



**ASIAN INFRASTRUCTURE
INVESTMENT BANK**

Dec. 9, 2024

Sovereign-Backed Financing

**Approval Project Document
P000740 Republic of the Philippines
Facility for Accelerating Studies for Infrastructure (FASt-Infra)**

Currency Equivalents

(As of May 31, 2024)

Currency Unit – Philippine Peso (PHP)

PHP100.00 = USD1.70

USD1.00 = PHP55.00

Borrower's Fiscal year

January 1 – December 31

Abbreviations

| | |
|-------|--|
| ADB | Asian Development Bank |
| AIIB | Asian Infrastructure Investment Bank |
| BB | Building Block |
| CO2 | Carbon Dioxide |
| COA | Commission on Audit |
| DBM | Department of Budget and Management |
| DOF | Department of Finance |
| DOTr | Department of Transportation |
| DPWH | Department of Public Works and Highways |
| EIA | Environmental Impact Assessment |
| ESF | Environmental and Social Framework |
| ESP | Environmental and Social Policy |
| ESS | Environment and Social Standards |
| FM | Financial Management |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gas |
| GOP | Republic of the Philippines |
| GRM | Grievance Redress Mechanism |
| IPIF | Infrastructure Preparation and Innovation Facility |
| MDB | Multilateral Development Bank |
| NEDA | National Economic and Development Authority |
| NCCAP | National Climate Change Action Plan |
| PA | Paris Agreement |
| PDP | Philippine Development Plan 2023-2028 |
| PIM | Project Implementation Manual |
| PIU | Project Implementing Unit |
| PPDA | Planning and Project Development Office |
| PPM | Project-affected Peoples Mechanism |
| PPSAS | Philippine Public Sector Accounting Standards |
| PTSMP | Philippine Transport System Master Plan |
| SESA | Strategic Environmental and Social Assessment |

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1. Summary Sheet

| | |
|---|---|
| Project No. | P000740 |
| Project Name | Facility for Accelerating Studies for Infrastructure (FASt-Infra) |
| AiIB Member | Republic of the Philippines (GOP) |
| Borrower | Republic of the Philippines |
| Project Implementation Entity | Department of Transportation (DOTr) |
| Sector | Transport |
| Subsector | All subsectors |
| Alignment with AiIB's thematic priorities | Green infrastructure, Connectivity and Regional Cooperation, and Technology-enabled Infrastructure. |
| Project Objective | The Project's Objective is to develop a robust transportation infrastructure investment program aligned with the Philippines' sustainable development goals. |
| Project Description | The Project will support (i) the formulation of transport infrastructure master plans, covering passengers and goods, (ii) the development of manuals, guidelines, and tools to plan and define low-carbon, climate resilience, safe, and technology-enabled transport infrastructure, and (iii) the procurement and implementation activities. |
| Implementation Period | Start Date: Q4 2024 End Date: Q4 2028 |
| Expected Loan Closing Date | December 31, 2028 |
| Cost and Financing Plan | Project cost: USD50 million <u>Project financing plan:</u> AiIB loan: USD44 million GOP contribution: USD6 million |
| Size and Terms of AiIB Loan | The size of this loan is USD44 million. AiIB's standard interest rate for sovereign-backed loans. |
| Environmental and Social Category | Category C |
| Risk (Low/Medium/High) | Low |
| Conditions for Effectiveness | The Project Implementation Unit has been established in a manner satisfactory to the Bank. |
| Key Covenants | N/A |
| Conditions for Disbursement | None |
| Retroactive Financing (Loan % and dates) | All eligible expenditures under the Project, incurred in compliance with AiIB's procurement policies and guidelines and in respect of which payments were made not more than 12 months prior to the date of the loan agreement, up to an amount of USD4.4 million (10% of the amount of the Loan). |
| Policy Assurance | The Vice President, Policy and Strategy, confirms an overall assurance that the proposed Bank Financing complies with the applicable Bank operational policies |
| Economic Capital (Ecap) Consumption | USD3.35 million ECap Ratio: 9.47 percent |
| President | Jin Liqun |

| | |
|-----------------------|---|
| Acting Vice President | Rajat Misra |
| Director General | Rajat Misra |
| Sector Head | Andrés Pizarro, Manager |
| Team Leader | Pilar Lopez Camacho, Investment Officer |
| Team Members | Dale Pham, Environment Specialist Noel Sta Ines, Procurement Consultant Jose Maria Marella, Legal Associate Maya Gabriela Villaluz, Senior Environment Specialist Victoriano Macasaquit, Social Development Specialist Yogesh Malla, Financial Management Specialist Yuning Chen, Counsel Wenchao Cao, Climate Finance Associate |

2. Context

1. **Country Context.** The Philippines is an archipelago comprised of over 7,000 islands and has a population of approximately 114 million people. The country is poised to cross the threshold from lower to upper-middle income economy status in the next few years. From 2010-2019, the country was among the fastest-growing economies in Southeast Asia, with a steady annual average economic growth of 6.4 percent¹. Although the economy contracted by 9.6 percent in 2020 due to the coronavirus disease (COVID-19) pandemic, the growth recovered to 5.7 percent in 2021, 7.6 percent in 2022² and is projected at 6.5 percent in 2023³. The Philippine national vision, *Ambisyon Natin 2040*, outlines that the collective ambition of the Filipino people is to build "a prosperous middle-class society where no one is poor" by 2040⁴. However, income inequality remains one of the highest in East Asia⁵, with the top 1 percent of earners capturing 17 percent of national income, while only 14 percent is shared by the bottom 50 percent⁶.

2. **Infrastructure Sector Context.** Although the average annual infrastructure spending between 2013-2021 has nearly doubled compared to the previous decades⁷, infrastructure facilities and services remain inadequate in terms of accessibility, quality, safety, and affordability. In the Global Competitiveness Rating, the Philippines' global ranking was downgraded from 56th in 2017-2018 to 64th in 2019⁸. Its overall infrastructure quality lags behind other emerging Southeast Asian countries. In terms of transport infrastructure (considering network density, service efficiency, quality, etc.), the Philippines was ranked 102nd out of 141 countries, well below Malaysia (29th), Thailand (53rd), and Indonesia (55th). In terms of utility infrastructure (considering access to electricity, electricity supply quality, exposure to safe drinking water, and reliability of water supply), the Philippines was ranked 96th, well below Malaysia (51st), Indonesia (89th), and Thailand (90th). Infrastructure investment in the Philippines has become increasingly urgent to close the infrastructure gap and hence enable equitable and sustained economic growth.

