ADB

Board of Directors

FOR OFFICIAL USE ONLY
(For consideration by the Board on or about 19 November 2015)

R122-15
29 October 2015

Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 Expanding Private Participation in Infrastructure Program (Philippines)

1. The Report and Recommendation of the President (RRP: PHI 48458-001) on the proposed programmatic approach and policy-based loan for subprogram 1 to the Philippines for the Expanding Private Participation in Infrastructure Program is circulated herewith.

2. This Report and Recommendation should be read with *Country Operations Business Plan: Philippines, 2015–2017,* which was circulated to the Board on 6 January 2015 (DOC.IN.3-15).

3. This Report and Recommendation is being submitted to the Board for discussion as it does not meet the following criterion for summary procedure: (iii) the financial assistance should not be for a program, a sector development program, or a project with a major policy reform component.

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ADB

Report and Recommendation of the President to the Board of Directors

Project Number: 48458-001
October 2015

Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1
Republic of the Philippines: Expanding Private Participation in Infrastructure Program

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 26 October 2015)

Currency unit	–	peso/s (₱)
₱1.00	=	$0.0214
$1.00	=	₱46.61

ABBREVIATIONS

ADB	–	Asian Development Bank
BOT	–	build–operate–transfer
DOF	–	Department of Finance
DOTC	–	Department of Transportation and Communications
DPWH	–	Department of Public Works and Highways
GDP	–	gross domestic product
LGU	–	local government unit
LIBOR	–	London interbank offered rate
NEDA	–	National Economic and Development Authority
PBL	–	policy-based loan
PDMF	–	project development and monitoring facility
PDP	–	Philippine Development Plan
PFM	–	public financial management
PPP	–	public–private partnership
RORO	–	roll-on, roll-off
TA	–	technical assistance
VGF	–	viability gap funding

NOTE

In this report, "$" refers to US dollars.

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Project Classification Information Status: Complete

PROGRAM AT A GLANCE

1. Basic Data			Project Number: 48458-001
Project Name	Expanding Private Participation in Infrastructure Program, Subprogram 1	**Department /Division**	SERD/SEPF
Country	Philippines	**Executing Agency**	Department of Finance
Borrower	Republic of the Philippines		

2. Sector	Subsector(s)	ADB Financing ($ million)
✓ **Public sector management**	Public administration	150.00
	Public expenditure and fiscal management	150.00
	Total	**300.00**

3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Urban environmental improvement		
Regional integration (RCI)	Pillar 1: Cross-border infrastructure		

4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development Public financial governance	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas		
Partnerships (PAR)	Implementation International finance institutions (IFI) Official cofinancing Private Sector		
Private sector development (PSD)	Conducive policy and institutional environment Promotion of private sector investment Public sector goods and services essential for private sector development		

5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High

6. Risk Categorization: Complex

7. Safeguard Categorization **Environment:** C **Involuntary Resettlement:** C **Indigenous Peoples:** C

8. Financing

Modality and Sources	Amount ($ million)
ADB	**300.00**
Sovereign Program loan: Ordinary capital resources	300.00
Cofinancing	**0.00**
None	0.00
Counterpart	**0.00**
None	0.00
Total	**300.00**

9. Effective Development Cooperation

Use of country procurement systems	Yes
Use of country public financial management systems	Yes

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed programmatic approach for the Expanding Private Participation in Infrastructure Program, and (ii) a proposed policy-based loan (PBL) to the Republic of the Philippines for subprogram 1 of the Expanding Private Participation in Infrastructure Program.[1]

2. The program will assist the government in meeting its targeted infrastructure investment rate, including public and private spending. This will be achieved by supporting sequenced reforms aimed at stepping up private investment in infrastructure through the promotion of public–private partnership (PPP) projects. In close alignment with the Philippine Development Plan (PDP), 2011–2016, the program supports initiatives aimed at (i) strengthening government financial support to PPPs, (ii) expanding and efficiently implementing the pipeline of PPP projects, and (iii) strengthening legal and regulatory frameworks for PPPs.

II. THE PROGRAM

A. Rationale

3. **Development problem and opportunities**. As a result of years of underinvestment, the availability and quality of infrastructure remains poor in the Philippines compared with most of its regional neighbors. The World Economic Forum's Global Competitiveness Report 2014–2015 ranks the Philippines 95th out of 144 countries on the quality of its overall infrastructure. Although a slight improvement from the 2013–2014 ranking (98th) did occur, the Philippines still ranks behind Singapore (5th), Malaysia (20th), the Lao People's Democratic Republic (66th), Indonesia (72nd), and Thailand (76th). This situation is the result of low public infrastructure investment (an annual 2.0% of gross domestic product [GDP] in 2008–2012) and insignificant private participation in infrastructure (investment commitments under PPP contracts totaled on average just 1.0% of GDP in 1998–2012). The country's annual infrastructure investment needs are estimated at 6.0% of GDP (by sector: 2.3% in transport, 1.9% in energy, 1.2% in telecommunications, and 0.7% in water and sanitation).[2]

