time savings.

Ongoing Projects

Meanwhile, outputs and initial outcomes from the implementation of several ongoing projects, as reported during the Review, are as follows:

Infrastructure

- DPWH constructed/improved/rehabilitated 6,181 kms of national roads and 20,610 lineal meters (lm) of national bridges nationwide. The ***National Roads Bridge Replacement Project*** completed the replacement of 157 temporary and weakened bridges. Under the ***National Roads Improvement and Management Program I***, the Malalag-Malita road section (52.56 km) in Davao Del Sur was completed. Moreover, 254 and 730 km of national roads were improved under the long-term performance-based road and preventive maintenance programs, respectively. Through the Cordillera Road Improvement Project, 40 kms of the Pangawan-Aritao section was substantially completed. On the other hand, the ***Austrian-assisted Bridge Construction Replacement Project*** completed 19 bridges while 563 bridges were completed through the ***Tulay ng Pangulo para sa SZOPAD***. Under its countrywide component, 49 bridges were completed while 7 are still under construction. For the ***Tulay ng Pangulo sa Kaunlaran***, three bridges were completed, one each in Bulacan, Cavite and Pampanga. Meanwhile, out of the 242 bridges programmed nationwide under the ***UK-assisted Bridge Replacement Project***, 172 were completed, while 58 bridges are ongoing construction;

- For the rails sub-sector, all 12 trainsets targeted to be procured under the ***LRT Line 1 Capacity Expansion Phase II Project*** have been delivered, with five of the 12 trainsets already handed over to LRTA and now operational. On the other hand, 90 out of 100 pieces traction motor armatures have been procured under the ***LRT Line 1 Rehabilitation II Modernization II Project***. The full modernization of the targeted 63 original Line 1 light rail vehicles (LRVs) is ongoing with 32 LRVs having completed the replacement of contactors, cleaning of chopper box, refurbishment relay panel and miniature circuit breaker and the modernization of three of the remaining 31 LRVs. For the ***North Rail I Section 1 Project***, construction of four buildings/temporary facilities for laboratory, field offices, warehouse/storage facilities and quarters for workers have been completed. Furthermore, site clearing for permanent way and railway stations on the entire project alignment, from Caloocan City to Malolos City, was likewise completed;

- The ***New Iloilo Airport Development Project*** was able to complete its land acquisition component worth PhP262 million that covers a total of 188 ha comprising 258 lots. On the other hand, immediate outputs of the ***New Bacolod (Silay) Airport Project*** are the completed terminal shed and a number of equipment procured and installed in the existing Bacolod Airport;

- Meanwhile, under the ports sub-sector, the ***Social Reform Related Feeder Ports Development Project*** was able to construct 27 ports nationwide;

- From the Flood Control sub-sector, the ***KAMANAVA Area Flood Control Project*** was able to complete the following: Navotas flood gate and the Spine Pumping Station, including its flood gate. Meanwhile, completed works under the ***Lower Agusan Development Project, Stage I, Phase II*** include the improvement of the Agusan River East Bank levee and cut-off channel with a length of 12.2 kms and 5.7 kms, respectively. Moreover, the following structures were constructed: Maug and Mahay Creek Drainage Sluices, Banza River Navigation Sluice and Tumampi Vehicular Bridge;

- A major accomplishment under the power sub-sector is the establishment of ***the Wholesale Electricity Spot Market*** (WESM), which is considered a vital step towards meeting the objectives envisaged under the Power Sector Reform of the 2004-2010 MTPDP. Market competition in bulk power generation sold through the WESM with open access to transmission and distribution lines is expected to reduce electricity prices. Furthermore, its accompanied retail competition will foster service delivery improvements among various electricity suppliers;

- With the completion of 108 subprojects under the ***LGU Support Credit Program***, 9.874 million beneficiaries nationwide have been provided with access to basic and essential utilities in the following sectors: housing and health, water supply, flood control and sanitation, waste disposal and environment. Under the ***Mindanao Basic Urban Services Sector Project***, 17 LGU subprojects were completed under its Infrastructure Investment Component that provided better services to 740,483 beneficiaries in Mindanao. For LGUs with completed Public Market Subproject, all renovated and new stalls are now fully occupied by intended beneficiaries. The Naawan Water Supply was able to increase the number of household connections from 422 to 800 resulting in savings for water expenses. Residents are now enjoying better water quality and 24-hour service. The LGU is also generating additional local revenues from the supply of bulk water to two neighboring municipalities. In addition, the construction of the Isulan Transport Terminal decongested the business district and its adjacent highway;

- Through the LGU sub-project financing of the ***Local Government Finance and Development Project*** (LOGOFIND), 49 LGUs are now operating 53 sub-projects. LOGOFIND's LGU Resource Mobilization component enabled the following outcomes: a) 90.6% increase in revenue collection of all participating LGUs; b) 56.5% increase in share of non-personnel expenditure of all participating LGUs; c) 74% increase in proportion of internal revenue to total revenue of all participating LGUs; and d) 115% increase in Real Property Tax and Business Tax collection of all participating LGUs;

- The Urdaneta Water District (UWD), the largest component of the ***Provincial Towns Water Supply Project I and II***, was completed and is now fully operational and integrated into the existing water system. Through this project, 2 wells were developed, 55.5 km. pipelines installed and 2 pumps constructed. The UWD currently earns an annual revenue of PhP29.6 million, servicing 26,172 beneficiaries. At present, it is able to generate 2,372 cubic meters per day (versus the planned 5,184) with a total 4,362 additional service connections, or 91% of the original target of 4,800 additional service connections;

Agriculture, Natural Resources and Agrarian Reform Sector

- The Farm-to-Market Roads (FMR) constructed under the ***Infrastructure for Rural Productivity Enhancement Sector Project*** have contributed to the agricultural production and reduction in travel time and operating cost in the areas covered by the project. In Kapalong, the Semong bridge (part of Semong-Florida FMR) might have been one of the factors that spurred the conversion of 100 hectares of cardava banana/corn farms to Cavendish banana. In San Jose, the change in cropping system includes the planting of vegetables in areas near the road. In Jiabong, farmers now see the good opportunities in expanding the area planted to intercrops like vegetables and banana. Travel time in San Jose FMR was reduced from 1.5-2.0 hours to 15 minutes. In Kapalong, travel time from Bunawan to Centro was reduced from 40 minutes-1 hour to 20-30 minutes. Beneficiaries are now more comfortable during travel, travel and waiting time are shortened, and spoilage of farm products caused by transport and handling was also reduced;

- As of mid-term period of the ***Laguna de Bay Institutional Strengthening and Community Participation Project***, emerging outcomes identified are the following: (a) pollution loading for regulated parameters were reduced by 7.75%; (b) compliance number of industries/enterprises increased by 30%; and, (c) the Public Disclosure Program compelled industries to comply with the effluent standards for Biochemical Oxygen Demand concentration and improve performance based on the environmental standards set by the law and other requirements of the Laguna Lake Development Authority;

- The ***Southern Mindanao Integrated Coastal Zone Management Project*** (SMCZMP) was able to accomplish a total of 3,734 hectares of agro-forestry and replacement planting, including the establishment of the Environment Conservation and Protection Center. Moreover, 60 People's Organization (POs) or 3,425 households/beneficiaries were granted Livelihood Assistance Package to invest in various livelihood activities. Through SMCZMP, agroforestry sites were developed in the Mt. Matutum Protected Landscape-Sarangani Bay Protected Seascape and Mainit-Balasiao River Watershed-Malalag Bay areas. On the other hand, the revetment and gabion structure established under the project have effectively diminished the scouring of the portion of the Klinan River. The hydraulic drops structure was also able to effectively induce the settling of silts and other materials at the foot of the Matinao Bridge;

- A 5.2% to 15% reduction of Total Suspended Particulate (TSP) concentrations on ambient air quality from 2003 to 2005 and approximately 10% reduction from 1999 to 2005 can be attributed to the ***Metro Manila Air Quality Improvement Sector Development Project***. Furthermore, approximately 87% reduction in total mass of sulfur oxide (SOx) and other sulfuric oxides emitted by mobile sources was achieved as a result of the reduction of sulfur content of automotive diesel fuel. Five LGUs are already actively participating in the anti-smoke belching campaign;