3. **Transportation Sector Context.** The transportation sector in the Philippines, encompassing road, water, air, and rail transport sub-sectors, plays a crucial role in driving the country's overall economic growth by enabling the movement of people, goods, and services within and beyond the country's borders. Transport infrastructure remains inadequate to meet growing transport demand, especially in urban areas, and, beyond shortages in supply, it suffers from issues of accessibility, efficiency, and safety. The country's road length (2.7 km per capita)⁹, heavy rail lines (4.5 km per thousand

¹ World Bank; "GDP Growth (annual %) – Philippines"; 2023; [link](#).

² S&P Global; "Philippines amongst world's fastest growing emerging markets"; March 2023; [link](#).

³ ADB; "Philippine Economy to Post Robust Growth in 2023, 2024 Despite Inflation Pressures"; 2023; [link](#).

⁴ Republic of the Philippines; "Ambisyon Natin 2040"; 2016.

⁵ In 2021, the Gini Index for the Philippines was 40.7, vis-à-vis Indonesia (37.9) or Thailand (35.1). Sources: (i) World Bank; "Poverty & Equity Brief, Philippines"; April 2023; [link](#); and (ii) World Bank; "Data - Gini Index"; accessed June 2023; [link](#).

⁶ World Bank. 2022. *Philippines: Reducing Inequality Key to Becoming a Middle-Class Society Free of Poverty*

⁷ GOP, National Economic and Development Authority (NEDA). 2023. *Philippine Development Plan 2023-2028*

⁸ World Economic Forum. 2019. *Global Competitiveness Report 2019*

⁹ Sources: (i) Nirandjan S. et. Al.; "A spatially-explicit harmonized global dataset of critical infrastructure"; April 2022; [link](#); and (ii) UN Department of Economic and Social Affairs Population Division; "2022 Revision of World Population Prospects"; accessed in 2023; [link](#).

population)¹⁰, and metro and bus rapid transit lines (1.4 km per million urban residents)¹¹ are significantly shorter than in other countries in Asia (averaging 3.2 km, 108 km, and 6 km respectively). In the Philippines, 32 million of its urban population lacks convenient access to public transport systems¹². Port and airport infrastructure also remain insufficient and outdated, despite being essential for inter-island connectivity and international trade. In fact, the Philippines has one of the highest logistics costs and rates of congestion among ASEAN member-states¹³. This large deficit in transport infrastructure not only leads to high logistics costs and road traffic congestion but also results in increased road fatalities¹⁴ and carbon dioxide (CO₂) emissions (in 2019, the transport sector contributed to 25 percent of the total emissions of the country¹⁵).

4. Climate Change. The country's vulnerability to climate change and natural disasters, such as tropical cyclones, flooding, and landslides, exacerbate the infrastructure funding gap. Due to its unique archipelagic geography and climate, characterized by high temperatures and heavy rainfall, the Philippines is recognized as one of the most vulnerable countries to climate change impacts. It ranked as the 8th country most affected by extreme weather events in 2021¹⁶. To mitigate impacts on livelihoods and economic development, taking action to enhance overall resilience to climate change is urgent. Taking action includes, among others, making sustainability a priority in infrastructure development. Sustainability means being resilient to climate change, socially inclusive, technologically advanced, and cost-efficient.

5. Transport Financing Constraints. Transport infrastructure development in the Philippines faces several significant constraints. The first major challenge is the lack of financing from both public and private sources. Despite infrastructure being a key budget priority following the Build Better, More Program¹⁷, limited fiscal space hinders the government's ability to build sufficient transport infrastructure to meet the growing demand. While private investments can help bridge this funding gap, regulatory hurdles and risks pose challenges in attracting private investors.

6. Transport Integrated Planning Constraints. A second constraint is the absence of integrated transport infrastructure plans and multi-modal development programs, coupled with the lack of coordination across government implementing agencies. Instead, large-scale transport projects are often planned and implemented by respective agencies in silos, hampering holistic approaches for integrated planning development. Transport infrastructure development is also constrained by limited comprehensive transport data, which hampers evidence-based decision-making, effective planning and asset management. Without accurate and up-to-date information

¹⁰ Sources: (i) Railisa UIC Statistics website; accessed in 2023; ([link](#)); and (ii) UN Department of Economic and Social Affairs Population Division; "2022 Revision of World Population Prospects"; accessed IN 2023; ([link](#)).

¹¹ Sources: (i) Institute for Transportation and Development Policy (ITDP); "Rapid Transit Database"; accessed in 2023; ([link](#)); and (ii) UN Department of Economic and Social Affairs Population Division; "2022 Revision of World Population Prospects"; accessed 2023; ([link](#)).

¹² Sources: (i) Rural Access Index Measurement Tool; accessed in 2023; ([link](#)); and (ii) Sustainable Development Goals (SDGs) Indicators Database; accessed in 2023; ([link](#)); and (iii) UN Department of Economic and Social Affairs Population Division; "2022 Revision of World Population Prospects"; accessed in 2023; ([link](#)).

¹³ Sources: (i) World Bank. 2018. Logistics Performance Index; ([link](#)). and (ii) TomTom. 2020. Annual Traffic Index; ([link](#)).

¹⁴ World Health Organization, Global Health Observatory; "Road Traffic Deaths Data by Country"; accessed in 2023; ([link](#)).

¹⁵ 36.88 out of 145.42 million tons of CO₂ emissions. Source: ClimateWatch; "Historical GHG Emissions"; accessed in June 2023; ([link](#)).

¹⁶ German Watch; Global Climate Risk Index; 2021; ([link](#)).

¹⁷ Succeeding the Duterte Administration's Build Build Build Program, the Build Better, More Program is the Marcos Administration's infrastructure program that aims to increase public infrastructure spending to 5 to 6% of GDP annually.

on transportation patterns, infrastructure usage, and passenger flows, it becomes difficult to identify and address critical transportation needs. Additionally, the underutilization of transport modeling tools prevents the government from accurately predicting and simulating the impacts of infrastructure and policy interventions. Finally, constrained access to international expertise and insufficient investment in building capacity prevent the government from taking full advantage of global best practices and technical know-how.

