



Report and Recommendation of the President to the Board of Directors

Project Number: 41076-048
November 2017

Proposed Loan Republic of the Philippines: Improving Growth Corridors in Mindanao Road Sector Project

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 November 2017)

Currency unit	–	peso/s (₱)
₱1.00	=	\$0.02
\$1.00	=	₱51.98

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
BCS	–	broad community support
BIMP-EAGA	–	Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area
DPWH	–	Department of Public Works and Highways
IEE	–	initial environmental examination
km	–	kilometer
LIBOR	–	London interbank offered rate
NCIP	–	National Commission on Indigenous Peoples
PAM	–	project administration manual
PPRR	–	project procurement-related review
RIPF	–	resettlement and indigenous peoples framework
RIPP	–	resettlement and indigenous peoples plan
ROW	–	right-of-way
UPMO	–	Unified Project Management Office

NOTE

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

Vice-President	Stephen Groff, Operations 2
Director General	Ramesh Subramaniam, Southeast Asia Department (SERD)
Directors	Hiroaki Yamaguchi, Transport and Communications Division, SERD Richard Bolt, Philippines Country Office, SERD
Team leader	Jeffrey Miller, Principal Transport Specialist, SERD
Team members	Joven Balbosa, Principal Country Specialist, SERD Nilo Farrofo, Senior Project Officer, SERD Uzma Hoque, Senior Social Sector Specialist, SERD Margarita Javier, Senior Project Assistant, SERD Shuji Kimura, Transport Specialist, SERD Baurzhan Konysbayev, Principal Counsel, Office of the General Counsel Laurence Levaque, Social Development Specialist (Gender and Development), SERD Valerie Lisack, Transport Specialist, SERD Girard Pacifico Marin, Senior Security and Emergency Services Officer, Office of Administrative Services C. Janyna Rhor, Senior Procurement Specialist, Operations Services and Financial Management Department (OSFMD) Jason Rush, Principal Operations Communications Specialist, SERD Michiko Suga, Social Development Specialist, SERD Hiet Thi Hong Tran, Procurement Specialist, OSFMD Astra Velasquez, Safeguards Specialist (Environment), SERD
Peer reviewer	Balabhaskara Reddy Bathula, Principal Project Management Specialist, South Asia Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

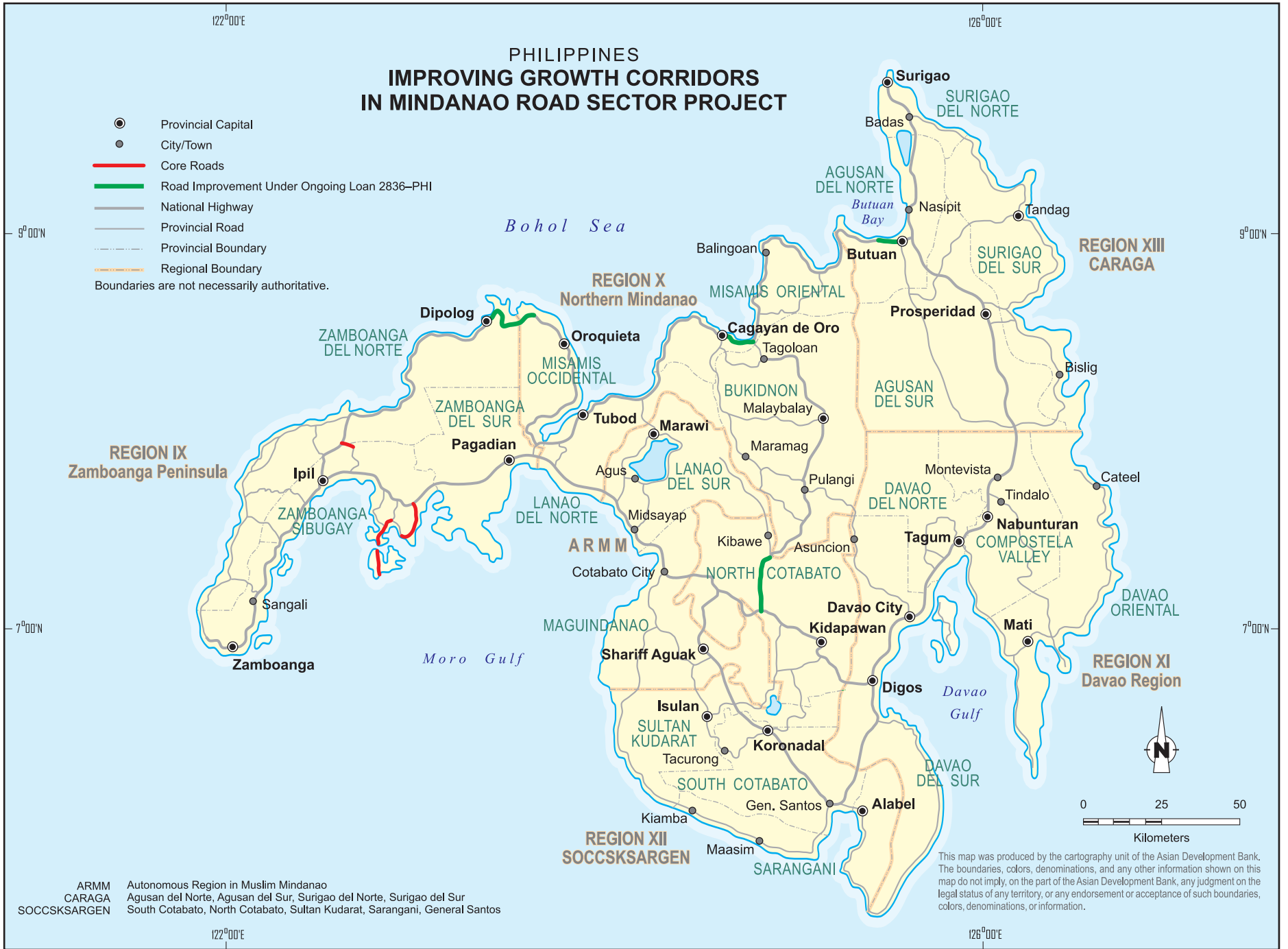
	Page
PROJECT AT A GLANCE	
MAP	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	3
C. Outputs	3
D. Summary Cost Estimates and Financing Plan	4
E. Implementation Arrangements	5
III. DUE DILIGENCE	6
A. Technical	6
B. Economic and Financial	6
C. Governance	7
D. Poverty, Social, and Gender	8
E. Safeguards	8
F. Summary of Risk Assessment and Risk Management Plan	10
IV. ASSURANCES	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14

