ADB

Technical Assistance Report

Project Number: 47230-001
Capacity Development Technical Assistance (CDTA)
April 2014

Republic of the Philippines: Strengthening Evaluation and Fiscal Cost Management of Public–Private Partnerships

(Financed by the Japan Fund for Poverty Reduction)

Asian Development Bank

.

CURRENCY EQUIVALENTS
(as of 27 March 2014)

Currency unit	–	peso (P)
P1.00	=	$0.022
$1.00	=	P44.96

ABBREVIATIONS

ADB	–	Asian Development Bank
BTr	–	Bureau of the Treasury
DOF	–	Department of Finance
DRMO	–	Debt and Risk Management Office
GDP	–	gross domestic product
ICC	–	Investment Coordination Committee
NEDA	–	National Economic and Development Authority
PDMF	–	Project Development and Monitoring Facility
PPP	–	public–private partnership
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Capacity development technical assistance (CDTA)
Targeting classification	–	General intervention
Sector (subsectors)	–	Public sector management (economic management and management of public affairs; public expenditure and fiscal management)
Theme (subthemes)	–	**Private sector development** (public sector goods and services essential for private sector development, promotion of private sector investment), economic growth (promoting economic efficiency and enabling business environment)
Location (impact)	–	Urban (high), national (high)
Partnership	–	Japan Fund for Poverty Reduction

NOTE

In this report, "$" refers to US dollars.

Vice-President	S. Groff, Operations 2
Director General	J. Nugent, Southeast Asia Department (SERD)
Director	S. Hattori, Public Management, Financial Sector and Trade Division, SERD
Team leader	A. Haydarov, Public–Private Partnership Specialist, SERD
Team members	J. Balbosa, Senior Country Specialist, SERD G. Hauber, Principal Public–Private Partnership Specialist, SERD J. Mitra, Associate Project Analyst, SERD M. Parra, Operations Assistant, SERD

CONTENTS

I. INTRODUCTION

1. The Government of the Philippines requested the Asian Development Bank (ADB) to provide technical assistance (TA) to strengthen capacity of the (i) National Economic and Development Authority (NEDA) for timely and quality appraisal of public–private partnership (PPP) projects; and (ii) the Department of Finance (DOF) for management of fiscal cost of the growing PPP portfolio.[1] The TA is in line with ADB's country partnership strategy, 2011–2016, and is included in the Philippines country operations business plan, 2014–2016.[2] ADB conducted a fact-finding mission on 2–6 September 2013, which agreed with the government on the TA's objective, scope, implementation arrangements, and financing plan. The design and monitoring framework is in Appendix 1.[3]

II. ISSUES

2. **Inadequate infrastructure a critical constraint to growth.** Institutional and fiscal space constraints have held back the ability of the public sector to properly maintain the existing infrastructure and build new infrastructure to cope with the Philippines' demographic (1.9% average annual population growth in 2000–2012) and geographic (archipelagic and highly prone to natural disasters) challenges. External shocks and governance challenges have negatively affected private sector investment commitments in infrastructure, which fell from a peak of 15.5% of gross domestic product (GDP) in 1997 to 2% in 2000–2012.[4] In 2013, the government announced its intention to increase public infrastructure investments to 5% of GDP in 2016 to bring the Philippines on par with the regional average.[5] Despite the country's mixed performance since starting with PPPs in early 1990s, the momentum in the government's revenue and expenditure reforms as well as the government's shift from a deal-based (i.e., reliance on unsolicited projects) toward a program-based approach (i.e., reliance on a pipeline of solicited and properly prepared projects) in PPPs suggest that the country could meet its investment targets.

3. **Progress in public–private partnership program.** The pipeline of PPP projects grew from 11 projects in November 2010 to 51 in January 2014. Four expressway, two classroom, one light rail, and one hospital project have been awarded with a total estimated investment of $3.4 billion. Six PPP projects for a total of $3.4 billion are at the bidding stage, and another four projects for $1.4 billion are undergoing the government approval process. Twenty projects are under preparation and 13 under conceptualization.[6] Overall, a more robust pipeline of quality PPP projects has emerged, raising the likelihood of sustainability of the country's PPP program.

---

[1] The government requested TA support in April 2013 during the midterm review of ADB. 2011. *Technical Assistance to the Republic of the Philippines for Strengthening Public-Private Partnerships in the Philippines.* Manila (TA 7796-PHI). The ongoing capacity development TA focuses on strengthening the Philippine PPP Center and setting up the Project Development and Monitoring Facility for PPP project preparation and transaction. It is cofinanced by the governments of Australia and Canada. For details, see ADB. 2012. *Major Change in Technical Assistance: Strengthening Public–Private Partnerships in the Philippines*. Manila.

[2] ADB. 2013. *Philippines: Country Operations Business Plan, 2014–2016*. Manila.

[3] The TA first appeared in the business opportunities section of ADB's website on 1 April 2014.

[4] Private sector investment commitment in a year means the total amount of fiscally closed PPP contracts in that year as reported in the World Bank's Private Participation in Infrastructure Database (World Bank. http://www.ppi.worldbank.org (accessed on 24 January 2014).

