



EXECUTIVE SUMMARY

BACKGROUND

1. Official Development Assistance (ODA), as defined in Republic Act (R.A.) No. 8182, as amended by R.A. No. 8555, is a loan or a grant administered with the objective of promoting sustainable social and economic development and welfare of the Philippines. ODA loans remain to be the preferred sources of financing to supplement existing domestic resources as these provide relatively more concessional means of financing government programs and projects due to lower interest rate and longer repayment period.
2. Net loan commitments for 316 ODA loans financing 251 projects and programs as of 31 December 2007 amounted to ₱730.354 billion (US\$17.637 billion). Of these projects, 144 or 57 per cent had been completed, 103 or 41 per cent are ongoing, of which 14 are new, and 4 or 2 per cent had been cancelled. The development partners (DPs) from which ODA loans were sourced were as follows: the Japan Bank for International Cooperation (JBIC), 94; Asian Development Bank (ADB), 56; International Bank for Reconstruction and Development (IBRD), 45 and other creditors, 121.
3. Total cumulative loan availments of ₱566.174 billion (US\$13.672 billion) included availments for CY 2007 of ₱69.619 billion (US\$1.681 billion) which represents an increase/decrease of 25.82 per cent over the availments in CY 2006 of ₱55.333 billion (US\$1.128 billion). Outstanding balance of the 316 ODA loan accounts totaled ₱494.723 billion (US\$11.947 billion). Of the amount, 58.97 per cent are payable to bilateral creditors, 34.44 percent to multilateral creditors and 6.58 per cent to commercial creditors.
4. Regular monitoring of the project implementation is being done by the DPs through regular review missions and jointly with the Government of the Philippines (GOP) through technical level portfolio reviews. The National Economic and Development Authority (NEDA) also monitors the progress of project implementation and conducted post project evaluation while regular meetings among project implementing agencies (IAs), Department of Finance (DOF), Department of Budget and Management (DBM) and NEDA are also conducted to address project implementation issues and concerns.



LEGAL BASIS OF AUDIT, SCOPE AND METHODOLOGY

5. In compliance with Section 8 (b) of the R.A. No. 8182, which mandated the audit of projects funded by ODA, the Commission on Audit (COA) conducted the audit and evaluation/validation of the CY 2007 transactions and performances of ongoing projects financed by ODA loans.
6. The report covered 62 audited/validated projects (52 of which have significant observations) implemented by various national government agencies (NGAs) and government financial institutions/government-owned and controlled corporations (GFIs/GOCCs). Taking into consideration the regular monitoring of the projects by the DPs and GOP, the respective auditors of the projects' IAs undertook the audit and the results of which were consolidated by a COA audit team created for the purpose. Likewise, results/outcome of ODA portfolio reviews as reported by NEDA on implementation issues were communicated to the auditors concerned of which 21 projects were validated by the audit team with the IAs.

SIGNIFICANT OBSERVATIONS

7. The Matrix of Observations on 52 projects is presented in the report, the more significant of which are as follows:

Procurement of Consulting Services, Civil Works and Goods

Various deficiencies were noted in the execution/implementation of the contract/loan agreements such as: a) absence of provisions on Contract Price, Scope of Works, Responsibilities of the contracting parties and liability of the consultant; b) conditions stipulated in the contract/Terms of Reference (TOR) not strictly complied with; and c) absence of provision for price adjustment in the procurement of goods and services using the Two-stage Two-Envelope bidding procedure which has exceptionally lengthy processing time resulting in a lone and winning bidder. (Observation No. 1)

Supply Contract entered into was without public bidding and non-compliance with Sec. 10 of R.A. 9184 or The Government Procurement Reform Act and the Project Implementation Manual in the procurement of service requiring competitive bidding amounting to US\$421.05 million and ₱0.881 million, respectively. (Observation No. 2)

*Audit Report*

Delayed project implementation due to, among others: a) delayed procurement/processing of contracts and b) continued failure to complete awarding due to failed bids caused by insufficient number of qualified bidders. (Observation No. 3)

Financial Performance

Unliquidated cash advances/fund transfers totalling ₱1.768 billion. (Observation No. 7)