PROJECT AT A GLANCE

1. Basic Data		Project Number: 41076-048	
Project Name	Improving Growth Corridors in Mindanao Road Sector Project	Department /Division	SERD/SETC
Country Borrower	Philippines Government of the Philippines	Executing Agency	Dept. of Public Works & Highways
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		380.00
		Total	380.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	33.20
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	Medium
Regional integration (RCI)	Pillar 4: Other regional public goods		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Anticorruption	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Institutional development		
Partnerships (PAR)	Application and use of new knowledge solutions in key operational areas		
Private sector development (PSD)	International finance institutions (IFI) Official cofinancing Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG9		
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: A Indigenous Peoples: A		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		380.00	
Sovereign Sector (Regular Loan): Ordinary capital resources		380.00	
Cofinancing		0.00	
None		0.00	
Counterpart		123.00	
Government		123.00	
Total		503.00	

PHILIPPINES IMPROVING GROWTH CORRIDORS IN MINDANAO ROAD SECTOR PROJECT

- Provincial Capital
 - City/Town
 - Core Roads
 - Road Improvement Under Ongoing Loan 2836-PHI
 - National Highway
 - Provincial Road
 - - - Provincial Boundary
 - - - Regional Boundary
- Boundaries are not necessarily authoritative.



ARMM Autonomous Region in Muslim Mindanao
 CARAGA Agusan del Norte, Agusan del Sur, Surigao del Norte, Surigao del Sur
 SOCCSKSARGEN South Cotabato, North Cotabato, Sultan Kudarat, Sarangani, General Santos

This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.

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 Improving Growth Corridors in Mindanao Road Sector Project.

2. The project will help the Government of the Philippines strengthen economic and physical linkages in Mindanao, which has the highest poverty incidence of the Philippines' three island groups. It will do this by improving the road transport network in Mindanao through the improvement of national roads in Mindanao, financing detailed design for the improvement of additional highways in the future, and strengthening the institutional capacity of the Department of Public Works and Highways (DPWH).

II. THE PROJECT

A. Rationale

3. The road subsector is the most important transport subsector in the Philippines. The national road network comprises 29,630 kilometers (km), or 14% of the total road network, and includes the main trunk roads, national primary arterial roads, and national secondary roads. An efficient road transport subsector is crucial for the Philippines' economic growth and poverty reduction. Despite its importance to the national economy, the road subsector has not received adequate funding. Expansion or improvement of the network has not kept pace with population growth, and many roads deteriorate prematurely because of inadequate maintenance. Government funding for the road network has been increasing in recent years. However, about 23% of the national road network is in poor condition and in need of rehabilitation. This contributes to the rising number of road accidents in the Philippines. The increasing impact of climate change, particularly flooding, is having a negative effect on the road network. Mindanao's road network is less developed than the national network. While 82% of the national roads in Luzon and 89% in Visayas are paved, only 70% of the national roads in Mindanao are paved.

