Financing Infrastructure Projects in the Philippines

Revised Draft

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Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
BBB	Build-Build-Build
BIR	Bureau of Internal Revenue
BCDA	Bases Conversion & Development Authority
BOC	Bureau of Customs
BOT	Build Operate and Transfer
BRT	Bus Rapid Transit
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of Treasury
COBP	Country Operations Business Plan
CPS	Country Partnership Strategy
CRUISE	Connecting Rural Urban Intermodal Systems Efficiently
CTRP	Comprehensive Tax Reform Program
DBCC	Development Budget Coordination Committee
DBM	Department of Budget & Management
DBP	Development Bank of the Philippines
DED	Detailed Engineering Design
DEPED	Department of Education
DILG	Department of Interior & Local Government
DOF	Department of Finance
DOH	Department of Health
DOTR	Department of Transport
DPWH	Department of Public Works & Highways
DRM	Disaster Risk Management
FUSED	Financing Utilities for Sustainable Energy Development
FS	Feasibility Study
GCG	Governance Commission for GOCCs
GDP	Gross Domestic Product
GMRA	Global Master Repurchase Agreement
GOCC	Government Owned and Controlled Corporations
GSIS	Government Service Insurance System
H2OPE	Water Program for Everyone
ICC	NEDA Investment Coordinating Committee
ICC-CC	NEDA Investment Coordinating Committee – Cabinet Committee
IFC	International Finance Corporation
INFRACOM	NEDA Board Committee on Infrastructure
IPIF	Infrastructure Preparation and Innovation Facility
IRA	Internal Revenue Allotment
IRR	Implementing Rules and Regulations
JICA	Japan International Cooperation Agency
JV	Joint Venture
KEXIM	Export-Import Bank of Korea

KOICA	Korea International Cooperation Agency
LBP	Land Bank of the Philippines
LGC	Local Government Code
LGU	Local Government Unit
LGUGC	LGU Guarantee Corporation
LIP	LGU Investment Program
LRT	Light Rail Transit
MBUSSP	Mindanao Basic Urban Services Sector Project
MDFP	Municipal Development Fund Project
MDFO	Municipal Development Fund Office
MDG	Millennium Development Goal
MLIN	Mindanao Logistics Infrastructure Network
MRT	Metro Rail Transit
NEDA	National Economic & Development Authority
NEP	National Expenditure Program
NRNS	National Road Network Services
ODA	Official Development Assistance
PAP	Programs, Activities, and Projects
PDEX	Philippine Dealing & Exchange Corporation
PDMF	Project Development & Monitoring Facility
PDP	Philippine Development Plan
PFMI	Project Facilitation, Monitoring and Innovation
PINAI	Philippine Investment Alliance for Infrastructure
PSE	Philippine Stock Exchange
PTACF	Project Technical and Assistance Contingency Fund
PWRF	Philippine Water Revolving Fund
RA	Republic Act
ROW	Right-of-Way
SBL	Single Borrowers' Limit
SEC	Securities & Exchange Commission
SGF	Second Generation Fund
SUC	State Universities & Colleges
TA	Technical Assistance
TRIP	Three-Year Rolling Infrastructure Program
USAID	United States Agency for International Development
USP	Unsolicited Proposal
VAT	Value-Added Tax
WATER	Water for Every Resident
WBG	World Bank Group

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Executive Summary

One of the promises of the Duterte Administration is to bring about the "Golden Age of Infrastructure." The Department of Budget & Management (DBM) hopes to achieve this by investing as much as 7% of the country's GDP annually on infrastructure. Government has identified 75 flagships, high-impact infrastructure projects, with a focus on building: (1) more railways, urban mass transport, airports & seaports; (2) more bridges & roads; and (3) new & better cities.

The identification of these projects has been made possible through government's "Three-Year Rolling Infrastructure Plan (TRIP)", which consolidates and prioritizes among the proposed infrastructure projects identified by various National Government line agencies (4,895 in total), which are readily implementable and in accordance with the country's Philippine Development Plan (PDP). These infrastructure projects will be financed, through 3 main sources: (1) government's budget; (2) Official Development Assistance (ODA); and (3) private sector participation.

The primary source of infrastructure financing in the Philippines remains to be the public budget. For the year 2017, the administration proposed a total infrastructure Budget of $15.6 billion, which constitutes about 5.4% of the country's GDP. However, to achieve Government's target of raising PhP 1.1 trillion ($20 billion) over the next 6 years (until 2022), the Comprehensive Tax Reform Program (CTRP) needs to be passed into law and implemented; failure to do so would significantly cripple Government's "Build-Build-Build Program."

At the municipal/LGU-level, no less than 20% of its Internal Revenue Allotment (IRA) is, by law, required to be allocated for development projects. This is further augmented by financing windows made available by the Municipal Development Fund Office (MDFO), such as the *Project Technical Assistance and Contingency Fund (PTACF),* which provides assistance to LGUs in financing the preparation and submission of feasibility studies and detailed engineering designs (DEDs) for a proposed infrastructure project.

Government banking institutions such as the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) also extend loans to LGUs under various financing programs for infrastructure projects covering the following sectors: transport and logistics, power generation and distribution, water supply, social infrastructure, government offices, and tourism facilities, among others.

ODA runs second among the identified sources for infrastructure financing in the country. As of December 2015, the total ODA amounted to $15.71 billion, consisting of 73 loans ($12.66 billion) and 460 grants ($3.05 billion). Infrastructure accounts for 47.63% ($6.03 billion) of the total ODA loan amount, and 17.72% ($540.75 million) of the total ODA grant amount. At the same time, it is worth noting that the country has recently experienced a surge of Chinese ODA – from virtually nothing in 2015, to a combined ODA portfolio of $11.7 billion in 2017, making it the largest ODA source for infrastructure projects as of March 2017. This amount will be invested into 18 of the 75 identified flagship infrastructure projects (consisting almost one-fourth of the total list).

A third source of financing would be private sector participation. One primary avenue is through the Government's Public-Private Partnerships (PPP) Program, governed by the Philippine Build-Operate-and-Transfer Law, Republic Act No. 6957 as amended by R.A. 7718. Of the six (6) PPP projects approved, which were in various stages of tender at the start of the Duterte Administration, four have already been restructured into ODA projects, while the tender process for the remaining two have been suspended indefinitely. This, along with the fact that of the 75 identified flagship projects, only two have been planned for PPP implementation, show a seeming shift away from PPPs towards ODA financing of infrastructure projects. While this shift has, to some extent, revived the debate on PPP vs. ODA, the government's focus remains to be the maximization of the low cost and long tenor associated with ODA financing.

Government has also introduced the concept of "hybrid PPPs", where the cost of constructing the facility comes out cheaper by implementing the same through ODA, while its operation and maintenance is undertaken efficiently by the private sector. A proposed alternative is for government to avail of ODA to finance government's liabilities in the PPP contract (i.e. subsidies, availability payments), while the design, construction, operation & maintenance are all undertaken through PPP by the private proponent.

At the same time, due to the pronouncements of Government that it welcomes unsolicited proposals (USPs) from the private sector, an increase in submission of such proposals has been experienced since the latter half of 2016. This has prompted the PPP Center to supplement the BOT Law and its implementing rules and regulations (IRR) with various detailed guidelines to further institutionalize the process for evaluating, accepting, and conducting competitive Swiss Challenge tenders for USPs.

Another mode by which private sector can participate in infrastructure development is through joint venture arrangements. The NEDA Joint Venture (JV) Guidelines expressly excludes LGUs from its coverage, leaving the crafting of a framework for LGU-level JV projects to local governments themselves. Given this, majority of the JV projects that have progressed to actual implementation, have been initiated by the private sector in partnership with LGUs in the water and government offices sectors. Due to this lack of an institutionalized framework for evaluating, approving and tendering JV projects, LGUs are given free rein to craft the rules themselves. While this indeed often results to swift implementation of infrastructure projects, it is likewise prone to undermine transparency and competition.

For LGU-level projects that fall under the purview of the BOT Law, there remains a lack of project preparation support to assist LGUs in packaging such projects. The PPP Center has extended capacity-building activities to LGUs, provide limited manpower support in the evaluation of projects, and/or refer such projects to support programs being offered by multilateral partners and donors or partly-subsidized loans extended by Government Financial Institutions. However, given the sheer amount of potential PPP projects from LGUs, financing support offered by various institutions are still few and far between.

Lastly, the Philippine capital market may also be a significant source of financing for infrastructure projects. Recently, the Philippine Stock Exchange (PSE) issued the new listing and disclosure rules applicable to engaged in PPP projects, thereby allowing PPP

Companies to tap equity via the capital market to invest in and finance big-ticket PPP projects. On the debt side, the Securities and Exchange Commission (SEC), with assistance from the PPP Center, engaging investors, issuers and other market players, also plans to come up with rules to allow companies with ongoing PPP contracts to issue and list "project bonds" with the Philippine Dealing & Exchange Corporation (PDEx), to broaden the investor base, and better match the financing of long-term infrastructure assets with institutional investors, thereby allowing banks that financed the construction to recycle their funds to be invested into new projects. In addition, the possibility of infrastructure notes/bonds being issued by government is being contemplated, to finance projects that require government financial support.

The Government Service Insurance System (GSIS) has also expressed the intention to relaunch the Philippine Investment Alliance for Infrastructure (PINAI), a $625 million private equity fund that previously financed infrastructure projects particularly in the water and waste, roads, rail, mass transit, ports and airports, power generation, transmission and renewable energy, gas distribution, and telecommunications sector.

At the municipal level, there exists the LGU Guarantee Corporation (LGUGC), which has the primary goal of facilitating access of creditworthy LGUs with financially viable infrastructure or development projects to the private capital market by providing guarantees for bank loans or bond flotations. From its commencement of operations in 1998, it has since extended its guarantee services to entities that provide products and services that promote countryside development and national economic growth (i.e. water districts, electric cooperatives, etc).

In summary, there are several notable trends in infrastructure financing in the Philippines, some of which include: (1) an ambitious infrastructure investment program anchored heavily on the success of government's proposed tax reform program; (2) an apparent shift to ODA financing and the implementation of "hybrid PPPs"; and (3) the influx of unsolicited proposals and joint venture arrangements.

However, there is no quick formula to ensure the efficient utilization of these resources. ***The following are some key challenges in financing infrastructure projects:*** (1) underspending caused by weak agency planning, poor procurement capacities, and lack of interagency coordination in the management and monitoring of infrastructure projects; (2) non-utilization of PPP as an alternative financing mode for municipal-level infrastructure projects; (3) lack of absorptive capacity of line agencies in the availment and disbursement of ODA funds for infrastructure projects; and (4) insufficient technical capability of line agencies and municipal governments to evaluate unsolicited proposals, among others.

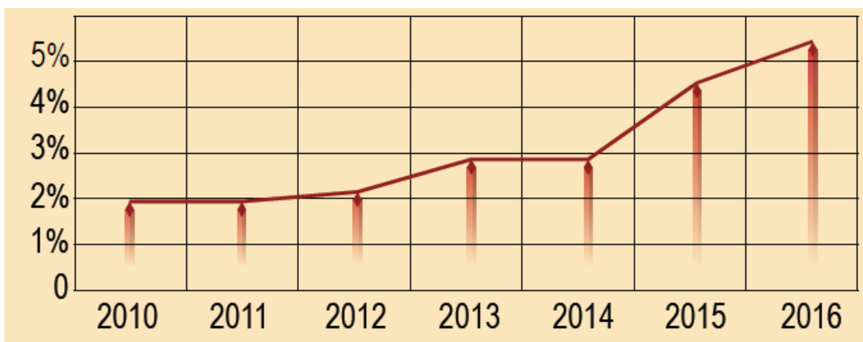
Moving forward, opportunities to either further enhance existing financing mechanisms or complement them with new schemes, include: (1) reconsideration of PPP Center's "hybrid financing" PPP model as an alternative for doing hybrid PPPs; (2) the potential role of capital markets as avenues for private sector financing of infrastructure projects; provision of project preparation and transaction advisory support to: (a) LGUs in packaging solicited PPP projects (including JVs), and (b) LGUs and line agencies evaluating, processing and tendering USPs (including JVs).

I. Introduction: The 2017-2022 Philippine Infrastructure Program

Golden Age of Infrastructure

During the presentation of the 10-point socioeconomic agenda of the Duterte Administration, the economic managers promised that "Dutertenomics" will usher a "golden age of infrastructure" in the country.[1] This comes amidst the assessment that the Philippines lags behind its five ASEAN neighbors (i.e. Indonesia, Malaysia, Singapore and Thailand) in terms of foreign direct investment net inflows,[2] as well as overall infrastructure quality.[3] This subpar performance has been attributed to the weak institutional capacity of line agencies, as indicated by the lack of a well-developed pipeline of projects, deficiencies in project design, frequent delays and failures in procurement, and poor coordination during project implementation. Hence, notwithstanding an increase in the budget allotment for infrastructure from 1.8% of GDP in 2010 to 5.2% of GDP in 2016, the Philippine government nonetheless spent only an average of 2.9% of GDP from the period 2010-2016.

Figure 1: Infrastructure Spending in the Philippines as a Percentage of GDP



Source: Department of Budget & Management (2017)

The National Economic & Development Authority (NEDA), citing gaps in infrastructure spending vis-à-vis the allotted budget particularly during the year 2012 and 2014, indicated that delays in the implementation of projects under the Public-Private Partnership (PPP) Program of government is among the contributory factors.

According to Budget Secretary Benjamin Diokno, a total of PhP 9 trillion ($180 billion) from 2017 to 2022 is needed in order to plug the infrastructure gap.[4] To address this gap,

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[1] De Vera, Ben, "'Dutertenomics' seen to usher in 'golden age of infrastructure'", *Philippine Daily Inquirer,* April 16, 2017, Business/Economy Section.

[2] Association of South East Asian Nations (2015). Foreign direct investment net inflows, intra and extra ASEAN. Retrieved from: *http://asean.org/storage/2015/09/Table-252.pdf as cited in* Philippine Department of Budget & Management (DBM), Knowledge Management and Fiscal Transparency Service. *Technical Notes on the 2017 Proposed National Budget: A Budget for Real Change,* 2017 (p.25)

[3] National Economic & Development Authority (NEDA). *National Philippine Development Plan 2017-2022*, 2017 (p.282), Pasig City, Philippines: National Economic & Development Authority.

[4] Lopez, Melissa, "Growth hinges on infrastructure plan", *Business World,* January 5, 2017, Corporate News Section.

the Government intends to increase infrastructure spending to 5.4% of GDP in 2017, with the goal of raising the same to as much as 7% of GDP within the next 6 years (until 2022). Thus, from the PhP 3.35 trillion ($67 billion) national budget for 2017, PhP 860.7 billion ($17.2 billion) has been allotted for infrastructure spending (which is a 13.8% increase from the previous year's infrastructure budget allocation of PhP 756.4 billion / $15.1 billion).