- Foreign assisted projects of the Department of Agrarian Reform (DAR) have so far generated 223,369 jobs as of December 2006 based on initial results from five projects namely: ***Agrarian Reform Communities, Mindanao Sustainable Settlements Area Development, Northern Mindanao Communities Initiatives and Resources Management, Western Mindanao Communities Initiatives and Support to Agrarian Reform Communities in Central Mindanao Projects.*** Under the rural infrastructure component of the five projects, 297 FMRs with an aggregate length of 929.03 km were constructed/rehabilitated. This led to the following aggregate results: a) increase in daily traffic of light vehicles by 41% from an average of 17 to 24 vehicles; b) increase in daily traffic of heavy-type vehicles by 100% from 5 to 10 vehicles; c) reduction in average travel time by 39% from 38 to 23 minutes; d) reduction in the transport cost of agricultural inputs by about 6%; and e) reduction in the average palay hauling cost by 71% from PhP17 to PhP5. As a result of the irrigation sub-projects, the palay farming areas covered by DAR projects resulted in an increased average palay yield by 34% from a baseline of 2,195 kilograms (kgs) to 2,933 kgs. Through the Land Tenure Improvement component, an increase was noted in the number of agrarian reform beneficiaries with actual landholding of individual Certificate of Land Ownership Agreements to 79,626. On the other hand, the constructed potable water supply systems (116 units) reduced average time for fetching water from a baseline of about 6 minutes to 4 minutes. Meanwhile, the immediate results of the projects under the Community and Institutional Development Support component, are as follows: (a) improved savings of PO by 640 percent, from a baseline of PhP10,000 to PhP74,034; and, (b) increased capital build-up (CBU) of new POs and cooperatives by 41% from PhP227,314 to PhP321,405. The final outcome of the five projects, as reported, is the increase in average annual household income by 19 percent, from PhP56,367 to PhP66,985;

- Currently, NIA is implementing nine irrigation projects. A total of 3,089 hectares (has) of newly irrigated areas were generated and 906 has in existing systems were rehabilitated. These, however, are only 51.1% and 18.8%, respectively of the target irrigation areas for the review year. NIA now manages 204 national irrigation systems (NIS) nationwide with a total service area of 704,746 has. The service area increased by 8,972 has from last year's area with the partial operation of ***Lower Agusan Development Project*** in the ARMM and the Marabong Dam in Region 8. The effective total irrigated area was 964,710 ha broken down into 479,359 ha during the dry season (November 2005 to April 2006) and 485,351 ha during the wet season (May 2006 to October 2006);

Industry and Services

- After extending 46 subloans amounting to PhP900 million, 1,142 incremental jobs were created through the ***Third Rural Finance Project***. On the other hand, 246 Small and Medium Enterprise (SME) borrowers belonging to different industry classifications were able to access loan funds under ***Small and Medium Enterprises Development Support Project***;

Social Reform and Development

- From the Education sub-sector, the ***Mindanao Sustainable Settlement Area Development Project*** was able to deliver 100% of its 54 targeted classrooms and repaired/rehabilitated 86 classrooms, which is more than 300% of its target for the year;

- Positive developments have also been observed in achieving the objectives of the ***KALAHI-CIDDS*** (KC) project, as follows: (a) Empowering Communities; (b) Improving Local Governance; and, (c) Reducing Poverty. Under the objective, Empowering Communities, the following are the accomplishments of the project: i) municipal resolutions adopting KC participatory practices covering about 880 barangays; ii) 2,656 funded barangays with detailed Operation and Maintenance plans; and, iii) 687 Barangay Action Plans already integrated in local development plans. On the other hand, achievements under the objective, Improving Local Governance, are as follows: i) LGU technical officers, through a Municipal Technical Working Group, conduct technical reviews of project proposals before community approval in Barangay Assemblies; ii) 2,656 funded barangays have complied with KC's principles of transparency in sub-project preparation, selection, and implementation; and, iii) 123 LGUs observed monitoring SP planning and implementation. Under the third objective, Poverty and Quality of Life indicators showed improvements compared to without-project barangays. To date, Community-Based Evaluations are already completed in 10 municipalities under Phase I;

- Now on its fourth year of implementation, the ***ARMM Social Fund Project*** has completed 10 out of 13 subprojects under the Strategic Regional Infrastructure component, while the Community

Development Assistance is now operating in 658 barangays, where 491 community-based infrastructures have been completed. Notable activities under the Institutional Strengthening and Governance component have also been observed such as the continued reduction of the project management cost (which means that project management is getting more efficient) and strengthened community-based education. Because of these significant accomplishments, the project has gained widespread recognition and popularity throughout the ARMM region, especially since management and implementation has been transferred to the ARMM Regional Government (ARG) in March 2006;

- Under the ***Technical Education and Skills Development Project*** of TESDA, 112 Training Regulations and 177 (national level) and 626 (certificate of competency) Assessment Tools were developed. A total of 9,879 TESDA employees, more than the targeted 8,650, have benefited from the project's staff development program. Construction/refurbishment of the following civil works were also completed: (a) 17 (out of 25) Centers of Excellence (Centex); (b) 44 Provincial Training Centers; and, (c) 37 Assessment Centers. One of the major developments during the year in the Technical Vocation Education and Training (TVET) sector was the implementation of the Ladderized Education System. Under this program (with funding support from TESDP for equipment), a seamless and borderless education and training system is established that allows mobility in terms of flexible entry and exit into the education system. Ladderization encompasses all education and training mechanisms that allow students and workers progression between technical-vocational and college education, and vice-versa; and,

Governance and Institutions Development

- The ***Judicial Reform Support Project*** produced the first court bus, wherein hearings for 754 cases were conducted by judges, facilitating the release of 300 juveniles. Through the project, 13,500 judges/justices, lower court personnel and other Supreme Court personnel became familiar with new Code of Judicial Conduct for the Philippine Judiciary and the new Code of Conduct for Court Personnel.

Closed Loans

Twenty-five loans amounting to US$1.7 billion were financially closed/fully availed in CY 2006, as follows: 15 loans from GOJ-JBIC (US$1.3 billion); four loans from ADB (US$46 million); two loans from UK (US$231 million); two loans from WB (US$56 million); and one each from Austria and Germany (a total of US$80 million). (Annex 8-A for project listing)

At least five of the loans closed in 2006 have incomplete project outputs. These loans are: a) Third Elementary Education Project (DepEd/WB/GOJ-JBIC); b) Northern Negros Geothermal Project (PNOC-EDC/GOJ-JBIC); c) Local Government Units Support Credit Program (LBP/GOJ-JBIC); d)

Fisheries Resource Management Project (DA/ADB/GOJ-JBIC); and, e) Metro Cebu Development Project III (DPWH/GOJ-JBIC).

Target outputs of the abovecited projects were not fully attained upon loan closing date due to: (b) delayed release of funds (DepEd); (c) procurement delays due to flawed procurement process (PNOC-EDC) and limited technical capacity of non-government organizations and research institutions (DA); (d) right-of way and resettlement problems (DOTC); and, (e) changes in project design (DPWH). The implementing agencies proposed the completion of the remaining project activities through the use of agency/local government/corporate funds. (Annex 8-B)

IV. COST OVERRUNS

Twenty-five projects in the ODA loans portfolio were reported by implementing agencies to involve cost increases amounting to an aggregate of PhP30.338 billion (Annex 9-A). The DPWH accounts for the bulk of the increase at 42 percent (PhP12.832 billion for 13 projects) followed by DOTC with 22 percent (PhP6.689 billion for 4 projects), NIA with 15 percent (PhP4.424 billion for 4 projects) and LRTA with 14 percent (PhP4.105 billion for 1 project).

Four projects with cost increases amounting to PhP9.816 billion were already approved by the ICC in CY 2006 (Annex 9-B). 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; (f) increase in consultancy services; (g) increase in administrative cost; and, (h) claims for price escalation.

The ICC-Technical Board and Cabinet Committee endorsed the proposed change in scope and cost increase for Northern Luzon Wind Power, Phase I but was denied by the NEDA Board. The cost increase was attributed to bids which are more expensive than international prices. Said increase is the result of the Special Yen Loan requirement stating that at least 50 percent Japanese content for goods and services and limited only to Japanese as the primary contractor/supplier.

