



# Report and Recommendation of the President to the Board of Directors

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Project Number: 50288-004  
Loan Number: 3589-PHI  
November 2019

## Proposed Loan for Additional Financing Republic of the Philippines: Infrastructure Preparation and Innovation Facility

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**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 1 October 2019)

Currency unit	-	peso/s (₱)
₱1.00	=	\$0.019
\$1.00	=	₱51.81

## ABBREVIATIONS

ADB	-	Asian Development Bank
DED	-	detailed engineering design
DOF	-	Department of Finance
DOTr	-	Department of Transportation
DPWH	-	Department of Public Works and Highways
ICC	-	Investment Coordination Committee
NEDA	-	National Economic and Development Authority
PAM	-	project administration manual
PMU	-	project management unit
TA	-	technical assistance

## NOTE

In this report, "\$" refers to United States dollars.

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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 50288-004</b>	
<b>Project Name</b>	Infrastructure Preparation and Innovation Facility (Additional Financing)	<b>Department/Division</b>	SERD/SETC
<b>Country</b>	Philippines	<b>Executing Agency</b>	Department of Finance
<b>Borrower</b>	Republic of the Philippines		
<b>Country Economic Indicators Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=50288-004-CEI">https://www.adb.org/Documents/LinkedDocs/?id=50288-004-CEI</a> <a href="https://www.adb.org/Documents/LinkedDocs/?id=50288-004-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=50288-004-PortAtaGlance</a>		
<b>2. Sector</b>		<b>ADB Financing (\$ million)</b>	
✓ <b>Transport</b>	Road transport (non-urban)		105.00
	Transport policies and institutional development		4.45
	Urban public transport		55.55
<b>Agriculture, natural resources and rural development</b>	Rural flood protection		35.00
	<b>Total</b>		<b>200.00</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Low
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Making cities more livable		<b>ADB Financing</b>	
✓ Promoting rural development and food security		Adaptation (\$ million)	0.20
✓ Strengthening governance and institutional capacity		Mitigation (\$ million)	60.00
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 9.1		No gender elements (NGE)	✓
SDG 13.a			
		<b>Poverty Targeting</b>	
		Geographic Targeting	✓
<b>4. Risk Categorization:</b>	Low		
<b>5. Safeguard Categorization</b>	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>200.00</b>	
Sovereign Project (Regular Loan): Ordinary capital resources		200.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>41.68</b>	
Government		41.68	
<b>Total</b>		<b>241.68</b>	
<b>Currency of ADB Financing: US Dollar</b>			



## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Republic of the Philippines for the additional financing of the Infrastructure Preparation and Innovation Facility.<sup>1</sup>

2. The additional financing will extend the support of the Asian Development Bank (ADB) to the Government of the Philippines under the ongoing project to meet the government's accelerated infrastructure development objectives. The proposed additional financing, together with the ongoing project, will support project preparation and improve the infrastructure project management capacity of the implementing agencies, including the Department of Transportation (DOTr) and the Department of Public Works and Highways (DPWH). The project will build on the ongoing project to (i) improve the quality of priority infrastructure project proposals for approval by the Investment Coordination Committee (ICC) of the National Economic and Development Authority (NEDA); (ii) accelerate early project implementation following ICC approval through detailed engineering design (DED) and tendering support, with a focus on complex and large projects requiring international expertise; and (iii) strengthen the government's capacity to implement projects under the implementing agencies.

## II. THE PROJECT

### A. Rationale

3. Inadequate or underdeveloped infrastructure has been identified as one of the key constraints on the Philippines' growth. The 2018 Global Competitiveness Report by the World Economic Forum ranked the Philippines 56th out of 140 countries, advancing it by 29 places since 2010, mainly based on improvements in the macroeconomic environment.<sup>2</sup> However, the country ranked low on infrastructure (92nd), below other Southeast Asian countries such as Indonesia (71st), Thailand (60th), and Malaysia (32nd). Among the direct impacts of inadequate infrastructure are the high costs of doing business, which undermine business potential and economic opportunities, especially in rapidly growing urban areas.

