



Validation Report

Reference Number: PCV: PHI 2008-29
Project Number: 28270
Loan Number: 1536
August 2008

Philippines: Third Airports Development Project (Southern Philippines)

Operations Evaluation Department

Asian Development Bank

ABBREVIATIONS

| | | |
|-----------|---|---|
| ADB | – | Asian Development Bank |
| ADF | – | Asian Development Fund |
| ATO | – | Air Transportation Office |
| BIMP-EAGA | – | Brunei Darussalam-Indonesia-Malaysia-Philippines East Association of Southeast Asian Nations (ASEAN) Growth Area |
| DOTC | – | Department of Transportation and Communications |
| ICAO | – | International Civil Aviation Organization |
| LAR | – | land acquisition and resettlement |
| LARP | – | land acquisition and resettlement plan |
| OCR | – | ordinary capital resources |
| OED | – | Operations Evaluation Department |
| PBAC | – | prequalification bidding and awards committee |
| PCR | – | project completion report |
| PIU | – | project implementation unit |
| RRP | – | report and recommendation of the President |
| SDR | – | special drawing rights |
| TA | – | technical assistance |

Key Words

philippines, airports, civil aviation, adb, asian development bank, lessons, operations evaluation department, performance evaluation

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|--------------------------|---|
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| Team members | R. Lumain, Senior Evaluation Officer, Operations Evaluation Division 2, OED C. Roldan, Senior Operations Evaluation Assistant, Operations Evaluation Division 2, OED |

PROJECT COMPLETION REPORT VALIDATION

| A. Basic Project Data | | PCR Validation Date: | August 2008 | |
|------------------------------------|---|--|---------------------|---------------|
| Project and Loan Numbers: | 28270 1536-PHI | | Approved | Actual |
| Project Name: | Third Airports Development Project (Southern Philippines) | Total Project Costs (\$ million): | 167.00 | 25.68 |
| Country: | Philippines | Loan/Grant (\$ million): | 93.00 | 12.16 |
| Sector: | Transport/Civil Aviation | Total Cofinancing (\$ million): | 29.00 | 0.00 |
| ADB Financing (\$ million): | ADF: 0.0 | Borrower (\$ million): | 45.00 | 13.53 |
| | OCR: 93.0 | Beneficiaries (\$ million): | | |
| Cofinanciers: | European Investment Bank | Others (\$ million): | | |
| Approval Date: | 16 Sep 1997 | Effectiveness Date: | 21 Apr 1998 | 11 Nov 1998 |
| Signing Date: | 21 Jan 1998 | Closing Date: | 31 May 2003 | 5 Sep 2005 |
| Project Officers: | Name: | Designation: | From | To |
| | J.M. Lacombe | Project Engineer, IETC | 1998 | 2001 |
| | M. Rehman | Transport Specialist, SEID | 2002 | 2002 |
| | L. Bianchetti-Revelli | Social Development and Resettlement Specialist, SEID | 2002 | 2005 |
| Evaluator: | T. F. Jones, Consultant | Officer-in-Charge: | R.B. Adhikari, OED2 | |
| Quality Control | N. Singru, Evaluation | | | |
| Reviewer: | R. Lumain, Senior Evaluation Officer, OED2 | | | |

B. Project Description (summarized from the report and recommendation of the President)

- (i) **Rationale.** The civil aviation subsector plays a key role in the economic and social development of the widely dispersed regions of the Philippine archipelago. The Government is promoting more balanced regional economic development to strengthen access to economic opportunities throughout the country and requires assistance in developing key infrastructure. The inadequacy of domestic airport facilities limits direct internal and external trade links, and constrains increased regional investment and development. Long-distance land and sea transport is inefficient in many regions, due to the distances involved, while sea transport is not viable for high-value perishable cargoes. The lack of adequate infrastructure that meets minimum international standards for flight operations and safety constrains regional economic development.

