



# Report and Recommendation of the President to the Board of Directors

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Project Number: 48458-003  
July 2018

## Proposed Policy-Based Loan for Subprogram 2 Republic of the Philippines: Expanding Private Participation in Infrastructure Program

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 3 July 2018)

|               |   |            |
|---------------|---|------------|
| Currency unit | – | peso/s (₱) |
| ₱1.00         | = | \$0.01869  |
| \$1.00        | = | ₱53.49     |

## ABBREVIATIONS

|            |   |   |
|------------|---|---|
| ADB        | – | Asian Development Bank                      |
| BBB        | – | Build, Build, Build                         |
| BOT        | – | build–operate–transfer                      |
| DOF        | – | Department of Finance                       |
| DOTr       | – | Department of Transportation                |
| DPWH       | – | Department of Public Works and Highways     |
| LGU        | – | local government unit                       |
| GDP        | – | gross domestic product                      |
| NTP        | – | National Transport Policy                   |
| P3F        | – | post-program partnership framework          |
| PBL        | – | policy-based loan                           |
| PDP        | – | Philippine Development Plan 2017–2022       |
| PDMF       | – | Project Development and Monitoring Facility |
| PIP        | – | Public Investment Program                   |
| PFM        | – | public financial management                 |
| PPP        | – | public–private partnership                  |
| PPP Center | – | Public–Private Partnership Center           |
| TA         | – | technical assistance                        |

## GLOSSARY

|   |   |   |
|---|---|---|
| Contingent liabilities in public–private partnerships | – | Payment obligations whose occurrence, timing, and amount depend on some uncertain future event. Contingent liabilities are incurred when the government provides some form of assurance or guarantee for market risks and commits to (i) a formula for tariffs which the Toll Regulatory Board could disallow or delay, (ii) buy out the concessionaire and reimburse expenditures and projected returns and repay financing if termination events occur, and (iii) share in the cost of force majeure events to the extent that these costs are not insurable. |
| Probity advisor                                       | – | Provides opinion and advice on fairness and integrity issues during the public–private partnership procurement process for large complex projects.  |
| Value for money                                       | – | The optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user’s requirement. Value for money (VFM) is not the choice of goods and services based on the lowest cost bid. VFM assessment   |

is based on quality and cost. The main VFM quantitative test is public sector comparator. A public–private partnership project must demonstrate that it will save money compared with a publicly financed alternative.

- Whole-of-life cost – The total cost of the project over the concession period or the total cost of owning an asset over the entire project life.
- Right-of-way acquisition – The government may acquire real property needed as right-of-way site or location for any national government infrastructure project through donation, negotiated sale, expropriation, or any other mode of acquisition as provided by law.
- Alternative dispute resolutions system – Any process or procedure used to resolve a dispute or controversy, other than by adjudication of a presiding judge of a court or an officer of a government agency, in which a neutral third party participates to assist in the resolution of issues, which includes arbitration, mediation, conciliation, early neutral evaluation, mini trial, or any combination thereof.

#### NOTE

In this report, “\$” refers to United States dollars.

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|-------------------------|--|
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## PROGRAM AT A GLANCE

|   |   |  |                       |
|---|---|--|-----------------------|
| <b>1. Basic Data</b>  |   | <b>Project Number:</b> 48458-003       |                       |
| <b>Project Name</b>   | Expanding Private Participation in Infrastructure Program, Subprogram 2   | <b>Department/Division</b>             | SERD/SEPF             |
| <b>Country Borrower</b>   | Philippines<br>Government of the Republic of the Philippines  | <b>Executing Agency</b>                | Department of Finance |
| <b>2. Sector</b>  | <b>Subsector(s)</b>   | <b>ADB Financing (\$ million)</b>      |                       |
| ✓ <b>Public sector management</b>                                       | Public administration   |  | 150.00                |
|   | Public expenditure and fiscal management  |  | 150.00                |
|   | <b>Total</b>  |  | <b>300.00</b>         |
| <b>3. Strategic Agenda</b>  | <b>Subcomponents</b>  | <b>Climate Change Information</b>      |                       |
| Inclusive economic growth (IEG)   | Pillar 1: Economic opportunities, including jobs, created and expanded  | Climate Change impact on the Project   | Low                   |
| <b>4. Drivers of Change</b>   | <b>Components</b>   | <b>Gender Equity and Mainstreaming</b> |                       |
| Governance and capacity development (GCD)                               | Institutional development   | No gender elements (NGE)               | ✓                     |
| Knowledge solutions (KNS)   | Public financial governance   |  |                       |
|   | Application and use of new knowledge solutions in key operational areas   |  |                       |
| Partnerships (PAR)  | Knowledge sharing activities  |  |                       |
|   | Implementation  |  |                       |
| Private sector development (PSD)  | International finance institutions (IFI)<br>Private Sector<br>Conducive policy and institutional environment<br>Promotion of private sector investment<br>Public sector goods and services essential for private sector development |  |                       |
| <b>5. Poverty and SDG Targeting</b>                                     |   | <b>Location Impact</b>                 |                       |
| Geographic Targeting  | No  | Nation-wide                            | High                  |
| Household Targeting   | No  |  |                       |
| SDG Targeting   | Yes   |  |                       |
| SDG Goals   | SDG9  |  |                       |
| <b>6. Risk Categorization:</b>  | Complex   |  |                       |
| <b>7. Safeguard Categorization</b>                                      | <b>Environment: C Involuntary Resettlement: C Indigenous Peoples: C</b>   |  |                       |
| <b>8. Financing</b>   |   |  |                       |
| <b>Modality and Sources</b>   |   | <b>Amount (\$ million)</b>             |                       |
| <b>ADB</b>  |   | <b>300.00</b>                          |                       |
| Sovereign Program (Regular Loan): Ordinary capital resources            |   | 300.00                                 |                       |
| <b>Cofinancing</b>  |   | <b>179.00</b>                          |                       |
| Agence Francaise de Developpement - Program loan (Not ADB Administered) |   | 179.00                                 |                       |
| <b>Counterpart</b>  |   | <b>0.00</b>                            |                       |
| None  |   | 0.00                                   |                       |
| <b>Total</b>  |   | <b>479.00</b>                          |                       |

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to the Republic of the Philippines for subprogram 2 of the Expanding Private Participation in Infrastructure Program (EPPIP).

2. The program supplements coordinated support provided by the Asian Development Bank (ADB) to accelerate infrastructure investment by increasing private participation. The program supports the government's main reform priorities to promote, develop, and efficiently implement public-private partnership (PPP) projects by (i) strengthening government financial support to PPPs, (ii) expanding and efficiently implementing the pipeline of PPP projects, and (iii) strengthening the legal and regulatory frameworks for PPPs. The design and monitoring framework is in Appendix 1. Subprogram 2 is included in ADB's country operations business plan, (2018–2020) for the Philippines.<sup>1</sup>

## II. PROGRAM AND RATIONALE

### A. Background and Development Constraints

3. **The programmatic approach and budget support.** The use of a programmatic approach with a policy-based loan (PBL) and TA aligns ADB's support with the government's reform program. The approach also provides incentives and capacity to complete the reforms with flexibility to add new priority reforms in subsequent subprograms. ADB's Board of Directors approved the programmatic approach and a loan for subprogram 1 on 26 November 2015.<sup>2</sup> The program included two subprograms and was aligned with the government's strategy to step up private investment in infrastructure. The first subprogram focused on creating an enabling regulatory environment for PPPs and developing a robust pipeline of projects. In addition, two technical assistance (TA) projects underpinned the programmatic approach to improve government capacity to develop and implement PPP projects.<sup>3</sup> Subprogram 2 now focuses on consolidating PPP reforms to stimulate and facilitate the development of the Philippines' PPP market and to ensure the earlier reforms are successfully implemented. The inclusion of the post-program partnership framework (P3F), 2018–2022 will continue ADB's engagement utilizing TA.