"Build-Build-Build"

Backed by a robust infrastructure budget allocation, the Philippine Government has now put in place an aggressive infrastructure program – dubbed as the "Build-Build-Build" (BBB) Program, that would put the said allocation to good use. The program identifies the implementation of high-impact infrastructure projects – helmed either by the Department of Transport (DOTr), the Department of Public Works & Highways (DPWH), or the Philippine Bases Conversion & Development Authority (BCDA) – following the BBB program's three-pronged objective of building: (1) more railways, urban mass transport, airports & seaports, (2) more bridges & roads, and (3) new & better cities.[5]

In support of this, the NEDA Board Committee on Infrastructure (INFRACOM) has identified 75 high-impact Flagship Infrastructure Projects. Of these, 18 projects have already obtained final approval by the highest interagency body of government (i.e. the NEDA Board, chaired by the President himself), 2 are still being deliberated, and 55 are still to be submitted for consideration. It is worth noting that half of the approved projects will be funded through ODA (worth a total of $5.94 billion in terms of project cost), while the other half will be funded by government's own budget ($3.3 billion).[6]

In selecting these projects, government has applied the following criteria, among others: (1) consistency with regional and national development plans; (2) implementability (i.e. may be accomplished within the current administration's tenure); (3) high economic impact (or at least hurdles NEDA's 10% minimum social discount rate); and (4) "big-ticket" (which, as it would appear, must at least be PhP 500 million or $10 million).[7]

The Three-Year Rolling Infrastructure Plan (TRIP)

The infrastructure program of government however, goes even deeper than the 75 flagship projects. Through the Three-Year Rolling Infrastructure Plan (TRIP), the Philippine Government has listed the financing of 4,895 infrastructure projects across various areas in the country amounting to PhP 3.6 trillion ($72 billion), to be rolled-out within the next three years (i.e. by 2020). Of the 4,895 projects, 3,334 will be funded through the national government's budget, 70 through various Official Development Assistance (ODA) sources, 33 projects to be rolled-out under the PPP program, 1,341 through other modes (such as the special shares of local government units in the proceeds of national taxes, and

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[5] Build, Build, Build Presentation, November 3, 2016, http://build.gov.ph/SFTFiles/Documents/BuildBuildBuild%20Presentation_DOTr%20DPWH%20BCDA_FINAL%20PDF.pdf (accessed June 2, 2017)

[6] National Economic & Development Authority (NEDA). *Flagship Infrastructure Projects,* June 27, 2017, http://www.neda.gov.ph/infrastructure-flagship-projects/?platform=hootsuite

[7] Based from an interview of Director Roderick Planta (Infrastructure Staff, NEDA) conducted last 22 August 2017, 3rd Floor, NEDA Main Office, 12 Jose Maria Escriva Drive, Ortigas Center, Pasig City. Metro Manila, Philippines.

other financing windows such as the MDFO); while the funding source for the remaining 117 have yet to be determined.[8]

The TRIP itself is an essential ingredient in any discussion on infrastructure financing in the Philippines, as it is the primary mechanism utilized by government in establishing its pipeline of infrastructure projects as well as identify the possible sources of financing for these projects. Under the TRIP Guidelines, line agencies are mandated to submit their respective TRIPs to NEDA for consideration and consolidation; the consolidated TRIP will then be subjected to approval/confirmation by the NEDA Board Infrastructure Committee (a high-level interagency committee chaired by the NEDA Director General), and thereafter submitted to the DBM for the determination of program spending levels (subject to approval of the Development Budget Coordination Committee (DBCC)) and agency budget ceilings. Once so considered, the screened projects will become part of the list of infrastructure programs/activities/projects (PAPs) to be included by the DBM in the Government's National Expenditure Program (NEP).

In so doing, the mechanism seeks to ensure that annual budget ceilings of concerned line agencies are optimized and utilized in financing priority infrastructure programs/activities/projects (PAPs) that are: (1) in line with the Philippine Development Plan (PDP) and (2) are readily implementable so as to minimize under spending, expenditure realignments or cost overruns.[9]

[8] Philippine National Economic & Development Authority (NEDA). *PHP 15.7.4 B INFRA PROJECTS TO ROLL OUT IN POOREST PH REGION*, May 2, 2017, http://www.neda.gov.ph/2017/05/02/php157-4-b-infra-projects-to-roll-out-in-poorest-ph-regions/

[9] As set forth in DBM-NEDA Joint Circular No. 2016-01, *Policy Guidelines & Procedures for the Formulation of the Three-Year Rolling Infrastructure Program (TRIP),* dated January 29, 2016.

II. Public Spending on Infrastructure

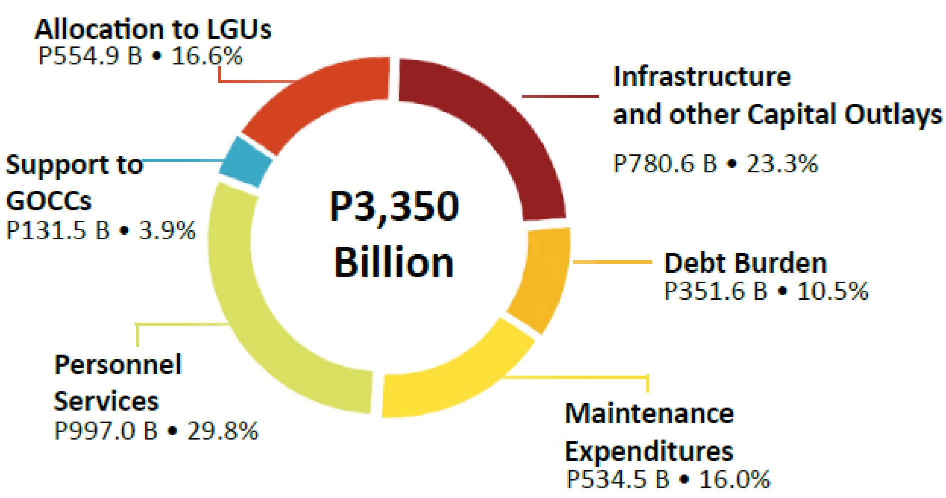
According to DBM, sound macroeconomic fundamentals, robust remittances by overseas Filipino workers, and strong domestic consumer and investment activities have enabled the Philippine economy to become one of the fastest growing economies among emerging markets over the past few years. Credit is given mainly to the implementation of government's (1) fiscal consolidation strategy[10] and (2) market-responsive liability management strategy,[11] to enforce fiscal discipline and reduce the debt burden. As a result, the country's PhP 314 billion ($6.28 billion) fiscal deficit in 2010, which was equivalent to 3.5% of its GDP, was reduced by more than 50% to PhP 121.7 billion ($2.4 billion) in 2015. The outstanding debt declined to 44.7% of GDP by 2015, from a previous 52.4% in 2010.

At the same time however, this also led to lower economic yearly growth rates, primarily due to underspending by various line agencies.

A. The Infrastructure Budget

For the Fiscal Year 2017, the Duterte administration has proposed a total Budget of PhP 3.35 trillion ($67 billion) – 11.6% higher than the PhP 3.0018 trillion ($60.036 billion) budget allocated for the previous year, and is equivalent to 21% of the country's GDP. Of this, roughly 25% has been allotted for infrastructure and other capital outlays.

Figure 2: 2017 Philippine Budget Allocation



Source: Department of Budget & Management (2017)

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[10] This involved: (1) limiting the budget deficit to no more than 2% of GDP, and (2) the implementation of revenue administration reforms, such as pursuing an aggressive campaign to plug tax leakages, weeding out corruption in the customs bureau, and increasing excise tax on alcohol and tobacco products.

[11] This entailed: (1) extending debt maturity to enable the funding of critical and high-impact programs, (2) gearing the borrowing mix towards domestic lenders to lessen vulnerability to foreign exchange risks, and (3) conducted liability management exercises through redenomination of foreign currencies to local as well as buybacks to increase peso-denominated portfolio and reduce foreign currency debt.

Dissecting the Infrastructure Budget

Consistent with the government's target to increase infrastructure spending to more than 5% of the country's GDP, the Department of Public Works and Highways (DPWH) has been allocated PhP 458.6 billion ($9.17 billion), the greater bulk of which will be utilized to improve road transport not only in major urban cities (i.e. Metro Manila and Metro Cebu), but as well as in other part of the country such as Mindanao through the Mindanao Logistics Infrastructure Network (MLIN).

The Department of Transportation (DOTr) on the other hand, has been allocated PhP 55.5 billion ($1.11 billion) to help address congestion and other transport-related issues, especially in the metropolis. Other line agencies such as the Department of Health (DOH) and the Department of Education (DepEd) have also experienced a marked increase in their respective budget allocations from the previous year, owing to the planned construction of new health facilities (particularly drug treatment and rehabilitation centers) and much needed school buildings and facilities for the K to 12 program.

Table 1: Infrastructure Outlays, 2015 to 2017

Particulars	2015	2016	2017
Infrastructure Outlays	575.67	756.44	860.65
Percent of GDP	4.3%	5.1%	5.4%
Growth Rate	66.3%	31.4%	13.8%
of which:			
Road Networks	223.48	298.08	328.18
Flood Control Systems	48.33	69.01	75.82
Seaport Systems	2.65	1.81	2.67
Airport Systems	12.25	9.58	5.71
School Buildings	72.47	91.29	124.62
Hospitals and Health Centers	9.45	19.21	10.01
Irrigation Systems	26.53	23.59	26.03
Other Infrastructure Assets	131.37	170.42	224.53

Source: Department of Budget & Management (2017)

These allocations are further disaggregated per sector in the following sections.

Highways, Roads, & Bridges

A budget of PhP 199.2 billion ($3.98 billion) has been allocated for road transportation in 2017. The National Road Network Services (NRNS) of the Department of Public Works and Highways (DPWH) will receive the bulk of this total, P194.7 billion ($3.89 billion), which is 19.8% higher than the 2016 budget. A sizable chunk of the NRNS budget will fund the Mindanao Logistics Infrastructure Network (MLIN) – with an allocation of PhP 31.5 billion ($630 million), 61% higher than the 2016 budget. The MLIN aims to address the high cost of transport and the inadequate infrastructure logistics in Mindanao by building 839 km of roads and bridges to improve linkage roads to key ports and other production areas. PhP 11.8 billion ($236 million) will be focused on continuing

to provide access roads to tourist destinations, while the rest of the Department's remaining budget will be used to maintain 999.2 km of national roads, construct an additional 2,882.8 km of national roads and 25,869.8 lineal meters (lm) of bridges, as well as complete 585.9 km of paved roads.

Table 2: DPWH Allocation Regional Breakdown, 2015-2017 (in million pesos)

	2015 GAA		2016 GAA		2017 NEP	
NCR	19,795	8.83%	23,634	7.40%	23,384	6.83%
Northern Luzon	52,461	23.39%	73,138	22.90%	67,207	19.63%
Southern Luzon	46,049	20.53%	62,532	19.58%	60,081	17.55%
Visayas	40,273	17.96%	59,130	18.51%	58,551	17.10%
Mindanao	65,701	29.29%	100,989	31.62%	133,127	38.89%
SUB-TOTAL:	224,279	100.00%	319,421	100.00%	342,351	100.00%
Inter-regional/Nationwide	50,144		45,362		79,162	
TOTAL	**274,422,399**		**364,782,681**		**421,512,776**	

Source: Department of Public Works & Highways; Department of Budget & Management (2017)

In addition, PhP 5.41 billion ($108.2 million) has been allocated for the construction, rehabilitation, and repair of farm-to-market roads, and PhP 1.4 billion ($28 million) was allocated to construct 35.00 km of for farm-to-mill roads.

Bus Systems & Terminals

The construction, rehabilitation and maintenance of roads and highways will be complemented by allocations for the construction of bus systems and terminals to alleviate traffic congestion in various urban centers of the country, such as Metro Manila and Metro Cebu. Among these projects include: the Integrated Transport Systems Project ($8.66 million), the Cebu Bus Rapid Transit (BRT) Project ($20 million), the Road Transportation IT Project ($50 million), and the Manila BRT Lines 1 ($18.7 million) and 2 ($140,000).[12]

Rail Infrastructure

The commitment of the current administration to develop the rail transport system is reflected in the doubling of its budget allocation for the Fiscal Year 2017. The MRT 3 line has been given a budget of PhP 4.8 billion ($96 million) for 2017, which will enable it to maintain affordable fare prices for passengers. A separate allocation of PhP 1.0 billion ($20 million) for the MRT 3 Rehabilitation and Capacity Expansion Project will ensure the efficient operation of the MRT 3, which has been plagued by such problems as technical malfunctions and capacity issues over the years. To accelerate the extension of the railway systems, the LRT Line 2 West Extension (from the Recto Station to the Pier 4 Station) and the LRT Line 1 Cavite Extension (from the Baclaran Station to the Bacoor

[12] Figures indicated refer to budget allocated from government's budget, and not necessarily reflective of total project cost.

Station) are allocated PhP 100 million ($2 million) and PhP 3.8 billion ($76 million), respectively.

The North-South Commuter Rail Project Phase I (spanning 37 km from Tutuban, Manila to Malolos, Bulacan) will receive PhP 2.5 billion ($50 million) in 2017, in order to speed up the construction of the said rail system (Phase 1 is targeted to be completed by 2020). Lastly, the North-South Rail Project Phase II (spanning 653 km from Tutuban, Manila to Matnog, Sorsogon) will receive PhP 9.4 billion ($188 million) for the first year, to finance right-of-way acquisitions and resettlement activities. Phase 2 of the project is the Public-Private Partnership (PPP) component, with an estimated cost of PhP 214 billion.

Table 3: DOTr Allocation of Infrastructure Outlays, 2015-2017 (in million pesos)

	2015 GAA		2016 GAA		2017 NEP	
NCR	15,301	38.83%	10,349	35.02%	8,666	22.02%
Northern Luzon Region 1 CAR Region 2 Region 3	1,161	2.95%	2,744	9.28%	208	0.53%
Southern Luzon Region 4A Region 4B Region 5	9,293	23.58%	7,381	24.98%	7,970	20.25%
Visayas	4,969	12.61%	4,063	13.75%	4,445	11.30%
Mindanao	3,962	10.06%	2,080	7.04%	6401	1.63%
SUB-TOTAL:	34,686	88.03%	26,618	90.07%	21,930	55.72%
Central Office	18	0.05%	18	0.06%	5,589	14.20%
Inter-regional Nationwide	4,700	11.93%	2,916	9.87%	11,839	30.08%
TOTAL	**39,404**	**100.00%**	**29,551**	**100.00%**	**39,357**	**100.00%**

Source: Department of Transportation; Department of Budget & Management (2017)

Air & Maritime Transport

Air transport projects are allocated PhP 5.6 billion ($112 million) for 2017. Provisions are also made to sustain major ongoing airport construction such as for the New Bohol (Panglao) Airport Development Project, with an allotment of $44 million, slightly higher than the 2016 allocation of $42 million. Likewise, the Cotabato Airport and the Bicol International Airport have been allocated $6.82 million and $13.5 million, respectively. The New Communication and Navigation Airport Development Project will have an allocation of $4 million in 2017. Budget for equipment to be situated in airports in the Visayas and Mindanao has also been provided to the tune of $5.6 million. Maritime transport has been allocated a total of PhP 4 billion ($80 million), which is 76.9% higher than in 2016. This includes the rehabilitation, improvement and construction of ports, lighthouses and harbors for a total amount of PhP 1.1 billion ($22 million).

Social Infrastructure

The Department of Education has been allocated a budget of PhP 567.6 billion ($11.35 billion) for the Fiscal Year 2017, which is 30% higher than 2016. Of this amount, PhP 118.8 billion ($2.376 billion) will be utilized for basic educational facilities, such as the construction of 37,492 classrooms and the provision of 2,942,172 seats for the K to 12

program. At the same time, PhP 9 billion ($180 million) will be used to fund the modernization of buildings and facilities of State Universities and Colleges (SUCs). As regards health facilities, the Health Facilities Enhancement Program is given PhP 21.9 billion ($438 million) for the construction, rehabilitation and modernization of publicly-owned hospitals and drug abuse treatment facilities. Additional Barangay Health Stations will also be constructed, in addition to the repair and upgrade of existing ones.

Disaster Risk Mitigation

The DPWH is expected to allot PhP 69.8 billion ($1.4 billion) for flood control and management for 2017, higher by 28% from the previous year. Of this total, PhP 65.7 billion ($1.314 billion) will be used for the construction and maintenance of flood mitigation structures and drainage systems throughout the regions. The remainder will be used to build and rehabilitate flood mitigation facilities along major river basis and principal rivers. PhP 26.3 billion ($526 million) has been allocated for the National Disaster Risk Reduction and Management Program, or otherwise known as the Calamity Fund. This reflects an increase over the previous PhP 19 billion ($380 million) allocation in 2016. The Calamity Fund will be utilized for disaster relief, recovery, and rehabilitation services to communities affected by natural and man-made calamities, including financing pre-disaster measures/trainings and reconstruction of permanent structures.

B. Infrastructure Spending: Challenges and Initiatives

According to DBM, the main culprits for underspending based on a study of the 10 largest underspending departments are: (1) weak agency planning, (2) poor procurement capacities as indicated by bid delays and bid failures experienced; and (3) poor operational planning as indicated by a lack of coordination among line agencies and issues with right-of-way (ROW) clearances. In addition, it has also been noted that among the prominent causes of bid delays and bid failures is the incomplete/hurried preparation of feasibility studies, which often leads to assumed or erroneous economic, financial, social, and/or environmental assessments.[13] This creates a snowball effect, and ultimately results in the failure of the project to attract bidders, or in delays for purposes of correcting an erroneous assumption or assessment in the study or further augmenting an incomplete one.