[5] Overall, the country's underinvestment in infrastructure is about 2% of GDP. See G. M. Llanto. 2012. The Impact of Infrastructure on Agricultural Productivity. *Discussion Paper Series.* No. 2012-12. Makati City: Philippine Institute of Development Studies. See also ADB. 2007. Philippines: Critical Development Constraints. *Country Diagnostic Studies*. Manila.

[6] Of the 38 projects that are at post-conceptualization stage, 27 projects have received preparation and transaction advisory support from the Project Development and Monitoring Facility set up under the ongoing TA (footnote 1).

4. **Improvements in public–private partnership enabling environment**. In May 2013, the presidential executive order (i) established the PPP Governing Board as the government's central PPP policy decision-making body, (ii) institutionalized the Project Development and Monitoring Facility (PDMF) Committee, (iii) confirmed the PPP Center as a member of the Technical Board of the Investment Coordination Committee (ICC), and (iv) operationalized the monitoring dimension of the PDMF to support government agencies in PPP contract management.[7] In the same month, the NEDA issued revised joint venture guidelines enhancing transparency of processing of such projects by subjecting them to review by the ICC. In the 2014 General Appropriations Act under the Unprogrammed Fund's Risk Management Program, P20 billion was authorized to cover contingent liabilities arising from PPP contracts that could materialize in 2014.[8] In December 2013, the ICC approved changes to the process of appraising PPP projects by assigning (i) the PPP Center as secretariat to coordinate appraisal of PPP projects presented to the ICC and carry out review of the value for money, commercial viability, bankability, and financial structuring; (ii) the NEDA for appraisal of socioeconomic aspects; and (iii) the DOF for appraisal of risk allocation, financial viability, and fiscal sustainability of PPP projects.[9]

5. **Institutional changes.** The NEDA's rationalization plan approved in June 2013 includes (i) creation of a value risk analysis and infrastructure regulation division under the NEDA's infrastructure staff to conduct value, risk, and price escalation analyses and contract review of PPP projects; and (ii) restructuring of the program formulation division of the public investment staff into an investment programming division to serve as focal division on PPP project processing for ICC and NEDA Board review. The DOF has set up an interagency contingent liability monitoring group led by the Bureau of the Treasury (BTr). This group is operational and leads the contingent liability analysis for the government's annual fiscal risk statements. The BTr's rationalization plan submitted to the Department of Budget and Management for approval proposes the establishment of a Debt and Risk Management Office (DRMO) and a contingent liability division within this office with six permanent staff. The DRMO will take over the functions of the Debt and Risk Management Division set up in May 2009 under an ADB-supported Development Policy Support Program Cluster. The DOF staff assigned to the Debt and Risk Management Division were transferred to the BTr for absorption into the DRMO upon its formalization. The national treasurer will be the overall head of the liability management cluster of the DOF, including PPP-related contingent liabilities.

6. **Increasing number of public–private partnership projects.** Before bidding, PPP projects need to be approved by the ICC, which also approves government-funded public investment projects larger than P1 billion. The number and complexity of PPP projects—in addition to the mainstream of NEDA-reviewed projects that are funded from government budget and official development assistance—submitted for review by the NEDA has been increasing since 2011. This poses an additional challenge to the ability of NEDA staff to conduct timely and quality appraisal of PPP projects.[10] Similarly, the rising number of PPP projects under

---

[7] Executive Order 136 (dated 28 May 2013). Per this order, the PPP Center is an attached agency to NEDA for budgetary purposes and administrative supervision and reports directly to the PPP Governing Board. This Board is in charge of the PPP enabling environment and the ICC is in charge of approval of individual PPP projects.

[8] Amounts authorized under the unprogrammed fund do not represent appropriation of funds. Hence, such amounts do not add to the budget deficit at budget approval. Should the events associated with the purpose of authorization occur, then the government may fund expenses to cover the cost of such events. In that case, these materialized expenses would add to the budget deficit. The authorization is given for 1 budget year only.

[9] Socioeconomic analysis entails a prerequisite analysis of the technical, institutional, environmental, and financial aspects of the project, as they may be relevant to the socioeconomic analysis.

[10] In the NEDA's Reference Manual on Project Development and Evaluation, the term "evaluation" refers to assessment at pre-investment stage of the project's socioeconomic and financial viability as well as alignment with

preparation and implementation poses an additional challenge to the DOF's ability to properly and promptly identify and value contingent liabilities during project appraisal and implementation. The government's institutional arrangements on managing PPP fiscal cost also need strengthening: the interagency contingent liability monitoring group and the DOF need support in (i) clarifying public sector accounting for PPP direct and contingent liabilities; (ii) designing fiscal rules to adequately manage PPP costs shouldered by the government; (iii) establishing functional systems, processes, and procedures for the contingent liability monitoring group; and (iv) developing sustainable funding options for contingent liabilities and viability gap funding for the government's consideration.

III. THE PROPOSED TECHNICAL ASSISTANCE

A. Impact and Outcome

7. The TA's impact will be increased and fiscally sustainable infrastructure investments through PPPs. The outcome of the TA will be improved government's appraisal and sustainable management of PPP projects.