4. **The development problem.** The Philippines has been an economic leader among the Association of Southeast Asian Nations member countries since the global financial crisis, with an average economic growth rate of 6.2% per year during 2011–2017. To maintain this momentum, the Philippine Development Plan 2017–2022 (PDP), continues the government's emphasis on inclusive growth. Under the PDP, the government has set a strategic target to reach upper middle-income status by 2022. It has also targeted gross domestic product (GDP) growth of 7%–8% per year in real terms, with GDP per capita increasing from \$3,550 in 2015 to \$5,000 by 2022. However, public investment, particularly in infrastructure, is insufficient to meet these goals. Infrastructure gaps represent major bottlenecks for foreign investment and higher economic growth. According to the World Economic Forum Global Competitiveness Report (2017–2018), the country's infrastructure competitiveness ranking stands at 97<sup>th</sup> place out of

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<sup>1</sup> ADB. 2017. *Country Operations Business Plan: Philippines, 2018–2020*. Manila.

<sup>2</sup> ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Republic of the Philippines for Expanding Participation in Infrastructure Program*. Manila.

<sup>3</sup> ADB. 2011. *Technical Assistance to the Republic of the Philippines for Strengthening Public-Private Partnerships in the Philippines*. Manila; 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.

137 countries surveyed, well behind regional peers Indonesia (52<sup>nd</sup>), Malaysia (22<sup>nd</sup>) and Thailand (43<sup>th</sup>).<sup>4</sup> With its fast-growing economy, archipelagic geography, expanding population, and rapid urbanization, the Philippines requires more and better infrastructure investments.

5. In recognition of this challenge, the government launched a comprehensive infrastructure development program, named Build, Build, Build (BBB), in April 2017. The BBB program aims to attract investments, connect regions and markets, generate jobs, and spur economic growth through infrastructure development. The BBB program calls for an increase in public spending on infrastructure from 5.1% of GDP in 2016 to 7.4% of GDP by 2022. To achieve the targeted infrastructure outlays over this period, the BBB program will generate \$168 billion in total estimated funding requirements. To meet these requirements, the government plans to raise funds from three primary sources: direct government expenditure, private capital, and official development assistance. Flagship projects under the BBB program include railways (e.g., Malolos to Clark railway), roads (e.g., NLEX–SLEX Connector road, NAIA Expressways phase II, Laguna lakeshore ring road, and Northeast Luzon expressway), airports (Clark International Airport), and urban infrastructure (e.g., Metro Manila Rail Transit line extensions and Davao bus improvement system).<sup>5</sup> To facilitate an increase in direct public spending on infrastructure, the government has implemented a focused set of reforms to increase the efficiency and depth of capital markets.<sup>6</sup> In parallel with direct public spending, the government is also placing an increased emphasis on PPPs to tap private sector expertise. Specifically, the government is targeting up to 18% of infrastructure investments under the Public Investment Program (PIP) for 2017–2022 to be delivered through PPPs valued at \$25.5 billion.

6. The government has already done much to provide appropriate incentives to mobilize private resources for financing infrastructure projects and services. Recognizing the private sector's large untapped potential to provide infrastructure, the government put PPPs at the center of infrastructure development. In fact, the Philippines has emerged as a dynamic PPP market since its program was launched in late 2010. Previously classified as an emerging country in terms of PPP readiness (2011), the country now scores high (seventh position) in the overall ranking, joining India, the Republic of Korea and Japan.<sup>7</sup> The Organisation for Economic Co-operation and Development considers the PPP framework in the Philippines a success.<sup>8</sup> The legal, regulatory, and institutional frameworks, as well as the underlying financial support structure, have all been strengthened. The government reorganized the Public–Private Partnership Center (PPP Center) into a more dynamic agency and designated it as the main facilitating and monitoring agency. Project preparation and development has been streamlined through the establishment of the Project Development and Monitoring Facility (PDMF) to fund transaction advisors. However, more needs to be done. The new administration continues a strong commitment to developing an enabling policy framework that allows PPPs to flourish, with the understanding that there is a need to ensure an investment program based on an optimal mix of government financing, official development assistance, and private capital. In tandem with the much larger project pipeline being rolled out under the BBB program, leveraging public resources via private participation remains relevant. PPPs can raise the quality of life for citizens by providing

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<sup>4</sup> World Economic Forum. 2017. *Global Competitiveness Report (2017–2018)*. Geneva.

<sup>5</sup> Build, Build, Build website: <http://www.build.gov.ph>.

<sup>6</sup> ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to the Republic of the Philippines for Encouraging Investment through Capital Market Reforms Program*. Manila.

<sup>7</sup> The Economist 2015. *Evaluating the Environment for Public–Private Partnership in Asia–Pacific: The 2014 Infrascope*.

<sup>8</sup> Organisation for Economic Co-operation and Development. 2015. *The Philippines PPP Framework and Programme. An Organisation for Economic Co-operation and Development Review in cooperation with the Government of the Philippines*. Bangkok.

quality public services through social infrastructure projects. The engagement of local government units (LGUs) in the delivery of infrastructure through PPPs is essential in this regard.

7. **Binding constraints.** The government recognizes the challenges it faces in sustaining and capitalizing on the impressive progress made in its PPP program, including the need to: (i) provide sufficient financial support to PPPs; (ii) expand the pipeline of projects; (iii) and further strengthen the legal and institutional framework (paras. 8–11).

8. **Financial and fiscal risks must be continuously managed to encourage private participation.** First, the government needs to provide adequate funding to support its share of PPP projects and manage the associated financial risks. In the absence of budgeted funds for right-of-way acquisitions and resettlement costs, project costs may escalate, and implementation time frames may extend. Second, the government needs to institutionalize the management system for, and funding of, PPP contingent liabilities to minimize its exposure to fiscal costs and improve the attractiveness of projects for private investors.

9. **Project planning and programming must also be strengthened to address continuing weaknesses in project implementation.** Two primary constraints have adversely affected the project development process. First, the government has not yet developed integrated transport infrastructure plans. Specifically, a master plan is needed to unify the results of various transport-related plans which have been formulated for the respective transport subsectors by entities at both the national and local government levels. A national transport policy and a transportation system master plan would ensure that transport projects are strategically built and operated to complement each other within an interconnected network of multimodal systems. Second, there are deficiencies in the project prioritization process, leading to poor selection and structuring of infrastructure projects. The challenge is to ensure that the highest priority projects are built regardless of procurement modalities. Currently, the implementing agencies designate PPP projects before they are screened by the Infrastructure Coordination Committee. Instead, projects should be screened 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. Implementing agencies need to ensure that due diligence is undertaken prior to submission of projects to the Infrastructure Coordination Committee.

10. The ability of LGUs to utilize PPPs to meet localized infrastructure development is very limited. While many small municipalities lack the capacity to take on PPPs and have a limited tax base from which to increase own source revenues there are other 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. In recognition, implementing LGU PPPs at the local level has been identified as one of the priorities of the government. In line with this priority, the PPP Center is strengthening the support it provides to LGUs to develop and implement PPP projects, including pilot LGU projects in priority sectors (water supply and sanitation, solid-waste management facilities, and transport terminals). However, customized capacity building and support will be required to support LGUs at each stage of preparation, development, procurement, and implementation.

11. **The legal and regulatory framework should be further strengthened.** The Philippines was one of the first countries in the region to embrace private participation in the provision of public infrastructure, and there has been an ongoing process of evolution of the legal and regulatory framework. While the regulatory framework has been strengthened since 2013, additional refinements are needed including alternative tools for resolving disputes such as those arising from a contract. In addition, a unique feature of the Philippine framework is that the most



important institutions, including the PPP Center and the PDMF, have been created by executive orders of the President of the Philippines. While this signifies high-level political support, such structures and institutions should be institutionalized to ensure the continued suitability and stability of the legal framework.

