

SECTOR ASSESSMENT (SUMMARY): MULTISECTOR

Sector Road Map

A. Sector Performance, Problems, and Opportunities

1. **Sector performance.**¹ Infrastructure enables access to work, markets, education, health care, housing, and other services that allow people to raise their standards of living. Current (2019) levels of public and private investment in infrastructure are insufficient to meet the government's goal of reaching upper middle-income status by 2022. Infrastructure gaps are major bottlenecks for foreign investment and higher economic growth. While the country has improved consistently in the Global Competitiveness Ranking, from 65th in 2012–2013 to 56th in 2018, its overall infrastructure significantly lags that of other emerging Southeast Asian countries.² In 2018, the Philippines was ranked 92nd out of 140 countries on infrastructure quality, well below other Southeast Asian countries such as Malaysia (32nd), Thailand (60th), and Indonesia (71st). Spending has picked up strongly since 2013 but remains insufficient for the Philippines to sustain economic growth and catch up with regional peers in infrastructure competitiveness. Weaknesses in infrastructure policy; institutional capacity constraints in developing urban, regional, and sector infrastructure plans and preparing projects; and slow project implementation have contributed to low public capital stock. Insufficient private sector participation in infrastructure and the lack of long-term infrastructure financing also constrain higher infrastructure investments.

2. **Constraints on economic growth.** The Philippines is enjoying its longest economic expansion in more than 50 years, with economic growth averaging 6.2% yearly during 2011–2017. However, while national poverty incidence fell from 25.2% of the population in 2012 to 21.6% in 2015, the poverty rate is translated to almost 22 million poor people and is still high for a middle-income country. Further, household income inequality in the Philippines is among the highest in Southeast Asia. Wide income disparities across the country's regions indicate that the benefits of economic growth have been distributed unevenly. Poor infrastructure has been consistently identified as a key factor inhibiting the country's competitiveness because of the high attendant economic costs of insufficient capacity to meet demand, poor connectivity, and low quality. The country continues to experience severe infrastructure deficits brought about by decades of underinvestment in infrastructure—less than 3.0% of its gross domestic product (GDP) compared with the 5.0%–9.0% average of its Asian neighbors. Inadequate infrastructure in key areas—especially transport, water supply, and flood management—will continue to inhibit the development of existing industries and limit the country's ability to attract new industries and needed investments. Poor infrastructure also exacerbates the inequalities in society because the marginalized population—the poor, women, and isolated communities—suffers disproportionately from limited access to economic opportunities.

3. **Core development problem.** Underdeveloped infrastructure is attributed to five factors: (i) insufficient infrastructure investment; (ii) lack of interagency coordination; (iii) inadequate or incomplete infrastructure plans and implementation programs; (iv) limited access to international expertise, and poor technical and management know-how in project preparation and implementation; and (v) poor sustainability of infrastructure. Coordination between the two main agencies responsible for infrastructure—Department of Transportation (DOTr) and the

¹ This summary is based on (i) ADB. 2018. *Country Partnership Strategy: Philippines, 2018–2023*. Manila; (ii) ADB. 2017. *Philippines: Transport Sector Assessment, Strategy, and Road Map*. Manila; and (iii) ADB. 2019. [Draft] *Philippines: Agriculture and Natural Resources Sector Assessment, Strategy, and Road Map*. Manila.

² World Economic Forum. 2018. *The Global Competitiveness Report, 2018*. Geneva.

Department of Public Works and Highways (DPWH)—and with other key agencies is limited, which constrains project preparation and implementation. Infrastructure projects are often not delivered as planned because of poor project formulation or poor project implementation, or both. Delays in safeguard compliance, procurement, and land acquisition as well as poor project management systems delay timely project delivery.

4. **Sector planning.** The DOTr and DPWH are the primary agencies responsible for national transport, and flood management and drainage infrastructure. They oversee policies, planning, operations, regulations, and investment either directly or through their subordinated agencies. The National Economic and Development Authority (NEDA) is the premier macroeconomic planning agency, mandated to appraise, monitor, and coordinate the annual and medium-term public investment programs, as well as development assistance. Coordination among the various government departments and agencies is undertaken through interdepartmental committees, many of which are chaired by NEDA, and at the highest level by the NEDA board—a cabinet committee comprising all departments concerned with economic and financial matters, chaired by the President of the Philippines.

5. This assessment covers two infrastructure areas—(i) transport (roads, railways, and airports); and (ii) agriculture, natural resources, and rural development (flood management)—that fall into the jurisdictions of the DOTr and DPWH, the agencies responsible for the preparation of national public infrastructure investments to be prepared under the project.

