



Technical Assistance Report

Project Number: 52083-006
Transaction Technical Assistance (TRTA)
August 2018

Republic of the Philippines: Railway Project Implementation Support and Institutional Strengthening

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 August 2018)

Currency unit	–	Philippine Peso (P)
P1.00	=	\$0.0189
\$1.00	=	P53.01

ABBREVIATIONS

ADB	–	Asian Development Bank
CIA	–	Clark International Airport
DMF	–	design and monitoring framework
DOTr	–	Department of Transportation
GAP	–	gender action plan
IPIF	–	Infrastructure Preparation and Innovation Facility
JICA	–	Japan International Cooperation Agency
km	–	kilometer
NAIA	–	Ninoy Aquino International Airport
NCR	–	National Capital Region
NSS	–	National Spatial Strategy
PDP	–	Philippine Development Plan
PNR	–	Philippine National Railway
TA	–	technical assistance

NOTES

- (i) The fiscal year of the Government of the Republic of the Philippines and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to United States dollars, unless otherwise stated.

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TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 52083-006
Project Name	Railway Project Implementation Support and Institutional Strengthening	Department/Division SERD/SETC
Nature of Activity	Project Preparation, Capacity Development	Executing Agency Department of Transportation
Modality	Regular	
Country	Philippines	
2. Sector	Subsector(s)	ADB Financing (\$ million)
		Total 0.00
3. Strategic Agenda	Subcomponents	Climate Change Information
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project Low
Environmentally sustainable growth (ESG)	Disaster risk management	
4. Drivers of Change	Components	Gender Equity and Mainstreaming
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change	No gender elements (NGE) ✓
Partnerships (PAR)	Bilateral institutions (not client government) Implementation	
Private sector development (PSD)	Official cofinancing Public sector goods and services essential for private sector development	
5. Poverty and SDG Targeting		Location Impact
Geographic Targeting	Yes	Not Applicable
Household Targeting	No	
SDG Targeting	Yes	
SDG Goals	SDG9	
6. Risk Categorization	Complex	
7. Safeguard Categorization	Safeguard Policy Statement does not apply	
8. Financing		
Modality and Sources		Amount (\$ million)
ADB		0.00
None		0.00
Cofinancing		2.00
Japan Fund for Poverty Reduction (Full ADB Administration)		2.00
Counterpart		0.00
None		0.00
Total		2.00

I. THE ENSUING PROJECT

1. The Government of the Philippines has requested the Asian Development Bank (ADB) to help finance the Malolos–Clark Railway Project (the project). The project will support the construction of the 51-kilometer (km) section of a new railway line connecting Metro Manila and the regional center in Clark and the Clark International Airport, located in the Central Luzon Region, around 100 km north of Manila. The new railway line will (i) provide affordable, reliable, and safe public transport; (ii) reduce greenhouse gas emissions; and (iii) cut the journey time by half to less than one hour. It is proposed that the project will be financed by a multitranche financing facility with an indicative amount of \$2 billion from regular ordinary capital resources. The project, for approval in 2019, is included in the Country Operations Business Plan: Philippines, 2018–2020 and will be cofinanced by Japan International Cooperation Agency (JICA).¹

2. **Sector Context.** In the Philippines, 98% of passenger transport and 55% of freight transport are handled by the road sector. Railways are operated only in Metro Manila, where currently three urban rail lines with a total length of 44 km are transporting 350 million passengers annually (2016). In addition, the Philippine National Railway (PNR) operates a suburban railway from Tutuban to Alabang (28 km), transporting 21 million passengers annually (2016). The PNR ceased operation of the railway service to the north in the 1980's; the rails have been removed but right-of-way is available for the project. Considering the population size and density of Metro Manila, the railway network is sparse, and the lack of high capacity public transport is one of the main reasons for the road congestion in Metro Manila, which impacts productivity and slows the economic growth. The air transport sector in the National Capital Region (NCR) has limited capacity to satisfy the growing demand. The Ninoy Aquino International Airport (NAIA) and the Clark International Airport (CIA) are the two major airports serving the NCR. Air passenger traffic has increased at about 10% in recent years. NAIA was handling around 37 million passengers in 2015, which is beyond the designed capacity of the airport. As a result, NAIA has been increasingly congested and expanding NAIA is constrained by its location within Metro Manila with no space available for major additional infrastructure required. Development of the CIA, which was handling around 1.5 million passengers in 2017, may help to ease capacity constraints in the air transport sector and the capacity of CIA will therefore be increased to 12 million passengers per annum by 2022.² To fully utilize the enhanced capacity of CIA, the connection to Manila needs to be improved, including rail based public transport.