## **B. Policy Reform and ADB's Value Addition**

12. **The government's reform agenda.** The Philippines was the first country in Asia to institutionalize private sector participation in infrastructure and development projects by enacting the Build–Operate–Transfer (BOT) Law in 1990. In 2010, the government announced that PPPs would be a key component of its overall strategy for inclusive growth, and initiated governance reforms to the BOT framework. These reforms included the establishment of the PPP Governing Board, the PPP Center, and the PDMF. In 2016, the government launched the BBB infrastructure program and included the PPP program in its Ten-Point Socioeconomic Agenda, highlighting the Philippines' commitment to facilitating private participation in infrastructure investment. To increase spending on public infrastructure (para 5), the government will: (i) encourage private sector participation; (ii) formulate and update master plans and road maps to implement projects in a harmonized and well-coordinated; (iii) strengthen linkages between planning, investment, programming, and budgeting; and (iv) minimize project implementation delays.

13. **Policy reforms.** The program supports the following reform areas: (i) strengthening government financial support to PPPs; (ii) expanding and efficiently implementing the pipeline of PPP projects; and (iii) strengthening the legal and regulatory frameworks for PPPs. At the inception of the programmatic approach in 2015, the government agreed to accomplish 10 expected prior actions (or triggers) and six policy milestones as a basis for subprogram 2.<sup>9</sup> All 10 prior actions have been accomplished. During processing of subprogram 2, two prior actions were merged as they were complementary. A new prior action to capture efforts to enhance the project screening process was added and a prior action was split into two actions – one of which is the enhanced focus on the development of LGU PPP projects, which exceeded expectations.

14. At the government's request, ADB also agreed to refine some policy milestones with the aim of streamlining the policy matrix. Four of these milestones were merged into two policy actions as they were complementary and related to similar reforms. Two new policy milestones were added to recognize the development of an LGU engagement strategy and to recognize the expansion of the PPP service office by the Department of Public Works and Highways (DPWH). Subprogram 2 now contains 17 reform actions (11 expected prior actions representing high-impact reforms and six policy milestones), which the government accomplished in advance during July 2015–August 2017. The changes in the policy matrix are reflected in the design and monitoring framework (Appendix 1).

15. **Government financial support to public–private partnerships.** This reform area builds on the accomplishments of subprogram 1 and ensures the fiscal sustainability of government direct and contingent support to PPP projects within its national fiscal framework. Accomplishments under subprogram 2 included the allocation of ₱51.5 billion by the Department of Budget and Management to cover right-of-way acquisition and resettlement costs as well as to ensure access to major infrastructure facilities. Adequate funding for these preconstruction activities also prevents implementation delays. To monitor and limit fiscal risks arising from PPP

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<sup>9</sup> Prior actions are considered loan disbursement conditions and policy milestones strengthen the program. Comparison of the original and the revised subprogram 2 is in the Summary Assessment of Policy Actions under Subprogram 2 (accessible from the list of linked documents in Appendix 2).

contractual arrangements, the government set in place end-to-end risk mitigation measures including (i) a generic preferred risk allocation matrix to allocate risks to those who can best manage them, and (ii) allocation of funds (₱30 billion in 2016 and ₱29 billion in 2017) to cover contingent liabilities in the Risk Management Program for potential claims arising from PPP projects. In addition, the technical working group on contingent liability 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. The technical working group also strengthened the policy framework and implemented new guidelines that govern the application for and evaluation of claims to the Risk Management Program. A viability gap funding scheme was institutionalized in subprogram 1, however none of the PPP contracts to date have required it.<sup>10</sup>

**16. Pipeline of public-private partnership projects.** Reforms in this area have facilitated an increase in PPP arrangements which allows the government to tap private sector expertise, efficiency, and innovation. Accomplishments under subprogram 2 include: (i) the government's competitive tender and award of 12 national PPP projects totaling \$4.47 billion since the inception of the program; and (ii) the completion of feasibility studies for six national PPP projects (out of the pipeline of 23) which subsequently progressed to the next step of preparation, evidencing continuous development of a robust PPP project pipeline.<sup>11</sup>

**17.** Given the pressing need to develop transport infrastructure, the government has also introduced several initiatives to develop a strong pipeline of transport infrastructure projects in support of its BBB program. First, the government developed the PIP, 2017–2022, which is a 6-year programming document accompanying the PDP that sets out the priority programs and projects to be implemented by the government. To support the PIP, the Three-Year Rolling Infrastructure Program was developed under the national budget to ensure funding for projects that need to be implemented immediately, including the first batch of five PPPs originating from the Department of Transportation (DOTr). To streamline the development of PPPs in the transport sector, the government approved the National Transport Policy (NTP) in June 2017. The NTP guides all transport-related agencies as they pursue policy decisions and future investment, and coordinates efforts between the national and local levels. Under the NTP, PPPs and privatization of public transport operations are evaluated in an effort to augment government resources, harness private sector expertise, gain technology transfers and operational efficiencies, and assign risks to the party best able to control, influence or manage risks and their consequences. The formulation of the Philippine Transportation System Master Plan, on a nationwide scale, is embedded in the NTP and ensures a holistic, well-coordinated, and evidence-based project selection process.

**18.** In addition, the PPP Center undertook significant structural enhancements. In line with global best practices, the government adopted guidelines to put in place (i) probity advisors in procurement (for both solicited and unsolicited proposals) to help ensure that tender processes are impartial, and (ii) independent construction supervisors to provide support during implementation. To fund the activities, the government allocated ₱800 million in 2016 to the PDMF. A panel of probity advisors was established in September 2017, and a panel of construction supervisors was established in May 2017. Consequently, probity and construction

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<sup>10</sup> Viability gap funding is a grant provided by the government to assist the economic viability of projects with high social returns.

<sup>11</sup> As of 19 April 2018, there are 23 national PPP projects in the pipeline, with an estimated cost of \$1.92 billion. This does not include 16 projects with costs yet to be finalized or under final approval.

supervisors will be assigned to projects in 2018.<sup>12</sup> To strengthen project monitoring, the PPP Center established a new division which is now staffed with six project evaluation officers who are actively monitored the implementation of 16 awarded PPP projects.<sup>13</sup> Within the government, the DOTr and the DPWH have also undertaken structural enhancements to support PPP development and implementation. To encourage the development of PPP projects by LGUs, the PPP Center launched a new LGU engagement strategy to assist in identifying and developing local projects. Direct support has also been provided to LGUs through in-house project-based internships, partnerships with training institutions, and the establishment of separate project development facilities. Utilizing this support, two LGU PPP projects were awarded, one has been tendered, and two feasibility studies have been completed. Another 10 LGU PPPs are in project development stages. All projects reflect gender equality in accordance with PPP Center gender guidelines.

19. Given the ambitious volume of planned infrastructure projects, there is the need to carefully identify which projects will be designated PPP projects. To this end, the government has initiated the strengthening of its investment project screening mechanism with the aim of selecting the appropriate procurement modality for each project in the early stages of the approval process. The new screening process will require the determination of project feasibility before the procurement method is selected.

20. **Legal and regulatory frameworks for public–private partnerships.** Reforms in this area focus on further strengthening the legal and regulatory framework for project preparation and approval. Accomplishments under subprogram 2 include the adoption of policy circulars by the PPP Governing Board to: (i) streamline the PPP project appraisal process; (ii) guide implementing agencies in project identification, risk allocation, and project approval; and (iii) adopt best practices, including hiring probity advisors and independent constructions supervisors to document all aspects of procurement processes and to monitor project construction. In addition, the government has issued implementing rules and regulations to operationalize the executive order mandating the inclusion of provisions on the use of alternative dispute resolution mechanisms in all contracts involving PPP projects. The use of alternative dispute resolution mechanisms will reduce time-consuming court litigation that could potentially delay or derail projects and discourage investors from entering into PPP contracts with the government.

