

I. OVERVIEW (13th ODA Portfolio)

1. This Review is in compliance with NEDA Board instructions and RA 8182, as amended by RA 8555, or "The ODA Act", which mandates NEDA to conduct annual reviews of the status of implementation of all projects financed through Official Development Assistance (ODA). A report must be submitted by NEDA to Congress on the outcome of the ODA Portfolio Review by 30 June 2004.

2. Pursuant to the ODA Act, the Government uses ODA to achieve equitable growth and development through priority development projects for the improvement of economic and social service facilities.

3. In summary, the performance of the country's ODA portfolio continues to improve based on several indicators, and as recognized by ODA partners. This improvement has been made possible by various measures undertaken by government which are enumerated in this report. Notably, the improvement in ODA performance occurred in an environment of tight budget constraints and austerity measures. Still, potential risks with respect to budget cover, procurement and right - of - way acquisition have to be continuously monitored and addressed. Similarly, the performance of LGUs, which have an increasing share in the ODA portfolio, need to be closely monitored. Areas for further improvement are recommended in this report.

4. In the course of the Review, 28 agencies were met and consulted. These are : Autonomous Region in Muslim Mindanao Social Fund for Peace and Development PMO, Bases Conversion Development Authority (BCDA), Department of Agriculture (DA), Department of Agrarian Reform (DAR), Development Bank of the Philippines (DBP), Department of Education (DepEd), Department of Environment and Natural Resources (DENR), Department of Finance (DOF), Department of Health (DOH), Department of Interior and Local Government (DILG), Department of Public Works and Highways (DPWH), Department of Social Welfare and Development (DSWD), Department of Tourism (DOT), Department of Transportation and Communication (DOTC), Light Rail Transit Authority (LRTA), Land Bank of the Philippines (LBP), Local Water Utilities Administration (LWUA), Metropolitan Waterworks and Sewerage System (MWSS), National Irrigation Administration (NIA), National Power Corporation/National Transmission Corporation (NPC/TransCo), Pasig River Rehabilitation Commission (PRRC), Philippine Economic Zone Authority (PEZA), Philippine General Hospital (PGH), Philippine Merchant Marine Academy (PMMA), Philippine National Oil Company – Energy Development Corporation (PNOC – EDC), Philippine Ports Authority (PPA), Subic Bay Metropolitan Authority (SBMA) and Technical Education and Skills Development Authority (TESDA). These agencies account for 95% of the ODA loans portfolio.

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

6. As in the previous year, this report discusses, among others, outputs and accomplishments of completed and ongoing ODA projects, the ODA portfolio performance using various indicators, commitment charges paid, and implementation issues encountered in 2003 and measures to address them. In addition, lessons learned from past reviews are compiled and reissued in this report.

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

8. This report is divided into two parts: Part I provides an overview of the review process and the report's scope and contents; Part II describes the ODA loans portfolio, and discusses indicators of portfolio performance, accomplishments and outputs of completed projects, implementation issues, lessons learned and implications, future budget requirements of ongoing projects, and prospects for 2004.

II. ODA LOANS PORTFOLIO

9. This Review covers 189 active loans with a net commitment of US\$10.9 billion, composed of 184 project loans supporting 156 projects, and five (5) program loans. Project loans accounted for 93% or US\$10.1 billion, while program loans, 7% or US\$0.8 billion (Annex A-1). Over the last four years, ODA commitments have been decreasing as a result of Government's greater adherence to project quality and fiscal discipline. From a peak of US\$13.3 billion in 2000, ODA loans commitment amounted to US\$10.9 billion as of 31 December 2003, which is 8% lower than the 2002 figure and 18% lower than the 2000 figure.

10. Among funding sources, the Government of Japan through the Japan Bank for International Cooperation (JBIC) remained as the largest source of ODA loans, accounting for 62% (or US\$6.8 billion with 79 loans) of the total ODA, followed by Asian Development Bank (ADB) with 14% (or US\$1.6 billion with 39 loans), and the World Bank (WB) with 13% (or US\$1.4 billion with 26 loans). Other Sources (like Australia, Austria, China, DANIDA, European Investment Bank, France, Germany, IFAD, Korea, Kuwait, NORDIC Development Fund, OPEC, Spain and United Kingdom) accounted for the remaining US\$1.1 billion from 45 loans, or 11% of the total ODA loans portfolio. The amount of assistance from the Other Sources has increased by US\$493 million compared to the 2000 level of US\$656 million (from a share of 5% to 11%).

11. Across development sectors, the bulk of ODA was channeled to Infrastructure Development, which received 110 loans with an aggregate commitment of US\$6.9 billion or 69% of the total ODA loans portfolio. Second was Agriculture, Agrarian Reform and Natural Resources, which accounted for 17%, US\$1.8 billion from 41 loans. Industry and Services had 5%, US\$498 million from 3 loans, while the Social Reform and Development Sector had 9%, involving US\$937 million from 30 loans. In Infrastructure, Transportation obtained the biggest share of US\$4.9 billion (or 48%), followed by Water Resources, US\$930 million (or 9%) and the Energy, Power and Electrification, US\$781 million (or 8%) (Annex A-2). Since 2000, the social reform and development sector's share in the portfolio increased from 6% to 9% compared

to 2003 while there was a substantial decrease in the share of the industry and services sector from 11% to 5% in the same period.

12. National Government (NG) agencies and local government units were responsible for implementing 57% of the ODA project loans portfolio, involving 114 loans with net commitment of US\$5.8 billion. On the other hand, government-owned and controlled corporations (GOCC) and government financial institutions (GFI), administered 43% (or US\$4.3 billion) of the ODA project loans portfolio involving 64 loans (Annex A-3). There was a substantial increase in the share of NG-implemented projects beginning 2000, from 48% to 57% in 2003. Conversely, a decrease in the share of GOCCs/GFIs implemented projects from 52% to 43% was noted over the same period.

13. ODA loans may be further classified into (a) those that require budget cover (e.g., those financing projects implemented by line agencies and some GOCCs like NIA, those with MDFO as conduit), and (b) those that do not (i.e., those financing projects of GOCCs/GFIs and the program loans). The former accounts for 63% of the 2003 portfolio, which used to account for only 53% in 2000 (Annex A- 4). The 22 loans that pass through MDFO comprised 9% of the ODA project loans portfolio in 2003 and 14% of the budget- dependent portfolio for the same period (Annex A-5). Meanwhile, the 49 ODA projects with LGU participation accounted for 18% of the projects portfolio, a mere one percentage point increase over the share recorded in 2000 (Annex A-6).

