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AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL

Regional Inspector General for Audit
MANILA

RURAL ROADS II PROJECT
PROJECT NO. 492-0297
AID LOAN (492-T-050)

USAID/PHILIPPINES

Audit Report No. 2-492-82-09
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EXECUTIVE SUMMARY

In May 1978, AID began the Rural Roads II project in the Philippines under AID Loan 492-T-050. The AID loan has been amended several times and totaled $35,117,000 as of September 30, 1981. The project, scheduled to end in September 1983, was to help 56 provinces or cities (local government units) construct or improve 800 kilometers of short all-weather road sections and 8,000 linear meters of small bridges in rural areas. A key objective of the project was to institutionalize a permanent capacity and commitment of national and local governments to fund and implement a sustained rural roads program.

Most of the loan funds were to be used for the construction of road and bridge projects but a small technical assistance component was added to the project in August 1980 to help improve project management.

We audited the project to determine if (1) it was administered according to the AID loan agreement , (2) it was achieving planned objectives, and (3) loan funds were used effectively and prudently.

The project has been successful in using funds allocated for road construction within the planned implementation period. However, the planned kilometers of roads and linear meters of bridges to be built will probably fall slightly short of the output targets because construction costs have risen faster than anticipated (page 4).

The project has had a substantial impact on developing a permanent capacity and commitment of national and local governments to fund and implement a sustained rural roads program. While systems have been developed to support a rural roads program and personnel capabilities have been upgraded, further improvements can be made. For example:

- The implementation of the technical assistance program has been delayed mainly because of contracting problems (page 5)

- Road maintenance was not adequate (page 8).

- Road and bridge designs were not economical for some roads (page 11).

- The road project selection and evaluation systems need to be improved (pages 13 and 16).

- One bridge was built even though it will not connect immediately with a road upon completion (page 18).

- Signs and plaques were not posted at many project sites to give appropriate publicity to AID (page 19).

- Some contract costs were questionable (page 20), and

- The GOP did not audit the project as required (page 21).

This report contains nine recommendations to correct the problems summarized above.

A draft of this report was presented to USAID/Philippines for its review and comments. In essence the USAID felt our findings and conclusions over emphasized the negative aspects of the project without giving adequate consideration to the significant accomplishments that have been realized. However, there was general agreement with the factual data presented. USAID comments were considered in the preparation of the final report.

BACKGROUND AND SCOPE

BACKGROUND

The Rural Roads II project began with an initial $7 million of a planned $24 million AID Loan (492-T-050) to the Government of the Philippines (GOP) in May, 1978. The loan has since been amended four times and as of September 30, 1981 totaled $35,117,000. The Rural Roads II project is a continuation of an earlier AID funded project (Rural Roads I) which began in March 1975 under AID Loan No. 492-T-035 for $15 million.

The project was to help 56 provinces or cities (local government units) develop a capacity to plan and implement a rural roads program through constructing or improving 800 kilometers of short all-weather road sections and 8,000 linear meters of small bridges in rural areas.

The main purposes of the project were to:

- institutionalize a permanent capacity and commitment of national and local governments to fund and implement a sustained rural roads program;

- provide better access between agriculural and fishing areas, and market and service centers for the rural poor, thus (a) lowering transportation costs of production and marketing, (b) increasing access to commercial and public services, and (c) promoting rural development;

- construct pilot road projects using labor-intensive methods to increase employment of labor and reduce the consumption of energy products such as oil and gasoline.

Most of the loan funds ($33,768,000) were to finance road and bridge construction with equipment provided by local government units (LGUs) or contractors. In addition, $753,000 in loan funds were budgeted for engineering services to oversee final design and constuction of the roads and bridges. The amount of $596,000 was provided in a later amendment to the loan for technical assistance to improve GOP management, particularly for the longer term GOP Rural Roads program.

The project was originally planned for $24 million but additional AID loan funds were provided in August 1980 because:

- costs had risen faster than planned and more money was needed to accomplish the original targets of 600 kilometers of road and 6,000 linear meters of bridge construction;

- the commitment of funds to approved construction projects was about 18 months ahead of schedule and it was estimated that an additional 200 kilometers of roads and 2,000 linear meters of bridges could be built within the planned implementation period. AID's contribution to the project was reduced by one third and this cost share was assumed by the national government to facilitate project phaseout and GOP program continuation;

- other donors (the World Bank and the Asian Development Bank) were coming into the GOP program and additional AID funds for construction and for technical assistance would help bridge the gap before AID phased out.

The project completion date was extended one year to September 30, 1983 to allow for the completion of the technical assistance program which was added to the project in August 1980, and to give AID additional time to facilitate the entry of new donors.

The basic implementation procedures for the project were as follows:

- The Ministry of Local Government (MLG) is the implementing agency for the project, and certifies that the local government units (LGUs) have met required implementation criteria before they participate in the program.

- The LGUs prepare feasibility studies for proposed projects and include those projects with the highest rates of internal returns in an annual construction plan. The MLG with USAID concurrence then decides which of the proposed projects are to be financed under the program.

- To be eligible for inclusion in the program, road and bridge projects are to be all or part of a continuous road system linking an agricultural area of predominantly small farmers or fishermen with the nearest market or population center.

- A Fixed Amount Reimbursement (FAR) procedure is used to pay the LGUs for the cost of road and bridge projects. At the time projects are approved by the MLG and concurred in by the USAID, the amount to be reimbursed to the LGUs is based on the project cost estimate. The FAR was to be no more than 75 percent of the total approved cost estimate for the project and only includes direct costs such as labor, materials and fuel. The LGUs are to advance their own funds to construct the project. After the project has been completed and accepted, the MLG reimburses the LGUs the FAR amount and the USAID in turn reimburses the MLG with loan funds.

Initially, AID loan funds were used to pay 100 percent of that FAR amount. However, on August 29, 1980, the USAID and MLG agreed that loan funds would only be used to finance two-thirds of the FAR and the MLG would finance the other third with its own funds. The purpose of this funding change was to obtain from the GOP a firm financial commitment to support the project. In turn, the USAID expects this to encourage and facilitate GOP continuation of the program after AID support ends.

SCOPE

This is our second audit of the Rural Roads II project. It covered the period from August 10,1979 to September 30, 1981 for financial transactions, and to January 31, 1982 for project implementation. As of September 31, 1981, $29,736,000 has been expended under the AID loan.