In the case of the MM Flood Control Project - West of Mangahan, the cost increase was just noted by the ICC since a substantial portion of the requested cost increase have already been undertaken prior to seeking ICC clearance.

In order to ensure harmony and consistency in the implementation of ODA projects, DPWH issued a memorandum order dated January 8, 2007 which sets procedural guidelines in the issuance of internal DPWH certified funding strategy for foreign-assisted projects. This funding strategy defines the amount available for a project in accordance with the current annual budget and the annual allocations based on the MTPIP which must be consistent with the DBM-certified funding strategy. The DPWH funding strategy will be issued to cover a cost overrun.

A major initiative was introduced by NIA with the issuance by its OIC-Administrator of a memorandum dated March 8, 2007 to all its Project Managers on cost control, reduction measures and pre-ICC clearance flowchart/guidelines to be implemented by NIA to avoid cost overrun in foreign-assisted projects. The memorandum identifies project milestones wherein NIA has to seek ICC clearance for cost increases such as: (a) after detailed engineering; (b) after bids are received; and, (c) when price escalate or variation orders are required that would exceed the ICC - approved cost of the project.

V. KEY IMPLEMENTATION ISSUES (Annex 10-A) AND MEASURES TAKEN BY AGENCIES

Budget/Financing Issues

Limited funds due mainly to the re-enacted budget in 2006 and delayed releases affected implementation of some projects implemented by NIA, DA, DPWH, ASFP-PMO, DAR, DepEd, DILG, LLDA and DSWD.

The re-enacted General Appropriations Act (GAA) for 2006 or RA 9336, provided PhP49.07 billion for foreign-assisted projects (FAPs), 12 percent lower than the proposed budget of PhP55.7 billion reflected in the 2006 Budget of Expenditures and Sources of Financing (BESF) but 32 percent higher than the 2005 actual budget of PhP37 billion. The 2006 FAPs allocation[1] accounted for *5* percent of the total 2006 GAA of PhP1,053 billion and included a PhP44 billion capital outlay, *45* percent of the PhP98.34 billion total capital outlay in the GAA.

Working on a re-enacted budget, some agencies had to slow down implementation of some of its activities to focus on priority components. Long delayed components and subcomponents were dropped from some projects and the freed-up allocation/funds were utilized more strategically to finance other components requiring immediate funds resulting in an improved overall performance of the projects.

Continuous coordination with DBM and MDFO for fund releases were done by executing agencies using the MDFO route (DA and DILG). Supplemental budgets for the funding gap were likewise requested from DBM and in some cases were approved and released based on actual accomplishment of projects.

Due to the limited budget provided for certain ODA projects, extensions in implementation schedules and closing dates may be expected. The extensions are likely to have an impact in the overall cost of implementing

[1] CY2006 re-enacted GAA/allocation corresponds to the CY2006 actual obligations incurred for FAPs, including charges against Unprogrammed Funds for FAPs, continuing allotment, etc.

the project and mean delays in the delivery of benefits and outcomes that can be derived from concerned projects.

Changes in scope were also done due to non-availability of adequate budget or financing in the case of (a) Arterial Road Links Development Phase VI Project; (b) Arterial Road Bypass Project Phase I Project; and, (c) Northern Luzon Wind Power Project.

The NorthRail Phase I Section 1 Project reported the non-availability of GOP counterpart/equity funds to finance the administrative expenses and other project costs, e.g., ROWA, hiring of Project Management Support Team Consultants to review the design submitted by the China National Machinery and Equipment Corporation (CNMEG); and utilities diversion. This delayed project implementation specifically since effectivity of contract award for consultancy services is contingent upon finalization of loan between NorthRail and the financing institution offered by the winning bidder for the financing of the consultancy services.

Procurement

Of the 26 civil works, 4 consulting services and 10 goods contract packages reviewed, a wide variance in procurement periods was noted. Submission of bids to issuance of Notice to Proceed (NTP) took an average of 4.85 months for Civil Works, 5.26 months for Goods and 10.36 months for Consulting Services (Annex 10-B). While these are comparably better than the procurement periods noted in last year's review, these are still over the prescribed timelines per Republic Act 9184 or the Government Procurement Reform Act of 2.67 months for Goods, 3.33 months for Civil Works and 4.63 months for Consulting Services.

The agencies cited the following reasons for encountering delays in procurement: (a) lengthy review process (DENR, LLDA, NIA, SC, TransCo, LBP); (b) restraining orders filed by losing bidders (DepEd); (c) bidding on hold due to contested procedures by one of the bidders (NLRC) or pending approval from financing institution (ASFP-PMO); and, (d) failure in bidding/rebidding of contracts (DOF).

In the case of TransCo, the use of the Two-Stage, Two Envelope bidding procedure with no contract provision for price adjustment caused undue delays in the bidding process. In a number of instances, technical evaluation of contracts (1st envelope) could not be completed within the specified bid validity period of 150 days. During that period, prices of goods fluctuate. As such, in the evaluation of the price proposals (2nd envelope), the bidder is not agreeable to extend the bid validity period.

Following its adverse procurement experience in the Electricity Market Transmission Development Project (EMTDP), TransCo recommended/adopted a two-stage bidding procedure without price proposal on first stage submission in subsequent procurement.

In the case of the Judiciary Reform Support Project implemented by the Supreme Court, the time spent by the Court En Banc carefully scrutinizing procurement documents continued to exceed the timelines of the procurement law. Consultancy contracts submitted for consideration required a more thorough review by the SC, en banc, of their technical aspects leading to delayed implementation.

Other measures taken by some agencies to address issues on delayed procurement include: (a) recruitment of procurement specialists to help fast-track procurement; (b) proposed the creation (DepED) and actual creation (DENR) of a separate Bids and Awards Committee-Foreign-Assisted Projects (BAC-FAPs) to fast-track procurement requirement of FAPs; (c) phasing of procurement packages; (d) rental of equipment in project operations, as a stop-gap measure; and (e) capacitation of LGUs to ensure that Bids and Awards Committee and Technical Working Groups are familiar and capable of undertaking procurement evaluation based on guidelines stated in the bidding documents and within the detailed procurement schedule.

Right-of-Way/Land Acquisition

Among the major issues encountered on ROW and land acquisition are: (a) delayed judicial action on the titling of acquired properties (Laguindingan Airport); (b) unresolved issues on land ownership (Laguna de Bay Institutional Strengthening and Community Participation Project and Lower Agusan Flood Control Project); (c) relocation site no longer available (MWSS New Water Source Development Project); and, (d) new batch of informal settlers re-occupied the previously cleared areas (KAMANAVA Area Flood Control Project).

Originally, acquisition of access roads for the New Bacolod Airport (DOTC) should have been shouldered by LGUs, however, LGU's new leadership denied such responsibility as there exists no written agreement. This resulted in the shouldering of acquisition cost by the project leading to an increase in NG share in the total project cost.

For Pasig River Environmental Management and Rehabilitation Sector Development Program (PRRC), problems were encountered in the acquisition of an additional 2,500 housing units held in abeyance pending result of ADB’s review of the Resettlement Action Plan (RAP), reoccupation of the 10-meter cleared areas such as San Agustin-Quinta Park primarily due to the fire in Maestranza and lack of LGU vigilance in guarding the areas, and bidding of four Makati Parks which shall cover the entire stretch of Makati due to right-of-way issue.

A change in the alignment of the lakeshore dike was resorted to by the MM Flood Control Project - West of Mangahan Floodway of DPWH due to ROW problems.

A new Road Right-of-Way (RROW) Procedures Manual was prepared by DPWH for its projects and is being utilized nationwide. A computerized system, the Road Information and Management Support System (RIMSS), which is the Institutional Capacity Building component of the WB-assisted National Roads Improvement and Management Program I (NRIMP I), was also developed and now in the pilot stage in two regional and two district offices starting 2006. This is one of the biggest transactions of DPWH in terms of amount and volume of paperwork. In addition, RAP procedures and training manual to improve action planning for relocation of informal settlers affected by infrastructure right-of-way has been issued. The RAP is now a pre-requisite before starting any major project in the Department which was already applied in the case of Central Mindanao Road Project.