7. **Country Priority.** Facing these challenges, the Philippine Development Plan (PDP) 2023-2028 places significant emphasis on the delivery of sustainable, resilient, integrated, and modern infrastructure systems, recognizing their vital role in enabling economic transformation. In the infrastructure sector, one of the five strategies of the PDP is to enhance planning, programming, and asset management, both cross-cutting infrastructure subsectors and at the subsector level. The PDP calls for implementing integrated master planning formulation to guide the planning, programming, budgeting, and implementation of infrastructure projects while ensuring coordination across all government levels. The above strategy also includes mainstreaming resilience and sustainability considerations in infrastructure planning and design. Additionally, this strategy encompasses implementing an efficient and effective asset management and preservation system. Enhancing technical expertise in government agencies is also required to effectively use these tools and promote informed decision-making.

8. **Facility for Accelerating Studies for Infrastructure.** Considering all the above, the GOP has requested AIIB to support the formulation of comprehensive transportation master plans and the development of planning capacities and tools. These upstream studies are included under the Facility for Accelerating Studies for Infrastructure (“the Project”), which shall contribute to a coordinated, efficient, and integrated planning and programming of transportation infrastructure investments.

3. Rationale

9. **Project Objective.** The Project's objective is to develop a robust transportation infrastructure investment program aligned with the Philippines' sustainable development goals.

10. **Project Description.** Following the decision of the Department of Finance (DOF) and the National Economic and Development Authority (NEDA)¹⁸ aiming to adopt a coordinated and efficient approach, the Project focuses on upstream studies, since the Infrastructure Preparation and Innovation Facility (IPIF) of the Asian Development Bank (ADB) focuses on downstream studies. In line with this, the Project will directly support the Department of Transportation (DOTr)¹⁹ in the identification, definition, and prioritization of transportation investments, based on sound and objective data and in line with the Philippines' sustainable development goals. The Project includes the formulation of multi-modal master plans at national, regional, and metropolitan levels, encompassing passengers and goods, and the preparation of a logistic roadmap. Moreover, it will support the development of guidelines and manuals to embed resilient, low-carbon, safe, and technology-enabled solutions in transportation investments. To ensure the long-term sustainability of these studies, the Project will also enhance DOTr's capacity and tools for investment planning and programming as well as asset management. More details on the studies and activities are provided in paragraph 30.

11. **Expected Results.** The Project is expected to yield six main outcomes:

- A national transportation master plan and infrastructure investment program,
- Three regional transportation master plan and infrastructure investment programs,
- Eight urban transportation infrastructure master plan and investment programs (four metropolitan areas and four cities),
- A logistic strategy roadmap,
- A Transportation Data Information Management System ("Data Observatory"),
- Enhanced skills in transportation planning and programming in DOTr.

12. **Expected Beneficiaries.** The direct beneficiaries of the Project will be the DOTr while other government agencies, such as NEDA and the Department of Public Works and Highways (DPWH) will be the indirect beneficiaries. The Project will address the current constraints of integrated transport planning and programming and the need for international expertise to fill the gap of local capacity on planning while building capacity within DOTr. Particularly, the Project is expected to increase the institutional capacity of the Planning and Project Development Office (PPDO) of DOTr to perform its functions²⁰,

¹⁸ The NEDA is the government's independent socioeconomic planning body and is in charge, among others, to coordinate activities such as the formulation of policies, plans, and programs to efficiently set the broad parameters for national and sub-national development.

¹⁹ The DOTr is the primary policy, planning, programming, coordinating, implementing and administrative entity of the executive branch of the Philippine government on the promotion, development and regulation of a dependable and coordinated network of transportation, as well as in the fast, safe, efficient and reliable transportation services, including aviation, maritime, railways, and road sectors.

²⁰ PPDO oversees all the activities of DOTr in relation to transportation and logistics policy studies, medium and long-term transportation and logistics planning and investment programming, among others, and is responsible to ensure coherent interphase of planning and project development activities across other functions of the Department.

which is expanding. Ultimately, the Project will support the targeted expansion of infrastructure spending of around 5-6 percent of GDP stated in the Philippines Eight-Point Socioeconomic Agenda.

13. The overall Filipino population, enterprises, and consumers will benefit indirectly from the Project as they suffer from the inefficiencies of inadequate transport systems. The underlying transportation investment program is expected to upgrade or create new transport services connecting population and economic centers across the Philippines' islands and with neighboring countries. Hence, improving the mobility of current and future travelers. Enterprises shall benefit from better competitiveness thanks to more efficient infrastructure, lower logistics costs, and reduced travel time, and, subsequently, consumers shall gain from greater domestic competition.

14. **Strategic fit for AIIB.** The underlying transportation investment programs under the Project are expected to be aligned with the AIIB's (i) Corporate Strategy, (ii) Transport Strategy, and (iii) Sustainable Cities Strategy.

- (i) *Corporate Strategy.* Overall, the underlying transportation investment programs under the Project are expected to be aligned with three AIIB's thematic priorities: Green infrastructure, Connectivity and Regional Cooperation, and Technology-enabled Infrastructure. Overall, the upstream studies will contribute to defining a multi-modal transport system in the Philippines that is efficient, safe, and clean, as well as demand-driven for both freight markets and passenger services. Specifically, master plans will provide a strategic long-term investment program to address urban, regional, and cross-border connectivity challenges and gaps, prioritizing sustainable and digitalized infrastructure facilities and services.
- (ii) *Transport Sector Strategy.* The Project will pave the way for the development of an integrated multi-modal transport system, by upgrading or creating new trunk linkages connecting population and economic centers across the Philippines' islands and with neighboring countries. It will contribute to removing transport bottlenecks, improving cross-border connectivity, and facilitating intermodal integration. The underlying transportation investment program under the Project is expected to contribute to completing the four priorities of AIIB's Transport Sector Strategy.
- (iii) *Sustainable Cities Strategy.* The Project, specifically the underlying transportation investment programs at the metropolitan and city levels, is expected to improve urban mobility, which is one of the priorities of this strategy.

15. **Paris Agreement Alignment.** While the Project does not involve an investment operation, nevertheless, the Project is considered to be aligned with the Paris Agreement (PA)'s goals in terms of mitigation (building block {BB}1) and adaptation (BB2)²¹ as justified below.