In its effort to cut down delays and ensure the successful implementation of infrastructure projects, NEDA, apart from its institution of the TRIP, has already setup[14] a Project Facilitation, Monitoring and Innovation (PFMI) Task Force to closely monitor infrastructure projects, particularly the 75 identified as flagship projects, facilitate the resolution of implementation problems, as well as take-up issues that require high-level decision-making in cabinet meetings.[15] To ensure close coordination among line agencies, the PFMI Task Force, an inter-agency entity that decides on key project issues, is

[13] Taken from the interview of Director Roderick Planta (Infrastructure Staff, NEDA) conducted last 22 August 2017, 3rd Floor, NEDA Main Office, 12 Jose Maria Escriva Drive, Ortigas Center, Pasig City. Metro Manila, Philippines.

[14] Existence of the PFMI was confirmed during the interview of Director Planta of NEDA.

[15] Padin, Mary Grace, "Government lines up big-ticket infra projects", *Philippine Star,* July 7, 2017.

supported by a PFMI secretariat (housed in NEDA) that regularly coordinates with line agencies regarding the status of different projects.

These efforts are further supported by two technical assistance projects launched by ADB: (1) the Strengthening Infrastructure Capacity and Innovation for Inclusive Growth, a $5 million TA that aims to develop a project management and information system that will assist oversight agencies in monitoring the progress of projects, identify bottlenecks and deliver solutions; and (2) the Infrastructure Preparation and Innovation Facility (IPIF), a $100 million TA which will specifically aid DPWH and DOTr in financing the conduct of feasibility studies, design and procurement of its priority infrastructure projects.[16]

Regarding the acquisition of ROW, which is among the perennial stumbling blocks in infrastructure projects, the Government also took initiatives. Under the rules of the previous ROW Law, payment for just compensation is based on the Bureau of Internal Revenue (BIR) zonal valuation of the property; since BIR zonal valuations are rarely updated, it often reflects only the minimum valuation of the property. As such, the owner is likely to turn down the offer, resulting in renegotiations. The negotiation process in acquiring ROW is not time-bound and a line agency may be dragged in a circuitous process of revising its offer and renegotiating with the property owner. In the course of these renegotiations, the line agency encounters various problems – (1) from enterprising property owners who try to increase the value of their land by planting fast-growing cash crops, or (2) from "professional squatters" who, after being paid just compensation, "assign" their supposed "rights" to the land to another who will then immediately occupy the area.[17]

With the ratification of RA No. 10752, or the revised ROW acquisition law, the basis for valuation, as well as the process for the negotiation and acquisition of ROW, has been significantly streamlined. Under Section 5 of the law, the compensation to be offered to the owner for the property to be acquired is an amount equivalent to the sum of: (1) the current market value of the land; (2) the replacement cost of structures and improvements on it, and (3) the current value of planted crops and trees. For purposes of obtaining an accurate valuation, the concerned line agency may engage the services of a government financial institution with adequate experience in property appraisal, or property appraisers accredited by the LBP. Once the offer is made, the owner is given only 30 days from receipt of the offer to decide. If no agreement is reached, or if the 30-day period lapses without any decision from the owner, the line agency is mandated to immediately proceed to expropriation.

[16] Valencia, Czerina, "ADB commits support for Philippines infra program," *Philippine Star,* July 5, 2017.

[17] Rosales, Jose Patrick. 2011. "Addressing Bottlenecks in the Acquisition of Right-of-Way for National Government Infrastructure Projects." *August 22 Discussion Draft of Position Paper submitted to DPWH-IROW.* Commissioned by REID Foundation under the "Economic Growth Hubs" project by USAID.

C. The Comprehensive Tax Reform Program (CTRP)

According to the Finance Department, in order to achieve government's vision of reducing poverty rate from 21.6% to 14% by the year 2022, it will have to raise some PhP 366 billion ($7.32 billion) per year between 2016 and 2022, or a total of PhP 2.2 trillion ($44 billion) over the next six years (including the year 2017):

Table 4: Current and Additional Investment Per Year for Vision 2020

Investment Category	2016	2022 target	Additional over the next 6 years*
Infrastructure	P759 billion	P1.8 trillion	P1.1 trillion
Education and training	P551 billion	P1.3 trillion	P718 billion
Health	P133 billion	P272 billion	P139 billion
Social protection, welfare, and employment	P242 billion	P509 billion	P267 billion
Total**	**P1.7 trillion**	**P3.9 trillion**	**P2.2 trillion**

* Indicative and subject to change
** Total does not add up due to rounding off

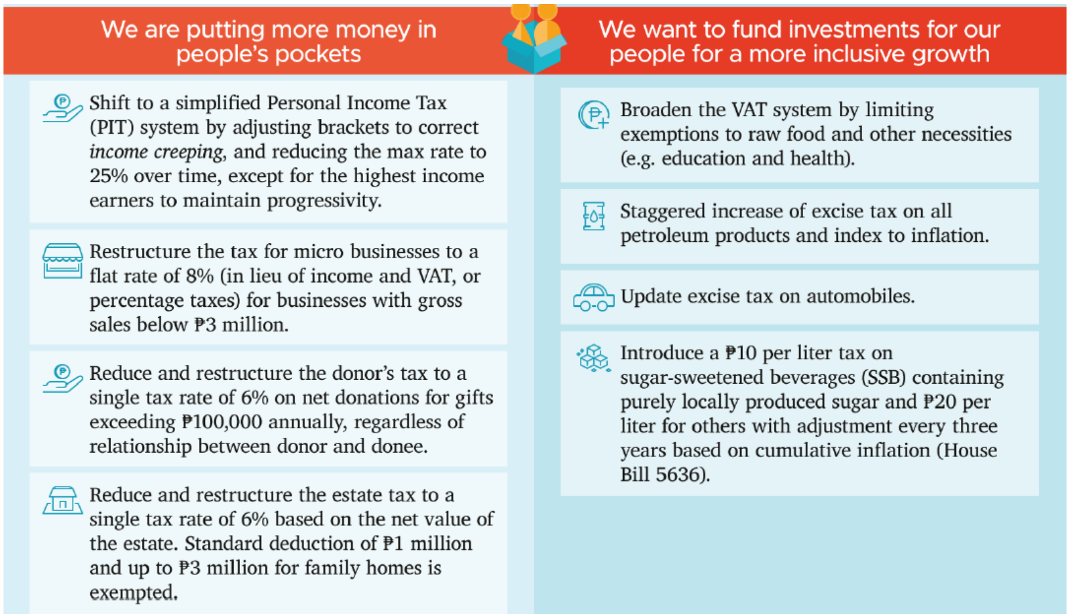
Source: Department of Budget & Management; Department of Finance (2017)

As indicated in the table, infrastructure accounts for the highest investment item. According to the DOF, the PhP 1.7 trillion ($34 billion) investment requirement will be funded through the following:

- Tax administration = PhP 433 billion (26%);
- Customs administration = PhP 208 billion (12%);
- Spending efficiency = PhP 188 billion (11%);
- Borrowing = PhP 478 billion (28%); and
- *Tax policy reform* = *PhP 366 billion (22%).*

As reflected, tax policy reform or the CTRP is a crucial component in meeting the country's investment requirements. Package 1 of the CTRP intends to put more money in people's pockets while funding investments for the people to ensure more inclusive growth:

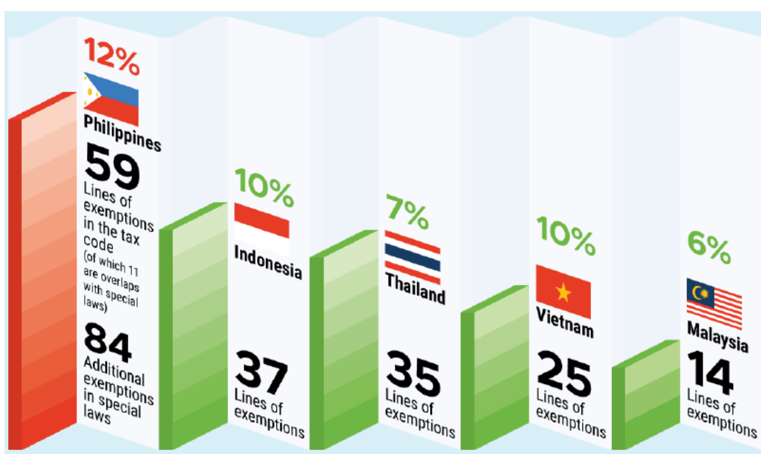
Figure 3: Phase 1 of the Comprehensive Tax Reform Program



Source: Department of Finance (DOF), *presentation by Asst. Secretary Teresa Habitan at the Policy Dialogue on Infrastructure Financing Strategies for Southeast Asia organized by the UNESCAP, August 30, 2017*

The proposal to broaden the value-added tax (VAT) system by limiting exemptions only to raw food, health and education is borne by the fact that the country's VAT system, while having the highest rate, also has the most numerous exemptions (a total of 143 exemptions, 59 as indicated in the tax code and 84 from special laws) among other ASEAN nations:

Figure 4: Philippine VAT System vs. other ASEAN countries



Source: Department of Finance (DOF), *2017*

According to the DOF, the current excise tax rates on oil products have remained unadjusted since 1997 and has denied the government about PhP 145 billion ($2.9 billion) worth of tax contributions annually. Under the proposal, these rates will be adjusted

gradually starting from the second half of 2017 until 2019, and will be indexed annually in the succeeding years:

Table 5: Proposed Excise Tax on Oil Products

PhP / liter	1997-2017	2018	2019	2020	2021*
Diesel & essentials**	PhP 0.00	PhP 3.00	PhP 5.00	PhP 6.00	PhP 6.24
Gas & non-essentials***	PhP 4.35	PhP 7.00	PhP 9.00	PhP 10.00	PhP 10.40

*Annual indexation by 4% starting 2021. No indexation for the year if the average Dubai crude oil price in the month preceding the scheduled indexation exceeds $100 per barrel.

** Essentials include processed gas, kerosene, diesel fuel oil, liquefied petroleum gas, asphalt, and bunker fuel oil.

*** Non-essentials include lubricating oils and greases, naphtha, regular gasoline, premium gasoline, and aviation turbo jet fuel.

As for updating excise tax rates on automobiles, the proposed system intends to tax basic cars at lower rates while taxing more expensive cars at higher rates:

Table 6: Proposed Excise Tax on Automobiles

Net manufacturing / importation price in PhP	Current rates	Average effective tax rate	Proposed rates	Average effective tax rate
Up to 600,000	2%	2%	4%	3%
Over 600,000 to 1.1 million	12,000 + 20% in excess of 600,000	5%	24,000 + 40% in excess of 600,000	10%
Over 1.1 million to 2.1 million	112,000 + 40% in excess of 1.1 million	15%	224,000 + 80% in excess of 1.1 million	31%
Over 2.1 million	512,000 + 60% in excess of 2.1 million	22%	1,024,000 + 120% in excess of 2.1 million	45%

Source: Department of Finance (DOF), *2017*

The additional revenue raised by the tax reform will be used to fund the government's infrastructure program, which consists of:

1. Construction of major highways, expressways, and flood control projects;
2. Construction of 115,553 more classrooms; and the
3. Upgrading of 704 local hospitals and 263 rural and urban health units, and construction of 25 local health facilities, 15,988 barangay health stations, and rural health units and urban health centers, among others.

The CTRP has been identified as "crucial for the success of the 'golden age of infrastructure'", without which, significant investments in infrastructure, education and

health cannot be realized.[18] It has likewise been warned that if the Philippine Congress fails to pass the CTRP law, government's ambitious "Build-Build-Build" program might become a "small build" or "no build" one.[19] The draft CTRP law (i.e. House Bill 5636) has already been passed by the House of Representatives (lower house), and is currently being discussed in the Senate (upper house).

D. LGU-Level Infrastructure Financing Sources

The Local Development Fund

Earlier discussions primarily focused on public financing sources for national infrastructure projects. For local projects, the primary source for financing certain types of infrastructure projects is the Development Fund, as mandated by the Local Government Code (Republic Act No. 7160). Specifically, Under Sec. 287 of the LGC, every local government unit (LGU) is required to appropriate no less than 20% of its Internal Revenue Allotment (IRA) for development projects. Infrastructure projects that may be charged against the Development Fund include:[20]

1. Social Development:
    a. Construction or rehabilitation of health centers, rural health units or hospitals, including the purchase of lot for the purpose;
    b. Construction or rehabilitation of local government-owned potable water supply system;
    c. Establishment or rehabilitation of Manpower Development Centers;
    d. Construction or rehabilitation of evacuation centers, including purchase of lot for the purpose;
    e. Construction of Special Drug Education Centers, and Drug Treatment/Rehabilitation Centers, including purchase of lot for the purpose;
    f. Rehabilitation of historical sites classified as such by the National Historical Commission of the Philippines;
    g. Purchase and development of land for the relocation of informal settlers and relocation of victims of calamities;
    h. Construction or rehabilitation of multipurpose halls, including purchase of lot for the purpose;
    i. Installation of street lighting systems;

2. Economic Development:
    a. Construction or rehabilitation of communal irrigation or water impounding system;
    b. Construction or rehabilitation of local roads or bridges, including purchase of appropriate engineering equipment;

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[18] Department of Finance (DOF). *Tax Reform for Acceleration and Inclusion: Revised Package 1*, Updated as of June 27, 2017.

[19] Salaverria, Leila, "No tax reform, no infra boom," *The Inquirer*, May 31, 2017. Business / Headlines.

[20] As set forth in Department of the Interior and Local Government (DILG)-DBM Joint Memorandum Circular No. 2017-01, *Updated Guidelines on the Appropriation and Utilization of the Twenty Percent (20%) of the Annual Revenue Allotment (IRA) for Development Projects*, dated February 22, 2017.

c. Development of alternative power or energy sources, such as renewable energy power plants; and
d. Amortization of loans used to finance the abovementioned development projects, subject to the 20% debt service cap prescribed under the LGC.

The Municipal Development Fund

Another alternate source of infrastructure financing at the municipal level is through the Municipal Development Fund Office (MDFO). The MDFO is an entity under the supervision of the DOF mandated to:

1. Administer the Municipal Development Fund (MDF) – a special revolving fund for re-lending to LGUs, now on its Second Generation Fund (SGF);
2. Disburse funds for Foreign Assisted Projects (FAPs) implemented by other national line agencies;
3. Implement ODA projects for LGUs; and
4. Initiate policy formulation for LGU financing.

Regarding the MDF-SGF, the MDFO has created, and is currently implementing, ten financing windows, including:

- The *Municipal Development Fund Project (MDFP)*: all types of LGUs (regardless of income class) may avail of the financing package for the following infrastructure subprojects:

  1. Revenue-Generating subprojects – water supply systems, local electrification systems, slaughterhouses, terminals, wharves, public markets, trading posts, cold storage plants, post-harvest facilities, food processing facilities, memorial parks, among others;
  2. Education subprojects – school buildings and other related facilities, public libraries, day care centers, non-formal education and training centers;
  3. Health subprojects – hospitals, health centers, clinics, birthing facilities, health training centers, and other related health facilities;
  4. Solid waste management facilities;
  5. Water management subprojects – sewerage systems, drainage systems, waste water treatment facilities;
  6. Land conservation / environment protection facilities – river/seashore protection facilities, seawalls; and
  7. Other infrastructure subprojects such as farm-to-market roads and other LGU priority infrastructure projects.

  As of June 30, 2017, 112 subprojects have been financed through the MDFP.

- The *Disaster Management Assistance Fund* may be availed of by 1st to 6th income class provinces, cities, and municipalities for purposes of repairing and reconstructing critical facilities (water supply systems, public markets, low-cost shelters, bridges, health centers, and other similar projects) that have been damaged by natural disasters. It may also be availed to construct hazard resistant

infrastructure, as well as DRM-related structures such as seawalls, riverbank projects, and embankments that eliminate flood risks.