4. Mindanao is the second largest island in the Philippines, with a population of more than 20 million people. Despite being rich in natural resources, Mindanao has the highest poverty incidence of the Philippines' three island groups (Luzon, Visayas, and Mindanao), with a rate of 36.2%.¹ This is largely because of civil conflict and low economic growth. Despite significant development in recent years, a number of infrastructure targets in the government's Mindanao 2000 plan were not achieved because of the lack of coherent plans, inadequate government financial resources, and underinvestment, especially by the private sector due to perceptions of the civil conflict.² The government, Japan International Cooperation Agency, the World Bank, and the Australian Agency for International Development have completed or are implementing national or provincial road improvement projects in Mindanao. However, a large part of the road network in Mindanao remains in need of improvement.

5. The transport sector is governed by the National Transport Policy, which was approved in June 2017. The policy focuses on (i) resource generation and allocation; (ii) criteria for the preparation of agency plans, programs, and projects; (iii) cost recovery; (iv) regulation of passenger transport; (v) urban transport; (vi) transport logistics; and (vii) governance. The sector

¹ Government of the Philippines, National Economic and Development Authority. 2017. *Philippine Development Plan, 2017–2022*. <http://pdp.neda.gov.ph/wp-content/uploads/2017/01/PDP-2017-2022-07-20-2017.pdf>.

² Mindanao Development Authority. 2011. *Mindanao 2020: Peace and Development Framework Plan, 2011–2030*. Davao City.

development plan is set forth in the *Philippine Development Plan, 2017–2022* (footnote 1). Institutional capacity of the DPWH has improved significantly over the last decade, with assistance provided by ADB and other development partners. However, capacity development is a long-term process, and additional improvement is needed, particularly in regional offices.

6. Mindanao plays a key role in the Philippines' participation in regional cooperation initiatives. It comprises most of the Philippine territory in the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP-EAGA) Greater Sulu Sulawesi Corridor.³ The project is aligned with Strategic Pillar I (Enhancing connectivity within BIMP-EAGA as well as with other regions outside of BIMP-EAGA) of the BIMP-EAGA Implementation Blueprint, 2012–2016.⁴ Improving roads in Mindanao will support the development of agribusiness, ecotourism, and logistics, contributing to the development of the Greater Sulu Sulawesi Corridor.

7. The project supports the government's priorities for improvement of the country's road network and development of Mindanao (footnote 1). It also supports the key objective of ADB's strategy for the Philippines of helping the country achieve high, inclusive, and sustainable growth.⁶ The project is consistent with the midterm review of ADB Strategy 2020 through its focus on improving the delivery of infrastructure services as well as investing in physical assets.⁷ It supports regional cooperation and integration by contributing to the implementation of the ASEAN Highway and BIMP-EAGA Priority Infrastructure Projects. It supports ADB's Sustainable Transport Initiative⁸ by addressing climate change and road safety, and is included in ADB's Philippines Transport Sector Assessment, Strategy, and Road Map.⁹

8. **Lessons learned.** ADB approved the Road Improvement and Institutional Development Project in December 2011.¹⁰ The project includes periodic maintenance of about 340 km of national roads in Luzon, Visayas, and Mindanao; institutional capacity development for the DPWH; and consulting services for project supervision and preparation of detailed engineering design for future projects. The primary lesson learned from the Road Improvement and Institutional Development Project is the risk of delays in procurement, which were caused by the DPWH's lack of familiarity with ADB procedures and weak capacity. The capacity of the DPWH regional and district offices involved in implementation will be strengthened under the project. Training on procurement for the DPWH staff will also be conducted. ADB conducted a project procurement-related review (PPRR) of the project in 2015.¹¹ The PPRR concluded that the DPWH and the Unified Project Management Office (UPMO) had established a reasonably effective control environment, which generally provided assurance that the project procurement, financial management, and contract implementation adhere to the relevant policies, guidelines, and loan agreement. The PPRR, however, identified two issues that would not prevent the accomplishment of project objectives, but might result in financial loss should they recur: (i) the need for improved quality of evaluation of bids, and (ii) noncompliance with the bid and

³ ADB. 2017. *BIMP-EAGA Investment Opportunities in Corridor Value Chains*. Manila.

⁴ ADB. 2012. *BIMP-EAGA Implementation Blueprint, 2012–2016*. Manila.

⁶ ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila.

⁷ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

⁸ ADB. 2010. *Sustainable Transport Initiative: Operational Plan*. Manila.

