



<b>1. Project Data :</b>
<b>OEDID:</b> L3523
<b>Project ID:</b> P004577
<b>Project Name:</b> Telephone System Expansion
<b>Country:</b> Philippines
<b>Sector:</b> Telecommunications & Informatics
<b>L/C Number:</b> Loan 3523-PH
<b>Partners involved :</b>
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**2. Project Objectives, Financing, Costs and Components :**

The project, supported by a loan of US\$ 134 million, was approved in FY93 and closed in FY98 as scheduled but after cancellation of US\$97 million (72 percent of the loan amount) at the Borrower's request. Latest cost estimate (some components are yet to be completed) is US\$183 million, compared to an appraisal figure of US\$288 million, largely due to a reduction in the scope of works carried out. Project objectives were to: (i) increase telephone penetration with an emphasis on underserved provincial areas; and (ii) improve the quality of service and efficiency of PLDT, the country's main (private) telecoms provider. Under a parallel Bank-managed Japanese grant, the Bank was also to help strengthen the Government's planning and regulatory capacity via training and technical assistance. Accordingly, the project included: (i) expansion and rehabilitation of telecoms facilities in provincial areas, including 133,000 new exchange lines; (ii) additional connections for 41,000 new customers in Metro Manila; (iii) interconnection of isolated areas and construction of 97 public calling offices; and (iv) technical assistance and training (totaling US\$2 million) in project management and system operations. Although project objectives were generally relevant, given the underdevelopment of the country's telecoms network (particularly in the provinces), the rationale for Bank lending to a private quasi-monopoly was extremely weak as, in practice, it hinged primarily on addressing what turned out to be a temporary constraint on PLDT's access to foreign commercial borrowings rather than on helping reform the sector's policy framework. Indeed, the constraints on PLDT's access to foreign capital had already disappeared by the time the loan was presented to the Board and 3 years later PLDT requested cancellation of 72 percent of the loan on account of its access to cheaper commercial funding.

**3. Achievement of Relevant Objectives :**

Only 37 percent of the original program had been carried out by December 1997 (the expected closing date) and PLDT provided no clear indication as to whether and when the rest of the program (with a particular focus on provincial areas) will be completed --under alternative financing arrangements. No data on possible improvements in quality of service has been available since 1993. Achievement of the (very limited) institution-building objectives of the project has been negligible for lack of ownership by PLDT; and the impact of the Japanese grant -financed activities on sector policies appears to have been minimum (although the ICR does not elaborate on this topic).

**4. Significant Achievements :**

Those components that were completed had a higher-than-expected economic and financial rates of return (47 and 33 percent respectively). And PLDT's efficiency improved faster than estimated at appraisal (number of staff per line was about 55 percent lower than targeted).

**5. Significant Shortcomings :**

Quality at entry of project was highly unsatisfactory: (i) main rationale for Bank involvement was quickly proven to be fundamentally flawed (see above); (ii) institutional and policy content was clearly insufficient, particularly for such a large operation, most probably a reflection of the Borrower's lack of commitment; (iii) on-lending arrangements proposed by the Government had not been thought through at appraisal and proved a major headache which delayed loan effectiveness by more than a year; and (iv) technical readiness for implementation of some major components was inadequate. Furthermore, there is evidence that the revised program ultimately implemented by PLDT had less emphasis on provincial coverage, thus negating some of the social benefits anticipated at appraisal.

Indeed there is a legitimate question as to why the original design of the project did not include a greater emphasis on strengthening the small provincial providers --instead of the already well established and financially stronger PLDT. Poor appraisal was compounded by inadequate Bank supervision which gave an unrealistically optimistic picture of project implementation up until loan cancellation .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Unsatisfactory	Unsatisfactory	
<b>Institutional Dev .:</b>	Negligible	Negligible	
<b>Sustainability :</b>	Likely	Likely	Refers to sustainability of those physical components of the project that were actually completed
<b>Bank Performance :</b>	Deficient	Highly Unsatisfactory	Highly unsatisfactory throughout the project cycle (see section 5 above)
<b>Borrower Perf .:</b>	Satisfactory	Unsatisfactory	Significant delays in PLDT's implementation of the project and Government's weak commitment to any non-physical objectives and its poor choice of on-lending arrangements.
<b>Quality of ICR :</b>		Satisfactory	

**7. Lessons of Broad Applicability :**

1. The Borrower's willingness to implement technical assistance activities which the Bank deems critical is often a litmus test of Borrower ownership. 2. Bank lending to private companies should only be considered if : (i) the company has clearly no prospect of accessing commercial sources of funds in the near future; (ii) it is fully committed to the project's objectives; and (iii) the investments being financed provide very substantial economic and social benefits.

**8. Audit Recommended?** ☒ Yes ☐ No

**Why?** An unusual failure in a sector where the Bank has a generally excellent track record, with interesting lessons on how *not* to support the private sector. Some critical issues not addressed by the ICR (see below) are worth a second look. An audit would require, however, close cooperation by both PLDT and the Government --which is far from guaranteed given the self-congratulatory tone of the Borrower's ICR contribution .

**9. Comments on Quality of ICR :**

The ICR is generally satisfactory and in particular presents a candid assessment of Bank performance . However, it should have elaborated further on two critical aspects : (i) achievements (or lack thereof) under the parallel Bank-managed Japanese grant; and (ii) extent of coordination (or lack thereof) between the Bank and IFC, given the latter's significant funding of PDLT prior to the Bank loan .