LGU Participation

The current ***NG-LGU cost sharing policy*** affected the interest and capacity of LGUs to participate in some projects and put up the required counterpart for the priority subprojects, hence, slowed down project implementation. Affected projects include the Health Sector Development Project (current zero National Government grant to LGU) and Agrarian Reform Communities Development Project II (ARCDP II).

Particular in the case of ARCDP II, the ***lack of LGU equity*** is a major problem affecting project implementation. This threatens possible delisting of two irrigation subprojects (in Isabela, Occidental Mindoro, and Compostela Valley) due to financial performance of the LGU in the first subproject (Isabela) and inability of the LGU to provide the required equity. Note that in last year's review, eight LGUs have already formally withdrawn that caused the delisting of 36 proposed subprojects.

To remove hurdles in the implementation of projects where the 2004 Policy of zero-grant to the LGUs was applied, agencies requested ICC in 2006 to change the mode of implementation from the proposed MFC (which did not materialize), back to MDFO using the 2003 NEDA-ICC policy on NG-LGU cost sharing that the maximum allowable grant should not be more than 50% of the total subproject cost.

The ***limited technical capacity of LGUs*** particularly those in the lower income class under DOF's LOGOFIND Project continues to delay project implementation. Some LGUs experienced delays in the preparation and submission of documents required during the subproject appraisal stage. For the Mindanao Basic Urban Services Sector Project (MBUSSP), preparation of various studies (feasibility study, environmental assessment, detailed engineering design) took more time to finish than expected, hence, causing delays in project implementation and loan disbursements. In the case of Credit Line for Solid Waste Management Project (CLSWMP), preparation of loan applications and documents (feasibility study and solid waste management plans) to comply with bank requirements were delayed as well. In the experience of the Infrastructure for Rural Productivity Enhancement Sector Project (InfRES), most LGUs lack adequate staff capacity and resources to fulfill responsibility for Detailed Engineering Design (DED) and construction supervision.

Given the limited technical capability of LGUs to conduct the feasibility study (F/S) and DED of projects, workshops/writeshops on the F/S and DED preparation were conducted by Project Management Offices (PMOs) and project consultants. In some cases, to expedite subproject preparation, the process was streamlined integrating both the F/S and the subproject appraisal report. Manuals were likewise prepared to guide LGUs expedite loan disbursements.

For the LGU Urban Water and Sanitation Project APL2, ***changes in LGU leadership*** were experienced i.e. some local executives, who have originally signified interest in the project, have been replaced, including the legislative council and in some cases, members of the Sangguniang Bayan are not even supportive of the local chief executive.

To ensure LGU commitment, DAR and DENR requires that before a subproject is approved, LGU council resolutions, certifications of availability of funds and certificates of bank deposits covering a certain percentage of the required equity are presented by the LGUs.

Poor Performance of Contractor

Specifically, poor performance of contractors for infrastructure projects were attributed to: a) main contractor's poor management over the sub-contractors (BCDA); b) late mobilization and/or insufficient equipment and materials on site (BCDA, LRTA); c) insufficient technical manpower (BCDA); d) technical problems, i.e., frequent breakdown of equipment and changes in design concept (DBP); and, e) uncertainty in the financial capability of the contractor (DILG).

While full cooperation of contractors are being requested on delayed contracts, agencies are also preparing documents to support possible rescission or termination of contract as in the case of BCDA and PGLDN.

Low Demand for Credit

For LBP projects, the low demand is due to: (a) limited types of project which the loan facility can finance (Credit Facility for Environmental Management Project and 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, thus, unfavorable wholesale lending environment that has been created by below market rate of DBP's wholesale lending programs; (d) high pass-on rate based on the floor price as compared with 91-day T-bill rate (Third Rural Finance Project); and, (e) stringent lending conditions (Western Mindanao Community Initiative Project).

In order to address the low demand for credit to finance sewerage, sanitation and drainage projects, LBP conducted briefings to prospective clients of the direct and indirect benefits of these types of projects once completed. Moreover, partial loan cancellation was done to minimize payment of commitment fees. Extension of loan closing date was also requested to improve LBP's ODA absorptive capacity.

In the case of the Third Rural Finance Project of LBP, some lending policies were revised to enhance program features and marketability such as: (a) implementation of the free limit policy wherein the thorough review of the required documents under the Countryside Loan Fund (CLF) program was done after the approval and release of the CLF loan proceeds; (b) improvement in the loan features of the CLF program by amending its financing mix; and, (c) increase in the maximum loanable amount under the program to PhP300 million for all projects whether these are in the priority or non-priority sectors. This arose from the unfavorable wholesale lending environment that has been created by below market rate of other GFI's wholesale lending programs and the high pass-on rates based on the floor price as compared with the 91-day T-bill rate.

Specific in the case of Credit Line for Solid Waste Management Project CLSWMP) II of DBP, there is low level of compliance of LGUs with the provisions of RA 9003 (the Solid Waste Management Act), particularly the call for the closure of dumpsites by February 2006 and residual waste disposal on sanitary landfills.

Marketing units of DBP continued to promote its projects through the conduct of briefing and other promotional activities for its account officers, clients and relevant stakeholders on the lending features of its credit facilities. In addition, advisory assistance to LGUs and potential sub-borrowers were provided. For housing projects, a microfinance center was established and as a result, microfinance institutions are now starting to pursue housing construction and home improvement loans.

Under the KfW-assisted Micro, Small and Medium Enterprises Finance Program (MSMEFP) of Small Business Guarantee and Finance Corporation (SBGFC), no loan releases have been made due to difficulty of finding other participating financial institutions (PFIs) in the Visayas and Mindanao who will meet KfW's eligibility criteria. Furthermore, the additional fees levied by the National Government such as guarantee fee and foreign exchange risk cover fee, have significantly increased the cost of funds from the KfW. The low interest rate regime prevailing in the country has made the funds from KfW uncompetitive.

To address the difficulty of finding other PFIs in the Visayas and Mindanao who will meet KfW's eligibility criteria, several changes have been recommended and proposed revisions endorsed by SBGFC to KfW for consideration such as expanding area coverage to include Luzon and offer the program to small and medium scale enterprises.

SBGFC is studying possible alternatives to make the KfW facility competitive and an option being considered is to negotiate with DOF concerning reconsideration of the guarantee and foreign exchange risk rates levied to SBGFC. Lowering the rates levied by the DOF, particularly the 4% foreign exchange risk cover fee would allow SBGFC to lower its rates without sacrificing the overall viability of the project given the low interest rate prevailing in the country (DBP and LBP loans pass-on rates are 3% and 2% respectively, while BSP is offering an e-rediscounting facility which has a pass-on rate of only 2.3%). The SBGFC also intends to meet with BSP officials to determine which direction it intends to take in the near future so that the SBGFC could also act accordingly.

Institutional/Operational Problems

The much delayed establishment of the Municipal Finance Corporation (MFC), to take over the operations of the MDFO, is still on hold on account of findings by the Commission of Audit (COA) and the Department of Justice (DOJ) regarding the use of the second generation funds to capitalize the corporation. This pending operationalization of MFC is affecting LOGOFIND Project as the MDFO strengthening is a component of the project. In the case of the Health Sector Development Project, MFC was identified as the Special Purpose Entity of the project.

Alternative directions to the establishment of a financial intermediary for LGUs are currently being explored alongside strengthening the role of the MDFO. The MFC was created as an affiliate of the LBP to take on the functions of the MDFO and relieve NG from the burden of providing budgetary support and other financial commitments, among others. However, legal issues prevented the full operation of MFC such that there is now a status quo in the flow of ODA funds to the LGUs (e.g., MDFO is still the fund conduit).

Specific to the Diversified Farm Income and Market Development Project (DFIMD), DA committed to tag US$16 million-worth of DA appropriation in 2006 (mostly items under the budget of Ginintuang Masaganang Ani (GMA) Programs) for DFIMD financing to catch-up on loan availment. However, the amount was reduced by DA to only US$5 million which is disproportionately lower than the availment schedule. With the release of sub-allotment, this amount is further reduced to only US$3.25 million. This indicates that operations/activities under the GMA Programs are prioritized over those activities earlier committed for DFIMD financing for implementation by the regular DA units and agencies.