⁹ ADB. 2012. *Philippines Transport Sector Assessment, Strategy, and Road Map*. Manila. Available at: <https://www.adb.org/sites/default/files/institutional-document/33700/files/philippines-transport-assessment.pdf>

¹⁰ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan to the Republic of the Philippines for the Road Improvement and Institutional Development Project*. Manila (Loan 2836-PHI).

¹¹ ADB. 2015. *Project Procurement-Related Review: Road Improvement and Institutional Development Project*. Manila. (Loan 2836-PHI).

performance securities and insurance policy requirement. The PPRR made six recommendations to the UPMO and the Bids and Awards Committee. The recommendations will be addressed in procurement under the project.

9. **Special features and value addition.** The project has several special features. The design of the project roads will include climate change adaptation measures incorporating structural and nonstructural features. To facilitate public participation in strengthening governance, all project roads will be geotagged with information accessible to the public on the internet.¹² Community awareness campaigns will be conducted to improve road safety on the project roads. ADB's financing adds significant value to the project. The use of ADB's sector loan modality allows the government to concentrate road improvement activities in Mindanao and provides flexibility in determining the most appropriate location for subprojects, given changing political and security conditions in Mindanao. ADB's leadership in promoting regional cooperation and integration in Southeast Asia will facilitate Mindanao's realization of regional as well as national benefits. The project will support other initiatives promoting growth in Mindanao. The three core subprojects will help link the mariculture and trade cluster in western Mindanao with the four other Mindanao development clusters being promoted by the Mindanao Development Authority.¹³ The project will also contribute to and benefit from the development of the BIMP-EAGA Greater Sulu Sulawesi Corridor (footnote 3), which encompasses Mindanao. ADB has a longstanding and ongoing relationship with the DPWH, which covers improvement of physical infrastructure as well as strengthening institutional capacity. This productive relationship will greatly facilitate project implementation.

B. Impact and Outcome

10. The project is aligned with the following impact: strengthened economic and physical linkages in Mindanao.¹⁴ The project will have the following outcome: improved efficiency and safety of selected sections of the road transport network in Mindanao.¹⁵

C. Outputs

11. **Output 1: Selected sections of road transport network in Mindanao improved.** The project will improve an estimated 280 km of national primary, secondary, and tertiary roads and bridges in Mindanao. The improvements will include paving earth roads, replacing damaged road sections, widening existing roads, adding surface overlays, and replacing and strengthening bridges. The project roads will be designed with features to strengthen resilience to climate change. Among the structural and nonstructural features included are elevated pavement levels, enhanced slope protection, and improved maintenance of drainage structures. Road safety on these roads will be improved through road safety community awareness campaigns. Three core roads located on the Zamboanga peninsula in western Mindanao (Region IX), with a total length of 78 km, have been appraised for inclusion in the project.¹⁶ Consultants for the ongoing ADB-funded project (footnote 10) prepared the detailed design for the core roads, and will prepare the detailed design for the non-core roads. The government will propose additional roads, which will have to meet the

¹² Geotagging provides the exact location of a road using Global Positioning System (GPS) technology and, when linked with DPWH institutional monitoring systems, it provides a mechanism to monitor road investment projects throughout the project life cycle, including procurement and construction.

¹³ Mindanao Development Authority. 2014. *Mindanao Development Corridors*. <http://minda.gov.ph/project-management-and-coordination/mindanao-development-corridors-mindc>

¹⁴ Government of the Philippines, National Economic and Development Authority. 2010. *Mindanao Strategic Development Framework, 2010–2020*. Manila.

¹⁵ The design and monitoring framework is in Appendix 1.

¹⁶ The roads are Alicia–Malangas, Tampilisan–Sandayong, and Lutiman–Guicam–Olutanga.

following criteria to be included in the project: location in Mindanao, and thresholds of the government and ADB on economic viability and environmental and social safeguards.

12. **Output 2: Detailed engineering design for improvement of roads in other projects completed.** The project will finance detailed design drawings and bills of quantities for the improvement of 300 km of national highways in Mindanao, to be improved under other projects. The government will determine the roads for which the detailed design will be prepared. The design will incorporate features to strengthen resilience to climate change.

13. **Output 3: Institutional capacity of the Department of Public Works and Highways in multiyear planning, fiscal accountability, and human resource management strengthened.** The project will improve the institutional capacity of the DPWH to make management of the transport sector more efficient and contribute to improved operations of the transport sector in Mindanao and nationwide. Strengthening of the DPWH's institutional capacity will take place in regional offices and at headquarters. Training in multiyear planning will be carried out exclusively in the DPWH regional offices, while the new human resources database system integrating all DPWH operations will be made operational in all DPWH offices. Making the new online system for budgeting and fiscal monitoring operational, and the provision of support in supervising regional planning, will take place at the DPWH headquarters. To ensure the sustainability of the investment in the new systems, the project will provide operational training to the DPWH staff.

