OUTCOME OF THE
16th ODA PORTFOLIO REVIEW

I. BACKGROUND

Mandate

Republic Act 8182 or the "*ODA Act of 1996*", as amended by RA 8555, mandated the National Economic and Development Authority (NEDA) to conduct an annual review of the implementation of all projects funded by Official Development Assistance (ODA). The review identifies, among others, causes of delays, reasons for bottlenecks and cost overruns (both actual and prospective).

The conduct of the annual review predates the ODA Act as it started in 1992. 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 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.

Coverage

This year's review covered all active ODA loan-funded programs and projects (ongoing, signed and became effective) from *01 January 2007 to 31 December 2007*, inclusive of programs/projects completed within the year. The review involved consultations and discussions with 37 agencies [23 National Government (NG) agencies, 10 Government Owned and/or Controlled Corporations (GOCCs), 3 Government Financial Institutions (GFIs) and 1 local government unit (LGU)] involved in implementing the programs/projects. ODA grants identified and implemented by the agencies were also included. As a new initiative, WB, ADB and GOJ/JBIC participated in the agency-level meetings with the aim of harmonizing and aligning processes between Development Partners (DPs) and GOP agencies to further enhance aid effectiveness and reduce transaction costs. (Annex 1-A for complete list of agencies/LGU consulted and/or desk reviewed; Annex 1-B for list of ODA loans.)

Institutional Arrangements for Project Management and Implementation

Project Management Offices (PMOs)/Project Management Units (PMUs)/Project Implementation Offices (PIOs) have been established by Implementing Agencies (IAs) to specifically monitor and oversee implementation of its foreign-assisted projects (FAPs). IAs have adopted diverse project management arrangements as follows:

(i) PMO per FAP

The Department of Agriculture (DA) and Bureau of Customs (BOC) have PMOs set up per project. However, since the Philippine National Railways (PNR), North Luzon Railways Corporation (NLRC) and Pasig River Rehabilitation Commission (PRRC) each implement a single project, the agency itself acts as the PMO.

(ii) PMO per FAP and an Oversight unit for all FAPs

The Department of Agrarian Reform (DAR) and the Department of Environment and Natural Resources (DENR) each have established a unified PMO wherein all FAPs are coordinated through a FAPs Office (FAPsO) and (Foreign-assisted and Special Projects Office (FASPO), respectively, where all the PMOs report directly. Per DAR, each FAP has its own Central and Provincial PMOs. The National Irrigation Authority (NIA) has its Project Development Implementation Department, headed by the Project Implementation Officer (PIO), which coordinates and oversees the implementation of all its foreign-funded projects. In addition, each NIA FAP has its own PMO with each PMO manager reporting to NIA's PIO. In the case of the Department of Transportation and Communication (DOTC), a Central PMO or unit implements all its foreign-funded projects.

In terms of manpower support to all the FAPs, the implementing agencies determine the number of project personnel needed and engage the organic staff, hire contractual personnel and consultants, or employ them in combination as follows:

- *Entirely organic staff*

  Most of the DA PMOs employ regular staff through Special Orders (e.g., the General Santos Fishing Fishing Port Project utilizes regular staff detailed from the Philippine Fisheries Development Authority and the Special Projects Coordination and Management Assistance Division). Similarly, NLRC and PRRC PMOs are composed of purely organic staff. Likewise, the PNR-PIO, which employs organic staff, has been established through an Office Order. Distinct with other ODA-funded projects however, there is no GOP counterpart allocation for the PNR-PIO. The PNR's corporate funds finance salaries and other operating expenses for the organic personnel of the PIO.

- *Entirely contractual staff*

  All employees hired for NIA's PMOs including the Project Managers are contractual.

- *Combination of organic and contractual staff*

  The PMOs of the DAR, DENR and DOTC are manned jointly by regular permanent and contractual staff. Meanwhile, although project coordination (i.e. InfRES project) is basically handled by regular DA staff, the daily operations and project implementation are managed by a Project Office composed of consultants hired under the project.

II. ODA LOANS PORTFOLIO

Magnitude

The CY 2007 ODA Loans Portfolio amounted to US$ 9.747 billion covering 130 loans composed of 119 project and 11 program loans. Seventy-eight percent or US$ 7.576 billion of the portfolio is accounted for by project loans while the remaining 22 percent or US$ 2.171 billion by program loans (Annex 2-A). Of the 130 loans in 2007, 103 are ongoing (including 9 newly effective loans), 5 are newly-signed and 22 loans closed within the year.

The amount of ODA loans has been decreasing since 2000 and only slightly increased by 3 percent in CY 2007, from the US$ 9.477 billion CY 2006 figure. Starting CY 2005, there was a noted increase in program loans, consistent with the country's commitment to the program-based approach espoused by the Paris Declaration.

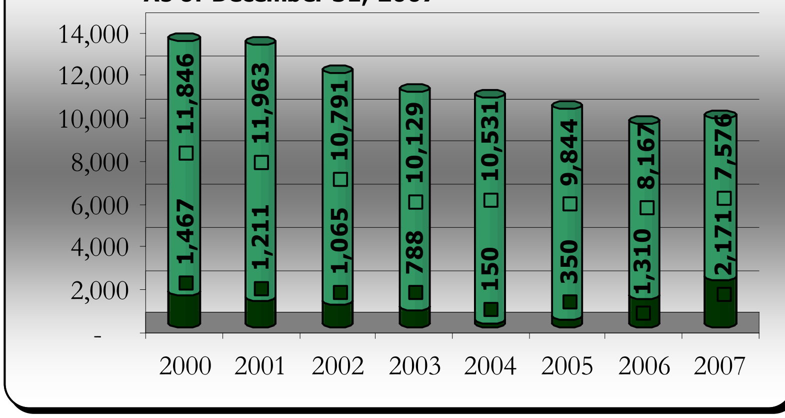


Figure 1: Distribution of Ongoing Loans As of December 31, 2007

Grant Element

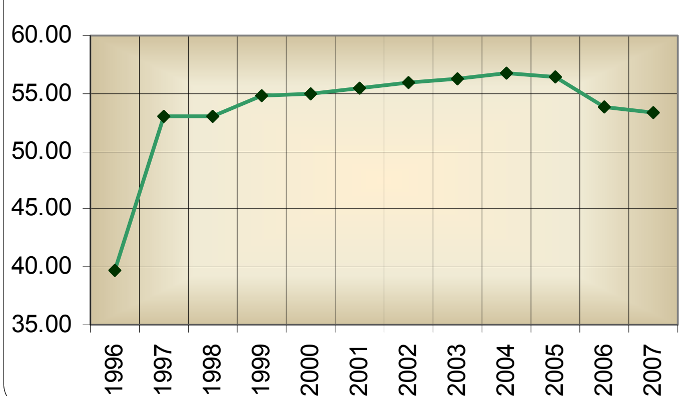
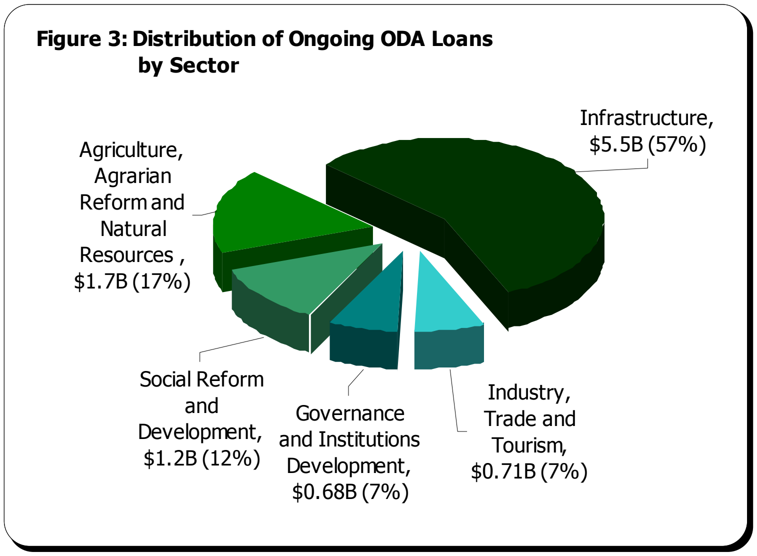


Figure 2: Cumulative Grant Element CY 1996 to CY2007

The concessionality of ODA loans is measured by their grant element which 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 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 2007, is 53.31 percent (Annex 2-B).

Distribution

By Sector



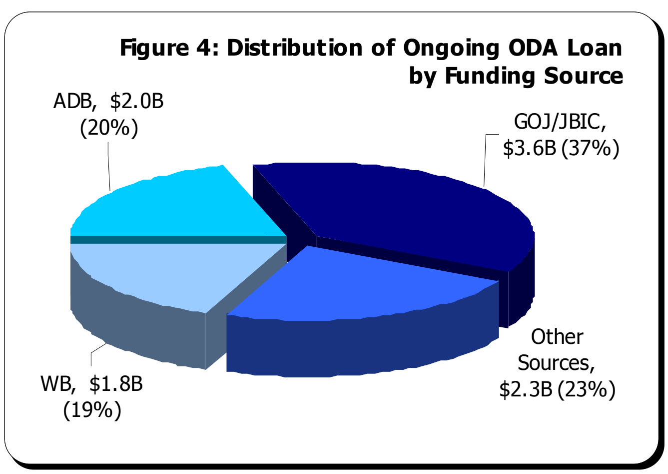
For the past years, the Infrastructure Sector has consistently been the recipient of the largest share of the ODA loans portfolio. In CY 2007, 57 percent or US$ 5.532 billion was the sector's share, broken down as follows: (i) Transportation with 35 loans amounting to US$ 3.833 billion or 39 percent of the portfolio; (ii) Energy, Power and Electrification with five loans worth US$ 852 million (9 percent); iii) Water Resources with 16 loans involving US$ 695 million (7 percent); and, (iv) Social Infrastructure with five loans amounting to US$ 152 million (2 percent) (Annex 2-C).

The Agriculture, Agrarian Reform and Natural Resources Sector came second, with 30 loans worth US$ 1.672 billion (17 percent). Meanwhile, the Social Reform and Development Sector is the third largest recipient which accounts for 12 percent of the portfolio or US$ 1.153 billion involving 24 loans. This is followed by the Industry, Trade and Tourism Sector which received a seven percent share of the portfolio with nine loans worth US$ 706 million, and the Governance and Institutions Development Sector which accounts for the remaining seven percent of the portfolio or US$ 683 million for six loans.

Notable improvement in the CY 2007 distribution is the significant increase in the ODA share of the Governance and Institutions Development Sector which received US$ 683 million (7 percent of the portfolio) in 2007 from only US$ 22 million in CY 2006 (0.2 percent). Four new governance projects implemented by the Department of Finance (DOF), Bureau of Customs (BOC) and Bureau of Internal Revenue (BIR) became effective in CY 2007.