4. The government has been increasing public infrastructure investments under the "Build, Build, Build" Program to raise the Philippines' long-term growth potential. In 2016, the government announced a ten-point action plan that targets public spending on infrastructure reaching 7.0% of gross domestic product by 2022 from 3.4% in 2016. The government has already achieved substantial progress on this agenda. In 2018, public spending on infrastructure rose to 5.1% of gross domestic product. The difference between the current level of investment and the government's target indicates that efforts to accelerate infrastructure investments should be sustained in the coming years.

5. ADB approved financing for the facility on 27 October 2017 to offer a short- to medium-term solution to the near-term needs of the DPWH and DOTr to boost their capacity for preparing public infrastructure investments. The facility has four components: (i) output 1: road and bridge projects prepared; (ii) output 2: water projects prepared; (iii) output 3: rail, public transport, port, and airport projects prepared; and (iv) output 4: project management capacity of the government

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<sup>1</sup> ADB. 2017. [Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the Republic of the Philippines for the Infrastructure Preparation and Innovation Facility](#). Manila.

<sup>2</sup> World Economic Forum. 2018. [The Global Competitiveness Report 2018](#). Geneva.

improved. The project supports preparation of infrastructure projects to be financed by ADB and other funding sources.

6. The ongoing project's early implementation has been effective. On behalf of the government, three framework consultants had been recruited under advance contracting, which enabled the DOTr and DPWH to sign the contracts within 2 months after loan effectiveness in February 2018. Shortly after their mobilization, the consulting firms conducted an initial project strategic review, which helped the DOTr and DPWH identify priority projects and project preparation steps. As a result of the prioritization, the government has decided to focus support under the facility on large and complex projects, which benefit most from access to international expertise. Table 1 shows the major projects that the facility is supporting. These projects are expected to be financed by ADB and other financing sources.

**Table 1: Support Provided under the Ongoing Project**

Name of Project	Implementing Agency	Type of Support
Bataan–Cavite Interlink Bridge Project	DPWH	Feasibility study
Laguna Lakeshore Road Network Project	DPWH	Master planning and feasibility study
Samal Island Davao Bridge Project	DPWH	Feasibility study and DED
North Eastern Luzon Expressway Project	DPWH	Feasibility study
Sorsogon Samar link project	DPWH	Prefeasibility study
Bohol Leyte Bridges Project	DPWH	Prefeasibility study
Metro Manila Bridges Project	DPWH	DED
Flood Risk Management Investment Project for Six Major River Basins	DPWH	Master planning, feasibility study, DED, and tender support
EDSA Greenway Project	DOTr	Feasibility study, DED, and tender support
Mindanao Rail Project	DOTr	Tender support, technical review, and additional surveys and investigations
Metro Manila Subway Project	DOTr	Tender support and technical review
North South Commuter Rail and South Long-Haul Project	DOTr	Tender support and technical review
New Cebu International Container Port Project	DOTr	Technical review and safeguard impact study
Mindanao Central Airport Project	DOTr	Strategy development
Subic Clark Railway Project	DOTr	Review of feasibility study

DED = detailed engineering design, DOTr = Department of Transportation, DPWH = Department of Public Works and Highways, EDSA = Epifanio delos Santos Avenue.

Source: Asian Development Bank

7. **Ongoing project implementation and lessons learned.** The ongoing project's implementation has been successful, and lessons have been drawn from its implementation:

- (i) Demand for facility support has exceeded initial expectations. The facility is supporting pre-investment activities as varied as feasibility studies and assistance with tenders for infrastructure projects with a total value of more than \$30 billion;<sup>3</sup>
- (ii) The facility has been efficient in providing the DOTr and DPWH with access to international expertise. This enabled the preparation of technically complex projects (such as long-span bridges), with which the DOTr and DPWH had no prior experience;

<sup>3</sup> When the ongoing project was approved, the facility was expected to support only about \$3.8 billion of infrastructure investments. The Infrastructure Preparation and Innovation Facility supports not only projects to be financed by ADB but also those financed by other financing resources.



