

SECTOR ASSESSMENT (SUMMARY): TRANSPORT

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. **Economic backdrop.** Strong fundamentals have enabled the Philippines to record substantial growth in recent years, despite the global slowdown.¹ Among the most significant economic achievements are growth in capital formation, gross domestic product (GDP) growth, and government expenditures. Nonetheless, poverty has been declining slowly.

2. Mindanao's provinces are among the poorest in the country. Poverty results from the nature of employment, which is mostly short-term and seasonal. A substantial number of people depend on subsistence agriculture. Inadequate access to economic opportunities and basic services has contributed to social inequity, which is the main cause of the unresolved peace problems in Mindanao. Addressing the peace situation over the long term will require sustained economic growth, with an emphasis on poverty alleviation.²

3. Roads provide the largest segment of transport services in the Philippines, covering an estimated 98% of passenger and about 60% of freight traffic. As of 2014, the road network had a total length of about 210,000 kilometers (km). National roads (primary, secondary, and tertiary roads) accounted for 32,526 km or 15.5% of the network. Almost 80% of the network is paved. While road infrastructure has steadily expanded over the past 2 decades, traffic has consistently surpassed the capacity and the quality of service. Roads in Mindanao account for 24% of the national total, yet the island's share in the country's total length of paved roads is 7% lower than the national average.

4. **Intermodal road transport.** The emergence of roll on–roll off (RORO) terminals and the development of RORO routes has expanded the coverage of bus and truck services to interisland connections. RORO routes comprise about 1,000 km of roads and about 200 km of sea routes connecting Luzon to Mindanao via several islands in the Visayas. Mindanao, with its large number of outer islands, will benefit from continued development of RORO shipping and the required infrastructure. However, interisland shipping has been stagnant for the last decade and does not provide competition to road transport, especially not for intraisland transport.

5. **Resource allocations.** The focus on government spending on roads is to improve national roads and build an integrated public transport system to decongest Metro Manila. A higher level of investments will be needed to counter the recent surge in traffic that has resulted from the growth in economic activity, and which is exposing the capacity shortage on all major roads.

6. Government expenditures on national roads have increased on average by 21% annually over the last 5 years. Maintenance expenditures have also grown significantly, albeit at a lower rate than capital expenditures. While allocations to maintenance have increased in real terms over the last 5 years, as a percentage of total allocations to roads, they have stagnated at about 10% annually. Nonetheless, the physical condition of the national road network has gradually

¹ The Philippines also significantly improved its rankings on the Corruption Perception Index, the Global Competitiveness Index, and the Ease of Doing Business index.

² Government of the Philippines, National Economic and Development Authority. 2010. *Mindanao Strategic Development Framework, 2010–2020*. Manila.

improved. Less than 60% of the network was in fair or good condition in 2009, rising to over 70% in 2016.

7. Financial resources for the development and maintenance of roads come from various sources, including loans and credits, general government revenue, and an extra-budgetary fund dedicated to road maintenance. The creation of a dedicated fund as an additional source of financing for road maintenance was a step in the right direction. The fund is financed from the Motor Vehicle User's Charge (MVUC), a road user tax collected in connection with the registration of all motor vehicles. Yet, the general budget still has to meet almost half of the annual requirements.

8. **Sustainable road financing.** To enhance the sustainability of road assets, the government should augment the revenue base of the MVUC fund and focus on road user charges directly related to road use. Through the MVUC, road users contribute directly to the financing of preventive maintenance, which is important to achieve independence of maintenance financing from the government's annual budgets. The revenues the fund collects through the MVUC are insufficient to finance the entire maintenance program, and the general budget has to meet almost half of the annual requirements. Maintenance funding will thus continue to be exposed to the rise and fall of allocations from the general budget. However, the Bureau of Maintenance under the Department of Public Works and Highways uses an asset maintenance management system that is effective in spending allocated resources in the most cost-efficient manner.