4. The inadequate supply of quality infrastructure has impacted the economy in several ways. First, insufficient investments in infrastructure have become the major constraint to doing business in the Philippines and a drag on achieving higher, sustainable economic growth. Second, underinvestment in infrastructure has resulted in significant economic losses. For instance, the forgone income due to road congestion in Metro Manila is estimated at 8% of GDP.[3] Third, the government has lacked the capacity to harness the potential efficiency gains of private participation. Private participation in infrastructure tends to result in projects being delivered on time and on budget. Several studies for the United Kingdom reported that average PPP savings against traditional infrastructure projects range between 5.0% and 40.0%. The National Economic and Development Authority (NEDA) found that development projects in the Philippines, including many infrastructure projects, were beset with delays and cost overruns. Fourth, poor quality infrastructure has an important impact on poverty incidence (24.9% in 2014, national poverty line) and income inequality in the Philippines, as well-developed infrastructure network grants less-developed communities access to economic activities and services.

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1 The design and monitoring framework is in Appendix 1.

2 B. Bhattacharyay. 2010. Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010–2020. *ADBI Working Paper No. 248*. Tokyo.

3 Japan International Cooperation Agency. 2014. *Roadmap for Transport Infrastructure Development for Metro Manila and Its Surrounding Areas*. Tokyo.

5. The deepening of fiscal reforms[4] since 2010 has enabled the government to increase public infrastructure spending to 3.5% of GDP in 2014, reflecting the government's commitment to meet the PDP 2011–2016 target of public infrastructure investments of 5.0% of GDP by 2016.[5] Recognizing the private sector's large untapped potential in infrastructure provision, and the potential cost savings from PPP projects, the government successfully initiated reforms to revive the national PPP program. These efforts have resulted in the award of nine PPP projects (total investment of $3 billion) by 2015, up from six PPP projects awarded between 1992 and 2010. Signed projects include the SLEX Link Road Project; the PPP for School Infrastructure Project, phases 1 and 2; the NAIA Expressway, phase 2; the modernization of the Philippine Orthopedic Center; and the Mactan–Cebu International Airport Passenger Terminal Building. The project pipeline increased from 11 projects ($3.3 billion) in November 2010 to 45 projects ($23.2 billion) in March 2015. Such a robust PPP rollout supports the government's intention to raise private investment in infrastructure from 0.4% of GDP in 2013 to 1.1% of GDP in 2015, which would help attain the PDP's objective of a 22% ratio of investment to GDP by 2016.

6. **Binding constraints**. In 2010–2012, the government tackled the first set of issues constraining the revival of the national PPP program, such as the absence of a public office for PPP program facilitation, the lack of a project development and monitoring facility (PDMF) to prepare PPP transactions, the lack of a credible project pipeline, and inadequate implementing rules and regulations of the build–operate–transfer (BOT) law.[6] To sustain these efforts, the government has recognized the next set of hurdles it needs to clear (paras. 7–11).

7. **Inadequate financing for government's share in Public-Private Partnership projects.** Three main financial and fiscal risks need to be managed to encourage private participation. First, PPP implementing agencies must improve their systems of assessing and budgeting for right-of-way acquisition and resettlement (in the absence of which project costs may escalate and implementation timeframes are challenged). Second, strengthened management systems for, and funding of, PPP contingent liabilities (derived for instance on early contract termination, or debt guarantees) will help minimize the government's exposure to fiscal costs (if properly identified, assessed and dealt with). Addressing efficient contingent liabilities can also improve the attractiveness of PPP projects for private investors, as it reduces project associated risks and uncertainty. Third, viability gap funding (VGF), the non-remunerated grant made by the government to a PPP project, needs to be institutionalized so that the project can charge affordable tariffs to the public while producing a competitive financial return for the investor.

8. **Untapped capital market and lack of access to international commercial bank financing.** The long duration of PPP projects and their varied risk–return characteristics, as well as their complex structures, require facilitation of long-term funding by capital markets. Infrastructure projects generating a robust revenue stream provide an opportunity for project bond structuring and, with the appropriate rating, represent an attractive asset class for institutional investors, i.e., the pension funds and life insurance companies managing long-term asset–liability portfolios.

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[4] On the revenue side, important reforms included the implementation of the Sin Tax, and efforts on enhancing the efficiency of tax administration and combating evasion, leading to improved tax collection.

[5] Government of the Philippines. 2014. *Philippine Development Plan 2011–2016: Midterm Update. With Revalidated Results Matrices.* Manila.

[6] Republic Act 6957, dated 9 July 1990 (as amended by Republic Act 7718, dated 8 May 1994), sets a uniform framework for undertaking PPPs to be followed in all sectors and by all levels of government.

9. **Lack of infrastructure master plans.** The country's transport infrastructure woes are rooted in a lack of long-term planning. While sector master plans exist, integrated infrastructure master plans for regions or regional infrastructure development plans are not in place. The sector plans themselves are marked by insufficient integration of land-use planning and physical framework plans across administrative jurisdictions, which may be regarded as the root causes of the infrastructure deficit. Expanding the PPP project pipeline will require the adoption of integrated transport master plans for the nation and the main metropolitan regions to guide sector investment plans. That will allow investors to plan over the long term.