²¹ The assessment was conducted using the methodologies proposed in the following documents: (i) African Development Bank Group, ADB, AIIB, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank Group, the Islamic Development Bank, the New Development Bank, and the World Bank Group; "BB1 and BB2 Technical Note. Joint Multilateral Development Bank (MDB) Assessment Framework for Paris Alignment for Direct Investment Operations"; November 2021; ([link](#)); and (ii) AIIB; "Guidance Note on Assessing Financing Operations' Alignment with the Paris Agreement at AIIB. Version 1.0"; June 2023 (draft).

- (i) *BB1*. The investment planning and programming under the Project will consider the impacts on the Philippines' low Greenhouse Gas (GHG) emissions development pathway while ensuring that actions towards a transition to a decarbonized economy are not undermined.
- (ii) *BB2*. The investment planning and programming under the Project will systematically consider climate risks and the national context for climate resilience, including the 2011-2028 National Climate Change Action Plan (NCCAP)²². In addition, preliminary climate adaptation and resilience measures will be identified and included in the investment programs.

16. **Value addition by AIIB.** Beyond the provision of financing, AIIB's participation will strengthen the Project in the following ways: (i) deliver high-quality master planning studies in conformance with up-to-date performance standards, (ii) mainstream low-carbon, climate-resilient, technology-enabled, and gender-responsiveness aspects in the investment planning and programming, (iii) introduce advanced and innovative technology for asset management and transport data collection and analysis, and (iv) enhance DOTr's capacity in planning formulation and data management.

17. **Value addition to AIIB.** The Project is the first AIIB loan exclusively supporting upstream studies. It will pave the way for such operations offered by AIIB in other infrastructure subsectors in the Philippines (energy, water, ICT, etc.) and other countries. The Project presents a unique opportunity for AIIB to build a long-term investment pipeline in the Philippines with several large-scale infrastructure projects, further diversify AIIB's transport portfolio with ports and associated logistic hubs projects, and strengthen AIIB's position of know-how in strategic infrastructure programming.

18. **Lessons learned.** The preparation of the Project has revealed government agencies' need for harmonized master plan formulation to guide the planning and programming of infrastructure investments based on a sound rational approach. In the Philippines, like in other countries, there is not only limited technical and institutional capacity, guidelines, and tools to identify and prioritize infrastructure investments, but also a lack of coordination across government agencies for harmonized and strategically integrated planning.²³ The previous Philippines transportation master plan failed during its development, due to the constrained capacities and resources of relevant agencies. The more recent master plans are developed for transport sub-sectors and/or for specific locations without coordination between government agencies or other sub-sectors. This has led to non-harmonized and non-integrated programs and deficiencies in investment prioritization. In addition to technical assistance support, there is a financing gap for upstream studies. Upstream studies, including master plans, are rarely financed by Multilateral Development Banks (MDB) or, given their high cost, by technical assistance grants.

²² Climate Change Commission; "National Climate Change Action Plan 2011-2028"; 2010; ([link](#)).

²³ Asian Development Bank; "Philippines: Transport Sector Assessment, Strategy, and Road Map," 2012 ([link](#)).

4. Project Description

A. Components

19. The Project is organized around three main components:

- **Component A. Enhancing planning, programming, and data management in infrastructure investments.** This component will finance the formulation of the Philippine Transport System Master Plan (PTSMP), the development of guidelines and manuals for low-carbon, climate resilient, safe, and technology-enabled transport infrastructure, and the enhancement of planning and programming capacities and tools.
- **Component B. Developing location-based master plans and a logistic strategy roadmap.** This component will focus on the formulation of master plans at the regional, metropolitan, and city levels in selected geographic areas, as well as other sub-sectoral strategy plans.
- **Component C. Technical, procurement, and implementation support.** This component will finance individual consultants and include services of Procurement Agent and/or Procurement Specialist to support DOTr in the preparation, monitoring, and supervision of studies under Components A and B.

B. Cost and Financing Plan

20. **Project's Cost.** The estimated cost of the Project is USD50 million, with USD44 million from AIIB's loan and USD6 million from GOP. For further details, see the table below.

Table 1. Project Cost and Financing Plan

| Item | Project Cost Total (USD m) | Financing (USD m) | |
|---|----------------------------|-------------------|------------------|
| | | AIIB | GOP ¹ |
| Component A: Enhancing planning, programming, and data management in infrastructure investments | 18.0 | 15.84 | 2.16 |
| Component B: Developing location-based master plans and a logistic strategy roadmap | 23.5 | 20.68 | 2.82 |
| Component C: Technical, procurement, and implementation support | 8.5 | 7.48 | 1.02 |
| Grand Total | 50 | 44 (88%) | 6 (12%) |

¹ The counterpart funds from GOP will cover all taxes (direct/indirect) and duties.

C. Implementation Readiness and Arrangements

21. **Implementation period.** The Project's implementation period runs from Q4 2024 to Q4 2028.

22. **Implementation readiness.** The Project was approved by the NEDA Board during its meeting chaired by the President of the Philippines on May 15, 2024. The terms of reference of the PTSMP and international individual consultants to support the PIU are at an advanced preparation stage. These contracts are expected to be signed after the loan is effective.

23. **Implementation arrangements.** DOF is the executing agency, while DOTr is the implementing agency and is responsible for the overall preparation, execution, and management of the Project. A Steering Committee will be adopted to provide oversight and policy guidance and ensure coordination across diverse sector agencies. This Steering Committee will be chaired by DOF and comprises DOTr, NEDA, and the Department of Budget and Management (DBM).

24. A Project Implementation Unit (PIU) under the PPDO of DOTr will be established after NEDA's Board approval. The PIU will be in charge of day-to-day procurement contracts and financial administration, supervision, and monitoring. Within the PIU, a manager will be assigned to oversee and coordinate all studies and activities. Individual consultants will be procured through the Project to provide additional management and supervision support to the PIU. A Project Implementation Manual (PIM) will be prepared by the PIU in form and substance satisfactory to the Bank to facilitate and guide the project implementation.

25. **Procurement arrangements.** DOTr (through the PIU) will be responsible for procuring all the contracts under the three components. The PIU has limited experience in procurement and will be assisted by a procurement agent and/or individual consultants (procurement specialists) as the Project is the first time for DOTr to procure and contract following AIIB's Procurement Policy (for more details, see paragraph 35).