The Government is focusing its regional economic development activities in the Brunei Darussalam-Indonesia-Malaysia-Philippines East Association of Southeast Asian Nations (ASEAN) Growth Area (BIMP-EAGA), particularly in Mindanao's Special Zone of Peace and Development and in Palawan, where economic development is lagging behind other areas. The Asian Development Bank (ADB) supports this strategy, which will lead to greater regional equity in development, generate employment, and improve incomes in these islands, which are poor but rich in resources.

- (ii) **Objectives or expected outcomes.** The Project was to expand and improve civil aviation infrastructure and support safer operations based on international standards and practices at selected airports. This would (a) support the Government's efforts to achieve basic civil aviation safety standards; (b) remove existing infrastructure-related constraints on the growth of international and regional air services; (c) promote balanced development of the air transport network by facilitating more cost-effective movement of both domestic and international freight and passengers; (d) improve utilization of the country's airline fleet through the use of larger aircraft, night landings, and all-weather facilities; (e) reduce congestion in the Ninoy Aquino International Airport by providing alternate ports of entry and/or departure for international passengers and cargo; and (f) support restructuring of the subsector, airport privatization, and human resource development and training. The project airports are within BIMP-EAGA, and their development would complement projects financed by bilateral agencies and ADB's earlier and planned interventions in the Philippines and Indonesia.

- (iii) **Components.** The Project focused on improvements to existing airports rather than construction of new airports and covered major improvements to two regional airports (Puerto Princesa and Cotabato) and minor improvements to four domestic airports (Sanga–Sanga, Dipolog, Butuan, and Pagadian). The main components were:
- (a) Parts I–VI: Airport improvements:
 - (1) Airside civil works including runway upgrading; widening and grading of landing strips; establishing object-free areas; installing airfield approach and runway lighting; installing perimeter security fences; relocating and recalibrating navigational aids; removing existing obstructions; constructing crash, fire and rescue centers, and new control towers; constructing airfield perimeter roads; constructing taxiways to new terminal areas; constructing new airport access roads and parking areas; and constructing new cargo terminals.
 - (2) Landside civil works including constructing new and refurbishing existing passenger terminal buildings; constructing new administration and operation and maintenance buildings; and supplying and installing passenger and cargo terminal equipment and utilities.
 - (3) Provision and installation of equipment, including airfield maintenance equipment, additional communications equipment and navigational aids, meteorological equipment, emergency generators, and selected spare parts.
 - (4) Land acquisition and relocation of affected families.
 - (b) Part VII: Communications and navigation equipment. Communications and navigation equipment for improving the national communications and navigation system and to meet future requirements related to satellite-based communications, navigation, surveillance, and air traffic management.
 - (c) Part VIII: Crash, fire, and rescue vehicles. Vehicular equipment for regional and domestic airports to meet minimum International Civil Aviation Organization (ICAO) safety standards.
 - (d) Part IX: Consulting services. Consulting services for detailed design and construction supervision, review by ICAO of airport security and safety enhancement provisions, sector restructuring and airport privatization, and training.
- (iv) **Outputs.** None of the originally planned outputs has been achieved, with the exception of (a) land acquisition and resettlement (LAR) of affected families, which was substantially (99%) completed; and (b) provision of consulting services, which was partly (25%) completed. The main causes of the Project's failure were the slow progress of LAR activities, severe delays in recruitment of consultants, and significant civil works and equipment procurement problems. Civil works could not begin until LAR activities were completed, and LAR activities were hindered by the need to relocate and replace 83 military facilities and seven private schools.

C. Evaluation of Design and Implementation (PCR assessment and validation)

- (i) **Relevance of design and formulation.** The Project was highly relevant at loan approval. Project design at appraisal was highly relevant as it was in line with the Government's updated civil aviation master plan and ADB's country strategy and program.¹ It supported a key Government objective of removing existing infrastructure constraints to regional growth through promotion of efficiency and safety. The design was based on a feasibility study done with ADB-funded technical assistance (TA), but the study failed to accurately assess the scope of the LAR. This triggered a delay in LAR activities, which was eventually exacerbated by slow implementation of the Project. In retrospect, the feasibility study was found to have significantly underestimated land acquisition requirements (by a factor of four).²

While actual relevance could not be evaluated as none of the civil works were undertaken and none of the equipment procured, several issues suggest the Project was less relevant at completion and final

¹ ADB. 1993. *Country Operational Strategy Study: Philippines*. Manila.