- The MDFO also offers financing specifically for water infrastructure facilities under the *Philippine Water Revolving Fund Standby Credit Facility (PWRF-SCF)*. The PWRF Program is a financing scheme designed to support long term investment requirements of LGUs and Water Districts for water supply and sanitation. It allows the engagement of private financing institutions as co-lenders together with the Development Bank of the Philippines (DBP) utilizing JICA funds and credit guarantees from the LGU Guarantee Corporation (LGUGC) and the USAID Development Credit Authority. The MDFO supports this initiative by making available the PWRF-SCF, which are standby loans to LGUs in order to lengthen the tenor of PFI loans, thereby making financing more affordable for LGU Water Service Providers. Eligible subprojects are those related to the provision of water supply and sanitation.

- The MDFO has also allocated PhP 1 billion ($20 million) into the *PPP Fund* to assist LGUs finance PPP projects. Under this Fund, projects that: (1) were not yet built or developed; (2) were already built but needs augmentation of resources from the private sector and thus the need to engage in PPP; and (3) will be implemented via PPP but requires additional LGU counterpart, are deemed eligible for financing.

- The *Project Technical Assistance and Contingency Fund (PTACF)* serves as a complement to other financing windows, as it provides assistance to LGUs (excluding highly-urbanized cities in Metro Manila and key cities and provinces in the country) that wish to avail of any of MDFO's lending facilities, in financing the preparation and submission of feasibility studies and detailed engineering designs (DED) as well as other technical assistance needs deemed necessary for subproject implementation but are not included in the loan agreement for the subproject.

- A *refinancing facility* is also made available by the MDFO to LGUs, which aims to replace their existing debt obligations with other lending institutions at more concessional financing terms compared to the original transaction.

Challenges in LGU-level Infrastructure Financing

Under the LGU Financing Policy Framework of 1996, LGUs are supposed to veer away from dependence on the national government and strengthen effective partnerships with the private sector. More creditworthy LGUs were expected to graduate to private sources of capital for their revenue-generating or self-liquidating projects. Under such framework, one of the key action points was for LGUs to fully utilize BOT and similar arrangements in the development and implementation of its infrastructure projects. However, to date, LGUs have yet to avail of MDFO's PPP Fund. The often

concern is that PPPs are complicated, risky, and time consuming to develop and implement, as against a mayor's/governor's term of three years.[21]

The MDFO also mentioned that most LGUs, particularly those belonging to the 4th to 6th income class municipalities, require hands-on support in the preparation of feasibility studies, especially in the conduct of economic and financial assessments. In addition, LGUs increasingly require technical assistance in evaluating unsolicited proposals.

A retooling of the PPP Fund could perhaps be considered. From the above assessment, it is clear that the more critical intervention required by LGUs is at the project preparation stage. LGUs require hands-on support to produce a full-blown study, and in determining whether a project is better implemented as a PPP or as a fully government-funded infrastructure project. Instead of focusing mainly on providing support in the financing of subsidies and/or availability payments for PPP projects, a portion of the fund may be allocated to provide support in the development of PPP projects as well as in the evaluation of unsolicited proposals.

E. Government Banking Institutions

While still government-owned, some government banking institutions merit a separate category as potent sources of infrastructure financing, these entities being largely financially independent from government appropriations – as examples, the Development Bank of the Philippines (DBP) has been operating as a universal bank since 1995,[22] while the Land Bank of the Philippines (LBP), notwithstanding its status as the official government depository, has been operating as a commercial bank since 1973.[23]

Development Bank of the Philippines

The Development Bank of the Philippines is the primary Government Banking Institution engaged in development financing, including infrastructure. Its infrastructure financing windows cover three general sectors: transport and logistics (includes tourism, information and communications technology, and climate proofing of related infrastructure), power generation and distribution, and water supply.

Under the Bank's *Connecting Rural Urban Intermodal Systems Efficiently (CRUISE) Program*, long-term funds from various sources (such as JICA's Logistics Infrastructure Development Project) are tapped to support government initiatives for the creation of an integrated and intermodal national transport and logistical system as embodied in the Philippine Development Plan (PDP). Under CRUISE, private corporations / enterprises, LGUs, government-owned and controlled corporations (GOCCs), cooperatives /

[21] Taken from the interview of Executive Director Helena Habulan (MDFO), conducted last 3 August 2017, Podium Level, Department of Finance Executive Building, Roxas Boulevard cor. P. Ocampo Sr. Street, Malate, Manila. Metro Manila, Philippines.
[22] Development Bank of the Philippines, *History*, https://www.devbnkphl.com/about.php?cat=9 (accessed June 5, 2017)
[23] Land Bank of the Philippines, *History*, https://www.landbank.com/history (accessed June 2, 2017)

associations, and participating financial institutions/microfinance institutions are eligible to access financing for projects that fall under the category of transport and logistics.

DBP's *Financing Utilities for Sustainable Energy Development (FUSED)* on the other hand, aims to contribute in the increased access to electricity services by financing at least PhP 40 billion ($800 million) of the country's estimated investment requirement for power generation and distribution under the Philippine Energy Plan 2010-2030. Private corporations, electric cooperatives, LGUs, GOCCs, and private financial institutions, may apply under FUSED, to project preparation and/or capital investment (among others) undertakings for any of the following projects:

- Development and construction of energy generation or mini-grid electrification projects through conventional or renewable energy sources to address power supply system constraints; and
- Power distribution and transmission projects that will improve power supply system safety, reliability, efficiency such as reduction of system losses and power service quality for existing customers through rehabilitation and upgrading of distribution system.

Lastly, the DBP also launched its *Water for Every Resident (WATER) Program* as its umbrella program for providing financing to water supply projects. Its objective is aligned with the thrust of the National Government, as defined under the Philippine Water Supply Sector Roadmap prepared by NEDA, which aims to ensure adequate long-term availability of and accessibility to potable water. Under the Program, private corporations, electric cooperatives, LGUs, GOCCs, and private financial institutions, may avail of financing for any of the following eligible projects:

- Source development for distribution or for bulk water supply;
- Water transmission and/or distribution system rehabilitation, expansion and upgrading;
- Development/installation of water treatment facilities/equipment;
- Investment for Non-Revenue Water reduction or other efficiency-enhancing measures, such as but not limited to computerization of accounts, billing and collection system, installation of energy-saving equipment;
- Purchase of necessary tools and equipment such as but not limited to generator sets, service vehicles, trucks, water leak detector including construction or rehabilitation of existing non-network facilities (e.g. office building, warehouse) to improve efficiency and service delivery; and
- Investment for Climate Change Adaptation Technologies (e.g. rain water collection system).

Land Bank of the Philippines

Another Government Banking Institution that provides infrastructure financing is the Land Bank of the Philippines (LBP), which largely offers financing for LGU-level infrastructure development. To date, the Bank's available financing products are as follows:[24]

[24] Land Bank of the Philippines, *Loans*, https://www.landbank.com/loans (accessed: June 2, 2017)

1. *LGU Lending Program* – a credit facility to finance local infrastructure and other socio-economic development projects identified in the concerned LGU's local development plan and public investment program. LGUs that are rated Prime, High Grade, and Medium Grade may avail of the loan, to finance the following projects:

   - construction, installation, improvement, expansion, operation or maintenance of infrastructure projects (e.g. public markets, slaughterhouses, ports, roads, bridges, sports facilities, hospitals, schools, etc);
   - acquisition of property, plant, machinery and equipment;
   - land acquisition, provided the same is part of the infrastructure project and the amount shall not exceed 20% of the total project cost.

2. *LGU Investment Program (LIP)* – the LIP on the other hand, is another financing window, originally sourced from KfW Development Bank of Germany,[25] and relended to municipal, city, and provincial governments in Visayas and Mindanao, for purposes of undertaking the following projects:

   - local roads and bridges, including provision of maintenance equipment and improvement of streetlights;
   - sanitation, drainage and flood control, including construction of low-cost treatment facilities and provision for sludge collection and transportation;
   - rehabilitation of public facilities, such as slaughterhouses, public parks, parking spaces, hospitals, schools and other structures related to seashore facilities to accelerate productivity;
   - telecommunications and information technology;
   - water supply and hydroelectric power plants;
   - public market and bus terminal; and
   - other income generating projects except solid waste management projects.

   The program has already been approved by the NEDA Investment Coordinating Committee – Cabinet Committee (ICC-CC) for its third tranche of implementation.

3. *Water Program for Everyone (H2OPE) / Water District Loan* – the loan program offers loans for a wide array of undertakings related to water supply and sanitation development, to various institutions tasked with developing and managing water supply and sanitation systems, particularly:

   - Creditworthy Water Districts (WDs);
   - Semi Creditworthy WDs;
   - Pre-Creditworthy WDs (subject to creditworthiness validation);
   - Institutions/Corporations-Managed Water Utilities;
   - LGU-operated and managed water utilities;
   - Privately-operated Water Utilities such as Water Systems Operated by Partnerships or Single Proprietors; and

[25] National Economic & Development Authority (NEDA). *Official Development Assistance (ODA) Facilities for Local Government Units (as of 31 March 2017).* Pasig City, Philippines: National Economic & Development Authority.

- Users or Communities-Managed Water Utilities (i.e. Cooperatives-Operated Water Utilities, Rural Waterworks and Sanitation Associations, and Barangay Waterworks and Sanitation Associations).

The LBP is likewise structuring a financing program focusing on the rehabilitation and reconstruction of infrastructure projects of LGUs affected by Typhoon Yolanda and the recent Bohol earthquake.[26]

Collaborative Funding

On 4 February 2016, former President Benigno Aquino III signed Executive Order (EO) No. 198, approving the merger of DBP and LBP. The EO cited the following as bases for the merger:

1. The functions of DBP and LBP duplicate and/or unnecessarily overlap with one another;
2. The merger of DBP and LBP will further enhance the financing of priority projects and sectors such as infrastructure, public services, agriculture/agrarian reform and SMEs;
3. The merger of DBP and LBP will provide better access and extend quality financial services and products to more unbanked and undeserved areas; and
4. The merger of DBP and LBP will build a stronger and more competitive universal development bank able to fulfill its mandate of providing banking services to propel countryside development and to contribute to sustainable and inclusive growth.

The Governance Commission for GOCCs (GCG) also added that the merger will result in a combined single SBL of PhP 26 billion ($520 million), which will enable the surviving bank to fund big-ticket infrastructure projects.[27]

However, upon the assumption of the Duterte Administration, the GCG issued an *en banc* resolution which resolved to cancel the implementation of EO 198. This notwithstanding, a quick survey of the various infrastructure financing windows of both banks will yield an observation that both banks have some close similarities in terms of sectors and types of projects that may be financed. The LBP's H2OPE for example, offers loans to water districts and other water utilities for a wide array of undertakings related to water supply and sanitation development; at the same time, DBP's WATER Program also provides financing for purposes of undertaking water supply projects, including source development and rehabilitation, expansion, and upgrading of water distribution systems, among others.

Short of a merger, the resources of both banking institutions could be better utilized if project-based collaboration between the two – and perhaps even including the MDFO – is pursued. In so doing, ways may be formulated to support and finance the development of big-ticket LGU-level infrastructure projects.

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[26] Land Bank of the Philippines, *Support for Strategic Local Development Investment Project (S2LDIP)*, https://www.landbank.com/support-for-strategic-local-development-investment-roject (accessed: June 2, 2017)

[27] De Vera, Ben, "Gov't stops DBP-Landbank merger", *The Inquirer*, September 7, 2016. Business / Headlines.

III. Official Development Assistance (ODA)

ODA remains to be a viable option for financing infrastructure. Among the merits of ODA financing include: (1) longer-term maturity and favorable concessional financing terms, with a grant element of at least 25 percent; (2) a wider access to knowledge, experience, and technology;[28] and (3) improved overall project implementation due to the absence of contractual disputes.[29]

As of December 2015, total Official Development Assistance (ODA) amounted to $15.71 billion, consisting of 73 loans ($12.66 billion) and 460 grants ($3.05 billion). Japan accounts for the biggest among the ODA loan sources with 43% share ($5.39 billion), followed by World Bank and ADB with 27% ($3.38 billion) and 25% ($3.17 billion) shares, respectively. For ODA grants, the USA, Australia, and the UN System were the three leading providers with 42% ($1.268 billion), 19% ($567 million), and 12% ($365.28 million) shares, respectively.

Of the total loan portfolio, majority or 47.63% accounts for infrastructure projects (37 loans for a total loan amount of $6.03 billion). These are distributed according to the different infrastructure subsectors as follows:

Table 7: Distribution of Total ODA Net Commitments, Infrastructure

Sector	Net Commitments (in USD M)		Increase / Decrease (in USD M)	Increase / Decrease (%)
	CY 2014	CY 2015		
Energy, Power & Electrification	449.57	400	(49.57)	(11.03)
Social Infrastructure	603.28	250.21	(353.07)	(58.53)
Transportation	2,130.79	4,343.84	2,213.05	103.86
Urban Infrastructure	340.08	285.33	(54.75)	(16.10)
Water Resources	794.91	751.12	(43.79)	(5.51)
TOTAL	**4,318.63**	**6,030.50**	**1,711.87**	**39.64**

Source: National Economic & Development Authority (2016)

Among the infrastructure subsectors, transportation became the focus of ODA loans for 2015, and accounted for the $1.711 billion increase in ODA loans from 2014; with the rest of the subsectors experiencing a decrease in ODA support (most notably, social infrastructure). This trend has likely continued for the year 2016 and 2017, considering that, majority of the nine approved flagship infrastructure projects to be financed through ODA are all transport projects (with the only exception being the New Centennial Water

[28] Tungpalan, Rolando (NEDA Undersecretary), "Presentation on the Official Development Assistance and Public-Private Partnership in Financing Public Infrastructure", *delivered last May 30, 2017 during the Management Association of the Philippines (MAP) General Membership Meeting, Makati Shangri-La.*

[29] Point made by BMI Research in Luz, Melissa, "Gov't shift from PPP could speed up projects", *Business World,* June 30, 2017. Top Story Section.

Source – Kaliwa Dam Project). For ODA grants, infrastructure accounts for 17.72% of the portfolio (40 projects for a total grant amount of $540.75 million).

According to NEDA, of the 28 PPP projects approved by the NEDA Board, half have yet to be implemented or was discontinued or terminated. On the other hand, for ODA and locally-financed projects, at least 80 percent are currently ongoing or have been completed.

ADB's 2017-2019 Country Operations Business Plan

Focusing on the country programs of several notable development partners, the Asian Development Bank (ADB) indicated in its 2017-2019 Country Operations Business Plan (COBP) for the Philippines that its focus will be on four interrelated priority areas: (i) sustainable and climate-resilient infrastructure, (ii) good governance and finance, (iii) inclusive employment and education, and (iv) regional integration. The ADB's indicative program for 2016 consists of four loans totaling $833.3 million, and technical assistance (TA) of $10.97 million from internal and external sources. For the period 2017-2019 on the other hand, the following are the proposed ODA assistance packages:

Table 8: Proposed ODA Assistance Packages, ADB, 2017-2019

Year	Lending ($ million)	Non-Lending ($ million)
2017	1,170	4.4
2018	1,732	2.6
2019	1,500	2.3
TOTAL	**4,402**	**9.3**

Source: Asian Development Bank (2016)

The COBP noted that ADB will closely monitor the roll out of the Philippine Government's public-private partnership (PPP) projects for financing consideration. ADB will also consider providing technical assistance to the private sector for feasibility studies, capacity building, and other critical activities to support challenging infrastructure projects, introduce new concepts or technology, or build in-country capacity. Financial intermediation, through local commercial banks, nonbanks, and private equity funds will continue to be explored by the ADB.