14. The regional disaggregation in terms of project costs (loan proceeds and GOP counterpart funds) of ODA-funded projects is shown in Annex 7. About 29% is allotted to Luzon (excluding NCR), 15% to NCR, 19% to Visayas and 16% to Mindanao.

15. New Loans – New loans worth US\$763 million, or 7% of the total commitments, entered the portfolio in CY 2003. These include: (a) six loans from JBIC (US\$354 million); (b) three loans from ADB (US\$221 million); (c) three loans from WB (US\$106 million); and (d) one each from China, Spain, Germany and IFAD amounting to a total commitment of US\$82 million (Table 1).

16. Loan Cancellations – Partial cancellations of US\$422 million were done in 29 loans as follows: (a) ADB, US\$288 million; (b) JBIC, US\$73 million; (c) WB, US\$29 million; and (d) Other funding institutions, US\$32 million (of which US\$29 million is from EIB). These cancellations were agreed upon with funding agencies to clean up the portfolio of excess financing (e.g., due to foreign exchange movement , reduction in scope of projects, or loan closing) and dormant funds of slow-moving projects, and in the process generate savings for the government on commitment fees in some cases (Table 2).

A. DEFINITION OF INDICATORS

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

18. The disbursement level is the actual amount of disbursements (in dollar terms) from all ODA loans for the period January to December 2003.

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

20. The availment rate, which has been reported by the NEDA in all past portfolio reviews, is defined as the cumulative actual disbursements as a percentage of cumulative scheduled disbursements (references: loan agreement, credit agreement, appraisal report, supply contracts, or generated S-curves) reckoned from the start of implementation of all projects up to December 2003. This captures the historical performance of a project from start to completion. Backlogs incurred at the start of the implementation, if not fully recovered, can pull down the availment rate for the remainder of the project life. It is imperative that implementing agencies are able to carefully review the disbursement targets based on aforementioned references. For ADB, WB and other financing sources that charge commitment fees, the disbursement targets set at loan signing give an indication of the commitment fees that may have to be paid over the life of a project.

21. Finally, the disbursement ratio is the ratio of actual disbursements in 2003 to the net loan amount available at the beginning of 2003 plus the amount of new loans that became effective less loan cancellations during the year. It is the indicator commonly prescribed by the funding institutions.

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

B. PORTFOLIO PERFORMANCE

23. Disbursement Level. The total ODA disbursements of the country in 2003 reached US\$1.4 billion, compared to US\$1.0 billion in 2002, or an increase of US\$370 million or 36% (Annex B-1). Project loans alone registered a 14% increase, from US\$935 million to US\$1,068 million, while program loans posted a 238% increase, from US\$100 million to US\$338 million. Assuming loan disbursement is a proxy indicator of physical accomplishments, the value of projects from ODA loans increased significantly.

24. In the case of program loans, GOP was able to substantially comply with major loan conditionalities under the Metro Manila Air Quality Improvement Program (JBIC and ADB) and the Pasig River Environmental Management and Rehabilitation Sector Program (ADB) resulting in the release of the final tranche from these loans. Except

for the Second Non-Bank Financial Governance Program II (ADB), all ongoing program loans are now fully availed.

25. Agencies where a significant drop in disbursement levels were noted are: DILG, DOTC, NIA and NPC (Annex B-2). Reasons cited by the implementing agencies for the decrease in disbursement levels were: unavailability of counterpart funds changes in priorities of LGUs; completion of project or loan closure; procurement delays; insufficient budget cover and inability of LGUs to provide equity.

26. All sectors and sub-sectors posted increases in disbursement levels except for the Energy, Power and Electrification sub-sector which recorded a decrease of 30 percent (from US\$97 million to US\$68 million). The reduction is due to the substantial reduction of disbursements in the NPC/TransCo portfolio as a result of the winding-down of the major power projects such as the Transmission Grid Reinforcement Project, Luzon Grid Transmission Projects Associated with Private Power Projects and Power Transmission Reinforcement Project in 2003, as there had been no new investments by government in the sector consistent with the Electric Power Industry Reform Act of 2001 that encourages private inflow of capital to the sector (Annex B-3).

27. Projects supported by the GAA (budget-dependent) and those which are non-budget dependent posted increases in disbursement levels in 2003 over the 2002 level with 5% and 29%. However, the share of budget-dependent projects in the 2003 total disbursements decreased by 5 percentage points from 61% to 56% (Annex B-4).

28. Projects involving LGUs where MDFO serves as conduit registered a 22% increase in disbursement levels from US\$87 million to US\$106 million (Annex B-5).

29. Disbursement Rate. On average, implementing agencies achieved only 86% of the targeted disbursements of projects supported by ODA. Across agencies and sectors, disbursement rates vary widely indicating the need to review the target-setting process of many agencies (Annexes C-1 and C2).

30. On a quarterly basis, disbursement rates fluctuate from one quarter to another, for example, from 129% to 70% to 74% to 84% from the first to the fourth quarters. First quarter performance has been noted to be driven by JBIC-assisted projects, as the first quarter coincides with the closing quarter of the JBIC fiscal year. (Annex C-3). Non-budget dependent projects continue to improve its disbursement rate from 69% in 2001 to 77% in 2002 to 98% in 2003 while budget-dependent projects disbursement rates were almost constant at 79% - 80% levels for the same period (Annex C-4).

31. Availment Rate. Availment rate in 2003 was 61%, two percentage points higher than the 59% recorded in 2002 (Annex D-1). However, it may be noted that only the JBIC portfolio is below the 2003 average availment rate. It may be noted that cancellations are rare in the JBIC portfolio because there are no commitment fees. Since availment rate is a function of targets in foreign currencies which are determined as early as the time of the signing of the loaning agreement, the peso equivalent of these targets have increased, sometimes implying a corresponding increase in physical targets, and additional budget requirement unless the funds are

cancelled. Backlogs in project startup, unless addressed fully early on, will adversely affect availment rates until the loan closing date.

32. The social reform and development sector registered an availment rate of 68%, highest among the different sectors (Annex D-2). An upward trend has been noted in availment rates of this sector from 49% in 2001, 59% in 2002 and 68% in 2003. On the other hand, the infrastructure sector had a rate of 56%, which is five percentage points below the average. It may be noted that budget constraint, procurement and ROW issues are prevalent in this sector.