By Funding Source

The Government of Japan through the Japan Bank for International Cooperation (GOJ-JBIC) is still the biggest



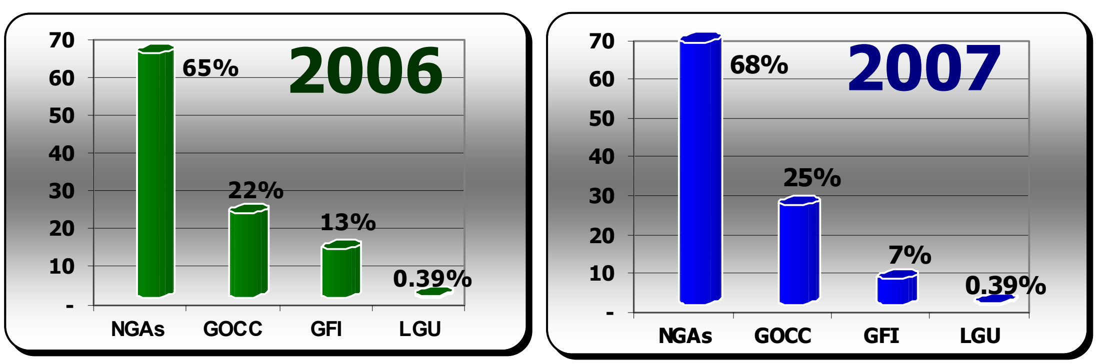
source of ODA loans accounting for 37 percent or US$3.646 billion with 46 loans. This is followed by Other Sources (Austria, Belgium, China, Germany, International Fund for Agricultural Development [IFAD], Korea, Kuwait, Nordic Development Fund [NDF], Netherlands, Organization of Petroleum Exporting Countries [OPEC], Saudi Arabia, Sweden, Spain and United Kingdom) which funded 35 loans worth US$ 2.282 billion or 23 percent of the portfolio. The Asian Development Bank (ADB) had a share of 20 percent (or US$ 1.980 billion with 23 loans) while the World Bank accounted for 19 percent (or US$ 1.838 billion with 26 loans) of the portfolio (Annex 2-D).

CY 2007 figures showed that China increased its share in the loans portfolio, from 5 percent in CY 2006 to 11 percent, or from US$460 million for three loans to US$ 1.110 billion for six loans. The share of GOJ-JBIC is still the biggest but went down to 37 percent in CY 2007 from 49 percent in CY 2006 because seven loans closed during the year amounting to US$ 398 million.

By Agency Classification

ODA loans in CY 2007, as in CY 2006, were still mostly implemented by National Government Agencies, getting 68 percent (or 91 loans amounting to US$ 6.585 billion) of the total loan amounting. GOCCs, on the other hand, administered 25 percent of the portfolio consisting of 22 loans worth US$ 2.480 billion. Furthermore, GFIs took responsibility for 7 percent (or 16 loans involving US$ 644 million) of the loans portfolio, which was a 6 percentage point drop from 13 percent in CY 2006. The remaining 0.4 percent of the loan portfolio has an LGU (Provincial Government of Lanao del Norte) as the implementing entity (Annex 2-E).

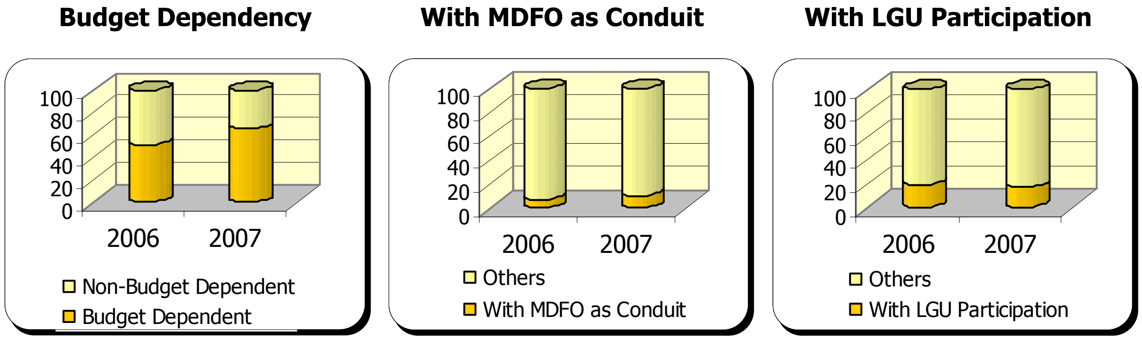
Figure 5: Distribution of Ongoing ODA Loans by Agency Classification



Budget Cover

ODA loans are classified into (i) those that require budget cover (to finance projects implemented by line agencies and some GOCCs e.g., NIA and LRTA and with MDFO as conduit); and, (ii) those that do not require budget cover (for projects implemented by GOCCs/GFIs and the program loans). The former accounted for 66 percent of the CY 2007 portfolio, compared to 67 percent in 2006 (Annex 2-F). The 14 loans that pass through MDFO comprised 10 percent of the ODA project loans portfolio in 2007 (Annex 2-G). Meanwhile, ODA projects with LGU participation accounted for 18 percent of the projects portfolio (Annex 2-H), at more or less the same level since CY 2006.

Figure 6: Distribution of Ongoing ODA Loans From CY 2006 to 2007 (in %)



New Loans

14 new loans (5 program and 9 project loans) worth US$ 1.850 billion, or 19 percent of the total portfolio were signed in CY 2007. These consist of (i) two loans from ADB worth US$ 284 million; (ii) three from GOJ-JBIC amounting to US$ 248 million; (iii) four from the WB worth US$ 395 million; and, (iv) five from Other Sources with a total amount of US$ 923 million. Of the 14 new loans, nine became effective within the year while five loans have yet to be made effective (Annex 2-I).

Loan Cancellations

Partial loan cancellations made in CY 2007 amounted to about US$ 125 million for 17 loans consisting of: US$ 25 million from 5 ADB loans; US$ 82 million from 7 GOJ-JBIC loans; and US$ 19 million from 5 WB loans. Cancellation for the said period decreased by 44% compared to partial loan cancellations made in CY 2006 (ADB decreased by 36%, GOJ-JBIC decreased by 51%, WB increased by 6%). Reasons for CY 2007 cancellations were: (i) unutilized balance at the close of the loan (US$ 99 million); (ii) excess financing as a result of foreign exchange rate movement (US$ 8 million); (iii) change in financing mode (US$ 12 million); and, (iv) reduction in scope of projects (US$ 6 million) (Annex 2-J).

Loan Extensions

In CY 2007, there were a total of 21 projects that requested for loan validity extension. Of the total, 12 loans have already been extended while the remaining 9 loans still awaiting concurrence from their respective funding institutions. Five loans were extended for six months to one year, six loans extended for 1.5 to 2 years, and one loan extended for more than 2 years (Annex 2-K). Reasons for loan extensions, which may or may not have cost implications, were: i) delayed completion of subprojects due to poor contractor performance; ii) adverse weather conditions which damaged certain project structures; iii) allow completion of component and cover payment of final billing; iv) delayed and insufficient budget releases; v) changes in scope and variation orders; vi) peace and order problems; and, vii) right-of-way issues.

Closed Loans

Twenty-two loans amounting to US$ 1.955 billion were financially closed or fully availed in CY 2007, as follows: seven loans from ADB (US$ 778 million); seven loans from WB (US$ 770 million); seven loans from GOJ-JBIC (US$ 398 million); and, one loan from OPEC (US$ 10 million) (Annex 2-L).

Loan Ageing

Table 1: Loan Ageing by Funding Source

	0 years	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years	11 years
ADB	0	3	1	1	3	1	1	2	2	2	0	0
WB	2	4	3	1	3	3	2	0	1	0	0	0
GOJ-JBIC	0	1	0	1	3	6	9	6	5	4	0	2
Others	0	7	5	4	1	3	4	3	1	2	1	0
Total	2	15	9	7	10	13	16	11	9	8	1	2

Setting aside loans that closed within CY 2007, the ODA loans portfolio has 103 ongoing loans of which 16 were financed by ADB, 19 by WB, 37 from GOJ-JBIC, and 31 from Other Sources. Of these 103 ongoing loans, 26 are in the early stages of implementation of which nine just became effective within the year (0-2 years), 30 are ongoing for 3-5 years, 36 are still ongoing for 6-8 years and 11 have implementation periods beyond 8 years.

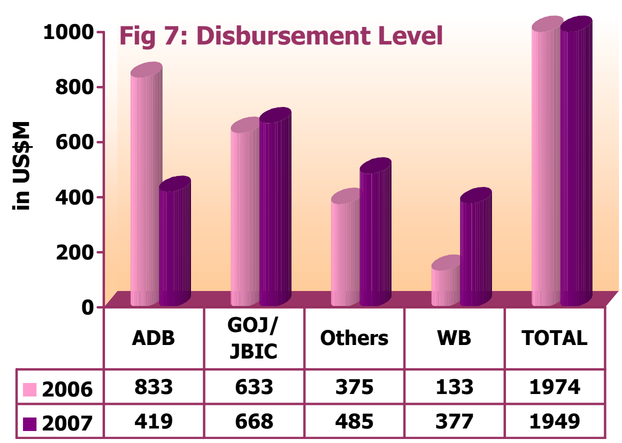
Financial Performance

Financial performance is measured using four indicators, as follows: (i) *disbursement level*; (ii) *disbursement rate*; (iii) *availment rate*; and, (iv) *disbursement ratio*.

Overall CY 2007 financial performance was good. There were noted improvements for all indicators except for the slight decrease in the disbursement level due to fewer projects in this year's portfolio.

Disbursement Level

Overall ODA disbursement level in CY 2007 posted a decrease of 1 percent from last year as GOP disbursed US$1.949 billion for 130 loans in CY 2007 compared to US$ 1.974 billion for 141 loans in 2006. There were 22 loans worth US$ 2.0 billion which graduated during the year from the



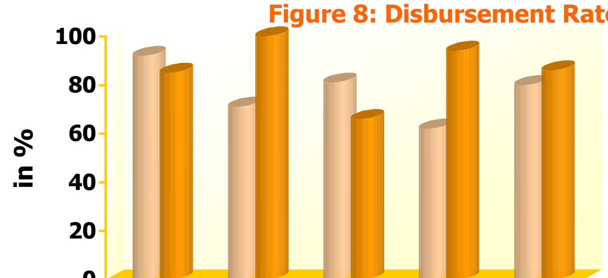
Disbursement Level: Actual disbursements (in dollar terms) from all ODA loans for the period January to December 2007 active loans. Meanwhile, the newly signed loans and/or loans made effective during the year reached 14 compared to 13 loans in CY 2006. The additional commitment for these 14 new and effective loans amounted to US$ 1.850 billion compared to US$ 858.65 million in CY 2006.