- (iii) The facility has assisted the government to make sound and objective investment decisions. For example, the initial project strategic review carried out under outputs 1-3 helped the DOTr and DPWH to focus preparation on projects with higher socioeconomic benefits and to identify realistic preparation steps;
- (iv) The facility has accelerated the implementation of very large infrastructure projects. For example, it has been helping the DOTr tender its large rail and metro projects, which may have been delayed without the support under the facility;
- (v) The flexible contracting approach used under the facility (i.e., the use of framework contracts) has been effective in helping the government select projects to be prepared and, subsequently, launch feasibility studies and other pre-investment activities. Under the proposed additional financing, project preparation activities will be better defined, and the contracting approach is expected to shift to project-based terms of reference, which will further smoothen implementation; and
- (vi) The original loan fund for output 4 has not been used since the government is utilizing separate technical assistance provided by ADB to develop capacity for the project preparation activities (TA Grant).<sup>4</sup> This includes safeguards, contract management of consulting services, and accounting of the loan. Under the proposed additional financing, further intensive capacity development and support will be required to manage the implementation of large-scale projects.

8. Under the ongoing project, three consulting service contracts totaling \$76.8 million have been awarded as of 30 September 2019, of which \$14.7 million has been disbursed; and one consulting service contract is under recruitment. All of the original loan proceeds, including contingencies, are expected to be committed for pre-investment activities before the end of February 2020. To mitigate the lack of capacity and experience of the DOTr and DPWH and support the implementation of the facility, ADB has mobilized project management advisors and provided capacity development programs under the TA Grant. The TA has also been supporting the daily operations of the DOTr and DPWH project management units (PMUs).

9. The ongoing project is categorized as performing well since (i) project performance has been satisfactory;<sup>5</sup> (ii) safeguard policy requirements have been complied with, (iii) the expected outputs are being achieved, and (iv) risk management measures are being implemented successfully.<sup>6</sup>

10. **Proposed additional financing.** Foreseeing that the demand for project preparation activities will exceed the availability of funding under the ongoing project, the government has indicated the need for additional financing to scale up the facility. The proposed additional financing will finance project readiness activities for high priority large infrastructure projects and build the capacity of the implementing agencies to implement them. Among others, the proposed additional financing will extend the assistance provided under the ongoing project by bringing selected flagship projects initiated under the ongoing project to the stage where civil works can commence. In particular, it will finance the DED of projects for which feasibility studies are being undertaken under the ongoing project (e.g., the Bataan–Cavite Interlink Bridge Project and the Laguna Lakeshore Road Network Project).<sup>7</sup> Furthermore, the proposed additional financing will

<sup>4</sup> ADB. 2017. [Technical Assistance to the Republic of the Philippines for Strengthening Infrastructure Capacity and Innovation for Inclusive Growth](#). Manila.

<sup>5</sup> The project performance was rated *on track* as of the end of the second quarter, 2019. Summary of Project Performance (accessible from the list of linked documents in Appendix 2).

<sup>6</sup> Summary of Project Performance (accessible from the list of linked documents in Appendix 2).

<sup>7</sup> These projects are included in ADB. 2019. [Country Operations Business Plan: Philippines, 2020–2022](#).

support strengthening the project management capacities of the implementing agencies for effective and efficient implementation of the projects supported by the facility.

11. **Modality.** Additional financing is suitable as the proposed project has strong links with the ongoing project in terms of design and implementation arrangements, and will contribute to scaling up the outcome and impact of the facility. All eligibility criteria for additional financing are met, as the proposed project is (i) technically feasible and economically viable; (ii) accorded high priority by the government; (iii) consistent with the project's development objectives; and (iv) consistent with the country partnership strategy (para. 12).