10. **Fledgling institutional framework.** To develop the PPP pipeline, it is also essential to strengthen core PPP institutions and implementing agencies. Core institutions include the PPP Governing Board as the overall policy-making body, the PPP Center, the PDMF as the revolving fund for PPP project preparation, and the international transaction advisory panel for PPP units. All of these need to be effectively set up, staffed, and budgeted to implement the PPP program. In the Philippines, some agencies such as the Department of Transportation and Communications (DOTC) and the Department of Public Works and Highways (DPWH) have functioning PPP units, but these still need strengthening to fulfill their roles effectively. Finally, expanding the PPP pipeline will require rolling out reforms to selected local government units (LGUs) in a sequenced manner.

11. **Incomplete legal and regulatory framework.** The current BOT law offers a narrow regulatory framework for PPPs. It has been expanded in a number of reforms but needs to be institutionalized. Various amendments to the BOT law are required, such as (i) clearly defining tax incentives for PPP projects of national significance, (ii) streamlining PPP project approvals within the government, (iii) strengthening the PPP institutions, or (iv) institutionalizing the PDMF transaction advisory mechanism. In addition, alternative tools are needed to resolve disputes, such as those arising from a contract. Making their resolution less expensive, tedious, complex, and time-consuming will create a climate more conducive to private investments.

12. **Government reform agenda**. The government's strategy is to boost public infrastructure investments to 5.0% of GDP by 2016 and to increase private participation in infrastructure to 1.1% of GDP by institutionalizing the PPP program. The government has successfully implemented reforms to revive the PPP program: it (i) restructured the former BOT Center at the Department of Trade and Industry into an empowered PPP Center; (ii) amended the implementing rules and regulations of the BOT law; (iii) established the PPP Governing Board as its central PPP policy-making body; and (iv) set up the PDMF to support implementing agencies in the conduct of pre-investment studies, and project monitoring. Going forward, the government has sketched out reforms to (i) strengthen public financial support for PPP projects, (ii) expand the project pipeline through continued institutional development; and (iii) complete the unfinished legal and regulatory reforms required to lock in an efficient PPP program.

13. **ADB's past interventions**. The Asian Development Bank (ADB) has long been supporting PPPs through sector projects, technical assistance (TA) projects, and PBLs in public sector management. Since 2011, ADB has provided comprehensive dedicated support to PPPs through (i) the Increasing Competitiveness for Inclusive Growth Program, 2011–2014,[7] which

[7] ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Republic of the Philippines for Increasing Competitiveness for Inclusive Growth Program.* Manila; and ADB. *2014. Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 2 to the Republic of the Philippines for Increasing Competitiveness for Inclusive Growth Program.* Manila.

supported reforms to revive the PPP program; (ii) large and innovative TA[8] projects cofinanced by the governments of Australia and Canada; and (iii) private sector operations in infrastructure finance and capital markets.[9]

14. **Lessons learned and ADB value added to reform design and implementation**. A key lesson from prior ADB support to PPP reforms is the need to take a "one-ADB approach" in support of the government's infrastructure reforms. This includes support to a medium-term policy reform framework, sustained capacity development TA,[10] and project-specific support. A second lesson learned is the need to combine support to regulatory and institutional development with project pipeline development. As a result of progress in these two areas, the main focus of ADB support is now shifting to project implementation aspects. The program emphasizes the need to build capacities for project preparation and implementation at national and local agencies through the PPP Center. Third, ADB support also underlined the need to work in parallel on the development of capital markets to allow for more opportunities to leverage financial resources from a variety of stakeholders (bank and nonbank sectors) for PPP projects. The program is therefore complemented by ADB's Encouraging Investment through Capital Market Reforms Program, processed in parallel. Through the implementation of recent TA projects, ADB has been instrumental in assisting the government in various reforms, such as (i) setting up a panel of transaction advisors under the PDMF[11] (the panel now represents 22 international consortia); (ii) strengthening the reorganized PPP Center and boosting the PPP enabling environment through advice on draft amendments to the BOT law and its implementing rules and regulations, and appraisal and approval arrangements; and (iii) strengthening the capacity of NEDA for PPP project appraisals, and the capacity of the Department of Finance (DOF) for the management of contingent liabilities arising from PPP projects. The program is included in ADB's country operations business plan, 2015–2017 for the Philippines.[12]

15. **Donor coordination**.[13] Close cooperation exists with the Japan International Cooperation Agency, the program's cofinancier with $200 million and a leading government development partner in building the capacities of PPP project implementing agencies and in drafting infrastructure road maps. In addition, ADB has forged a strong partnership for PPP reforms with the governments of Australia and Canada; both have provided significant cofinancing to ADB's ongoing TA for Strengthening Public–Private Partnerships in the Philippines, focusing on the development of the institutional framework for PPP identification and implementation. Coordination with other major development partners (e.g., International Finance Corporation, World Bank) is articulated through the platform of semiannual development partner meetings during the joint ADB–Australia–Canada review missions for ADB's TA for Strengthening Public–Private Partnerships in the Philippines. The World Bank is providing capacity building to the PPP Center, while the International Finance Corporation has

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[8] ADB. 2011. *Technical Assistance to the Republic of the Philippines for Strengthening Public–Private Partnerships in the Philippines.* Manila (TA 7796-PHI, cofinanced by the governments of Australia and Canada).