D. Summary Cost Estimates and Financing Plan

14. The project is estimated to cost \$503 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).¹⁷ The government has requested a regular loan of \$380 million from ADB's ordinary capital resources to help finance the project. The loan will have a 30-year term, including a grace period of 7 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 (the interest and other charges during implementation to be capitalized in the loan); and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 18.75 years, and the maturity premium payable to ADB is 0.20% per year.

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount
A. Base Cost^a	
1. Output 1: Selected sections of road transport network in Mindanao improved	372.0
2. Output 2: Detailed engineering design for improvement of roads in other projects completed	10.3
3. Output 3: Institutional capacity of the Department of Public Works and Highways in multiyear planning, fiscal accountability, and human resource management strengthened	14.3
Subtotal (A)	396.6
B. Contingencies^b	78.2
C. Financial Charges During Implementation^c	28.2
Total (A+B+C)	503.0

^a Includes taxes and duties of \$19.83 million, which will be financed by the government.

^b In mid-2017 prices.

^c Physical contingencies computed at 10% of base costs. Price contingencies computed at average of 5.8% on foreign exchange costs and 11.9% on local currency costs.

^c Includes interest and commitment charges. Interest during construction has been computed at the 5-year United States dollar fixed swap rate plus an effective contractual spread of 0.5% and maturity premium of 0.2%. Commitment charges for the loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

¹⁷ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

15. Use of the sector loan will enable the government to achieve inclusive economic development by concentrating road improvement subprojects in Mindanao; and will provide flexibility in determining the most appropriate location for subprojects, given the changing political and security conditions in Mindanao. The project meets all the requirements for a sector loan:¹⁷ (i) the government has a sector development plan and the institutional capacity to implement it, (ii) its policies applicable to the sector are appropriate, and (iii) the DPWH has demonstrated capacity.

16. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to civil works, project implementation consultants, and capacity development.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	380.0	75.5
Government of the Philippines	123.0	24.5
Total	503.0	100.0

Source: Asian Development Bank estimates.

17. Climate adaptation is estimated to cost \$39 million. ADB will finance 85.2% of such costs.

E. Implementation Arrangements

18. The DPWH will be the executing agency for the project. The existing UPMO will be directly responsible for the day-to-day implementation of the project. The DPWH and UPMO are implementing the ongoing ADB-financed road project, and have a sound understanding of ADB policies and procedures. The project director will work full-time on the project, under the supervision of the UPMO director, and will be responsible for the day-to-day management of the project. The environment and social services division of the DPWH will be responsible for implementation of the environmental and social aspects of the project. Additional financing by ADB may be considered if the project performs well. The implementation arrangements are summarized in Table 3 and described in detail in the PAM.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	March 2018–December 2023		
Estimated completion date	31 December 2023		
Estimated loan closing date	30 June 2024		
Management			
(i) Executing agency	Department of Public Works and Highways		
(ii) Key implementing agencies	Unified Project Management Office Roads Management Cluster II (multilateral)		
(iii) Implementation unit	Manila, 15 staff		
Procurement	International competitive bidding	12 contracts	\$299.7 million
Consulting services	Quality- and cost-based selection	3,900 person-months	\$43 million

¹⁷ ADB. 1999. *Review of the Bank's Sector Lending Policies*. Manila.

Aspects	Arrangements
Advance contracting	Procurement of core subprojects estimated at \$72 million will commence before loan effectivity. Recruitment of construction supervision consultants will commence before loan effectivity.
Disbursement	The loan proceeds will be disbursed following 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.
Source: Asian Development Bank.

19. The DPWH has taken actions to ensure a high degree of project readiness. The detailed design for the three core subprojects has been completed, and bidding documents will be issued before loan effectivity.

III. DUE DILIGENCE

A. Technical

20. The project's technical viability has been confirmed through the project preparatory technical assistance. The detailed design for the three core roads has been completed. The design is for two-lane 6.7-meter wide concrete roads, which meet DPWH technical criteria and are based on proven construction technology in Mindanao. Adaptation measures related to elevation of pavement, slope protection, and maintenance practices have been incorporated in the project design to reduce climate change risks. Based on the Preliminary Climate Risk Screening Checklist, the subproject road is in the *medium risk* category. Potential impacts caused by floods, landslides, and the increase in precipitation were considered during project preparation. Corresponding adaptation measures have been formulated as part of the climate change assessment carried out for the project.¹⁹ Among the structural and nonstructural adaptation measures included in the road designs and project cost estimates are increased pavement elevation levels, enhanced slope protection, and intensified maintenance of drainage structures.