B. Methodology and Key Activities

8. The TA will achieve its outcome through three outputs: strengthening the government's (i) capacity in PPP project appraisal; (ii) capacity in management of contingent liabilities arising from PPP projects; and (iii) institutional framework for PPP fiscal cost management. Output 1 is the NEDA's component, while outputs 2 and 3 comprise the DOF's component.[11]

9. **Output 1.** The TA will strengthen NEDA's capacity in appraising PPP projects by providing NEDA staff with on-the-job advisory support on actual PPP projects being reviewed by them.[12] The TA offers immediate support to the NEDA to implement its rationalization plan and to subject at least two PPP projects to value analysis on the basis of guidelines developed under the Australia–Philippines Partnership for Economic Governance Reforms Program in 2010. On the basis of this advisory support, the TA will support delivery of project-based or topic-focused (e.g., on the subject of value for money assessment) trainings to interagency teams comprising staff from the NEDA, DOF, Department of Budget and Management, PPP Center, relevant implementing agencies, and regulators. To ensure knowledge transfer, the TA will support the development of discussion notes on the lessons learned and ways forward, and conduct stakeholder workshops in the middle and at the end of the TA.

---

the country development strategy. At the pre-investment stage, therefore, the term "evaluation" actually means "appraisal."

[11] With the TA's focus on PPP project appraisal and fiscal cost management areas, most phases of the PPP project cycle will be covered by the ongoing and planned support of ADB and other development partners. The ongoing TA (footnote 1) focuses on PPP programming, preparation, transaction, and implementation phases by strengthening government oversight agencies (e.g., the NEDA, PPP Center, and DOF). Dedicated support to selected major implementing agencies in PPP project preparation, transaction, and implementation phases is planned by the Japan International Cooperation Agency. Other development partners' support is largely provided to implementing agencies in the context of particular projects.

[12] In addition to the NEDA appraisal focus areas indicated in para. 4, areas such as project structuring, risk allocation, and contract management will be covered, as the NEDA Secretariat is mandated under Executive Order 230 to provide technical support to the NEDA Board and ICC. Hence, it is important for the NEDA Secretariat to be well rounded on different aspects of project appraisal to be able to adapt easily to any future changes in the PPP review process.

10. **Output 2.** The TA will strengthen DOF's capacity in managing contingent liabilities arising from PPP projects by supporting institutionalization and strengthening of capacity at the BTr's DRMO (focusing on the contingent liability unit within DRMO) through on-the-job advisory support on risk identification, allocation, and monitoring; evaluation of contingent liability for every financing and procurement option; full disclosure of required budget for contingent liability and other issues DRMO staff might have on the pipeline and ongoing projects reviewed and monitored by DRMO. Knowledge transfer will be assured as in output 1.

11. **Output 3.** The TA will strengthen the institutional framework of DOF in fiscal cost management of PPP projects by supporting the DOF in (i) preparing contingent liability management plans by the BTr, including through involvement of implementing agencies' PPP units in contingent liability capacity building for the DOF; (ii) enhancing the contingent liability-related link between project processing (risk identification and allocation, government undertakings approval) and project implementation (monitoring, provisioning, budgeting, funding, and disclosure of contingent liabilities); (iii) developing options for fiscal rules related to PPPs (e.g., share of contingent liability exposure in total government revenues); (iv) mainstreaming of contingent liabilities in debt sustainability analysis; and (v) operationalizing the recently established interagency contingent liability monitoring group. All areas above will contribute to improving the PPP-related elements of the government's annual fiscal risk statements.

12. **Assumptions and risks.** Continuous government commitment to catalyze private sector investments in infrastructure through the PPP mode and macroeconomic and sociopolitical stability are important overall assumptions for the proposed TA. Improved regulatory and institutional framework for PPPs, timely and complete submission of PPP projects by implementing agencies for appraisal, and sustained interest of private sector investors and lenders in PPPs are also important assumptions. The likely risks for the TA include an unanticipated weakening of political will, ineffective coordination among government stakeholders, delays in approval and implementation of legal and regulatory provisions, unexpected disruption in the PDMF or PPP Center's operations a subsequent lack of bankable infrastructure projects for government review, inadequate or untimely solution of right-of-way and land acquisition, and unfavorable judicial decisions.

C. Cost and Financing

13. The TA is estimated to cost $2,200,000, of which $2,000,000 will be financed on a grant basis by the Japan Fund for Poverty Reduction and administered by ADB. The government will provide counterpart support in the form of counterpart staff, office and housing accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. Details of the cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

14. The NEDA and DOF will be the executing agencies for the proposed TA. For overall TA oversight, the government will designate NEDA's Expanded PPP Group (composed of the NEDA Build-Operate-Transfer Group, PPP Center, and DOF) as the project steering committee. This committee will decide on matters that cut across all outputs, such as reallocation of funds among outputs. Changes related to outputs, inputs, or activities under the NEDA and DOF's components will be approved by the relevant executing agency. To support the project steering committee, the NEDA will set up a technical working group headed by NEDA's deputy director general for investment programming and DOF will set up a technical working group headed by the national treasurer of the Philippines. NEDA's technical working group will supervise

implementation of output 1, and DOF's technical working group will supervise implementation of outputs 2 and 3, including endorsement of consultant deliverables per the agreed business process. Policies developed under the TA will be elevated for consideration to the NEDA Board's Infrastructure Committee. The TA is expected to commence in May 2014 and close by May 2016.