[9] ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for the GMR Megawide Cebu Airport Corporation Mactan Cebu International Passenger Terminal Project in the Philippines.* Manila; and ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Partial Credit Guarantee and Loan for the Tiwi and MakBan Geothermal Power Green Bonds Project in the Philippines.* Manila (48423-001).

[10] ADB. Forthcoming. *Technical Assistance to the Republic of the Philippines for Strengthening Public–Private Partnerships, Phase 2.*

[11] The PDMF was set up as a revolving fund, with support from TA 7796-PHI in early 2012, to help implementing agencies prepare PPP projects.

[12] ADB. 2014. *Country Operations Business Plan: Philippines, 2015–2017*. Manila.

[13] Development Coordination (accessible from the list of linked documents in Appendix 2).

assisted the development of business cases for PPP projects in the water and agriculture sectors, and facilitated the tender of infrastructure projects.

16. **Policy-based loan and budget support**. The program, building on the accomplishments and post-program partnership framework of the Increasing Competitiveness for Inclusive Growth Program, will be ADB's first policy-based operation in the Philippines to be fully focused on PPP reforms. The programmatic approach and PBL modality was selected because it will help leverage government and stakeholder support for locking complex policy objectives into implementable policy reforms and budget allocations over the medium-term. Combined with substantial TA, it supports capacity building of relevant agencies. The program will have two subprograms as part of a medium-term PPP reform. The program's reform approach is to first support the government with a robust framework for its financial support to PPP projects. The program then introduces measures to expand the pipeline of PPP projects by further enhancing the PPP institutional setup, capacity development, and planning process. The program also includes measures to complete the legal and regulatory framework to lock in the PPP program.

17. **Economic impact**. The three outputs of the program combined are expected to achieve the award of at least 15 national PPP projects during the program period and at least five local PPP projects prepared with PDMF support, in addition to an overall expanded pipeline of projects. The economic gains from this are expected to be achieved through (i) efficiency gains (in terms of project costs within budget and timely completion) associated with PPP projects, and (ii) an increase in the overall level of infrastructure investments that would not have occurred without the PPP program (para. 32).

B. Impact and Outcome

18. The impact is aligned with the government's target of increased investment in infrastructure. The outcome will be improved private participation in infrastructure. The PBL is structured around three major outputs covering all key areas of reform, and drawn from the government's reform priorities. Subprogram 1 includes 16 policy actions (seven triggers and nine milestones) completed between June 2013 and June 2015. Subprogram 2 includes 10 triggers.

C. Outputs

19. **Strengthened government financial support to PPPs**. To manage the three main financial and fiscal risks, this output will support reforms to ensure adequate and fiscally sustainable financing of the government's share in PPP projects. For subprogram 1, the government has allocated funds, under the General Appropriations Act, 2015 to cover the shares of the DPWH and the DOTC in the cost of right-of-way acquisition and resettlement in PPP projects. A contingent liabilities fund has been established to enable the government to meet its contractual obligations on PPPs. Funding has also been made available under the General Appropriations Act to ensure that the DOTC develops adequate access roads to major airports and roll-on, roll-off (RORO) facilities.

20. The government has institutionalized the VGF scheme to improve the commercial attractiveness of economically viable, solicited user-pay projects. For eligible projects, cash subsidies will be provided to the concessionaires as part of the government's contribution to the PPP project. This will facilitate the implementation of infrastructure projects with high economic benefits but an unattractive commercial rate of return at user pricing that is affordable to the

public. In addition, the government has made available adequate funding for contingent liabilities arising from PPP contracts. To ensure the fiscal sustainability of the PPP portfolio, the government has established an interagency working group to monitor contingent liabilities of pipeline and ongoing PPP projects, and DOF's Bureau of Treasury has developed a methodology for valuing PPP projects' contingent liabilities. This is expected to enhance overall investor confidence, the country credit rating, and responses to PPP projects.

21. For subprogram 2, the government will continue to ensure the fiscal sustainability of budget funding for direct and contingent public support to PPP projects, including right-of-way, resettlement, and VGF for DOTC and DPWH projects. The government will also allocate adequate funding to cover contingent liabilities arising from PPP contracts that may materialize in 2016 and 2017. The government, through the Bureau of the Treasury, will continue to improve the framework for funding contingent liabilities. Proposals will be prepared to define fiscal rules related to PPPs and for the incorporation of PPPs into debt-sustainability assessments.

22. **Expanded and efficiently implemented pipeline of PPP projects**. This output will support the expansion of the PPP project pipeline and project delivery through continued institutional development and improvements to the planning, procurement, and audit procedures. For subprogram 1, the government has signed six national, PDMF-supported PPP projects in transport, health, and education, for a total investment of $1.5 billion. An additional 10 feasibility studies have been completed for new projects. The government has strengthened the medium- and long-term transport infrastructure planning and programming frameworks,[14] and NEDA has finalized the Roadmap for Infrastructure Development for Metro Manila. NEDA has also initiated preparation of the Philippines Transport Infrastructure Roadmap.

