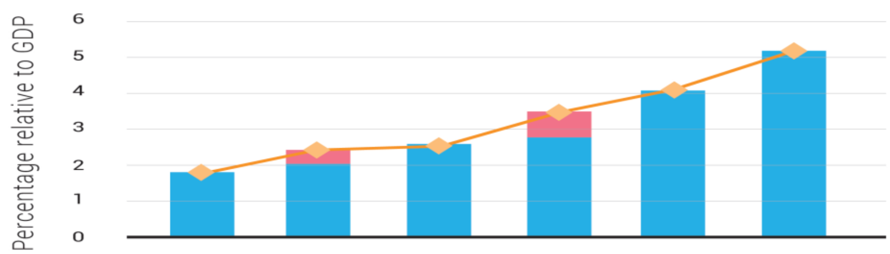
SECTOR ASSESSMENT (SUMMARY): PUBLIC SECTOR MANAGEMENT[1]

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. **Poor quality of infrastructure limiting competitiveness**. In 2010, the government took on the infrastructure challenge, while maintaining strict fiscal discipline, by initiating reforms to revive the country's public–private partnership (PPP) program. The significant improvements and critical reforms in infrastructure were not enough to keep up with a fast-growing economy, rapid urbanization and expanding population. According to the Global Competitiveness Report, 2017–2018, the Philippines' ranking in competitiveness in infrastructure stands at 97th place out of 137 countries surveyed. It lags behind Indonesia (52nd), Malaysia (22nd) and Thailand (43rd). The Philippines has a strong catch-up potential with regard to other Association of Southeast Asian countries. Although the government has increased its budget for infrastructure, the actual spending on infrastructure fell short of the targets in 2012 and 2014 (figure).

Public Spending in Infrastructure



	2011	2012	2013	2014	2015	2016
Gap	0.0%	0.14%	0.0%	0.76%	0.0%	0.0%
Actual	1.81%	2.06%	2.66%	2.74%	4.33%	5.12%
Target	1.60%	2.20%	2.50%	3.50%	4.00%	5.10%

GDP = gross domestic product.
Source: National Economic and Development Authority. 2017. *Philippine Development Plan 2017–2022.*

2. The main problems for road transport are low-quality public transport, poor road network quality, and inadequate road safety features. The estimated economic cost of congestion in Metro Manila is ₱2.64 billion per day. In addition, inefficiencies in port operations in Manila and Cebu result in congested access to roads. The existing railways system faces problems of interoperability, congestion, and poor asset maintenance. The existing capacities of most of the airports will be unable to meet the expected demand in the next five years unless new facilities are developed, and existing ones are upgraded. Universal access to water supply, sewerage, and sanitation is yet to be achieved; 14.5% of the country's 22.7 million families have no access to a safe water supply. Many small water districts and utilities operated by local government units (LGUs) have difficulties sustaining operations and generating capital for expansion. While the number of hospitals and health facilities has increased, several LGUs are unable to provide the necessary resources to keep such infrastructure functional.

3. The new administration of President Rodrigo Duterte has recognized that infrastructure is a critical factor in supporting higher economic growth and improving the quality of life in both urban and rural communities. Consequently, the government launched a comprehensive infrastructure

[1] This sector assessment focuses on public–private partnerships in infrastructure.

development program, named Build, Build, Build (BBB), containing 75 flagship projects covering roads, airports, seaports, railways, urban mass transit, and new cities. The projects will improve access to markets and business opportunities across the country. The BBB program aims to attract investment, generate jobs, enhance connectivity, and spur economic growth through infrastructure development. The program calls for an increase in public spending on infrastructure from 5.1% of gross domestic product (GDP) in 2016 to 7.4% of GDP by 2022. The total funding requirement is $168 billion to achieve targeted infrastructure outlays covering 2017–2022.