15. The TA will engage two consulting firms: firm 1 to deliver output 1, and firm 2 to deliver outputs 2 and 3. The firms will be engaged under indefinite delivery contracts for 1.5 years (June 2014–December 2015). The estimated budget for the contract of firm 1 is $1.04 million for 20 person-months of international and 20 person-months of national consultant inputs.[13] The estimated budget for the contract of firm 2 is $0.96 million for 19 person-months of international and 17 person-months of national consultant inputs. Firm 2 will allocate no more than 40% of its time to capacity building, and 60% should be spent on on-call advisory support to the BTr. The firms will be selected by ADB using quality-based selection on the basis of a full technical proposal, and will report directly to the relevant executing agency based on an agreed work program and business processes. The outline terms of reference for consultants is in Appendix 3.

16. ADB’s Guidelines on the Use of Consultants (2013, as amended from time to time) will apply to consultant selection. All procurement will be done in accordance with ADB’s Procurement Guidelines (2013, as amended from time to time), and all funds used for procurement will be expended in ADB member countries. Disbursements under the TA will be done in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). TA funds for workshops and seminars will be expended only in ADB member countries.

17. Status on TA implementation and PPP support coordination issues will be discussed with development partners using the platform of the PPP working group of ADB, the World Bank Group, the Japan International Cooperation Agency, and Australia. The TA’s intermediate and final results will be disseminated through internal and external knowledge sharing events, as well as by making TA outputs publicly available on the websites of ADB, the NEDA, or the DOF.

IV. THE PRESIDENT'S RECOMMENDATION

18. The President recommends that the Board approve ADB administering technical assistance not exceeding the equivalent of $2,000,000 to the Government of the Philippines to be financed on a grant basis by the Japan Fund for Poverty Reduction for Strengthening Evaluation and Fiscal Cost Management of Public–Private Partnerships.

[13] If needed, the NEDA and BTr will enter into a confidentiality agreement with their consultant given the sensitivity of the information to be worked with. A detailed operation manual will be developed by the consultant and approved by the NEDA and BTr detailing all procedures, timelines, communication aspects, approval authority, and other business processes and procedures related to the assignment. The consultant will use materials developed under Australia–Philippines Partnership for Economic Governance Reforms Program and the ongoing TA (footnote 1). For proper management of the inputs under the indefinite delivery contracts, the NEDA and BTr will assign staff to be a single window for advice requests, recording the origin and substance of all requests to the firm, as well as time of request and deliverable submission. The indefinite delivery contracts firm’s timesheets will have to be confirmed by the NEDA and BTr prior to submission to ADB for payment.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Increased and fiscally sustainable infrastructure investments through PPPs	Starting 2016: Gross value of private construction (in constant prices) increases by at least 5% annually (2012 baseline: P393.2 billion) Private sector's investment commitment in infrastructure (except in telecommunications) increases on average by at least 5% annually (2012 baseline: $1,405 million) By 2016: Fiscal deficit maintained at targeted 2% of GDP	National Statistics Coordination Board's Philippine statistical yearbooks World Bank Private Participation in Infrastructure database Philippine Development Plan and Updates	**Assumptions** Stable macroeconomic environment, internal, sociopolitical situation **Risks** Deterioration of the government's fiscal situation Weakening of government political support for PPP Business-unfriendly decisions of the government
Outcome Improved government's appraisal and sustainable management of PPP projects	By end 2016: At least five PPP projects (except in telecommunications), which have benefitted from TA support, have been competitively bid out (2013 baseline: 0) Starting 2016: Government expenditures on contingent liabilities arising from PPP projects do not exceed amounts authorized in the budget (2013 baseline: N/A) Sovereign credit rating unaffected by an increased portfolio of PPP projects (October 2013 S&P rating baseline: BBB-)	Government reports, including from the DOF, NEDA, and other line departments and agencies DOF fiscal risk statements and reports Major credit rating agencies	**Assumptions** Timely approvals from concerned government agencies and bodies, and conduct of PPP project processing Appropriate incentives for private sector participation (regulatory risk guarantees and right-of-way acquisition) **Risks** Delays in development of bankable PPP projects Build-Operate-Transfer Law amendments affecting PPP institutions
Outputs 1. Strengthened NEDA's capacity in PPP project appraisal	By end 2015: At least five PPP projects appraised every year by the NEDA for submission to the ICC for approval(2010–2013 average baseline: 4) Value analysis is tested in at least two PPP projects (2013 baseline: 0)	Reports and websites of the NEDA and PPP Center	**Assumptions** Operational PPP Center and PDMF supporting preparation of PPP projects Timely and complete submission of project documentation by implementing agencies for appraisal **Risks** NEDA staff turnover Delays in provision of on-call advisory