21. **Post-program partnership framework.** While nonbinding, the P3F provides for a structured dialogue over the medium term between ADB and the government, as well as a framework for continuing TA support.<sup>14</sup> Under this framework, ADB will support the government's efforts to increase the institutional capacity of LGUs and their awareness of PPPs through the PPP Center's work plan to provide project advisory support to LGUs. In addition, ADB will enhance the linkage between the planning, programming, and budgeting processes of the government through an investment program based on an optimal mix of government financing, official development assistance, and private capital. The PPP Governing Board and the PPP Center will continue to improve the regulatory framework and implementation guidelines covering unsolicited proposals and PPP hybrid financing. Finally, the government will submit amendments to the BOT Law, and its implementing rules and regulations, to Congress for approval.

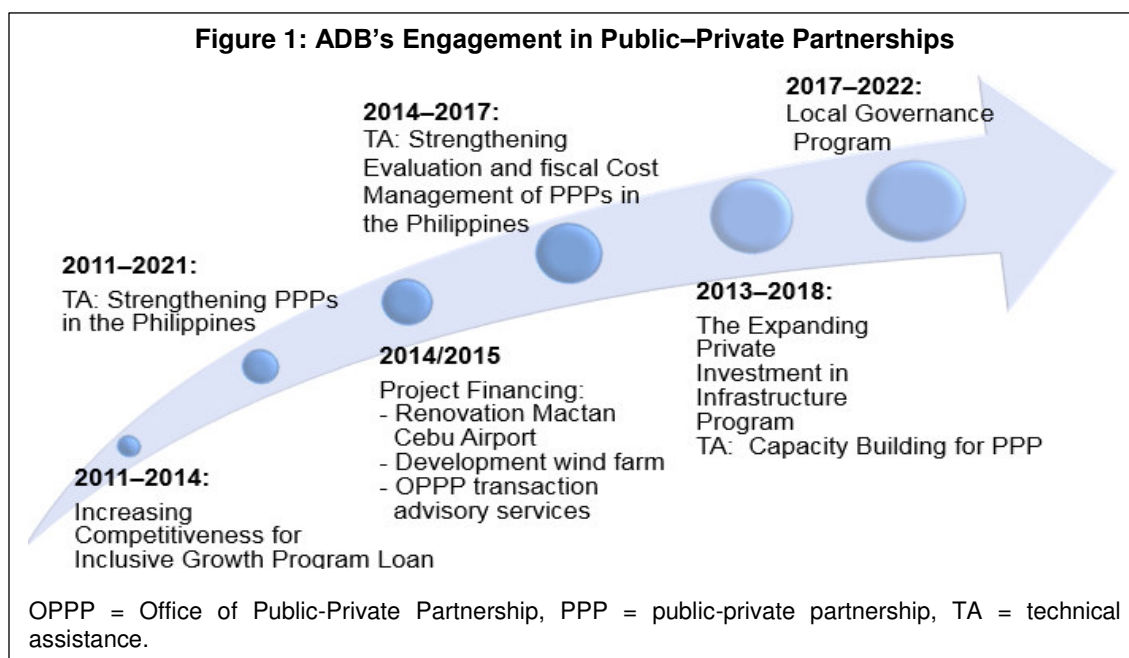
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<sup>12</sup> Probity advisors will be assigned to the East–West Rail Project (unsolicited proposal) and independent construction supervisors will be assigned to the Civil Registry System-Information Technology II Project and Clark International Airport Expansion Project.

<sup>13</sup> Sixteen awarded projects since the establishment of the PPP Center in September 2010.

<sup>14</sup> Support for the P3F will be provided through ADB. 2016. *Technical Assistance for Support to the Association of Southeast Asian Nations Economic Community*. Manila (TA 9229-REG).

22. **ADB experience.** ADB has supported PPPs through a mix of modalities including TA, project financing, and policy-based loans (Figure 1). Beginning with two TA projects (footnote 3), ADB supported the revitalization of the PPP program of the government by building the capacity of the PPP Center and implementing agencies, institutionalizing the PDMF, providing transaction advisory services, and introducing measures to enhance fiscal support to PPPs. The Governments of Australia and Canada, and ADB supported the establishment of the PDMF to prepare bankable PPP projects. ADB also provides transaction advisory services on the Philippine National Railway South Commuter Project, and to the Bases Conversion and Development Authority regarding PPPs in Clark Green City. ADB provided financing for the expansion and renovation of the Mactan–Cebu Airport terminal, and for the development of the largest wind farm in the Philippines. ADB is assisting Cebu City in undertaking feasibility studies for a solid-waste management project through the Asia Pacific Project Preparation Facility.<sup>15</sup> To support the government’s BBB program agenda, ADB approved a TA loan to support preparation of future public infrastructure investments.<sup>16</sup> The Encouraging Investment through Capital Market Reforms Program provides support to enhance long-term infrastructure finance (footnote 6) and a proposed local governance program planned for 2019 will focus on public financial management (PFM), municipal finance, and infrastructure.



23. **Lessons learned.** ADB’s engagement helped inform the program by highlighting key lessons learned. First, a whole of government approach and appropriate governance is necessary to implement a successful PPP program. Second, the motivations and context for undertaking PPPs in emerging economies can differ from those in developed economies with mature PPP programs. Nevertheless, emerging economies should consider introducing practices from developed economies where these will enhance the success of the PPP program. For example, the Philippines has introduced the appointment of a probity adviser for large and complex projects to help ensure that the tender process is impartial and fair to all bidders. This is a role seen in

<sup>15</sup> The \$73 million facility is a multi-donor trust fund that assists structuring infrastructure projects with private participation.

<sup>16</sup> ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the Republic of the Philippines for Infrastructure Preparation and Innovation Facility*. Manila.

various forms in mature PPP markets. Third, development of a successful PPP program relies heavily on the government's ability to make available the financial and human resources required to properly identify, appraise, structure, tender, manage, and monitor projects. Fourth, programs should exhibit sufficient flexibility to accommodate a medium to long development horizon and changes in the addenda of reform champions. Finally, governments should carefully investigate whether traditional infrastructure procurement or PPP investment is likely to yield most value for money. Although governments increasingly use PPPs, these arrangements still constitute a relatively small component of total public-sector investment (footnote 8).

24. **ADB's value addition to program design and implementation.** ADB's structured policy dialogue with the government under the PBL helped to jointly identify and address the legal, policy, and regulatory issues necessary to implement a successful PPP program. The range of improvements and their timing demonstrates a commitment to adjusting approaches to PPPs in response to changing circumstances. In addition, ADB provided support to strengthen the capacity of the National Economic and Development Authority to undertake timely and quality appraisal of PPP projects through on-the-job advisory support on actual PPP projects. This process leads to better infrastructure outcomes and more robust investment planning processes within government. Support was also provided to the Department of Finance (DOF) to better manage the fiscal cost of the growing PPP portfolio. As a result, funding was allocated for contingent liabilities derived from PPP projects, and budgetary provisions were made to cover right-of-way acquisition and resettlement. ADB also supported the establishment of the PDMF to fund project preparation, structuring, tendering, and related advisory services. This reform has reduced the risk that a project fails because of deficient preparation, structuring, or tendering processes. The TA also provided capacity building to strengthen the PPP enabling environment and to institutionalize PPP best practices (footnote 3). The integrated approach combining TA and PBL assistance has led to impressive results. Most importantly, during the program's period, 12 national PPP projects totaling \$4.47 billion have been competitively tendered and awarded, with 10 under implementation and 2 fully operational. Moreover, public infrastructure investment reached 5.4% of GDP in 2017.