12. **Alignment with ADB country partnership strategy.** The proposed additional financing directly supports ADB's country partnership strategy's strategic pillar of accelerating infrastructure investment, which remains the government's priority.<sup>8</sup> It is also an essential element of ADB's country operations business plan. Three infrastructure projects to be supported under the proposed additional financing are already included in ADB's country operations business plan for possible ADB financing.<sup>9</sup> The overall project will support the preparation of infrastructure projects worth more than \$5.9 billion in programmed ADB lending for 2020–2022.<sup>10</sup>

13. **Value added by ADB assistance.** The ongoing project is the first TA loan for the Government of Philippines. The ADB assistance constitute a novel means to support the DOTr and DPWH in delivering more effective and innovative infrastructure projects through (i) enabling mobilization of international consultants in project preparation; (ii) enhanced effective identification, analysis, and planning for infrastructure gaps using international best practices, especially in roads, urban transport, and flood management; (iii) addressing critical constraints such as resettlement and inadequate access to international knowledge, best practices, innovation, and technology; and (iv) implementation management of complex public infrastructure projects with international expertise to supplement national expertise and resources. The project will also strengthen the capacity of the government to implement projects under the implementing agencies.

14. **Alignment with ADB's Strategy 2030.** The project supports the implementation of ADB's Strategy 2030 as summarized in Table 2.<sup>11</sup>

**Table 2: Alignment with Strategy 2030**

Strategy 2030 Key Operational Priorities	Project's Contributions
Accelerating progress in gender equality	Infrastructure projects prepared under the project will generate progress in gender equality. Consultants carrying out detailed engineering designs will integrate gender and social considerations into the project design.
Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability	Infrastructure projects prepared under the project will include public transport projects, which will lower greenhouse gas emissions. Climate risk assessment will be conducted before designing the infrastructure projects, and the risks will be addressed in the design.

<sup>8</sup> ADB. 2018. [Country Partnership Strategy: Philippines, 2018-2023–High and Inclusive Growth](#). Manila

<sup>9</sup> Bataan–Cavite Interlink Bridge Project, Laguna Lakeshore Road Network Project, and Metro Rail Transit–Line 4 Project.

<sup>10</sup> ADB. 2019. [Country Operations Business Plan: Philippines, 2020–2022](#). Manila.

<sup>11</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

Strategy 2030 Key Operational Priorities	Project's Contributions
Making cities more livable	Infrastructure projects prepared under the project will include public transport projects, which will provide reliable and affordable options for transportation in cities.
Strengthening governance and institutional capacity	The project, together with the TA Grant, will provide capacity development support to the government. This will achieve efficient and effective project administration; and uphold environmental and social safeguards, and anticorruption measures.

Source: Asian Development Bank

## B. Impact and Outcome

15. The project is aligned with the following impact: infrastructure development accelerated.<sup>12</sup> The project will have the following outcome: delivery and quality of public infrastructure projects improved. The impact and outcome of the proposed project are the same as those of the ongoing project.<sup>13</sup> A new outcome indicator has been added to reflect the amount of infrastructure projects to be approved by NEDA's ICC and procured.

## C. Outputs

16. The project will expand support for the facility's outputs 1, 2, and 3. The scope of output 4 will be adjusted to reflect the objective to build the capacity needed to implement the ensuing infrastructure projects and ensure their sustainability. The TA Grant will continue to support capacity development for project management of the DOTr and DPWH.

17. **Output 1: Road and bridge projects prepared.** Under this output, the project will provide support to the concerned implementing agencies for the preparation, pre-implementation, and early implementation needs of road and bridge projects.

18. **Output 2: Water projects prepared.** Under this output, the project will provide support to the concerned implementing agencies for the master planning and preparation, pre-implementation, and early implementation needs of water projects for flood protection.

19. **Output 3: Rail, public transport, port, and airport projects prepared.** Under this output, the project will provide support to the concerned implementing agencies for the preparation, pre-implementation, and early implementation needs of rail, public transport, port, and airport projects.

20. **Output 4: Project management capacity of the government improved.** This output will train and provide hands-on support to the government for project preparation and implementation of projects under the implementing agencies.

## D. Investment and Financing Plans

21. The project is estimated to cost \$241.7 million (Table 3). This will be financed by (i) an ADB project loan in the amount of \$200.0 million from ADB's ordinary capital resources, and

<sup>12</sup> Government of Philippines, National Economic and Development Authority. 2017. [Philippine Development Plan, 2017-2022](#). Manila.

<sup>13</sup> The design and monitoring framework is in Appendix 1.