Five new loans signed in 2007 which translates to US$696 million were not yet effective, hence there is still no disbursement. Disbursements for project loans decreased by 14 percent from US$1.224 billion in CY 2006 to US$1.055 billion in CY 2007. Meanwhile, disbursements for program loans increased by 19 percent from $750 million in CY 2006 to $893 million in CY 2007. A significant decrease by 50 percent in the disbursement level for the ADB portfolio was also observed. The low disbursement level was purely accounted for by the ongoing loans since the beginning of 2007 because the nine newly signed/effective loans registered a higher disbursement of US$ 904.15 million compared to the low disbursement of US$ 89.93 million from the 13 newly signed/effective loans in 2006. (Annexes 3-A to 3-C for disaggregated disbursements by funding source, agency and sector)

Disbursement Rate

Overall, implementing agencies achieved an average of 86 percent of their CY 2007 target disbursements (US$ 1.948 billion vs US$ 2.260 billion) for ODA loan projects, compared with the 80 percent registered in CY 2006 (US$ 1.974 billion vs US$ 2.473 billion). Disbursement rates for GOJ-JBIC and WB loans increased by 35 and 32 percentage points, respectively while ADB and Others Sources decreased by 7 and 15 percentage points from CY 2006 levels, respectively. 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. Disbursement rate can also be influenced by program loans which always register a 100 percent disbursement upon tranche release.

Figure 8: Disbursement Rate

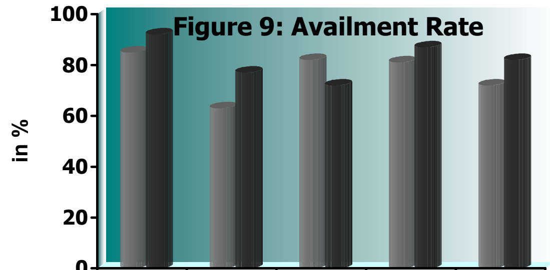


	ADB	GOJ/ JBIC	Others	WB	TOTAL
2006	92	71	81	62	80
2007	85	106	66	94	86

Disbursement Rate: Actual disbursement as a percentage of target disbursements for the period January to December 2007

Factors cited by implementing agencies for projects with disbursement rates below 50 percent, were: (i) budget constraints; (ii) delays in the procurement and processing of contracts/subproject preparations and award of contracts; (iii) delays in submission/processing of documents to effect disbursements; (iv) low demand for relending facility; (v) delayed acquisition of right-of-way; (vi) scaling down in project scope; (vii) adjustment in land use plan; and, (viii) poor performance of contractors. (Annexes 4-A to 4-C for details of disbursement rate categorized by funding source, agency and sector)

Availment Rate



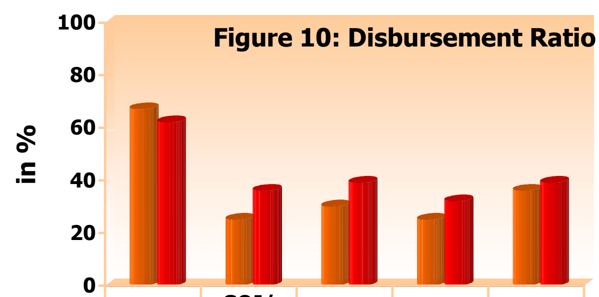
	ADB	GOJ/JBIC	Others	WB	TOTAL
2006	85	63	82	81	72
2007	92	77	72	87	82

Availment Rate: Cumulative actual disbursements as a percentage of cumulative scheduled disbursements reckoned from the start of implementation of all projects up to December 2007

Overall availment rate increased by 10 percentage points from 72 percent (US$ 5.522 billion vs US$ 7.700 billion) in CY 2006 to 82 percent (US$ 5.870 billion vs US$ 6.889 billion) in CY 2007. This increase is due mainly to the eight percentage point improvement in the availment rate for project-type loans, from 68 percent (US$ 4.597 billion vs US$ 6.775 billion) in CY 2006 to 76 percent (US$ 4.051 billion vs US$ 5.366 billion) in CY 2007. However, it may be noted that only the Other Sources portfolio decreased as compared to the CY 2006 figure by 10 percentage points, or from 82 percent to 72 percent in CY 2007. (Annexes 5-A to 5-B for disaggregated data by funding source and by sector)

Disbursement Ratio

The disbursement ratio is the ratio of actual disbursements to the net loan amount available for the whole year (from January to December 2007). This is the indicator commonly used by funding institutions. GOP's performance for CY 2007 was recorded at 39 percent, three percentage points higher than the 36 percent recorded in CY 2006. A total of US$ 1.948 billion was actually disbursed for the year over an outstanding balance of US$ 4.961 billion. ADB recorded the highest disbursement ratio at 62 percent followed by Other Sources at 39 percent, GOJ-JBIC with 36 percent, and WB at 32 percent. Disbursement ratio for project loans increased from 26 percent (US$ 1.224 billion over US$ 4.732 billion) in CY 2006 to 28 percent (US$ 1.055 billion over US$ 3.715 billion) in CY 2007, while that of program loans decreased from 91 percent (US$ 750M over US$ 825M) to 72 percent (US$ 893M over US$ 1.246 billion). (Annexes 6-A to 6-B for disaggregated disbursement ratios by funding source and by agency classification)



	ADB	GOJ/JBIC	Others	WB	TOTAL
2006	67	25	30	25	36
2007	62	36	39	32	39

Disbursement Ratio: The ratio of actual disbursements to the net loan amount available during January to December 2007

Commitment Fees

In 2007, US$7.1 million was paid in commitment fees. The top two implementing agencies to pay commitment fees are the two GFIs - LBP and DBP with US$1.8 million and US$1.3 million, respectively (Annex 7). Among NG agencies, the top two agencies with commitment fees paid were DA and DepEd amounting to US$0.7 million and US$0.6 million, respectively. Projects that largely contribute to the commitment fees in 2007 are as follows: (i) LGU Urban Water Sanitation Project APL 2 (with US$ 1.625 million); (ii) Manila Third Sewerage Project (with US$ 0.921 million); (iii) National Support for Basic Education (with US$ 0.51 million); and, (iv) Infrastructure for Rural Productivity Enhancement Sector (with US$ 0.47 million).

III. ODA GRANTS PORTFOLIO

Coverage

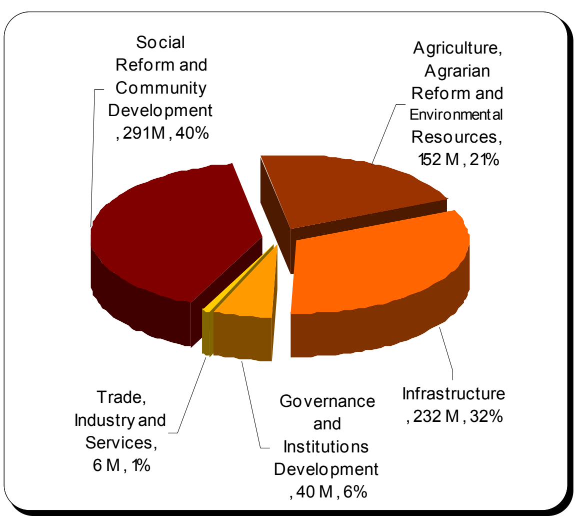
The CY 2007 portfolio review covered 89 ODA grant-assisted projects consisting of six new projects, 71 ongoing and 12 completed projects. Sixty-three projects have a total grant amount of US$ 723 million while the rest have no indicated amounts as assistance from multilateral and bilateral partners come in the form of experts, equipment and studies. A total of 18 Development Partners provided grants to the country in CY 2007. (Annex 8-A for list of ODA grants reviewed.)

Distribution

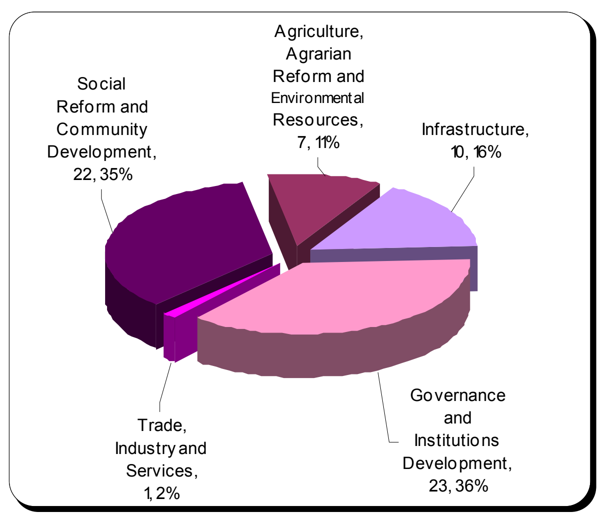
By Sector

The Social Reform and Community Development Sector received the highest share of the ODA grants portfolio amounting to US$ 291 million or 40 percent of the portfolio (22 projects). This is followed by the Infrastructure Sector with US$ 232 million or 32 percent (10 projects) and the Agriculture, Agrarian Reform and Environmental Resources Sector with US$ 52 million or 21 percent (7 projects). Meanwhile, the Governance and Institutions Development, and the Trade, Industry and Services Sectors had US$ 40 million or 6 percent (23 projects) and US$ 6 million or 1 percent of the grants portfolio, respectively. (Annex 8-B)

Figure 11: Distribution of Ongoing ODA Grants by Sector



By Grant Amount



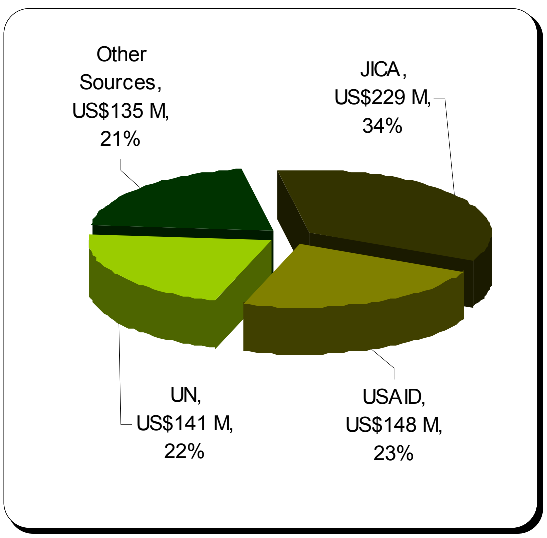
By Project Count

By Funding Source

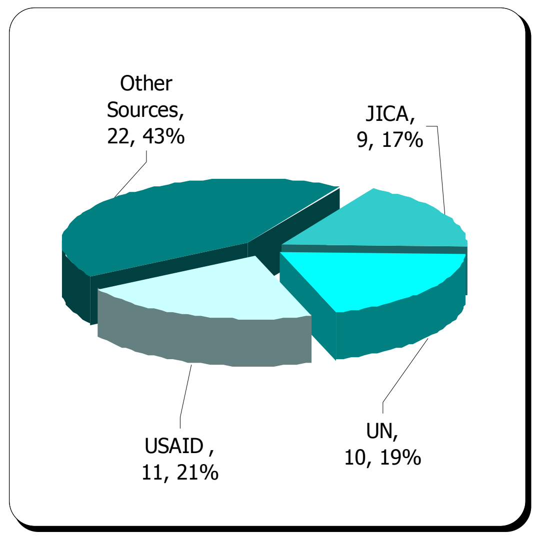
In terms of funding source, the Japan International Cooperation Agency (JICA) had the biggest share of ODA grant assistance with US$ 229 million or 32 percent (9 projects) and followed by the United States Agency for International Development (USAID) with US$ 148 million or 21 percent (11 projects). The United Nations (UN) System extended US$ 141 million or 20 percent (10 projects), Other Sources with US$ 135 million or 19 percent (22 projects) and European Commission (EC) US$ 67 million or nine percent (3 projects) of the grants portfolio. (Annex 8-C)