33. Disbursement Ratio. The average disbursement ratio for the three biggest portfolios was 19%, six percentage point higher than the 13% recorded in 2002 (Annex E-1). ADB recorded a 33.7% disbursement ratio, WB 21.6%, while JBIC registered 15.7%. Again, it may be noted that partial loan cancellation is rare in the JBIC portfolio because no commitment fees are charged for undisbursed amounts. It may be recalled that funding institutions called on GOP to raise its disbursement ratio to 20% by 2004 during the 2002 Consultative Group Meeting.

34. Loan Extensions. Sixty-six loans worth US\$3.4 billion or 31 percent of the ODA portfolio, including 20 loans (worth US\$1.2 billion) which closed in 2003, were on extended periods of 2.0 years average beyond their original loan closing dates (Table 3). This is lower than the 68 loans reported in 2002. Of the 46 ongoing loans which have exceeded original duration, 24 loans require extensions of more than a year, while 22 loans require less than one year.

35. Additional Budget Requirements. Twenty-nine projects will require additional budget from 2004 onwards (Table 4) with an aggregate amount of about P24 billion. During the year, eleven projects were re-evaluated by the ICC in 2003 for increases in the original ICC-approved project cost.

36. In general, the following are the justifications given by IAs for the additional budget requirements: (a) foreign exchange rate movement; (b) change in scope/additional works; and (c) increase in right-of-way (ROW) acquisition cost.

37. Commitment Fees. For the ongoing projects, cumulative commitment fees paid by the government to ADB, WB and other funding institutions as of December 2003, amounted to US\$45 million. In 2003 alone, US\$9.5 million was paid in commitment fees. Among national government agencies, commitment fees paid by GOP for DPWH and DOTC projects were US\$0.97 million and US\$1.2 million, respectively. Among GFIs, DBP and LBP paid commitment fees of US\$0.2 million and US\$0.5 million, respectively (Annex F-1).

C. ACCOMPLISHMENTS AND OUTPUTS OF PROJECTS

38. Twenty loans amounting to US\$1.2 billion were reported as closed/fully availed during the year (Table 5) consisting of: five loans from ADB (US\$353 million); seven loans from JBIC (US\$793 million); two from WB (US\$ 21 million); and one each from Germany, IFAD, Korea, France, DANIDA and Spain (a total of US\$674 million).

Completed Projects (Table 6)

Infrastructure

39. Two projects under DPWH were completed in 2003. Under the Philippine-Japan Friendship Highway Rehabilitation Project I, accomplishments include: 250 km of roads were rehabilitated; one bridge was repaired and one bridge was constructed. Meanwhile, under the Philippine-Japan Friendship Highway Rehabilitation Project II, 379 km of roads were rehabilitated, 64 km of portland cement concrete pavement /asphalt concrete (PCCP/AC) overlay were constructed/rehabilitated, five different types of bridges repaired and one bridge constructed.

40. Under the Mindanao Power Transmission Project, construction of 18.0 circuit-kilometers (cKt-kms) in Montevista-Monkayo 69 kilovolts (kV) transmission lines (T/L), 29.0 cKt-kms in Nuling-Midsayap 69 kV T/L, 15.0 cKt-kms in Tagum-Assuncion 69 kV T/L were completed. Also, 21 wooden poles were erected in Maasim-Kiamba 69 kV T/L. These completed structures reinforce the existing 69 kV transmission line and transformer capacity in the Mindanao regions to accommodate and serve the growing power demand in the area.

41. The Spain-assisted Maritime Safety Improvement Project III was able to complete the construction of 87 lighthouses; installed 120 imported lighthouse equipment and trained 94 PCG personnel on the operation and maintenance of lighthouses.

Agriculture, Agrarian Reform and Natural Resources

42. Under the DENR's Forestry Sector Project, 57,652 hectares of watershed areas and 11,491 hectares of mangrove areas or a total of 69,143 hectares were established by private organizations (Pos) nationwide. The tenured (POs) in 24 watersheds and 12 mangrove subprojects are now protecting and maintaining the established forests and are undertaking economic activities to raise incomes and sustain project gains/initiative. Forty-seven POs were organized and strengthened in the watershed subprojects and 23 POs in the mangrove subprojects, while 64 Community Based Forestry Management Agreements (CBFMAs) were granted to 59 POs implementing watershed and mangrove subprojects. The Project was also able to rehabilitate more than 110 kms of road, established 25 water systems and constructed 20 bridges, 19.4 kms pathway and 13 causeway/wharfs. In addition, 274 livelihood projects were implemented.

43. Under DENR's Metro Manila Air Quality Improvement Sector Development Program of DENR, a total of 3,173 firms were identified as major sources of air pollution within Region 3, 4A and NCR while 703 notices of violation were issued to non-complying industries. Five private laboratories were accredited to undertake analysis of air emission standards. In addition, six computerized Permit Administration System (CPAS) were installed and maintained, 20 trainings were conducted on industrial emission monitoring and inventory. The attainment of the objectives of the Project is now being monitored, i.e., air pollution from mobile and stationary sources will be substantially mitigated, fuel quality will be improved; emissions from vehicular use reduced; traffic congestion reduced through improved traffic flow; and ambient air quality monitoring strengthened.

44. Some 1,636-farm families benefited with the provision of irrigation water in 6,762 hectares of new areas under the Malitubog-Maridagao Irrigation Project

implemented by NIA. With the completion of the Project, rice production is expected to increase through intensive irrigation and drainage systems.

Social Reform and Development

45. Under the SZOPAD Social Fund Project, completed facilities include : 219 Madrasah classrooms, 131 school classrooms, 1,198 meters of pedestrian bridges, 45 Barangay Health Stations, eight (8) timber ports, and one (1) training center. Also completed were the renovation of five (5) Madrasah classrooms, 41 school classrooms, one (1) Barangay Health Station, two (2) small irrigation systems and three (3) dug wells.

46. The WB-assisted Women's Health and Safe Motherhood Project produced the following outputs; (a) upgraded obstetric units in 70 Rural Health Units (RHUs) and 74 Barangay Health Stations (BHSs) in 36 provinces, including the provision of furniture and equipment (b) trained 2,450 Public Health Providers, 26 Project Coordinators, 16 Trainers on the Syndromic Approach to Diagnosis and Management of Reproductive Tract Infection/ Sexually Transmitted Disease (RTI/STD) care in 10 provinces in Visayas and Mindanao and public health workers in the 70 RHUs and 74 BHSs in 36 provinces; and (c) constructed and provided 10 RTI/STD clinics with diagnostic equipment in the 36 provinces.