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
			services Insufficient capacity of national government agencies to provide required inputs to PPP Center, NEDA and DOF
2. Strengthened BTr's contingent liability management capacity	By end 2015: All DRMO and other DOF and/or BTr staff trained on contingent liability valuation based on developed guidelines(2013 baseline: 0) Contingent liability valuation during processing and implementation conducted annually by the BTr for at least eight PPP projects (2013 baseline: 0) Based on improved contingent liability estimations, the BTr submits proposal for contingent liability funding authorization as part of budgeting process (2013 baseline: 0)	DOF, and BTr reports	**Assumptions** Operational PPP Center and PDMF support preparation of PPP projects Functional DRMO at BTr with proper staffing and terms of reference **Risks** BTr staff turnover Delays in provision of on-call advisory services Insufficient capacity of national government agencies to provide required inputs to BTr
3. Strengthened institutional framework for PPP fiscal cost management	By end 2014: Contingent liability monitoring group issues the first annual report on status of PPP contingent liabilities to inform government fiscal risk statements (2013 baseline: 0) By end 2015: Joint ICC–Development Budget Coordination Committee resolution issued on contingent liability management plans by implementing agencies (2013 baseline: 0) Fiscal risk statements reflect aggregate estimation of contingent liabilities arising from PPPs (2013 baseline: N/A) Contingent liability valuation and reporting training conducted for at least 30 staff of five major line departments' PPP units (2013 baseline: N/A) Proposal submitted to Development Budget Coordination Committee on fiscal rules related to PPPs (2013 baseline: N/A) Proposals submitted to government on adequate incorporation of PPPs in debt sustainability assessment (2013 baseline: N/A)	DOF, and BTr reports	**Assumptions** Functional DRMO at BTr with proper staffing and terms of reference Timely adoption of adequate contingent liability policy statement and guidelines **Risks** BTr staff turn-over Insufficient capacity or institutional arrangements of national government agencies' PPP Units

Activities with Milestones	Inputs
Output 1 1.1 Recruit advisory firm on indefinite delivery contract to deliver on-call advisory services to the NEDA (by Q3 2014) 1.2 Develop operations manual and confidentiality agreements between the NEDA and advisory firm (by Q4 2014) 1.3 Conduct on-the-job advisory support to NEDA staff, including on value analysis (continuously after Q3 2014) 1.4 Conduct project- and/or topic-based training to NEDA and selected implementing agency staff (continuously after Q3 2014) **Output 2** 2.1 Recruit advisory firm on indefinite delivery contract to deliver on-call advisory and capacity building services to the BTr (by Q3 2014) 2.2 Develop operations manual and confidentiality agreements between the BTr and advisory firm (by Q4 2014) 2.3 Conduct on-the-job advisory support to BTr staff (from Q3 2014) 2.4 Conduct project- and/or topic-based training to BTr and selected implementing agency staff (from Q3 2014) **Output 3** 3.1 Develop a contingent liability management plan and conduct case-based training on contingent liability valuation and monitoring for the BTr and selected government agencies (by Q4 2014) 3.2 Review institutional arrangements on PPP fiscal cost management within the DOF to enhance link between project processing and implementation (by Q3 2015) 3.3 Submit for approval of ICC–Development Budget Coordination Committee the draft resolution on contingent liability management system (by Q4 2015) 3.4 Review international practices in PPP fiscal rules, draft proposals, and conduct stakeholder consultations to seek feedback (by Q3 2015) 3.5 Submit to Development Budget Coordination Committee a proposal on PPP fiscal rules for approval (by Q1 2016) 3.6 Review international practices on PPPs and debt sustainability assessments, draft proposals, and conduct stakeholder consultations to seek feedback (by Q3 2015) 3.7 Submit for approval of DOF a proposal on how to take into account PPPs in debt sustainability assessments (by Q1 2016) 3.8 Develop the concept and tools for monitoring of investors' PPP exposure (by Q1 2015) 3.9 Conduct first monitoring survey on investor PPP exposure (by Q3 2015) 3.10 Conduct workshop on the government's contingent liability management framework (by Q4 2015) 3.11 Update BTr website to reflect PPP fiscal cost management and contingent liability monitoring group's activities (by Q1 2015)	Japan Fund for Poverty Reduction: $2,000,000 Note: The government will provide counterpart support in the form of counterpart staff, office accommodation, office secretarial assistance, and other in-kind contributions.

ADB = Asian Development Bank, BTr = Bureau of the Treasury, DOF = Department of Finance, DRMO = Debt and Risk Management Office, GDP = gross domestic product, ICC = Investment Coordination Committee, N/A = not applicable, NEDA = National Economic and Development Authority, PDMF = Project Development and Monitoring Facility, PPP = public–private partnership, S&P = Standard & Poor's, TA = technical assistance.
Sources: Asian Development Bank, World Bank's Private Participation in Infrastructure Database.