Figure 12: Distribution of Ongoing ODA Grants by Funding Source
As of 31 December 2007

By Grant Amount



By Project Count

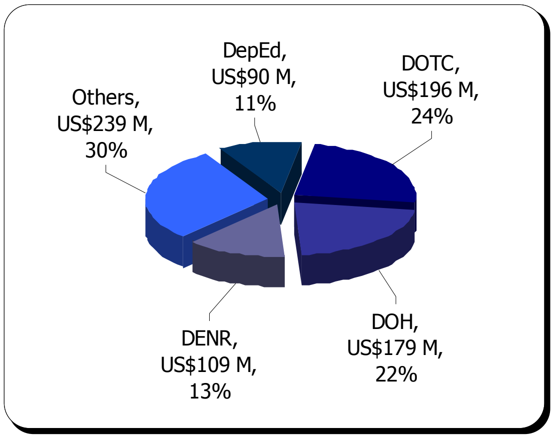


By Implementing Agency

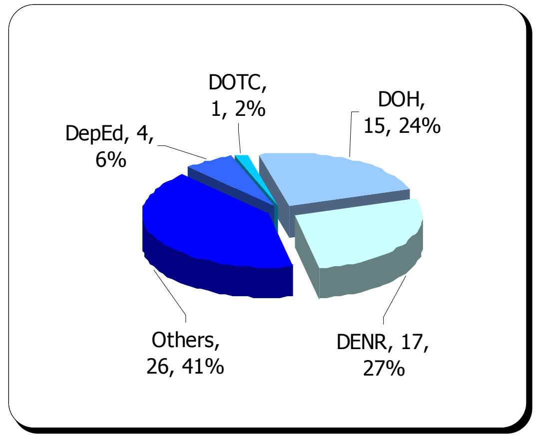
The DOTC had the biggest share, which accounts for 27 percent share of the portfolio with just one project worth US$ 196 million. On the other hand, the DOH implemented 15 projects amounting to US$ 179 million receiving a 25 percent share. Other agencies accounted for 26 projects summing up to US$ 149 million or equivalent to a 21 percent share while the Department of Environment and Natural Resources (DENR) share consisted of 17 projects with a grant amount of US$ 109 million or a 15 percent share. The remaining four projects amounting to US$ 90 million of the Department of Education (DepEd) got a 12 percent share. (Annex 8-D)

Figure 13: Ongoing ODA Grants by Implementing Agency
As of 31 December 2007

By Grant Amount



By Project Count



IV. PHYSICAL PERFORMANCE

Outputs delivered by the various ODA-assisted projects are listed in Annex 9. On the other hand, project outcomes reported for several projects reviewed, are as follows:

Table 2: Project Outcomes

OUTCOMES	
Sectors	**Indicators**
INFRASTRUCTURE	
Increased access to electricity	
▪ Alliance for Mindanao Off-Grid Renewable Energy II	▪ 12,000 HH, 143 community centers, 20 barangay halls, and 340 streets in 396 barangays gained access to electricity
▪ Rural Power Project	▪ 4,652 customers were provided with electrical connection
Improved transport services	
▪ Arterial Roads Phase IV; ▪ National Road Improvement and Management Program I; ▪ Arterial Road Links Development Project, Phase IV; ▪ Cordillera Road Improvement Project; ▪ Tulay ng Pangulo sa Kaunlaran (Bridges for Progress)	▪ 737.04 km of national roads and 2,809.92 lineal meters of national bridges were constructed/rehabilitated
▪ Infrastructure for Rural Enhancement Sector Project	▪ 182 km of rural roads were constructed

▪ LRT Line 1 Capacity Expansion Phase II Project	▪ 48% increase in passengers per hour per direction (from 27,000 to 40,000)
Reduced transportation cost	
▪ Agrarian Reform Infrastructure Support Project Phase II and Agrarian Reform Communities Development Project II	▪ Reduced transport cost by 55.7%
▪ Agrarian Reform Communities Project	▪ Reduced transport cost by about 6%
Reduced travel time	
▪ Northern Mindanao Community Initiatives and Resource Management Project	▪ Reduced travel time by 5% (from 16 to 15 min.)
▪ Agrarian Reform Communities Project	▪ Reduced travel time by 37% (from 82 to 52 min.)
Improved access to potable water	
▪ Agrarian Reform Infrastructure Support Project Phase II and Agrarian Reform Communities Development Project II	▪ 113.31% increase in HH with access to potable water
▪ Northern Mindanao Community Initiatives and Resource Management Project	▪ Reduced time in fetching water from 26 min. to 20 min.
▪ Agrarian Reform Communities Project	▪ Reduced time in fetching water from 24 min. to 5 min.
AGRICULTURE, NATURAL RESOURCES AND AGRARIAN REFORM	
Increased involvement in agro-industrial projects	
▪ Fisheries Resource Management Project	▪ 4,060 fisherfolks were involved in micro-enterprises ▪ 11 mariculture projects were established and maintained
Increased crop production	
▪ Agrarian Reform Infrastructure Support Project Phase II and Agrarian Reform Communities Development Project II	▪ increased cropping intensity (from 175% to 192%)
▪ Support to Agrarian Reform in Central Mindanao	▪ 49% growth in volume of production
▪ Northern Mindanao Community Initiatives and Resource Management Project	▪ 265% increase in crop production
Increased income	
▪ Agrarian Reform Infrastructure Support Project Phase II and Agrarian Reform Communities Development Project II	▪ 21% increase in average real net income of ARCs
▪ Support to Agrarian Reform in Central Mindanao	▪ 88% increase in HH income
▪ Northern Mindanao Community Initiatives and Resource Management Project	▪ 44% increase in HH income
▪ Western Mindanao Community Initiatives Project	▪ 46% increase in HH income
Reduced incidences of water-borne diseases	
▪ Northern Mindanao Community Initiatives and Resource Management Project and Agrarian Reform Communities Project	▪ Reduced average proportion of water-born diseases by 0.14% (from 6.61% to 6.47%).
Reduced pollution	
▪ Laguna de Bay Institutional Strengthening	▪ Reduction in pollution loading for

and Community Participation Project	regulated parameters by 5.81%, ▪ Compliance of the number of industries/enterprises on loading regulations increased by 61%
SOCIAL REFORM AND DEVELOPMENT	
Increased access to health services	
▪ Improved Supply of Essential Drugs-Health Plus Program	▪ 461 Health Plus Retail Outlets in 126 municipalities were established
GOVERNANCE AND INSTITUTIONS DEVELOPMENT	
Improved police operations	
▪ Project to Build Up the Operation of the Automated Fingerprint Identification System	▪ 13 identified suspects of crimes through the AFIS
Speedier processing of cases/reduced case congestions and delays	
▪ Judicial Reform Support Project	▪ 1,401 cases have been conducted by judges ▪ Release of 406 adult prisoners and dismissal of 27 cases

V. COST OVERRUNS

Per the ODA Act of 1996, cost overrun is defined as additional costs over and above the ICC-approved project cost. In CY 2007, no new project was reported to have further incurred increases in cost. Of the 25 projects reported during the 15th ODA (2006) Portfolio Review, 21 projects still remained for review and ICC approval in CY 2007 with cost increases amounting to a total of PhP 33.5 billion (Annex 10).

DPWH accounts for the bulk of increase with 40 percent (PhP13.279 billion) involving five road, one bridge and four flood control projects. DOTC followed with 20 percent (PhP6.747 billion for three airports and one feeder port projects, BCDA with 19 percent (PhP6.478 billion for the Subic-Clark-Tarlac Expressway), NIA with 13 percent (PhP4.218 billion for four irrigation projects), PPA with 5 percent (PhP1.654 B for the Batangas Port II), and LRTA with 3 percent (PhP1.123 billion for the Capacity Expansion Project).

Table 3: Classification of Cost Overrun by Implementing Agency

Agency	No. of Project	ICC-Approved Cost (PhP M)	Cost Overrun (PhP M)	% Share to Total Increase	% Increase Over ICC-Approved Cost
DPWH	10	37,119.15	13,279.48	39.64	35.78
DOTC	4	18,215.39	6,747.23	20.14	37.04
BCDA	1	26,327.00	6,478.00	19.34	24.60
NIA	4	12,038.13	4,218.47	12.59	35.04
PPA	1	5,555.00	1,653.74	4.94	29.77
LRTA	1	8,000.00	1,123.00	3.35	14.04
TOTAL	**21**	**107,254.67**	**33,499.92**	**100.00**	**31.23**

By Funding Source, GOJ – JBIC accounted for the highest share of cost increase with 85 percent involving five roads, one bridge, four flood control, two airports, one feeder port, four irrigation and one rail projects with a total cost overrun of PhP28.634 billion, followed by Korea with 7 percent (PhP2.468 billion), World Bank with 3.63 percent PhP1.216 billion) and China with 3.53 percent (PhP1.182 billion).

Table 4: Classification of Cost Overrun by Funding Source

Funding Source	No. of Project	ICC-Approved Cost (PhP M)	Cost Overrun (PhP M)	% Share to Total Increase	% Increase Over ICC-Approved Cost
GOJ-JBIC	18	97,495.08	28,634.12	85.47	29.37
Korea	1	5,385.55	2,467.88	7.37	45.82
WB	1	3,033.73	1,216.23	3.63	40.09
China	1	1,340.31	1,181.69	3.53	88.16
TOTAL	**21**	**107,254.67**	**33,499.92**	**100**	**31.23**

Status of NEDA-ICC action and review on the 21 projects is as follows:

Table 5: Status of NEDA-ICC action and review on 21 projects

ICC Secretariat Review	ICC-TB Approved	ICC-CC Approved/ Deliberated	NEDA Board
5	3	5	8
		4 Approved 1 Pending DBM Advice	6 Approved 2 Disapproved
21 Projects			

The NEDA Board approved six projects (of which one was approved by the NEDA Cabinet Group) and disapproved two projects, as follows:

<u>Approved:</u>

- ***Selected Airports Development Project (New Bacolod-Silay)*** - NEDA Board confirmed approval of cost increase on 18 Sept. 2007 but excluded the PhP287.77 million cost for the 500 meter runway extension. Loan closing date on 25 September 2008. Project is 100% complete and was turned over to ATO. Inauguration on 18 January 2008. Start of commercial operations on 19 January;
- ***Subic-Clark-Tarlac Expressway Project*** - NEDA Board confirmed the ICC-approved cost and the supplemental loan from JBIC on 18 Sept. 2007;
- ***Laguindingan Airport Development Project*** - NEDA Board confirmed the ICC-CC approved cost and supplemental loan from EDCF on 18 Sept. 2007;
- ***Second Magsaysay Bridge and Butuan City Bypass Project*** - Referred to NRO CARAGA for re-evaluation, in a Memorandum dated 5 February 2008. *(Recent update: The project was approved/confirmed during the NEDA Cabinet Group Meeting of 13 May 2008); and,*
- ***Bohol Irrigation Project, Stage II*** - ICC-CC notation for cost increase on 30 August 2007. Approved by the NEDA Cabinet Group on 9 October 2007.
- ***New Iloilo Airport Development Project*** – Approved during the NEDA Board meeting of 3 June 2008. Project is 100% complete and was turned over to ATO.