26. **Financial Management (FM) Arrangements.** The PIU will be responsible for overall FM activities, supported by a FM specialist consultant. The PIU will prepare, as per the procurement plan, an annual work plan and budget and maintain separate Project-related accounting records for all eligible expenditures incurred under the Project. The PIU will be also responsible for processing and monitoring payments, submitting of disbursement claims, and preparing financial statements.

27. The PIU shall submit Interim Unaudited Financial Reports (IUFRs) to the Bank within 45 days of the end of each fiscal semester. The annual Project financial statements shall be externally audited by independent auditors, acceptable to the Bank, and the report shall be submitted to the Bank within six months after the end of each fiscal year. This external audit will be carried out by the Commission of Audit (COA), based on agreed Terms of Reference with the Bank.

28. **Monitoring and Evaluation.** The overall responsibility for the monitoring of the Project will be with PIU, while oversight will be conducted by the Steering Committee. The PIU will prepare quarterly progress reports, including the implementation progress of every activity of the Project and the status of agreed targets based on the Results Monitoring Framework (RMF) described in Annex 1.

29. **AIIB's Implementation Support.** As above-mentioned, the Project is the first AIIB's stand-alone Project supporting DOTr and the first time DOTr conducts such holistic master plans. AIIB will provide in-time support to DOTr and ensure that the PIU is familiarized with AIIB's procurement policy and FM requirements. AIIB will provide technical guidance to DOTr when needed. During the implementation stage, AIIB will conduct review missions on a semiannual basis and several review meetings between missions.

5. Project Assessment

A. Technical

30. **Project Design.** The design of the Project is the result of a wide-ranging consultation process with several stakeholders, including government agencies, universities, etc.²⁴ These consultations aimed to identify gaps and challenges in investment planning and programming, as well as gather needs in upstream studies and activities. Based on the findings, the main studies and activities included under the Project are the following: (i) formulation of the PTSMP, (ii) formulation of regional, metropolitan area, and city level master plans, (iii) preparation of a logistic strategy roadmap, and (iii) set up of Transport Data Information Management System (“Data Observatory”).

31. The PTSMP, the main activity of the Project, shall serve as the core strategic framework for the development of a multimodal passenger and cargo transportation system in the Philippines. DOTr will set up a Technical Steering Committee for the PTSMP to ensure the consideration of all subsectors’ objectives and, therefore, the consistency with national sustainable development goals. Furthermore, consultation meetings and visioning workshops with all key stakeholders, including government agencies, transport operators, commuters, businesses, and civic society organizations, will be organized to fully engage them throughout the process.

32. The PTSMP will establish the short-, medium-, and long-term national investment program for each transport subsector (road, rail, water, and air), whose adoption shall be enforced by a NEDA resolution. The PTSMP will also propose the coherent combinations of policies, strategic interventions, and initiatives that will be required for implementing the transportation investment program. The Project will use a Communications and Visibility Strategy to gain support for PTSMP from decision-makers, key stakeholders, and the general public. A Communication and Visibility Program will be implemented during the development of the PTSMP and after its completion. During the development of the PTSMP, the objective of the Communication and Visibility Program will be to ensure effective coordination and communication among concerned stakeholders. The objective of the Communication and Visibility Program after the completion of the PTSMP will be the dissemination of the outcomes of the PTSMP to the general public.

33. **Operational sustainability.** In the Project, the sustainability of the investment implies enabling DOTr’s staff to update the master plans in the future and implement technical guidelines and manuals while designing projects. Thus, the Project prioritizes enhancing and boosting DOTr’s institutional know-how in planning and programming transportation projects. Knowledge transfer through on-the-job mentoring, creation of permanent training courses and introduction and training for the use of transport planning tools/software will be clearly specified in the assignment of the consulting services.

²⁴ DOTr sectors (maritime, road, aviation, and railways), DPWH, NEDA Infrastructure Department, Department of Agriculture, Department of Trade and Industry, Department of Environment and Natural Resources, Department of Tourism, Philippine Statistics Authority, Philippine Ports Authority, Maritime Industry Authority, Civil Aviation Authority of the Philippines, and University of the Philippines – National Center for Transportation Studies.

B. Economic and Financial Analysis

34. **Economic and Financial Analysis.** As above-mentioned, the Project will contribute to set the priority of transportation investment programs in the Philippines for the next 20 years, or even 30 years. No specific project investment is considered in the Project; hence, an economic and financial analysis cannot be conducted. Nevertheless, the Project will formulate master plans based on sound and objective data, and consider economic and financial aspects in the identification process of the transportation investment pipeline. The direct economic benefit of the Project is that the public budget will be allocated during the implementation of the master plans to those transportation investment programs that create the greatest economic return on investment. This direct economic benefit is, however, not measurable under the Project. Given the nature of the undertaking, the benefits can be best quantified by measuring the benefits of the ensuing investment projects that will proceed to downstream activities such as feasibility or detailed engineering design studies.

C. Fiduciary and Governance

35. **Procurement.** The overall procurement risk assessment is rated as a “medium” risk before mitigation measures. Although DOTr has extensive experience in handling the implementation of contracts of works, goods, and services for large projects financed externally by MDBs, it has limited experience in procuring those contracts. Procurement for those projects was either outsourced by DOTr to the Procurement Service of DBM or delegated to ADB, in the case of the ADB-funded projects, including IPIF. Additionally, as above-mentioned, the Project is the first time for DOTr to procure following the Bank’s Procurement Policy and PIR. Considering this, and as requested by DOTr, a procurement agent and/or individual consultants (procurement specialists) will be engaged to support DOTr/PIU on the procurement processes. The assessment rate may be improved to “low” risk after implementing all mitigation measures (see Section E).

36. Procurement under the Project will be carried out in accordance with the requirements of AIB’s Procurement Policy, and Directive on Procurement Instructions for Recipients (dated July 26, 2024), and subject to AIB’s Policy on Prohibited Practices, dated December 8, 2016. DOTr has prepared a Project Delivery Strategy (PDS), along with the Procurement Plan (PP) and the Bank has provided in-principal clearance for it. As per the PDS, the Project includes 23 consulting services and individual consultants contracts (no works or goods packages). The selection of firms will be in accordance with the International Open Competitive Selection Method (IOCSM) following the particular selection methods for firms enumerated in para 13.3 of the PIR. The selection of procedures for individual consultants will be in accordance with para 13.5 of the PIR. All of the procurement contracts under the Project will be subject to the Bank’s prior review.