COST ESTIMATES AND FINANCING PLAN
($'000)

Item	Amount
Japan Fund for Poverty Reduction[a]	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	1,100.0
ii. National consultants	545.0
b. International and local travel	115.0
c. Reports and communications[b]	40.0
2. Equipment[b,c]	30.0
3. Training, seminars, and conferences[b,d]	
a. Resource persons[e]	10.0
b. Training program[f]	20.0
4. Surveys[g]	10.0
5. Miscellaneous administration and support costs[b,h]	30.0
6. Contingencies	100.0
Total	**2,000.0**

Note: The technical assistance (TA) is estimated to cost $2.2 million, of which contributions from the Japan Fund for Poverty Reduction are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, secretarial assistance, and other in-kind contributions. The value of government contribution is estimated to account for 9% of the total TA cost.

[a] Administered by the Asian Development Bank (ADB).

[b] To be equally shared between the National Economic and Development Authority (NEDA) component (output 1) and Department of Finance (DOF) component (outputs 2 and 3).

[c] Includes hardware (laptops, printers, routers, scanners) and software. Equipment will be procured by ADB in accordance with the Procurement Guidelines (2013, as amended from time to time). The hardware and software will become the property of the NEDA and DOF after TA completion.

[d] Funds under this category will be expended only in ADB member countries. Any advances provided for these purposes are to be liquidated within a 30-day period.

[e] Includes honorarium, travel cost, and per diem of resource speakers engaged as speakers and/or facilitators. Resource persons are not expected to be engaged for more than 10 days.

[f] Includes rent of venue and other facilities, food and beverages, promotion and training materials, and other related costs.

[g] For survey of infrastructure investors under output 3.

[h] Direct and identifiable costs associated with the work of the consultants or in support to government staff involved in TA implementation. Such costs may include stationery, paper for office needs, printer cartridges, internet and other office communication expenses, and refreshments served during TA-related office meetings.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. PPP Project Evaluation Advisors (firm, international, 20 international and 20 national person-months, intermittent for 1.5 years)

1. For delivery of output 1, a consulting firm will be recruited under an indefinite delivery contract to support the National Economic Development Authority (NEDA) in appraising real-life public–private partnership (PPP) projects. The firm will work directly with the NEDA, which will set up and lead ad hoc interagency teams on each project the consultant will be working on. These teams will comprise staff of oversight agencies (the NEDA, Department of Finance [DOF], Department of Budget and Management, PPP Center); implementing agencies; and, if needed, the concerned regulators (e.g., Toll Regulatory Board). The consultant will report to the NEDA and the Asian Development Bank (ADB). Work of the firm will be supervised by an experienced project manager and team leader.

1. Project Manager and Team Leader (international, 3 person-months, intermittent)

2. The project manager represents the consulting firm in all contract-related matters, such as contractual, personnel, scheduling, and technical performance issues. He or she will attend meetings with the NEDA and ADB, as required, to discuss the status of contract implementation, provide general direction and support to the technical assistance (TA) team, and assist in the quality assurance of project deliverables. The project manager will be supported by a senior national consultant who will act as deputy team leader. The consultant will have a postgraduate degree in business administration, economics, finance, or another related field from a reputable university and at least 10 years of official development assistance funded project management experience. The project manager's duties, include, but are not limited to:

(i) liaising with the NEDA and keeping ADB apprised of any issues or concerns that could impact project performance and/or completion, and ensuring direction of the consultant's work toward achieving the intended objectives and timelines;
(ii) coordinating the inputs of the NEDA as per the agreed work plans, advising team members of changes to the work plans, and monitoring team members' other project commitments to ensure priority attention is given to the project;
(iii) ensuring outputs of team members are in accordance with the contract's terms of reference and NEDA quality expectations, and reviewing, commenting on, and approving such outputs, as needed;
(iv) ensuring all contracted deliverables are prepared in a timely manner, managing project scheduling, and taking responsibility for ongoing risk identification and design and implementation of risk mitigation strategies;
(v) briefing team members on (a) quality management, (b) safety and security issues, and (c) integrity and professional conduct, and keeping the team updated on changes in the operating environment or procedures;
(vi) approving timesheets and expense claims of team members, managing any issues arising, and leading the firm's work on contract administration;
(vii) developing and submitting quarterly contract status reports in accordance with agreed formats and based on inputs by the team members as well as other information on the contract and the consultant team as required by ADB and the NEDA;
(viii) submitting the inception mission report, operations manual, and completion report to ADB and NEDA for approval. The completion report shall include lessons learned, a sustainability plan, and other recommendations (e.g., policy recommendations) that would ensure that the gains achieved from the TA are fully institutionalized.

2. **Advisory Team** (17 international and 20 national person-months, intermittent)

3. The team will be a right mix of international[1] and national[2] consultants in (i) value for money assessment in PPPs, (ii) financing and PPP options analysis, (iii) risk analysis, (iv) technical (engineering) and cost analysis, (v) socioeconomic analysis, (vi) legal and institutional analysis, (vii) social impact, and (viii) safeguards analysis. International consultants should have 10 years of proven expertise and national consultants 5 years in the areas above on the basis of at least transacted five PPP projects; both should have postgraduate degrees in business administration, economics, finance, or another related field from a reputable university. The team will report to the NEDA and ADB. A senior national consultant will be assigned to coordinate the team's work on the ground and report to the project manager. The national consultants will ensure that advice given by the international experts is consistent with Philippine laws, rules, and regulations. The consultants will help the NEDA in reviewing the accuracy and quality of the following areas.

