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Despite cost overruns ODA USE **IMPROVES** IN 2006

Noted economist Jeffrey Sachs regards official development assistance (ODA) as a key ingredient in breaking the so-called “poverty trap”. The financial intervention of richer countries, he says, is crucial in ending the vicious cycle of poverty and underdevelopment in relatively poorer countries like the Philippines.

The United Nations has, in turn, expressed its support of Mr. Sachs’s position by calling on rich countries to devote at least 0.7 percent of their gross national product on ODA, as espoused under Goal 8 of the Millennium Development Goals.

To ensure transparency and accountability in the use of these funds in the Philippines, the NEDA is mandated under Republic Act (RA) 8182 to conduct annual reviews of the implementation status of all projects financed by ODA. The review aims to identify causes of delays, reasons for bottlenecks, cost overruns and continued project viability.

A quick look at NEDA’s ODA Portfolio review for 2006 shows that the use of ODA has improved significantly, due largely to government’s efforts in improving project quality and overall fiscal discipline. It indicates that ODA disbursement level for the year increased 61 percent to US\$1.9 billion from US\$1.2 billion a year ago, with project loans disbursement increasing 15 percent to US\$1.2 billion from US\$1.0 billion in 2005.

Disbursement rate, on the other hand, averaged lower in 2006 at 80 percent, compared to 83 percent the previous

year while availment rate stood at 71 percent, up 11 percent year-on-year. Disbursement ratio stood at 35 percent, higher than the previous year’s 19 percent.

Despite the overall improvement, some projects continue to be riddled with cost overruns. NEDA notes that 25 projects, mostly implemented by the Department of Public Works and Highways (DPWH) and the Department of Transportation and Communication (DOTC), incurred cost overruns totaling US\$659 million in 2006.

ODA Loans Portfolio

Total ODA loans for 2006 reached US\$9.5 billion, down from US\$10.2 billion in 2005. Of the 141 active loans for the year, 135 were project loans supporting 123 projects while six were program loans. Project loans accounted for bulk of the portfolio, cornering 86 percent or US\$8.2 billion.

The review noted that ODA loans have steadily decreased for the past seven years as government continues to strive for better project quality and greater fiscal discipline.

By distribution, the infrastructure sector continues to receive a lion’s share of ODA, cornering 50 percent of the portfolio. The sector accounted for 71 loans valued at US\$5.5 billion, with the transportation subsector obtaining the largest share at US\$4.0 billion. Energy, Power and Electrification, Water Resources and Social Infrastructure, meanwhile, received US\$639 million, US\$615 million and US\$199 million, respectively.

Agriculture, Natural Resources and Agrarian Reform received the second largest share, with 18 percent of the total, valued at US\$1.7 billion. Meanwhile, Social Reform and Community Development, Industry/ Trade and Tourism, and Governance and Institutional Development received US\$1.2 billion, US\$1 billion and US\$22 million, respectively.

By funding source, the Japanese government through the Japan Bank for International Cooperation (JBIC) was the largest, accounting for 49 percent or US\$4.7 billion, followed by the Asian Development Bank (ADB) with 19 percent or US\$1.8 billion, and the World Bank with 16 percent or US\$1.5 billion.

The share of the United Kingdom and China continues to increase after cornering six percent and five percent of total ODA respectively. The remaining five percent, valued at US\$484 million, covers 17 loans from Other Sources, i.e. Australia, Austria, Belgium, France, Germany, International Fund for Agricultural Development, Korea, Kuwait, NDF, Netherlands, OPEC, Saudi Arabia and Spain.

The national government administered 65 percent of aggregate ODA, representing 95 loans totaling US\$6.2 billion. Government-owned and controlled corporations (GOCCs), on the other hand, administered 22 percent, government financial institutions (GFIs) 13 percent, and local government units (LGUs) 0.4 percent.

Meanwhile, 14 percent of total portfolio valued at US\$1.3 billion represented new loans, the bulk of which came from the ADB and the World Bank. In contrast, US\$222 million worth of loans were cancelled while 11 loans worth US\$720 million, or eight percent of total ODA, were extended in 2006.

Of the 116 loans in 2006, 27 projects are at the initial stages of implementation (0-2 years), 67 projects at the critical stage (3-7 years) and 22 projects are expected to be completed in three years (8-10 years).

Portfolio Performance

NEDA noted that overall ODA performance improved in 2006 as government continued to address implementation bottlenecks. The closure of 25 projects amounting to US\$1.7 billion or 18 percent of portfolio likewise contributed to the increase in absorptive capacity.

ODA disbursement level for the year increased 61 percent to US\$1.9 billion from US\$1.2 billion a year ago, with project loans disbursement increasing 15 percent to US\$1.2 billion from US\$1.0 billion in 2005. Overall



The Asian Development Bank is one of the country's largest sources of ODA

disbursement rate, however, was lower in 2006 at 80 percent, compared to 83 percent the previous year.

Implementing agencies blamed budget constraints, contract/procurement problems, delays in the processing of documents, low demand for relending facility, delayed acquisition of right-of-way (ROW), scaling down of project scope, adjustments in the land use plan and poor performance of contractors for the decrease.

Availment rate, for its part, stood at 71 percent, up by 11 percent year-on-year. Disbursement ratio stood at 35 percent, higher than the previous year's 19 percent.

Cost overruns

Cost overruns in 2006 totaled US\$659 million (at US\$1.00=PhP46.00) representing 25 projects. The DPWH accounted for 42 percent of the amount valued at US\$279 million, followed by the DOTC with 22 percent, valued at US\$145 million.

The National Irrigation Administration and Light Rail Transit Authority likewise incurred cost increases, representing 15 percent (US\$96 million) and 14 percent (US\$89 million) of total amount, respectively. Of the 25 projects, four, valued at US\$213 million, were able to secure approval from the ICC.

The common reasons cited by the implementing agencies for the overruns are: (a) additional civil works; (b) increase in ROW/land acquisition/resettlement costs; (c) increase in unit cost of labor, materials and equipment; (d) high bids; (e) currency fluctuations; (f) increase in consultancy services; (g) increase in administrative costs; and (h) claims for price escalation.

Sources:

15th ODA Portfolio Review
The End of Poverty by Jeffrey Sachs
NEDA Press Release, 18 July 2007