6. **Roads, railways, and airports.** In the Philippines, urban public transport is dominated by road-based modes such as jeepneys, Asian utility vehicles, taxis, tricycles, and pedicabs, some of which provide door-to-door service. About 98% of passenger transport and 55% of freight transport is by road. Railways are operated only in the National Capital Region (Metro Manila), where three elevated urban rail lines with a total length of 44 kilometers transported 350 million passengers in 2016. In addition, Philippine National Railways operates a 28-kilometer southbound suburban railway from Tutuban to Alabang, which transported 21 million passengers in 2016. Meanwhile, air transport in the National Capital Region has limited capacity to satisfy the growing demand for air travel. The Ninoy Aquino International Airport (NAIA) and Clark International Airport are the two major airports serving the Greater Capital Region, comprising the National Capital Region and surrounding provinces. Air passenger traffic in the Greater Capital Region has increased about 10% annually since 2016. The NAIA handled about 42 million passengers in 2017, which is beyond the 35 million maximum design capacity of the airport. As a result, NAIA has grown increasingly congested, but its location in the heart of Metro Manila limits the potential for expansion. While transport infrastructure has steadily expanded since the 1990s, the demand for transport consistently surpasses the capacity and quality of the service provided.

7. **Flood management.** Storms, typhoons, and associated floods devastate and account for 80% of all deaths, 90% of affected people, and 92% of the economic impact in the Philippines. Protected flood-prone areas increased from 12.8% in 2011 to 18.3% or 131,522 hectares in 2015, but improper development is making communities and their assets increasingly exposed to flood hazards. Furthermore, changing climate is increasing the intensity and frequency of typhoons and heavy rainfall. These will exacerbate flooding in existing flood-prone areas, increase landslides and mudslides, and introduce flooding in new areas. Floods disrupt economic activities, exacerbate economic and social inequalities, disproportionately affect vulnerable groups including women, and lead to loss of lives and damage to property.

B. Government's Sector Strategy

8. **Accelerating infrastructure investment.** The Ten-Point Socioeconomic Agenda of the current administration aims to ramp up public infrastructure investments such as national roads, expressways, bridges, airports, subways, and railways.³ Public spending on infrastructure is expected to reach 7% of GDP by 2022, or about \$14.5 billion annually, from 2.6% of GDP in 2015. With official development assistance from development partners, the government is gearing up infrastructure projects.

9. **National Development Plan.** The Philippine Development Plan (PDP), 2017–2022 translates the government's Vision 2040 (AmBisyon Natin 2040) into strategies, policies, programs, and activities.⁴ Goals of the PDP are the preservation of national peace and security, strategic and accelerated infrastructure development, resiliency, and ecological integrity.⁵ To support a higher growth trajectory and improve the quality of life in both urban and rural communities, infrastructure development remains a top priority of the PDP, giving rise to the most ambitious infrastructure program in Philippine history. The government's "Build, Build, Build" infrastructure program aims to redress the infrastructure deficit. Institutional capacity constraints in developing urban, regional, and sector infrastructure plans and in preparing projects, as well as slow project implementation have contributed to the infrastructure deficit. The PDP emphasizes the need to address persistent issues and challenges hampering the implementation of infrastructure projects. Embedded in the PDP is a national spatial strategy that seeks to address spatial and socioeconomic inequalities by integrating leading areas with lagging areas while promoting urban–rural links through improved transportation. The strategy recognizes the role of cities as engines of economic growth and poverty reduction and promotes transport infrastructure development to improve connectivity between communities. The spatial strategy aims to decongest Metro Manila and channel growth to other key regional centers.

10. **Transport strategy.** The guiding principles of the PDP's strategy for the transport sector are to encourage private participation in the financing, construction, and operation and maintenance of projects. In addition, the policy and regulatory framework for the sector will be strengthened by enacting a national transport policy and by creating independent regulatory bodies for railways, airports, and seaports. The sector program covers all modes of transport. In June 2017 the government approved the National Transport Policy, which was designed to unify all transport-related projects in the country. The policy focuses on (i) resource generation and allocation; (ii) establishing criteria for the preparation of agency plans, programs, and projects; (iii) cost recovery; (iv) regulation of passenger transport; (v) urban transport; (vi) transport logistics; and (vii) governance. The National Transport Policy envisions the establishment of "a safe, secure, reliable, efficient, integrated, intermodal, affordable, cost-effective, environmentally sustainable, and people-oriented national transport system that ensures improved quality of life of the people."⁶

11. **Flood management strategy.** The PDP acknowledges that disaster and climate risks erode development gains and hamper the full development of the country's potential and will make vulnerability reduction an integral part of development. In line with the PDP, the DPWH's

³ National Economic and Development Authority. 2016. *Philippine Development Plan 2017-2022*. Manila. <http://www.neda.gov.ph/wp-content/uploads/2018/02/PDP-Brochure.pdf>.

