



1. Project Data:		Date Posted : 06/07/2004	
PROJ ID: P040981		Appraisal	Actual
Project Name: Second Subic Bay Freeport Project	Project Costs (US\$M)	108.00	29.80
Country: Philippines	Loan/Credit (US\$M)	60.00	25.50
Sector(s): Board: PSD - Roads and highways (33%), Water supply (30%), Power (28%), Ports waterways and shipping (7%), Sub-national government administration (2%)	Cofinancing (US\$M)		
L/C Number: L4111			
	Board Approval (FY)		98
Partners involved :	Closing Date	06/30/2000	06/30/2003

Prepared by :	Reviewed by :	Group Manager :	Group:
Peter Nigel Freeman	John R. Heath	Alain A. Barbu	OEDST

2. Project Objectives and Components

a. Objectives

The original objective was "to strengthen the capacity of the Subic Bay Metropolitan Authority (SBMA) to regulate and manage the growth of the Freeport and to support further infrastructure development, including SBMA's initial partnership with the private sector through a water supply joint venture ". However, following political tensions and civil disturbances after the Presidential elections of May 1998, Olongapo City was no longer willing to merge its public utilities department with that of SBMA and subsequently SBMA requested the Bank to exclude those elements outside SBMA's jurisdiction. The Board approved the restructured project on June 1st, 2001 and under the new agreement the water and much of the power component was canceled .

A revised objective was also approved : "to assist the Subic Bay Freeport (SBF) to attract and maintain private investors while remaining economically viable and environmentally sound ".

b. Components

The water supply and part of the power component amounting to US\$ 23.85m were canceled. The restructured project was then as follows:

- Institutional strengthening including capacity building, human resources management assistance, technical studies and assistance, a simplified financial management system and support for the SBMA Ecology center (US\$5.6m);
- Power Component including equipment and works to remedy immediate system needs and funding to assist SBMA with the privatization of the power distribution network within the SBF (US\$4.5m);
- Roads and Bridges and Related Infrastructure including access road improvements, bridge rehabilitation, improved signalization, airport improvements and engineering and supervisory services (US\$30.7m).

c. Comments on Project Cost, Financing and Dates

The original loan was for US\$60.00m, but following the approval to cancel part of the project, the loan amount was reduced to US\$36.15m. At closure the amount disbursed was US\$ 25.50m, following devaluation of the peso. The original closing date was set for June 30th, 2000, but when the project was restructured it was extended to June 30th, 2002 and then, later in order to complete unfinished works, it was further extended to June 30th, 2003.

3. Achievement of Relevant Objectives:

The broad intention of the original objective was achieved, but the detail relating to joint ventures with the City of Olongapo in respect of water and power were not. However, the revised objective reflecting the restructured project approved by the Board was fully achieved . There is no doubt that private investors found the Freeport attractive . Investments in SBF increased from US\$ 2.59 billion in 1998 to US\$4.16 billion by project closure. The total export value of goods more than doubled from US\$ 555.9 million to US\$1.32 billion between 1998 and 2002. Moreover,

persons employed at the Freeport had increased from 7,756 in 1998 to 53,017 by project closure. The revised objective also put greater weight on environmental aspects which were handled satisfactorily .

4. Significant Outcomes/Impacts:

- The total number of tourists visiting the SBF rose from 2.35 million in 1998 to 7.97 million in 2002 and the total number of ships visiting the port during the same period increased by more than 20%;
- A forum was established between SBMA and local government to exchange information;
- Customs administration was simplified and computerized systems introduced through a Build -Operate-Transfer arrangement;
- SBF succeeded in gaining exemption from taxation, thus improving its financial performance;
- Improvements were achieved in the regulation of labor and occupational health;
- An economic/financial model was developed to assist in logistical and planning decisions;
- More effective planning approaches and an integrated financial management system (IFMS) were introduced;
- The Ecology Center was strengthened and community partnerships were established;
- Power distribution was privatized; and
- Various infrastructure improvements were successfully completed, allowing further port expansion .

5. Significant Shortcomings (including non-compliance with safeguard policies):

- By pledging certain of its assets to creditors and giving the pledge priority over the Bank loan, SBMA breached the loan agreement. The effectiveness of the project was delayed for 11 months before this issue was satisfactorily resolved.
- The national government's constraints on the appointment of key staff restricted the degree of support available to address project implementation optimally .
- Initial attempts to base the IFMS system on the existing system and an underestimation of programmer input requirements caused unforeseen delays .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	Given that project restructuring was motivated by factors beyond Bank and Borrower control, OED rates this project against the revised objective, as specified in the ICR guidelines.
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- When a project experiences a crisis in leadership or problems related to political issues, the Bank should critically re-assess the situation and call for either a time bound action plan or a definite deadline for suspension or cancellation of the project.
- Future projects for freeports and economic zones should give the highest priority to institutional strengthening and capacity building, since these are the critical success factors .
- In any major project it is important to ensure that a full -time competent and experienced project manager is in place before work commences.

8. Assessment Recommended? Yes No

Why? The success in Subic Bay, despite the problems with the adjacent Olongapo City, could be replicated elsewhere; it is important to understand why the port has grown so successfully .

9. Comments on Quality of ICR:

This ICR was very well presented and can be considered satisfactory . The ratings were consistent with the facts and the reasons for the change in objectives and structure were clearly explained . Lack of data on performance indicators (Annex 1) was noted.