(i) **Value for money assessment in PPPs.** This includes formulation of output specifications, definition of the reference project, identification of all raw public sector comparator components, assignment of direct and indirect costs, calculation of the raw public sector comparator, assessment of competitive neutrality inclusions, identification of all material risks and quantification of their consequences, estimation of the risk probability and calculation of risk values, identification of the desired risk allocation, calculation of transferrable risks, and calculation of the retailed risk.

(ii) **Value analysis in PPPs.** This includes review of the project's quality, performance and functionality while minimizing construction, operation, and maintenance costs (maximizing value for money) via (a) removing components not necessary for the project to achieve its function, (b) focusing on options to achieve the project's function at the lowest cost, and (c) identifying components that could improve the project's design and/or concept and its function.[3]

(iii) **Technical (engineering) and cost analysis.** This includes reviewing the feasibility study's technical analysis to confirm the technical validity and/or viability of the project; verifying quantities and rates for major civil works, equipment, construction and supervision consulting and other input items; verifying and developing projected operation and maintenance costs for the project cycle on a whole-of-life basis; reviewing and quantifying costs and benefits from the project and confirmation of the project design on a least-cost basis in financial and economic terms; and supporting financial and economic analysis with inputs on project rationale, project costs (capital expenditures, operations, maintenance), required contingency levels, and any other information as requested.

(iv) **Socioeconomic analysis.** This includes reviewing sector assessments, demand–supply for public services, opportunity cost implications, and projected project benefits and impacts; assessing project economic rationale in comparison with alternative options

---

1 PPP and/or project finance, risk management, economic and/or investment analysis, value engineering and/or analysis, social impact and/or poverty, and environment specialists.
2 PPP and/or project finance specialist (deputy team leader), project finance legal expert, resettlement specialist and civil engineer.
3 At least two PPP projects will be subjected to value analysis based on value analysis guidelines developed under Australia–Philippines Partnership for Economic Governance Reforms Program.

and reviewing indicators for project performance monitoring; and assessing the reasonableness of economic rates of return for the project under various scenarios.

(v) **Social impact analysis.** This includes reviewing the project's social impact assessment for consistency with the country's social and/or gender policies; reviewing poverty and social analyses; reviewing analyses of likely social and/or gender impacts, designed measures, and implementation arrangements for maximizing project social and/or gender benefits and minimizing and/or avoiding social/gender risks; assessing the poverty reduction and social strategy (using gender action plans, resettlement plans, and indigenous peoples development plans, for example) with recommendations for involuntary resettlement, indigenous peoples, and gender safeguards; and assessing the project's overall compliance with the Philippines' involuntary resettlement and indigenous peoples regulatory framework.

(vi) **Environmental analysis.** This includes reviewing the project environmental impact assessment's adequacy and compliance with the Philippines requirements and Equator Principles,[4] including assessing the cost of an environmental management plan and funding sources and their inclusion in the total project cost; reviewing compliance with environmental clearance, required permits, and approvals; and including an environmental management plan in the bidding documents, along with the requirement to comply with mitigation measures.

(vii) **Financial and PPP analysis.** This covers financial modeling on the basis of the selected PPP modality; projected financial statements (balance sheet, cash flow, income statement, key ratio analysis) and sensitivity scenarios; potential acceptability of the recommended PPP structure from investors and potential lenders; bankability of the financing plan for the recommended PPP structure, including appropriate debt equity ratios, loan tenures and rates for project viability, and required government grant support; diligence documents for potential lenders; robustness of key assumptions against financial model outputs, including the financial internal rate of return and debt service coverage ratio; the project's risk analysis and suitability of mitigation strategies; the project's financial management capacity; and project and bidding documentation submitted to the Investment Coordination Committee (ICC) for review.

(viii) **Risk analysis**. This involves reviewing the proposed project's risk identification, assessment, allocation and mitigation, and monitoring adequacy. In doing so, attention will be paid to assessing whether risk allocation has followed the value for money maximizing rule: risks have been allocated to the party best able to (a) control the likelihood of the risk event occurring, (b) control the impact of the risk on project outcomes, and (c) absorb the risk at the lowest cost. In terms of documents, the consultant will review the project's risk allocation matrix and the risk management report.

(ix) **Legal and institutional analysis.** This involves reviewing the policy and institutional assessment to ascertain the validity and viability of the proposed PPP structure for the project; assessing the project proponent agency's capacities to manage the project; reviewing "bankability" measures for the proposed PPP project structure, such as fee payment mechanisms, preconditions for a private operator to fulfill in meeting service obligations, default and risk clauses, and step-in rights of the government; reviewing project documentation for compliance with the Philippines' legislation, including the Build-Operate-Transfer Law and its implementing rules and regulations and land and right-of-way acquisition legislation.

---

[4] Equator Principles. http://www.equator-principles.com/index.php/ep3/about-ep3

4. On the basis of the advisory work on real-life projects in the first 6 months of the assignment, the consultant will conceptualize and deliver three learning-by-doing trainings involving the evaluation of new PPP projects submitted for ICC review, with a focus on transaction structure and risk allocation. These trainings will be for ad hoc interagency teams that will need to be able to make an assessment on the viability of the proposed PPP project structure.