25. **Development partner coordination.** ADB has forged a strong partnership with the governments of Australia (Department of Foreign Affairs and Trade) and Canada. Both have provided significant cofinancing to ADB's ongoing TA for strengthening PPPs in the Philippines and focused on the development of the institutional framework for identifying and implementing PPPs. Australia's Department of Foreign Affairs and Trade is also providing a review and recommendations to the DOTr to support a reorganization to strengthen its role in the BBB program. The Government of France through the French Development Agency-Agence Française de Développement (AFD) is exploring the possibility to provide parallel collaborative cofinancing of subprogram 2. The Japan International Cooperation Agency has provided capacity building on PPP project formulation to identified implementing agencies (Department of Health, DPWH, and DOTr) by undertaking capacity assessments and capacity development plans. The World Bank, under its Water and Sanitation Program, supported the institutionalization of a national government PPP technical working group for local water PPPs and a toolkit for water and sanitation PPPs for LGUs. The United States Department of the Treasury is providing a full-time advisor to the PPP Center and the Securities Exchange Commission. ADB has also coordinated with the International Monetary Fund to develop and publish a joint knowledge product on PPPs in the Philippines.<sup>17</sup>

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<sup>17</sup> ADB and International Monetary Fund. 2017. *Scaling up infrastructure investment in the Philippines. Role of public-private partnership and issues*. Manila.

### C. Impacts of the Reform

26. **Economic impact of the program.** PPPs can be a central element of national economic development. On a project level, the program generates quantifiable net benefits with a net present value of \$1.5 billion, supplementing the \$1.30 billion in net benefits achieved under subprogram 1.<sup>18</sup> The analysis mirrors the methodology and assumptions utilized for subprogram 1 and reflects the continuity of reforms through the programmatic approach. Gross economic gains of \$ 1.9 billion arise primarily out of: (i) an increase in the overall level of infrastructure investments that would not have occurred without the PPP program; and (ii) estimated efficiency gains (in terms of project costs within budget and timely completion) associated with PPP projects. Costs of the program aggregate an estimated \$0.4 billion and arise primarily out of administrative requirements and the cost of reserving against potential contingent liabilities.

### D. Development Financing Needs and Budget Support

27. The government has requested a single tranche loan of \$300 million from ADB's ordinary capital resources to help finance subprogram 2.<sup>19</sup> The loan will have a 15-year term, including a grace period of 3 years, annuity method with 30% discount, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions set forth in the draft loan agreement. The average maturity is 12.1 years, and there is no maturity premium payable to ADB. The AFD is exploring the possibility to provide parallel collaborative cofinancing for subprogram 2. The loan size is based on the Philippines' financing needs, the development impact of the policy reform package, and development spending arising from the reform. In 2018, the government's total gross borrowing requirement is estimated at \$17.4 billion, one-fifth of which will be from foreign borrowing. The foreign borrowing will comprise government bonds estimated at \$1.0 billion, and official development assistance estimated at \$2.5 billion.

### E. Implementation Arrangements

28. The DOF is the executing agency, and the National Economic and Development Authority, DOTr, DPWH, PPP Center, DOF Bureau of the Treasury, and the Department of Budget and Management are the implementing agencies. The implementation period is July 2015–August 2017. A steering committee chaired by the DOF with the implementing agencies as members will oversee the program's implementation. The steering committee will meet semi-annually and, if needed, on an ad hoc basis to monitor the continuing implementation of reforms under the P3F. The proceeds of the policy-based loan will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

## III. DUE DILIGENCE

29. **Safeguards.** Subprogram 2 will not entail any involuntary resettlement or affect indigenous people or the environment. It is classified category C for environment, involuntary resettlement and indigenous peoples.

30. **Poverty and social.** Beneficiaries of the program include enterprises, consumers, employees, and the poor in general. Enterprises will benefit from greater competitiveness

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<sup>18</sup> Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

<sup>19</sup> The loan may be disbursed in one or more installments.

because of better infrastructure. Consumers will gain from better access to services through enhanced infrastructure. Reforms under the program will create jobs and help reduce poverty.

31. **Governance.** The government continues to strengthen its PFM. The 2017 public expenditure and financial accountability assessment confirmed that three of the seven core areas (transparency, policy-based budgeting, and asset–liability management) have improved and are now considered strong. Areas of weakness—budget credibility, predictability and control in budget execution, and external scrutiny and audit—are being actively addressed. The proposed Public Financial Accountability Act will help to enforce accountability in the PFM system. The government is implementing a results-based anticorruption plan, to strengthen the Office of the Ombudsman and the justice sector. ADB’s *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the government and the DOF.

32. **Risk and mitigating measures.** The program has three substantial risks.<sup>20</sup> National risks include weaknesses in the PFM system and corruption. To mitigate these risks, the government has strengthened the budget review process, reduced the number and size of special purpose funds, and institutionalized transparency as a precondition to accessing public funds. To reduce corruption risks, the Good Governance and Anti-Corruption Cabinet Cluster of the Philippines implemented a comprehensive and results-based anticorruption action plan. A contextual risk is the delay in PPP procurement for efficient project implementation. Mitigation measures include guidelines on probity advisory services to enhance third-party oversight of the bidding process.

#### IV. ASSURANCES

33. The government and the DOF have assured ADB that implementation of the program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement.

#### V. RECOMMENDATION

34. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$300,000,000 to the Republic of the Philippines for subprogram 2 of the Expanding Private Participation in Infrastructure Program, from ADB’s ordinary capital resources, on regular terms, with interest to be determined in accordance with ADB’s London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao  
President

27 July 2018

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<sup>20</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

## DESIGN AND MONITORING FRAMEWORK

| <b>Country's Overarching Development Objective</b><br>Public spending on infrastructure increased to 7.4% of gross domestic product by 2022 (Philippine Development Plan, 2017–2022) <sup>a</sup> |   |  |   |
|---|---|--|---|
| <b>Results Chain</b>  | <b>Performance Indicators with Targets and Baselines</b>  | <b>Data Sources and Reporting Mechanisms</b>   | <b>Risks</b>  |
| <b>Effect of the Reform</b><br>Private participation in infrastructure improved   | By 2018:<br>a. Public infrastructure investment averages 5.00% of gross domestic product during 2016–2017 (2014 baseline: 2.74%)<br><br>b. Private sector investment commitment in infrastructure through PPPs (except in telecommunications) averages \$3.0 billion per year during 2015–2017 (2011–2013 baseline: Average of \$1.2 billion)   | a. Philippine Statistics Authority website and reports<br><br>b. World Bank's private participation in infrastructure database, PPP Center | Procyclical fiscal policy does not create additional fiscal space to increase public expenditure. |
| <b>Reform Areas under Subprogram 2</b><br>1. Government financial support to PPPs   | <b>Key Policy Actions</b><br><br>By 2017:<br>1.1. Government-allocated budget to cover full cost estimates for (i) right-of-way acquisition and resettlement in PPP projects; (ii) building adequate access infrastructure to major airports, and developing roll-on, roll-off facilities through PPPs; and (iii) contingent liabilities arising from PPP projects (2015 baseline: not applicable)<br><br>1.2. Implementing guidelines for the Risk Management Program by the technical working group on contingent liabilities developed (2015 baseline: not applicable) | 1.1 Department of Budget and Management reports and website<br><br>1.2 Development Budget Coordinating Committee resolution                |   |
| 2. Pipeline of PPP projects   | 2.1 Philippine National Transport Policy adopted  | 2.1 NEDA resolution  | Economic demand for skilled staff leads to high staff turnover at                                 |



| <b>Results Chain</b> | <b>Performance Indicators with Targets and Baselines</b>   | <b>Data Sources and Reporting Mechanisms</b>  | <b>Risks</b>   |
|----------------------|--|---|--|
|                      | <p>(2015 baseline: not applicable)</p> <p>2.2 Additional seven national PPP projects tendered and awarded (2015 baseline: six projects)</p> <p>2.3 Two LGU PPP projects awarded and one tendered, two feasibility studies completed, and 10 projects under development (2015 baseline: 0)</p> <p>2.4 Guidelines on probity in PPP projects issued. Panel of probity advisors and panel of construction supervision consultants established (2015 baseline: not applicable)</p> <p>2.5 Handbook on standard contract provisions in PPP projects developed (2015 baseline: not applicable)</p> <p>2.6 DOTr and DPWH undertook organizational enhancements for PPP development and implementation (2015 baseline: not applicable)</p> <p>By 2021: P3F-TA<br/>2.7 80% of staff trained increase their knowledge on PPP issues with at least 50% of participants being women (2017 baseline: not applicable)</p> <p>2.8 Additional five LGU PPP projects with gender-inclusive designs prepared</p> | <p>2.2 PPP Center's website and reports</p> <p>2.3 PPP Center's reports</p> <p>2.4 PPP Center and ADB TA report</p> <p>2.5 Handbooks available at the University of the Philippines Law Center and the PPP Center</p> <p>2.6 DOTr and DPWH organigrams</p> <p>2.7 Survey of participating staff</p> <p>2.8 PPP Center's reports and project preparation documentation</p> | <p>national and local oversight and implementing agencies.</p> |