Industry and Services

47. Under the Rural Micro-Enterprise Finance Project (ADB and IFAD), 1,124,605 subprojects worth P2.5 billion were extended by People's Credit and Finance Corporation (PCFC) to 300,000 self-help groups. These subprojects have helped increase family income by 50% and most of the families covered are now above the poverty line. Meanwhile, under the Metro Manila Quality Improvement Project – Air Pollution Control Credit facility, four environment subprojects namely: Vallacar Transit and Rural Transit Mindanao, both in Region VI, Angeles Power Incorporated in Region III, and Roxas Holdings Inc. in Region IV were financed amounting to some P298 million.

Ongoing Projects

48. Under the infrastructure development sector, 11 bridges were constructed and 54 bridges were repaired/retrofitted. Further, 251 kilometers of asphalt concrete overlay and 164 kilometers of portland concrete cement pavement were completed. In Metro Manila, construction of EDSA/Quezon Avenue Interchange and C-5/Ortigas Avenue Extension Interchange were completed.

49. Moreover, three transmission lines projects were energized as follows: a) Power Transmission Reinforcement Project; b) Luzon Grid Transmission Project Associated with Private Power Project (Ilijan Project); and c) Luzon Grid Transmission Project Associated with Private Power Project (Casecnan Hydro Project). Air navigation facilities in Davao, Palawan, Tagbilaran, NAIA, Tuguegarao, Naga, Mt. Majic, Jomalig, Cauayan, Caticlan, Zamboanga, Baguio, Tagaytay, Laoag and Kalibo airports were upgraded and modernized under the Nationwide Air Navigation Facility Modernization Project III while 15 lighthouses were completed under the Maritime Safety and Improvement Project III.

50. In addition, a total of 4,182 rural water facilities were installed in Regions II, IV-A, IV-B, V, VI, VIII, IX, XIII, ARMM and CAR, consisting of 1,431 shallow wells, 1,081(new) and 686 (rehabilitated) deep wells, 828 spring development and 147 spring rehabilitation project. A total of 415 housing units at the Initial Resettlement Area and Banza Pedestrian Bridge were constructed under the Lower Agusan Development Project. Under the Agno and Allied Rivers Urgent Rehabilitation Project, completed were the construction of the Bugallon Shortcut Channel and Bridge, Domalandan Bridge River Training Works, revetment works in Upper Sinocalan, Tarlac and Lower Agno and Tarlac River Interim Improvement Works.

51. NIA provided irrigation to 37,083 hectares of new areas and rehabilitated 120,515 hectares in existing irrigation systems through its ODA-assisted projects.

52. Under the health sector, health facilities in five district hospitals were upgraded/renovated while health facilities in one district, three rural health units and seven barangay health stations were replaced/constructed under the Integrated Community Health Service Project. In addition, various equipment for two provincial hospitals and 15 district hospitals were procured and delivered.

53. In the education sector, 1,523 classrooms were constructed/rehabilitated, 475,872 sets/units of tables and chairs were delivered to schools nationwide while 25,882 schools were provided with funds for the repair and maintenance of school buildings under the Social Expenditures Management Project I. In the Secondary Education Development and Improvement Project, 3.2 million textbooks and 54,526 teacher's manuals were delivered and supplied.

54. Under the Third Elementary Education Project, trainings were given to 108,066 teachers, 731 district supervisors. A total of 12,837 school managers attended various division-based trainings while 72,088 trainees attended various trainings on support component. Moreover, more than 15 million instructional materials and textbooks were delivered.

D. KEY IMPLEMENTATION ISSUES (Table 7)

55. Budget. The budget is a critical issue in ODA implementation. It has several facets: First, appropriation or budget cover is required not just for GOP counterpart, but also for loan proceeds of ODA projects of NG agencies. Without a line item or with insufficient allocation in GAA, an ODA project will have to depend on agency realignments or compete for the FAPs Support Fund (proposed to be abolished in 2004). Second, DBM action is required for administrative issuances like Notice of Cash Allocation (NCA) for counterpart funds and special accounts, and Non-Cash Availment Authority (NCAA) for direct payment through loan proceeds. Lack of revenues or fiscal discipline measures could influence DBM action. Third, having received adequate authority or cash allocation from DBM, agencies still have to determine priority to any given ODA project, as against other projects or other needs.

56. For budget-dependent ODA projects, the 2003 adjusted program was P39.5 billion (inclusive of loan proceeds and counterpart funds) of which 69% was for capital outlays and 31% for current operating expenditures. This amount is seven percent less than the 2002 program of P42.2 billion consisting of 59% capital outlay and 41% current operating expenditures. Capital outlay for ODA projects in 2003,

amounting to P27 billion, accounted for 26% of the P105 billion total NG capital outlays. The total NG budget in 2003 was P811.5 billion.

57. In 2003, several projects were reported to have encountered severe budget cover problems. These projects are mostly those using MDFO as conduit (22 projects), flood control projects of DPWH, projects of DILG and DOTC, among others. In particular, these projects either have unprogrammed budgets in the GAA or have physical accomplishments whose financial requirements exceeded the available budget cover for the year.

58. In the case of DPWH, only P18.8 billion was appropriated in 2003 compared to P19.9 billion in 2002 (a reduction of 6%). DPWH reported that the Congressional initiatives in the DPWH budget increased from P14.8 billion in 2002 to P15.5 billion in 2003.

59. Some agencies were observed by DBM to have allowed direct payments from funding sources to contractors and suppliers, in excess of their budget cover. While this enabled ODA absorption, this adversely affects NG fiscal programming. DBM is now more strictly monitoring direct payments.

60. On the timing of the release of the available allocations, several implementing agencies (e.g., DPWH, DA, DAR, TESDA and DENR) reported that the bulk was released in the latter half of 2003. This reportedly caused low utilization of said funds as these can not all be disbursed by yearend and late/non-payment of progress billings for works accomplished, services rendered or goods procured.

61. The 2003 GAA (RA 9206) was passed only in April 2003. Thus for January to April, agencies were operating on 2002 budget. It may be noted that in four fiscal years from 2001 to 2004, the government had a reenacted budget twice, and a late budget once, which created confusion and uncertainty in ODA implementation.