Sustainability

For the ARMM Social Fund for Peace and Development Project of ASFP-FMO, post-completion performance monitoring, operation and maintenance is weak for completed community-based infrastructures and Structural Regional Infrastructure (SRI) subprojects. For instance, the Datu Blah District Hospital, despite having been completed and turned over to its proponent, is still not being used. Currently, there is a contractual issue concerning the provision of electric transformer for the hospital.

The issuance of E.O. 518, which amended EO 124 series of 2002 "*Providing for the Implementing Mechanism of the ARMM Social Fund Project for Peace and Development*", devolved the barangay prioritization and subproject approval function to the Municipal Multi-Stakeholder Committee (MMSC). The establishment of MMSC (located in the provincial offices) facilitated the review and approval of community subprojects

On the other hand, there is still a need for a bilateral contract with other electric cooperatives on the sale of the uncontracted generated power for Northern Negros Geothermal Project (NNGP) of PNOC-EDC, so as not to expose the project to market risks which will have sustainable implications on the project cash flow.

VI. OTHER MEASURES TAKEN TO IMPROVE PORTFOLIO PERFORMANCE IN 2006

Other measures were undertaken in 2006 by oversight agencies, including the Office of the President, and funding institutions to address issues that impede implementation of ODA projects, as follows:

Oversight Agencies

DBM

Value Added Tax

Circular Letter No. 2006-12 was issued on July 27, 2006 regarding Budgetary Policies and Procedures on Value Added Taxes (VAT) arising from Foreign Donations, Grants and Loans to ensure that VAT arising from these are included in the budgets of respective implementing agencies. The circular states that all national internal revenue taxes including VAT shall be included in the estimated cost of the project and shall be reflected as part of the Philippine counterpart fund. VAT payables by national government agencies to the national government is automatically appropriated while VAT payable to contractors and suppliers shall be included in the appropriate budget of the agencies and shall be paid within the same year the billing is received from the contractor/supplier. GOCCs shall use their corporate funds to pay VAT while LGUs, as borrowers or recipients of grants and loan assistance from the national government, shall pay VAT out of their local funds.

Organizational Performance Indicator Framework

In August 2006, DBM published the Organization Performance Indicator Framework (OPIF) for 20 agencies. OPIF is one of two reform components under the Public Expenditure Management (PEM) being implemented by the Government which serves as a mechanism to effectively evaluate agency accomplishments by identifying and monitoring performance indicators and targets agreed upon between the agency and DBM.

These 20 agencies have adopted the framework, identified their respective major final outputs (MFOs) and realigned their programs, activities and projects with these MFOs. With this results–oriented budget framework in place, allocation of the budget by agency is made according to absorptive capacity, implementation readiness of new projects and cost efficiency.

Procurement

The Government Procurement Policy Board (GPPB) reviewed the procurement timelines to further simplify and facilitate the procurement process without sacrificing transparency or competition. Per Resolution Nos. 04-2006, 07-2006 and 014-2006 which amended the Implementing Rules and Regulations Part-A (IRR-A) of RA 9184, the procurement process from opening of bids up to award of contract shall not exceed three months, or a shorter period to be determined by the procuring entity concerned.

In November 2006, the Procurement Service of DBM launched the Philippine Government Electronic Procurement System (PhilGEPS) version 1.1 which is a single electronic web-based portal that serves as the primary and definitive source of information for all government (national government agencies and local government units) procurement. The PhilGEPS offers enhanced functionalities to support a more efficient, convenient and transparent procurement process. Both the ADB and WB agreed to use the system as part of their procedures for national competitive bidding and shopping, subject to certain conditions.

Generic Procurement Manuals (GPMs), which are a step-by step guide for procurement personnel in the conduct of the procurement process, were issued by GPPB in accordance with the Government Procurement Reform Act (GPRA). The provisions in the GPMs are harmonized with ADB, GOJ-JBIC and WB procurement guidelines.

The Online Monitoring and Evaluation System (OMES), launched by GPPB in November 2006, is a monitoring tool to determine compliance of agencies with the procurement law and is based on agency performance indicators. There are at least 100 agencies registered with the OMES as of December 2006.

The first phase of the Professionalization Program, a provision in the GPRA, was completed in 2006, i.e. conceptualization of a certification program designed to be tied to the career path of a procurement person in Government. The next phase, which is the development of a detailed modular syllabus by a local institute tied-up with a recognized international training institute, is for implementation in 2007.

NEDA

NEDA continued to refine the MTPIP 2006-2010 Information System to ensure its reliability as an input in the preparation of the national budget. It integrated the investment needs of the "super" regions into the System, alongside the priority projects enumerated by the President in her State of the Nation Address (SONA), and the Comprehensive and Integrated Infrastructure Program (CIIP) 2006-2010.

The CIIP was formulated under the guidance of the NEDA Board Committee on Infrastructure (InfraCom) to provide quality infrastructure support vital to accelerated economic growth. The InfraCom endorsed the CIIP on December 6, 2006 with inputs from the President, for adoption. This program will be the basis for pipelining and implementing infrastructure programs/projects funded by ODA, the private sector and other financing sources.

Results monitoring and evaluation (RME) trainings were conducted by NEDA in 2006 with participants from implementing agencies, local government units and oversight agencies. The objective of these trainings is to ensure that agencies focus on the desired project results and that outcomes and impact of their respective development projects are achieved. A total of 311 participants were trained in 2006.

The Harmonization Committee, co-chaired by NEDA (with DOF as Chair and DBM and COA as members), oversees the progress of the Philippine Government's compliance with the commitments made under the 2005 Paris Declaration (PD) for Aid Effectiveness. The PD seeks to accomplish, by 2010, substantial progress toward efficient and effective development partnership as reflected in harmonized processes and mechanisms between and among GOP and development partners and alignment of partner countries with GOP systems, development plans and priorities.

Investment Coordination Committee

During the year, the ICC approved the restructuring of 16 ongoing ODA–funded projects requiring actions, as follows: (a) extension of loan validity for more than one year (8 projects) and by one year or less (2 projects) ; (b) change in project scope (8 projects); (c) increase in project cost (5 projects); (d) change in loan financing ratio (1 project); (e) reallocation of loan proceeds (3 projects); (f) use of loan surplus (1 project); and, (g) partial loan cancellation (1 project). (Annex 11)

In May 2006, the ICC deliberated on a draft resolution entitled "***Providing Incentives for Improving Local Government Performance through NG-LGU Cost Sharing Partnership***". 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.

Office of the President

The MTPIP forms part of government's second phase of economic reforms under which it is investing in better infrastructure and services to create jobs and improve living standards. The most sweeping element of said phase is to restructure the economy into "super" regions to bolster the natural advantages of the five distinct regions of the country. Said "super" regions need to be built up to create opportunity across the country. Because of this, EO 561 was issued on August 19, 2006 identifying the five "super" regions and their respective primary, though not exclusive, development themes, as follows:

- Northern Luzon Quadrangle – Agribusiness
- Luzon Urban Beltway –Globally Competitive Industrial and Service Center
- Central Philippines –Tourism
- Mindanao – Agribusiness
- Cyber Corridor – Information and Communication Technology and Knowledge Economy

The issuance of the EO ensured the implementation of priority programs and projects of the government including those funded by ODA. These include the Banaoang Pump Irrigation, Subic–Clark-Tarlac Expressway, National Road Improvement Management Project, New Iloilo Airport, Laguindingan Airport Development Project, Tulay ng Pangulo sa Kaunlaran, Arterial Road Phase IV and V projects.

To address the low absorptive capacity of agencies implementing pump-priming projects, especially the infrastructure projects, EO 553 was issued on August 1, 2006, establishing an *Infrastructure Monitoring Task Force* with staff from NEDA, Presidential Management Staff (PMS), DPWH, DOTC, DOE and the Export Development Council (EDC) and a representative from the Philippine Chamber of Commerce and Industry (PCCI). The Task Force shall take steps to speed up the implementation of projects, as appropriate.

Relatedly, EO 564 was issued on August 28, 2006 restructuring the Regional Project Monitoring and Evaluation System (RPMES) into the *Infrastructure Monitoring Task Force Projects Performance Tracking System* (Pro-Performance System) of PMS to accelerate the delivery of the MTPIP 2006-2010, especially the SONA commitments, within the purview of good governance and transparency.