Increased project cost totaling ₱1.074 billion due to: a) overpriced payment of expenses, duplication of works, splitting of contract; b) change in project scope and increase in unit cost; c) cost overrun brought about by typhoon; d) interest claims paid to various contractors in view of late NCAs; e) higher construction cost due to delayed implementation; and f) non-conformity with project specification. (Observation No. 9)

Double recording of / unrecorded / erroneous transactions and understatement / overstatement of various accounts resulted in net overstatement of ₱705.061 million and ¥8.188 million. (Observation No. 10)

Physical Performance

Delay in project implementation/slow utilization of project funds due to, among others: a) delay in the submission of final project plan; b) non-preparation of cost of financing which delayed the project survey; c) weak enforcement of the Finance Agreement/Roll-over Fund Scheme; d) slow preparation of TOR/late realignment of allotment and approval of imprest account; e) delay in the sourcing of local counterpart fund and slow withdrawal of loan; and f) non-completion of sub-projects due to delayed submission/completion of technical documents, bad weather condition, delayed delivery of materials, work suspension and delayed release of final tranche in contravention with the MOA. (Observation No. 26)

Unutilized software, equipment, hanging bridge, fresh water and marine hatchery building, water system and treatment plant totaling ₱96.096 million, due to, among others: structural defects, insufficient power supply, malfunctioning pump, absence of Operations Manual, and absence of test run and training conducted. (Observation No.27)

*Audit Report*

Despite the availability of funds, subprojects remained unimplemented due to, among others: inadequate manpower and equipment; delivery of materials, layout and site clearing still on-going; and unpassable road leading to the project site amounting to ₱246.851 million. (Observation No. 28)

Project Sustainability

Reluctance of some local government units (LGUs) to accept the projects due to non-availability of funds set aside for maintenance, limited technical capability of LGUs to prepare and develop the project and lack of capacity of LGUs to undertake the project. (Observation No. 46)

Lack of maintenance and sustainability of the water system deprive the users to get a maximum benefit of the projects. (Observation No. 47)

The sustainability of the water system project is in danger due to low water level supply from the source resulting to inequities in water distribution/rationing. (Observation No. 48)

GENERAL RECOMMENDATIONS

8. In view of the significance of the foregoing observations and the need for appropriate actions by the IAs and intervention by the Congress and oversight agencies, we recommend the following courses of actions, some of which are reiteration of previous years:

For the Implementing Agencies (IAs)

- Ensure that the feasibility study particularly the project design had been studied/reviewed thoroughly and the amount of required financing estimated/determined reasonably. Take extra care in the determination of the loan amount for financing as front-end and commitment fees may unnecessarily be incurred for excess project costs. For relending/demand-driven projects, there should already be qualified borrowers/beneficiaries to preclude cancellation of loan due to absence of interested borrowers.
- Prioritize and settle immediately right-of-way acquisition and resettlement issues to hasten project implementation.

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- Evaluate/determine the presence of obstacles that may delay project start-up activities and implementation and immediately address them to minimize commitment fees. Determine the amount the project can draw from the loan at its initial stage and thereafter.
- Develop strategies, undertake pre-implementation activities prior to loan effectiveness, if possible, and exert best efforts to comply with loan conditions within the prescribed period/target date to facilitate project start-up activities.
- Establish and implement a sound accounting and internal control system to ensure proper recording and reporting of project accounts.
- Evaluate thoroughly the need to procure goods and services and to maintain facilities to ensure that these could be utilized for the project. Conduct continuous review of the necessity of goods, services and facilities for project implementation to preclude procurement/maintenance of unnecessary/inappropriate goods, services and facilities.
- Conduct thorough review of contracts and close monitoring of their implementation to ensure that the interest of the agencies and the government in general are safeguarded, expected deliverables are submitted timely and payments are made only after satisfactory acceptance of deliverables and compliance with payment conditions.
- Evaluate/Inspect deliveries of goods and services to detect defects and non-compliance with contracts. Require immediate replacement/correction of defective goods/outputs.
- Ensure the reasonableness of the procurement of deliverables and project design duly approved by concerned agency.
- Review and analyze financial recording and reporting of project transactions and make necessary reconciliations/adjustments for errors of omission and commission.
- Review the existing system in the grant, utilization and liquidation of cash advances to identify flaws in the system and adopt remedial actions.
- Validate genuineness/authenticity of land titles conveyed by land owners.