Inauguration on 13 June 2007 and start of commercial operations on 14 June. Loan closing date on 3 August 2008;

Disapproved

- ***Laoag River Basin Flood Control and Sabo Project*** - Disapproved by NEDA Board on 18 Dec 2007; and,
- ***Agno River Flood Control Project, Phases II-A and II-B*** - Disapproved by the NEDA Board on 18 Dec 2007.

The three projects that were approved in CY 2007, one in CY 2008 and one that is still pending with ICC-CC, are as follows:

Approved

- ***Philippine-Japan Friendship Highway Mindanao Section Rehabilitation Project Phase II*** - Approved by ICC-CC on 13 Dec. 2007;
- ***Casecnan Multipurpose Irrigation and Power Project*** - NEDA Board presentation is subject to the submission of a DBM-certified Budget Strategy;
- ***Help for Catubig Agricultural Advancement Project*** – Approved by ICC-CC on April 17, 2008. ICC-CC deliberations upon compliance of NIA to fast-track completion of project before completion date and submission of a DBM-certified budget strategy; and,
- ***Batangas Port Development Project*** - Approved by ICC-CC on 13 December 2007. Loan closed in January 2008.

Pending

- ***Banaoang Pump Irrigation Project*** - Per ICC-CC Meeting on 13 December 2007, DA and NIA were requested to seek first the DBM advice on the procedural lapse and ensure that all necessary legal action will be taken towards the resolutions of said issue. To date, said agencies had not updated ICC on the requested DBM advice.

Three projects already passed ICC-TB deliberations, as follows:

- ***Arterial Road Links Development Project IV*** - Approved by ICC-TB on 29 January 2008. ICC-CC deliberations upon compliance of DPWH to the suggestions/issues raised and submission of a DBM-certified budget strategy. Loan closed on 28 March 2008;
- ***Arterial Road Links Development Project V*** - Approved by ICC-TB on 29 January 2008. ICC-CC deliberations upon compliance of DPWH to the suggestions/issues raised and submission of a DBM-certified budget strategy; and,
- ***Cordillera Road Improvement Project*** - Approved by ICC-TB on 29 January 2008. ICC-CC deliberations upon compliance of DPWH to the suggestions/issues raised and submission of a DBM-certified budget strategy. Loan closed on 28 March 2008.

Lastly, five projects are under evaluation by the ICC Secretariat, as follows:

- ***Metro Manila Transport Integration Project*** - Awaiting submission of official consolidated request from DPWH and MMDA;

- ***KAMANAVA Area Flood Control and Drainage System Improvement Project*** - Official DPWH position on financing the cost increase of the project was submitted in May 2008 and currently being reviewed;
- ***Social Reform Related Feeder Ports Development*** - Awaiting submission of supporting documents from DOTC;
- ***Line 1 Capacity Expansion Project Phase II*** - Official request/additional documents from LRTA was submitted in May 2008 and currently under review; and,
- ***Lower Agusan Development Project*** - No official submission to date. Loan closed in November 2007.

It is noted that loans for five of the 21 projects with cost overruns, closed without completing the whole ICC and NEDA Board approval process, as follows:

- ***Lower Agusan Development Project, Stage I, Phase II*** – loan closed in November 2007;
- ***Batangas Port Development Project, Phase II*** – loan closed in January 2008;
- ***Philippine – Japan Friendship Highway Mindanao Section Rehabilitation Project, Phase II*** – loan closed in March 2008;
- ***Arterial Road Links Development Project IV*** – loan closed on 28 March 2008; and,
- ***Cordillera Road Improvement Project*** – loan closed on 28 March 2008.

For projects that have undergone ICC deliberations, the top three causes of cost increases are: (i) increase in unit cost of labor, materials and equipment/ price adjustment/ price escalation with 29 percent of the total; (ii) changes in scope which accounts for 25 percent; and (iii) high bids with 22 percent.

Table 6: Breakdown of Cost Increase

Reason for Cost Increase	Amount (PhP M)	% to Total
Total (21 Projects)	**33,499.92**	**100**
1) Increase in unit cost of labor, materials and equipment/price adjustment/ price escalation	9,705.39	28.97
2) Changes in scope – Variation Orders/ Supplemental Agreements	8,267.84	24.68
3) High Bids (bids above ABC/AAE)	7,241.18	21.62
4) IDC, VAT and other taxes/ Others	3,372.63	10.07
5) Forex movement	2,003.92	5.98
6) Increase in Consulting Services	1,522.34	4.54
7) Increase in Administrative Cost	1,260.57	3.76
8) Increase in ROW/ land acquisition/ resettlement costs/ price adjustment	106.06	0.32

Meanwhile, in addition to the 21 projects reviewed by the ICC, the following JBIC-assisted projects were reported by the implementing agencies as would likely require additional budget in 2008 or beyond:

(i) Metro Iligan Regional Infrastructure Development Project;
(ii) Rural Road Network Development Project III;
(iii) Central Mindanao Road Project;

(iv) Urgent Bridge Construction Project for Rural Development; and,
(v) Iloilo Flood Control II.

Recent Update: To address the cost overrun concern of ODA-funded projects, the following policy guidelines and agreements were reached and issued during the NEDA Cabinet Group Meeting on 13 May 2008:

a) Except for those that have been approved/ confirmed by the NEDA Board or NEDA Cabinet Group, all other projects with cost overruns are deemed disapproved until the concerned IAs request for reconsideration and provide full presentations to the NEDA Board on the justifications of the cost overrun;

b) Any IA that proceeds with the implementation of ODA projects with cost overrun without securing prior NEDA-ICC approval, will no longer be allowed to avail of loans in the future;

c) IAs must implement infrastructure projects on a 24-hour basis with three shifts to fast track implementation and avoid price escalation and increases in interest payments;

d) Expropriation cases for infrastructure projects must be aggressively followed up with the judiciary. The Judiciary, Executive and Legislative Advisory and Consultative Council is a potential venue for this. OP-PMS to follow-up on the cases with the Supreme Court, in particular with the Court Administrator;

e) NEDA-ICC to report to the NEDA Board issues that are keeping the remaining ODA projects with cost overruns from being approved at the level of the ICC and elevated to the NEDA Board; and,

f) NEDA-ICC to give one-week deadline to implementing agencies to obtain an approved budget strategy for project cost overruns.

VI. KEY IMPLEMENTATION ISSUES (Annex 11-A) AND MEASURES TAKEN BY AGENCIES

Implementation issues identified during the review are categorized as: (i) Budget/ Financing; (ii) Procurement; (iii) ROW/ Land Acquisition; (iv) LGU Participation; (v) Poor Performance of Contractors; (vi) Low Demand for Credit; (vii) Institutional/ Operational Problems; and, (viii) Achievement of Project Objectives.

Budget/Financing Issues

The provision of sufficient budget in a timely manner has remained a recurrent issue in the implementation of projects. When funding requirements of projects cannot be accommodated within the agency ceiling, concerned agencies resort to spreading the budget over a longer implementation period. This action usually results in delayed completion of projects, which translates to increased project costs and delayed delivery of project benefits to the targeted beneficiaries.

In response to the usual budget and financing issues faced by projects implemented by the DPWH, a memo was issued on 2 January 2007 entitled "*Issuance of a DPWH-Certified Funding Strategy for FAPs*", which aims to (i) ensure harmony and consistency with the objectives of the DPWH MTPIP and the annual budget; (ii) determine proper allocation and level of project expenditures; and, (iii) allow for a review of project accomplishments as against performance standards. Among the recommendations contained in the memo is that in case the loan amount will not be sufficient to fund all contract packages in accordance with the terms of the loan agreement, an alternative financing arrangement or possible modification in the project scope should be identified and approved first by the DPWH before (i) any of the remaining contract packages in the loan can be advertised for prequalification and bidding; and (ii) any variation order or supplemental agreement for effective contracts will be considered.

To address the issue on budget shortfall, or reduced project funding available due to exchange rate movement, the DepEd conducted a re-engineering/revision of the original plan/drawings for the grant-assisted School Building Project, such that the number of classrooms proposed at a lower cost was maintained. Meanwhile, a supplemental loan was being negotiated with the Nordic Investment Bank for the Laguindingan Airport Development project. In the case of the NLRC, a loan was negotiated with DBP as arranger to address the non-availability of funds for the financing of administrative expenses and other costs of the North Rail Project Phase 1 Section 1.

In general, continuing coordination by implementing agencies with DBM was being done to resolve budget/funding issues. In the case of Rural Micro Enterprise Promotion Project of DTI-SBGFC, the non-inclusion in the FOA of a capital outlay category delayed the procurement of goods (i.e., mobile training equipment/PCs) to be used in developing the outreach capacity of SME Centers. A re-alignment of the FOA was required. Other measures taken such as in the case of DAR, was the realignment of funds from its other FAPs, while DPWH resorted to downsizing the project scope.

Only two project cases (Northrail Project and STARCM Project) encountered non-provision of GOP counterpart for VAT, administrative costs and other operating costs. The DAR however, was able to source from the regular funds. Over the years, implementing agencies have been consciously including these costs in their annual budgeting.

In the case of the DA's Mindanao Rural Development Project II, non-adherence to the Government policy on NG-LGU cost sharing brought delays and confusion during the first year of the project's implementation. DOF, NEDA and DA, in the meantime, agreed to apply a 50-50 NG-LGU cost sharing scheme regardless of LGU income classification. The first application of the proposed 50-50 scheme will be made for 125 LGUs. In order for the said cost sharing scheme to be applied to the next batch of LGUs participating under the project, the project must obtain two successive ratings of "very satisfactory (VS)" starting with the supervision mission to be conducted in August 2008. Otherwise, the 2003 NEDA Board NG-LGU cost sharing policy will be applied to the next batch of LGUs. Furthermore, the VS rating should be maintained for renewability of the application of the 50-50 cost sharing scheme to the next batch of LGUs.

Overall, agencies have recently become resilient and innovative in addressing their budget and financing issues.

Procurement

A quick review of timelines of procurement milestones for 53 contract packages issued a Notice to Proceed (NTP) in 2007 noted that submission of bids to issuance of the NTP took an average of 3.72 months for 40 civil works, 4.46 months for 2 consulting services, and 3.63 months for 11 goods contract packages (Annex 11-B). The civil works and goods procurement timelines are comparably better than the procurement periods recorded in last year's review, but still a little over the prescribed timelines per Government Procurement Reform Act, i.e., R.A. 9184 of 3.33 months for civil works and 2.67 months for goods. Thus, there is still a need to improve procurement of civil works and goods to be compliant with prescribed timelines. Meanwhile, the average procurement period for the consulting services contracts was already compliant to prescribed timelines (4.63 months) per RA 9184.

Overall, including contract packages not yet issued an NTP but already tendered, agency-reported delays were caused by the following: (i) clarifications sought by, or non-concurrence of, donor partner during pre-qualification and other stages of procurement; (ii) failure in bidding; (iii) filing of complaints by losing bidders; (iv) lengthy processing time in evaluation of contracts; (v) impasse in negotiations; and, (vi) change in leadership or resignation of Bids and Awards Committee members.