37. **Advance Procurement and Retroactive Financing.** It is anticipated that the contract for the PTSMP and some individual consultants will be processed through advance procurement and related expenditures will be reimbursed under the loan, provided that it complies with the requirements of para 8.2 of the PIR.

38. **Financial Management.** The FM risk assessment is rated as a “low” risk. DOTr’s FM capacity is considered adequate and familiar with FM requirements. However, given

its human resources constraints, as above-mentioned, a FM specialist consultant will be engaged to provide additional fiduciary support and capacity building to the PIU. The Project shall follow GOP's planning and budgeting procedures. Based on the procurement plan, the PIU shall provide estimated budgetary requirements on an annual basis for Bank review and approval. After approval, it shall be included in the annual GOP's budget as a separate budget head.

39. **Disbursements.** The Project shall follow direct payment as the method of disbursement. Advance payment may be considered for individual consultants' contracts. For minimum application value, there shall be two different thresholds for individual and firm consultancies. DOTr/PIU shall be the authorized signatory for the Project and submit all withdrawal applications to the Bank. Disbursement and Financial Information Letter shall detail the authorized signatories, the process of submitting claims, and other terms.

40. **Governance and Anti-corruption.** AIIB is committed to preventing fraud and corruption in the projects it finances. It places the highest priority on ensuring that projects that AIIB finances are implemented in strict compliance with AIIB's Policy on Prohibited Practices (2016). Its implementation will be monitored regularly by AIIB staff. AIIB reserves the right to investigate, directly or indirectly through its agents, any alleged corrupt, fraudulent, collusive, coercive or obstructive practices, and misuse of resources and theft relating to the Project and to take necessary measures to prevent and address any issues in a timely manner, as appropriate. Detailed requirements will be specified in the Loan Agreement and the tender documents. AIIB will monitor the work related to tender document preparation and tender/proposal evaluation under AIIB financing.

D. Environmental and Social

41. **Environmental and Social Policy and Categorization.** AIIB's Environmental and Social Policy (ESP), including the Environment and Social Standards (ESSs) and the Environmental and Social Exclusion List, apply to the Project. There will be no direct financing for infrastructure investment projects or any type of civil works, thus the Project is Categorized as C as there will be no adverse environmental and social impacts.

42. **Instruments.** The Project will incorporate environmental and social considerations into the upstream studies and activities. A Strategic Environmental and Social Assessment (SESA) will be conducted as part of national, regional, and urban master plans. The SESA will include the following aspects: (i) high-level analysis of environmental and social impacts and opportunities to be considered in the decision-making for the investment programming, (ii) identification of preliminary conceptual optimization and mitigation measures, and (iii) proposal of appropriate guiding principles consistent with AIIB's Environmental and Social Framework (ESF). The SESA findings and recommendations will be integrated into the master plans to address potential environmental and social risks, impacts, and opportunities associated with the execution of the programs, projects, and investments recommended by the master plans. Stakeholder engagement and public consultation will be a core part of the master planning formulation.

43. **Environment and Social Aspects.** As above-mentioned, studies and activities under the Project will include environment and social considerations. Therefore,

transportation investments identified under the Project will generate largely positive socio-economic benefits in terms of serving the growing transportation demand, improving travel conditions, and reducing transportation-associated externalities.

44. **Climate Change Risks and Opportunities.** As above-mentioned, the studies and activities under the Project will take fully into consideration the climate change effects of an anticipated continuous increase in ambient temperature, the intensity of cyclones, storm surges, heavy precipitation events, and sea-level rise. As part of the PTSMP, an assessment of the climate vulnerability context within the transport sector will be conducted. The formulation of the investment program master plans, which will be aligned with the Philippines' Nationally Determined Contributions and other national climate change policies, will identify preliminary mitigation and adaptation investments to be integrated into the investment programs.

45. **Stakeholder Engagement, Consultation, and Information Disclosure.** A Project Stakeholder Engagement Framework will be developed to guide and facilitate effective stakeholder engagement. Tailored stakeholder engagements and consultations will be carried out as part of the master plans and strategy logistic roadmap. Public consultations will be conducted at the national, regional, and local levels, as deemed appropriate, along with key informant interviews, focus group discussions, and other consultation forms. These consultations will provide opportunities for interested stakeholders, including national to local government units, government line agencies, civil society organizations or nongovernmental organizations, private sector, vulnerable groups, and other sectors, to participate and identify their perspectives, issues, concerns, and the overall impact on the environment and social aspect of master plans, which be considered in the formulation of transport investment programs.

46. **Gender and Social Inclusion Aspects.** The master plans, as part of the SESA and stakeholder engagement, will include a gender-inclusive and responsive approach to address risks related to gender-based violence, harassment, and discrimination and opportunities for women and vulnerable groups empowerment in the transport sector. While the Project will not have adverse direct impact to women and vulnerable groups, the Project will contribute to mainstreaming gender equality, universal accessibility, and social inclusion during the identification and formulation of transport investment programs.

47. **Project Grievance Redress Mechanism (GRM).** The Project will utilize the existing GRM of DOTr and its attached agencies through their "*DOTr Commuter Hotline*" available via WhatsApp; Viber; calling and emails and the "8888 Citizens' Complaint Center" available by calling, messaging and www.8888.gov.ph. Complaints, concerns, or suggestions received will be responded in a fair, culturally appropriate, and transparent manner.

48. **Bank's Project-Affected People's Mechanism.** AIIB's Policy on the Project-affected Peoples Mechanism (PPM) applies to the Project. The PPM has been established by AIIB to provide an opportunity for an independent and impartial review of submissions from Project-affected people who believe they have been or are likely to be adversely affected by AIIB's failure to implement the ESP in situations when their concerns cannot be addressed satisfactorily through the GRM or the processes of AIIB's

Management. Information on AIIB's PPM is available at <https://www.aiib.org/en/about-aiib/who-we-are/project-affected-peoples-mechanism/how-we-assist-you/index.html>.

49. **Monitoring and Supervision Arrangements.** DOTr will be responsible for overall coordination, supervision, and monitoring of the Project's E&S aspects. AIIB plans to conduct supervision missions twice a year. AIIB may conduct field visits of the transportation investments to be identified under the Project.