² As mentioned in the project completion report, the appraisal estimate was inaccurate because no land acquisition and resettlement plans (LARPs) were prepared. LARPs prepared during project implementation did assess the actual land acquisition needs.

cancellation than at appraisal. The project completion report (PCR) cited several major developments that occurred during the significantly delayed implementation, and these have negatively impacted on the viability of the original project design. These include (a) external events, including the Asian financial crisis and deterioration of the peace and order situation in Mindanao, which resulted in a downturn in traffic at most of the project airports; (b) budget constraints that severely limited the resources available for infrastructure development; and (c) significant evolution of the airline industry since 1997, with new carriers entering the market. A proposed replacement project did not proceed (PCR, para. 22).

- (ii) **Components: Outputs and costs by component as envisioned during appraisal compared with actual costs and achievement of outputs; reasons for any deviation.** None of the expected project outputs were achieved. LAR was largely completed as a prerequisite for civil works construction. About 25% of the consulting services were utilized for (a) detailed design and construction supervision, and (b) project monitoring and review and airport security and safety enhancement by ICAO. There was no deviation from the Project as envisioned; it was simply not implemented.

Appraisal Estimate and Actual Project Costs

| Component | (\$ million) | | | | | | |
|--|---------------|--------------|---------------|--------------|--------------------|--------------|-----------------------------|
| | Appraisal | | | Actual | | | Actual/ Appraisal (%) |
| | Foreign | Local | Total | Foreign | Local ^a | Total | |
| A. Base Costs | | | | | | | |
| 1. Parts I-VI: Airport Improvements | 51.50 | 39.60 | 91.10 | 0.00 | 13.40 | 13.40 | 14.7 |
| 2. Part VII: Communications and Navigation Equipment | 11.00 | 1.20 | 12.20 | 0.00 | 0.00 | 0.00 | 0.0 |
| 3. Part VII: Crash, Fire, and Rescue Vehicles | 11.20 | 1.10 | 12.30 | 0.00 | 0.00 | 0.00 | 0.0 |
| 4. Part IX: Consulting Services | 9.80 | 1.50 | 11.30 | 7.96 | 0.13 | 8.09 | 71.6 |
| Subtotal (A) | 83.50 | 43.40 | 126.90 | 7.96 | 13.53 | 21.49 | 16.9 |
| B. Contingencies | | | | | | | |
| 1. Physical | 8.40 | 4.40 | 12.80 | 0.00 | 0.00 | 0.00 | 0.0 |
| 2. Price | 6.90 | 3.70 | 10.60 | 0.00 | 0.00 | 0.00 | 0.0 |
| Subtotal (B) | 15.30 | 8.10 | 23.40 | 0.00 | 0.00 | 0.00 | 0.0 |
| C. Interest During Construction and Other Charges | 15.20 | 1.50 | 16.70 | 4.19 | 0.00 | 4.19 | 25.1 |
| Total | 114.00 | 53.00 | 167.00 | 12.15 | 13.53 | 25.68 | 15.4 |

^a Costs incurred by the Borrower for site acquisition, relocation of project-affected families, project administration, and counterpart funding for consulting services.

Sources: Asian Development Bank. 2007. *Project Completion Report: Third Airports Development Project (Southern Philippines)*. Manila.

- (iii) **Project cost, disbursements, borrower contribution, and conformance to schedule (as relevant to project performance).** As mentioned earlier, the only components undertaken under the Project were LAR and consulting services. The only other expenditures were for interest during construction and other charges; total disbursement under the loan was \$12.16 million. The funding to be cofinanced by the European Investment Bank was not utilized.