To address the slow review process of procurement documents for NIA projects, the Department of Agriculture issued Administrative Order No. 28 dated 9 November 2007 prescribing guidelines to enhance implementation efficiency of ODA-funded irrigation projects of NIA, in the area of procurement/contract award, and also in the areas of project preparation, changes in project scope and implementation periods, right-of-way cost, project management cost, contractor/PMO performance, RME system, Organizational Performance Indicator Framework compliance, and ex-post evaluation of projects with succeeding phases and budget strategy/updating.

The national and local elections in 2007 delayed processing of contracts under the LISCOP (LLDA) and halted BAC operations for LAMP2 (DENR), which was triggered by a change in BAC leadership. Meantime, to address the bottleneck in the procurement of textbooks that occurred during the content evaluation stage because of the complexity of the subject, the DepEd has undertaken separate selection of manuscripts and suppliers for printing and delivery (SEDIP).

Other procurement issues encountered were as follows: (i) failure in bidding, or renegotiation with the existing contractor (DOH, PRRC); (ii) lengthy evaluation/processing of contracts (TransCo); (iii) need to comply with tedious FI procurement process and conditions prior to actual procurement (DBP, DepEd); and (iv) agency imposed policy (i.e. DepEd Department Order No. 38 on the moratorium on procurement of supplementary reading materials pending completion of content evaluation process)

Right-of-Way/Land Acquisition and Resettlement

Several projects suffered from delays due to the failure of implementing agencies to acquire project sites on time. Of these projects that encountered ROW/land acquisition problems, three are being implemented by the DPWH, two each by DOTC and DBP, one each by MWSS, NLRC and LLDA. More often, the issues arose from the: (i) difficulty in reaching settlement arrangements/compensation payments mutually acceptable to both the implementing agency and affected people, whether through negotiations or through legal proceedings; (ii) incomplete documents to establish ownership of required area by affected people/claimants; and, (iii) insufficient budget available to effect agreed compensation payment on time.

To cite some project specific cases, the issue stemmed from the: (i) re-occupation of cleared areas by about 600 returnees/new batch of informal settlers (KAMANAVA Area Flood Control Project); (ii) Supreme Court decision directing the Philippine Ports Authority (PPA) to pay PhP5,500 per sq m or a total of PhP11.3 billion inclusive of interest to landowners affected which would negatively impact on PPA's financial condition (Batangas Port Development Project, Phase II); (iii) delayed judicial action on the titling of acquired properties (Laguindingan Airport Development Project); and (iv) delays in site acquisition due to change in the design of water treatment plant for the Rehabilitation of Umiray-Angat Mini-Hydro Power Plant, and absence of parcellary survey for the Northrail PIS1 project.

On KAMANAVA Area Flood Control Project, the PMO has coordinated with concerned agencies for the re-clearing of the re-occupied areas. For the Batangas Port project, the Supreme Court (SC) had issued a status quo order against the implementation of its decision pending PPA's presentation of oral arguments to the SC en banc. Additional contractor manpower was mobilized to expedite the needed parcellary survey for the Northrail PIS1 project. Meanwhile, DBP had sought court decision on the finality of expropriation case for the Rural Power Project, and conducted workshops to develop a land acquisition facility under DBP financing to complement its Development of Poor Urban Communities Sector Project.

LGU Participation

Factors that contribute to LGU performance include availability of sufficient LGU counterpart funds, technical capacity of LGU counterpart staff in project preparation and implementation, changes in LGU leadership as a result of local elections, and fulfillment of LGU commitments.

On the provision of LGU equity, it has been long recognized that assigning additional cost requirements to the LGU establishes project ownership and the proper incentive to ensure cost efficiency, thus the policy on NG-LGU cost sharing. Difficulty in providing equity especially by the poorest barangays was quite understandable, and somehow, efforts were exhausted by the LGUs to tap alternative sources.

On the inadequate capacity of LGU counterpart staff in project preparation and implementation, technical assistance to LGUs in project development had been provided by the DBP under its Credit Line for Solid Waste Management Project, based on assessed needs of LGUs. Likewise, forms, templates, guidelines were improved to facilitate faster submission of requirements.

Changes in LGU leadership due to local elections often result in changes in priorities. In the case of the ARMM Social Fund for Peace and Development Project, this led to cancellation of some sub-projects. Under KALAHI-CIDSS, delays and non-sustenance of barangay and municipal LGU commitments persisted despite MOAs forged with LGUs/LCEs particularly in cases where LCEs deliberately did not deliver because their projects were not the ones prioritized by the Barangay Development Committees. While there were a number of congressmen who provided the needed equity, still a handful barangays were still unable to deliver the equity requirement. Appropriate sanctions for non-delivery of commitments that have implications to subsequent release of the LGU IRA should be seriously considered.

Low Demand for Credit

Among others, the re-lending projects of DBP, LBP and SBGFC have experienced low demand due to: (i) lower interest rate offered by the BSP; (ii) credit facilities having to compete with grant facilities; and, (iii) re-lending is limited to a difficult segment of the credit market [i.e., DBP's Credit Line for Solid Waste Management (CLSWM) and Credit Facility for Environmental Management Project (CFEMP)].

The low interest rate (3 percent) being offered by the BSP's e-rediscounting facility to PFIs, has a negative impact on these re-lending facilities. In the case of KfW-assisted projects such as the Micro, Small and Medium Enterprises Finance Program (MSMEFP) of SBGFC, interest rate is at 4.75 percent. DOF approved to lower the rate to 3.75 percent in August 2007 but this is still higher than BSP's e-rediscounting facility interest rate.

On CLSWM, LGU compliance with RA 9003, or the Solid Waste Management Act, which calls for the disposal of residual waste in sanitary landfills, among others, remained low. Because of the difficulty in locating and acquiring RA 9003 compliant project sites, the LGUs opted for solving the more pressing issues on waste collection through the purchase of heavy equipment. As such, DBP vigorously pursued close coordination with DENR-National Solid Waste Management Commission to promote the facility and assist LGUs and clients with necessary environmental permits. Extensive marketing was likewise, conducted.

Demand is also low for the LBP/DILG-implemented Mindanao Basic Urban Services Sector (MBUSS) Project as evidenced by a 95 percent fall-out rate from the original pipeline of projects. It is claimed by the LBP that this arose from delays in subproject preparation, procurement and construction, which are responsibilities of DILG as executing agency for the Capacity Building component of MBUSS. A loan extension was requested due to the delays.

Poor Performance of Contractors

A few projects were reported to have encountered problems with contractors. In the case of the Metro Manila Air Quality Improvement Sector Development project, DENR suspended payment to contractor due to alleged violation of the contract provisions for the operation of the ambient air quality monitoring. DENR and the contractor tried to work on a settlement agreement by year's end. On the other hand, in the case of the delay in the equipment delivery under TESDA's Technical Education and Skills Development project, the supplier was requested to address deficiencies prior to release of last payment. Meanwhile, the uncertainty in the contractor's financial capability delayed the completion of the Incidence on Poverty Survey (IPS).

Institutional/Operational Problems

DOTC's approval processes for disbursements and variation orders/supplemental agreements were a source of delays. Department Order No. 2007-43 was issued on 6 November 2007 to expedite the approval processes to a maximum of 30 days. In addition, a tracking system of the processes had also been established.

The selection of long-term operators for completed projects proved difficult for some projects (e.g., Batangas Port, Subic Port and Subic-Clark-Tarlac Expressway). In the case of Batangas Port, bids for the procurement of the operator to market the port has been indefinitely suspended pending the Supreme Court's decision on compensation payments to affected landowners. PPA has granted the operator of BPDP I a 1-year temporary permit to operate effective 2 January 2008. Attempts to procure an operator for the Subic-Clark-Tarlac Expressway Project (SCTEP) in the past have failed twice. BCDA decided to rebid the operations and maintenance based on the new terms of reference. With the projected opening to traffic of the Clark-Tarlac section in 2008, BCDA informed that an interim operator will have to be installed by that time. Subsequently, BCDA has entered into a contract with NLEX for the interim operations and maintenance of the SCTEP. For the Subic Bay Port Development Project (SBPDP), the New Container Terminal 1 (NCT-1) was launched in October 2007. Procurement of operator for the New Container Terminal 2 (NCT-2) is targeted not later than the second quarter of 2008, as agreed upon by the SBMA and JBIC in a MOU signed in October 2007, concerning the Port project and its operations.

Under the ARMM Social Fund for Peace and Development Project, three hospitals inspected were found to lack enough medical supplies, facilities and equipment to meet the needs of patients. Operations of these hospitals, as well as two new completed facilities in Lamitan District Hospital, were similarly affected by the lack of physicians and other medical practitioners.

On the New CNS/ATM System Development Project, the DBM disapproved the request of the PMO to fill-up/hire personnel under contractual basis pending DOTC's resubmission of its Rationalization Plan, to include a unified PMO. This concern is being addressed in the ongoing review of the ATO wherein the Civil Aviation Aeronautics Board IRR is being rushed. The formulated IRR will incorporate concern for the unified PMO.

For the Lower Agusan Development Project Phase II, maintenance of completed facilities continue to be the responsibility of the DPWH until the LGU can demonstrate satisfactory result in maintaining the facilities especially the drainage component.

Achievement of Project Objectives

There is apprehension that the objectives of three ODA projects (i.e., Arterial Road Bypass Project I, Metro Iligan Regional Infrastructure Development Project, and Subic Bay Freeport Environmental Management Project) may not be fully achieved.

On the Arterial Road Bypass Project Phase I, there is difference in position between JBIC and DPWH in the phased implementation of the project. DPWH is inclined to implement the project scheme agreed at the time of project appraisal, that is for the simultaneous construction of certain portions of Plaridel bypass (Package 1 out of 4 contract packages) and Cabanatuan bypass (Packages 2 and 3 of 4 contract packages). However, JBIC is of the opinion that if the remaining packages are delayed or not implemented, the DPWH option would result in essentially two incomplete and dysfunctional bypass roads that would not effectively address the traffic congestion in the area as aimed by the project. NEDA's assistance was sought to resolve the issue.

On the Metro Iligan Regional Infrastructure Development Project (MIRIDP), achievement of its purpose to provide the essential off-site infrastructure facilities supportive of the Metro Iligan Regional Agro-Industrial Center (MIRAIC) is contingent on the actual development of MIRAIC. With the lack of site development activities in MIRAIC, the success of MIRIDP is thus, imperiled. As such, a bio-fuel development program was included in the scope of MIRIDP, as initial investment towards developing MIRAIC.

On the Subic Bay Freeport Environmental Management Project II, there is a prolonged indecision of SBMA in addressing the impending solid waste management problem in the Subic Freeport, as well as the funding structure of the project (i.e., whether ODA, BOT or government investment). It is imperative that SBMA decides soon on whether to utilize or cancel the JBIC loan.

It is worth noting that, to ensure value for money, corporate integrity and the achievement of project objectives, the DPWH has partnered with the civil society through Bantay Lansangan (BL). BL is a sustainable partnership among government, private and non-government organization stakeholders and ODA partners in the national road sector for the delivery of quality road services responsive to users' needs, through the efficient and transparent use of public resources.