(ii) government counterpart financing of \$41.7 million. The financing plan is in Table 4. ADB will finance consulting services. The government will finance taxes and duties, and financing charges during implementation. Detailed cost estimates are in the project administration manual (PAM).<sup>14</sup>

**Table 3: Project Investment Plan**  
(\$ million)

Item	Current Amount <sup>a</sup>	Additional Financing <sup>b</sup>	Total
<b>A. Base Cost<sup>c</sup></b>			
1 Output 1: Road and bridge projects prepared	53.7	107.1	160.8
2 Output 2: Water projects prepared	35.2	35.7	70.9
3 Output 3: Rail, public transport, port, and airport projects prepared	42.2	56.7	98.9
4 Output 4: Project management capacity of the government improved	4.1	4.5	8.6
<b>Subtotal (A)</b>	<b>135.1</b>	<b>204.0</b>	<b>339.13</b>
<b>B. Contingencies<sup>d</sup></b>	<b>24.9</b>	<b>20.0</b>	<b>44.9</b>
<b>C. Financing Charges During Implementation<sup>e</sup></b>	<b>4.1</b>	<b>17.7</b>	<b>21.7</b>
<b>Total (A+B+C)</b>	<b>164.1</b>	<b>241.7</b>	<b>405.7</b>

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Refers to the original amount. Includes taxes and duties of \$17.1 million financed from government resources.

<sup>b</sup> Includes taxes and duties of \$24 million financed from government resources by cash contribution.

<sup>c</sup> In mid-2017 prices for the original loan and in 2019 prices for the additional financing.

<sup>d</sup> Physical contingencies computed at 4.5% (3.0% for ongoing project) for consultants and surveys. Price contingencies computed at 1.5% on foreign exchange costs (1.5% for ongoing project) and 3.8% on local currency costs (3.0% for ongoing project).

<sup>e</sup> Includes interest and commitment charges. Interest during implementation for a regular OCR loan has been computed at the 5-year forward London interbank offered rate plus a spread of 0.50%. The maturity premium is 0.2% for the additional loan (0.10% for the ongoing project). Commitment charges for a regular ordinary capital resources loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

22. The government has requested a regular loan of \$200 million from ADB's ordinary capital resources to help finance the project. The loan will have a 28-year term, including a grace period of 9 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line repayment method, the average maturity is 18.75 years and the maturity premium payable to ADB is 0.20%. The government has expressed its preference for a longer loan tenor and grace period than under the original loan, given the current financial status of the government.

**Table 4: Financing Plan**  
(\$ million)

Source	Current <sup>a</sup>		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
ADB						
OCR (regular loan)	100.0	61.0	200.0	82.8	300.0	73.9
Government	64.1	39.0	41.7	17.2	105.7	26.1
<b>Total</b>	<b>164.1</b>	<b>100.0</b>	<b>241.7</b>	<b>100.0</b>	<b>405.7</b>	<b>100.0</b>

ADB = Asian Development Bank, OCR = ordinary capital resources.

<sup>14</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

<sup>a</sup> Refers to the original amount.

Source: Asian Development Bank estimates.

23. Climate adaptation is estimated to cost \$0.2 million and climate mitigation is estimated at \$60 million. ADB will finance 82.8% of the adaptation and mitigation costs.<sup>15</sup>

## E. Implementation Arrangements

24. The proposed project will share the same implementation arrangements as the ongoing project. The Department of Finance (DOF) will be the executing agency and the DOTr and DPWH will be the implementing agencies.<sup>16</sup> The steering committee will monitor the overall implementation of the project and ensure that supported infrastructure projects are prioritized for preparation and implementation. Two PMUs were established under the DPWH for road and bridge projects and for water projects, and one PMU was established under the DOTr for public transportation projects. Selection of the consultants will be delegated to ADB. The implementation arrangements are summarized in Table 5 and described in detail in the PAM (footnote 15).