B. Liability Management Advisors (firm, international, 19 international and 17 national person-months, intermittent for 1.5 years)

5. For delivery of outputs 2 and 3, a consulting firm will be recruited under an indefinite delivery contract to provide advisory support and capacity building to the DOF and Bureau of the Treasury (BTr) in contingent liability management work on projects and at the aggregate level. The firm's team will be supervised by an experienced project manager and will work directly with the BTr. The consultant will ensure adequate consultations on each capacity building-related deliverable in the form of one-on-one meetings, focus group meetings, and broad stakeholder consultations. The capacity building outputs will be disclosed on the BTr website. The BTr will provide information for developing project and/or case-based trainings envisaged below. The firm will report to the BTr and ADB.

1. Project Manager (international, 3 person-months, intermittent).

6. The terms of reference are the same as in para. 2, except that NEDA should be replaced with BTr.

2. Advisory Team (16 international and 17 national person-months)

7. The team will be a mix of international[5] and national[6] consultants in (i) PPP risk management; (ii) PPP contingent liability management; (iii) management of PPP fiscal costs, especially contingent liabilities; (iv) public debt sustainability; (v) fiscal policy; and (vi) economic research and/or modeling. International consultants should have 10 years of proven expertise and national consultants 5 years in the areas above on the basis of at least five transacted PPP projects; both should have postgraduate degrees in business administration, economics, finance, or another related field from a reputable university. For areas (iii) to (vi), the consultants should have proven expertise in delivering capacity building projects and academic publications, preferably related to the Philippines. A senior national consultant will be assigned to coordinate the team's work and report to the project manager.

8. The consultants will provide advisory support (60% of time) to the BTr in reviewing the accuracy and quality of the following tasks.

(i) **Risk analysis.** For projects submitted to the ICC for approval, this task involves review of risk allocation matrices and risk management reports of PPPs to ensure adequacy of the project's risk identification, assessment, allocation and mitigation, and monitoring arrangements. In doing so, attention will be paid to assessing whether risk allocation has followed the value for money maximizing rule: risks have been allocated to the party best able to (a) control the likelihood of the risk event occurring, (b) control the impact of the risk on project outcomes, and (ii) absorb the risk at the lowest cost. For ongoing projects, this task involves updating the project risk register for proactive risk management.

[5] Project finance and/or modeling, risk management, public finance and/or fiscal management, and public debt sustainability specialists.

[6] Project finance specialist (deputy team leader), public finance and/or fiscal management, information management system, and financial sector specialists.

(ii) **Contingent liability management.** This involves reviewing and verifying contingent liability valuation models, reports, and management plans of the projects submitted to the ICC for approval; reviewing draft contracts to properly define contingent liability monitoring requirements and compliance with budgeting and payment policies of the government; reviewing consistency with ICC-approved risk allocation prior to contract signing or issuance of a performance undertaking; reviewing the implementing agency’s annual submissions on the risk and contingent liability status of PPP projects under implementation; developing the PPP part of the fiscal risk statement and preparing an annual report on contingent liabilities arising from PPPs; preparing the annual budget to cover contingent liabilities from ongoing projects and projects expected to be awarded during the fiscal year for which the budget is prepared; and conducting project-based clinics on contingent liability valuation and reporting for implementing agencies, as required.

9. The consultants will provide capacity building support (40% of time) to the BTr in the following ways:

(i) update contingent liability management guidelines to enhance the link between project structuring and monitoring, budgeting, and funding of contingent liabilities during project implementation;

(ii) as part of strengthening the processes and methodology on PPP-related aspects of the fiscal risk statement, prepare a contingent liability management plan and business process and/or template for use by implementing agencies, and draft ICC and/or Development Budget Coordination Committee resolutions on contingent liability management and PPP fiscal rules and budgeting issues;

(iii) conduct project-based training on contingent liability management guidelines, the contingent liability management plan, and the contingent liability valuation model as set by the BTr for the contingent liability monitoring group and implementing agencies’ PPP units;

(iv) support operationalization of the interagency contingent liability monitoring group by preparing, organizing, following up on its quarterly meetings, and supporting development and implementation of its action plan for 2014–2015;

(v) prepare a policy note and, after its approval, draft guidelines on fiscal rules related to PPPs based on international experience and Philippine institutional set-up;

(vi) prepare a policy note and, after its approval, draft guidelines on mainstreaming contingent liabilities in debt sustainability analysis. With participation of DOF staff, conduct such debt sustainability analysis and present to stakeholders for feedback;

(vii) develop a concept of a cost-efficient database for proper information management related to PPP fiscal cost. This database should be linked with the Knowledge Management Portal being set up in the PPP Center;

(viii) develop the concept and tools for monitoring of PPP exposure of major investors and, together with BTr and other relevant government staff, conduct the first monitoring survey; and

(ix) provide other support to the BTr on strengthening its PPP fiscal cost management capacity as required and agreed upon by the BTr and ADB.