VII. OTHER MEASURES TAKEN TO IMPROVE PORTFOLIO PERFORMANCE IN 2007

The following measures were undertaken by GOP and International Funding Institutions in 2007 to address various issues in the implementation of ODA projects.

Oversight Agencies

DBM

Organization Performance Indicator Framework (OPIF)

The implementation of OPIF which started in 2006 involving 20 departments cascaded to the attached agencies of these departments and other executive offices. It serves as the mechanism to effectively evaluate agency accomplishments by identifying and monitoring performance indicators and targets. Through this Framework, agency budget allocation will be based on the absorptive capacity, implementation readiness for new projects and cost efficiency. The third phase of OPIF which is slated in 2008 includes the drafting of the OPIF Manual, MFOs unit costs, and the introduction of the Framework to SUCs and other government constitutional bodies.

Procurement

As a continuing effort to improve the government's procurement process, EO 662 was issued in September 2007 enhancing the transparency measures (e.g., posting of procurement reports in appropriate government website, the Philippine Government Electronic Procurement System) under RA 9184, and creating the Procurement Transparency Board (PTB) composed of representatives from the government and the NGOs, with the GPPB as the lead entity. The PTB has been mandated to evaluate, comment on, record and monitor contracts involving PhP100 million and above.

DOF and NEDA

In support of the principles of the 2005 Paris Declaration on Aid Effectiveness (PD), DOF and NEDA had been actively working side-by-side with the other members of the Harmonization Committee (i.e., DBM, COA) in improving the quality of aid and its impact on development, and in overseeing progress of the Philippine Government's compliance with commitments made under said PD. The NEDA provided Secretariat support to the Philippine Harmonization Committee (PHC). Various initiatives were spearheaded by the PHC under an ADB Technical Assistance on Harmonization and Managing for Results, including a Baseline Survey for Philippines on PD Indicators.

NEDA likewise initiated the participation and involvement of major development partners (i.e., ADB, WB and JBIC) in the conduct of the annual ODA Review aimed at further improving the implementation of the ongoing ODA-assisted projects. This is another venue for the GOP and its development partners to discuss implementation bottlenecks and institute immediate corrective measures.

An MOU between NEDA and JBIC was forged during the year for future conduct of post-evaluation of completed JBIC-assisted projects. Three projects were initially covered by the first pilot joint JBIC-NEDA post-evaluation. During the year, NEDA also pilot tested with International Fund for Agricultural Development (IFAD) a joint supervision implementation support mission in one of its projects in the rural development sector, which will become the basis in drafting an institutional arrangement aimed at harmonizing IFAD-NEDA monitoring and evaluation of IFAD assistance starting in 2008.

In accordance with the government's reforms in budget execution, NEDA in coordination with the Government Procurement Policy Board (GPPB) played a major part in the formulation and the subsequent approval (*in April 2008*) of the Guidelines on Public-Private Sector Joint Venture Agreements which is designed to further improve the role of the private sector in the implementation of infrastructure projects as espoused in the current MTPDP.

During the year, NEDA also updated the Comprehensive Integrated Infrastructure Program (CIIP) 2006 - 2010 under the guidance of the NEDA Board Committee on Infrastructure (InfraCom).

Investment Coordination Committee

It has been observed that agencies submit requests for ICC approval of project cost increases only when they realize that their budget authorization has become insufficient to support the budget requirements of their projects. In an effort to deter the IAs from proceeding with project implementation without prior ICC approval of projects with cost overrun, the ICC had required the IAs to secure a DBM-approved budget strategy for the cost increase before the ICC Secretariat can process their request for cost increase. This measure was proposed to a Cabinet meeting, together with the ICC recommendation that IAs should issue Department/Agency Orders or Circulars (such as the DPWH and DA Orders) defining measures to eliminate cost overruns, and to comply with ODA Act's reporting requirements. (As a follow-on measure, these projects were taken up and discussed again during the NEDA Cabinet Group meeting on 13 May 2008, and which was subsequently followed by an issuance of the detailed policy guidelines and instructions on how to treat these projects with cost overruns).

Office of the President

Pro-Performance System

To strengthen the Pro-Performance System (PPS) of the Presidential Management Staff, EO 564-A was issued in March 2007 redefining its institutional structure, including the implementing arrangements, monitoring systems, reporting, funding, among others. Also, in the 09 October 2007 NEDA Cabinet Group Meeting, it was decided that all increases in cost, whether local or foreign, shall be monitored and reported to the Pro-Performance System Steering Committee for evaluation. Under AO #210 dated 22 November 2007, PPS and the NEDA shall undertake regular consultations with foreign funding agencies to minimize, uncover and address anomalies on foreign-funded projects.

Procurement Transparency Group (PTG)

EO 662 created the Procurement Transparency Group (PTG) to monitor compliance to anti-graft mechanisms, to deter anomalies in awarding of public sector contracts and to prevent losses due to procurement irregularities.

NEDA Board/Cabinet Issuances

The Cabinet Group in its meeting on 9 October 2007 instructed that all increases in project costs, whether local or foreign, shall be reported to the PPS - Steering Committee for evaluation.

NEDA Board in its meeting on 27 November 2007 instructed GPPB/DBM to issue a resolution mandating that Variation Orders for FAPs need to go through GPPB, NEDA-ICC and donor agency, as addendum to RA 9184.

Funding Institutions

<u>Asian Development Bank</u>

ADB continued the conduct of the Country Portfolio Review Mission (CPRM) in 2007, with the following accomplishments: (i) in-depth project-specific technical discussions with oversight agencies, executing agencies, implementing agencies, and PMOs; (ii) final workshop that provided knowledge sharing among the ADB, OAs, IAs and PMOs; and, (iii) project visits (specifically in Davao to review the six ADB-assisted ongoing projects in the province). The Review provided an opportunity for the ADB PMOs to discuss and learn from each other's implementation experiences.

<u>Japan Bank for International Cooperation</u>

JBIC's Project Implementation Reviews (PIRs) were conducted twice in 2007. The 1st PIR covered the 2nd semester JFY 2006 performance review and disbursement target-setting for the 1st semester JFY 2007, while the 2nd PIR covered 1st semester JFY 2007 performance review and disbursement target-setting for 2nd semester JFY 2007. It should be noted that the JFY 2007 ran from April 2007 up to March 2008. Aside from the usual presentation of project status and implementation issues, IAs were requested to present their sector thrusts, strategies, programs and projects, which will form part of the GOJ formulation of the its draft Country Assistance Strategy (CAS), for the first time in the history of Japanese development assistance, in the next 3 – 5 years.

<u>World Bank (WB)</u>

While WB did not conduct its own country portfolio review but several project review missions were mounted to assess implementation performance and keep the projects on track. Notable initiatives of WB in 2007 included: (i) WB started to offer loan in local currency at the option of the borrower; (ii) A Memorandum of Understanding (MOU) between the WB and the Export-Import (EXIM) Bank of China was finalized on May 21, 2007 to explore closer collaboration between the Philippines and China through WB; and, (iii) WB proposed to extend the implementation of the 2006-2008 Country Assistance Strategy up to 2009.

VIII. LESSONS LEARNED

Certain lessons from project implementation experiences of the various implementing agencies should merit serious consideration in making appropriate adjustments for the efficient and timely implementation of the ongoing ODA portfolio, and in the formulation of future projects. The lessons are categorized as: (i) identification and preparation; (ii) appraisal and financing; (iii) procurement; (iv) implementation; (v) coordination/ policy aspects; (vi) monitoring and evaluation; (vii) project readiness and viability; (viii) institutional aspect; and, (ix) operation.

Identification and Preparation

- Greater and more serious attention by the implementing and oversight agencies on project preparation and planning, risk assessment, review of feasibility studies, among others, to come up with better project proposals (BCDA, DOTC, NIA, PPA, DPWH, DA, DAR, PGLDN, TESDA);

- Meaningful participative project planning among stakeholders promotes project ownership and minimizes miscommunication and misunderstanding before, during and after project implementation (NIA, PPA);

- Project design should have built-in parallel measures to address LGU capacity issues (i.e., in procurement, contract supervision, etc.) to ensure smooth project implementation (DBP);

- Unsynchronized duration of project implementation and LGU executives' terms of office pose potential problems (DILG);

- The demand-driven approach remains an effective strategy but LGU's preference may at times run counter or be inconsistent with agencies' priorities (DAR);

- Optimistic targets and poor planning leads to project re-structuring during implementation (and unnecessary extension period) (TESDA); and,

- On Credit, alternatives to Land Bank (e.g. MFIs, cooperatives) as the primary source of agricultural credit for project beneficiaries have to be developed or identified (DAR).

Appraisal and Financing

- Excess financing allows agencies to propose additional/supplemental scope not originally identified or contemplated during project design. (PPA) Excess financing should only be used constructively, i.e., to correct project inadequacies due to poor planning or design;

- Loan agreements that limit/restrict project eligibility of some components to selected countries are not preferred, hence, should be avoided (DBP);

- In the design of relending projects, effective and efficient loan utilization hinges on accurately accounting for factors such as absorptive capacities of both sub-borrowers and GFIs and interest rates offered by competing loan service providers (DBP);

- For relending facilities which are financed by foreign loans, financing charges (forex cover fee, guarantee fee, interest rate) and the availability of other concessional commercial loans make the pass-on rates uncompetitive (DTI/SBGFC);

- The National Policy on Countertrade or EO 120 is not fully observed for projects undergoing ICC appraisal which "directs IAs and GOCCs to adopt countertrade as a supplemental trade tool in connection with transactions involving the importation or procurement of foreign capital equipment, machinery, goods and services entailing the payment of at least US$ 1 million" (BOC);

- There is a need to ensure that development policies of the Government are adhered to by IAs (e.g. NEDA Board Resolution on NG-LGU Cost Sharing Scheme) to avoid confusion and delay in project start-up and implementation.

- Commitment on roles and institutional arrangements of multi-agencies involved with the project should be secured during appraisal stage to avoid problems during implementation (DENR); and,

- ROW and resettlement cost increases may be best addressed by the participation of LGUs.

Procurement

- Delays in procurement may be addressed by strictly adhering to procurement laws and guidelines. Focus on developing procurement capacities is likewise important;

- Textbook procurement still remains a challenge despite three earlier projects/ interventions. Bottlenecks often arise during the content evaluation stage given the complexity of the subject (DepEd);

- Wider dissemination of projects up for bidding (i.e. in provincial chapters of the Philippine Constructor's Association, Provincial Engineer's Office, DPWH offices) minimizes incidences of bid failure;

- Improvements in procurement business processes should include transparency concerns;

- The IAs need to engage the ICC early on for deviations from original ICC approved costs and scope. As a government policy, any amount exceeding the ICC approved cost shall require revision in the IA Budget Strategy, timely request of IA, and review and approval of ICC prior to bidding, payment and continuance of project implementation; and,

- Entering into contract agreements prior to loan agreement appears to be unpopular.