64. A special provision in the 2003 GAA prohibited DPWH from awarding contracts above approved budget for the contract (or ABC). DPWH reported that about P7.6 billion worth of contracts were affected. The Department of Justice issued an opinion in October 2003 that projects or contracts governed by any treaty or agreement or international executive agreement existing as of the effective date of the CY2003 GAA are excluded from the said prohibition. Further, the DOJ noted that under the Foreign Borrowings Law (R.A. 4860 as amended), the President is empowered to waive the application of any law imposing restrictions on the procurement of goods and services.

65. Arising from the budget constraint is the VAT issue and delayed payments to contractors raised by Government of Japan. While DBM has allowed payment of VAT, these should be sourced within the agency's regular budget, thus competing with allocations for the implementation of ongoing foreign -assisted projects.

66. Procurement. Procurement is a perennial issue, always raised by lending institutions, and thus poses one of the biggest challenges to facilitating project implementation. Two periods have to be closely observed in procurement: (a) the total time to complete the procurement process, including processing times of GOP and lending institutions, which basically shows how long before civil works implementation, etc. can start, and (b) an agency's compliance with the prescribed

timelines in RA 9184, for evaluation of bids, contract award, and issuance of notice to proceed (NTP) by GOP agencies, which should exclude the processing times of lending institutions.

67. Of the 49 civil works, 29 consulting services and 60 goods contract packages reviewed (cutoff: NTPs issued in 2003), it may be noted that procurement could take as long as 19 months for consulting services, 35 months for civil works and 18 months for supply of goods (from submission of bids to issuance of notice to proceed). On the average, however, award of consultancy services took 9.26 months, civil works, 9.53 months and supply of goods, 7.9 months for said contracts.

68. Netting-out the processing time by funding institutions, the actual periods from submission of bids to issuance of NTPs on the average are as follows: about 6.85 months for consulting services, 6.43 months for civil works and 6.57 months for supply of goods. These are beyond the prescribed periods under RA 9184 or the Government Procurement Reform Act of 4.4 months for national government agency procurement and 4.7 months for government corporation procurement (Table 8).

69. For civil works contracts, delays were observed in various stages. From start of tender to submission of bids, major factors are: differences between GOP and the funding institutions on the pre-qualification criteria and the results of pre-qualification. From submission of bids to completion of evaluation, major factor is unclear evaluation parameters and criteria particularly in its interpretation. From completion of evaluation of bids to the award of contract and issuance of NTPs, major factors are: filing of complaints or court cases by the losing bidders, non-concurrence of funding institutions, too many signatories or clearing authorities required, and changes in management in the implementing agencies. The special provision in the 2003 GAA prohibiting DPWH to award contracts above approved budget for the contract (ABC) affected bulk of civil works contracts of DPWH.

70. In general, the procurement process becomes protracted for the following reasons: failure of bidding when bids are non-responsive, complaints of losing bidders, impasse in negotiations, conflict in procurement guidelines of GOP and the financing source, court-related issues, and non-concurrence of funding institution at different stages of the bidding, and changes in leadership in a number of implementing agencies (e.g., in DPWH, DepEd, DENR, DOTC and TESDA) which affected procurement when new management exercised due diligence and required reviews of previous decisions.

71. Right-of-way acquisition and resettlement. Right-of-way acquisition (ROWA) can be delayed because of budget non-availability, the lengthy processes of acquisition and relocation - including negotiations, legal procedures and documentation requirements despite RA 9874, and in certain cases, public opposition. By themselves, ROWA and resettlement are inherently challenging and time-consuming activities. When compounded by other issues such as differences in guidelines of funding institutions and the government, these activities can be a serious bottleneck.

72. A number of projects continue to be affected by delays in ROWA such as the Sixth Road Project, MM Flood Control West of Mangahan Project, KAMANAVA Area Flood Control Project, Lower Agusan Development Project Stage I, Phase II, among others.

73. Relending. Relending projects of DBP and LBP, which comprise about 12% of the portfolio, showed signs of recovery as disbursement levels in 2003 increased by more than 200 percent compared to 2002.

74. The current economic environment has allowed credit expansion in the domestic industry, facilitating the approval of P6.2 billion (DBP) and P2.7 billion (LBP) in sub-loans to its clients in 2003. Projects that are on track are LBP's Third Rural Finance, Water District Development and LGU Support Credit projects, and DBP's Industrial Support Services Project. Meanwhile, LBP's Metro Manila Air Quality Improvement, LGU Private Infra Project Development Facility and Mindanao Basic Urban Services projects and DBP's Domestic Shipping Modernization Project II, LGU Urban Water and Sanitation Project (APL2) and Fund for Technical Education and Skills Development Project need to be monitored closely.

75. LGU participation. ODA projects with direct LGU participation accounted for 18 percent of the portfolio. LGU performance was affected by several factors, such as, availability of LGU counterpart funds, LGU counterpart staff and their capacity for project preparation and implementation, non-compliance by LGU with their commitments, and changes in LGU priorities. In some instances, LGUs withdrew from ODA projects after GOP provided grants on project preparation and implemented the projects using regular relending programs (not ODA-financed) of GFIs.

76. There are divergent opinions on LGU capability-building components of ODA projects. One opinion is that NG through several agencies has provided more than enough assistance for LGU training over the years. Another is that some LGUs that are current beneficiaries of ODA are not getting necessary assistance for capability building. A coherent strategy for LGU capability-building needs to be formulated, that will avoid duplication of courses, sharpen targeting of LGUs, and is demand-driven.

77. Roles of Agencies. The roles of several NG agencies in ODA project implementation need to be reviewed vis-à-vis their major final outputs (MFOs) and the MFOs of other agencies. DILG implements a wide range of projects catering to LGUs like bridges, power, water supply, social welfare and social infrastructure. This raises questions on the capability and expertise of DILG to deliver a wide array of services. Among the alternative roles for DILG that should be studied are: (a) lead agency for selected ODA projects catering to LGUs, (b) oversight agency for LGUs in ODA projects to be implemented by different other agencies, or (c) lead agency for governance-related projects only.

78. DSWD is implementing sub-projects, like water systems (levels 1 and 2), farm-to-market roads, irrigation and post harvest facilities, aside from multi-purpose buildings, day care centers, and school buildings, under KALAHI that are similar to sub-projects implemented by DA, DAR, DepEd, etc. On the other hand, DAR is implementing a rural electrification project for ARCs.

79. DOF, an oversight agency, is lead agency for Community Base Resource Management Project (CBRMP) and Local Government Finance Infrastructure Development Project (LOGOFIND).