E. Risks and Mitigation Measures

50. An overall "low" risk rating has been assigned to the Project since it will have no direct environmental and social impact, and the financing from government counterpart funds is very low. Furthermore, the approach adopted for its execution is based on the specific constraints related to achieving the expected outcomes. The identified risks and the proposed mitigation measures are presented in the table below.

Table 2. Summary of Risks and Mitigation Measures

| Risk Description | Assessment | Mitigation Measures |
|---|-------------------|--|
| Implementation capacity | | |
| Limited staffing and experience of DOTr to prepare and implement upstream studies. This may lead to delays in reviewing/approving the consultant's deliverables, low quality of consultants' deliverables, and/or underutilization of loan funds. | Medium | <ul style="list-style-type: none"> At least one transport planner expert (to be funded with the loan proceeds) will be engaged to support DOTr/PIU to review consultants' deliverables and ensure quality and consistency. Additionally, DOTr will set up a Technical Steering Committee for the PTSMP, with clearly defined roles and responsibilities and efficient arrangements to review and approve deliverables. |
| Procurement and Financial Management capacity | | |
| Limited staffing experienced in procurement, particularly for upstream studies and following AIIB's procurement policy. Limited staffing experienced in managing Bank-funded projects. | Low | <ul style="list-style-type: none"> A procurement agent and/or international individual consultants (Project Coordinator and Procurement Specialist) will be engaged to provide full support on the procurement to DOTr/PIU. A FM specialist consultant will be engaged for additional fiduciary support and capacity-building. The Project's team is providing guidance to DOTr/PIU as needed. |
| Coordination between government agencies | | |
| Insufficient coordination and involvement of government agencies and other stakeholders in the development of upstream studies may lead to opposition to the outcomes of these studies, particularly of the PTMSP. | Low | <ul style="list-style-type: none"> A Steering Committee will be adopted by DOF for the Project to ensure coordination between agencies across diverse sectors. As part of the PTSMP, the consultant will conduct consultation meetings and visioning workshops with all key stakeholders, to ensure their participation throughout the process. The consultant shall create and implement a Communications and Visibility Strategy that highlights the |

| Risk Description | Assessment | Mitigation Measures |
|--|------------|---|
| | | <p>expected benefits to be attained with the PTSMP to decision-makers, key stakeholders, and the general public. The Technical PTSMP Steering Committee will regularly convene to ensure alignment of the PTSMP across various government agencies.</p> |
| <p>Follow-up to the upstream studies</p> | | |
| <p>Limited follow-up or implementation of the outcomes of the upstream studies, and lack of long-term sustainability of tools developed.</p> | <p>Low</p> | <ul style="list-style-type: none"> • As part of the assignment of the upstream studies, consultants will be required to enhance and boost DOTr's institutional know-how in planning and programming transportation projects and provide on-the-job training in planning and data asset management tools/software. • The Project's team will closely follow up with DOTr and other relevant agencies on the designed transport investment pipeline. After approval of the PTSMP by NEDA, DOTr and relevant agencies will refer to the adopted PTSMP to justify the inclusion of the underlying investment program of the PTMSP in the Philippines Infrastructure Flagship Projects (IFP) list. The projects on the IFP list are prioritized in the annual budgets and in their implementation. |

Annex 1: Results Monitoring Framework

| Project Objective | The Project's Objective is to develop a robust transportation infrastructure investment program aligned with the Philippines' sustainable development goals. | | | | | | | | |
|--|--|----------------------|--------------------------|------|------|------|-------------------|---------------------------|-------------------|
| Indicator Name | Unit of Measure | Baseline Year (2023) | Cumulative Target Values | | | | End Target (2028) | Monitoring Frequency | Responsible Party |
| | | | 2024 | 2025 | 2026 | 2027 | | | |
| Objective Indicators | | | | | | | | | |
| 1. NEDA resolution adopting the PTMSP and NEDA approval of transportation infrastructure investment program | Yes/No | No | | | Yes | | Yes | Annual | PIU |
| 2. Approved regional transportation infrastructure investment program (for three regions) | Yes/No | No | | | | | Yes | At the end of the Project | PIU |
| 3. Approved urban transportation infrastructure investment program (for four metropolitan areas and four cities) | Yes/No | No | | | | | Yes | At the end of the Project | PIU |
| Project Results Indicators | | | | | | | | | |
| 1. Technical Steering Committee established and operational for the PTSMP | Yes/No | No | Yes | Yes | Yes | No | Yes | Annual | PIU |
| 2. Implemented the Communications and Visibility Strategy of the PTSMP | Yes/No | No | Yes | Yes | Yes | Yes | Yes | Annual | PIU |
| 3. Set up a transport Data Information Management System ("Data Observatory") | Yes/No | No | No | No | No | No | Yes | At the end of the Project | PIU |
| 4. Designed a biodiversity impact assessment and mitigation management tool for transport investments | Yes/No | No | No | No | No | Yes | Yes | Annual | PIU |
| 5. Adoption by DOTr of the Rail Standards for Safety and Security | Yes/No | No | No | No | No | Yes | Yes | Annual | PIU |
| 6. Trained staff under PPDO on PTSMP transport modeling (obtained a certification) | Percentage | 0 | 0 | 0 | 75% | 0 | 75% | Annual | PIU |
| 7. Trained staff under PPDO on the transport Data Information Management System ("Data Observatory") | Percentage | 0 | 0 | 0 | 0 | 75% | 75% | Annual | PIU |