23. The government has improved the capacity of the PPP Center by: (i) allocating more resources to the PDMF; (ii) increasing the center's permanent staff, where 50% of the professional staff are women; and (iii) adopting new guidelines that operationalize probity in PPP projects' procurement, oversight support during implementation, and development of local PPPs. With the objective of improving and speeding up the quality of PPP project approvals, the government has introduced a new appraisal process for PPP projects, clearly defining the responsibilities of the leading agencies (PPP Center, DOF, and NEDA).

24. Mindful of the need to boost the capacity of PPP projects' national and local implementing agencies, the DOTC has strengthened its management structure with a dedicated assistant secretary position to oversee PPP project implementation. In addition, the DOTC has established an ad hoc contract management unit for PPP projects, and is requesting the Department of Budget and Management to establish a permanent PPP implementation unit. To assist the identification and development of local PPP projects, the PPP Center has adopted an LGU engagement strategy that envisages support to LGUs via in-house project-based internships, partnerships with training institutions, and the establishment of separate project development facilities for LGU PPP projects.

25. Subprogram 2 of the programmatic approach will support: (i) at least 10 national PPP projects competitively tendered and awarded through the PDMF; (ii) the preparation of feasibility studies and bidding documents for at least five LGU PPP projects; and (iii) the adoption of the Philippine Transport Infrastructure Roadmap, integrating policy initiatives, strategies, and actions on transport infrastructure. Under subprogram 2, the government will continue to boost

[14] More than two-thirds of the PPP projects in the pipeline are in the transport sector. Of these, some 50% concern urban transit, airports, and rails covered by the DOTC.

the capacity of the PPP Center with adequate allocations to the PDMF, and through the testing of probity in procurement of at least five national PPP projects and the recruitment of contract supervision consultants for at least five projects. The government will provide capacity building to the PPP Center and project implementation units of the implementing agencies. The PPP Center will sign agreements with at least five LGUs, and will start delivering programmatic capacity-building support to these selected LGUs.

26. **Strengthened legal and regulatory frameworks for PPPs**. This output will support the completion and subsequent implementation of legal and regulatory reforms required to sustain an efficient PPP program. For subprogram 1, the government has supported the adoption, by the PPP Governing Board, and the submission to Congress of amendments to the BOT law that are critical in sustaining the PPP program.[15] The amendments include: (i) the institutionalization of the PPP Governing Board, the empowered PPP Center, and the PDMF and its consultant engagement framework; (ii) the institutionalization of the new process of appraisal of PPP projects, and the funding for the government's direct and contingent liabilities arising from PPP projects; and (iii) an improved process for efficient collaboration, coordination, and accountability of government agencies involved in PPP projects.

27. The government has drafted new implementing rules and regulations on alternative dispute resolution (methods such as arbitration or mediation that avoid litigation) in PPP projects. These rules will create a more inviting climate for private investments by making the resolution of disputes arising from a contract less expensive, tedious, complex, and time-consuming. To improve the quality of PPP projects and contractual arrangements, the government has issued guidelines on material adverse government action[16] and termination payments, defining principles for calculation that will be included in standard contracts.

28. For subprogram 2, the government will keep improving the PPP implementation and regulatory frameworks. This will include support to the adoption of final implementing rules and regulations on alternative dispute resolution in PPP projects. In addition, guidelines on material adverse government action and termination payments will be reviewed and recommendations for amendments submitted for the consideration of the PPP Governing Board.

D. Development Financing Needs

29. The loan for subprogram 1 is $300 million, and an equal amount is indicated for subprogram 2. The Government of Japan is considering parallel financing for Subprogram 1 in the amount of $200 million equivalent. The loan size is based on the financing needs of the Philippines, the strength of the policy reform package, and its development impact. The Philippines' gross financing needs remain high. In 2015, with a budget deficit target of 2% of GDP, the government will need to borrow ₱700 billion ($15.6 billion). In 2015, the government expects to borrow an estimated $1.65 billion through official development assistance to close the budget gap. The subprogram 1 loan proceeds will support key development spending in the 2015 budget, which may include the fiscal costs from reform implementation, and the government's share of right-of-way and resettlement costs in PPP projects.

30. The government has requested a single-tranche loan of $300 million from ADB's ordinary capital resources to help finance subprogram 1. The loan will have a 15-year term,

[15] Current law provides a narrow regulatory framework, focused solely on one PPP modality. Amendments are expected to lead to a more comprehensive PPP Act.

[16] Any event or action under the control of the government that would adversely impact the economic balance of the project and thereby interfere with the private parties' obligations under the various agreements.

including a grace period of 3 years (30% annuity amortization method), an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions set forth in the draft loan agreement. Based on this, the average loan maturity is 12.10 years, and there is no maturity premium payable to ADB. The government has provided ADB with (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility based on these terms and conditions, and (ii) an undertaking that these choices were its own independent decision and not made in reliance on any communication or advice from ADB. The loan proceeds will be used to finance the full foreign exchange cost (excluding local taxes and duties) of items produced and procured in ADB member countries, excluding ineligible items and imports financed by other bilateral and multilateral sources, in accordance with the provisions of ADB's Simplification of Disbursement Procedures and Related Requirements for Program Loans.[17] The loan proceeds will be disbursed to the Republic of the Philippines as the borrower.