80. Changes in Scope and Increases in Costs. Changes in project scope and increases in project cost normally should be minimal or avoided when project preparation is adequate, although some unforeseeable circumstances could warrant

them. In many cases, however, such changes in scope and cost appear to arise due to poor or lack of project preparation. During the year, a total of 25 projects were re-evaluated and approved by ICC because of changes in scope and cost (Table 9).

81. Other issues. Other issues that affected ODA performance in varying degrees were delayed issuance of environmental compliance certificate, poor performance of contractors and unstable peace and order situation.

82. Changes in heads of agencies (DPWH, DENR , DOTC , TESDA) and LGUs have been observed to have significant impact on implementation of ODA projects, either negative or positive. In many cases, the result is delays in award of contracts, because of repeat reviews of contracts for due diligence, or in certain cases, even changes in project design. In a few cases, the result is positive, such as when the new management became more proactive in addressing implementation bottlenecks.

E. MEASURES TAKEN IN 2003

83. In general, the measures that were recommended in last year's review were pursued by the concerned implementing and oversight agencies. As a result, the following were noted: (a) Attention was focused on ADB portfolio and the subsequent restructuring of portfolio led to the cancellation of the Grains Sector Program Loan (US\$70 million) and the partial cancellation of the Metro Manila Air Quality Improvement Project (US\$21.3 million). This led to improvement in the ADB portfolio's performance and indicators, i.e., disbursement rate increased by 10 percentage points to 89%, disbursement ratio by 16.8 percentage points to 33.7%, availment rate by 5.6 percentage points to 72.1%; and (b) GOCCs/GFIs disbursement level increased by almost 20 percent.

86. In line with the government's target to maintain a budget deficit of P202 billion in 2003, the DBCC and ICC jointly conducted an ODA portfolio review in early 2003 with the following objectives: to review the implementation progress of major ODA-funded projects, recommend deficit-neutral measures to improve ODA performance, and ensure sufficient budget support for 2003 onwards for high priority projects. The proposed dispositive actions were: cancellation of excess financing for 6 projects amounting to US\$31 million, rephasing of implementation schedules for 15 projects, reduction in scope for 10 projects; and tapping of other sources of financing (LGUs or GOCCs) for 4 projects. To date, US\$7.2 million of excess financing was already cancelled, implementation periods of 6 projects were rescheduled; scope of 6 projects were reduced, and other sources of financing for 2 projects were identified and approved.

87. To improve public expenditure management and fiscal programming, a new ICC policy was adopted in November 2003 requiring resolution of budgetary issues prior to ICC deliberation of new project proposals or requests related to ongoing projects. However, even before this, the ICC had been requiring submissions by agencies of its medium-term investment programs and DBM-certified budget strategies.

88. Project Implementation Officers (PIO) continued to keep close supervision over ODA project implementation. PIOs are senior officials (of Undersecretary or Assistant Secretary rank) designated in all agencies implementing ODA-funded projects. Their main responsibilities are to lead the agencies in implementing catch-up programs for delayed and slow-moving projects, to closely monitor progress of implementation

and to coordinate with concerned agencies to resolve bottlenecks. The PIOs together with oversight agencies met quarterly in 2003 to address issues affecting project implementation, share good practices, and be apprised of recent policies and procedures on ODA.

89. The Executive Order on conversion of MDFO to MFC was issued December 2003. MDFO continued to assist implementing agencies in the training of LGU personnel to handle financial transactions and prepare documentation requirements. Moreover, capability - building measures for LGUs on procurement and project implementation continued. It was observed, however, that the numerous training initiatives have taken away time from LGUs in implementing project activities.

90. Beginning January 2003, the revised NG-LGU cost sharing policy will apply to new projects. This policy was issued to rationalize terms of financial assistance to LGUs and channel financial assistance to credit-worthy LGUs. It also partially corrects the distortion of Internal Revenue Allotment (IRA) formula which favors more the cities than municipalities and provinces, and expands coverage to include other devolved activities with greater impact on development.

91. Executive Order 109-A was issued on 18 September 2003, amending EO 109, to conform with the provisions of the new Procurement Law. This EO also delegates authority to heads of agencies and their designated officials for the approval of selected contracts. NEDA's approval of contracts will be required only until such time Government Procurement Policy Board or GPPB exercises its authority to approve contracts. Executive Order No. 109, which was issued on 27 May 2002, streamlined the rules and procedures on the review and approval of contracts, and granted agencies full responsibility for implementation of competitively tendered contracts.

92. In 2003, DPWH continued to strictly enforce Department Order No. 50 dated 6 February 2002 on the Approval of Design Plans Prepared by DPWH Consultants. This Order requires that the design plans state that the design consultants be held fully responsible for the failure of the facility due to faulty design except for changes made without the conformity of the consultant. The design consultant shall also be liable for additional costs for major changes due to faulty or defective design.

93. DBM issued a circular on 13 March 2003 to rationalize the establishment, restructuring and operation of project management offices or PMOs. With this circular, PMOs will be integrated into the regular agency structure to optimize use of physical and financial resources and strengthen overall project performance monitoring. This will also ensure faster mobilization for new projects, as new PMOs need not be created every time there is a new project.

94. In the preparation of the 2003 (and 2004) agency budgets, DBM instructed that regular agency funds serve as counterpart for foreign-assisted projects, to make full use of agency budgets and ensure resource optimization in the government. Grant-assisted projects were most affected by this arrangement, since before, counterpart funds for such projects were automatically allotted above the agency budget ceiling.

95. The ICC approved restructuring in the following projects: a) extensions by more than a year of the loan period of 16 loans; b) extensions by a year or less of the loan period of 12 loans; c) increase in scope of 16 projects; and d) increase in project cost of 12 projects (Table 9).

96. The ICC instructed its Secretariat to generate rules of thumb for preparing ROW and resettlement cost estimates to improve the preparation of cost estimates and project appraisal in general in future projects. The ICC Secretariat has solicited data from key infrastructure agencies for a comparative study on original cost estimates versus the actual cost of ROW and acquisition and resettlement.

97. Technical - level joint portfolio reviews continued to be conducted quarterly with the three biggest funding agencies (ADB, JBIC and WB) to identify specific issues affecting ODA performance. Inter-agency follow-up and problem-solving sessions were conducted subsequently to address major obstacles. During the Consultative Group meeting with the donor community, the government offered concrete recommendations to improve ODA performance.