Annex 2: Sovereign Credit Fact Sheet

A. Recent Economic Development

1. The Philippines is a lower-middle-income country with a GDP per capita of USD 3,498.5 and a population of 115.6 million.¹ It was one of the fastest-growing economies in the region before the pandemic. The economy grew at 6.1 percent in 2019 because of strong consumer demand supported by a vibrant labor market and robust remittances, then it went through a sharp contraction by 9.5 percent in 2020, struggling to cope with the public health crisis and a severe hit on its contact-intensive services sectors. The GDP growth rebounded to 5.7 percent in 2021 and accelerated further to 7.6 percent in 2022, underpinned by strong domestic demand and private investment, sustained reforms, and disciplined macroeconomic policies. In 2023, the economy grew by 5.6 percent outperforming its ASEAN peers.
2. Inflation was stable at 2.4 percent between 2019 and 2020, resulting from high unemployment, low consumer confidence, and declining remittances. Inflation increased to 3.9 percent in 2021 because of increased food prices and the global pandemic-induced supply shocks. In 2022, the situation worsened, and inflation increased sharply to 5.8 percent, surpassing the upper band of the official target band of 2-4 percent. To anchor inflation within the target, the BSP decided to increase the key policy rate to 3.75 percent by the end of 2022 and another 75 bps since January 2023.² Full-year average inflation rate for 2023 settled at 6.0 percent as the country grappled with the second order effects of high commodity prices from geopolitical tensions, trade restrictions from major rice-exporting countries, and tight supply of key commodities.
3. Because of weak domestic demand and import compression, the current account balance improved from a deficit of 0.8 percent of GDP in 2019 to a surplus of 3.2 in 2020. In 2021, the balance turned back to a deficit of 1.5 percent of GDP. Then, the deficit widened to 4.5 percent of GDP in 2022, as imports rebounded and domestic demand recovered under the high inflation environment. In 2023, the current account deficit shrinks to 3 percent of GDP due to higher remittances, the issuance of global bonds, and other inflows of foreign investment.
4. Before 2020, the fiscal deficit, although increasing over time, had remained low at less than 1.5 percent of GDP. During the pandemic, the fiscal deficit jumped to 7.6 percent in 2020 and further to 8.6 percent in 2021, amid declining tax revenues and increasing health expenditures. As the situation improved in the second half of 2022, the fiscal deficit reduced slightly to 7.3 percent of GDP in 2022 and decreased further to 6.2 percent in 2023. Accompanied by the change in fiscal balance, public debt surged from 37 percent of GDP in 2019 to 57.5 in 2022 and is estimated to be 57.6 in 2023, which is within the government cap of 60 percent of GDP.

¹ World Bank's World Development Indicators for the Philippines in 2022.

² Philippines Economic Updates Vol.3-2023, August 2023

5. External debt increased from 22.2 percent of GDP in 2019 to 27.2 in 2020 and remained stable, albeit on a slight declining trend, since 2021. In 2023, the external debt is estimated at 26.4 percent of GDP. As a result, international reserves dropped from USD110.1 billion by end-2020 to USD99 billion by July 2023, and the Philippines peso depreciated by 6 percent since October 2020.

B. Economic Indicators

| Economic Indicators | 2019 | 2020 | 2021 | 2022* | 2023* | 2024* | 2025* |
|---|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Real GDP growth (% change) | 6.1 | -9.5 | 5.7 | 7.6 | 5.3 | 5.9 | 6.1 |
| CPI Inflation (average, % change) | 2.4 | 2.4 | 3.9 | 5.8 | 5.8 | 3.2 | 3.0 |
| Current account balance (% of GDP) | -0.8 | 3.2 | -1.5 | -4.5 | -3.0 | -2.6 | -2.1 |
| General government overall balance (% of GDP) | -1.5 | -5.5 | -6.2 | -5.5 | -4.8 | -4.3 | -3.9 |
| General government gross debt (% of GDP) | 37.0 | 51.6 | 57.0 | 57.5 | 57.6 | 57.7 | 57.4 |
| Public gross financing needs (% of GDP) 1/ | 5.4 | 9.8 | 10.4 | 10.5 | 10.3 | 9.5 | 9.0 |
| External debt (% of GDP) 1/ | 22.2 | 27.2 | 27.0 | 26.6 | 26.4 | 25.8 | 25.3 |
| Gross external financing need (% of GDP) 1/ | 6.6 | 2.9 | 6.9 | 10.2 | 9.1 | 8.4 | 7.7 |
| Gross international reserves (USD bill.) 2/ | 87.8 | 110.1 | 108.8 | 96.1 | 99.9 | .. | .. |
| Exchange rate (LCU/USD, EOP) 3/ | 50.65 | 48.01 | 50.99 | 55.67 | 56.81 | .. | .. |

Data source: IMF World Economic Outlook (October 2023 Edition), unless otherwise stated.

Notes: * denotes projected values. 1/ IMF Country Report No. 22/369. 2/ IMF International Financial Statistics Sept. 18th, 2023. 3/ FX data retrieved from Refinitiv as of Sept. 25th, 2023.

C. Economic Outlook and Risks

6. The Philippines' GDP growth is estimated to reach 6.0 – 7.0 percent in 2024, 6.5 – 7.5 percent in 2025, and reach 8.0 percent by 2028. From the supply side, the post-pandemic recovery will drive services and industry growth. On the expenditure side, private consumption growth is expected to remain robust in the medium term, supported by recovering employment, improving consumer sentiment, a reduction of personal income tax rates, and a steady inflow of remittances.

7. Inflation is expected to fall back to the target range in the medium term as the BSP adjusts its policy rate and the authorities resolve domestic food supply challenges. The current account balance will continue to narrow over the medium term, amid the recovery in services exports, steady remittance inflows, and lower global commodity prices.

8. Fiscal deficit is expected to narrow to 5.2 percent of GDP in 2025, contingent on the successful implementation of the government's medium-term fiscal consolidation agenda. The combination of fiscal consolidation and the growth recovery will keep debt levels sustainable over the medium-term. The public debt is projected to remain stable at around 57 percent of GDP, which is below the 60 percent official cap. Still, it is considered sustainable and manageable because of the stable debt composition and low shares of foreign currency-denominated debt.

9. External debt appears sustainable and resilient to interest rate and growth shocks. It is projected to remain stable at around 26 percent of GDP in the medium term. The external risks come from peso depreciation, which would raise external debt as a percentage of GDP or

consumption of the international reserve. Accordingly, external financing needs will return to pre-pandemic levels in the medium term.

10. The downside risks, which include a globally larger-than-expected tightening of financial conditions, a worse-than-anticipated slowdown in China, persistently high domestic inflation, and various natural disasters, will likely materialize. Policy tradeoffs between protecting output and curbing inflation will become increasingly acute.

11. Fitch revised the Philippines' outlook from negative to stable and affirmed at BBB in May 2023. S&P maintained its rating of BBB+ with a stable outlook for the Philippines in November 2022. Moody's maintained a Baa2 rating and stable outlook in September 2022.