The objectives of our audit were to determine whether (1) the project was administered in accordance with the AID loan agreement, (2) project objectives were achieved, and (3) loan funds were expended in an economical manner. In addition to inspecting roads and bridges constructed under this project, we also inspected non-AID financed roads and those built under the Rural Roads I project to determine the adequacy of maintenance.

Our audit was performed in accordance with standards for governmental audits, and included (1) a review of records and discussions with officials of the MLG, LGUs, a consulting engineer and the USAID, (2) field trips to review the operations and inspect roads and bridges of two provinces and one city participating in the project, and (3) such other auditing procedures as we considered necessary.

In order to obtain a representative sample of the 56 LGUs participating in the program, we visited one province with reported problems (Bataan) and one province and one city without reported problems (Palawan and Puerto Princesa City). During our field trips to these LGUs, we inspected 37 road and bridge projects out of 840 financed under the Rural Roads I and II projects as of September 30, 1981. We also inspected seven non-project roads.

The prior audit report (No. 2-492-80-1 dated October 15, 1979) included recommendations which pointed out the need for the GOP to (1) reevaluate the purpose of the project, (2) better use its Special Development Account to improve the maintenance of equipment and earn interest on idle funds, and (3) provide training to project personnel as agreed. The recommendations of Report 2-492-80-1 have been closed.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

PROJECT PROGRESS

Institutional Development

This project and earlier AID efforts have had substantial impact on developing a permanent capacity and commitment of national and local governments to fund and implement a sustained rural roads program. A system has been developed for using national and local resources for building rural roads. The roads were being built in a timely manner and in accordance with plans and specifications. The GOP has agreed to continue the program using its own resources when the AID program ends and other donors were also supporting the program.

The capabilities of national and local government personnel in planning, implementing, and managing a rural roads program have been upgraded. The GOP has developed a system to help the local government to finance road maintenance costs and the procurement and repair of construction equipment.

These accomplishments are especially significant, according to the USAID, since the provinces had little or no infrastructure planning, design or construction capacity before the Rural Roads II and earlier AID-assisted projects were started. In fact, provincial engineering and planning staffs were specifically established under the AID-assisted projects. The fact that responsibility for major rural roads (provincial and barangay class) has been transferred from the Ministry of Public Works and Highways to the Ministry of Local Government relates directly to the capacity developed in the provinces and at the national level.

While the support systems developed under the AID-assisted projects were functioning and personnel capabilities have been upgraded, further improvements can be made. This audit addresses problems that should be resolved to allow the longer term GOP program to be more successful, plus specific operational issues of the Rural Roads II project.

Construction

Of the $35,711,000 AID loan, $33,768,000 was allocated for construction of 800 kilometers of roads and 8,000 linear meters of bridges to be completed by June 30, 1982. As of September 30, 1981 about $31,454,000 of AID loan funds had been committed to 525 approved projects, leaving about $1,314,000 available for new projects. ($900,000 of this is allocated for labor-based construction). Of the 525 projects approved, 458 were completed, 63 were in process and four had not been started. Accrued expenditures were $29,065,000. Hence the major construction components of the project should be substantially concluded by June 1982 as planned.

On the other hand, it is unlikely the entire 800 kilometers of roads and 8,000 linear meters of bridges will be constructed as projected because unanticipated increases in construction costs will reduce the amount of roads and bridges constructed. As shown below, we have estimated that 767 kilometers of roads will be built versus 800 planned and 6,430 linear meters of bridges will be built versus 8,000 planned:

	Outputs Targets2/	
	Kilometers of Roads	Linear Meters of Bridges
Outputs from approved projects as 9/30/81		
a) completed	633	4,970
b) in process	100	1,179
c) not started	7	15
Total	740	6,164
Estimated roads and bridges to be financed with uncommitted loan funds1/	27	266
	767	6,430

In summary, most of the AID loan funds allocated to road and bridge construction should be used within the planned implementation period but the output targets will be slightly less than planned because construction costs rose faster than anticipated. The USAID believes that because the GOP agreed to provide an additional $20 million in local currency to be used mainly to fund the continuation of the program after AID support ends, this compensates for the small shortfall of targets under the AID project.

TECHNICAL ASSISTANCE PROGRAM DELAYED

A technical assistance component was added to the Rural Road II project on August 29, 1980 under Amendment No. 3 to the AID Loan Agreement for $500,000. On May 28, 1981, an additional $100,000 was added under Amendment No. 4.

1/ We applied uncommitted loan funds equally between roads and bridges and divided by 1981 unit costs for kilometers of roads and linear meters of bridges.

2/ The USAID calculations of these output targets using a 1/31/82 cut-off date were slightly greater than ours.

The four objectives of the program were to:

- establish a Monitoring and Evaluation Unit in the MLG,
- establish practical procedures for planning road network systems and build the capability of the MLG and LGUs to implement those procedures,
- develop and test ways for determining the feasibility of using labor-intensive methods (supported by mechanized equipment) in construction and maintenance of rural roads and bridges, and
- revise and update maintenance policy procedures.

Implementation of technical assistance program has been delayed because (1) planning was not adequate, (2) requests for technical proposals (RFTPs) were deficient, and (3) the MLG did not want to use public bidding procedures and they were unable to obtain authority from the GOP to enter into negotiated contracts.

The USAID said the delay in implementing the technical assistance program and the need to interact with technical assistance programs of the World Bank and Asian Development Bank resulted in extending the planned completion date for the project by one year to September 30, 1983. The specific factors that delayed the program are discussed below:

Technical Assistance Implementation Plan Not Adequate

Although the AID Loan Agreement was amended on August 29, 1980 to provide $500,000 for technical assistance, the USAID did not ask the MLG to prepare a detailed implementation plan for the use of these funds. A detailed plan was not requested because the revised project paper contained a general implementation plan and schedule which was intended to be a framework and guide for technical assistance implementation. However, this framework proved to be inadequate because it was too general. Thus the USAID asked the MLG to prepare a more detailed implementation plan on May 28, 1981 when the loan was amended again to add another $100,000 to the technical assistance program.

In July 1981 the MLG prepared a 27-month implementation plan. However, as of December 31, 1981 it was no longer realistic because of contracting delays. Only one technical assistance contract out of four planned had been signed as scheduled. For this reason, it is unlikely that the 27-month plan can be finished by the estimated September 30, 1983 project completion date. Thus the plan should be revised to make it realistic since the USAID said it has ruled out an extension of the project.