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- Request immediate cancellation of loan amounts or components determined to be no longer necessary or feasible to implement to minimize incurrence of commitment fees.
- Observe strict compliance with accounting and auditing rules and regulations, contracts or agreements, laws, rules, regulations, guidelines and issuances applicable to project operation particularly on procurement. Ensure that project funds are utilized only for the purposes for which the same were released.
- Ensure that ownership to land, goods and other property have been transferred to their rightful owners and are properly documented.
- Observe economy and efficiency in procurement and project implementation.
- Enforce collection of receivables from LGUs for loans granted to them.
- Ensure that government properties are properly safeguarded and adequately insured.
- Inform the Bureau of the Treasury of the completion of the project especially for projects with special accounts and remit thereto unused balances, if any.
- Resolve immediately problems/issues hampering the utilization of project outputs.
- Develop criteria and performance indicators against which project outputs can be measured. Institute a benefit and monitoring evaluation system to ensure that implementation issues/problems are reported and addressed immediately. Conduct continuous monitoring and evaluation of project outputs to assess effectiveness/benefits.
- Draw up a project sustainability plan for each project, if possible, include in the feasibility study. Evaluate attainment of project objectives of completed projects, undertake benefit and impact assessment and communicate results to the oversight agencies, determine funding requirements and ensure that required manpower and financing for their sustainability are incorporated in the agency budget.

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- Document lessons learned and best practices in project implementation as reference/guide in project feasibility preparation and project implementation for future projects.

**For the National Economic and Development Authority (NEDA)/
Investment Coordination Committee (ICC)**

- Ensure that the feasibility studies particularly the project design submitted by the IAs for review had been studied/reviewed thoroughly and the amount of required financing estimated reasonably in order to minimize the Project incurrence of significant amount of cost overrun.
- Continue to strengthen monitoring of ongoing ODA projects and facilitate the development of a viable and sustainable interactive risk-based system on ODA Information Exchange.
- Consider the option of requiring IAs of completed projects to evaluate if project objectives have been attained and undertake benefit and impact assessment, and to report the results to oversight agencies. NEDA however, may validate such evaluations on a case to case basis, depending on funds availability for the purpose.

For the Department of Finance (DOF)

- Ensure that loans are contracted in the amounts necessary and can be absorbed by the IAs. After thorough review, recommend to IAs the cancellation of amounts that will no longer be utilized. Facilitate the immediate request for loan cancellation with the DPs to minimize commitment fees.
- Refrain from contracting loans for financing of feasibility studies especially if loans are charged front-end and commitment fees. Consider working for grants for feasibility studies.
- Prioritize and facilitate the accomplishment of activities which are conditions for the release of program loans.
- Establish effective networking among IAs, LGUs, DBM and other concerned agencies. Facilitate compliance with loan conditions for loan effectiveness and completion of the project as scheduled.



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- Institute a system where IAs are informed of commitment fees paid by the NG for their projects and are required to explain delay in project implementation resulting to the incurrence of additional fees.
- Facilitate the review/evaluation of ODA data among the oversight bodies to ensure consistency of data reported in their respective websites and agency reports.

For the Department of Budget and Management (DBM)

- Ensure adequate and timely release of project funds, both loan proceeds and GOP counterpart funds.
- Ensure the early release of the non-cash availment authority (NCAA) to facilitate recording of goods delivered and services rendered.

For the Congress

- Consider the funding requirements for FAPs in the approval of the IAs' budgets to ensure continuous project implementation and minimize incurrence of commitment fees.
- Ensure that the General Appropriations Act (GAA) for any given year is passed to preclude the lack of funds for project implementation/operationalization and incurrence of additional commitment fees due to delays thereon.
- Consider the provisions in the GAA of funds needed to sustain/maintain completed projects.

9. It is worth mentioning that some of the recommendations in previous years have been partly or fully implemented. For instance, NEDA informed that in terms of strengthening the monitoring of ongoing ODA-projects, the concerns in the report are highly addressed during Project Implementation Officers' (PIO) meetings, one-on-one coordination with Project Management Offices (PMOs), regular implementation reviews and annual portfolio reviews. It informed further that in order to conduct impact studies on completed projects, they enter into special arrangements with DP's mounted post-evaluation as it does not have enough funds for such undertakings.