9. **Capacity utilization.** While physical road conditions are generally adequate, road capacity is not used efficiently. Poor road design, inadequate traffic engineering, noncompliance with traffic rules, and encroachment of right-of-way all contribute to traffic congestion, longer than necessary travel times, and wasted resources. Poor planning and road designs are evident in the lack of bypass roads at major towns and cities. Most primary and secondary national roads pass through city and town centers, mixing long-distance traffic with local traffic and aggravating congestion, which occurs in almost all major towns and cities in the Philippines. The interfaces between national roads and expressways are often poorly designed. Dense traffic on expressways is released into much narrower national or provincial roads, then into towns and cities. The mix of traffic—with slow-moving vehicles like tricycles, which often use national roads even outside towns and cities—is another major efficiency constraint. Poor engineering designs render road sections prone to accidents.

10. **Urban transport.** Nearly 50% of the Philippine population live in urban areas. Metro Manila has become the pivot for economic activities in the Philippines, generating nearly 50% of the country's GDP. Owing to this, inefficiencies of the urban economy affect the competitiveness of the entire country. Manila's public administration is highly fragmented, making it difficult to ensure that urbanization proceeds in an economically efficient, sustainable, and inclusive manner. Weak institutions, failed policies, haphazard planning, poor engineering standards, and lax enforcement of traffic rules have shaped urbanization.

11. The use of Manila's road capacity is heavily imbalanced. Public transport accounts for 69% of daily travelers, but private cars occupy 78% of road space while transporting the remaining 31% of travelers. The ensuing heavy congestion comes at a high social cost, accounting for nearly 5% of the country's GDP. Addressing urban transport has to deal with formidable problems, including urban infrastructure and public transport, compliance with land use regulations and traffic rules, as well as mitigating the social repercussions that will likely be caused by restructuring and modernizing public bus and other forms of transport.

12. **Climate change.** With a share of only 0.31% of the world's greenhouse gas emissions, ranking 39th in the world, the Philippines' contribution to climate change is less than significant. The main greenhouse gas emissions sources are energy and transport. However, the Philippines is vulnerable to natural hazards associated with climate change, so the country's climate change efforts will have to focus on adaptation measures. Building resilient transport infrastructure systems will significantly reduce hazard exposure and vulnerability to climate change.

13. **Private sector participation.** The Philippine experience with PPP transport projects has been mixed. Among the notable successes was the introduction of annual performance-based maintenance contracts. With regard to construction, financing and operation, the transport sector has not attracted a substantial share of private investment. Since the promulgation of the BOT law of 1991, the total cost of BOT-PPP projects in the Philippines was about \$18 billion, of which only about \$1.6 billion has been allocated to transport projects. Expressways absorbed about \$900 million of this amount.

14. Private sector involvement in maritime ports has been substantial. The biggest common-user ports in the Philippines are in Manila, including the Manila International Container Terminal (MICT), and the South and North Harbors. While these ports are under the purview of the Philippine Port Authority (PPA) and are publicly owned, they are privately operated under long-term concessions. The North Harbor is the largest domestic cargo port in the Philippines, and will be privatized through concessions.

15. Most private ports are catering to specific industrial purposes. Few private ports outside of PPA's control operate commercially and provide the entire range of port services. A notable exception in this regard is the Harbor Center Port Terminal (HCPTI) in Manila. It caters to domestic and foreign traffic, operates a grain handling facility, and competes with PPA's publicly-owned ports in Manila. HCPTI has not been awarded the permit to handle foreign containerized cargo and has therefore not been able to compete with the PPA's third largest port in Manila, the Manila International Container terminal (MICT).

2. Government's Sector Strategy

16. The Philippine Development Plan (PDP), 2017–2022 translates the government's vision 2040 (*AmBisyon Natin 2040*) into strategies, policies, programs, and activities.³ Binding constraints of the PDP, 2017–2022 are the preservation of national peace and security, strategic and accelerated infrastructure development, resiliency, and ecological integrity. The PDP, 2017–2022 rests on the following pillars:

- (i) enhancing the social fabric, involving clean, efficient, and citizen-centered governance; swift and fair administration of justice; and promotion of awareness and value of cultural diversity;
- (ii) reducing inequality by expanding economic opportunities, reducing the vulnerability of the poor, and accelerating the development of human capital; and
- (iii) increasing the potential for growth by promoting technology adoption, encouraging innovation, and maximizing the gains from the demographic dividend or slowing population growth.