F. LESSONS LEARNED AND IMPLICATIONS

98. Project Administration – The project manager is the key player in project implementation. On many occasions, it has been noted that the success of project implementation can be equated with the capability of the project manager. It is therefore very important that the designation of project managers be a highly competitive and objective process with a view to selecting the most qualified person for the job. If disruptions in project implementation are to be minimized, the process should be shielded from changes in administration. A pool of competent project managers may be developed within implementing agencies, especially those with a steady pipeline of projects.

99. Continuous capability building and training for project managers as well as other key project personnel should be supported. In particular, familiarization courses with procurement guidelines of funding institutions should be regularly conducted. This should be true especially for units that are implementing projects for the first time.

100. Sometimes, delays in procurement processes could be traced to indecisiveness arising from lack of familiarity with procurement guidelines. Knowledge and experience specifically on dealing with the differences between GOP and funding agency guidelines should be disseminated among project managers across all agencies.

101. The project manager should work in tandem with the project financial specialist. Physical targets should be linked with disbursement projections to ensure that implementation programs are realistic and will be supported with available funds.

102. The circular of the Department of Budget and Management on Project Management Offices (PMOs) needs to be finalized and disseminated in order that implementing agencies with pending requests for additional project personnel can take appropriate actions immediately. The draft circular specifies the guidelines in rationalizing PMOs for both locally-funded and foreign-assisted projects. It is based on the principle of “scrap and build” and also specifies the conditions on when a PMO may be established.

103. For new projects, it is vital to set up a unit devoted to the implementation of a project before a loan becomes effective. Moreover, the personnel of the unit must be properly apprised about pertinent GOP and funding agency rules and procedures.

104. Funds Flow from Special Accounts – Flow of funds from special accounts should be closely tracked by the PMO especially after a request for withdrawal has been submitted to the funding institution. Close coordination with the funding agency should also be made to ensure that documents submitted are correct. If bottlenecks are observed, PMO must be proactive in resolving them.

105. Utmost efficiency in use of special accounts by implementing agencies should be practiced. Note that replenishment of special accounts is already considered as a loan disbursement, for which GOP will be charged interest whether the implementing agency uses the funds or not. In view of this, ways of charging financial costs of actions of implementing agencies in project implementation, such as replenishment of special accounts, to their respective agency budget ceilings must be instituted.

106. A few agencies failed to fully liquidate special accounts of completed projects reportedly due to foreign exchange losses. Based on this experience, it may be prudent to maintain special accounts in original loan currency.

107. Projects Involving Local Entities (LGUs and Water Districts) – Projects involving the participation of local entities usually require longer time for preparation, specifically before a memorandum of agreement between the implementing agency and the local entities is put in place. This should be factored into the implementation design and schedule of a project. The more LGUs and water districts are involved, the longer should be the time allowed.

108. The impact of changes in administration at the local level, especially after elections, on project implementation should be anticipated. Possible disruptions may include changes in project personnel, changes in priorities, and withdrawal of funding support. Scheduling of important project milestones should be done with this considered.

109. Ways to charge the financial cost (e.g., commitment fees, sunk consultancy costs, etc.) of delays attributable to or withdrawals of local entities to the local entities themselves should be actively pursued. At the time of project appraisal, even before sub-project agreements are finalized, commitments from LGUs/WDs to push through with projects should be backed by Internal Revenue Allotment (IRA) intercept or equivalent provisions.

110. At the same time, a performance reporting system on local entities should be considered by Municipal Development Fund Office (MDFO), Local Water Utilities Administration (LWUA) and DILG that would make NG agencies aware of their performance in other projects with other NG agencies. Other NG agencies should be made aware of the track record of LGUs/WDs in implementing ODA projects.

111. Duplication of NG efforts in providing technical assistance and capability-building programs to LGUs should be avoided. One way to reduce, if not prevent this, is for NG not to provide full grants to LGUs but to require LGUs to put up appropriate counterpart costs. Likewise, the cooperation of DILG in this regard may be sought.

112. Continuous and closer coordination with MDFO should be sustained by implementing agencies toward streamlining procedures and requirements, and facilitating faster implementation of projects according to their respective project design and requirements.

113. Commitment Fees – Different funding institutions have different methods of computing commitment fees. This information is available even at the time of project appraisal, and may be taken into consideration when a project is being presented for approval.

114. For example, ADB computes commitment fees based on a standard disbursement schedule, which often does not match the proposed implementation schedule of the implementing agency. During loan negotiations, implementing agencies should negotiate with ADB for the adoption of doable and more realistic disbursement schedules.

115. On the other hand, WB computes on the basis of undisbursed amount. At the time of appraisal, even if an agency fully meets its disbursement targets, commitment fees are expected, and can be estimated.

116. In any case, the possibility of charging commitment fees against the agency ceilings of implementing agencies may be instituted, to encourage agencies to be expeditious and efficient in project implementation.

117. Different Financing Terms of Projects – Different financing terms made available by various NG agencies for sub-projects of LGUs and water districts permit the latter to shop for the best financing package. As a result, in some cases, LGUs and water districts withdrew from one project with stiffer financing terms or greater equity requirements and apply to another with more attractive conditions. At appraisal, GOP should consider reconcile lending policies of government financial institutions and the MDFO.

118. Multi-Agency Participation in Projects – Projects with multiple implementing agencies recorded lower indicators than the GOP average. Such projects require tremendous efforts in coordinating various participating agencies. Different agencies often differ in their operational arrangements and procedures, which affect the pace of implementation. Projects with complicated design involving many agencies should be avoided or minimized. Packaging and designing of projects should as much as possible confine scope of activities to a single agency.

G. MEASURES FOR 2004 AND BEYOND

As the government has demonstrated much improved capacity to utilize ODA, attention should shift to achieving desired project outcomes and development impact and increasing efficiency in delivering services by reducing administrative, project management, and consultancy costs. To sustain improved performance of ODA in the country, the following measures are recommended:

119. Strengthen focus on results and outcomes of projects, and their impact on poverty alleviation and regional development. The NEDA Board has tasked agencies to monitor results and development outcomes of projects. The ICC Secretariat should initiate formal review by ICC of proposed logframes during project appraisal. Capability building on results monitoring and evaluation (RME) should be continued.

120. Improve effectiveness of operationalizing the Medium Term Expenditure Framework (MTEF) to minimize occurrence of budget issues in projects.

121. Both implementing and oversight agencies to be involved as early as project fact finding missions to ensure consistency of projects with government priorities and avoid instances where preparatory activities are nullified because projects are later not considered high priority.

