

**REPORT ON THE AUDIT OF PROJECTS FUNDED BY
OFFICIAL DEVELOPMENT ASSISTANCE (ODA) LOANS
FOR THE YEAR 1999**

EXECUTIVE SUMMARY

Background

1. We are pleased to report on the audit of one hundred forty-eight (148) ongoing, eighty-five (85) completed and twenty-four (24) new projects funded by ODA loans conducted by the Commission on Audit pursuant to Section 8 (b) of the Republic Act No. 8182 dated June 11, 1996, likewise known as The ODA Act of 1996. ODA, with at least 25% grant element is one of the less expensive sources of financing available to the government today and in order to optimize availment from such facility, R.A. 8182 excludes ODA from the foreign debt ceiling of US\$10 billion. Said Act likewise provides for the continuous monitoring of the performances of the projects which received funding from ODA.
2. The audit's main thrust was to evaluate the efficiency of the implementing agencies in the areas of foreign loan availment and project implementation. The rationale behind this is the inevitability of tying future funding with the implementing agency's performance due to scarce government resources. The results of the audit are likewise expected to validate the report of the National Economic and Development Authority (NEDA) on the outcome of the 8th Annual ODA Portfolio Review.
3. We performed audit procedures and techniques such as review, examination, verification, confirmation, comparison and evaluation of pertinent loan/project documents. We also conducted interviews of project officials and ocular inspections of selected project sites.

Audit Scope

4. The audit covered project transactions from inception up to their completion date or December 31, 1999. The Schedule of ODA Loan Availment of the National Economic and Development Authority (NEDA) listed two hundred two (202) ODA loan accounts as of December 31, 1999. NEDA's list does not include seventy-six (76) fully-availed ODA loan accounts which have funded completed projects and seven (7) for the DOTC Municipal Telephone Project Office (MTPO) which were exempted from NEDA Board evaluation per RA No. 6849. It includes three (3) private sector loans
5. Data gathered by Public Debt Audit Office (PDAO) for purposes of establishing the total availments of ODA loans disclosed 282 ODA loans with total net commitment of US\$17.80 billion or ₱ 716.63 billion and outstanding balance of US\$8.33 billion or ₱335.16 billion as of December 31, 1999. These loans provided needed funds for 257 projects consisting of 148 ongoing projects, 85 completed projects and 24 new projects.

6. PDAO selected eight (8) agencies to audit. These are the National Irrigation Authority (NIA), Light Rail Transit Authority (LRTA), Department of Health (DOH), Local Water Utilities Administration (LWUA), Philippine Ports Authority (PPA), Philippine National Oil Company (PNOC), Department of Agriculture (DA) and Department of Social Welfare and Development (DSWD). The National Government Audit Office II created audit teams to audit projects implemented by the Department of Public Works and Highways (DPWH) & the Department of Transportation and Communications (DOTC). The rest of the projects implemented by other departments/agencies were audited by the respective Resident Auditors.

Sources of Funds

7. The main source of ODA loans is the Overseas Economic Cooperation Fund (OECF) of Japan with total cumulative disbursements of US\$4.09 billion or 45.69% of the total disbursements from all ODA loans of US\$8.95 billion. Second and third largest sources of ODA loans are the International Bank for Reconstruction and Development (IBRD) of the World Bank and the Asian Development Bank (ADB) at US\$2.37 billion or 26.48% and US\$2.04 billion or 22.74%, respectively. Other sources of ODA loans are the bilateral creditors/donors such as the Kreditanstalt Fur Wiederaufbau (KfW), French Protocol, Export Development Corporation, Italian Protocol, US Eximbank and Export - Import Bank of Korea.
8. The sector which had the most number of ODA-funded projects at 70.54% of the total projects for which it received the greatest funding at 70% of total cumulative availment of US\$6.26 billion or ₱251.88 billion is the Infrastructure sector. This reflects the government's support and emphasis on developing this sector. Under the Infrastructure sector are the following subsectors with their respective share of the total cumulative availment:

Energy, Power and Electrification	28%
Transportation	24%
Water Resources	9%
Communications	5%
Environment & Natural Resources	1%
Social Infrastructure	3%
9. In contrast, the Industry and Services sector got only 9%, the Agriculture, and Agrarian Reform sector, 8%.
10. By implementing agency, the National Power Corporation (NPC) received the biggest part of ODA loan proceeds with total cumulative availment of ₱74.20 billion or 20.60%. The next largest recipient was the Department of Public Works and Highways (DPWH) with ₱71.62 billion or 19.88%.