The following provides an aggregate of both lending and non-lending infrastructure-related support extended / to be extended to the Philippine Government, covering the period 2016-2019:

Table 9: Infrastructure-related Projects/Programs, ADB, 2016-2019

Name of Project	Assistance Type	Total Cost ($ million)
1. Angat Water Transmission Improvement Project	Loan & TA	224.3
2. Water District Development Sector Project	Loan & TA	63
3. Strengthening PPPs in the Philippines, Phase 2	TA	5
4. Laguna Lake Flood Management / Integrated Water Resource Management Program	Loan & TA	401

5.	Improving the National Connectivity for Mindanao Development Project	TA	301
6.	Support for Infrastructure Program	TA	1
7.	Davao Public Transport Modernization Project	Loan	70
8.	Improving National Roads for Inclusive Growth in Mindanao Project	Loan	220
9.	Metro Manila BRT – EDSA Project	Loan	200
10.	Infrastructure Preparation & Innovation Facility	Loan	10
11.	Expanding Private Participation in Infrastructure Program, Subprogram 2	Loan	300
12.	Metro Manila Water and Sanitation Program	Loan	100
13.	Solid Waste Management Sector Project	Loan	72
14.	Energy Sector Development Project	Loan	100
	TOTAL		**1,795**

*Indicative and subject to change. Source: Asian Development Bank (2016)

WBG's 2015-2018 Country Performance Strategy

The 2015-2018 Country Partnership Strategy (CPS) for the Philippines of the World Bank Group (WBG) on the other hand, focuses on five key results areas: (a) transparent, accountable, and participatory governance; (b) empowerment of the poor and vulnerable; (c) rapid, inclusive and sustainable economic growth; (d) climate change adaptation and mitigation, disaster risk management (DRM) and environmental protection, and (e) security, justice and peace.

Particularly in the area of infrastructure, the CPS indicated that the WBG will assist the Philippine Government in expanding and upgrading the quality of transport infrastructure, supporting capacity development (institutionalizing inter-agency coordination, business process improvements, and integrity strengthening activities to improve governance in the sector progressively) and supporting the introduction of innovative and international good practices in developing and managing transport infrastructure. The Bank will support the Government in implementing a digital and publicly accessible master road network that covers both national and sub-national (including provincial, city-municipal, and barangay) road responsibilities.

The IFC and the WB will work together in analyzing logistics issues and recommending areas for improvement and reform. The WBG, in collaboration with other development partners, will support improvements in the quality of transport services in Metro Manila and Cebu City (serving as templates for approaches in other cities), and will provide infrastructure support to the overall urban sector strategy (including to enhance inter- and intra-city connectivity to reduce the cost of trade and logistics and to improve the competitiveness of the manufacturing industry).

It will support complex market reform and restructuring issues in the energy sector, providing continued support to the diverse array of agencies responsible for energy policy, regulation, market operation, asset management, rural electrification and oil and gas, recognizing that the energy agencies are, for the most part, increasingly capable and sophisticated. The WBG will also support government efforts to attract investment in liquefied natural gas (LNG) facilities and gas-fired power plants, with an emphasis on public-private partnership approaches, and a focus on Mindanao (where electrification

rates are lowest, new power generation capacity is most needed, and private sector capital is relatively harder to attract).

While the WBG's CPS is still currently being updated, the following contains a list of infrastructure projects being financed through ODA loans from the WBG as of March 2017, amounting to a total cost of $1.102 billion:

Table 10: 2017 ODA Loan-Financed Infrastructure Projects, World Bank Group

Name of Project	Description	Project Cost ($ million)
1. Metro Manila Flood Management Project (MMFMP) – Phase 1	The proposed project aims to reduce the vulnerability to flooding and improve the living conditions of several tens of thousands informal settler families (ISFs) in the Greater Metro Manila Area waterways/drainage channels by modernizing all pumping stations, introducing community-based solid waste management, and supporting the $1 billion ISF Housing Program to provide affordable, safe and inclusive shelter solutions.	499.25
2. Metro Manila Bus Rapid Transit (BRT) Line 1 (Manila-Quezon Avenue)	The project involves the provision of a mass transport system along the España-Quezon Avenue-Commonwealth Avenue corridor through high-capacity buses running on exclusive lanes. It seeks to provide preferential journey times for public transport, as well as improve the level of service to the passenger while in vehicle, waiting for the vehicle, and making their way to and from the vehicle. Through the conversion of largely sub-EURO vehicles to EuroIV, the project will also bring an un-quantified reduction in emissions along the corridor with resultant improvement in local air quality. Further, there will be a total greenhouse gas emission saving of 6.21 million tonnes over 30 years, or an average of 207,000 tonnes per year.	109.42
3. Philippine Renewable Energy Development Project (PHRED)	The project seeks, through a further guarantee cover for the ongoing Electric Cooperative Partial Credit Guarantee (ECPCG) Program, to increase renewable energy generation in all parts of the Philippines, including in off-grid areas, and to bolster private sector lending to electric cooperatives that are focused on operational and financial efficiency. It is expected that thereby ECs will be able to provide service to more customers and with better quality, while at the same time becoming more creditworthy and therefore better able to develop and/or purchase bulk renewable energy.	44.00
4. Proposed Expansion of the Philippine Rural Development Project (PRDP)	The request for additional loan financing is aimed at addressing the excess demand under the Infrastructure Component of the project estimated at PhP 20.48 Billion ($409.6 million) primarily on the farm-to-market roads subprojects. Also, the request would cater to subproject proposals that would be coming in for funding as the PRDP is expected to have full engagement with all the provincial and municipal LGUs as direct implementers.	450.00
TOTAL		**1,102.67**

Source: National Economic & Development Authority (March 2017)

JICA's Infrastructure Loans

In a March 31, 2017 press statement, Socioeconomic Secretary Ernesto Pernia revealed that the Japanese government has committed to finance three big-ticket rail projects worth $8.8 billion on top of eleven other projects proposed for loans and grants.[30] These three projects, which have also been identified as part of the 75 flagship infrastructure projects of the Duterte Administration, are part of a total of 14 projects to be funded by Japanese ODA through the Japan International Cooperation Agency (JICA).

Table 11: 2017 ODA Loan-Financed Infrastructure Projects, JICA

Name of Project	Description	Project Cost ($ million)
1. Mega Manila Subway Project (MMSP), Phase I	Phase 1 of the MMSP involves the construction of a 25.3-km subway with 13 stations, starting from Mindanao-Quirino and ending at FTI.	4,263.46
2. North-South Railway Project (NSRP) – South Commuter Line	The project involves the construction of a 72-km Commuter Railway from Tutuban to Calamba.	2,674.00
3. Malolos-Clark Railway Project	The project involves the construction of a 69.5-km railway from Malolos to Clark Green City (CGC) passing through Clark International Airport (CIA) with 8 stations. The project is expected to connect the Greater Capital Region (Malolos) to CGC with a travel time of 63 minutes.	1,900.00
4. Malitubog-Maridagao Irrigation Project Phase II	The project, as reconfigured and submitted by the National Irrigation Administration (NIA) to the Investment Coordinating Committee (ICC), involves the construction of irrigation canals in the Upper Malitubog Area (2,206 ha), Lower Malitubog Service Area (6,590 ha), and Pagalungan Extension Area (988 ha).	TBD
5. Cavite Industrial Area Flood Management Project	Theproject aims to mitigate flood damages in Cavite Lowland Area caused by river overflow, inland flood, or tidal flood (to be decided through the Survey) by implementing structural, and non-structural measures, thereby facilitating future economic development in the Cavite Lowland Area.	TBD
6. Dalton Pass East Alignment Alternative Road Project	The project involves the construction of a 60-km bypass road from San Jose City, Nueva Ecija to Aritao, Nueva Vizcaya.	79.89
7. Road Network Development Project in Conflict-Affected Areas in Mindanao	The Project involves the construction of roads connecting the ARMM and other surrounding regions.	TBD

[30] De Vera, Ben, "Japan to fund 3 rail projects; 11 other infrastructure undertakings seen getting loans, grants from Tokyo", *Philippine Daily Inquirer,* March 31, 2017, Business/Economy Section.

8. Circumferential Road 3 Missing Link Project	The project involves the construction of a 6-lane road with a total length of 5.22 kilometers (considering the Alignment Alternative 4) from N. Domingo to Ayala/Buendia traversing Pasig and San Juan Rivers along the riverbanks.	TBD
9. Pasig River-Marikina Channel Improvement Project, Phase IV	The project involves river channel improvement works along the Marikina and Pasig Rivers.	TBD
10. Paranaque Spillway Project	The project involves the construction of a tunnel spillway and related works.	TBD
11. Third Mandaue-Mactan Bridge Project	The project involves the construction of a third bridge across the Mactan Channel.	TBD
12. Clark Green City Project	*Various components.*	TBD
TOTAL		**8,917.35**

Source: National Economic & Development Authority (March 2017)

KEXIM & KOICA

The South Korean Government has also expressed its intention to provide ODA loans and grants to the Philippine Government, mostly for infrastructure development. In a statement made last June 8, 2017, NEDA announced that the Government of South Korea, through the Export-Import Bank of Korea (KEXIM), has offered to allocate $1 billion over a six-year period to finance key infrastructure projects in the Philippines, particularly on the following sectors: transport, information communications and technology, and energy.[31] The Panguil Bay Bridge Project ($97.18 million), one of the flagship infrastructure projects of government, will be financed through South Korean ODA. The New Cebu International Container Port Project, with a project cost of $197.57 million, and the Climate Retrofitting of Irrigation Systems and Agri-Infrastructure Project, are also being financed by ODA loans through KEXIM.[32]

For grants, the Korea International Cooperation Agency (KOICA), will be funding the following infrastructure projects: (1) Rehabilitation of Felipe Abrigo Memorial Hospital and Strengthening of the Guian Inter-Local Health Zone ($240.93 million), and (2) Northern Iloilo Fishery Rehabilitation and Development Project ($276.07). This brings Korea's combined (loan and grant) ODA portfolio to a total of $811.75 million to date.

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[31] Tubayan, Elijah Joseph, "Korea Eximbank offers Infra Financing", *Business World,* June 8, 2017, Economy Section.

[32] National Economic & Development Authority (NEDA). *Official Development Assistance Pipeline of Programs & Projects (Status as of 31 March 2017),* 2017, Pasig City, Philippines: National Economic & Development Authority.

The Emergence of Chinese ODA

Due in large part to the recently renewed diplomatic relations between the Philippines and China, the former has recently experienced a surge of ODA – from virtually nothing in 2015, to a combined ODA portfolio of $11.7 billion from China, making the country the largest ODA source for infrastructure projects as of March 2017. Moreover, all 18 projects being funded through Chinese ODA have been identified as flagship infrastructure projects, and therefore account for almost one-fourth of the entire list of flagship projects:

Table 12: Flagship Infrastructure Projects Financed through Chinese ODA

Name of Project	Financing Mode	Project Cost ($ million)
1. Chico River Pump Irrigation Project	Loan	53.71
2. New Centennial Water Source – Kaliwa Dam Project	Loan	373.03
3. North-South Railway Project – South Line (Long Haul)	Loan	2368.81
4. Mindanao Railway Project	Loan	628.45
5. Subic-Clark Railway Project	Loan	637.53
6. BGC – NAIA segment of the Metro Manila BRT – EDSA Project	Loan	298.84
7. Detailed Engineering & Construction of Two Bridges across Pasig River	Grant	61.09
8. Davao City Expressway Project	Grant	488.11
9. Panay-Guimaras-Negros Island Bridges (F/S)	Grant	541.04
10. Cebu-Bohol Link Bridge (F/S)	Grant	1,128.01
11. North Luzon Expressway East Project (F/S)	Grant	888.75
12. Dinagat (Leyte) – Surigao Link Bridge (F/S)	Grant	943.43
13. Luzon – Samar Link Bridge (F/S)	Grant	1,148.52
14. Bohol-Leyte Link Bridge	Grant	1,435.66
15. Negros-Cebu Link Bridge (F/S)	Grant	287.13
16. Pasacao-Balatan Tourism Coastal Development Program (F/S)	Grant	94.43
17. Camarines Sur Expressway Project (F/S)	Grant	44.85
18. Ambal Simuay Sub-Basin of the Mindanao River Basin Flood Control and River Protection Project (F/S)	Grant	272.10
TOTAL		**11,693.48**

Source: National Economic & Development Authority (June 2017)

The AIIB Financing Window

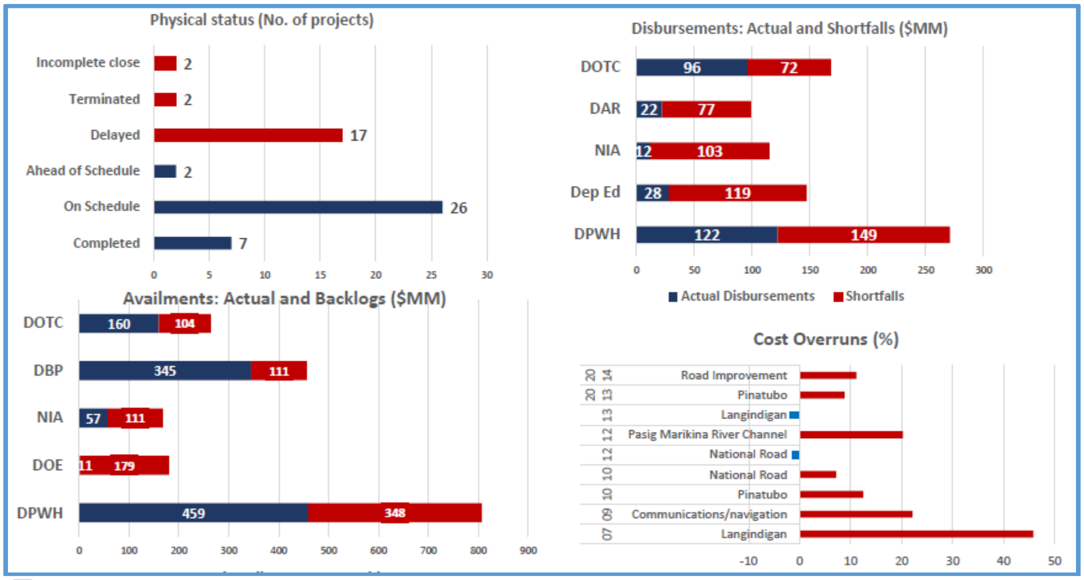
Lastly, with the membership of the Philippines in the Asian Infrastructure Investment Bank (AIIB), the Philippine government was able to secure an initial $500 million worth of financing cooperation from AIIB. While the projects initially considered for AIIB financing are now currently being funded through China's ODA (i.e. the South Line of the North-South Railway Project, and the New Centennial Water Source – Kaliwa Dam

Project), the availability of a new infrastructure financing window is nevertheless worth considering given the country's immense infrastructure requirements.

Challenges in ODA Financing

ODA financing however, is not without challenges and issues. A 2015 ODA Portfolio Review Report reveals that ODA-financed projects experience delays and cost overruns, as well as availment backlogs and disbursement shortfalls:

Figure 5: ODA Portfolio Review, 2015



- Actual availments; - Backlog

Source: Montes (May 2017); NEDA

Noticeably, line agencies primarily tasked with implementing infrastructure projects (i.e. DPWH and DOTr) have among the highest disbursement shortfalls (37.2% of the total) and availment backlogs (43.5% of the total):

Table 13: Disbursement Shortfall/Surplus by Agency

IA	Loan Count		Target Disbursement (USD M)	Actual Disbursement (USD M)	Disbursement Shortfall (USD M)	% Share to GPH Disbursement Shortfall
	Total	With shortfall				
DPWH	16	11	272.10	122.63	(149.48)	25.1
DepEd	1	1	147.68	28.25	(119.43)	20.0
NIA	3	3	114.94	11.82	(103.11)	17.3
DAR	5	4	99.28	21.85	(77.44)	13.0
DOTC	9	4	167.74	95.85	(71.89)	12.1
LBP	4	3	106.11	53.02	(53.09)	8.9
DSWD	5	4	406.22	391.08	(15.14)	2.5
DENR	4	4	5.59	1.61	(3.99)	0.7
LWUA	1	1	4.18	2.47	(1.72)	0.3
DOH	1	1	1.55	0.08	(1.47)	0.3
DOE	1	-	-	-	-	-
DOF	6	-	1,354.58	1,354.58	-	-
DA	4	-	49.18	52.51	3.32	-
DBP	4	-	55.14	66.41	11.27	-
Total	**68**	**36**	**2,784.30**	**2,202.15**	**(582.15)**	**100.00**

Source: National Economic & Development Authority (2016)

Table 14: Total Availment Backlog/Surplus by Line Agency

IA	No. of Loans		Scheduled Availment (USD million)	Actual Availment (USD million)	Availment Backlog (USD million)	% Share to GPH Availment Backlog
	Total	w/ backlog				
DPWH	18	14	806.88	459.03	(347.85)	33.5
DOE	2	2	180.24	1.11	(179.13)	17.3
NIA	3	2	167.86	57.20	(110.65)	10.7
DBP	4	2	455.33	345.09	(110.25)	10.6
DOTC	10	5	263.42	159.71	(103.71)	10.0
DAR	6	4	211.83	144.45	(67.37)	6.5
LBP	4	3	280.21	222.34	(57.87)	5.6
DENR	4	3	61.35	12.63	(48.72)	4.7
LWUA	1	1	11.18	3.33	(7.84)	0.8
DA	5	3	87.27	84.63	(2.64)	0.3
DOH	1	1	10.96	9.43	(1.53)	0.1
DOF	8	-	2,125.48	2,125.48	-	-
DepEd	2	-	69.03	134.80	65.77	-
DSWD	5	-	1,164.86	1,255.39	90.53	-
Total	**73**	**40**	**5,895.89**	**5,014.63**	**(881.26)**	**100.00**

Source: National Economic & Development Authority (2016)

Based on the above figures, while ODA funding for infrastructure is readily available, the line agencies tasked to avail and spend the loan are not able to in accordance with timelines and targets. The shortfall/backlog may be due to several issues, among which might include: (1) difficulties in obtaining the required approvals/clearances from concerned government institutions/agencies; (2) limited project management office (PMO) manpower/capacity; and/or (3) limited or lack of institutional support (i.e. support was either withdrawn, varied, or adequate), among others.[33]

[33] National Economic & Development Authority (NEDA). *CY 2015 ODA Portfolio Review Report*, 2016, Pasig City, Philippines: National Economic & Development Authority.