122. Improve quality at entry of projects. For loans with commitment fees, loan signing and effectivity should be closely monitored. GOP should avoid situations when commitment fees are already being charged (e.g., 60 days after loan signing) but loans cannot be utilized (i.e., because loan is not yet effective for any reason). GOP, especially oversight agencies, should also ensure that adequate preparation has been undertaken prior to loan signing such that an agency can immediately undertake significant project scope; slow start in implementation yields higher commitment fees. GOP should also match projects on the basis of readiness for implementation with appropriate funding institution; it is desirable that projects with long preparation required (e.g., feasibility study, detailed engineering, LGU capability-building, etc.) be matched with loans with no or very low commitment fees.

123. Conduct value-for-money and cost-efficiency review for all projects, and adopt appropriate strategies such as domestic technologies, skills and services, etc., to reduce cost for non-essentials. Find ways to cut costs for consulting services. Make use of consultancy services only when they are really necessary, and not as an automatic component.

124. On project design, it is recommended that the sizes of loans especially for demand-driven or program-type or sector loans be reduced to more manageable levels, based on experience of loan cancellations over the years. Likewise, projects with complex procurement design and organizational setup involving more than one implementing agency should be minimized. Projects that involve mainly tied supply of goods and equipment and employ direct payments should be reviewed thoroughly. For program loans, avoid conditionalities that require legislative action.

125. Adapt design of projects with LGU participation to technical and financial capacity of target LGUs. Revisit the different capacity-building/training strategies for LGUs with a view to harmonizing initiatives under different projects, and making them more responsive to actual needs and capacities of LGUs. Avoid pre-selection of LGUs unless firm commitments are in place and sanctions for withdrawal or non-compliance can be enforced; adopt competitive selection to extent possible. Allow longer lead times for preparation and consultation. Always require LGU counterpart to ensure ownership, that ODA resources are used only for priority activities, and cost efficiency. Carefully review procurement design and flow of funds through MDFO/MFC. Implement ODA monitoring system for LGUs.

126. Need to issue guidelines for the newly created MFC to guide implementing agencies in the budget preparation and execution processes of ongoing and new projects.

127. Consider more program/sector type of loans, e.g., Social Expenditure Management Project (SEMP), for other type of projects. SEMP reimburses the national government for expenditures made for regular programs and projects in the General Appropriations Act under the social sector such as school buildings, textbooks, medicines, among others. Savings in consultancy services and processing

times (procurement and disbursement) are expected. In this connection, experiences in implementing Comprehensive and Integrated Delivery of Social Services, for example, under SEMP and under an investment loan, KALAH I, should be reviewed.

128. Consistent with DBCC-ICC approval in principle on 26 June 2002 and again on 3 April 2003 of the policy of the charging of commitment fees against agency budgets with the objective of making agencies accountable for the costs of project delays, oversight agencies should lay down the implementing mechanism. GOP to carefully review disbursement targets being committed in loan agreements, which are basis for computation of commitment fees and availment rates. Other measures that may be considered should aim to control increases in project costs and ensure efficiency in disbursements and special accounts through appropriate incentives and penalties. Present methodologies for estimating overhead costs based on project costs that may provide skewed incentives to agencies should be reviewed.

129. Continue to support the Project Implementation Officers (PIO) system as PIOs have demonstrated capability to move problematic projects and improve ODA performance.

130. PIOs to continue to closely monitor procurement activities, institutionalize internal systems for tracking procurement activities, ensure strict adherence to timelines, delineate clear lines of responsibilities, and address systemic bottlenecks. Major infrastructure agencies, e.g., DPWH, DOTC, NPC, NIA, should adopt ways to further streamline procurement processes, e.g., through delegation of authority, reduction of number of layers (e.g., are MANCOM, OGCC reviews necessary?). To avoid poor performing and unqualified contractors, agencies should also enforce more stringent pre-qualification standards, in addition to imposing incentives and sanctions.

131. The Government Procurement Policy Board (GPPB) to further review performance of agencies which are observed to be unable to comply with prescribed timelines, and provide necessary assistance.

132. PIOs to devote priority attention and ensure high-level decision-making for right-of-way problems. The role of LGUs in right-of-way acquisition and resettlement should be reviewed, in order that LGUs can take greater responsibility for fast-tracking projects in their vicinity, for example, by 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. GOP to work early with funding institutions to determine mutually acceptable arrangements on activities specifically covered by guidelines of funding institutions but funded by local counterpart, e.g., ROW and resettlement. Agencies should also update their medium-term ROW acquisition plans consistent with their medium-term program of works for ODA projects, and be able to get ROW funds sufficiently ahead of start of civil works.

133. Agencies to further streamline procedures for document processing and funds flow within implementing agencies. Continuous training on procurement and disbursement guidelines for implementing agencies and LGUs. Delays due to lack of understanding of guidelines especially by first-time ODA users should be avoided.

134. DBM issued National Budget Circular No. 485 on 13 March 2003 on the rationalization of PMOs. The circular provides for the integration of existing project offices in the regular structure, systems and functions of agencies and ensure operational sustainability and alignment of project concerns with overall agency program, optimum use of resources, strengthening performance monitoring and accountability, and development and strengthening of in-house capability. Agencies should prepare their respective PMO rationalization plans.

135. Continuously revisit sub-loan features of relending projects to make them more attractive to end-users, whether industry or LGUs, e.g., effective interest rates, eligible scope, etc.

136. GOCCs/GFIs to continue to improve their ODA performance, given that the fiscal position of the government could constrain NG agencies.

H. BUDGET OUTLAY AND REQUIREMENTS (Table 10)

137. Budget requirements of ongoing FAPs for succeeding years, as submitted by agencies are as follows: about P42 billion for CY 2004, P63 billion for 2005, P40 billion for CY 2006, P21 billion for CY 2007, and P14.4 billion for future years.

I. PROSPECTS IN 2004

138. The biggest challenge in 2004 is managing the transitions at NG and LGU levels after the 2004 elections. Changes in agency and LGU leaderships have shown significant impact on project implementation, especially procurement. The smoother the transition, the less the negative impact on ODA performance.

139. ODA commitments have been decreasing over the last four years and it is likely that disbursements from said loans will be decreasing in the future. Thus, there is need focus on sustaining improvement in efficiency in ODA utilization for projects. The program loans portfolio is reduced to a single loan, hence ODA performance will rely largely on project loans.

140. Possible Cancellations in 2004 – Partial cancellations of about US\$65 million dollars from nine projects are foreseen in CY 2004, as a result of reduction in scope of some projects and foreign exchange movement, etc. (Table 11).