3. **Alignment with a national strategy.** The Project will support the national spatial strategy (NSS) of the Philippine Development Plan (PDP) 2017–2022, which serves as the basis for policies on urban and infrastructure development in accordance with AmBisyon Natin 2040.³ The NSS recognizes the role of cities as engines of economic growth and poverty reduction, and infrastructure to provide efficient connective networks of sustainable communities. It aims to decongest Metro Manila and direct growth to other key areas and address spatial and socioeconomic inequalities by linking lagging regions with leading ones, rather than advocating the uniform dispersal of development. The Government's "Build, Build, Build" Program in which the Project is included, builds upon this national strategy. It aims to materialize ambitious goals of \$158 billion infrastructure investment or 7.3% of gross domestic product (GDP) by 2022.

¹ ADB. 2017. *Country Operations and Business Plan 2018–2020*. Manila.

² Clark International Airport. 2016. *Annual Report 2015*.

³ National Economic and Development Authority. 2017. *Philippine Development Plan 2017–2022*. Pasig City.

4. The NSS, therefore, aims to develop hierarchical regional centers and clusters outside the country's metropolitan regions to enhance economic development with improved Infrastructure such as housing, health care, education, employment opportunities and connectivity between the hierarchical regional centers. The Central Luzon Region, where the project area with Clark, CIA and New Clark City is located, is one of the growth areas. The New Clark city is under development to accommodate 1.2 million residents and 800,000 jobs in 2045 to become an administrative center for the country. The connection is supposed to be provided by a suburban rail and an expressway.⁴ The North Luzon Expressway has been developed with 4–8 lanes, there is however no suburban rail service in this section and the only mode of public transfer to commute between NCR and Clark City, CIA and New Clark City is by bus.

5. **Strategic Context.** The NSS builds on integration of leading and lagging areas and urban-rural linkages through transportation networks. Regional center development will be supported with suitable physical and human infrastructure including affordable housing, quality education, and healthcare, other social and economic services, and efficient urban management. The Government therefore develops New Clark City in Central Luzon as one of these regional centers with the CIA as a regional gateway. The railway network will be the backbone public transport system to New Clark City and CIA. Extending the railway network within Manila will help to decongest roads and reduce the high transport and logistics cost.

6. **Road Map.** Development of Clark as regional centers is in line with the NSS and will help to achieve the targets for accelerated economic growth. To provide access to Clark and CIA, the railway network will be established. The Malolos–Clark Railway is part of this railway network connecting New Clark City with Manila and Calamba. An extension for long-haul services to Southern Luzon will connect Manila with Legaspi City. To improve public transport in Manila, the government is extending two metro lines, constructing two additional lines and improving interchanges between the different lines and improve intermodal integration with buses and other modes of transport. The institutional capacity in the railway sector will be strengthened for efficient and timely planning, implementation, operation and maintenance of the expanded railway network.

7. **Indicative outcome and impact.** The impact of the proposed project is aligned with the targets in the PDP to (i) strengthen GDP growth to 7%–8% to achieve upper middle-income status by 2022; (ii) develop regional growth centers; and (iii) improve local, national, and international connectivity. The outcome will be an improved transport system in the Manila–Clark corridor by railway connection.

8. **Indicative output.** The project will help to (i) finance the construction of a 51 km new railway line with seven stations, integrating design features that are friendly to elderly people, women, children, and people with disabilities; (ii) improve the livelihood of project affected persons by a skills development program and (iii) support institutional strengthening of Department of Transportation (DOTr) for project and contract management.

II. THE TECHNICAL ASSISTANCE

A. Justification

9. The transaction technical assistance (TA) will help the government to prepare project

⁴ Japan International Cooperation Agency and National Economic Development Authority. 2014. *Roadmap Study for Transport Infrastructure Development of Metro Manila and its Surrounding Areas (Region III and Region IV-A)*. Manila.

implementation and project management, establish the institutional structure as required under the policy framework for the future railway sector in the Philippines and develop the capacity to manage operation and maintain the ensuing project.⁵

10. ADB's past involvement in the Philippine rail transport sector is limited. In 1976, ADB approved \$24.2 million loan to rehabilitate track and bridges on the South Line of the PNR. Despite a time overrun of six years, the project was only 75% complete in 1986 when the ADB loan was fully disbursed. The project completion report diagnosed that PNR had fundamental, technical, organizational and operational weakness.⁶ ADB resumed support to the rail transport sector in 2017 with the Infrastructure Preparation and Innovation Facility (IPIF), which aims to support capacity development and preparation of detailed design for transport projects.⁷ Subsequently, a consulting team was recruited under the IPIF to support the DOTr in the preparation and implementation of this project. The TA will supplement support from the IPIF, which is focusing on design and project management for works contracts, with support in the wider railway sector capacity development.

11. Today, the DOTr is the primary transport sector agency, which oversees policies, planning, operations, regulations, and investments. This multiple roles of DOTr caused delays in project definition and implementation in the past. To ensure sustainability and efficiency in the transport sector, the PDP aims to eliminate this dual role of DOTr acting as operator and regulator by (i) adopting a National Transport Policy; (ii) creating an independent regulatory body for the transport sectors; and (iii) creating an independent body for transport safety. Under this framework, a private sector entity will be selected to operate and maintain the Malolos–Clark Railway under a service contract. All assets financed by ADB and JICA will be owned by DOTr.