| <b>Results Chain</b>                        | <b>Performance Indicators with Targets and Baselines</b>  | <b>Data Sources and Reporting Mechanisms</b>  | <b>Risks</b> |
|---|---|---|--------------|
|   | with support from the PPP Center<br>(2017 baseline: five projects)  |   |              |
| 3. Legal and regulatory frameworks for PPPs | <p>3.1 PPP Center submits proposed revisions of PPP institutional, legal, and regulatory frameworks to PPP Governing Board (2015 baseline: not applicable)</p> <p>3.2 Government-adopted implementing rules and regulations to Executive Order 78 on alternative dispute resolution mechanism in PPPs (2015 baseline: not applicable)</p> | <p>3.1 PPP Governing Board policy circulars</p> <p>3.2 NEDA's website and reports</p> |              |

**Budget Support**

Asian Development Bank: Subprogram 2: \$300,000,000 (loan)

**Assumptions for Partner Financing**

French development cooperation through AFD: €150,000,000 or its equivalent in United States dollars (indicative)

ADB = Asian Development Bank, DOTr = Department of Transportation, DPWH = Department of Works and Highways, LGU = local government unit, NEDA = National Economic and Development Authority, P3F = post-program partnership framework, PPP = public-private partnership, PPP Center = Public-Private Partnership Center, TA = technical assistance.

<sup>a</sup> Government of the Philippines. National Economic and Development Authority. 2017. *Philippine Development Plan (2017–2022)*. Manila. <http://www.neda.gov.ph/2017/07/26/philippine-development-plan-2017-2022>.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=48458-003-3>

1. Loan Agreement
2. Sector Assessment (Summary): Public Sector Management
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items
10. Approved Report and Recommendation of the President to the Board of Directors:  
Expanding Private Participation in Infrastructure Program, Subprogram 1

### **Supplementary Documents**

11. Program Impact Assessment
12. Public Financial Management Assessment in the Philippines
13. Summary Assessment of Policy Actions under Subprogram 2

**DEVELOPMENT POLICY LETTER**

Republic of the Philippines  
**DEPARTMENT OF FINANCE**

Roxas Boulevard Corner Pablo Ocampo, Sr. Street  
 Manila 1004

**DEVELOPMENT POLICY LETTER**

June 14, 2018

**TAKEHIKO NAKAO**

President

Asian Development Bank (ADB)

Manila, Philippines

**SUBJECT: Expanding Private Participation in Infrastructure Program, Subprogram 2 (EPPIP2)**

Dear **President NAKAO**:

On behalf of the Philippines, we would like to thank ADB for its continued support towards our national development reform agenda. This development policy letter outlines our reform program and interest in obtaining a USD300 million budget support loan to fund Government operations and priority reforms including improvement of investment climate and development of infrastructure consistent with the objectives of Expanding Private Participation in Infrastructure Program (EPPIP).

In the attached policy matrix, we have identified initiatives which we sought support from ADB through the EPPIP. EPPIP is consistent with the Philippine Development Plan 2017–2022 specifically on accelerating infrastructure development to address the country's huge infrastructure gap. The Government's *Build, Build, Build* (BBB) program aims to increase infrastructure investment to 7.4% of GDP by 2022 through an optimal mix of government financing, official development assistance, and private sector participation. EPPIP is instrumental in creating the enabling environment that will help Public-Private Partnership (PPP) projects to flourish and will tap private sector expertise and financing.


The EPPIP2 follows through on significant developments attained in EPPIP1 (implemented from June 2013 to June 2015) with the following major outputs: (i) strengthened government financial support to PPPs (ii) expanded and efficiently implemented pipeline of PPP projects, and (iii) strengthened legal and regulatory framework for PPPs. Under EPPIP1, achievements included, among others: allocated sufficient funds in the General Appropriations Act (GAA) in implementing PPPs and contingent liabilities for PPP contracts; signed contracts for at least USD1.5 billion Project Development and Monitoring Facility (PDMF)-supported PPP projects; enhanced the PPP project evaluation and approval process; and endorsed to Congress proposed amendments to the Build-Operate-Transfer (BOT) Law.

Building on these gains, EPPIP2 (implemented from July 2015 until August 2017) undertook the following reform actions, among others: awarded a total of 12 national PPP project contracts; awarded 2 PPP Center-assisted local government unit (LGU) PPP projects; adopted a National Transport Policy; published a handbook on standard PPP contract provisions; and issued Implementing Rules and Regulations on EO78 regarding alternative dispute resolution for PPP projects.

A handwritten signature in black ink, appearing to be a stylized letter 'A' or similar mark.

In closing, the Government reiterates its commitment and willingness to coordinate with ADB and other development partners to enhance the social fabric, reduce inequality, and increase potential growth through accelerated infrastructure development. To continue recent successful efforts on private sector participation in infrastructure development, we look forward to sustained policy dialogue with ADB and continued progress in related reforms through the Post-Program Partnership Framework.

Very truly yours,

  
CARLOS G. DOMINGUEZ  
Secretary of Finance  
JUN 15 2018



## POLICY MATRIX

| Outputs   | Subprogram 1 Accomplishments<br>(Policy triggers in bold)<br>June 2013 to June 2015  | Subprogram 2 Accomplishments<br>(Policy triggers in bold)<br>July 2015 to August 2017  | Post-program<br>Partnership<br>Framework<br>2018 to 2022                   |
|---|--|--|--|
| <b>Output 1: Strengthened Government Financial Support to PPPs</b>  |  |  |  |
| <p>1.1. Ensuring adequate budget funding for government obligations in PPP projects.</p> <ul style="list-style-type: none"> <li>▪ <i>ADB TA Strengthening PPPs in the Philippines (TA 7796)</i></li> <li>▪ <i>ADB TA on Strengthening Evaluation and Fiscal Cost Management of PPPs in the Philippines</i></li> <li>▪ <i>JICA TA: Capacity Development of Public Private Partnerships Project Formulation in the Philippines</i></li> </ul> | <p>The government implemented measures to ensure sustainable funding for government direct and contingent support to PPP projects in line with its national fiscal policy framework. Accomplishments included:</p> <p><b>1. In the 2015 GAA, the government allocated funds for government share in PPPs as follows:</b></p> <p><b>(i) P8.85 billion and P1.23 billion for DPWH and DOTr, respectively, to cover these agencies' costs of right-of-way acquisition and resettlement in PPP projects, and</b></p> <p><b>(ii) P3.8 billion for DPWH to ensure adequate access roads to major airports and RORO facilities developed by DOTr.</b></p> <p>2. The government institutionalized VGF scheme to improve commercial attractiveness of economically viable, solicited user-pay PPP projects through provision of cash subsidy to the concessionaires as part of government contribution to the PPP projects.</p> | <p>The government continues to improve fiscal sustainability of funding for direct and contingent support to PPP projects. These measures include:</p> <p><b>1. In the 2016 and 2017 GAA, the government allocated total funds for the government share in PPPs as follows:</b></p> <p><b>(i) P18.5 billion and P22.5 billion for DOTr and DPWH, respectively, to cover these agencies costs of right-of-way acquisition and resettlement in PPP projects, and</b></p> <p><b>(ii) P11.5 billion for DPWH to ensure adequate access roads to major airports, seaports and roll-on/ roll-off facilities.</b></p> | <p>1. The government continues to allocate funding in the GAA for PPPs</p> |