The Project experienced major delays from the outset. Consultants were expected to be fielded in early 1998 but were not mobilized until early 2000. ICAO was mobilized 3 years later than envisaged. LAR was largely completed in late 2004, compared with the appraisal schedule of March 1999. Protracted procurement and other procedures at the Department of Transportation and Communications (DOTC) also delayed the Project. The Project was finally terminated in September 2005 when it was determined that the number of outstanding issues, particularly those related to procurement, made it difficult for the Project to be implemented as intended.

- (iv) **Implementation arrangements, conditions and covenants, and related technical assistance.** The implementation arrangements were straightforward and consistent with existing practice in the Philippines. DOTC, as the responsible government agency, was the designated executing agency (EA). DOTC promptly set up a project implementation unit (PIU). The Air Transportation Office (ATO) provided further technical and support staff. A project steering committee was also established. Two other DOTC entities—the prequalification bidding and awards committee (PBAC) and the variation orders and price

escalation committee—had important roles. These key committees either performed their work very slowly, or were generally dysfunctional, as demonstrated by the very slow procurement progress.

Of the 21 loan covenants, 11 were complied with (one after a 6-year delay), four were partly complied with, four were not complied with, and 2 were not applicable. For the sector reform and tariff covenants, the Government approved a substantial increase in tariffs in 1998 and was further complying with the tariff covenant to bring tariffs in line with ICAO recommendations. Although DOTC complied with the requirement to propose institutional reforms for the civil aviation subsector, the reforms were not approved by the Government.

- (v) **Performance of the Borrower and Executing Agency.** DOTC established the PIU and project steering committee shortly after loan approval. LAR was turned over to the local government units for implementation, using DOTC funds. LAR was not well implemented; the local government units had other priorities, and the amount of land actually required was about four times greater than that estimated at appraisal. The need for additional land was discovered during the engineering design process. PBAC and the variation orders and price escalation committee performed poorly and contributed significantly to delays. It is clear that giving the PIU more autonomy could probably have expedited progress. DOTC prepared a number of institutional reforms to amend the Civil Aeronautics Act of June 1952; these were presented to Congress, but not implemented. The overall performance of the Borrower and the EA was unsatisfactory.
- (vi) **Performance of the Asian Development Bank.** The performance of ADB is rated partly satisfactory. The land acquisition and resettlement plans (LARPs) were not prepared prior to appraisal or loan approval. This issue was mentioned by a number of Board members. The delays associated with land acquisition activities contributed to the implementation problems, leading to the cancellation of the Project. A total of eight review missions were fielded during the implementation stage. Although these missions attempted to promptly attend to outstanding issues, problems (especially those relating to land acquisition) remained unresolved. ADB did investigate the possibility of reformulating the Project or preparing a replacement project, but none of the adjustments that were suggested or pursued successfully realized the expected project outputs.

D. Evaluation of Performance (PCR assessment and validation)

- (i) **Relevance.** The Project was highly relevant at approval, both in terms of sector and country demands. Although the Project remains highly relevant in terms of the needs of the sector and the country,³ deficiencies in the project design cannot be ignored. This PCR validation report has downgraded the rating to “relevant”, for the following reasons:
 - (a) **Extent to which stakeholders (Government of the Philippines: central versus Mindanao authorities) saw the project as their own.** Footnote 3 of the PCR reports that the proposed replacement project did not proceed, and the project loan was closed in September 2004. The Southeast Asia Department comments matrix indicates that they have tried to revive the project in part by including some of the project airports under the Intermodal Transport Development TA. This indicates the need to clarify issues related to the locus of ownership and priorities within the Government, including the central government and regional bodies such as the Mindanao Economic Development Council, and in light of developments in BIMP-EAGA.
 - (b) **Inadequate project preparation.** Para. 20 of the PCR mentions that project preparation triggered a delay in LAR, which was subsequently aggravated by slow project implementation. The report and recommendation of the President (RRP) does not mention of any project risk related to LAR. Applicable ADB policy on involuntary resettlement was issued in 1995, and a handbook on good practice in resettlement was issued in 1998. The RRP confirmed that all resettlement activities would be in accordance with government laws and ADB policy on involuntary resettlement; this has implications for the risk analysis and risk mitigation carried out

³ ADB tried to revive the Project in part by including some of the project airports under another TA project (ADB. 2004. *Technical Assistance to the Republic of the Philippines for Preparing the Intermodal Transport Development Project*. Manila [TA 4344-PHI, for \$1 million, approved on 31 May], which was completed in 2006).

at appraisal, which in turn affected the Project's relevance. In summary, the Project's quality-at-entry is questionable.