B. Economic and Financial

21. **Economic.** The three core project roads are economically viable. The project will improve the condition of these roads by replacing the gravel surface with a concrete pavement. Three main benefits were identified and estimated for inclusion in the project's economic viability assessment: (i) reduced vehicle operating costs, (ii) savings from reduced transport time, and (iii) generated traffic. The economic internal rate of return of the three core project roads ranges from 10.4% to 19.1%, and the net present value ranges from \$2.0 million to \$37.0 million. In addition to quantified benefits, communities in the areas of influence will benefit indirectly through improved connectivity with better access to markets, economic opportunities, and government and other social services such as education and health.

22. **Financial.** Financial analysis shows that the funding for maintenance of national roads in the Philippines has increased significantly since 2010. Funding for routine maintenance increased at an average annual growth rate of about 25% from 2010 to 2017. Funding for more intensive maintenance and rehabilitation, reconstruction, and upgrading of national roads stayed at about the same level in 2017 as 2011; however, funding for these activities increased at an average annual growth rate of about 16% from 2015 to 2017. Maintenance of the improved project roads

¹⁹ Climate Change Assessment (accessible from the list of linked documents in Appendix 2).

with their concrete pavement will be less expensive than maintenance of the roads with their current gravel surface. Based on the trend of increasing funding for maintenance of national roads and the lower funding requirement for maintaining the improved project roads, it is considered reasonable to expect that the government will provide sufficient financing for the maintenance of the project roads and that the project is financially sustainable.

C. Governance

23. The financial management assessment of the DPWH confirmed that the financial management risk is *substantial* and that the DPWH has sufficient capacity to manage and maintain the accounting systems, financial controls, and audit arrangements required for the project. High risks are related to the use of advance account procedures and financial reporting. The DPWH does not have experience using advance account procedures (formerly known as imprest account procedures) and will require training and guidance in their proper use. ADB will provide consultant support to mitigate these risks and build capacity by making financial and management systems operational and training staff in their use. Other risks are assessed *moderate* to *low*. The DPWH's financial accounting, auditing rules, and internal control systems follow generally accepted international accounting and auditing practices. The DPWH follows the Philippine Public Sector Accounting Standards, which have been harmonized with the International Public Sector Accounting Standards. The Commission on Audit, which is the Supreme Audit Institution, follows the Philippine Public Sector Standards on Auditing, which are in harmony with the International Organization of Supreme Audit Institutions framework of professional standards. The DPWH maintains separate project records and accounts to identify the works, goods, and services financed from the loan proceeds, financing resources received, expenditures incurred for the project, and use of counterpart funds, including adequate internal controls and financial reporting arrangements. The Commission on Audit will audit the project accounts and related financial statements annually. To facilitate public participation in strengthening governance, all project roads will be geotagged with information accessible to the public on the internet through the DPWH's project and contract management application system.

24. ADB and the government will undertake a number of measures to improve DPWH's financial management capacity under the proposed and ongoing projects. The project will improve the institutional capacity of the DPWH by making operational DPWH's new online system for budgeting and fiscal monitoring and providing operational training. A national financial management expert will be engaged to assist the DPWH during the first 5 years of project implementation. The TA for Strengthening Infrastructure Capacity and Innovation for Inclusive Growth will assist DPWH and other agencies to improve project management and monitoring using international best practices and experts in the areas of project management.²⁰ The Road Improvement and Institutional Development Project (footnote 10) is strengthening DPWH's fiscal accountability by financing the completion of the implementation of the financial information management system and business process reengineering in DPWH.

25. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the DPWH. The specific policy requirements and supplementary measures are described in the PAM (footnote 17).

²⁰ ADB. 2017. *Technical Assistance to the Republic of the Philippines for Strengthening Infrastructure Capacity and Innovation for Inclusive Growth*. Manila.

D. Poverty, Social, and Gender

26. The project is a general intervention with indirect poverty reduction impacts. It was subject to social assessment using meaningful consultation as a key strategy to incorporate issues, concerns, voices, and participation of stakeholders in the project preparation, implementation, monitoring, and reporting. Potential benefits and positive impacts and anticipated adverse impacts were identified during consultations and the social assessment. To mitigate potential adverse impacts, required key actions have been prepared under the various project components. The project is classified *effective gender mainstreaming*. Gender issues cover a range of concerns including livelihood, abuse, and trafficking of women and children. While the project outcome does not specifically address gender equality, project outputs are designed to deliver benefits to women by directly improving their access to social services, economic or financial resources or opportunities, and basic infrastructure. A gender action plan²¹ has been prepared and a gender strategy is incorporated in the resettlement and indigenous peoples framework (RIPF)²² and ensuing plans. The gender action plan has several targets concerning the participation of women in the project. At least 50% of road safety community facilitators will be women. Women will comprise 25% of the participants in the training in multiyear planning carried out in 13 DPWH regional offices. Women will comprise at least 25% of participants in the support in supervising regional planning provided to the DPWH headquarters.