| Outputs   | Subprogram 1 Accomplishments<br>(Policy triggers in bold)<br>June 2013 to June 2015  | Subprogram 2 Accomplishments<br>(Policy triggers in bold)<br>July 2015 to August 2017   | Post-program<br>Partnership<br>Framework<br>2018 to 2022   |
|---|--|---|--|
|   | <p><b>3. In the 2015 GAA, the government allocated P30 billion to cover contingent liabilities arising from the PPP contracts under the risk management program of the unprogrammed fund.</b></p>  | <p><b>2. In the 2016 and 2017 GAA, the government allocated funds (P30 billion and P29 billion respectively) to cover contingent liabilities arising from PPP contracts.</b></p>  | <p>2. The TWG-CL periodically calculates the estimated costs of CL and updates the guidelines as necessary</p>   |
|   | <p>4. To ensure fiscal sustainability of the growing PPP project portfolio: (i) DBCC established an inter-agency TWG, chaired by BTr with DOF's Privatization Group, DBM and PPC as members, to monitor contingent liabilities of pipeline and ongoing PPP projects; and (ii) BTr developed the methodology for valuation of PPP projects' contingent liabilities to inform budgetary coverage of contingent liabilities under the risk management program of the unprogrammed fund.</p> | <p>3. The government strengthened fiscal risk management of PPPs through: (i) submitting to DBCC of a policy framework on management of PPP project's CLs which includes the implementing guidelines on the use of unprogrammed appropriations for the Risk Management Program (including disclosure policies, accountability and documentary requirements) and (ii) incorporated PPP fiscal risks in debt sustainability assessments and included in the Fiscal Risk Statement for 2015–2016 and 2017.</p> |  |
| <b>Output 2: Expanded and Efficiently Implemented Pipeline of PPP Projects</b>  |  |   |  |
| <p>2.1. Enhancement of the strategic planning and institutions for a sustainable PPP program.</p> <ul style="list-style-type: none"> <li>▪ <i>ADB TA Strengthening PPPs in the</i></li> </ul> | <p>The government introduced measures to: improve long-term infrastructure planning; build capacity to implement PPP program; and strengthen results-based performance in the PPP program. Accomplishments included:</p> <p><b>5. Contracts for six national transport, health and education PDMF-supported PPP projects signed for at least a total</b></p>   | <p>The government facilitated PPP arrangements as a way for government to tap private sector expertise, efficiency and innovation.</p> <p><b>4. A total of 12 national PPP projects over the program period have been competitively tendered, awarded, and</b></p>  | <p>3. All solicited PPP projects originate from long-term integrated infrastructure plans. A total of 10 projects started construction</p> <p>4. LGU PPP projects prepared</p> |

| Outputs   | Subprogram 1 Accomplishments<br>(Policy triggers in bold)<br>June 2013 to June 2015  | Subprogram 2 Accomplishments<br>(Policy triggers in bold)<br>July 2015 to August 2017  | Post-program<br>Partnership<br>Framework<br>2018 to 2022       |
|---|--|--|--|
| <p><i>Philippines (TA 7796)</i></p> <ul style="list-style-type: none"> <li>▪ <i>ADB TA on Strengthening Evaluation and Fiscal Cost Management of PPPs in the Philippines (TA 8650)</i></li> </ul> | <p>investment of \$1.5 billion. In addition, <b>10 feasibility studies completed for new PPP projects.</b></p>   | <p>financially closed with a total project cost of P235.69 billion, nine of which are PDMF-supported. Six national projects completed gender-equality feasibility studies, three of which are supported by PDMF.</p>   | <p>5. Development of a transport master plan under the NTP</p> |
|   |  | <p><b>5. For LGU PPP projects, with PPPC technical assistance, , 2 LGU PPP projects were awarded (and commenced implementation), 1 tendered, 2 completed feasibility studies, and 10 are in project development stages. All projects reflect gender-equality in accordance to PPPC gender guidelines.</b></p>                                  |  |
|   |  | <p>6. To assist LGUs on PPP development, the PPPC updated and launched the LGU PPP strategy and guidelines to increase efforts to assist LGUs on PPP development and implementation. (Key components of the strategy include the legal basis for PPPs by LGUs, institutional framework to assist LGUs and technical assistance available).</p> |  |
|   | <p><b>6. NEDA finalized and submitted to NEDA Board the Roadmap for Infrastructure Development for Metro Manila and Its Surrounding Areas (Region III and Region IV-A), and initiated preparation of</b></p> | <p><b>7. The NEDA Board adopted the National Transport Policy (NTP), which integrates policy initiatives and strategies to guide future investments in the sector.</b></p>   |  |



| Outputs | Subprogram 1 Accomplishments<br>(Policy triggers in bold)<br>June 2013 to June 2015  | Subprogram 2 Accomplishments<br>(Policy triggers in bold)<br>July 2015 to August 2017  | Post-program<br>Partnership<br>Framework<br>2018 to 2022   |
|---------|--|--|--|
|         | <p><b>the Philippine Transport Infrastructure Roadmap.</b></p>   |  |  |
|         | <p>7. A revised National Sewerage and Septage Management Program, allowing the participation of water districts, for INFRACOM approval.</p>  |  |  |
|         | <p>8. DOTr initiated update of the Strategy for the Development of National Airports, and prepared a 3-year rolling infrastructure plan of DOTr that sets out the short and medium-term investment program for DOTr.</p> | <p>The government has initiated and developed PPP projects in the transport sector:</p> <p>8. (i) DOTr awarded 5 PPP projects (and commenced implementation); (ii) NEDA-InfraComm developed a Three Year rolling infrastructure plan (TRIP) for 2018-2020 covering priority projects, corresponding programming budget, including proposed PPP projects and DOTr priority projects; and (iii) NEDA launched the Priority Investments Program Online System (PIPOL) to aid in government planning, programming, budgeting, monitoring and evaluation. Projects identified were submitted for inclusion in the government's Public Investment Program (PIP) through the PIPOL.</p> |  |
|         | <p><b>9. Given an increased PPP program, the government enhanced PPPC's capacity through:</b></p> <p>(i) increased PDMF resources due to \$2 million equivalent contributions by line-</p>                               | <p><b>9. The government enhanced PPPC's capacity to sustainably manage the PPP program by: (i) allocating P800 million for PDMF in the 2016 GAA; (ii) establishing separate panels of probity advisors and independent construction supervisors; and (iii) providing capacity building to</b></p>  | <p>6. PPPC's capacity further enhanced through advisory support and trainings. Knowledge Management Portal of PPPC completed</p> |

| Outputs | Subprogram 1 Accomplishments<br>(Policy triggers in bold)<br>June 2013 to June 2015   | Subprogram 2 Accomplishments<br>(Policy triggers in bold)<br>July 2015 to August 2017 | Post-program<br>Partnership<br>Framework<br>2018 to 2022  |
|---------|---|---|---|
|         | <p>departments and receipt of \$6 million refund from four successfully bid out PPP projects;</p> <p>(ii) increase of permanent staff positions from 70 (52 filled) in 2013 to 99 (80 filled, of which 56 are women) in 2015;</p> <p>(iii) Amendments to PDMF guidelines adopted to operationalize probity in PPP projects' procurement, oversight support during PPP project implementation, and development of local PPPs; and</p> <p>(iv) procedures drafted for interaction between PPPC and PPP Units at sector departments to ensure efficient and effective collaboration, coordination, and accountability among government agencies.</p> | <p><b>PPPC in project implementation and monitoring, and contract management.</b></p> | <p>7. Probity and construction supervisors assigned to projects</p> <p>8. PPPC's capacities enhanced to technically assist LGUs to prepare, structure and evaluate PPP projects for local public utilities (water supply, water sanitation, solid waste management, renewable energy, urban transport)</p> <p>9. IA's capacities enhanced to better identify and analyze aspects relative to climate mitigation and adaptation in their portfolio of PPP projects, facilitating access to new types of investors and financings<sup>1</sup></p> |
|         | <p><b>10. To speed up and enhance quality of approval of PPP projects, the government introduced a new process for appraising PPP projects by assigning: (i) the PPPC</b></p>   |   |   |