In response to this audit finding, the USAID requested the MLG to prepare a revised implementation plan.

Request for Technical Proposals Deficient

The technical proposals received by the MLG in October and November 1981 for four local contracts to be let under the program were deficient. This occurred mainly because the terms of reference in the Request for Technical Proposals (RFTPs) were not adequate. The USAID will require the MLG to revise the RFTPs and obain new proposals which will further delay the implementation of the technical assistance program since the contracting process will have to be repeated.

We found no evidence that USAID formally approved the original RFTPs prior to their issuance by the MLG as required by Section C.3 of the AID Loan Agreement. Although the USAID participated in the initial drafting of the RFTPs, the USAID said the MLG incorrectly assumed formal USAID approval was not necessary. To ensure that the revised RFTPs are adequate (to avoid further delays), we advised the USAID project manager that the RFTPs should be formally approved by the USAID as required. He agreed and informed the MLG of this requirement by letter on January 5, 1982.

Negotiated Contracting Authority Not Obtained

Since the technical assistance program was started in August 1980, the MLG made numerous attempts to obtain authority from the Office of the President to enter into negotiated technical assistance contracts but has not been successful. The MLG did not want to follow GOP public bidding procedures because according to the MLG they are time-consuming and frequently do not result in the awarding of contracts to the best qualified organizations. Under the GOP public bidding procedures, the MLG would be required to accept the lowest cost proposal among prequalified organizations. On the other hand, AID procedures for host country contracts require cost negotiations with the best qualified firm based on technical proposals. In sum, GOP procedures give greater consideration to costs and AID procedures give greater consideration to quality.

The USAID recognized MLG difficulties in obtaining authority to negotiate contracts and, thus added the following covenant to the AID Loan Agreement on May 28, 1981:

> "Section 6.4 Technical Assistance Contracting. In order to ensure timely compliance with the requirement of the Agreement to carry out the Project with due diligence and efficiency, to meet the Technical Assistance component requirements provided for under Amendment Nos. 3 and 4, and to avoid the possibility of an'Event of Default' occurring in this regard, the Government of the Philippines will make a concerted effort to expedite contracting for Technical Assistance services. This shall include providing authority to the Implementing Agency to enter into negotiated contracts for the procurement of required services pursuant thereto, as may be more fully described in Project Implementation Letters."

We found no evidence that the USAID has required the GOP to provide this authority to the MLG as established in the above loan covenant. Such authority would allow the MLG to negotiate with any organization rather than only GOP institutions that are exempt from public bidding procedures. Expanding the universe of institutions available to submit technical proposals would facilitate the implementation of the technical assistance program, and be consistent with the competitive procurement procedures outlined in AID Handbook 11, Country Contracting.

In response to our audit finding, the USAID said it cannot attempt to force the GOP to provide authority to the MLG through reference to a loan covenant because of a January 1982 order of the President of the Philippines to stop negotiated contracting. The USAID also indicated that the MLG has decided to award one of the contracts through public bidding procedures consistent with Handbook 11 and to award the other contracts through negotiated contracts with government institutions.

Conclusion

Implementation of the technical assistance program has been delayed because (1) planning was not adequate, (2) requests for technical proposals (RFTPs) were deficient, and (3) the MLG did not want to use public bidding procedures and they were unable to obtain authority from the GOP to enter into negotiated contracts.

Considering the delays in awarding the technical assistance contracts and the outdated implementation plan, we recommend the following:

Recommendation No. 1

USAID/Philippines obtain an acceptable revised technical assistance implementation plan from the MLG to include a schedule of contracts to be awarded under the plan. If the contracts are not executed as planned the USAID should deobligate or reprogram the funds allocated for the contracts.

ROAD MAINTENANCE NOT ADEQUATE

During our field inspection, we found that the two provinces visited were not adequately maintaining roads financed under the Rural Roads I and II projects. One of the provinces was also not maintaining non-project roads effectively. This confirms similar conclusions contained in the project paper and in a 1981 impact evaluation of the project.1/ The lack of adequate maintenance indicates that the institutional objective of the project (to establish a permanent capacity at the national and

1/ This is "AID Project Impact Evaluation Report No. 18, Philippines: Rural Roads I and II" dated March 1981.

local government levels to implement a sustained rural roads program) has not been fully achieved. Also, inadequate road maintenance is contrary to Section B.2 of the AID Loan Agreement which states that the GOP will "... cause the Project to be operated and maintained in such a manner as to assure the continuing and successful achievement of the purposes of the Project." Without adequate road maintenance, the benefits to be obtained from the AID and GOP investment in the project would be reduced.

The USAID stated that before the Rural Roads Program was started, the Ministry of Highways "... was responsible for road maintenance. Since 1972 maintenance has improved significantly but remains inadequate to protect the full investment..."

During our field trip, we inspected 30 completed roads (17 in the province of Palawan and 12 in Bataan and one in Puerto Princesa City). Nine of the roads were financed under the AID Rural Roads I project, 14 under the Rural Roads II project and seven with nonproject funds.

In general, most of the roads were passable. Vegetation growth within the ditches and on the road surface was the most commonly observed problem occuring on almost all roads inspected (see photographs 1 and 2 in Exhibit A).

The USAID stated that this problem "... is most common on the less traveled roads and at the end of the rainy season ..." when we inspected the roads. They also said that the province of Bataan was "... the worst case example ..." and the province of "... South Cotabato, Albay, and Cebu, which were not visited, are some of the best case examples..."

Drainage problems occurred less frequently but were more serious resulting in rutting, surface erosion and flooding (see photographs 3, 4, and 5 in Exhibit A). Some of the roads in Bataan were rough because the top layer of fine gravel had washed or worn away which provincial officials attributed mainly to a recent typhoon (see photograph 6 in Exhibit A).

The major reasons given by project officials for inadequate maintenance were:

- The provinces often do not have enough equipment and money.

- The national maintenance aid given to provinces each year of ₱5,671 ($756) per kilometer is not enough for some provinces because their maintenance costs are higher than the national average. This occurs mainly because many provincial roads were built one or several decades ago using inadequate design standards for todays' traffic. Also some provincial roads receive heavier use, are made of different materials, are more subject to flooding, and have more wood bridges per kilometer.

- Provinces divert national maintenance funds to higher priority uses such as intensive reconstruction or upgrading road sections.

- Equipment deadline rates are too high because spare parts are not available locally or are not promptly purchased.