11. As of December 31, 1999, the ODA loans still had an undrawn balance of approximately US\$8.87 billion or ₱356.91 billion or 49.76%. For 1999 alone, total availments registered at US\$1.05 billion. Debt service for the year was significant at a total amount of US\$447.83 million (excluding service fees and other charges) or ₱18.31 billion, broken down into principal repayments, US\$173.16 million or ₱ 6.8 billion, interest payments, US\$268.70 million or ₱10.57 billion, commitment fees, US\$5.98 million or ₱ 235.97 million and others, including service charges, ₱680.89 billion (no dollar equivalent).
12. The total outstanding balance of ODA loans as of December 31, 1999 was US\$8.33 billion or ₱335 billion representing 282 loan accounts. The National Government (NG) was the major borrower with total loans equivalent to 60.87% of the total loan portfolio while the share of government-owned and/or-controlled corporations (GOCCs) was 39.13%.

Findings and Recommendations

13. All eight (8) projects audited by PDAO and the DOTC Audit Team of NGAO II suffered delays. The reasons cited for the delays and the corresponding recommendations of the teams are presented below:

Causes of Delays	Recommendations
<ul style="list-style-type: none"> • Non-compliance with the provision of the loan agreement 	<ul style="list-style-type: none"> Observe strict compliance with the provision of the loan agreement
<ul style="list-style-type: none"> • Late hiring of consultant & late construction /upgrading of health facilities & procurement of goods 	<ul style="list-style-type: none"> Improve overall project implementation management by closely supervising/monitoring the project's progress and addressing problems encountered at the soonest possible time
<ul style="list-style-type: none"> • Delayed completion of civil works contracts 	
<ul style="list-style-type: none"> • Processing time for bidding and award extended to six (6) to fifteen (15) months 	<ul style="list-style-type: none"> Strictly observe the processing time for bidding and awards of infrastructure project set forth in AO 129
<ul style="list-style-type: none"> • Problems encountered on water rights, ROW, ECC permits, building and excavation permits, inability of the contractor to finance the project 	<ul style="list-style-type: none"> Coordinate closely with the water district concerned, DBM, DENR, DILG & consultants and settle ROW problems prior to project implementation to ensure project preparedness
<ul style="list-style-type: none"> • Project not properly monitored resulting to delayed resolution of construction problem requiring immediate preventive action 	<ul style="list-style-type: none"> Require the PSO to properly monitor the project in order to resolve the issue/problems affecting the project

- Late submission of Withdrawal Applications (WAs) to set up the Imprest account for initial funding Fast track project implementation and minimize incurrence of further delays.
- No finalized Physical and Financial Life Plan to serve as guide in project implementation and monitoring Hasten the finalization of the Physical & Financial Life Plan
- PMO not prepared to handle the implementation of the project Ensure that PMO is fully staffed throughout the implementation of the project and an overall guidelines should be clearly designed and disseminated to all concerned.
- Most of the loans covenants targeted to be accomplished/complied were not complied or partially complied Require the PMO and all concerned to exert more effort to comply with the loan covenants as targeted

14. Of the total commitment fees of US\$ 5.98 million or ₱ 235.97 million, US\$ 1.193 or ₱ 46.56 million were paid by the National Government principally because of slow availment due to delays in the implementation of the projects by the implementing agencies. Breakdown by agency follows:

	USD In Millions	PHP In Millions
DOH	0.141	4.62
NIA	0.234	9.03
DA	0.102	4.08
DOTC	0.716	28.83
Total	<u>1.193</u>	<u>46.56</u>

15. We recommended and management agreed that they should strictly observe the availment schedule as well as the project implementation schedule to avoid incurrence of commitment fees.
16. The teams have other findings and recommendations on the area of Project Implementation, Procurement, Loan Availment and Financial Recording and Reporting which were also discussed with Officials of concerned agencies.
17. We reiterate prior year's audit recommendation addressed to Congress, Department of Finance, National Economic Development Authority, Department of Budget and Management, Department of Interior and Local Government, Department of Justice and Department of Trade and Industry-Construction Industry Authority of the Philippines.