- (c) **Timeliness of changes made to maintain the project's relevance.** The ADB loan became effective in November 1998. By the original closing date of May 2003, civil works implementation had not commenced. In August 2003, ADB and Government agreed to cancel the civil work and equipment components for the six airports and conducted a reappraisal of the project airports with the assistance of detailed design and construction supervision consultants under the loan. Although a replacement project was mooted, this did not proceed (Section C[i]).
- (ii) **Effectiveness in achieving outcome.** The Project produced none of its intended major outputs and is rated "ineffective" in achieving its planned impacts and outcomes.
- (iii) **Efficiency in achieving outcome and outputs.** This criterion could not be quantitatively measured as no intended major outputs were delivered (Section 4b). The PCR rating of "inefficient" is retained because this is a measure of how well the project used resources in achieving the outcome. Government and ADB resources were used to prepare, process, and implement the Project, but there was no significant achievement against key targets.
- (iv) **Preliminary assessment of sustainability.** Sustainability is not an issue because there are no outputs to sustain.
- (v) **Impact (both intended and unintended).** There has been no positive impact as defined in the project design since the outputs did not materialize. Opportunity costs to the economy, owing to the absence of these outputs, could be perceived as a negative impact. However, the recent initiatives aimed at restarting the Project could prove beneficial.

E. Overall Assessment, Lessons, and Recommendations (validation of PCR assessment)

- (i) **Overall assessment.** Overall, the Project was "unsuccessful".
- (ii) **Lessons.** The previous two ADB-funded airport projects had the same front-end problems that plagued this Project (Section C[i]).⁴ This Project confirmed the need for a complete, if not totally accurate, LARP. Most projects rely on feasibility or other preparatory activities, and it is essential that these be carefully examined before project appraisal so that negative social impacts and unnecessary implementation delays can be avoided.
- (iii) **Recommendations.** Revenues generated by civil aviation-related government institutions (as distinct from government corporations) are paid directly to the Government's general revenues, with the institutions supported by the national budget. Thus, DOTC and ATO have been faced with the challenge of ensuring safety and efficiency in a capital-intensive sector while lacking access to the required capital. This practice does not encourage accountability and efficiency in the use of resources, and does not provide incentives to improve performance. Accordingly, there is an urgent need to transform civil aviation from a government-run to a market-oriented subsector.⁵

When the land acquisition process is likely to be complex and time-consuming, advance action should be taken to ensure adequate timing of land acquisition, possibly under a TA loan. In addition, in order to adhere to the existing involuntary resettlement policy requirements, satisfactory resettlement plans should be prepared prior to appraisal.

⁴ ADB. 1973. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Philippines for the Manila International Airport Development Project*. Manila (Loan 164-PHI, for \$29.6 million, approved on 11 December); ADB. 1994. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of the Philippines for the Airport Development Project*. Manila (Loan 1333-PHI, for \$41 million, approved on 24 November); and ADB. 1994. *Institutional Strengthening of Civil Aviation Sector*. Manila (TA 2207-PHI, for \$592,000, approved on 24 November).

⁵ It was expected that ATO would become corporatized. Accordingly, the RRP emphasized the role of ATO while de-emphasizing the role of DOTC.

DOTC's major procurement-related institutional constraints need to be resolved before future interventions are initiated.

F. Monitoring and Evaluation Design, Implementation, and Utilization (PCR assessment and validation)

LAR was monitored mainly by DOTC, but was closely followed by ADB through five review missions, which included a social development and resettlement specialist. None of the other project components was undertaken, making further monitoring of LAR unnecessary. ICAO did undertake partial monitoring of safety standards.