Yet another criticism of ODA financing is the fact that, since ODA is denominated in foreign currency (often in USD), the low interest rate may be offset by significant fluctuations in foreign exchange rates. Also, ODA loans extended are often "tied", in the sense that the borrower is limited to hire suppliers or contractors that belong to (in the case of loans extended by bilateral sovereign lenders) or are registered with the lender. These suppliers or contractors might not be necessarily the best ones to implement the project.

It should likewise be noted that ODA, particularly from bilateral lenders, may be considered as exposed to political risk (i.e. deterioration of political relations between the lender and the borrower; may be used/abused by the lender as a tool to acquire political concessions with the borrower).

Enhancing Government's Absorptive Capacity

Most, if not all, of the factors cited as causing issues in the implementation of ODA-financed projects involve weak agency-level capacity. To address this, line agencies such as the DPWH has made efforts towards increasing and diversifying its manpower, in order to enhance its absorptive capacity to handle infrastructure projects, especially big-ticket ones.

At the same time, mechanisms such as the PFMI task force set-up by NEDA and ADB's Strengthening Infrastructure Capacity and Innovation for Inclusive Growth Project, are being put in place in order to improve inter-agency coordination and monitoring of infrastructure projects (IPIF), as well as the in-house capability of implementing agencies in managing such projects (ADB capacity-enhancement project). It should also be noted that government officers who are recipient of trainings should be career employees to ensure that institutional capacity is retained and built upon.

ODA financing is not without risks and disadvantages. In considering ODA as an infrastructure financing option, government must constantly conduct appraisals to determine whether such an option is the best fit for a particular the project, while taking into full consideration both the advantages and disadvantages of this financing option .

IV. Private Sector Participation

A. Public-Private Partnerships

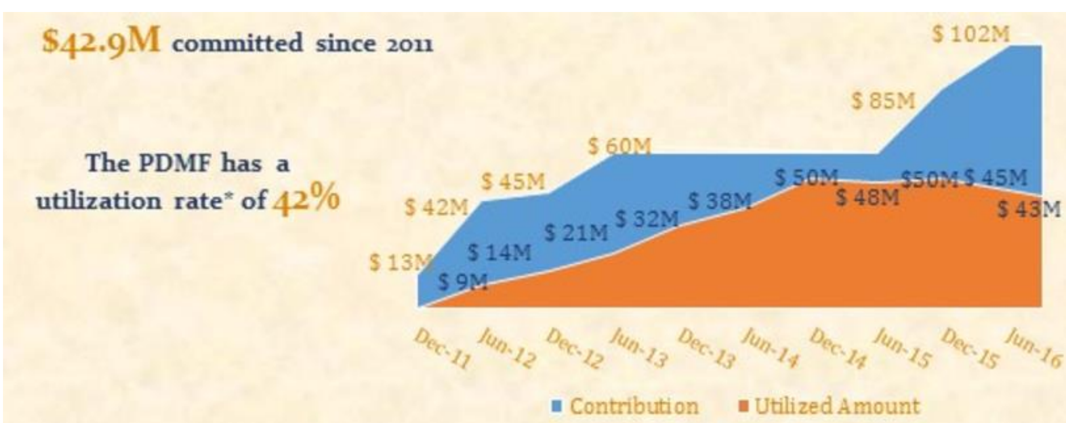
The Philippine PPP Program

The primary avenue by which private sector may participate in financing infrastructure projects is through Government's Public-Private Partnerships (PPP) Program. The Philippine PPP Center broadly defines PPP as "a contractual arrangement between the Government and a private partner targeted towards financing, designing, constructing, operating and maintaining infrastructure facilities and services that were traditionally provided by the public sector."[34] Philippine Build-Operate-and-Transfer Law, R.A. 6957 as amended by R.A. 7718, governs the conduct of Public-Private Partnership projects in the country.

A PPP project may be developed through the solicited mode or through the unsolicited mode. Under the solicited mode, project origination comes from government (i.e. the government has the task of developing the feasibility study (FS) and makes a determination whether, based on the findings of the study, the project may proceed to tender). For this purpose, the PPP Center has made available a revolving fund – the *Project Development & Monitoring Facility (PDMF)* – which can be tapped to fund the hiring of experts who will provide assistance in the preparation of the project FS, project tender, until award and financial close.

The PDMF is sourced mainly from the Philippine Government, with contribution from the Australian Government, and managed through the consultant procurement framework of ADB. As of June 2016, a total of $102 million has been allocated, but only a total of $43 million has been disbursed:

Figure 6: PDMF Resource Utilization



Source: PPP Center of the Philippines (2016)

[34] Philippine PPP Center. *Investment Opportunities*, 2017, Quezon City, Philippines: Philippine PPP Center.

Since the beginnning of the Aquino Administration in 2010, a total of 12 projects have been successfully awarded under the government's PPP program. On June 23, 2016, Finance Secretary Carlos Dominguez expressed that the process of developing, tendering, and awarding PPP projects will have to be hastened from the average of 29 months to 20 months, and that greater focus will be given to projects outside of "Mega Manila."[35] When the Duterte Administration took over in 2016, six (6) PPP projects have already been approved, and were in various stages of tender:

Table 15: 2016 Pipeline of PPP Projects under Tender

Project	Implementing Agency	Cost
New Bohol (Panglao) Airport Development, Operation and Maintenance	DOTC and CAAP	P 4.57 Billion
Davao Airport Development, Operation and Maintenance	DOTC	P 40.57 Billion
Operation and Maintenance of LRT Line 2	DOTC and LRTA	No Capital Expenditure
North-South Railway Project (South Line)	DOTC	P 170.7 Billion
Regional Prison Facilities	BuCor and DOJ	P 50.18 Billion
New Centennial Water Source Project	MWSS and DPWH	P 18.72 Billion

Source: PPP Center of the Philippines; Department of Budget & Management (2017)

Of these projects, four (4) have already been restructured into ODA projects, while the tender process for the remaining two (i.e. the Regional Prison Facilities and the Operation & Maintenance of LRT Line 2) have been suspended indefinitely. Based on the PPP Center's website, there are currently 14 projects under different stages of development.[36] This, along with the fact that of the 75 identified flagship projects, only two have been planned for PPP implementation (funding sources for 11 of the flagship projects have yet to be determined), reflect a seeming shift away from PPPs and towards ODAs and government financing of infrastructure projects.

PPP vs. ODA?

This shift has, to some extent, revived the debate on PPP vs. ODA, which was once sparked last 2010-2011 when the Aquino Administration embarked on its aggressive PPP Program. Various parties have weighed in on the debate, each highlighting the merits and demerits of the two.

Among the often-cited merits of PPP include: (1) efficient transfer/sharing of risk between government and private sector; (2) its emphasis on outputs and outcomes instead of inputs and outlays (i.e. results-oriented); (3) taps the engineering expertise and experience of the private sector; and (4) alignment of interests (i.e. private sector has a "skin in the game") naturally lead to cost-effective options of implementing the project.[37]

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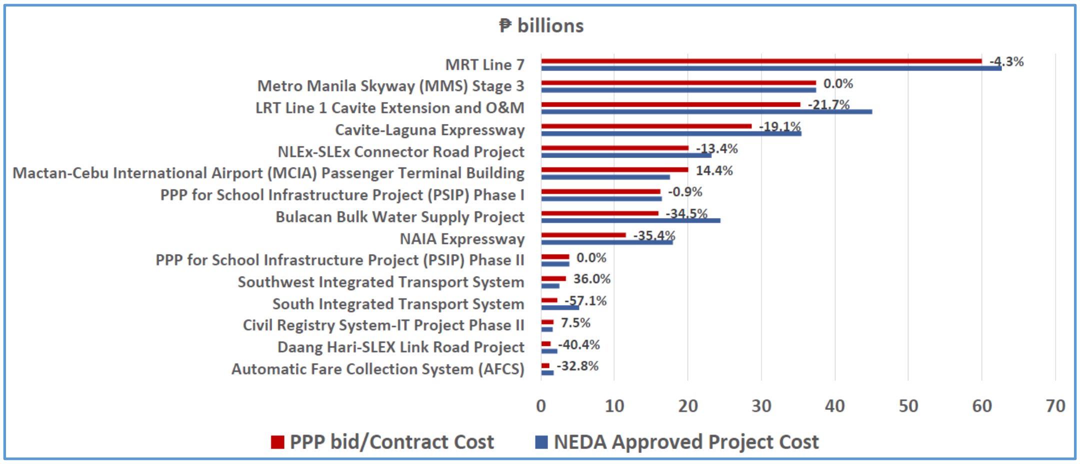
35 Leyco, Chino, "Dominguez to fast-track PPP projects' implementation", *Manila Bulletin*, June 23, 2016.

36 PPP Center of the Philippines. *Pipeline of Projects.* http://ppp.gov.ph/?page_id=26075 (accessed: June 27, 2017)

37 Montes, Vaughn (National Consultant on PPP Risk Management), "The Merits of ODA and PPP for Infrastructure Financing and Development", *delivered last May 30, 2017 during the Management Association of the Philippines (MAP) General Membership Meeting, Makati Shangri-La.*

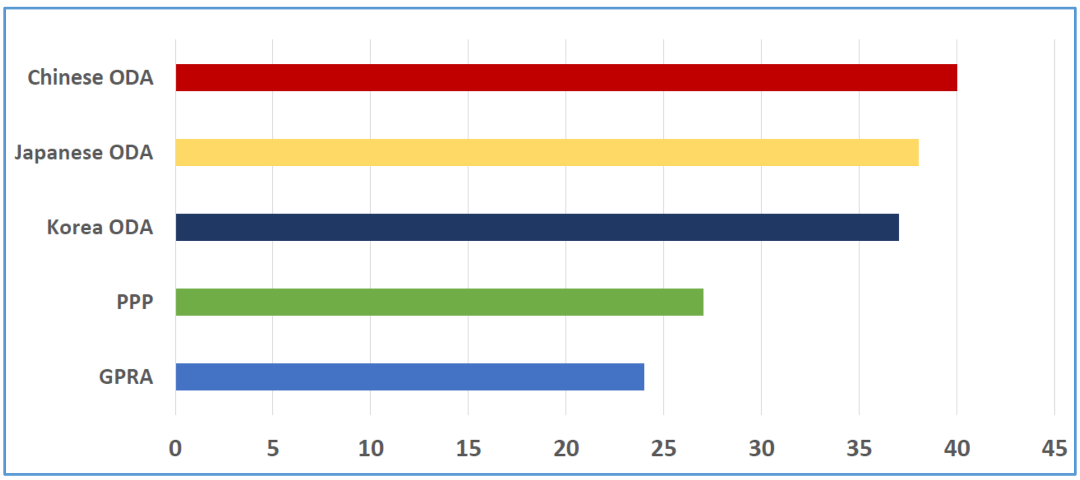
At the same time, statistics have been presented, showing that PPP bids have generally been lower than the original government approved project costs and that compared to ODA projects, PPP projects actually take-off faster:

Figure 7: NEDA-approved projects costs vs. PPP Bid costs



Source: Montes (May 2017); Philippine PPP Center

Figure 8: Project Development to Groundbreaking: Fastest Time (in months)



Source: Montes (May 2017); Philippine PPP Center

However, the main criticism of PPP, which has likely prompted the shift, is the claim that PPP projects take too long to prepare before it reaches implementation. In the period 2010 to 2016, of the 28 PPP projects approved by the NEDA Board, 14 PPP projects (50%) have yet to be implemented or was discontinued or terminated.[38]

[38] Tungpalan, Rolando (NEDA Undersecretary), "Presentation on the Official Development Assistance and Public-Private Partnership in Financing Public Infrastructure", *delivered last May 30, 2017 during the Management Association of the Philippines (MAP) General Membership Meeting, Makati Shangri-La.*

Hybrid PPPs

As the debate rages on, Budget Secretary Diokno proposed considering "hybrid" PPPs where construction of the facility is undertaken by government through ODA financing, while private sector will be tasked to operate and maintain the same. Under such an arrangement, government can undertake construction cheaper as it can borrow at lower rates via ODA, while taking advantage of private sector's capability to operate infrastructure facilities more efficiently.[39] Some of the projects being contemplated for hybrid PPP financing are the Cebu Bus Rapid Transit (BRT) as well as the Clark International Airport New Terminal Building Project. Although such "hydrid" PPPs present advantages, they may present interface risks as it is not the party in charge of the operation is not the one responsible for the construction. This could result in "blame game" between the two parties in case of problems during the lifetime of the project.

On the other hand, PPP Center Executive Director Ferdinand Pecson proposed an alternative way of "hybrid" financing for PPPs. This will involve govenrment still availing of ODA to secure cheap financing; however, instead of government undertaking the construction, ODA funds will be utilized to finance subsidies or availability payments required in the construction of complex infrastructure such as railways and airports by the winning private sector proponent.[40]

Figure 9: Modes of Infrastructure Financing

	OFFICIAL DEVELOPMENT ASSISTANCE	PUBLIC-PRIVATE PARTNERSHIP	HYBRID FINANCING *	PROPOSED HYBRID FINANCING**
Financing	Government development partners	Private sector	Government development partners	Government development partners
Construction	Private contractors *(selected by government, lender)*	Private sector	Private contractors *(selected by government, lender)*	Private sector *(selected by government, lender)*
Operation and Maintenance	Government	Private sector	Private sector	Private sector

*preferred by the Duterte Administration
** proposed by the PPP Center

Source: PPP Center of the Philippines

This is different from the "hybrid" PPP scheme proposed by Diokno and endorsed by the Duterte Administration, where ODA for building the infrastructure may be tied to the agreement between government and the lender on a specific company who will construct the project.

[39] "Government considered 'hybrid' PPP deals", *Business World,* July 21, 2016, Top Story Section.
[40] Ocampo, Julian, "As foreign loans for infra face risks, hybrid option seen", *The Philippine Star,* June 5, 2017, Business Section.

The Rise of Unsolicited Proposals

A project will be considered unsolicited if it originated from the private sector, after which tender may then proceed through a Swiss Challenge process where the unsolicited proponent (the private sector entity that submitted the unsolicited proposal) is given the right to rematch the proposal that bested the one that it originally submitted. During the Aquino administration, unsolicited proposals (USPs) were unpopular due to the stigma caused by prior unsuccessful and controversial projects such as the NAIA Terminal 3 Project and the Casecnan Transbasin Multpurpose Project, among others.[41]

Of the ones indicated as part of the PPP Center's pipeline, at least two are USPs: (1) the Manila Bay Integrated Flood Control, Coastal Defense and Expressway Project, and (2) the MRT Line 7 Project.