**Table 5: Implementation Arrangements**

Aspects	Arrangements		
Implementation period	February 2020–December 2024		
Estimated completion date	31 December 2024		
Estimated loan closing date	30 June 2025		
Management			
(i) Oversight body	Steering committee DOF (chair) DOTr, DPWH, NEDA, and DBM (members)		
(ii) Executing agency	DOF: Office of the Secretary		
(iii) Key implementing agencies	DOTr and DPWH		
(iv) Implementation units	DOTr: Office of Undersecretary for Planning: 10 staff DPWH: Unified Project Management Office: 20 staff		
Consulting services	QCBS (90:10)	2800 person-months for international and 3,400 person-months for national	\$179 million
	ICS	25 person-months for international	\$1 million
	All recruitment will follow the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). Consultant selection will be delegated to ADB.		
Advance contracting	Advance action will be undertaken for consultant recruitment for at least three packages. The contracts will be signed after the loan is declared effective.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, DBM = Department of Budget and Management, DOF = Department of Finance, DOTr = Department of Transportation, DPWH = Department of Public Works and Highways, ICS = individual consultant selection, NEDA = National Economic and Development Authority, QCBS = quality- and cost-based selection.

Source: Asian Development Bank.

<sup>15</sup> Details of the estimate are in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

<sup>16</sup> If requested, other government agencies may be considered for implementing agencies. In such cases, proper due diligence will be carried out.

### III. DUE DILIGENCE

#### A. Technical

25. Under the proposed additional financing, the implementing agencies will continue to tap into international expertise for the preparation of major public investment projects, often involving high-level technologies. The proposed additional financing will focus on DED preparation, procurement, and implementation of infrastructure projects. To ensure the technical feasibility and quality, the project will finance independent proof-checking engineers to review the designs of complex infrastructure projects.

#### B. Economic and Financial

26. The proposed additional financing will generate significant economic benefits. The overall project will complete the preparation and/or facilitate the implementation of public infrastructure investments valued at more than \$30 billion. The project will undertake DEDs only for investments whose economic viability has been confirmed. Road and urban transport investments supported by the project will strongly contribute to the Philippines' economic growth through reduced transport costs, improved travel time reliability, and increased domestic productivity.

#### C. Governance

27. The project's overall procurement risk is *low* as ADB will select the consultants. The financial management risk is *substantial*.<sup>17</sup> The TA Grant will continue to support strengthening of the capacity of the accounting divisions of the DOTr and DPWH. The steering committee, chaired by the DOF undersecretary and established under the ongoing project, will continue to ensure effective oversight and institutional coordination. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, DOF, DOTr, and DPWH. The specific policy requirements and supplementary measures are described in the PAM (footnote 15).

#### D. Poverty and Social

28. The project is not expected to have direct poverty, gender, or social impacts, but the infrastructure projects prepared under the project will generate such impacts. Consultants carrying out DEDs will integrate gender and social considerations into the project design.

#### E. Safeguards

29. The project is not expected to have direct social or environmental impacts or affect indigenous peoples. Consultants carrying out DEDs will prepare or update environmental and social safeguard documents. All safeguard documents shall be prepared in accordance with national laws and legislations and ADB's Safeguard Policy Statement (2009). In compliance with ADB's Safeguard Policy Statement, the project's environmental and social safeguard categories are C for environment, involuntary resettlement, and indigenous people.

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<sup>17</sup> The first submission of audited financial statement for the ongoing project is delayed.

## F. Risks and Mitigating Measures

30. Major risks and mitigating measures are summarized in Table 6 and described in detail in the risk assessment and risk management plan.<sup>18</sup> The integrated benefits and impacts of the project are expected to outweigh its costs.

**Table 6: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigating Measures</b>
Limited availability of ODA funding	The size of the national infrastructure program is very large, and the ODA support might not be able to meet the level of financing being sought. The project will support packaging of infrastructure projects for financing.
Insufficient qualified counterpart staff	The scale of infrastructure projects to be prepared under the proposed project means that the key agencies, DOTr and DPWH, may not have sufficient qualified staff. The project and the TA Grant will provide consultants to fill the gap in the short term.
Insufficient experience to manage the project	The project and the TA Grant will provide additional support to help meet the management and reporting requirements.

DOTr = Department of Transportation, DPWH = Department of Public Works and Highways, ODA = official development assistance, TA = technical assistance.

Source: Asian Development Bank.