Two National Government Infrastructure Fora were convened in October 2006 and May 2007 that seeked to explore other avenues of cooperation and encourage further participation of the private sector and the business community in the implementation of priority development initiatives.

Funding Institutions

ADB

ADB followed a new approach in the conduct of the Country Portfolio Review Mission (CPRM), its annual review of projects, with the following activities:

- in-depth and interactive discussions with oversight agencies, executing agencies and project management offices on details of implementation;
- project site visits to interact with stakeholders and beneficiaries of selected projects; and,
- wrap-up workshop that enabled selected Project Management Offices (PMOs) to share success stories through sound project management and implementation practices and other PMOs to learn from others' experiences

This new approach encouraged wider and intensive participation from stakeholders in addressing issues relating to project implementation. Moreover, ownership of the review exercise was enhanced as oversight and implementing agencies hosted the discussions and facilitated the wrap-up workshop.

GOJ-JBIC

GOJ-JBIC continued its practice of conducting Project Implementation Reviews (PIRs) with executing agencies which are held twice a year (May and November). The issue and action-oriented PIRs evaluated project performance (inputs, activities and outputs) with the view of resolving implementation bottlenecks by identifying time-bound actions and accountable persons to address these.

Also, GOJ-JBIC launched its new monitoring and evaluation (M&E) tool, the Project Status Report (PSR). The PSR is a standard format which incorporates the different levels in the project cycle (from preparation to implementation to completion) and follows four out of five OECD-DAC evaluation criteria (relevance, efficiency, effectiveness and sustainability). The new M&E system will be uploaded and shared in the JBIC Manila website (www.jbicmanila.ph) in 2007. The website hopes to enhance monitoring of the GOJ-JBIC portfolio through timely identification of problems and needed actions, including persons or entities responsible for such actions. Executing agencies will update monthly progress of projects through the website.

Together with GOP, the GOJ-JBIC proposed reforms in the administration of development projects through the provision of sector and program loans. The proposed "*Enhancing Management of Public Investments Loan*" aims to address the policy, institutional and operational weaknesses in the project cycle (preparation, appraisal, approval, implementation and post-evaluation). On the other hand, the proposed "*Transportation Sector Loan*" intends to address operation and maintenance problems in the road sector, policy/institutional weaknesses in the port sector and financial sustainability of the LRTA.

In May 2006, NEDA and GOJ-JBIC signed a Memorandum of Understanding (MOU) providing for the joint conduct of mid-term and ex-post evaluation of JBIC-funded projects; policy dialogues and feedback seminars; study groups to develop evaluation methods; and, institutional development. Consistent with this MOU, NEDA and JBIC, through an external evaluator, conducted in October 2006 a joint ex-post evaluation of selected projects completed two years ago, namely: PJFH Rehabilitation Project Phases I and II, Maritime Safety Improvement Project II and Nationwide Air Navigation Facilities Modernization Project II.

World Bank

For CY 2006, portfolio reviews conducted by WB focused discussions on the outputs and outcomes generated by the project and the likelihood of achieving development objectives of the project. The discussions provided a good lead in discussing implementation progress of individual project operations and implications for overall development outcomes, and helped to flag actions to help ensure the delivery and sustainability of expected results. The review concluded that most of the projects in the WB portfolio are delivering good quality outputs, aligned to priority needs, and are well positioned to deliver on expected outcomes to direct beneficiaries, as well as, the policy and institutional arenas. The projects with unsatisfactory ratings were put on "watchlist" and those rated marginally satisfactory were identified.

The review also highlighted two broad issues which have substantially impeded the achievement of development outcomes:

a) *Slow Startup of New Projects.* A pattern of low disbursements in the early years of new projects was observed, with percent disbursed lagging far behind the percentage of project time elapsed. Some of the symptoms identified (i.e. important readiness steps not in place even after one year, lack of staff, budget, and, authorization for preliminary actions essential for effective project implementation and others), can be overcome through focused attention and start-up funding in the year before planned implementation.

b) *Budget Execution.* Portfolio reviews regularly draw attention to problems with funds flow and cash releases, which appear to arise from broader weaknesses in the overall review of project execution. The upcoming public expenditure review and development policy loan discussions will provide opportunities to address these systemic process issues.

VII. LESSONS LEARNED

Project Readiness

Quality-at-entry, or the readiness of projects for implementation after loan effectivity is critical in ensuring high quality projects, successful implementation and on-time delivery of benefits to intended project beneficiaries.

A number of projects suffered from start-up delays due to right-of-way and procurement issues. While some of these loans do not entail commitment fees, it may be preferable for projects such as these to acquire the necessary land and right-of-way and pre-procurement activities be initiated before loan approval. Implementing agencies should also allocate start-up funding at least a year prior to planned implementation to set-up/mobilize project management unit, conduct community consultations and carry-out other preliminary actions, as necessary.

Acquisition of Right-of-Way involves a lengthy process from consultations with affected people/landowners to documentary and processing of claims. As these were observed to contribute to implementation delays particularly when contractors are denied entry to sites where ROW has not yet been settled, agencies should prepare a ROWA Plan immediately after the D/E stage, and should implement the same prior to issuance of Notice-to-Proceed (NTPs) for civil works in the affected areas/sites.

The initiation of advance procurement led to significant progress towards meeting implementation timelines, as in the case of Wholesale Electricity Spot Market (WESM) component of the Electricity Market and Transmission

Development Project. If all implementing agencies had the chance to apply this to their projects, the likelihood of achieving project objectives as originally designed is high. Such approach however, would require flexibilities on the part of agencies, as well as funding institutions.

Budget Preparation and Execution

To avoid budget constraints during project implementation, proposed projects should be screened based on a realistic budget strategy of the agency taking into account its historical absorptive capacity and GAA allocation for FAPs.

A planning and budgeting system based on the MFOs of a government agency should be operationalized and reflected in the GAA as well to ensure transparency in the delivery of services and consistency with established goals/strategies/policies.

Agencies should improve on its estimates or make realistic planning and budgeting for project activities, given available budget. About 3,667 hectares of the estimated project irrigable area under Malitubog-Maridagao Irrigation Project (MMIP) were not completed due to insufficient funding that was not anticipated earlier.

Cost Increase

Some GOCCs and GFIs are exceeding ICC-approved project costs, mainly due to their understanding that the projects are monitored and assessed based on the amount and currency of the forex loan (instead of the approved amount in peso). Also, the changes in project costs due to movement in forex rate is either captured a bit too late or the financial data have not been as easy to obtain. This concern emanates either from the seeming absence of an agency with an enforceable role (like DBM in the case of NGAs) on adherence to ICC-approved costs or the absence of punitive sanctions (as in the case of the ODA Act) to penalize agencies that do not observe cost control measures.

The magnitude of prospective cost overruns (PhP29.338 billion) reported in 2006 points to a serious need for agencies to implement measures to arrest similar increases in the future. The lack of a mechanism within agencies to seriously track project cost during implementation needs to be addressed.

Role of LGUs and Project Stakeholders

An abundance of awareness raising and capacity development initiatives was extended by the DILG to LGUs. But in several occasions, DILG cited the lack of LGU capacity as an issue in the timely implementation of ODA projects. This could be an indication of the need for DILG to revisit and improve its training modules and its assessment of LGU training needs.

A key consideration in project preparation was the strong commitment and manifested participation of LGUs that facilitated project implementation and ensured timely attainment of project objectives. The social preparation process that brought about complementation and mutual support of the local chief executives and legislative councils were crucial elements in the efficient preparation and effective implementation of priority urban infrastructure subprojects.

Projects should include capacity building (trainings and workshops) of LGUs and implementing agencies in the design of projects to help ensure sustainability of the project. LGUs should be involved not only for resource augmentation and occasional consultation but also in the advocacy, appreciation, and institutionalization of the project's principles and processes. With this, the integration of project principles and processes in the LGUs' own structures and operations will be more strategic.