- The maintenance management system used by the LGUs is not adequate.

Improving road maintenance has been a long-standing concern of the USAID and GOP. The following are specific examples of steps taken or being taken to help alleviate the problems of road maintenance:

- The USAID has provided equipment to LGUs under the excess property program.

- The GOP established a Special Development Fund to finance the purchase of spare parts for LGUs.

- The GOP provides grants to the LGUs to finance a share of their annual road maintenance costs.

- The USAID and the GOP have financed road maintenance training for LGU personnel.

- In late 1981 the MLG advised the LGUs that the level of funds allocated to them for construction of roads and bridges would be tied to their performance in maintaining completed projects.

- The USAID and GOP compiled a manual of maintenance planning and implementation procedures established by the Ministry of Public Highways to be followed by LGUs participating in the Rural Roads project.

In spite of these actions, financial, equipment and management constraints remain. In recognition of this problem, the USAID added funds to the AID loan in 1980 to finance technical assistance for a maintenance study and training program to improve GOP maintenance policy and procedures. This technical assistance program has not been implemented yet because of contracting problems (see page 5).

In response to our audit report, the USAID indicated that the technical assistance program was not started because of the nature and magnitude of the problems and lack of adequate resources and time to address the problem. Alternatively, the USAID and MLG met with representatives of the World Bank Project, Asian Development Bank and Ministry of Public Works and Highways regarding the policy and operational problems of road maintenance. Because of the major rural roads maintenance programs just being initiated by the World Bank and the proposal for the Asian Development Bank to follow, USAID's position at this time is to cancel the AID intervention and transfer the budget to other elements within the project or deobligated the amount.

Recommendation No 2

USAID/Philippines not approve any more construction projects for financing under the AID loan until the GOP provides the USAID with an acceptable plan to improve the capability of the LGUs to maintain rural roads. This could include the development of a better system for allocating maintenance aid to the LGUs in accordance with their needs and the establishment of an improved maintenance management system for the LGUs.

ROAD AND BRIDGE DESIGNS NOT ECONOMICAL

The roads were built six meters wide with shoulders of 1.5 meters on each side as established by USAID and the MLG under Program Administrative Procedure No. 5. This procedure also provided that the bridges were to be as wide as the roads.

A 1981 impact evaluation report of the project stated:

> "One manifestation of the Program's strong engineering bias has been the adoption of road design standards inappropriate to traffic conditions in the Philippines. Traffic flows on most of the roads we visited were low to moderate, and most of the motorized vehicles were tricycles. Road widths of 6 meters, with one and one half meter shoulders on each side, are unnecessarily wide. In most cases, a 5-meter width without shoulders is probably adequate, and one-lane bridges would suffice in some cases."

Our conversations with provincial and city engineering and development personnel substantiated this conclusion. They said some of the roads constructed under the program could have been narrower and still served the needs of the area. They said the roads were built 6 meters wide because it was required by the program.

In addition, our field inspections of the roads in three LGUs confirmed that many of the roads were under-utilized. We observed that vegetation had encroached the riding surface on 63 percent of 30 roads inspected. In some cases, the encroachment had reduced the visible gravel surface to one lane of about 4 meters leaving a large area of the riding surface unused. (Examples were found in the provinces of Palawan and Bataan and are shown in photographs 1 and 2 of Exhibit A).

Other roads passed through agricultural areas but ended on beaches in areas of low population density and economic activity and we question whether two lane roads were needed. (see photographs 7 and 8 of Exhibit A).

According to USAID officials, the design specifications for road width were established for the program so the provinces could qualify for maintenance funds provided by the national government. However, according to representatives of the Ministry of Public Works and Highways (MPWH), the Ministry has not established any such standards for road width. Hence, the design specifications for the Rural Roads Program could be lowered where applicable and the provinces would still qualify for maintenance funds.

The regulations published by the MPWH on May 30, 1974 (DPH MC#88) established no qualifying criteria for road width. According to this regulation, a provincial road can qualify for maintenance allocations if it:

- serves motor vehicle traffic;
- has a minimum right of way of 15 meters;
- has been declared a provincial road by the Provincial Board upon a recommendation of the Provincial Governor;
- satisfies at least one of the following requirements:
  - (a) It is in the population center or urban area;
  - (b) It connects a Municipality with another Municipality;
  - (c) It leads to a public railway station, wharf or airport;
  - (d) It serves production areas, or points of interest (like a tourist spot);
  - (e) It connects the population center with a Barrio;
  - (f) It connects the population center with a National or Provincial road;
  - (g) It connects a Barrio with a National or Provincial road.
- has a traveled-way suitable for motor vehicle traffic under ordinary or normal conditions including drainage facilities.

In addition, records of the MPWH showed there are many provincial class roads less than six meters wide receiving maintenance allocations from the national government.

Based on cost estimates made in the revised project paper, the USAID estimated that $1,257,240 could have been saved on the $15,388,500 of AID and GOP funds allocated to the project after the project paper was revised, had 50 percent of the roads and 52 percent of the bridges been built to lower design specifications. This savings could have been used to build more roads and bridges, thus increasing the physical output of the project by some 8.9 percent.1/

Considering the potential cost savings and the availability of GOP funds for maintenance, we believe the road design specifications established in Program Administrative Procedures No. 5 should be lowered so program funds can be used more economically. While reducing specifications at this time would have little impact on the more economical use of AID loan funds (since they are almost fully committed to approved projects), it would improve the use of GOP funds since the MLG plans to continue with the program after AID participation ends.

In response to our audit finding, the USAID indicated that the issue of whether roads of less than six meters could be built under the program as provincial roads needs to be researched further and they asked the MLG to review this matter. The USAID also stated their engineers advised that ". . .a majority of provincial class roads should not be less than six meters for technical reasons, i.e., traffic levels warrant such width . . ." They also stated ". . . there should be some flexibility in provincial class standards to allow certain five meter or less width roads systems where lower traffic counts warrant such modification. The lowering of the standard road width and shoulders is of particular interest and desirability in planning labor-based road construction. . ."

Recommendation No. 3

USAID/Philippines obtain evidence from the MLG that the issue of road width has been satisfactorily reviewed, and, if appropriate, the design standards included in Administrative Procedure No. 5 are lowered.