4. **Poor project planning and programming.** The county's transport infrastructure problems are rooted in a lack of long-term planning in the form of integrated transport infrastructure plans. The challenge is the lack of a master plan that unifies the results of various transport-related plans formulated for the respective transport subsectors by both national and local government entities. A national transport policy and a transportation system master plan are needed to ensure that transport projects are strategically built and operated to complement each other within an interconnected network of multimodal systems. There are also deficiencies in project prioritization processes, leading to poor selection and structuring of infrastructure projects. The government needs to screen projects early in the development stages to determine project feasibility and the procurement model that is expected to achieve greatest value for money for the government and the public. This will ensure that the highest priority projects are built regardless of procurement modalities.

5. **Leveraging public resources via private participation**. To achieve the infrastructure targets, the government plans to raise funds from three primary sources: direct government expenditure, private capital, and official development assistance. In parallel with direct public spending, the government is placing an increased emphasis on public–private partnerships (PPPs) to tap private sector expertise, efficiencies, and innovation in infrastructure delivery.

6. **Inadequate financing for government's share in public–private partnership projects**. It is essential that the government provides adequate funding to cover the cost of right-of-way acquisition and resettlement. Lack of available funds for these preconstruction activities can delay the implementation of PPP projects, particularly their financial closure. Adequate budgetary allocations for contingent liabilities are also required to ensure fiscal sustainability and enhance the capacity of the implementing agencies to discharge their obligations under risks allocated to them. The estimation of contingent liabilities needs to be based on the pooling of the contingent costs of the risks allocated to the government under the PPP contracts, and be under the supervision and direction of the Department of Finance.

7. **Limited engagement of local government units in public–private partnerships.** PPPs can also raise the quality of life for citizens by providing quality public services through social infrastructure projects. Many municipalities are very small and lack the capacity to take on PPPs. However, there are some LGUs from highly urbanized cities that can benefit from the PPP approach. These cities are experiencing pressure for better infrastructure and services stemming from their transformation into growing urban centers.

8. **Incomplete legal and regulatory framework**. Since the revival of the PPP program in 2011, several key regulatory and institutional reforms were introduced for the implementation of the PPP program. Reforms will be institutionalized through amendments to the Build–Operate–Transfer (BOT) Law which is currently before Congress.

2. Government's Sector Strategy

9. **Accelerating Infrastructure development.** With a growing pipeline of infrastructure projects being rolled out under the BBB program, the government wants to ensure an optimal mix of government financing, official development assistance, and private capital. In parallel with direct public spending, the government's strategy is to encourage private sector participation. The government will improve its PPP program as a vehicle for private sector participation in financing, where appropriate, the construction, operation, and maintenance of infrastructure projects. The government is therefore addressing bottlenecks in PPP planning and implementation, as well as institutional, legal, and regulatory frameworks.

10. **Institutional framework for public–private partnerships**. The core PPP institutions are the PPP Governing Board as the overall policy-making body, the PPP Center as the anchor body for PPPs, the project development and monitoring facility (PDMF) as the revolving fund for PPP project preparation, and the international advisory panel. The PPP Center was reorganized into a more dynamic agency and designated as the main facilitating and monitoring agency, in close interaction with the implementing agencies, to ensure efficient coordination and accountability during the project life cycle.

11. **Legal and regulatory framework.** The PPP Governing Board implemented regulatory reforms outlined in various board policy circulars, including: (i) guidelines for implementing agencies in project identification, risk allocation, and project approval; and (ii) adoption of best practices, including assigning probity advisors to document all aspects of procurement processes, and construction supervisors to monitor project construction. In addition, to avoid time-consuming court litigation that could potentially delay projects, the government issued the implementing rules and regulations of the executive order mandating the inclusion of provisions on the use of alternative dispute resolution.

12. The Philippines was the first country in Asia to institutionalize private sector participation in infrastructure and development projects by enacting the BOT Law in 1990. A new PPP Act to amend the current BOT Law is before Congress. The amendments cover a wide range of improvements to the enabling environment and PPP institutions, such as providing further incentives. Particularly important is the need to institutionalize the transaction advisor mechanism of the PDMF in the BOT Law.