To address the weak link among PMOs and LGUs, including shifting commitments from the latter and considering the conduct of elections, future community-driven projects may consider the idea of adopting more binding documents such as Sanggunian Resolutions in addition to Memorandum of Agreements to prevent delays and ensure that local leader's commitment to projects will be sustained until completion of subprojects.

By design, some projects already involve LGUs during implementation but findings show the lack of LGU technical capacity especially in FS and DED preparation. To enhance the sense of ownership and institutionalization of Project processes by LGUs, there should be a gradual mainstreaming of project implementation coupled with training and capacitation at the field level from Project-hired staff to LGU structures and operations. This is consistent with the Project framework that the LGU's role should expand while the agency's role diminishes as the LGU progresses over time.

Strong participation and sense of ownership of project beneficiaries is due mainly to two empowering elements in the design and implementation of the KALAHI-CIDSS Project: (a) the funds flow arrangement that deposits sub-project grants directly into community accounts and allows residents to manage and account for these funds; and, (b) the establishment of community-based procurement systems that enable residents to make the major decisions on subproject implementation.

The introduction of rational criteria and clearly-defined selection processes through the Municipal Inter-Barangay Forum (MIBF) in KALAHI-CIDSS has reduced the arbitrariness and political intervention that normally accompanies the allocation of government resources to local development projects. However, it was also observed that competition within the MIBF has created tensions between prioritized and non-prioritized barangays within a municipality. Competition has also not encouraged an area development focus as a result of which, there has been duplication of projects (e.g., health care stations) in some areas and the neglect of common needs in others.

Community volunteers are effective village/barangay-level implementation agents of the Project. As observed during the review of sustainability plan implementation particularly for Phase 1 areas, a big part of successes of the Project can be attributed to the dedication and efforts of community volunteers. Given the highly-important role of volunteers, it is imperative for KALAHI-CIDSS and its partners to develop a volunteer development program, including an incentives scheme to sustain the participation of volunteers in the Project. Of particular importance is the formulation of a capacity-building package in the formation and development of O&M groups for sub-project sustainability.

Mobilization of people's organizations (PO's) to implement community-based subprojects strengthens accountability and ensures proper implementation of projects as PO's are chosen by the community to implement the project, of good reputation and respected by the community and bounded by their accountability to deliver the project and usually not affected by any political agenda.

Implementation Duration

Project planning and risk assessment are critical procedures that need to be given due attention to minimize occurrence of implementation delays. The number of projects requesting loan extensions over the last three years (14 loans in 2004, 38 loans in 2005 and 11 in 2006) may indicate that there is need to carefully review planning of project activities given the agencies' various experiences in implementing ODA projects. The project appraisal's five-year implementation schedule may prove to be no longer relevant for some projects because preliminary activities to kick-off project implementation during first two years are not accorded equal attention and resources.

Moreover, extensions requested by some implementing agencies (LWUA, TransCo, NIA and DAR) challenged government's policy on final loan extensions. Agencies are aware of conditions of a final extension, particularly that all requests thereafter would be automatically denied, yet they fail to abide with said condition. Conditions of a final extension were impressed on said agencies through regular meetings and information on these is also posted in the NEDA - ICC webpage.

Loan Cancellations

In the case of Subic Bay Freeport Environmental Management Project II (SBFEMP II), SBMA has decided not to implement the project through SBMA Board Resolution No. 06-10-1211 issued 3 November 2006 and loan cancellation will be requested with the GOJ. No physical activity was started to date. SBMA cited the following for the requested cancellation: (a) Cost of constructing a new landfill is far more expensive and burdensome to SBMA than to dispose Subic Bay Freeport's solid waste at the landfill operated by the Metro Clark Solid Waste Management Corporation in Tarlac; and, (b) SBMA deems it needs to readjust land use plans due to recent developments in the Freeport.

Agencies have to consider commitments entered into by preceding administrations, i.e. the case of SBFEMP under SBMA. Agencies should consider implications on the overall Philippine portfolio that may be brought about by canceling ODA loans in full.

Transparency in assessment of major project restructuring is imperative considering that it leads to major project decisions. Thorough and regular consultations with GOP oversight agencies (NEDA, DOF) and Financial Institutions are also recommended. In the case of SBFEMP, the necessary justifications have been submitted to the NEDA Secretariat for evaluation/validation. Decisions pertaining to non-implementation of projects/loans, as long as presented with proper, logical and credible justification have a high probability of being supported by the GOP as a whole, and subsequently by the concerned Financial Institution.

Significant changes in a sector (e.g. education sector's Ladderized Education) and accommodating this under an existing loan would need thorough planning and very fast decision-making. A steering committee such as the Project Advisory Committee (PAC) should be convened regularly in order to provide overall direction to the project, into achieving its deliverables.

Multi-Agency Participation in Projects

For projects with several implementing agencies, initial workshops to clarify roles and deliverables and firm-up commitments, regular coordination, and good working relationship among the PMOs are necessary to achieve smooth project implementation. Timely submission of consolidated project periodic M&E reports is also important. Likewise, efficient project management and competent technical staff are major factors contributing to successful implementation of the project.

Multi-agency participation affects smooth project implementation. There is difficulty in the effective management of programs involving two executing agencies. Decisive and immediate actions suffer setback.

Results Monitoring and Evaluation

The ability of the Project's monitoring and evaluation (M&E) system to flag to management, on a timely basis, gaps/slippages in implementation as well as factors why these operational issues arise makes it an indispensable management decision-making tool. However, apart from mere input-output M&E, there is also a need to track project progress with respect to outcomes and impact given that the project's success depends ultimately on the achievement of its development objectives. Thus, the Project should effect a transition from regular monitoring and evaluation to results monitoring and evaluation (RME), which is geared towards a more scientific determination of results, evaluation of outcomes and impacts, and documentation/processing of lessons learned. In the process, baselines should be made available at the start of the project to be able to measure the impact of project interventions to the targeted beneficiaries and provisions for the refinement of the project's logical framework from appraisal, implementation, completion and ex-post evaluation phases.

DBP embarked on developing and refining its performance monitoring with the creation of the Program Evaluation Department (PED) under the supervision of its Chief Operating Officer. PED was tasked to validate and assess the development effectiveness and sustainability of the Bank's programs and projects. Initial results of the program evaluation of the Industrial Restructuring Program (IRP), a policy-based lending program aimed to promote efficiency and international competitiveness of selected sub sectors, show that IRP had a strong influence not only on how the sub-sectors actually developed but also on how DBP has transformed as a financing institution. The experience also enabled DBP to accumulate resources that could be effectively mobilized to support the implementation of the MTPDP.

DAR continued its RME activities in 2006 focusing on five of its agrarian reform ODA projects namely: Agrarian Reform Communities Project (ARCP), Support to Agrarian Reform Communities in Central Mindanao (STAR-CM), Northern Mindanao Communities Initiatives and Resources Management Project (NMCIREMP) and Mindanao Sustainable Settlement Area Development Project (MINSSAD). The RME activities made use of sample surveys in 288 agrarian reform communities (ARCs) in the five projects or 14 percent of the total 2,000 ARCs targeted by DAR nationwide.

Sustainability

O&M arrangements should be built-in in the sub-project planning and implementation process. To gauge the level of O&M performance, DSWD uses a Sustainability Evaluation Tool (SET) which assesses completed sub-project utilization and sustainability performance, evaluates the quality of the sustainability program on the basis of organization effectiveness, financial management system, impact and benefits and the physical/technical condition of the sub-projects. The tool also aims to provide technical assistance among community O&M groups on observed gaps to ensure the proper functioning, utilization and maintenance of sub-projects.

At the outset of project planning and design, operations and maintenance cost, particularly beyond the life of the project should be considered in order to ensure sustainability of projects

The adoption of the demand driven approach in overall project development cycle of some projects made it less susceptible to changes in political leadership and development priorities.