³ Government of the Philippines, National Economic and Development Authority. 2017. *AmBisyon Natin 2040*. <http://pdp.neda.gov.ph/wp-content/uploads/2017/01/PDP-2017-2022-462017.pdf>. Executive Order No. 5 signed by the President on 11 October 2016 supports the adoption of *AmBisyon Natin 2040* to guide development planning.

17. To support a higher growth trajectory and improve quality of life in urban and rural communities, infrastructure development remains a top priority of the PDP, giving rise to the most ambitious infrastructure development program in Philippine history.⁴ While spending on infrastructure will be intensified, the PDP emphasizes the need to address persistent issues and challenges hampering implementation. To achieve the intended strategic results, asset preservation needs to be ensured; research and development of cost-effective technologies will be intensified; synergies between government planning, programming, and budgeting will be enhanced; and policies will be introduced, including integrated provincial plans and regulatory reforms.

18. The National Transport Policy was approved in June 2017. The policy focuses on (i) resource generation and allocation; (ii) 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.

19. The problem tree analysis shows the relevance of the government strategy to the key sector issues. Guiding principles of the PDP's strategy for the transport sector are to encourage private sector participation in the financing, construction, operation, and maintenance of projects. In addition, the policy and regulatory framework for the sector will be strengthened by creating independent regulatory bodies for railways, airports, and seaports. The program for the transport sector covers all modes of transport. The PDP places special emphasis on the following key area:

- (i) Road projects under the Mindanao Logistics Infrastructure Network, which will be pursued along with the project. The capacity of the BIMP-EAGA road network will also be increased.
- (ii) Road-based transport, which will be improved by addressing traffic congestion through engineering, enforcement, and education. In the long run, the road network will be upgraded and expanded to the highest quality standards.
- (iii) Movement of people and goods by high-quality public transport modes, which will be prioritized over private vehicles. The shift from private to public transport, with emphasis on mass transport, will be encouraged by ensuring the accessibility, availability, affordability, adequacy, convenience, and reliability of public transport systems.
- (iv) Road-based transport initiatives—such as travel demand management, public transport reform and fleet modernization, route rationalization, environmentally sustainable urban transport systems, and bus rapid transit—which will be implemented, ensuring interconnectivity among different modes and land uses.
- (v) Port facilities, which will be improved to ensure that interisland shipping, including a stronger RORO network, remains a viable option for transporting people and cargo. A more direct connection between Manila and Batangas ports will be explored, and co-loading (modified cabotage) will be implemented to encourage shipment between domestic ports.

3. ADB's Sector Support Program and Experience

20. For the Philippine transport sector the country partnership strategy (CPS), 2011–2016 of the Asian Development Bank (ADB) focused on improved accessibility, sustainability, and climate

⁴ Philippine Information Agency. 2016. *BUILD, BUILD, BUILD: Duterte to launch biggest infrastructure program in PH*. <http://www.bignewsnetwork.com/news/249106827/build-build-build--duterte-to-launch-biggest-infrastructure-program-in-ph>.