Table 1: Financing Plan

Source	**Subprogram 1 Amount** ($ million)	**Subprogram 2 Amount** ($ million)	**Share of Total** (%)
Asian Development Bank	300.00	300.00	100.00
Ordinary capital resources (loan)			
Total	**300.0**	**300.00**	**100.00**

Source: Asian Development Bank.

E. Implementation Arrangements

31. DOF will be the executing agency. NEDA, the Department of Budget and Management, DOTC, DPWH, and the PPP Center will be the implementing agencies. The program will be overseen by the steering committee, chaired by DOF and with implementing agencies as members. The steering committee will meet semi-annually (and ad hoc, if needed) to (i) monitor progress in the programmatic approach and (ii) provide guidance and direction to DOF and the implementing agencies for the execution of the policy actions under the programmatic approach and the medium-term directions. The government shall invite ADB and development partners to participate in the meetings of the steering committee as observers. The implementation period is June 2013–June 2015 for subprogram 1, and July 2015–June 2017 for subprogram 2. The PBLs will be withdrawn upon accomplishment of policy triggers and upon effectiveness of the loan. The completion date for subprogram 1 is 31 December 2016.

III. DUE DILIGENCE

A. Economic and Financial

32. The net benefits of the program are estimated at $1.3 billion (gross benefits are estimated at $2.5 billion)[18] These benefits arise from two main sources: (i) an increase in the overall level of infrastructure investment attributed to the PPP program, with the resulting benefit derived from the associated increase in value added; and (ii) an increase in the efficiency of infrastructure investment through the lower costs of PPP projects that complement government infrastructure projects ($2.5 billion). This estimate assumes that PPPs are 15% more efficient

[17] ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

[18] The Program Impact Assessment (accessible from the list of linked documents in Appendix 2) provides details on the expected costs and benefits associated with the program. The analysis is corroborated by another study: International Monetary Fund. 2015. *Making Public Investment More Efficient*. Washington, DC.

than government projects. However, the program is assessed as still delivering a net benefit if PPPs are assumed to be just 7.5% more efficient than government projects.

33. The costs of the program are estimated to be $1.2 billion (over the period from June 2013 to June 2017). They comprise budgetary costs to the government ($150 million) in building its capacity to undertake PPPs, a portion of the potential costs to the government associated with contingent liabilities (about $820 million), and the costs to the private sector of submitting bids for PPPs ($250 million). Other potential budgetary outlays by the government associated with PPPs relate to provisions for right-of-way and resettlement costs, access roads to major airports and RORO facilities, and the VGF scheme.

B. Governance

34. The fiscal consolidation efforts led by the government since 2010 have allowed raising the ratio of revenue to GDP, and the prioritization of expenditure toward key areas for inclusive growth, including education, health, safety net, and public infrastructure. The government's public financial management (PFM) system has improved with the implementation of the 2011 PFM Reform Roadmap, especially in the areas of comprehensiveness of information, fiscal risk oversight, annual budget process, and in-year reporting. Progress includes the adoption of the unified account code structure, which harmonizes budget classification and account codes to integrate budgeting and accounting, and the treasury single account, which consolidates the government's fragmented banking arrangements and improves cash management. Other initiatives involve the adoption of new accounting and auditing standards that are in line with international standards, and the execution of the citizen participatory audit. The remaining challenges in the PFM system concern budget credibility, predictability and control in budget execution, and external scrutiny and audit.

35. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and DOF. The Good Governance and Anti-Corruption Cabinet Cluster of the Philippines is developing a comprehensive and results-based anticorruption action plan, drawing on a review of the National Anti-Corruption Plan of Action. Initiatives are under way to strengthen the capacity of the Office of the Ombudsman and the justice sector.

C. Poverty and Social

36. The potential beneficiaries of the program will include enterprises, consumers, employees, and the poor in general. Enterprises will benefit from greater competitiveness thanks to better infrastructure provision. Consumers will gain from more domestic competition that will lower prices and improve services (e.g., in the tourism sector thanks to better connectivity). The labor market will be one of the most important channels through which reforms under the program will create jobs and help reduce poverty. Better access to services through enhanced infrastructure endowments is also expected in the medium-term. The PPP manual includes guidelines for gender mainstreaming in gender policies, and three out of nine signed contracts are in education and health.

D. Safeguards

37. In accordance with ADB's Safeguard Policy Statement (2009), subprogram 1 is classified under category C for environment, involuntary resettlement, and indigenous peoples. The assessment of policy actions concludes that no safeguard policies are triggered.

E. Risks and Mitigating Measures

38. Major risks and mitigating measures are described in detail in the risk assessment and risk management plan.[19] Untimely complaints from losing bidders are a major risk, which will be handled through the provision of probity advisory services. The expected integrated benefits and impacts of the reforms are expected to largely outweigh the associated costs. Medium level risks include uncertainty on the continued provision of budgetary support for (i) right-of-way and resettlement costs of PPP projects and for access roads to airports and RORO facilities, (ii) contingent liabilities arising from PPP projects, and (iii) the activities under the PDMF and PPP Center at large. These risks will be mitigated by the inclusion, in the government's medium-term expenditure framework, of a rolling pipeline of PPP projects that grants continued support to these areas. The proposed amendments to the BOT law are expected to assist the institutionalization of the PDMF and the creation of a contingent liabilities fund, financed through dedicated budgetary appropriations.