PROJECT EVALUATION FORMAT AND OPERATIONS NEED IMPROVEMENT

Each province participating in the Rural Roads Program is required to designate three roads as evaluation projects: a major rural road, a minor rural road and a penetration road. Each road is matched with a "control" road of similar characteristics which is not to be improved during the period of the evaluation. The Provincial Development Staff gathers base-line data for all six roads prior to the start of work on the

1/ The project paper estimated that if roads were built without shoulders the cost per kilometer could be reduced by 15 percent. It also estimated that if the width of the bridges were reduced from 6.7 to 4.1 meters, the cost per linear meter could be reduced by 23 percent with a one lane sub-structure and 11 percent with a two lane substructure. Assuming as estimated in the project paper, that 50 percent of the roads and 52 percent of the bridges (split equally between one and two lane substructures) were built to these lower design standards, the cost savings would be 8.2 percent and the increase in physical output would be 8.9 percent.

projects. The data is gathered again once per year beginning one year after project completion. Evaluation continues for 5 years on the major rural roads and its control and 3 years on the others. Impact is measured by changes over time in: traffic levels, annual road maintenance costs, crop production levels, crop prices, transport costs, income, use of health facilities, crime levels and other indicators. The provinces are supposed to send the evaluations to MLG each year.

The evaluation data being gathered to assess impact of the roads is of questionable usefulness. Evaluations of road projects do not identify external factors which could affect traffic levels, such as economic conditions and other indicators of project impact. The use of control roads in the evaluation system may be unfeasible. Some of the data being collected contains errors and is incomplete. Finally, the MLG is not adequately overseeing the provincial evaluation effort to ensure that the data is being collected. With the present quality of evaluations conducted, the MLG and LGUs will not have a reliable assessment of project impact. Since a major purpose of the Rural Roads project is institution-building, it is important to establish a valid evaluation system at the provincial or national level.

The evaluation format should require identification of factors causing change. At present, all changes are attributed by the provinces to the road project, yet unrelated factors can have a substantial impact. For example, the national price of gasoline will change transportation costs, the international price of coconut oil will detemine the price of copra in the barrios, and government health, education, or agricultural projects will affect the socio-economic indicators. On Palawan, a silica mine began operation in the influence area of the Teresa evaluation road after it was constructed (see photograph 9 of Exhibit A). The mine was being considered before the road project began. Such a variable could directly affect traffic, employment, crop production and other indicators. The province did not attempt to measure or even describe the impact of the mine, it merely noted that some changes could be attributed to it.

The evaluation forms should contain space to describe other factors affecting impact indicators. A checklist of common factors could be included to help elicit the information.

A second problem area in provincial evaluations is the feasibility of the control component. The province of Bataan plans to request MLG funding to improve each of the three roads designated as controls for its evaluation even though project procedures require no improvement will take place on control roads for several years. Provincial officials feel the people living near those roads are faced with an unfair hardship. The value of the control component should be reassessed and if it is continued under the program, the MLG should ensure that the choice of control roads do not place an unfair burden on certain groups.

A third problem with provincial evaluations is their accuracy and completeness. In Bataan, 67 percent of the 95 required data forms were missing; in Palawan 26 percent of the 46 forms were missing. Since the evaluation is based on systematic comparison of changes year by year, it is important to have complete data. In both Bataan and Palawan, provincial staffs were large enough to perform the evaluation tasks.

A sample of 24 forms in Palawan revealed that nine contained errors of computation or discrepancies between the raw data and the tabulated data which is sent to MLG. Some forms contained so many errors as to make the entire survey unreliable. On three surveys of socio-economic characteristics, for example, the percentage of errors to total number of entries was 16, 28 and 38 respectively. Efforts should be made to improve the accuracy and completeness of the data in order to make the evaluations valid.

The final problem noted with the provincial level evaluations of rural roads projects is inadequate management by MLG of the evaluations it receives or should receive from the provinces. The MLG maintains a tally sheet which lists each evaluation and control road and indicates whether annual evaluations were received. According to the sheet, 535 evaluations were required as of January 1982 but only 237 or 44 percent were received.

There are several possible explanations (all three may be true):

1) the provinces are seriously delinquent in performing evaluations.

2) MLG is not receiving all those which are performed and/or

3) MLG is receiving the evaluation but not recording them accurately.

Three of the 18 required sets of evaluations for Palawan were located in the provincial files but not recorded on the tally sheets, indicating that explanations 2 and 3 above are real problems.

Whichever explanations are correct, they indicate a weakness at the MLG level, namely inadequate monitoring of evaluations.

Conclusion

The USAID advised us that the Monitoring and Evaluation Unit of the MLG (to be assisted through an AID-financed technical assistance contract) will revise the evaluation system included in Administrative Procedure No. 7. In revising this system, we believe the evaluation format should be revised to elicit a description of factors other than roads which affect project impact, and the control component should be assessed to determine its usefulness and any negative impacts on affected populations. Furthermore, we believe that the MLG should provide additional training and monitoring to provincial staffs to improve the reliability of evaluation data and the MLG should adequately monitor the performance and receipt of project evaluations done by provinces.

Recommendation No. 4

USAID/Philippines obtain assurances from the MLG that: (a) in revising the evaluation system it will consider changing the evaluation format to elicit a description of factors other than roads which affect project impact and assess the control component to determine its usefulness and impact on affected populations, (b) it will provide additional training and monitoring to provincial staff to improve the reliability of evaluation data and (c) it is adequately monitoring the performance and receipt of project evaluations done by provinces.

LACK OF EQUITY CONSIDERATIONS IN PROJECT SELECTION

Project selection procedures do not always provide assurance that the projects selected provide the most benefits to the rural poor because of lack of equity considerations in doing the feasibility studies. The rural roads projects are supposed to benefit small-scale farmers and fishermen. A project which primarily benefits a special interest is considered ineligible for project funding. Yet the design or the feasibility studies do not ensure that such ineligible projects will be eliminated. Nor do these studies provide a way to place a higher priority on projects that benefit the poor more than those who control more productive capacity.

The feasibility study format needs to be revised to require data on equity considerations, such as:

- size of landholdings in the influence area (at present the economic and demographic data sections require only crop production and population information).
- to what degree large landowners (a definition is needed) and "special interests" such as lumber or mining companies will be served.

The need for this revision became clear when we compared the actual sites of two completed roads in Bataan with their feasibility studies.

Naparing-Mabiga Road

The feasiblity study for Naparing-Mabiga road listed the community to be served, the size of population, crops, and expected benefits but did not discuss size of landholdings. It did mention that "big landowners" were the only ones who had adequate vehicles to negotiate the unimproved trail to get their goods to market.