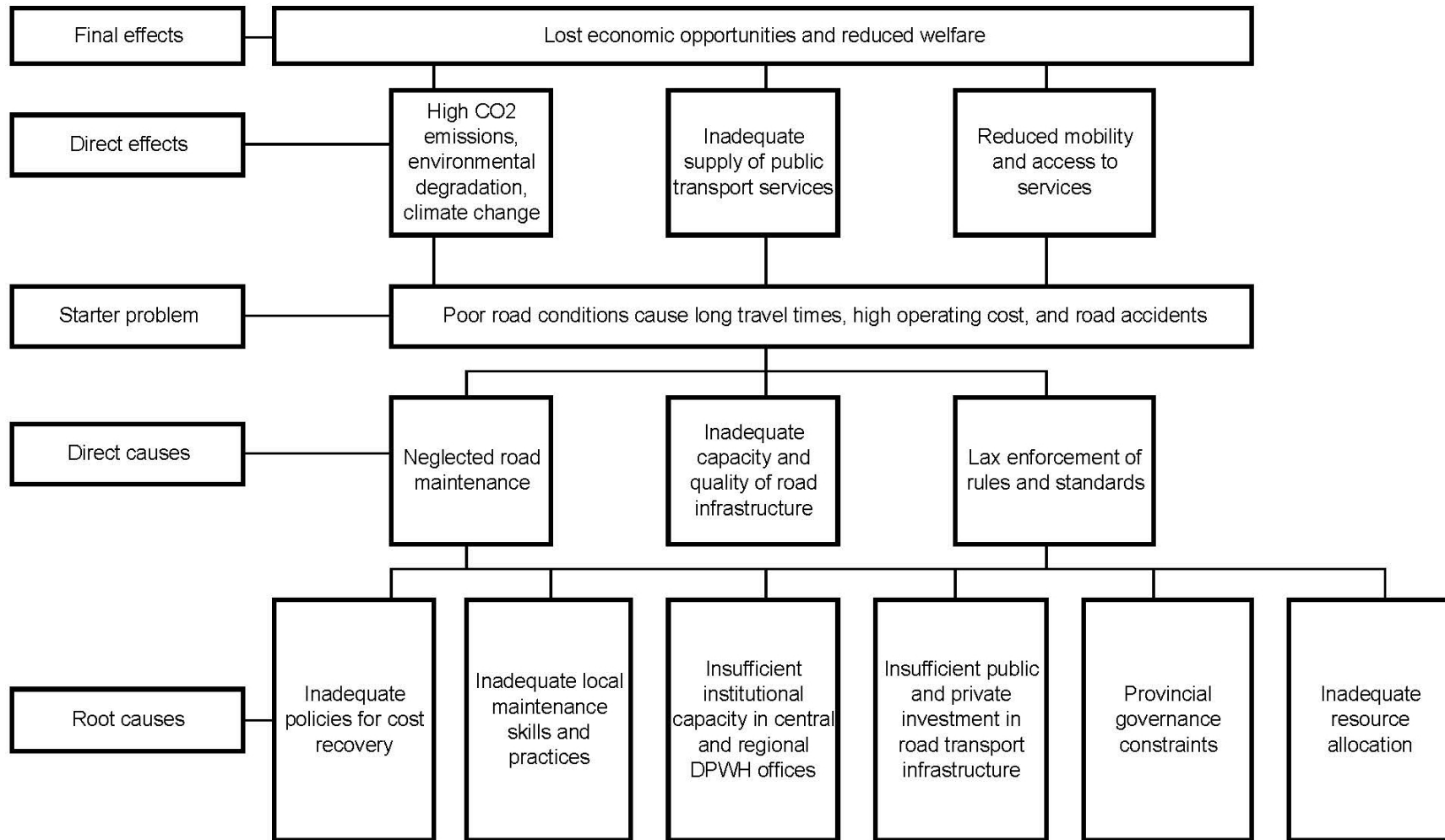
resiliency of transport infrastructure and services. It envisages the development and upgrading of nonurban roads, development of urban public transport, and national and regional connectivity.⁵ The country operations business plan for 2017–2019 contains three transport sector projects, located in Mindanao: (i) Improving Growth Corridors in Mindanao Road Sector Project; (ii) Davao Public Transport Modernization Project; and (iii) Improving National Connectivity for Mindanao Development Project.⁶ Expected project outcomes are improved accessibility of transport infrastructure and services. Other transport projects include Infrastructure Preparation and Innovation Facility, and Metro Manila BRT-EDSA project. A new CPS and country operations business plan are being prepared for approval in 2017. The new CPS will be aligned with the government's PDP, 2017–2022 and the priorities of the new administration.

21. ADB's operations in the Philippines have experienced various problems, including implementation delays, problems with land acquisition and resettlement, and insufficient counterpart finance. The underlying causes are budget constraints, weak project management capacity, performance of contractors, and noncompliance with project requirements. Procurement related issues include inaccurate bid invitation and incomplete bid evaluation reports. The government has made efforts to simplify the procurement procedures for civil works by using advanced information technology. The Department of Public Works and Highways has been striving to embrace more fully information technology in its procurement process and its overall project management activities. As the government plans to increase public spending on infrastructure (para. 17), it will have to direct further reforms toward streamlining its project management systems to enhance absorptive capacity and timely project delivery.

⁵ ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila.

⁶ ADB. 2016. *Country Operations Business Plan: Philippines, 2017–2019*. Manila.

Problem Tree for the Road Transport Sector



CO2 = carbon dioxide, DPWH = Department of Public Works and Highways.
Source: Asian Development Bank.