13. **Adequate funding and indirect liabilities**. Each year, the government is expected to provide funding under the General Appropriations Act for right-of-way acquisition and resettlement through inclusion in the annual national expenditure plans. Lack of funds for these preconstruction activities can delay the implementation of PPP projects, particularly their timely financial closure. Implementing agencies have improved their system of assessing and budgeting for the funds. In addition, the government has improved the management system for, and funding of, PPP contingent liabilities to minimize its exposure to fiscal costs and improve the attractiveness of PPP projects for private investors. The technical working group on contingent liabilities strengthened and implemented consistent monitoring of PPP projects, while the Bureau of the Treasury improved the valuation of contingent liability stock and flows to reduce the likelihood of fiscal shocks.

14. **Implementing long-term transport masterplans**. The government developed the National Transport Policy to guide all transport-related agencies in pursuing policy decisions and future investments in the sector. The policy will synchronize decisions and investments of all transport-related agencies and better coordinate such efforts between the national and local

levels. A comprehensive national transport master plan will be developed. This is key to the viability of a PPP project pipeline to enable investors and lenders to integrate their projects with the transport investment program.

15. **Facilitating financing via capital markets and commercial banks**. Infrastructure financing activities in the local capital market include loan syndication by banks and corporate bond issuances of holding companies with infrastructure exposure. Developments in the capital market present opportunities for accelerating private sector participation in infrastructure investments. The private sector must take advantage of a liquid financial market, and the government needs to facilitate the channeling of capital market resources to PPP projects.

16. **Facilitating engagement of local government units**. A significant infrastructure gap at the LGU level is compounded by weak LGU PPP management capacity. Under the approved 2017 Investment Priorities Plan, the implementation of LGU PPP projects has been identified as one of the priorities of the government, which supplements the priority to decentralize Metro Manila through increased employment and infrastructure facilities at the local level. In line with this agenda, the PPP Center is strengthening the support it provides to LGUs in the development and implementation of projects under the BOT Law, and joint ventures.

3. ADB Sector Experience and Assistance Program

17. ADB's Public–Private Partnership Operational Plan, 2012–2020[2] has four pillars: advocacy and capacity development, enabling environment, project development, and project financing. In alignment with the operational plan, ADB has supported PPPs through a mix of modalities including technical assistance (TA), project financing, and policy-based loans. ADB supported the revitalization of the PPP program through two TA projects that primarily aim to build the capacity of the PPP Center and implementing agencies, institutionalize the PDMF, provide transaction advisory services, and introduce measures to enhance fiscal support to PPPs.[3] TA support from ADB is being coupled with policy-based lending. Subprogram 1 of the Expanding Private Participation in Infrastructure Program, approved in 2015, focused on creating an enabling regulatory environment for PPPs and developing a robust pipeline of projects. Subprogram 2 deepens and consolidates the PPP reforms initiated under the earlier subprogram to stimulate and facilitate the development of the PPP market and to ensure the earlier reforms are successfully implemented. In addition, ADB manages the Asia Pacific Project Preparation Facility, which is a multidonor trust fund to assist structuring infrastructure projects with private sector participation.

18. To support the government's BBB program agenda, ADB approved in 2017 the Encouraging Investment through Capital Market Reforms Program.[4] It provides support to enhance long-term infrastructure finance. Additionally, ADB approved in 2017 a TA loan for the establishment of the Infrastructure Preparation and Innovation Facility to support preparation of future public infrastructure investments.[5]

