EXECUTIVE SUMMARY

BACKGROUND

1. Official Development Assistance (ODA) loans which are contracted by the Government of the Philippines (GOP) primarily to finance priority development projects, continue to be the preferred source of financing due to lower interest rates and longer maturity period. Projects prioritized for ODA funding are those that will directly contribute to the 10-point development agenda and the Medium-Term Philippine Development Plan 2004-2010.

2. As of 31 December 2005, 291 ODA loans with net loan commitments of US$14.916 billion or ₱791.454 billion were secured from foreign financial institutions (FFIs) to finance 229 projects for various government sectors. Of the 229 projects, 115 or 50.22 per cent had been completed and 114 or 49.78 per cent are ongoing, of which 13 are new. Of these projects, 179 were financed by individual creditors as follows: the JBIC, 71; ADB, 24; IBRD, 23 and other creditors, 61. The remaining 50 projects are jointly funded by various FFIs.

3. The total cumulative loan availments of US$9.988 billion included availments for CY 2005 of US$1.156 billion or ₱61.366 billion which represents a decrease of 3.83 per cent over the availments in 2004 of US$1.202 billion. The total outstanding balance of the 291 ODA loan accounts decreased by 2.58 per cent to US$8.579 billion or ₱455.234 billion. Of the amount, 60.17 per cent are owed to bilateral creditors, 33.48 per cent to multilateral creditors and 6.35 per cent to commercial creditors, which showed a significant decrease of 41.40 per cent caused by an increase of more than 400 times in principal payments for the year.

4. Project implementation is monitored by the FFIs through regular review missions and joint FFIs and GOP technical level portfolio reviews. The National Economic and Development Authority (NEDA) also monitors the progress of project implementation and conducts post project evaluation and impact analyses. Regular meetings are held among the project implementing agencies (IAs), Department of Finance (DOF), Department of Budget and Management (DBM) and NEDA to resolve implementation issues/problems.

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 conducted the audit and evaluation/validation of the Calendar Year 2005 transactions and performance of ongoing projects financed by ODA loans.

6. The audit and validation of implementation issues covered 55 ongoing projects implemented by various national government agencies (NGAs) and GFIs/GOCCs. Having considered their regular monitoring by the FFIs and GOP, the respective auditors of the projects' IAs undertook the audit of the projects and results of which were consolidated by the Bureau of the Treasury-Public Debt Audit Team (BTr-PDAT).

SIGNIFICANT OBSERVATIONS

7. The Matrix of Observations on the 55 projects is presented in the report, the more significant of which are as follows:

Procurement of Consulting Services, Civil Works and Goods

Titles for forty-six (46) lots purchased totalling ₱210.893 million have not been transferred to the government (Observation No. 2).

Construction contract and relocation site purchased were overpriced by ₱36.036 million (Observation No. 3).

Financial Performance

Unrecorded transactions, double recording, understatement and overstatement of various accounts resulted in net overstatement of ₱1.677 billion (Observation No.6).

There were absence/non-submission of inventory records/reports and non-reconciliation of/unreconciled balances of Property, Plant and Equipment and Office Supplies accounts and their respective physical inventory reports - ₱819.295 million (Observation No.7).

Non-reclassification/ misclassification of accounts totalled ₱815.524 million (Observation No. 8).

Non-compliance with prescribed laws, rules, regulations, loan agreements and contracts resulted in total deficiencies of ₱676.411 million (Observation No. 9).

Absence of/un-updated subsidiary ledgers and unreconciled general and subsidiary ledger balances of various accounts totalled ₱142.705 million (Observation No. 10).

Physical Performance

Delayed/non- completion of projects/sub-projects due to, among others, slow local government unit (LGU)s' responses/submissions of required documents, limited technical capacity and lack of Government of the Philippines (GOP) counterpart fund/LGU equity resulted in slow availment of loan proceeds/low utilization rate and contributed to incurrence of additional commitment fees of ₱292.656 million. (Observation No. 20).

Non-compliance with laws, rules, regulation and contracts observed in the implementation of various projects resulted in total deficiencies of ₱61.506 million (Observation No.21).

Non-operational/unutilized facilities/textbooks/items totalling ₱0.624 million deprived the beneficiaries of project benefits (Observation No. 22).

Right-of-way acquisition and resettlement issues were encountered due to, among others, filing of expropriation complaints and non-payment/validation of claims/damages (Observation No. 23).

GENERAL RECOMMENDATIONS

8. In view of the significance of the foregoing observations and considering that some could not be acted upon by the implementing agencies alone, we, therefore, 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. Extra care should be taken 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.

- Criteria such as putting up of equity and documentary requirements for projects should be identified at the project feasibility stage to determine acceptability to borrowers/beneficiaries so that if they are evaluated to be too stringent for borrowers, necessary actions may be undertaken immediately. Streamline documentary requirements and processes.

- Prioritize the provision/payment of the equity committed for the projects.

- Prioritize and settle immediately right-of-way acquisition and resettlement issues to hasten project implementation.

- 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.

- Review and analyze financial recording and reporting of project transactions and make necessary reconciliations/adjustments for errors of omission and commission.

- 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 laws, rules, regulations, guidelines, issuances, contracts or agreements including accounting and auditing rules and regulations applicable to the project operation. Ensure that project funds are utilized only for the purposes for which the same were released.

- 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.

- Ensure that ownership to land, goods and other property have been transferred to their rightful owners and are properly documented.

- Require refund for overpayments, overpriced or excessive goods and services procured. Observe economy and efficiency in procurement and project implementation.

- Make certain that the required funds for project implementation are requested with the DBM.

For the National Economic and Development Authority (NEDA)

- Review project designs thoroughly and ensure that implementing agencies are institutionally, technically and financially capable to undertake project planning and implementation.

- In the review of project feasibility studies, consider lessons learned from similar projects as an aid to determining project design deficiencies and viability of the projects under review.

- Evaluate the necessity of consultants, both foreign and local, in the implementation of the project and communicate results to IAs and DOF to serve as the latter's guide in loan negotiation.

- Evaluate the progress and implementation problems of demand-driven/relending projects and ensure that there are qualified borrowers/beneficiaries with approved loans to avoid excess loan amounts.

- Strengthen monitoring of ongoing ODA-funded projects, giving top priority to those with implementation issues and facilitate coordination with other concerned agencies for immediate resolution of such issues. For completed projects, require IAs 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 make its own evaluation.

- Require IAs to document lessons learned and best practices in project implementation for compilation and make these available/accessible to IAs.

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 FFIs to minimize commitment fees and negotiate with FFIs the refund of the corresponding front-end fees for the amount cancelled.

- Refrain from contracting loans for financing of feasibility studies especially if loans are charged commitment fees. Consider working for grants for feasibility studies.

- Establish effective networking among IAs, local government units (LGUs), DBM and other concerned agencies. Facilitate compliance with loan conditions for loan effectiveness and completion of the project as scheduled.

- Disseminate information on changes on loan terms to oversight agencies and implementing agencies such as the partial or full waiver of front-end fees by ADB and IBRD.

- Institute a system where IAs are informed of commitment fees paid by the NG for their projects and are required to explain incurrence of said fees.

For the Congress

- Facilitate approval of bills which are conditions for loan effectiveness/ release of additional loan tranches.

- Ensure that the General Appropriations Act for any given year is passed to preclude the lack of funds for project implementation and incurrence of commitment fees due to delayed implementation.

- Consider the funding requirements for FAPs in the approval of the IAs' budgets to ensure continuous project implementation and minimize incurrence of commitment fees.

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.