## IV. ASSURANCES

31. The government and the DOF have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents. The government and the DOF have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

## V. RECOMMENDATION

32. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$200,000,000 to the Republic of the Philippines for the additional financing of the Infrastructure Preparation and Innovation Facility, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 28 years, including a grace period of 9 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao  
President

20 November 2019

<sup>18</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

## REVISED DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
<b>Ongoing project</b> Infrastructure development accelerated (Philippine Development Plan, 2017–2022) <sup>a</sup>			
<b>Overall project</b> Unchanged			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<b>Outcome</b> <b>Ongoing project</b>  Delivery and quality of public infrastructure projects improved	<b>Ongoing project</b> By 2022: a. Project approval time reduced to at most 10 months (2016 baseline: 18 months)  b. Project start-up time shortened to at most 18 months (2016 baseline: 36 months between approval and start-up)	a. NEDA approvals and annual performance reports by DOTr and DPWH  b. Progress reports by DOTr and DPWH	Political support declines  Limited availability of official development assistance funding
<b>Overall project</b>  Unchanged	<b>Overall project</b> By 2025: a. Unchanged  b. Unchanged  c. \$30 billion of public infrastructure investment approved by NEDA's Investment Coordination Committee and procured with ADB support (2016 baseline: \$0)	a. Unchanged  b. Unchanged  c. NEDA approvals and annual performance reports by DOTr and DPWH	
<b>Outputs</b> <b>Output 1</b> <b>Ongoing project</b> 1. Road and bridge projects prepared	<b>Ongoing project</b> By 2022: 1a. Up to five road and bridge projects identified, feasibility studies and detailed design completed, and project documents prepared and ready for tendering (2016 baseline: 0)	1a. DPWH progress reports	Limited experience with financial management arrangements of ADB-funded projects