B. Outputs and Activities

12. **Output 1: Project Implementation Support.** Institutional capacity building will support DOTr in the project preparatory and early project implementation phase. Capacity development will include (i) consulting services to support DOTr in carrying out land acquisition, resettlement and livelihood skills development activities for project affected persons; (ii) consulting services to support procurement activities, (iii) consulting services to develop and implement a public communication strategy with project affected persons, other stakeholders and the wider public including project website; (iv) consulting services to develop and implement gender mainstreaming activities under the gender action plan; and (v) other support by consultants and trainings as required to accelerate project implementation schedule.

13. **Output 2: Railway Sector Policy Framework Development.** This component will support the assessment of the existing transport sector policy framework with focus on establishing a suitable regulatory framework and institutions to ensure reliable, inclusive, safe and sustainable operation of the project in 2022. The component will further support implementing any adjustments of the regulatory framework and establishing a safety regulator etc. as required to handover operation and maintenance (O&M) of the railway system to a private sector entity will be selected to operate and maintain the Malolos–Clark Railway under a service contract.

⁵ The TA first appeared in the business opportunities section of ADB's website on 10 August 2018.

⁶ ADB. 1987. *Project Completion Report. Philippine National Railways*. Manila (Loan 257-PHI).

⁷ ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Infrastructure Preparation and Innovation Facility to the Republic of the Philippines*. Manila (Loan 3589-PHI).

14. **Output 3: Institutional Capacity Strengthening.** Institutional capacity building will be conducted to establish and maintain a project management unit in DOTr. Support will also be provided for contract management for the O&M provider.

C. Cost and Financing

15. The TA is estimated to cost \$2,100,000 equivalent, of which \$2,000,000 will be financed on a grant basis from the Japan Fund for Poverty Reduction (JFPR) and administered by ADB. The key expenditure items are listed in Appendix 1. Cost of vehicle and civil servant travel costs are ineligible expenditures under this TA.

16. The government will provide counterpart support in the form of counterpart staff, access to existing data and information, facilitation of liaisons with stakeholders, and other in-kind contributions. The government was informed that approval of the TA does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

17. ADB will administer the TA. The Transport and Communications Division of the Southeast Asia Department will select, supervise, and evaluate consultants. DOTr, the executing agency of the government will provide necessary counterpart support and guide the implementation of the TA to achieve the TA outputs and desired outcomes within the agreed implementation period. The TA implementation will comply with the JFPR Policy Guidelines regarding the utilization and administration of the fund.

18. The implementation arrangements are summarized in the table.

Table: Implementation Arrangements

Aspects	Arrangements
Indicative implementation period	September 2018–August 2020
Executing agency	Department of Transportation
Consultants	To be selected and engaged by ADB
	Individual: Framework agreement or individual selection International and national expertise (121 person-months) \$1,370,000
Advance contracting	Consultant contracts are being proposed for advance contracting.
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).
Asset turnover or disposal arrangement upon TA completion	The equipment will be turned over to the recipient government agency or disposed of in accordance with ADB's instructions.

ADB = Asian Development Bank; TA = technical assistance.

Source: Asian Development Bank estimates.

19. **Consulting services.** ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.⁸ Single source selection is proposed for consultants already engaged

⁸ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).

under the IPIF (footnote 7); this will apply especially to the following positions: railway policy specialist, railway sector specialist, railway network planner, and railway network modeler.

III. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the ADB administering technical assistance not exceeding the equivalent of \$2,000,000 to the Republic of the Philippines to be financed on a grant basis by the Japan Fund for Poverty Reduction for Railway Project Implementation Support and Institutional Strengthening, and hereby reports this action to the Board.

Takehiko Nakao
President

22 August 2018

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
A. Japan Fund for Poverty Reduction^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	875.0
ii. National consultants	495.0
b. Out-of-pocket expenditures	
i. International and local travel	95.0
ii. Office space rental and related facilities	50.0
iii. Goods (rental and/or purchase)	35.0
iv. Training, seminars, and conferences	50.0
v. Reports and communications	25.0
vi. Printed external publications	75.0
vii. Miscellaneous administration and support costs	50.0
2. Surveys	85.0
3. Contingencies	165.0
Total	2,000.0

Note: The technical assistance (TA) is estimated to cost \$2,100,000, of which contributions from an ADB Trust Fund are presented in the table above. The government will provide counterpart support in the form of counterpart staff, data and information access, facilitation of liaisons with stakeholders, and other in-kind contributions. The value of government contribution is estimated to account for 4.8% of the total TA cost.

^a Administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/documents/linkedddocs/?id=52083-006-tareport>

1. Terms of Reference for Consultants