<sup>1</sup> Actions 8 and 9 are subject to further discussion and confirmation by government agencies.

| Outputs | Subprogram 1 Accomplishments<br>(Policy triggers in bold)<br>June 2013 to June 2015   | Subprogram 2 Accomplishments<br>(Policy triggers in bold)<br>July 2015 to August 2017   | Post-program<br>Partnership<br>Framework<br>2018 to 2022 |
|---------|---|---|--|
|         | <p>as secretariat to coordinate appraisal of PPP projects' 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.</p> |   |  |
|         | <p>11. PPC initiated development of standard national PPP contracts for selected subsectors to streamline contract provisions on risk allocation, termination payments, dispute resolution, and material adverse government action.</p>   | <p><b>10. A handbook on standard contract provisions for PPPs developed and made available to all implementing agencies.</b></p>  |  |
|         |   | <p>11. Value engineering and value analysis (VE/VA) principles have been incorporated into NEDA's appraisal framework as a Technical Value Review process of PPP project proposals. Procedures included in the ICC review process and applied to all PPP projects submitted for approval.</p> |  |

| Outputs  | Subprogram 1 Accomplishments<br>(Policy triggers in bold)<br>June 2013 to June 2015   | Subprogram 2 Accomplishments<br>(Policy triggers in bold)<br>July 2015 to August 2017   | Post-program<br>Partnership<br>Framework<br>2018 to 2022  |
|--|---|---|---|
|  | <p>12. The government implemented measures to build capacity of implementing agencies at national and local levels. These measures included:</p> <ul style="list-style-type: none"> <li>• A PPP project development team established under the project development unit of DOTr that is responsible for preparation of own- and ODA-funded projects.</li> <li>• DOTr improved PPP project implementation through               <ul style="list-style-type: none"> <li>i. establishment of dedicated assistant secretary position to oversee PPP project implementation;</li> <li>ii. establishment of ad hoc contract management units for PPP projects awarded in 2013–2014; and submission of request to DBM for establishment of a regular PPP Implementation Unit.</li> </ul> </li> </ul> | <p><b>12. DOTr reorganized its project development and implementation structure by: (i) designating an Undersecretary for Planning and Project Development responsible for GAA, ODA and PPP projects; and (ii) putting in place a planning and project development structure made up of an OIC Director for Planning that handles four sectoral division chiefs (air, rail, road, and water) and a division chief for project monitoring and evaluation to monitor projects after completion.</b></p> | <p>10. DOTr will continue its efforts in having the organization restructuring approved and institutionalized</p> |
| <p>2.2. Strengthening PPP systems at implementing agencies at national and local levels.</p> <ul style="list-style-type: none"> <li>▪ <i>ADB TA Strengthening PPPs in the Philippines (TA 7796)</i></li> <li>▪ <i>JICA TA: Capacity</i></li> </ul> |   | <p>13. The DPWH expanded its PPP Service Office staffing with now a total of 69 plantilla positions assigned to three divisions under the office.</p>   |   |
|  | <p>13. PPC adopted and initiated implementation of the LGU Engagement Strategy envisaging support to LGUs via in-house project-based internships, partnerships with local training institutions on PPP trainings, and developing a project development facility for LGU PPPs.</p>   | <p>14. PPC assisted LGUs with PPP capacity development as follows: (i) signed 7 Memoranda of Agreement (MOAs) with Local Capacity Building Institutions (LCBIs), Mindanao Development Authority and the League of Cities for the provision of training to LGUs and delivery of programmatic capacity building; and (ii) provided project</p>  |   |

| Outputs   | Subprogram 1 Accomplishments<br>(Policy triggers in bold)<br>June 2013 to June 2015   | Subprogram 2 Accomplishments<br>(Policy triggers in bold)<br>July 2015 to August 2017   | Post-program<br>Partnership<br>Framework<br>2018 to 2022   |
|---|---|---|--|
| <i>Development of Public Private Partnerships Project Formulation in the Philippines</i>                                  |   | specific development support to 3 additional LGUs.  |  |
|   |   | <b>15. The government (through NEDA) initiated the development of a revised ICC project screening process to enhance the government's process in soliciting, developing, evaluating, approving, and budgeting for PPP projects.</b>   | 11. Project screening processed revised and approved.  |
| <b>Output 3: Strengthened Legal and Regulatory Framework for PPPs</b>   |   |   |  |
| 3.1. Enhancing the PPP legal and regulatory framework.<br>▪ <i>ADB TA Strengthening PPPs in the Philippines (TA 7796)</i> | The government implemented measures to improve the PPP legal and regulatory framework. Accomplishments included:<br><br><b>14. Adoption by the PPP Governing Board and submission to Congress of amendments to the BOT Law that are important to sustain the country's PPP program.</b> Salient proposed amendments are: (i) institutionalization of: the PPP Governing Board, the empowered PPC, the Project Development and Monitoring Facility and its consultant engagement framework, the new process of appraisal of PPP projects, and the funding for government direct and contingent liabilities arising from PPP projects; (ii) improved process of selection of investors for solicited and unsolicited PPP projects; and (iii) provision of investment incentives for more private participation in infrastructure. | The government continues to strengthen the legal and regulatory framework for PPP project preparation and approval.<br><br><b>16. The PPP Governing Board and PPC continued to improve the PPP implementation guidelines and regulatory framework through issuances of relevant circulars covering: (i) guidelines for appraisal of PPP projects; (ii) managing the status of government employees affected by PPP projects; (iii) assessing Value for Money in PPP projects; (iv) public consultations and engagement for PPP projects; (v) appointment of probity advisers; and (vi) PPP Monitoring Framework and Monitoring Protocols.</b> | 12. Consistent and updated PPP legal and regulatory framework in place<br><br>13. Amendments to the BOT law and its implementing rules and regulations<br><br>14. Development of guidelines for unsolicited proposals and framework for PPP hybrid financing |

| Outputs | Subprogram 1 Accomplishments<br>(Policy triggers in bold)<br>June 2013 to June 2015   | Subprogram 2 Accomplishments<br>(Policy triggers in bold)<br>July 2015 to August 2017   | Post-program<br>Partnership<br>Framework<br>2018 to 2022 |
|---------|---|---|--|
|         | 15. Draft IRRs for EO78 on Alternative Dispute Resolution in PPP projects submitted to relevant agencies for their final reviews and comments.  | <b>17. The government approved and issued IRR for E078 mandating the inclusion of provisions on the use of alternative dispute resolution mechanisms in all contracts involving PPP projects.</b> |  |
|         | 16. To improve quality of PPP projects and contractual arrangements, guidelines have been issued on termination payments, and guidelines on material adverse government action have been drafted. |   |  |

ADB = Asian Development Bank, BOT = Build-Operate-Transfer, BTr = Bureau of the Treasury, CLs = contingent liabilities, DBCC = Development Budget Coordination Committee, DBM = Department of Budget and Management, DOF = Department of Finance, DOTr = Department of Transportation, DPWH = Department of Public Works and Highways, EO = executive order, GAA = General Appropriations Act, ICC = Investment Coordination Committee, INFRACOM = Infrastructure Committee, IRRs = implementing rules and regulations, JICA = Japan International Cooperation Agency, LCBI = Local Capacity Building Institutions, LGU = local government unit, MOA = memorandum of agreement, NEDA = National Economic and Development Authority, NTP = National Transport Policy, ODA = official development assistance, OIC = officer-in-charge, PDMF = project development and monitoring facility, Program Online System = PIPOL, PPP = public-private partnership, PPPC = Public-Private Partnership Center, RORO = roll-on/ roll-off, TA = technical assistance, TWG = technical working group, VE/VA = value engineering and value analysis, VGF = viability gap funding.