Sustained assistance to LGUs in capacity development is necessary to ensure attainment of Project benefits and impact

VIII. BUDGET OUTLAYS AND REQUIREMENTS

Budget requirements of ongoing loans for succeeding years, as submitted by the various agencies, are as follows: PhP54.430 billion for 2007, PhP27.621 billion for 2008, PhP16.619 billion for 2009, PhP5.902 billion for 2010 and PhP0.804 billion for 2011 onwards. The top three agencies with the biggest budgetary requirements for 2007 are DPWH with PhP26.068 billion, DOTC with PhP10.813 billion and NIA with PhP4.785 billion. (Annex 12)

IX. MEASURES FOR 2007 AND BEYOND

ICC

- Issue guidelines prescribing the timing of submission of proposed cost increases to ICC, for example: (a) immediately after detailed engineering; (b) after Agency Budget for the Contract (ABC) has been determined; (c) after bidding; (d) after contract award; and, (e) when the total cost of change orders, variation orders, extra work orders, and supplemental agreement would exceed 10 percent of the total project cost;

- Issue guidelines on funding cost increases in ROW acquisition. The LGUs should be accountable for funding (in part or in full) any increase in ROWA, relocation and similar activities. This will help IAs in keeping ROW and relocation costs at a reasonable level;

- Approve proposed project cost expressed in peso terms to ensure that agencies are aware that they will be monitored based on the peso approved cost and not on the dollar cost. The use of dollar denominated project cost affects the expenditure program of government particularly when cost increases are encountered by the projects;

- Define acceptable implementation periods, since extended implementation periods increases project costs. Implementation periods of completed projects in the last five years range from seven to ten years compared to only five to seven years at project approval; and,

- Together with DBCC, ICC needs to review policy on ODA loan borrowings as some agencies are awash with ongoing and offers of ODA grants and in some cases with second generation funds which can be tapped to implement their development programs and projects. In the case of DOH, LGUs have withdrawn or are reluctant to participate in loan-funded projects because of the NG-LGU cost sharing requirement and are waiting for the grant-assisted projects to be implemented in their areas.

DBM

- Amend DBM-DOF-COA circular No.2-97 to include: (a) guidelines on components of projects eligible for foreign exchange payments; (b) incorporate procedure on the charging/accounting of commitment fees to agency budgets, as approved by DBCC; (c) efficient use of special accounts; and, (d) incentives for cost efficiency; and,

- Finalize and implement the rationalization program per EO 366 taking into account the structure and staffing requirement of project management offices.

DOF

- Together with implementing agencies, ensure that policy actions for the release of program loan tranches are doable and can be implemented within the earliest possible time to reduce payment of commitment fees. In the case of the Health Sector Development Program, GOP paid a total of US$1.258 million as commitment fee or PhP58.0 million in a span of two years;

- Review the high guarantee fee and foreign exchange fee levied to GFIs resulting in a high pass on interest rate to borrowers which makes it unattractive (given the low interest rates prevailing in the country). If this is not possible, to consider the cancellation of these loans to avoid payment of commitment fees; and,

- DOF-CAG, or any appropriate body, to enforce strict adherence by GOCCs to ICC-approved costs. In the process, a clear reporting system must be developed to allow timely action.

Implementing Agencies

- Set-up a cost monitoring system in each Project Management Office that indicates comparison of current / updated cost estimates (as a result of detailed engineering estimates, Approved Budget for the Contract, bid costs and contract cost as awarded, proposed change/variation orders, extra work orders, supplemental agreements, etc.) with ICC - approved cost;

- Establish RME units in their respective agencies to track the progress of projects in terms of outcomes and impact, thus ensuring that development objectives are achieved;

- Review internal policies on eligibility for foreign exchange payments to ensure that only imported good, equipment, services, etc, will be payable in foreign currency;

- Finalize proposed loan cancellations, observe milestone dates/timelines on commitments, closely monitor progress of delayed works and ensure timely completion of projects;

- On procurement, consolidate lessons learned from LGUs that undertook procurement. Mistakes and good practices in past procurements should be shared intensely to current and upcoming LGUs undergoing procurement for better project implementation;

- Agencies should blacklist contractors or impose a penalty system as a disincentive for contractors lacking in needed resources to complete projects inasmuch as the termination of such contracts results in more delays in project implementation;

- On LGU participation, synchronize project cycles with the local elections such that key activities like sub-project approvals and relocation are done before election years. Ensure the high quality of projects so that the probability of continuing them and acceptance by the succeeding official is high;

- Establish distance learning program for LGUs in coordination with the League of Municipalities of the Philippines (LMP), Mayor's Development Center (MDC) and the World Bank Institute (WBI) to foster the exchange of best practices and technology among our local government units and even international local governments;

- Given the increasing number of completed projects and sub-projects, agencies should continue to address the issue on operation and maintenance (O&M) of completed infrastructures. More O&M trainings should be conducted, especially at the barangay level where most local chief executives and other concerned stakeholders may lack the capacity to sustain investments;

- Continue the conduct of impact evaluation of completed projects and documentation of lessons learned, especially for projects closing in 2007;

- Mapping of donor assistance to avoid possible duplication of development interventions and to better address gaps in the rural development and social sectors;

- Revisit and adjust target-setting of loan disbursements and general work program, taking into consideration realistic achievement of projected physical accomplishments based on available funds;

- Remand agency-wide submission of viability indicators for ongoing projects with cost overruns to ICC. This will help ensure budget support in succeeding years;

- Coordinate with DBM and agree on an arrangement regarding budget strategies for certification by DBM; and

- On ROW and resettlement issues, need to come-up with a final ROW plan to avoid time extensions.

GFIs

- Continue to strengthen promotion of relending facilities to entice more borrowers, given the demand-driven nature and uncertainty in the behavior of the LGUs; and,

- Push compliance of LGUs and MFIs in the completion of requirements to facilitate timely implementation. It should design and strictly enforce incentive mechanisms to move involved agencies to submit on time.

X. PROSPECTS FOR 2007

The economy's robust performance in 2006 (Gross Domestic Product of 5.4 percent) is expected to continue in 2007 creating an enabling environment for

ODA projects' implementation. The government's determined reforms to increase revenues, to manage expenditures effectively, to contain the deficit, and to tame inflation are all cascading to benefit the economy and is expected to attract foreign portfolio and direct investments, boosting the peso's strength and buttressing the country's foreign exchange reserves. With this scenario, issues on budget constraints affecting ODA project implementation will be minimized or totally eradicated. The government programs, as well as private sector initiatives to make the various economic sectors more stable, are expected to pay off in 2007.

In the 2007 Budget of Expenditures and Sources of Financing (BESF) some PhP53.74 billion has been allocated for the implementation of foreign-assisted projects representing a PhP4.67 billion increase (10 percent) over the 2006 reenacted allocation of only PhP49.07 billion. Specifically, the 2007 BESF allocation is broken down into PhP36.5 billion loan proceeds, PhP16.7 billion GOP counterpart and PhP0.6 billion grant proceeds. The loan proceeds, if fully disbursed, translates to US$761 million (using an exchange rate of US$1 = P48), which is 6.3 percent higher than the 2006 actual disbursement of US$716 million for NGAs/LGUs , excluding carry over budget from 2006.

Given government's priority on infrastructure (creation of Super Regions and the Comprehensive and Integrated Infrastructure Program), it is expected that problems affecting implementation of ODA infrastructure projects which accounts for about 60% of the portfolio's loan balance will be immediately addressed and resolved. Also, the issuance of NTPs for construction in 26 civil works contracts in 2006 are expected to result in substantial disbursements that will continue to pull-up the ODA performance indicators in 2007. Among these are: Iloilo Flood Control, Metro Manila Urban Transport Integration Project, Urgent Bridges Construction for Rural Development, Metro Cebu Development Project III - Cebu Section South Coastal Road (Tunnel section) and Northrail Section I, Phase I Projects.

Government support to entrepreneurs will be strengthened through its micro, small and medium enterprise (MSME) programs. It is expected that documentary and collateral requirements of lending institutions will be simplified to improve credit access for MSMEs. The creation of a Credit Information Bureau will be pursued to assist entrepreneurs availing ODA relending facilities.

With the issuance by DOF of a mechanism for the availment of additional 20% grant on top of the NEDA Board approved maximum 50% grant for devolved activities (for pilot-testing in the Mindanao Rural Development Project II in 2007), it is expected that LGUs participating in nationally-identified programs and projects will be able to deliver on their commitments in terms of institutional or governance reforms. This mechanism is a transparent process of providing incentives to LGUs instituting significant policy reforms based on objectives set by the national government meantime that the "performance-based grant system for LGUs " is not yet developed.