39. The capacity of agencies to study, introduce, and implement reforms may be constrained by a heavy workload, poor capacity for implementation, and bureaucratic inertia. The program reduces this risk by focusing on high-priority policy reforms, and will support substantial capacity development assistance in PPP projects through a separate capacity development TA. Coordination across implementing agencies (national and local governments) will be assisted by the institutional strengthening of the PPP Center. The PPP Center will partner with government agencies and private companies that have been working with the LGUs in the preparation, financing, and implementation of their priority infrastructure projects.

IV. ASSURANCES

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

V. RECOMMENDATION

41. I am satisfied that the proposed programmatic approach and policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

(i) the programmatic approach for the Expanding Private Participation in Infrastructure Program; and

(ii) the loan of $300,000,000 to the Republic of the Philippines for subprogram 1 of the Expanding Private Participation in Infrastructure Program, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

27 October 2015

[19] Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Impacts the program is aligned with: The Philippine Development Plan, 2011–2016,[a] and will contribute to meeting the government's targeted investment rate, including public and private spending on infrastructure.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Improved private participation in infrastructure	By 2018: a. Public infrastructure investment averages 5% of gross domestic product between 2016 and 2017 (2014 baseline: 3.5%) b. Private sector investment commitment in infrastructure through PPPs (except in telecommunications) averages $3 billion per year (2011–2013 baseline: average of $1.2 billion)	a. Philippine Statistics Authority website and reports b. World Bank's private participation in infrastructure database, PPP Center	Delayed or adverse BOT law amendments Limited infrastructure finance from the banking industry Decisions of the judiciary affecting private infrastructure investments
Outputs 1. Strengthened government financial support to PPPs	By 2015: 1.a. Adequate budget coverage allocated for (i) Right-of-way acquisition and resettlement in PPP projects; (ii) Building adequate access infrastructure to major airports and roll-on, roll-off facilities developed through PPPs; (iii) Viability gap funding for PPPs; and (iv) Contingent liabilities arising from PPP projects. (2012 baseline: not applicable) By June 2017: 1.b A 3-year rolling estimate of government's budget coverage will be developed. (2012 baseline: not applicable)	1.a Department of Budget and Management reports and website 1.b Department of Finance and PPP Center's reports	Diverting budgeted funds to other purposes due to political considerations High staff turnover at implementing agencies
2. Expanded and efficiently implemented pipeline of PPP projects	By June 2015: 2.a Transport master plan for Metro Manila adopted (2012 baseline: not applicable) 2.b Six national PDMF-supported PPP projects awarded (2012 baseline: 1) By June 2017: 2.c Philippine Transport Infrastructure Development Framework Plan adopted (2012 baseline: not applicable)	2.a NEDA and DOTC's reports 2.b PPP Center's website and reports 2.c NEDA and PPP Center's reports	Staff turnover at national and local oversight and implementing agencies Weak inter- and intra-agency coordination in the executive

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	2.d At least 10 national PDMF-supported PPP projects awarded (2012 baseline: 1) 2.e Feasibility studies and bidding documents for at least five LGU PPP projects prepared with support of PDMF (2012 baseline: 0) 2.f Construction supervision consultants for at least three PPP projects recruited through PDMF (2013 baseline: 0) 2.g DOTC established a PPP implementation unit and a standing PPP implementation committee (2013 baseline: 0)	2.d NEDA and DOTC's reports 2.e PPP Center's website and reports 2.f PPP Center's website and reports 2.g DOTC's website and reports	Loss of commitment at LGUs because of political cycle
3. Strengthened legal and regulatory frameworks for PPPs	By June 2015: 3.a Government submitted to Congress the consolidated comments to the BOT law amendments (2014 baseline: not applicable) 3.b Government drafted implementing rules and regulations to Executive Order 78 on alternative dispute resolution mechanism in PPPs (2012 baseline: 0) By June 2017: 3.c Review of PPP institutional, legal, and regulatory frameworks submitted to PPP Governing Board (2014 baseline: not applicable)	3.a PPP Center's reports 3.b NEDA's website and reports 3.c PPP Center's reports	Inadequate coordination between the executive and the legislature Weak capacity and systems, and high staff turnover in oversight and key infrastructure delivery agencies
Key Activities with Milestones Not applicable. Please refer to the Policy Matrix in Appendix 4.			
Inputs **Asian Development Bank:** Subprogram 1 $300,000,000 Subprogram 2 $300,000,000[b]			
Assumptions for Partner Financing **Japan International Cooperation Agency:** Subprogram 1 $200,000,000[b]			

BOT = build–operate–transfer, DOTC = Department of Transportation and Communications, LGU = local government unit, NEDA = National Economic and Development Authority, PDMF = project development and monitoring facility, PPP = public–private partnership.

[a] Government of the Philippines. 2014. *Philippine Development Plan, 2011–2016*. Manila.