E. Safeguards

27. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.²³

28. **Environment (category B).** The project is classified category B for environment. An environmental assessment and review framework²⁴ has been prepared to ensure that subprojects to be prepared during implementation comply with ADB's Safeguard Policy Statement and Philippine laws. The 17 km core subproject (Tampilisan–Sandayong Road) in Zamboanga del Norte does not pass through environmentally sensitive areas, and about 90% of land use along the road is agricultural/cropland. Results of the initial environmental examination (IEE)²⁵ showed that the proposed road improvement works will not cause significant adverse environmental impacts. Anticipated impacts during construction and operation have been assessed, and mitigation measures have been formulated to reduce these to acceptable levels. The environmental management plan will be incorporated in civil works contracts to guide the DPWH, the supervision consultant, and contractors in managing, monitoring, and reporting environmental impact mitigation and compliance. The DPWH has an Environmental and Social Services Division staffed with environmental specialists experienced in implementing ADB projects. Public consultations were conducted during IEE preparation, involving stakeholders such as local residents and representatives from the local government units, women's organizations, and the business sector. A grievance redress mechanism has been formulated and will be implemented to facilitate resolution of project-related environmental impacts. The environmental assessment and review framework and the IEE have been disclosed on the ADB website. The IEEs for the other two core subprojects are under preparation.

²¹ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

²² Resettlement and Indigenous Peoples Framework (accessible from the list of linked documents in Appendix 2).

²³ ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

²⁴ Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

²⁵ Initial Environmental Examination (accessible from the list of linked documents in Appendix 2).

29. **Involuntary resettlement (category A).** The project will involve road improvements to include widening, realignment, and slope protection that will require land acquisition. Land acquisition will trigger physical and economic displacement within the 30-meter road right-of-way (ROW). Temporary loss or disruption of land use or other assets during construction work, particularly the movement of construction materials to and from work sites, is also expected. Resettlement impacts on indigenous peoples are also anticipated. A RIPP has been prepared for the sector project to cover the core and non-core subprojects. A resettlement and indigenous peoples plan (RIPP)²⁶ has been prepared for one of the core subprojects, the Tampilisan–Sandayong road, in accordance with ADB’s Safeguard Policy Statement. This subproject will entail land acquisition for the ROW resulting in 415 potentially affected households, with 78 affected households deemed for relocation. The plan will ensure measures for affected households to assist them in maintaining, if not improving, their socioeconomic pre-project conditions. Measures in the plan include procedures for stakeholder engagement through meaningful consultation and participation as well as timely information disclosure, grievance redress mechanisms, institutional arrangements, capacity building, and the necessary budgetary allocation for plan implementation. All these measures have been disclosed to the affected households through consultation and dissemination of public information booklets, consistent with a harmonization of Philippine laws and ADB’s Safeguard Policy Statement. Specific arrangements for compensation of APs, to be coordinated by the DPWH and partner agencies, include (i) job placement or temporary work during construction, (ii) social services and nutritional programs, (iii) vocational skills training, (iv) an agricultural enhancement program, and (v) linkages to cooperatives to facilitate economic support. The RIPP and RIPP have been uploaded on the ADB website. The RIPP for the other two core subprojects are in an advanced state of preparation.

30. **Indigenous peoples (category A).** Indigenous peoples are present in the project area for the core roads on the Zamboanga Peninsula, and largely belong to the Subanen, Iranun, Samal, Maguindanaon, Tausug, Yakan, Maranao, and Kalibugan indigenous peoples groups. The RIPP upholds the conditionalities for broad community support (BCS) and will seek the consent of affected indigenous peoples communities through the certificate precondition/free prior informed consent process as embodied under the Indigenous Peoples Rights Act, 1997. For Muslims as indigenous peoples, BCS will be observed through the provincial local government unit.²⁷ For a project component or subproject requiring BCS, the lack or absence of BCS will make the subproject ineligible for loan proceeds. The National Commission on Indigenous Peoples (NCIP) is assessing the Tampilisan–Sandayong road for issuance of the certificate precondition as provided in the RIPP.²⁸ Under the Tampilisan–Sandayong road subproject, land acquisition for the new ROW will trigger physical and economic displacement. Among the 415 affected households, 24 are indigenous peoples (23 Subanen and 1 Kolibugan). The generalized culture is lowland central Philippines focused on wet rice cultivation, and some localized swidden cultivation. Project encroachment on ancestral domains will be avoided as traditional/customary modalities of livelihood systems are preserved in these areas. However, other culture traits exhibited beyond the domain may be at risk, such as agroforestry systems/home gardens as food production systems. Positive and negative impacts resulting from the project are addressed in a combined RIPP anchored on the RIPP that embodies measures for meaningful consultation and participation as well as timely information disclosure, grievance redress mechanisms, institutional arrangements, capacity building, and the necessary budgetary allocation for plan implementation.