G. Other (e.g., safeguards, including governance and anticorruption; fiduciary aspects; Government assessment of the Project, as applicable) (PCR assessment and validation)

Despite the redesign of some aspects of the project to encourage improved equipment purchase, procurement was unsuccessful, mainly as a result of unprofessional actions by DOTC's PBAC. Many complaints were received from bidders claiming that advantageous information was leaked to some contractors and/or suppliers. The procurement process was lengthy and often flawed. There were several cases where PBAC and ADB's procurement committee had significant differences of opinion on bid evaluation and contract award. Approvals for justified variations were delayed, and recruitment of consultants was delayed by 2 years. There was an overall lack of good governance, although no direct allegations of corruption were reported. Fiduciary aspects were carried out according to regulation.

| H. Ratings | PCR | OED Review | Reason for Disagreement/Comments |
|--|---------------------|---------------------|--|
| Relevance: | Highly relevant | Relevant | The Project remains highly relevant in terms of the needs of the sector and the country. However, owing to deficiencies mentioned in Section D(i), the rating is downgraded. |
| Effectiveness in Achieving Outcome: | Ineffective | Ineffective | |
| Efficiency in Achieving Outcome and Outputs: | Inefficient | Inefficient | While this has become irrelevant as no major outputs were delivered, the PCR rating is retained since this is a measure of the use of resources in achieving the outcome. |
| Preliminary Assessment of Sustainability: | Unlikely | Unlikely | Similarly, this measure is irrelevant as there was nothing to sustain (Section D[iv]). |
| Borrower and EA: | Unsatisfactory | Unsatisfactory | |
| Performance of ADB: | Partly satisfactory | Partly satisfactory | |
| Impact: | None | Negligible | Expected benefits not achieved. |
| Overall Assessment: | Unsuccessful | Unsuccessful | |
| Quality of PCR: | | Satisfactory | |

I. Comments on PCR Quality. The PCR was comprehensive, concise, and clearly written. The candor with which issues relating to project preparation were addressed is appreciated. The PCR was forthright in identifying lapses in design and formulation and mentioning key implementation issues and lessons that adversely affected the Project. Some comments to further improve the quality of the PCR are:

- (i) The Basic Data incorrectly states that implementation progress was satisfactory up to January 2006, which is after the loan closing date of September 2005. The project performance report rating was incorrect.
- (ii) Footnote 3 contains a typographical error with respect to the loan closing year (listing 2004 instead of 2005).
- (iii) Appendix 8 states that informal settlers received a disturbance allowance ₱5,000 (PCR, para. 21) and ₱15,000 (PCR, para. 28). The PCR could have provided an explanation for this difference.

J. Recommendation for OED Follow-Up

No follow-up action required.

K. Data Sources for Validation

- (i) PCR, RRP, legal documents, and Government's PCR;
- (ii) Management review meeting and staff review committee documents and summary record of discussion of ADB's Board of Directors;
- (iii) supervision reports, including most recent midterm review or progress reports, back-to-office report of PCR mission, etc.; and
- (iv) OED evaluations of previous projects, including PCR reviews.

REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT

On 3 July 2008, Director, OED2, Operations Evaluation Department (OED), received the following comments from the Infrastructure Division, Southeast Asia Department.

We have reviewed OED's final draft Project Completion Report (PCR) Validation Report circulated to us on 15 April 2008. We appreciate that most of the comments we made to OED on the earlier draft have been adequately incorporated in the final draft. However, there is one item where our comments were not fully incorporated, i.e., the Basic Data incorrectly stating the implementation progress as satisfactory up to January 2006 based on the rating available in the project performance report (PPR). For this, we fully agree with OED that the system-generated PPR rating is incorrect, thus appreciate mentioning so, as a possible system error. Also, an additional general clause in the guidelines that shows how to deal with such cases would be very helpful in future PCR preparations.