<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks</b>
<p><b>Overall project</b> Unchanged</p> <p><b>Output 2</b> <b>Ongoing project</b> 2. Water projects prepared</p> <p><b>Overall project</b> Unchanged</p>	<p><b>Overall project</b> By 2024: 1a. Up to 10 road and bridge projects identified, feasibility studies and/or detailed design with climate proofing components completed, and project documents prepared and ready for tendering (2016 baseline: 0)</p> <p>1b. DEDs and/or draft negotiated contracts for projects with a total estimated investment value of \$6 billion prepared (2016 baseline: \$0)</p> <p><b>Ongoing project</b> By 2022: 2a. Up to five flood-protection and urban water projects identified, feasibility studies and detailed design completed, and project documents prepared and ready for tendering (2016 baseline: 0)</p> <p><b>Overall project</b> By 2024: 2a. Up to 10 flood-protection and urban water projects identified, feasibility studies and/or DEDs with climate proofing components completed, and project documents prepared and ready for tendering (2016 baseline: 0)</p> <p>2b. DEDs and/or draft negotiated contracts for projects with a total estimated investment value of \$4 billion prepared (2016 baseline: \$0)</p>	<p>1a.–1b. DPWH progress reports</p> <p>2a. DPWH progress reports</p> <p>2a.–2b. DPWH progress reports</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p><b>Output 3</b> <b>Ongoing project</b> 3. Rail, public transport, port, and airport projects prepared</p> <p><b>Overall project</b> Unchanged</p> <p><b>Output 4</b> <b>Ongoing project</b> 4. Project management capacity of the government improved</p>	<p><b>Ongoing project</b> By 2022: 3a. Up to five rail, public transport, port, and airports projects identified; feasibility studies and detailed design completed; and project documents prepared and ready for tendering (2016 baseline: 0)</p> <p><b>Overall project</b> By 2024: 3a. Up to 10 rail, public transport, port, and airports projects identified; feasibility studies and/or detailed design with climate proofing components completed; and project documents prepared and ready for tendering (2016 baseline: 0)</p> <p>3b. DEDs and/or draft negotiated contracts for projects with a total estimated investment value of \$20 billion prepared (2016 baseline: \$0)</p> <p><b>Ongoing project</b> By 2022: 4a. Road, bridge, flood protection, urban water, rail, public transport, port, and airport projects identified and include gender design features and gender targets (2016 baseline: 0 projects)</p> <p>4b. Project planning and preparation manual prepared and approved, following gender mainstreaming guidelines (2016 baseline: not prepared)</p>	<p>3a. DOTr progress reports</p> <p>3a.–3b. DOTr progress reports</p> <p>4a.–4c. DPWH and DOTr progress reports</p>	<p>Insufficient qualified counterpart staff</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p><b>Overall project</b></p> <p>Unchanged</p>	<p>4c. 50 DPWH and DOTr staff trained in project planning and preparation (at least 40% are women) (2016 baseline: 0 staff)</p> <p><b>Overall project</b> By 2024: 4a.–4c. unchanged</p> <p>4d. Training and project implementation support provided for up to five projects (2016 baseline: 0 projects)</p>	<p>4a.–4c. Unchanged</p> <p>4d. DPWH and DOTr progress reports</p>	
<p><b>Key Activities with Milestones</b></p> <p><b>1. Road and bridge projects prepared</b></p> <p>1.1 Carry out feasibility studies (Q2 2018–Q2 2020) (changed, ongoing)</p> <p>1.2 Conduct surveys (Q2 2018–Q4 2020) (changed, ongoing)</p> <p>1.3 Complete project designs, including engineering, safeguard, project structure, economic analysis, financial assessment, procurement plan, and project implementation arrangements (Q1 2019–Q2 2024) (changed, ongoing)</p> <p>1.4 Prepare procurement documents and ready for tendering (Q1 2022–Q4 2024) (changed)</p> <p><b>2. Water projects prepared</b></p> <p>2.1 Carry out feasibility studies (Q2 2018–Q2 2021) (changed, ongoing)</p> <p>2.2 Conduct surveys (Q2 2018–Q1 2021) (changed, ongoing)</p> <p>2.3 Complete project designs, including engineering, safeguard, project structure, economic analysis, financial assessment, procurement plan, and project implementation arrangements (Q1 2019–Q1 2024) (changed, ongoing)</p> <p>2.4 Prepare procurement documents and ready for tendering (Q2 2020–Q4 2024) (changed)</p> <p><b>3. Rail, public transport, port, and airport projects prepared</b></p> <p>3.1 Carry out feasibility studies (Q2 2018–Q2 2021) (changed, ongoing)</p> <p>3.2 Conduct surveys (Q2 2018–Q1 2021) (changed, ongoing)</p> <p>3.3 Complete project designs, including engineering, safeguard, project structure, economic analysis, financial assessment, procurement plan, and project implementation arrangements (Q2 2018–Q1 2024) (changed, ongoing)</p> <p>3.4 Prepare procurement documents and ready for tendering (Q3 2018–Q4 2024) (changed, ongoing)</p> <p><b>4. Output 4 – Project management capacity of the government improved</b></p> <p>4.1 Prepare project preparation and/or implementation manuals (Q2 2020–Q1 2022) (ongoing)</p> <p>4.2 Approve project preparation and/or implementation manuals (Q4 2020–Q4 2022) (changed, ongoing)</p> <p>4.3 Conduct training and provide project implementation support to DOTr and DPWH staff (Q2 2018–Q4 2024) (changed)</p>			

<b>Inputs</b>	
<b>ADB Loan</b>	
	\$100,000,000 (ongoing)
	\$200,000,000 (additional)
	\$300,000,000 (overall)
<b>Government</b>	
	\$64,060,000 (ongoing)
	\$41,680,000 (additional)
	\$105,740,000 (overall)
<b>Assumptions for Partner Financing</b>	
Not applicable	

ADB = Asian Development Bank, DED = detailed engineering design, DOTr = Department of Transportation, DPWH = Department of Public Works and Highways, NEDA = National Economic and Development Authority, Q = quarter.

<sup>a</sup> Government of the Philippines, National Economic and Development Authority. 2017. *Philippine Development Plan, 2017–2022*. Manila.

Source: Asian Development Bank.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=50288-004-3>

1. Loan Agreement
2. Sector Assessment (Summary): Multisector
3. Project Administration Manual
4. Summary of Project Performance
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Risk Assessment and Risk Management Plan