²⁶ Resettlement and Indigenous Peoples Plan (accessible from the list of linked documents in Appendix 2).

²⁷ Organic Act of the Autonomous Region of Muslim Mindanao (RA 9054, 2001).

²⁸ The NCIP has constituted the field-based investigation team, and prepared the work and financial plan in May 2017, together with the authorized DPWH representatives. The NCIP Region IX approved the plan, and the DPWH concurred on 17 July 2017. The field-based investigation team fee was deposited in a NCIP Region IX trust account.

F. Summary of Risk Assessment and Risk Management Plan

31. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁹

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Unstable security conditions delay or prevent implementation of civil works.	Provisions for security advisors have been included in the cost estimates for civil works and supervision consultants.
Life span of project roads does not meet design standard.	The executing agency will monitor closely the quality of detailed design and construction, and ensure the effective use of existing road condition surveys and pavement and maintenance management systems.

Source: Asian Development Bank.

IV. ASSURANCES

32. The government and the DPWH 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.

33. The government and the DPWH have agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreement.

V. RECOMMENDATION

34. 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 \$380,000,000 to the Republic of the Philippines for the Improving Growth Corridors in Mindanao Road Sector Project from ADB's ordinary capital resources, on regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 30 years, including a grace period of 7 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

21 November 2017

²⁹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
management strengthened	<p>(2017 baseline: 0 staff in 13 DPWH regional offices)</p> <p>3b. By 2024, 20 staff in DPWH headquarters, of which at least 25% are women, report increased knowledge on regional planning (2017 baseline: 0 staff)</p> <p>3c. By 2022, online system for budgeting and fiscal monitoring developed and operationalized (2017 baseline: not operational)</p> <p>3d. By 2024, 20 staff in DPWH headquarters, of which at least 25% are women, report increased knowledge in operating the online system for budgeting and fiscal monitoring (2017 baseline: 0 staff)</p> <p>3e. By 2022, human resource database system integrating all DPWH operations and reporting sex-disaggregated data developed and operationalized (2017 baseline: not operational)</p> <p>3f. By 2024, 60 staff in DPWH offices, of which at least 25% are women, report increased knowledge in operating the human resource database system (2017 baseline: 0 staff)</p>		
<p>Key Activities with Milestones</p> <p>1. Selected sections of road transport network in Mindanao improved</p> <p>1.1 Recruit project supervision consultants by June 2018</p> <p>1.2 Complete land acquisition and resettlement activities for core roads by March 2019</p> <p>1.3 Award civil works contracts for core roads by June 2018 and complete by June 2022</p> <p>1.4 Award civil works contracts for noncore roads by June 2020 and complete by June 2024</p> <p>1.5 Complete land acquisition and resettlement activities for non-core roads by December 2020</p> <p>2. Detailed engineering design for improvement of roads in other projects completed</p> <p>2.1 Recruit detailed design consultants by March 2019</p> <p>2.2 Complete detailed designs by June 2024</p> <p>3. Institutional capacity of the Department of Public Works and Highways in multiyear planning, fiscal accountability, and human resource management strengthened</p> <p>3.1 Recruit consultants by December 2019 and complete services by June 2024</p> <p>3.2 Install systems by 2021</p> <p>3.3 Make systems operational and complete training by 2024</p>			

Inputs Asian Development Bank: \$380 million Government of the Philippines: \$123 million
Assumptions for Partner Financing Not applicable

DPWH = Department of Public Works and Highways, km = kilometer.

^a National Economic and Development Authority. 2010. *Mindanao Strategic Development Framework, 2010–2020*. Manila.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=41076-048-3>

1. Loan Agreement: Ordinary Operations
2. Sector Assessment (Summary): Transport
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Climate Change Assessment
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Initial Environmental Examination
12. Environmental Assessment and Review Framework
13. Resettlement and Indigenous Peoples Plan
14. Resettlement and Indigenous Peoples Planning Framework
15. Risk Assessment and Risk Management Plan

Supplementary Document

16. Financial Management Assessment