



APPENDIX 5.7

PROJECT COMPLETION REPORT: PHILIPPINE NATIONAL RAILWAYS

Unexplored in the literature on Marcos supporters is the apparent overlap between many Philippine railway workers and enthusiasts and Marcos loyalists. This can be linked to a perception that Marcos had done more for railway transportation in the country than any post-Second World War president before him. After all, it was during his regime that the first line of the country's light railway transit (LRT) system was built (on the back of enormous foreign loans, of course). However, this excerpt from a project completion report, requested from the Asian Development Bank, shows that the PNR's decline started well within the Marcos regime, probably not coincidentally while another railway project, the LRT, was being built.

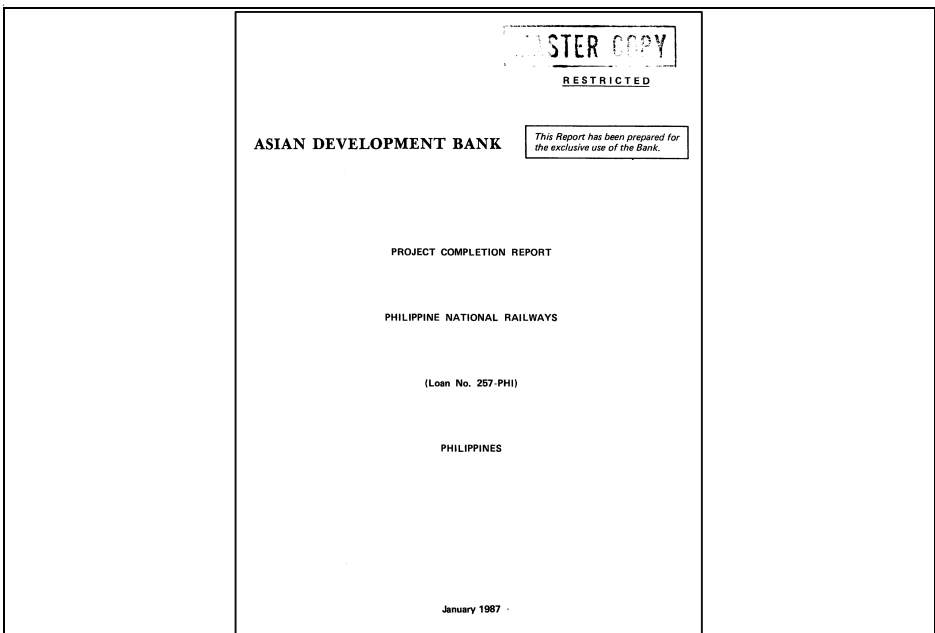


Figure 1. Cover page.

Source: Banerjee, R. K., and J. Spurr. 1987. *Project Completion Report: Philippine National Railways (Loan No. 257-PHI)*. World Bank.

(11)

BASIC DATA**A. Loan Identification**

1. Country	Philippines
2. Loan Number	257
3. Project Title	Philippine National Railways
4. Borrower	Government of Philippines
5. Executing Agency	Philippine National Railways
6. Amount of Loan	\$24.2 million

B. Loan Data

1. <u>Appraisal</u>	
- Date Started	15 September 1975
- Date Completed	17 October 1975
2. <u>Loan Negotiations</u>	
- Date Started	26 February 1976
- Date Completed	26 February 1976
3. <u>Date of Board Approval</u>	25 March 1976
4. <u>Date of Loan Signing</u>	29 March 1976
5. <u>Date of Loan Effectiveness</u>	
- In Loan Agreement	28 June 1976
- Actual	28 June 1976
- Number of Extensions	None
6. <u>Closing Date</u>	
- In Loan Agreement	30 June 1981
- Actual	30 June 1982
- Number of Extensions	Two
7. <u>Terms of Loan</u>	
- Interest Rate	8.75 per cent
- Maturity (number of years)	20
- Grace Period (no. of years)	5
8. <u>Terms of Re-lending (if any)</u>	
- Interest Rate	8.75 per cent
- Maturity (number of years)	20
- Grace Period	5
- Second Step Borrower	-
9. <u>Disbursements</u>	
- Date of Initial Disbursement	January 1977
- Date of Final Disbursement	November 1985
- Amount Disbursed	\$24,200,000
- Amount Cancelled	Nil
10. <u>Local Costs (Bank-Financed)</u>	-
- Amount (US Dollars)	-
- Percentage of Local Costs	-
- Percentage of Total Cost	-

I. SUMMARY

1. The Project, approved in March 1976, comprised rehabilitation of track and bridges on the South Line of the Philippine National Railways (PNR) between Manila and Legaspi, rehabilitation of telecommunication systems, procurement of maintenance equipment and consultant services for Project implementation and institutional improvement. The Project's goal was to reestablish PNR's operational and financial viability and to help realize PNR's due economic intermodal share of traffic in the Bicol corridor. Of the Project's assessed cost of \$37.13 million, made up of foreign exchange cost - \$20.42 million, interest during construction (IDC) - \$3.78 million, and local cost - \$12.93 million, both the foreign exchange cost and IDC were to be met by the Bank Loan of \$24.20 million. The local cost was to be met primarily from the Government's equity contribution and to a lesser extent from PNR's internally generated resources.

2. Despite an overrun of six years by June 1986, the Project was still only 75 per cent complete. The Bank Loan has been fully disbursed.^{1/} While there has been no overrun in foreign costs, a 135 per cent overrun on total costs (in \$ terms) is foreseen. This has mainly been caused by Project delays and the impact of inflation on local costs. The Bank-financed components were procured with delays of one to two years though the quality of those components was satisfactory. PNR-financed procurement suffered from both serious delays and poor quality. Inadequate fund release by the Government, especially since 1982, caused much of the delay and the consequent cost overrun. A loss of ₱37 million was the result of poor control over procurement of Government-financed ballast and sleepers. Unsound decisions by the PNR board contrary to the advice of the consultants and inadequate exercise of professionalism by PNR staff appear to have caused the loss.

3. Since PNR has not implemented a majority of the consultants' recommendations, operations have seriously declined and fundamental weaknesses remain. Indeed, services are likely to collapse unless a massive rescue effort is made. Government short-term bailing out operations have failed to resolve problems that have become so deep rooted that even well-chosen investments will not solve them until adequate technical and organizational competence is re-established. However, although PNR has become a burden on the economy, the economic and social advantages of railway operation in the Bicol region, much of which is serviced by no other mode, suggest that Government should urgently decide on a long-term railway policy which should be implemented with appropriate inputs.

4. The EIRR for the Project is negative vis-a-vis the Appraisal forecast of 17.7 per cent. Given appropriate operational and institution building inputs and substantial additional investment support on a selective basis, a 8.5 per cent EIRR can be expected.

^{1/} Notwithstanding the incomplete status of the Project, the Management considered that preparation of this Project Completion Report should proceed.