Upon inspection of the site of the completed road, we discovered that the mayor of the nearby city owned a large tract of land, along the road, which he used to plant sugar cane and mangoes, and to raise racing horses and cattle.

The feasibility study should have mentioned this and assessed whether the mayor or others would "primarily benefit" by the road. We were not able to make such an assessment by inspecting the road because we could not drive the entire length for security reasons. The site probably meets project criteria since the feasibility study states at least 2,472 people live in the two communities affected by the road.

In addition it says the first 2.5 kilometers of the unimproved road were better than the other 1.5 kilometers and it is that first part on which the mayor owns land. Thus, the "primary benefit" of project could be to the poor living in the isolated barangays. However, in order to accurately compare this site with other potential projects, the feasibility study should have mentioned the large landholding of the mayor.

Gabon-Hacienda Road

The second example of a road passing through a large landholding was the Gabon-Hacienda Road. A long stretch extends through a sugar plantation. No residences were visible for several kilometers. Again, we were not able to see the entire length because of security concerns. Unfortunately, the project officials could not locate a copy of the land use map. As with the Naparing-Mabiga Road, the site is probably acceptable since the feasibility study said the Gabon-Hacienda Road would connect four barrios with a combined population of 4,112 people.

Nevertheless the feasibility study format should require analyses of the size of landholdings in the influence area, who will benefit most by the road and how the road will be routed to primarily benefit the small farmers.

Conclusion

The USAID advised us that technical assistance to be financed under the AID loan for planning road network systems will include the revision of the road feasibility studies procedures contained in Administrative Procedure No. 2. In revising these procedures we believe the feasibility study format should include equity considerations as a basis for project selection such as data on the size of landholdings and relative benefits to various groups in the influence areas of projects.

Recommendation No. 5

USAID/Philippines assist the MLG to revise the feasibility study format so equity considerations are used for project selection. The format should at least include data on (a) size of landholdings, and

(b) relative benefits to various groups in the influence areas of projects. This could be accomplished by including these issues in the scope of work of the technical assistance contract to be financed under the AID loan.

TIAWER BRIDGE NOT PART OF A CONTINUOUS ROAD SYSTEM

The USAID was financing the Tiawer Bridge in the Province of Bataan even though it will not connect with a road immediately upon completion. This is contrary to Administrative Procedure No.1 which states that a project is not eligible for funding unless it is ". . . part of a continuous road system. . ." Since the MLG does not plan to finance a connecting road system with the bridge as proposed by the province in its Annual Implementation Plan for 1982 until the province completes its existing projects, we do not believe the funding of this project was a prudent use of resources. The USAID maintains that the bridge will allow vehicles to pass over the stream during the rainy seasons since the bridge is connected with a slow but passable track.

The bridge has a value of $149,750 (₱1,198,000). The USAID/MLG approved the bridge project on July 6, 1981 and it was 65 percent complete in December 1981.

As shown in photograph No. 10 of Exhibit A taken in January 1981, one end of the bridge abuts a cliff and the other end drops off into a rice paddy. Only a very poor trail connects the bridge to a road. Prior to the publication of this audit report, the USAID advised us that the bridge was completed and the approaches were constructed on each end of the bridge to connect with the tract.

The bridge was originally planned as part of a continuous road system consisting of phases III, V and IV of the Maluang-Dongkol Road followed by a road from Dongkol to Tonato. The bridge was to be located along the road from Dongkol to Tonato.

The USAID/MLG approved phases III,V and IV of the Maluang-Dongkol Road for project financing on January 21, 1981 but the road from Dongkol to Tonato (where the bridge was to be located) has not yet been approved under the Rural Roads Program.

In April 1981, MLG and USAID were informed that construction on Maluang-Dongkol Phase III had stopped because of a right-of-way dispute. The problem remained as of July 6 when USAID and MLG approved construction of the Tiawer Bridge. One month later, on August 6, 1981, MLG cancelled the three approved projects on Maluang-Dongkol road for the following reasons:

- The right-of-way problem was still unresolved;

- The construction contracts for the road projects signed on November 25, 1980 were not legal since the Office of the President did not give authority to the Province to enter into negotiated contracts until July 14, 1981.

To ensure that the bridge will serve a useful purpose, we believe that the USAID and/or the MLG should finance the connecting road system as soon as possible. The right-of-way dispute is no longer a problem since it was resolved by the province on August 31, 1981.

In response to our draft audit report, the USAID stated that the MLG plans to approve the connecting road system to the bridge once the province completes its three existing projects.

Recommendation No. 6

The USAID/Philippines and/or the MLG approve the financing of three unfinished phases of the Maluang-Dongkol Road as well as the Dongkol-Tonato Road to ensure that the Tiawer Bridge will be used as part of a continuous road system.

PROJECT SITES NOT MARKED AS REQUIRED

The two provinces and one city visited during our audit had not given appropriate publicity to the United States at the project sites as required by Section B.8 of the AID Loan Agreement.

AID Handbook 11, Attachment 25, which implements a provision of the Foreign Assistance Act, states"

> ". . .project construction sites and other project locations are identified with display signs, suitably marked with the AID handclasp symbol, indicating participation by the United States in the project. Temporary signs must be erected at the beginning of construction and be replaced by permanent signs, plates, or plaques,suitably marked with the AID handclasp symbol, upon completion of construction. . ."

During our field trips to the provinces of Palawan and Bataan and the City of Puerto Princesa, we inspected 37 roads and bridges financed under the Rural Roads I and II projects. Of the 37 projects inspected, we found signs at only two sites.

The USAID advised us that most provinces erect temporary signs that note AID participation especially during the construction phase. Two provinces, South Cotabato and Albay have placed permanent signs on its roads and bridges. Further, the USAID advised that formal road openings are commonly held with USAID representatives, MLG officials, local officials and a large number of local residents. These openings and development projects, in general, receive radio coverage.

Considering that there have been 840 roads and bridges financed under the Rural Roads I and II projects as of September 30, 1981, the United States could realize substantially more publicity by enforcing AID marking requirements.

AID Handbook 11 also provides that 'Mission Directors may waive the marking requirements or authorize the removal of emblems, on a finding that the appearance of the emblems would produce adverse reactions in the host country."