However, the number of USPs that have been submitted since the beginning of the Duterte Administration is actually higher. The shift in focus follows pronouncements by Finance Secretary Carlos Dominguez that the Duterte Administration welcomes the submission of USPs from the private sector.[42] To date, there have been at least 11 documented USPs (apart from the two abovementioned) submitted to various national line agencies since 2016:

- C3 Elevated Expressway (PhP 25 billion / $500 million), submitted by Ayala Corporation and SM Investments – an 8.6-kilometer toll road that would link Sta. Mesa, Manila to the Mall of Asia complex;[43]
- Bulacan Airport City (PhP 700 billion / $14 billion), submitted by San Miguel Corporation – an airport complex that will span 1,168 hectares and will have as many as six parallel runways, and will initially have a capacity of 100 million passengers per year;[44]
- Sangley Point International Airport (PhP 1.3 trillion / $26 billion), submitted by Belle Corporation and Asia Resources & Reclamation Corporation (ARRC) – involves the development of an international airport and economic zone at Sangley Point, Cavite, with a capacity of 90 million passengers per year;[45]

[41] Summarized discussions of these two cases may be found in: Llanto, Gilberto (2010), A Review of Build-Operate-Transfer for Infrastructure Development. Philippine Institute for Development Studies (PIDS): Makati City, Philippines.

[42] Magtulis, Prinz, "Dominguez Welcomes Unsolicited Infra Proposals", *The Philippine Star,* July 4, 2016, Business Section.

[43] "Ayala, SM offer to put up P25-B elevated expressway", *The Inquirer,* April 1, 2017, Business/Headlines Section.

[44] Caraballo, Mayvelin, "Gov't Studying SMC's Bulacan Airport Plan", *The Manila Times,* July 16, 2017. Business Section.

[45] "Group of Sy and Tieng also wants to build a new airport", *Rappler,* October 31, 2016. http://www.rappler.com/business/150865-sy-tieng-new-airport-ang (Accessed: June 30, 2017)

- Megawide's Clark International Airport Unsolicited Proposal (PhP 250 billion / $5 billion), submitted by GMR-Megawide Corporation – involves six phases of development that will accommodate as much as 100 million passengers per year;[46]

- JG Summit's Clark International Airport Unsolicited Proposal (PhP 187 billion / $3.74 billion), submitted by the Filinvest-JG Summit Consortium to the DOTr – involves the operation, maintenance, and capacity augmentation of the existing airport that will be implemented across five phases to accommodate 36 million passengers annually;[47]

- Cavite Gateway Terminal ($30 million) submitted by the International Container Terminal Services, Inc (ICTSI) – a roll-on roll-off (RoRo) terminal to be located in Cavite province, phase 1 of which is designed to support a total output of 115,000 TEUs;[48]

- Manila-Laguna Cargo Rail (PhP 10 billion / $200 million) submitted by MRail and ICTSI – the first phase will connect the Manila Port to Calamba Laguna (once operational, an estimated reduction of 200-600 40-foot container trucks on the road is expected), the second from Manila Port to Clark, and the third from Clark to Subic and Calamba to Batangas;[49]

- C-5 Overhead Expressway (PhP 50 billion / $1 billion) submitted by Metro Pacific Investments Corporation (MPIC) – a 20-kilometer toll road that would connect C-5 to the Manila-Cavite Expressway;[50]

- Manila-Taguig Expressway / MTEX (PhP 41 billion / $820 million) submitted by CLGP Philippine Holdings and P.T. Citra Persada Infrastruktur – a 17.71-kilometer elevated toll road that will connect the province of Rizal to Pasig, Makati and Manila;[51]

- Manila-Quezon Expressway (PhP 67 billion / $1.34 billion) submitted by the Grand Metro Manila Gateway Corporation – a 102-kilometer toll road that would cross Laguna de Bay and Link Pasig City and Candelaria, Quezon;[52] and

- East-West Railway Project (cost to be determined) submitted by East-West Rail Transit Corporation – involves the construction and operation of a 9.77-kilometer railway line from Diliman, Quezon City along Quezon Avenue up to Espana Boulevard in Manila.[53]

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[46] Dumlao-Abadilla, Doris, "Megawide offers to build P250-B Clark airport", *The Inquirer,* March 17, 2017. Business / Headlines Section.

[47] Delavin, Imee Charlee, "Filinvest, JG Summit promise new Clark airport by 2020", *Business World,* March 16, 2017. Corporate News Section.

[48] Amojelar, Darwin, "ICTSI gets nod for RoRo terminal", *Manila Standard,* April 20, 2017, Business Section.

[49] Canivel, Roy Stephen, "MRAIL, ICTSI to invest P10B in cargo rail line", *Business World,* July 28, 2016. Corporate News Section.

[50] Desiderio, Louella, "MPIC to revive P50-B bid for C-5 overhead expressway", *Philippine Star,* March 14, 2017, Business Section.

[51] Department of Public Works & Highways, "Manila-Taguig Expressway", http://www.dpwh.gov.ph/dpwh/PPP/projs/taguig (Accessed: July 3, 2017)

[52] Camus, Miguel, "P100-B tollroad projects proposed", *The Inquirer,* February 2, 2017, Business / Headlines.

[53] Dumlao-Abadilla, Doris, "Megawide buys into Diliman-Espana railway project", *The Inquirer,* July 12, 2017, Business Section.

This unprecedented increase in USP submissions prompted the PPP Center to supplement the BOT Law and its implementing rules with various detailed guidelines to further institutionalize the process for evaluating, accepting, and conducting competitive Swiss Challenge tenders for USPs. As a means of providing further support to the PPP Center and line agencies evaluating big-ticket USPs, it was suggested that the PDMF be tapped to hire sector and PPP experts that have the experience and capability to assess the feasibility of full-blown proposals.[54] To date, only one Swiss Challenge has been conducted for a USP since the reorganization of the PPP Center in 2010 – the NLEX-SLEX Connector Road.

Joint Ventures

Yet another emerging trend in private participation in infrastructure development is the implementation of Joint Venture contracts. Under the Revised NEDA Joint Venture Guidelines, GOCCs, Government Financial Institutions, Government Corporate Entities (GCEs), Government Instrumentalities with Corporate Powers (GICPs), and State Universities and Colleges (SUCs), may enter into a Joint Venture (JV) with a private sector partner, whether through a contractual agreement (i.e. a JV Agreement or JVA) or through the formation of a JV Company, to undertake a specific activity that is responsive to national development goals and objectives.[55] The Guidelines define a Joint Venture as:

> *"An arrangement whereby a private sector entity or a group of private sector entities on one hand, and a Government Entity or a group of Government Entities on the other hand, contribute money/capital, services, assets (including equipment, land, intellectual property or anything of value), or a combination of any or all of the foregoing to undertake an investment activity. The investment activity shall be for the purpose of accomplishing a specific goal with the end view of facilitating private sector initative in a particular industry or sector, and eventually transfer the activity to either the private sector under competitive market conditions or to othe government…"*

Investment activities include infrastructure or development projects. According to the PPP Center, while JV projects are included in the PPP Center's mandate per Executive Order No. 8 (2010), such projects do not enjoy project development support from the PDMF, as the latter is limited only to projects structured under the framework of the Build-Operate-and-Transfer (BOT) Law.[56] At the same time, the NEDA JV Guidelines expressly excludes LGUs from its coverage, leaving the crafting of a framework for LGU-level JV projects to local governments themselves. Given this, majority of the JV projects that have progressed to actual implementation, have been initiated by the private sector in partnership with LGUs in the water and government offices sectors. In the water sector, the following are some of the JV projects inked in the last six years:

- The Cebu Bulk Water Supply Project, a JV between the Manila Water-Metropacific's Cebu Manila Water Development (CMWD), Inc. and the Cebu Provincial

[54] DLA Piper and RebelGroup International, "Reinforcing the PPP Program: PPP Policy Submissions from RebelGroup and DLA Piper." *Paper submitted to the PPP Center.* July 2016.

[55] Section 6.1 of the 2013 NEDA JV Guidelines.

[56] Lea Odulio (International Finance Sector Specialist, PPP Center) and Lawrence Velasco (Director III, Project Development Service, PPP Center), interviewed last 14 July 2017, 8th Floor, One Cyberpod Centris, Eton Centris, EDSA Quezon City, Metro Manila, Philippines.

Government, with financing from DBP and JICA, for the delivery of 18 million liters per day (MLD) of water for the first year and 35 MLD for the second year until 2035;[57]

- The Davao City Bulk Water Supply Project, a JV between Aboitiz-JV Angeles' Apo Agua Infrastructura Inc. and the Davao City Water District (DCWD) to supply up to 300 MLD of potable bulk water from the Tamugan River to DCWD;[58]
- The Tagum Bulk Water Supply Project, a JV between the Manila Water-iWater's Davao Del Norte Water Infrastructure Co., Inc. and the Tagum City Water District, involving a 15-year concession to supply an additional 38 MLD to Tagum City;[59]
- The Iloilo Bulk Water Supply Project, a JV between the Metropacific Water Investments Corporation (MWIC) and the Metro Iloilo Water District (MIWD), for the rehabilitation, expansion, operation and maintenance of MIWD's existing water production facilities;[60]
- The Calasiao water supply system development project, a JV between Manila Water and the Calasiao Water District (CWD) to design, construct, rehabilitate, maintain, operate, finance, expand and manage CWD's water supply system;[61]
- The Obando water supply system development project, a JV between the Manila Water Philippine Ventures, Inc. and the Obando Water District (OWD), for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of OWD;[62] and
- The Cagayan de Oro Bulk Water Project, a JV between MWIC and the Cagayan de Oro Water District (COWD), involving the acquisition and construction of a 100 MLD water treatment plant, transmission lines, and rehabilitation of the Camaman-an Reservoir to supply the COWD, which currently has about 90,000 service connections.[63]

For government centers, AlloyMTD Philippines, Inc., a unit of the AlloyMTD Malaysia Group, has spearheaded the development of various government centers in the Philippines as unsolicited JV proposals. Thus far, the group has already successfully completed the devleopment of government centers in Laguna, Nueva Ecija, and Bataan,

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57 Feliciano, Claire-Ann, "Ayala-led consortium starts commercial ops at Cebu bulk water project", *Business World*, February 3, 2015, Corporate News Section.

58 "Aboitiz-led joint venture to build PH's largest water supply facility", *Rappler,* March 18, 2015. http://www.rappler.com/business/industries/208-infrastructure/87249-aboitiz-joint-venture-bulk-water-project (Accessed: July 5, 2017)

59 "MWC, partner undertake water project in Davao", *The Inquirer,* November 2, 2015, Business/Headlines Section.

60 Conserva, Louine Hope, "MetroPac, Iloilo water district to launch P2.8-B joint venture project", *Business World,* July 21, 2016, Corporate News Section.

61 Saulon, Victor, "Manila Water bags Calasiao project", *Business World,* December 15, 2016, Corporate News Section.

62 Saulon, Victor, "Manila Water bags contract for Obando project", *Business World,* January 25, 2017, Corporate News Section.

63 Dumlao-Abadilla, Doris, "MPIC unit bags P2.8B CDO water project", *The Inquirer,* March 24, 2017, Business Section.

and has recently offered to develop a similar structure at a bigger scale, for the National Government to be located in Clark, Pampanga.[64]

Expediency and convenience seem to be the primary driving forces for adopting JV as the preferred mode of implementing infrastructure projects through private participation at the municipal level. Due to the lack of an institutionalized framework for evaluating, approving and tendering JV projects, LGUs are given free rein to craft the rules themselves. While this indeed often results to swift implementation of infrastructure projects, it is likewise prone to undermine transparency and competition, as well as propagate corruption.

LGU-level PPPs

For LGU-level projects that fall under the purview of the BOT Law, there remains a lack of support from the PPP Center's PDMF to provide funds for the hiring of experts to assist LGUs in packaging such projects.[65] At best, PPP Center can extend capacity-building activities to LGUs, provide limited manpower support in the evaluation of projects, and/or refer such projects to support programs being offered by multilateral partners and donors (i.e. ADB's Asia Pacific Project Preparation Facility / AP3F, the Cities Development Initiative for Asia / CDIA, USAID) or partly-subsidized loans extended by Government Financial Institutions (i.e. DBP and Landbank). However, given the sheer amount of potential PPP projects from LGUs, financing support offered by various institutions are few and far between.

B. The Role of Capital Markets

The Philippine capital market has always been a significant source of financing for infrastructure projects. From time to time, government issues peso-denominated treasury notes, bills and bonds, as well as foreign currency denominated bonds to institutional investors as well as peso-denominated treasury bonds and multi-currency treasury bonds to retail investors. At the same time, retail investors may indirectly invest in treasury bills through trust agreements with banks.[66]

Listing of PPP Companies

Recently, the Philippine Stock Exchange (PSE) issued the new listing and disclosure rules applicable to companies engaged in PPP projects. Under the PPP listing rules, a PPP Company that has been awarded a PPP contract or a special purpose company (SPC) incorporated specifically for undertaking an awarded PPP project may apply for listing in the stock exchange provided:

(1) The PPP project cost is not less than PhP 5 billion ($100 million), as indicated in the financial bid; and

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[64] Montealegre, Krista, "AlloyMTD proposes P120-B 'Putrajaya' in Clark", *Business World,* July 21, 2017, Corporate News Section.

[65] During the July 14 interview, PPP Center communicated that the framework and resources required to operationalize PDMF funding for LGU-level PPPs is still being worked out and has not yet been finalized.

[66] Navarro, Adoracion and Gilberto Llanto, "Financing Infrastructure in the Philippines: Fiscal Landscape and Resources Mobilization." (Discussion Paper Series No. 2014-01, Philippine Institute for Development Studies, Makati City, Philippines, January 2014)

(2) The PPP Company must have completed construction works or a phase thereof in case the PPP project consists of several phases, and has commercial operations and/or maintenance services; or, the PPP Company has commenced commercial operations or where there is no commercial operations, maintenance services, provided that the PPP contract awarded is not solely for operations and maintenance.[67]

PPP Companies are also exempted from the minimum three-year track record and operating history requirement for listing by the PSE. The life of the listed PPP Company is considered co-terminus with the project's concession period, but with a minimum contract of 15 years. With these listing rules and guidelines in place, PPP Companies are now able to tap equity via the capital market to invest in and finance big-ticket PPP projects.

PPP Bonds

At the same time, the SEC, with assistance from the PPP Center, also plans to come up with rules to allow companies with ongoing PPP contracts to issue and list "project bonds" with the Philippine Dealing & Exchange Corporation (PDEx), to provide wider financing options to these companies. These bonds serve to broaden the investor base and better match the financing of long-term infrastructure assets with institutional investors, and therefore allow banks that financed the construction to recycle their funds to be invested into other projects.

The proposal has been welcomed by firms who are currently engaged in PPP projects, stating that there is a need to offload some of the financing requirements for such projects, and opening the opportunity to the capital markets through the issuance of project bonds can help.[68] The Philippine Dealing System (PDS) Group, the operator of the trading platform for fixed-income securities, has also expressed a similar interest to come up with rules and regulations to encourage the issuance of PPP project bonds to help finance these long-term projects.[69]

The PDEx welcomes the suggestion, stating that given the long-term nature of PPP projectsm the lapsing of the additional 25% single borrowers' limit (SBL) of banks for PPP projects, and the tightening regulations on bank capital and liquidity, would make PPP bonds a viable financing option. It is worth noting however that bonds have previously been issued to finance long-term infrastructure projects, such as the PhP 7.3 billion ($146 million) bond of the South Luzon Tollway Corporation and PhP 7 billion ($140 million) debt of Manila North Tollways Corporation, done in 2014. To date, The PPP Center is working with experts in providing assistance for the drafting of said rules.[70]

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[67] Securities and Exchange Commission (SEC) Philippines, "SEC Approved Public Private Partnership Listing Rules", November 9, 2016 http://www.sec.gov.ph/wp-content/uploads/2015/10/SEC-Approved-PPP-Listing-Rules-November-08-2016.pdf (accessed July 4, 2017)

[68] Austria, Jennifer, "SEC prepares rules on PPP bond listing", *Manila Standard,* January 27, 2017.