Implementation

- Flexibility in changing the scope of re-lending projects to suit prevailing economic conditions and/or financial environment is a prudent strategy (e.g. additional eligible subprojects, reallocation of loans proceeds form wholesale to microfinance component, reduction in FOREX cover and Gross Receipt Tax) (LBP);

- Review of the project's financial situation at the earliest implementation stage, allows for a more realistic financial target setting (MWSS);

- There is a need to check and match the annual funding requirements of the projects and the actual budget allocation, to avoid adverse effect in implementation (DOTC);

- To minimize occurrence of implementation delays, or to keep the project per agreed schedules, there is a need for regular monitoring, construction supervision, provision of technical and advisory assistance for the LGUs by the IAs at all levels (DA);

- MOA between PMO and concerned LGUs may not be sufficient to ensure LGU commitment. (A number of bridges under the DPWH's President's Bridge Program in Mindanao remained impassable due to incomplete bridge approaches which should have been provided by the LGUs);

- Oversight agencies need to institute some "corrective" mechanism to address agency indecision on whether or not to continue a specific project component (SBMA);

- Continued identification of new funding source and commitment also needs to be undertaken for resource mobilization (SC);

- LGUs have to play more active roles in community organizing and agribusiness development, aside from rural infrastructure (DAR); and,

- Multi-sector projects are successfully implemented if implementing arrangements among the IAs are clear and sub-project managers/staff are dynamic, committed and reliable (JBIC-assisted Sustainable Environmental Management Project in Northern Palawan).

Coordination

- Regular meetings convened by PMO with project stakeholders serve to apprise on project status, discuss further assistance and ensure effective mechanisms to facilitate coordination; and,

- Improved coordination of oversight agencies and among units at the central and LGU levels is also necessary for timely facilitation and resolution of project issues (DPWH, PCSD, DOT).

Monitoring and Evaluation

- A systematic reporting on implementation progress of projects should be put in place and should not only focus on input-output monitoring but also emphasize reporting on results and outcomes (DBP);

- Timely IA requests and submission of ICC requisite documents facilitate timely re-evaluation of projects by the ICC (PPA, BCDA, DOTC);

- There is a need for IAs to closely monitor the performance of contractors and impose penalties (i.e., termination of contracts, blacklisting, etc., as a disincentive to poor performing contractors). Likewise, performance of the Project Management Office should be monitored to ensure that resources are used efficiently, effectively, and economically; and,

- There is a need to strengthen IAs Project's Monitoring and Evaluation System to flag to management, the timely information on gaps/ slippages, operational issues, solutions/actions to address bottlenecks in implementation (NIA).

Project Preparedness and Viability

- Implementation readiness of a project, including the availability of counterpart funds, must be ensured before loan and contract negotiation to save on costs and to avoid delays (NLRC); and,

- Adequate or accurate estimation of contingencies is necessary during project design to offset the price escalations and avoid cost overruns (DPWH).

Institutional Aspects

- Project ownership must be ensured from the IAs highest level of authority to ensure buy-in to the program design and full cooperation of all stakeholders during implementation (DA);

- On Capacity Building, there is a need to build LGU competencies in financial management of FAPs. Training should be provided to LGUs to lessen problems on liquidation of eligible expenditure;

- There is a need for the project officer to be familiarized with the Funding Institutions' and DBM's process and procedures, especially on financial matters, to speed up fund releases (DTI);
- Assigning additional cost requirements to the LGU establishes project ownership and the proper incentive to ensure cost-efficiency (PLGN); and,

- Sustained assistance to LGUs in capacity development is necessary to ensure attainment of project impacts. Any investment program for urban development must be thoroughly matched with continuing capacity development assistance for the participating LGUs to ensure long-term sustainability of development assistance (DILG).

Operation

- To achieve efficiency and effectiveness in the operation and maintenance (O & M) of projects which generate internal revenue, LGUs should provide regular capacity-building for those staff responsible in O & M (DILG);

- Projects which are designed to be implemented by phase shall be subjected to ex-post/impact evaluation at the end of each phase, which shall be the basis for the implementation of succeeding phases; and,

- MOUs/MOAs should be formulated first between IAs and concerned LGUs prior to construction/implementation of sub-projects. MOU/MOAs should clearly contain corresponding measures and strategies on how completed subprojects will be maintained and sustained (PRRC).

IX. BUDGET OUTLAYS AND REQUIREMENTS

Budget Outlays and Requirements

Budget requirement of ongoing ODA loans for succeeding years (2008 and beyond), as submitted by the various implementing agencies, are as follows: PhP42.278 billion for CY 2008, PhP27.113 billion for CY 2009, PhP17.290 billion for CY 2010, PhP8.058 billion for CY 2011, and PhP3.647 billion for CY 2012 onwards. The top three agencies with the biggest budgetary requirements for 2008 are DPWH with PhP24.167 billion (57 percent of the budget requirement for CY 2008), NIA with PhP3.425 billion (8 percent), and DOTC with PhP3.210 billion (7.5 percent) (See Annex 12 for the details on agencies' budgetary requirements).

X. MEASURES FOR 2008 AND BEYOND

Identified measures for 2008 and beyond presented below are not exhaustive and subject to further rounds of consultations, discussions and workshops among various stakeholders:

Oversight Agencies

DBM and NEDA

- Review ODA Act and its IRR, and propose necessary amendments such as definition of cost overrun and use of the five percent of the total ODA loan for purposes of project identification, feasibility studies, master planning at local and regional levels, and monitoring and evaluation, among others.

COA and NEDA

- Study ways of linking findings of COA's Audit of FAPs and NEDA's Annual ODA Portfolio Review with the end view of improving project design and implementation.

NEDA

- Carry out more serious and concerted efforts to facilitate actions required on problem projects and ensure that recommendations made in the Portfolio Review are carried out;

- Continue deepening its capacities in conducting ex-post evaluation of completed projects; and,

- Ensure completion of an interactive web-based facility for programs and projects information exchange, which in the long run will address the growing demand for greater collaboration among the various partner institutions and the National Government to bring about harmonization and simplification of procedures and cutting costs of implementation, resulting in an effective public investment.

ICC

- Projects that involve mainly tied supply of goods and equipment and employ direct payments should be reviewed thoroughly;

- Use Detailed Engineering (D/E) cost and not the Feasibility Study (F/S) cost as baseline for computing cost overrun;

- Continue/ complete processing the remaining IAs' requests for projects with cost overruns and immediately prompt IAs to present to NEDA Board, if still economically viable;

- Not to process any proposal/request for cost overrun until a Budget Strategy approved by DBM is obtained by the IA;

- Review ODA Act and its IRR and propose amendment if appropriate (e.g. definition of cost overrun);

- Not to process any proposal/request for cost overrun until there is an endorsement from the Pro-Performance Team;

- Report regularly to NEDA Board all IAs not complying with ICC timelines; and,

- Conduct workshops to assess and review its business processes and policies to make them more relevant and responsive to needs.

GPPB

- Review performance of agencies which are observed to be unable to comply with prescribed timelines, and provide necessary assistance.

Implementing Agencies

- Submit to ICC D/E cost, upon its completion, with the re-estimated viability indicators and request ICC decision prior to start or resumption of implementation if the estimated cost of the project exceeds the ICC-approved cost (with D/E cost);

- Specify causes of cost overruns and provide justifications why project should continue;

- Issue Department/Agency Orders or Circulars defining measures to eliminate cost overruns and project implementation delays, and to comply with ODA Act's reporting requirements;

- Ensure the financial and operational sustainability of the completing projects by making O&M arrangements in the final year as part of projects design. Follow-up activities on the projects' O&M arrangements should be conducted from time to time, particularly those involving LGUs;

- For projects with LGU involvement, LGUs at the onset should comply with the existing NG-LGU cost sharing scheme and their O&M responsibility after project completion;

- Provide technical assistance to LGUs to improve LGU efficiency in implementing development projects, and be able to impose disciplinary sanctions/ penalties to LGUs guilty of delayed/non-liquidation, and non-compliance MOA or subproject agreement;

- Review/ simplify internal procurement and disbursement processes as they are contributory factors to implementation delays. IAs should be compliant with the timelines of the procurement law;

- PIOs to be responsible for raising the consciousness of project implementers about the GOP's processes with regard to changes in project scope and cost overruns. Strict compliance with these processes should be accompanied with appropriate administrative reward and penalty;

- Strengthen IA's partnership with the civil society in monitoring the implementation of ODA projects to promote transparency. DPWH has started this initiative through its "Bantay Lansangan" Project;

- Heads of agencies to provide opportunities for continuing capability-building of their respective project managers and staff on sound project management principles and techniques;

- With respect to cost and time overruns, there is a need for better project preparation, not only in terms of conduct of F/S and appraisal, but also in setting the stage for smooth implementation. This operationally calls for early action to expedite ROW acquisition and other stages of procurement. There is also a need for IAs to assume full accountability for performance;

- Ensure closer interface between the project preparation team and the project management team, to reduce start-up problems;

- Report on project outcomes and impact, towards ensuring that the objectives of development projects are indeed achieved;

- Avoid poor performing and unqualified contractors, IAs should enforce more stringent prequalification standards, in addition to imposing sanctions and incentives; and,

- Ensure that LGUs take greater responsibility for fast tracking projects in their vicinity i.e. generating public support for expeditious ROW acquisition and resettlement activities, and ensuring that ROW and resettlement costs do not overshoot initial NG estimates through appropriate cost-sharing schemes.

GFIs

- Continually revisit subloan features of relending projects to make them more attractive to end-users, whether industry or LGUs e.g. effective and competitive interest rates, eligible scope, etc.

Funding Institutions

- Step up efforts in aligning with the country's national development strategies, systems and procedures i.e. public financial management and procurement systems; provide more untied aid; and, avoid use of Project Implementation Units (PIUs);

- Undertake joint missions and analytic works, so as to lessen transaction costs and time spent by implementing and oversight agencies attending missions and meetings;

- Provide more assistance using the programme-based approach (PBA), an important vehicle for crystallizing and facilitating harmonization and alignment on the ground across a wide range of different systems and as a way to support streamlining and strengthening government systems; and,

- Increase focus on reporting on results, project outcomes and impact, towards ensuring that the objectives of development projects are achieved and provide technical assistance in building capacities along this concern.

XI. PROSPECTS FOR 2008

In 2008, increasing public-private sector partnerships will prove to be potent in achieving the economic goals set for this year as well as in making this growth felt by all sectors of society. Joint venture activities would encourage pooling of resources and expertise between the Government and the private sector as a viable, efficient and practical alternative in pursuing the Government's development goals.

However, uncertainties still remain, as risks such as continuing increases in the price of oil and rice, as well as the weak US economy will likely impact on the Philippines. Notwithstanding the risks, Government spending on the priority sectors of the society will be continued as prudent fiscal management will also be maintained.

Drafting of the Implementing Rules and Regulations – B (IRR-B) of RA 9184 (otherwise known as the *"Government Procurement Reform Act"*) - or the set of rules that will govern the procurement of foreign-assisted projects - is already underway in 2008. During the Philippines Development Forum in March 2008, both GOP and the Development Partners agreed to work together in the drafting of IRR-B with both parties committing to finalizing it by end 2008.