In response to our draft audit report the USAID stated:

> "According to MLG and LGU officials, enforcement of AID marking requirements are feasible for bridge projects, but not necessarily for road projects, an observation to which we generally agree. MLG will require LGUs to adhere to the permanent AID marking requirement for bridges, and request AID to waive the requirements for roads except for temporary markers and signs placed during construction, and special publicity for formal opening ceremonies where a large number of villagers attend."

Recommendation No. 7

USAID/Philippines determine whether the enforcement of AID marking requirements is desirable and take action to either waive the requirement or ensure that the project sites are publicized as required.

CONTRACT COSTS QUESTIONED

We have questioned some costs reimbursed to Certeza Development Corporation under a loan-funded host-country contract for engineering services. Our sample review covered the last three months of the CY 1980 contract and the first eight months of the CY 1981 contract.1/

The USAID reimbursed the contractor for monthly staff costs and per diem of a field engineer even though the engineer was on leave for all of February and for nine days in March 1981. Staff costs under the contract are based on fixed monthly rates and include overhead to cover items such as leave. We do not believe it is appropriate for the USAID to pay for sevices and related costs when contract personnel are on leave (not working on the project). Accordingly, we think the USAID should obtain a refund from the contractor for ₱9,660($1,164) calculated as follows:

1/ 1981 contract started on 2/1/81

Questioned Costs Reimbursed to Contractor

Month	Staff Costs	Per Diem	Total
February	₱7,200	₱ -	₱7,200
March	2,160 1/	300 2/	2,460
	₱9,360	300	₱9,660

We advised the contractor of this finding and they said they would adjust their next billing to the USAID to correct the error.

In addition to the above, we believe the USAID should ensure that the contractor costs not included in our audit sample are reviewed.

In response to our audit finding, the USAID asked the MLG to perform a detailed audit of the contractor's records and assured us they would settle the questioned costs.

Recommendation No. 8

The USAID/Philippines require the MLG to (a) settle costs questioned by our audit, and (b) review and determine the acceptability of costs not included in our audit sample, and obtain refunds as appropriate.

GOP AUDIT OF PROJECT NOT PERFORMED

The GOP has not performed regular audits of the project as required by Section B.5 of the Loan Agreement. Implementation Letter No. 1 asked the GOP to submit copies of these audit reports to the USAID. According to USAID and MLG project officials, no audit reports have been received.

Regular GOP audits of the project should help the MLG promptly identify and correct project implementation problems. In addition, GOP audits should include financial review of project-funded, host-country contracts so questionable costs can be identified and recovered as we found during our limited review of the GOP contract with Certeza Development Corporation (see page 20).

In response to our audit finding, the USAID said that the MLG auditors routinely review every aspect of the program including disbursements, vouchers, contracts, personnel actions, etc.

In our judgement, these are limited administrative or pre-audit reviews

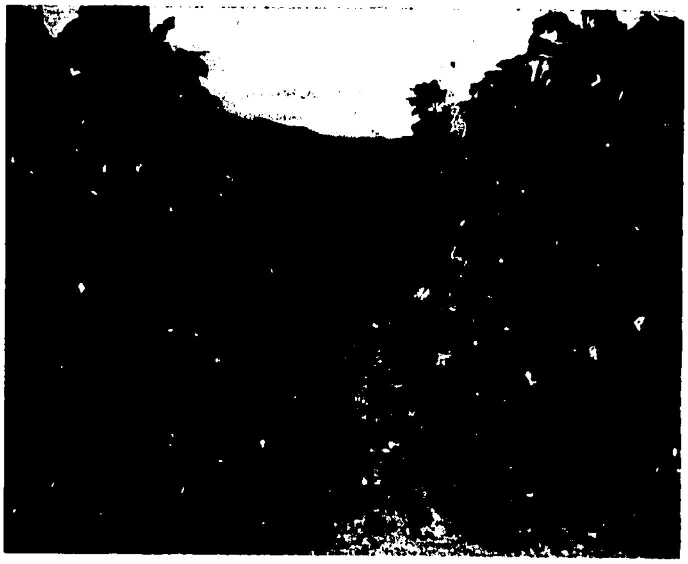
1/ 9/30 of ₱7,200
2/ 9/30 of ₱1,000

done for the purpose of authorizing transactions to assure compliance with administrative or regulatory procedures. They cannot be considered independent audits of host-country contracts and project implementation, and in any case the GOP has not been submitting any reports on its audits to the USAID.

Recommendation No. 9

USAID/Philippines require the GOP to submit on a regular basis, acceptable audit reports on this project as required by Section B.5 of the Loan Agreement.

PHOTOGRAPHS OF RURAL ROADS
BUILT IN PROVINCES OF PALAWAN AND BATAAN



Photograph No. 1

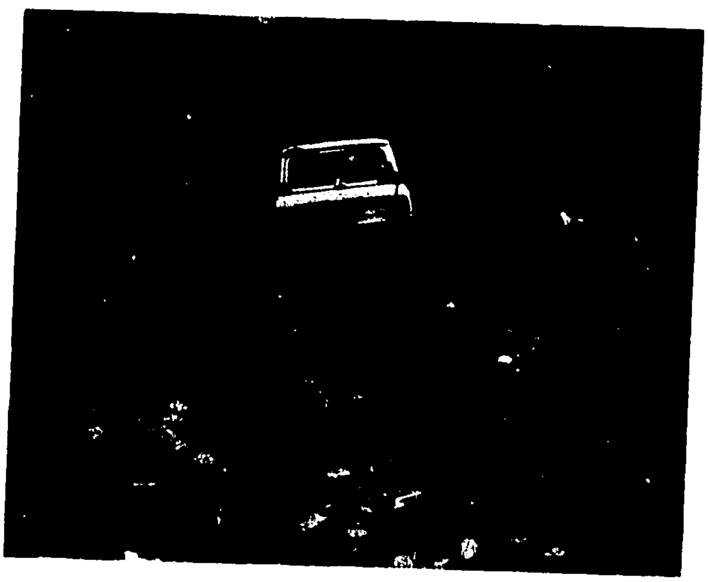
-Taritien Rd., Phase I
-Rural Roads II
-Province of Palawan
-Completed 9/80
-Picture shows encroachment of vegetation on road reducing the visible gravel surface to 4 meters. This demonstrates lack of use and and maintenance.

Photograph No. 2

-Mullawin-Tala Rd. Phase IV
-Rural Roads I
-Province of Bataan
-Completed 6/78
-Picture shows encroachment of vegetation on road reducing the riding surface to one lane. This demonstrates lack of use and maintenance.