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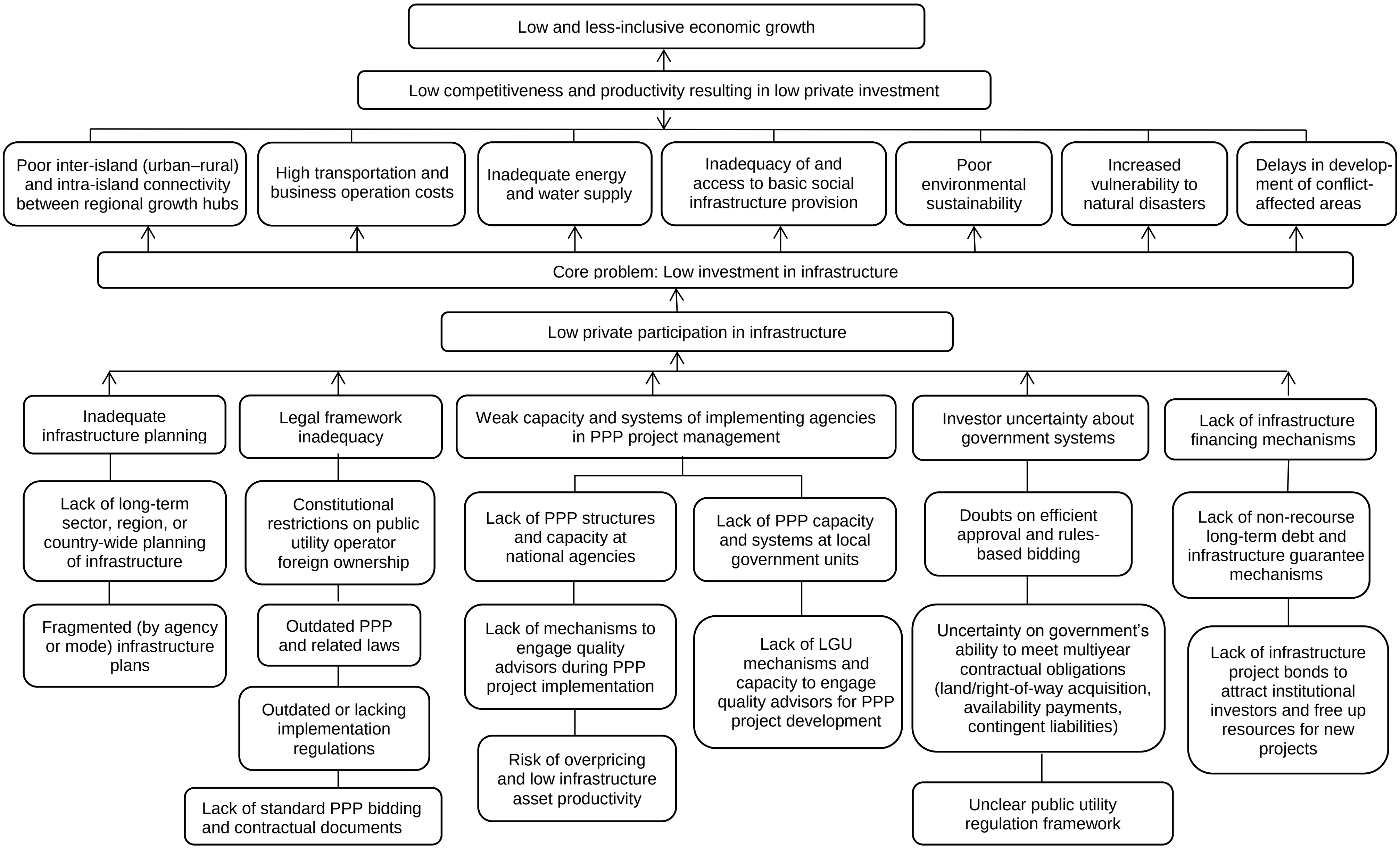
[2] ADB. 2012. *Public-Private Partnership Operational Plan.* Manila.

[3] ADB. 2011. *Technical Assistance to the Republic of the Philippines for Strengthening Public–Private Partnerships in the Philippines*. Manila. (TA 7796); and ADB. 2014. *Technical Assistance to the Republic of the Philippines for Strengthening Evaluation and Fiscal Cost Management of Public–Private Partnerships in the Philippines.* Manila. (TA 8650).

[4] ADB. 2017. *Report and Recommendation of the President to the Board of Directors for Subprogram 2 of the Encouraging Investment through Capital Market Reforms Program.* Manila. (Loan 3595).

[5] ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the Republic of the Philippines for the Infrastructure Preparation and Innovation Facility*. Manila. (Loan 3589).

Problem Tree for Public–Private Partnerships



LGU = local government unit, PPP = public–private partnership.
Source: Asian Development Bank.