[69] Cabuag, VC, "PDS plans to issue own rules for project bonds," *Business Mirror,* January 26, 2017, Business Section.

[70] Lea Odulio (International Finance Sector Specialist, PPP Center) and Lawrence Velasco (Director III, Project Development Service, PPP Center), interviewed last 14 July 2017, 8th Floor, One Cyberpod Centris, Eton Centris, EDSA Queijgknzon City, Metro Manila, Philippines.

Apart from project bonds, the PPP Center likewise communicated the possibility of infrastructure notes/bonds being issued by government, to finance projects that require availability payments and/or subsidies.

The Philippine Investment Alliance for Infrastructure

Moreover, the Government Service Insurance System (GSIS) plans to setup another $400 million fund for major infrastructure projects after the success of the Philippine Investment Alliance for Infrastructure (PINAI) fund. The PINAI was a $625 million private equity fund primarily financed by GSIS ($400 million), and co-financed by ADB ($25 million), the Dutch-based pension fund Agemene Pensioen Groep ($150 million), and the Macquarie Group ($50 million), to finance infrastructure projects in the Philippines, particularly in the following sectors: water and waste; roads, rail, and other mass transit; ports and airports; power generation, transmission and renewable energy; gas distribution; and telecommunications.[71]

PINAI's investments include: (1) ; purchase of 32% ownership in the 200-MW wind farm project in Caparispisan, Ilocos Norte;[72] (2) purchase of the San Carlos Solar Energy (Sacasol) project, which produces about 45 megawatts (MW) of power; and (3) purchase of a majority stake in the Negros Island Solar Power (islaSol) from Bronzeoak Philippines (a pioneering renewable energy firm), which produces about 80 MW.[73] Given the success of PINAI, GSIS mulled the structuring of a possible "PINAI 2" fund, with core infrastructure projects such as power, mass transit, and water as the possible sectors of interest.[74]

The LGU Guarantee Corporation

At the municipal level, there also exists the LGU Guarantee Corporation (LGUGC), a joint undertaking between the Bankers Association of the Philippines (BAP) and the DBP, with infusion of additional capital (in 2005) from the ADB.[75] The LGUGC was incorporated on March 2, 1998 and registered with the SEC to engage in activities related to the guarantee of loans and other forms of credit accommodations granted to LGUs and other entities (i.e. water districts, electric cooperatives) by financial institutions duly accredited with the LGUGC, as well as capital market instruments issued by LGUs and other entities.

The primary goal of the LGUGC was to facilitate the access of creditworthy LGUs with financially viable infrastructure or development projects to the private capital market by providing guarantees for bank loans or bond flotations. From its commencement of operations in 1998, it has since extended its guarantee services to other entities that provide products and services that promote countryside development and national

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[71] Navarro, Adoracion and Gilberto Llanto, "Financing Infrastructure in the Philippines: Fiscal Landscape and Resources Mobilization." (Discussion Paper Series No. 2014-01, Philippine Institute for Development Studies, Makati City, Philippines, January 2014)

[72] Dumlao, Doris, "Ayala taps investment fund for new wind farm projects", *The Inquirer*, July 14, 2013, Business / Headlines Section.

[73] Olchondra, Riza, "PINAI fund hikes investment in solar", *The Inquirer,* November 2, 2015, Business / Headlines Section.

[74] Agcaoili, Lawrence, "GSIS mulls new $400-M fund for infra", *The Philippine Star,* April 21, 2016, Business Section.

[75] ADB later sold its shares to DBP.

economic growth directly or indirectly, such as water districts, electric cooperatives, SUCs, renewable energy technology providers, and medium and large enterprises that have infrastructure contracts with LGUs, GOCCs, national government line agencies, and top 1,000 private corporations.[76]

The following provides a snapshot of some of the big-ticket projects and bonds (i.e. PhP 200 million / $4 million above) financed through the LGUGC:[77]

Table 16: LGUGC-funded Projects

Proponent	Project	Loan Amount Guaranteed
1. Cabanatuan City Water District	Rehabilitation and Expansion of Water System	PhP 250 million / $5 million
2. City of San Fernando Water District	Rehabilitation and Expansion of Water System	PhP 226 million / $4.52 million
3. Hexamindz Corporation	Financing of various contracts and purchase orders from different government agencies	PhP 200 million / $4 million
4. Central Negros Electric Cooperative, Inc.	Reduction of System Loss and Improvement of Quality, Reliability, and Efficiency of Distribution Operation	PhP 339.95 million / $6.8 million
5. Puerto Princesa City Green Bonds	Puerto Princesa City Low-cost Housing	PhP 320 million / $6.4 million
6. Caloocan City Katipunan Bonds – Series "B"	City Hall Park with Commercial Area & Toll Parking	PhP 225 million / $4.5 million
7. Caloocan City Katipunan Bonds – Series "C"	General Hospital	PhP 210 million / $4.2 million
8. Tagaytay City Tourism Bonds	Tagaytay City International Convention Center & Lodging Facility	PhP 220 million / $4.4 million
9. Leyte Liberation Bonds – Series "A"	Leyte Academic Center	PhP 205 million / $4.1 million
10. San Juan Pinaglabanan Bonds	San Juan Multipurpose Gymnasium, Commercial & Toll Parking Complex	PhP 390 million / $7.8 million
11. Pasay Kaunlaran Bonds	Pasay City Public Market & Commercial Markets	PhP 500 million / $10 million

Source: LGU Guarantee Corporation

[76] Asian Development Bank (ADB), *Philippines: Public-Private Partnerships by Local Government Units*, Mandaluyong City, Philippines: ADB, 2016.

[77] LGU Guarantee Corporation, "Projects Guaranteed" http://lgugc.com/ (accessed: July 7, 2017)

V. Financing Infrastructure in the Philippines: Trends & Opportunities

A. Trends

Aggressive Infrastructure Spending

Perhaps the most significant trend in infrastructure financing is the Philippine Government's commitment to bring about a "golden age of infrastructure" and closing the country's long-standing infrastructure gap. As earlier presented, this will entail spending around $180 billion from 2017 to 2022, which will be achieved *only* if the proposed CTRP is passed as law without any downgrades in the proposed tax rates. Giving due consideration to the legislature's independence in ratifying laws, the economic managers should anticipate the possibility of downgrading of proposed tax rates (or even non-passage of the proposed measures) and devise alternative fiscal strategies for meeting the infrastructure investment target.

An Apparent Shift to ODA Financing

The Philippine Government has openly committed to maintain a borrowing mix of 80-20 mix (with 20% coming from ODA), in order to minimize exposure to foreign exchange fluctuations and to better manage the country's debt.[78] However, it has nevertheless become apparent that ODA is at the forefront of government's infrastructure plan, financing 48 of the 75 flagship infrastructure projects including those that have priorly been structured as PPPs.

Dubbed as a "reversal" of the Aquino Administration's PPP blueprint for infrastructure financing, the Duterte Administration pointed out the delay and lengthy process PPP process as the primary reason for the shift.[79] Renewed commitments from bilateral and multilateral partners as well as the increasing role of Chinese ODA in infrastructure financing, suggest that ODA will remain, if not increasingly become, a potent source of financing for infrastructure projects. Government also pointed out that private sector remains to have a significant role even with the shift to ODA from PPP, with its proposed "hybrid PPP" scheme, where private sector inherits the newly-constructed facility and undertakes its operation and maintenance for an agreed-upon period.

Influx of USPs & JVs

The above notwithstanding, private sector remains a relevant source for financing. To date, at least $52.6 billion worth of projects have been unsolicitedly proposed by private sector to government, mostly in the transport sector. With government openly stating that it welcomes unsolicited proposals from private sector, submissions are likely to continue, but only if government is able to show that it is capable of competently and

[78] Agcaoili, Lawrence, "Dominguez allays debt trap fears over infra plan", *The Philippine Star,* August 26, 2017, Business Section.

[79] "Big role for private firms in gov't infra push - Cabinet", *Rappler,* April 26, 2017. http://www.rappler.com/business/167953-private-sector-role-dutertenomics-infrastructure (Accessed: July 20, 2017)

swiftly processing and approving / disapproving such proposals. At the municipal level, joint ventures continue to gain ground and has become one of the viable mechanisms for financing and implementing infrastructure projects, especially in the water and government buildings sector.

B. Opportunities

"Hybrid Financing of PPPs"

Notwithstanding the subscription of the Duterte Administration to its own idea of a "hybrid PPP", the proposal of PPP Center – i.e. "hybrid financing of PPPs" – is still worth considering. Under this proposed financing scheme, the government / concerned line agency evaluates the viability of the project in its entirety (i.e. design, construction or rehabilitation, operation, maintenance, and/or expansion). Based on the results, a determination is made whether government support (i.e. viability gap funding or subsidy, availability or milestone/bullet payment, etc) is required; such government support requirement, if any, may then be sourced from ODA funds.

Compared to just directly funding the construction of a project through ODA and having a private sector proponent operate and maintain the same, the "hybrid financing" model presents a number of advantages:

(1) Taking advantage of the low interest rates offered by ODA loans, thereby making construction costs more affordable, but without the "tied" component of having to engage the ODA lender's preferred contractors;

(2) Achieving optimal value-for-money by getting rid of any interface risk between construction and operation & maintenance; and

(3) Optimized use of ODA funds, as these will only be availed of in cases where a project requires government support.

Role of Capital Markets

The recent approval of the rules and guidelines for the listing of PPP Companies in the PSE opens up equity investment to capital markets. This will be complemented by the release of guidelines for the issuance of PPP project bonds by PPP Companies and infrastructure notes/bonds to be issued by government. At the same time, the BSP, DOF, SEC, and the Bureau of Treasury (BTr) intends to implement a reform package designed to spur further the development of the domestic debt market to provide complementary local currency resources to fuel the country's infrastructure program. The package will include the following:

(1) permanent increase in the volume of treasury bills;
(2) consolidation of government bonds into six (6) liquid tenors: 2Y, 3Y, 5Y, 7Y, 10Y and 20Y;
(3) adoption of common semi-annual coupon payment dates;
(4) designation of market makers with obligations and privileges;
(5) introduction of a GMRA-based repurchase agreement (repo) market; and

(6) other regulatory reforms to support the adoption of market-based benchmark pricing and other reforms to facilitate price discovery, among others.[80]

The institutionalization of these mechanisms will allow capital markets to take on a more active role in financing infrastructure projects that are already being implemented.

Enhancing Capacities in Developing & Evaluating USPs

Under Section 10.5 of the Revised Implementing Rules & Regulations (IRR) of the Philippine BOT Law, a "complete" unsolicited proposal is required in order for government to consider the submission. A "complete" proposal includes, among others: (1) a feasibility study which should indicate all the relevant assumptions of the project, (2) a draft contract compliant with the standards set forth in the IRR,[81] and (3) other necessary documents, even if proprietary in nature. Given the extensive documents required to be submitted as well as the influx of submissions already made and will be made, it becomes necessary for government to build capacity and expertise to competently evaluate full-blown USPs.

While the PPP Center already prepared various supplemental guidelines to assist line agencies and LGUs on how to process and evaluate USPs, such proposals still require robust value-for-money analyses that take into account both quantitative and qualitative elements to determine whether they offer the best model for the proposed outcomes. An inability to adequately assess USPs thoroughly and efficiently, slows down the assessment process, creates uncertainty and lack of confidence in the assessment process and ultimately constrains government's ability to leverage private sector initiative.[82] As such, there may be a need to engage sector and PPP experts to assist the concerned line agency / LGU in the evaluation, approval, as well as the "Swiss tender" of the USP. For this purpose, funds from either the PPP Center's Project Development & Monitoring Facility (PDMF) or some other financing source may be tapped.

PDF for LGU-level PPPs

At the municipal level, the coverage of the PDMF may be extended to cover LGU-level PPP projects. Such may serve as a complement to the Municipal Development Fund Office's (MDFO) Project Technical Assistance and Contingency Fund (PTACF), specifically

[80] Bangko Sentral ng Pilipinas (BSP). "BSP-BTR-SEC Conducts Local Currency Debt Market Development Workshop." http://www.bsp.gov.ph/publications/media.asp?id=4454 (accessed September 4, 2017)

[81] Section 4.4 states that the draft contract should clearly define the basic and legal relationship between the parties and their rights and responsibilities including the specific Government Undertakings to be provided by the contracting line agency relative to the project. It must also contain the following: (a) the specific contractual arrangement, term & scope of work; (b) project technical specifications & system features; (c) implementation milestones including those for securing other approvals, project completion date; (d) cost recovery scheme via proposed tolls, fees, rentals and charges, as the case may be; (e) liquidated damages as contemplated under Sec. 12.14 of the BOT-IRR; (f) performance and warranty bonds contemplated under Secs. 12.8 and 12.9; (g) minimum insurance coverage as may be required for the project; (h) acceptance tests and procedures; (i) warranty period and procedures (after transfer); (j) grounds for and effects of contract termination including modes for settling disputes; (k) the manner and procedures for the resolution of warranty against corruption; and (l) compliance with all other laws, rules and regulations.

[82] DLA Piper and RebelGroup International, "Reinforcing the PPP Program: PPP Policy Submissions from RebelGroup and DLA Piper." *Paper submitted to the PPP Center.* July 2016.

for complex, big-ticket projects shown to at least be prelimiarily viable by an earlier conducted prefeasibility study or business case. This idea is not entirely unprecedented. Sometime in 2000-2004, the Land Bank of the Philippines (LBP) launched a revolving Project Development Facility (PDF), from which LGUs can borrow to finance the preparation of project feasibility studies as well as transaction support.

The PDF failed, largely due to the following: (1) limited facility coverage; (2) unfamiliarity with the BOT modality by the LGUs; (3) availability of other cheaper financing assistance, (4) consultant selection process unacceptable to LGUs, and (5) high market risk for LGUs, among others.[83] These weaknesses are now addressed by the inherent mechanisms of the PPP Center's PDMF, such as the adoption of: (1) a detailed and multi-level proposal approval process, (2) a proper project scoping method and milestone-based disbursement of PDMF funds, (3) more favorable project reimbursement terms in instances where the project fails to proceed to tender or fails to select a winning bidder; and (4) a more inclusive consultant selection process that appoints a representative of the project proponent (i.e. line agency or LGU in this case) as member of the consultant selection committee.

Support for Developing / Evaluating JV Projects

As earlier pointed out in this paper, while private sector has often preferred joint ventures (JV) as the mechanism for implementing infrastructure projects at the LGU-level, such arrangements may be prone to corruption and undermine competition due to the lack of an institutional framework that properly govern LGU-level JVs. These also make it difficult for municipal governments to standardize contracts and develop rational pricing of project risks. It often becomes a case of LGUs: (1) being at the mercy and dictates of the private sector when it submits its JV USP; (2) having free rein and crafting their own JV framework, with mixed results; and/or (3) taking advantage of the lack of any institutional/legal framework and entering into a negotiated contract (i.e. absence of competitive tender) with the private sector, which may later on prove to be less advantageous or disadvantageous to the LGU.

According to the PPP Center, notwithstanding the inclusion of JVs under its mandate, it is constrained from extending PDMF support to JV projects since such funds may only be accessed for structuring projects that utilize any of the schemes under the BOT Law.[84] This presents a gap, which may be addressed by making transaction advisory (TA) support available to LGUs that are either recipients of unsolicited JV proposals, or are contemplating JV as the scheme for implementing a particular infrastructure project. The package may also include a capacity-building component to equip LGUs with the proper knowledge and skills to package and evaluate JV projects. This may again serve as a complementing financing window to the MDFO's PTACF.

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[83] Asian Development Bank (ADB), *Philippines: Public-Private Partnerships by Local Government Units,* Mandaluyong City, Philippines: ADB, 2016.

[84] Lea Odulio (International Finance Sector Specialist, PPP Center) and Lawrence Velasco (Director III, Project Development Service, PPP Center), interviewed last 14 July 2017, 8th Floor, One Cyberpod Centris, Eton Centris, EDSA Quezon City, Metro Manila, Philippines.

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