Photograph No. 3

-Batang Batang Rd.
-Non-project Rd.
-Province of Palawan
-Picture shows vegetation encroachment, rutting, and flooding, which indicates lack of maintenance. This road was not passable.

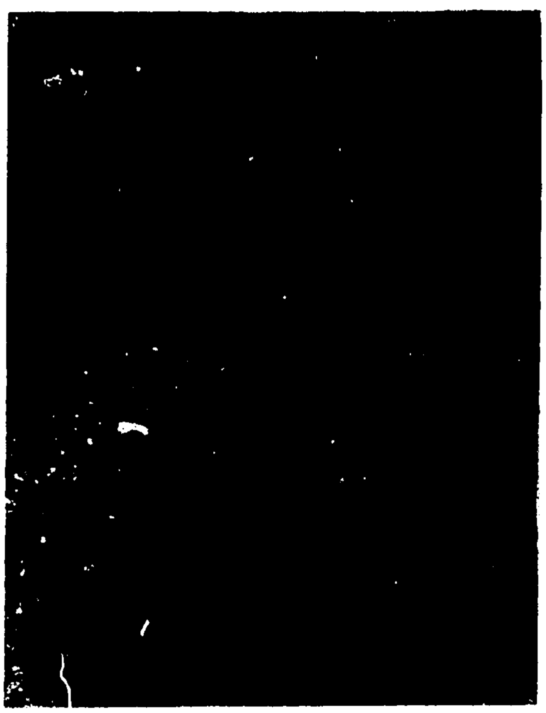


Photograph No. 4

- Teresa Rd. Phase 1
- Rural Roads II
- Province of Palawan
- Completed 12/78
- Picture shows erosion and lack of maintenance over second culvert from national highway.

Photograph No. 5

-Taritien Rd.Phase I
-Province of Palawan
-Rural Roads II
-Completed 9/80
-Picture shows flooding in low area of road.



Photograph No. 6

-Mulawin-Taca Rd. Phase III
-Rural Roads I
-Province of Bataan
-Completed 6/78
-Picture shows rough riding surface because top layer of fine gravel was missing.

MISSING PAGE

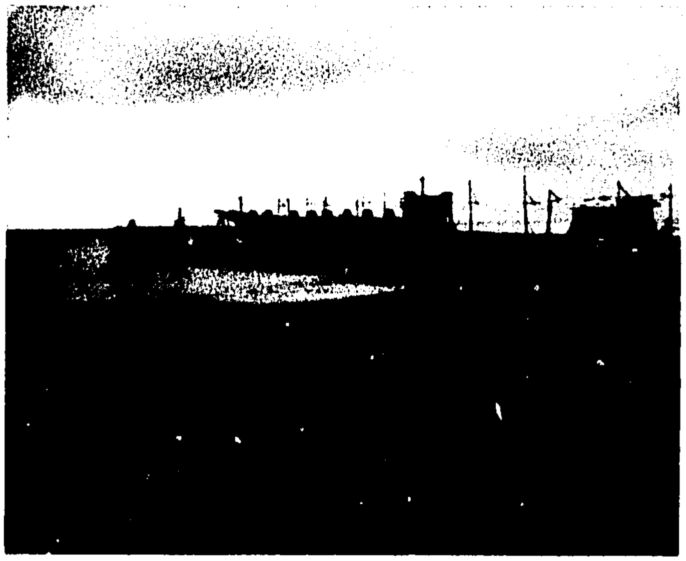
NO. 26

Photograph No. 9

-Teresa Rd. Phase III
-Rural Roads II
-Province of Palawan
-Completed 8/79
-Picture shows pier at end of road built by PHILCOM, a chromite mining company that began mining operations at this site in 1980.

Photograph No. 10

-Tiawer Bridge
-Rural Roads II
-Province of Bataan
-85-90% complete as of 1/12/82
-Picture shows that one end of bridge abuts a cliff and the other drops off to a rice paddy. Only a poor trail connects the bridge to a road.



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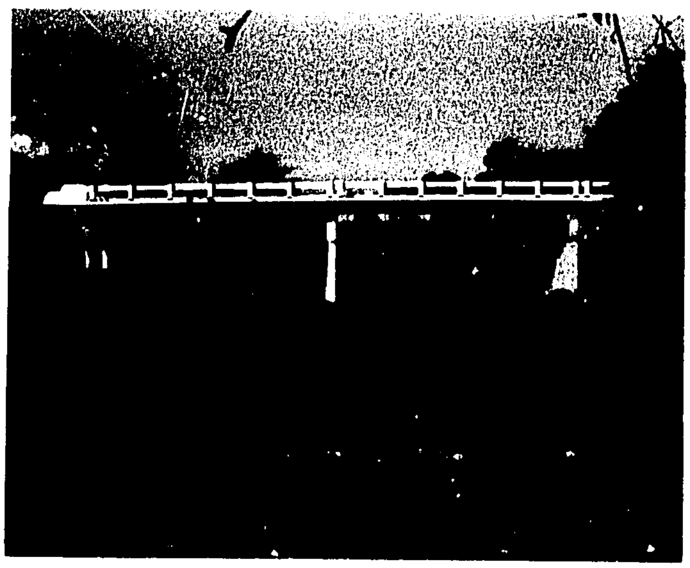

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REPORT RECIPIENT

USAID/Philippines	
Director	5
AID/W	
Deputy Administrator	1
Bureau for Asia:	
Assistant Administrator	1
Deputy Assistant Administrator (Audit Liaison Officer)	1
Office of the Philippines, Thailand & Burma Affairs (ASIA/PTB)	1
Bureau for Science & Technology:	
Office of Development Information & Utilization (S&T/Mgt)	4
Directorate for Program & Management Services:	
Office of Contract Management (M/SER/CM)	3
Office of the Inspector General:	
Inspector General (IG)	1
Executive Mangement Staff (IG/EMS)	12
Policy, Plans & Program (IG/PPP)	1
Office of Legislative Affairs (LEG)	1
Office of Financial Management (OFM)	1
Office of the General Counsel (GC)	1
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Inspector Generals:	
RIG/A/Washington	1
RIG/A/Nairobi (Africa East)	1
RIG/A/Abidjan (West Africa)	1
RIG/A/Cairo (Egypt)	1
RIG/A/Karachi (Near East)	1
RIG/A/Latin America	1
RIG/II/Manila	1