⁴ Government of the Philippines, National Economic and Development Authority. 2016, *AmBisyon Natin 2040*. Manila

⁵ Government of the Philippines, National Economic and Development Authority. 2017, *Philippine Development Plan 2017–2022*. Manila.

⁶ Government of the Philippines, National Economic and Development Authority. 2017. Page 1, NEDA Board Resolution No.5 (s. 2017) Approving National Transport Policy. Manila

Performance Governance System Strategy Map and Enterprise Scorecard, 2017–2022 includes an outcome of lives and properties protected from natural disasters as well as two outputs: (i) mitigating flood damage in major river basins and principal rivers, and (ii) building climate-resilient structures in calamity-prone areas.⁷

C. ADB Sector Experience and Assistance Program

12. **Overall sector experience.** ADB's country partnership strategy (CPS) for the Philippines, 2018–2023 emphasizes support for policy reforms, institutional capacity development, and financing investments that promote high and inclusive growth. ADB operations in the Philippines rest on three strategic pillars: (i) accelerating infrastructure and long-term investments, (ii) promoting local economic development, and (iii) investing in people. The CPS lays out a program of priority activities to support each of these pillars and promotes rebalancing ADB financing toward infrastructure projects in support of the government's BBB infrastructure program. The CPS mainstreams gender equality, private sector development, governance, and environmentally sustainable development in support of the three strategic pillars. ADB will carry out pilot initiatives to support the government and the private sector in dealing with the potential impacts of the fourth industrial revolution—the advance of robotics and artificial intelligence—on work. ADB also designed the CPS to align closely with the seven priorities of Strategy 2030.

13. **Transport experience.** The CPS priorities align with AmBisyon Natin 2040, the government's long-term development plan; and the medium-term PDP. Under the PDP, the government has targeted real GDP growth of 7.0%–8.0% per year, with GDP per capita increasing from \$3,550 in 2015 to \$5,000 by 2022. To sustain this growth, it is targeting an increase in infrastructure spending to 7.4% of GDP by 2022, up from 4.5% in 2016. The Philippines is eligible for ADB's regular ordinary capital resources lending. ADB will continue to provide technical assistance to help the government prepare and implement projects, execute reforms, and strengthen institutional capacity in line with the CPS sector and thematic priorities. The country operations business plan, 2020–2022 comprises six transport projects for approval in 2020 and 2021: (i) South Commuter Rail Project (PFR1), (ii) Davao-Samal Bridge Project, (iii) Metro Rail Transit, Line 4 Project, (iv) Laguna Lakeshore Road Transport Project, (v) Malolos–Clark Railway Project (PFR2) and (vi) Bataan-Cavite Bridge Project.⁸

14. **Flood management experience.** One of the seven priority areas in ADB's Strategy 2030 is tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability. The CPS builds on this and focuses on tackling climate change and disaster vulnerability. The country operations and business plan for the Philippines, 2020–2022 includes the proposed Integrated Flood Risk Management Sector Project, which is expected to reduce flood risks in six river basins (Apayao–Abulog and Abra in Luzon, Jalaur in Visayas, and Agus, Buayan–Malungon, and Tagum–Libuganon in Mindanao) by (i) improving flood risk management planning through strengthening data acquisition and data management, and improving flood protection asset management; (ii) rehabilitating and constructing flood protection infrastructure; and (iii) raising community awareness, and preparing and implementing disaster (flood) risk reduction and management plans to reduce different groups' vulnerabilities.

⁷ Government of the Philippines, Department of Public Works and Highways. 2017. *Performance Governance System Strategy Map and Enterprise Scorecard, 2017–2022*. Manila. [https://iro.ph/article_doc/eaaa3b67_Philippine%20Economic%20Briefing%20\(Osaka,Japan\)%20-%20DPPWH%20Presentation.pdf](https://iro.ph/article_doc/eaaa3b67_Philippine%20Economic%20Briefing%20(Osaka,Japan)%20-%20DPPWH%20Presentation.pdf)

⁸ ADB. 2019. *Country Operations Business Plan; Philippines, 2020-2022*. Manila

Problem Tree for Multisector Infrastructure