[b] Numbers are indicative and are subject to the government's request, and approval by the Asian Development Bank and the Government of Japan/Japan International Cooperation Agency.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

http://www.adb.org/Documents/RRPs/?id=48458-001-3

1. Loan Agreement
2. Sector Assessment (Summary): Public Sector Management (Public–Private Partnerships in Infrastructure)
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items

Supplementary Documents

10. Program Impact Assessment
11. Public Financial Management Assessment in the Philippines
12. Macroeconomic and Debt Sustainability Assessment

Republic of the Philippines
DEPARTMENT OF FINANCE
Roxas Boulevard Corner Pablo Ocampo, Sr. Street
Manila 1004

LETTER OF DEVELOPMENT POLICY

2 October 2015

Mr. TAKEHIKO NAKAO
President of the Asian Development Bank
6 ADB Avenue, Mandaluyong City

SUBJECT: Expanding Private Participation in Infrastructure Program (EPPIP)

Dear **Mr. Nakao:**

On behalf of the Government of Philippines (GPH), allow me to thank you for the sustained commitment and support of the Asian Development Bank (ADB) towards our overall reform efforts and our national development agenda.

The economy of the Philippines will require increased investment in infrastructure to achieve the goals of the Philippines Development Plan (PDP) 2011–2016. An adequate supply of infrastructure reduces the cost of doing business and spurs higher and sustainable economic growth. In addition, higher levels of investment in infrastructure can reduce significant economic losses derived from network congestion. In light of the increasing needs for investment, the Government is determined to harness the potential efficiency gains of increased private participation in infrastructure investment. Central to the GPH effort to assist increased private sector participation in infrastructure investment are reforms aimed at the promotion of Public-Private Partnerships (PPP).

This letter outlines the GPH policy for reforms aimed at increasing public infrastructure investment rates, including public and private spending. Expanding private participation in infrastructure through the promotion of PPP projects is a priority of our administration, and has gathered broad based support among all stakeholders, indicating sustained policy reform efforts through the proposed program's timeframe and beyond.

The fiscal consolidation initiated by the Government in 2010 has enabled the country to increase public infrastructure spending to 3.5 percent of GDP in 2014, placing us in a position to meet the PDP 2011–2016 target of public infrastructure investments of 5 percent of GDP by 2016. Recognizing the private sector's large untapped potential in infrastructure provision, the Government has implemented reforms to strengthen the country's PPP program at the national level. As a result, nine PPP projects (totaling investment of US$3 billion) have been awarded by 2015. This compares very favorably with a total of 6 PPP projects awarded from 1992 to 2010 for some US$365 million. The future looks promising. The current project pipeline includes now some 45 projects for about US$23.2 billion. Such robust PPP program rollout supports the Government's intention to raise private investment in infrastructure to 1.1 percent of GDP in 2015. Overall, the Government expects required infrastructure investment to increase to reach a total of $27 billion per year by 2025.

The Government, during the first stage of PPP reforms, supported by ADB's Increasing Competitiveness for Inclusive Growth program, addressed a first set of issues challenging the development of a solid national PPP program. This included the absence of a public office for PPP program facilitation, the lack of a project development and monitoring facility (PDMF) to prepare PPP transactions, the lack of a project pipeline, and inadequate implementing rules and regulations of the build-operate-transfer (BOT) law. To sustain these efforts, the Government has identified the next set of challenges that need to be tackled, including (i) addressing financial and fiscal risks inherent in infrastructure investments so as to incentivize private participation in infrastructure, (ii) expanding the pipeline of PPP projects, and (iii) completing and implementing the unfinished legal and regulatory reforms required to lock in an efficient PPP program.

Under the subprogram 1, the GPH has undertaken major reforms anchored to the PDP 2011-2016. In order to support this reform agenda, we would like to request financial assistance from ADB through the Expanded Private Participation in Infrastructure Program. The program includes a $300 million policy-based loan that will allow the Government to sustain and deepen reforms. The program is expected to include $200 million co-financing by the Government of Japan. The loan proceeds from subprogram 1 will be used to support the program's related development expenditure in the 2015 and 2016 national budgets. The reforms under the program are expected to achieve efficiency gains associated with substituting Government infrastructure projects with PPP projects. The reforms are also expected to increase the overall level of infrastructure investment.

Strengthened Government financial support to PPPs

The Government is implementing reforms to ensure adequate and fiscally sustainable financing of the Government's share in PPP projects, in order to foster private participation in infrastructure investment. Under the program, the PPP implementing agencies are improving their systems to assess and budget for right-of-way acquisition and resettlement. We are mindful that a lack of availability of funds for these pre-construction activities can delay the implementation of PPP projects. Thus, the Government has allocated funds, under the General Appropriations Act (GAA) 2015 to cover the share of the Department of Public Works and Highways (DPWH) and the Department of Transport and Communications (DOTC) for the cost of right-of-way acquisition and resettlement in PPP projects. Funding has also been made available under the GAA to ensure adequate access roads to major airports and roll-on, roll-off (RORO) facilities are developed by the DOTC.

Second, the Government has strengthened management systems for and funding of PPP contingent liabilities, in order to minimize our exposure to fiscal costs and to offer an attractive risk-return proposition for private investors. In particular, we have made available sufficient funding for contingent liabilities arising from PPP contracts, and have established an inter-agency working group to monitor contingent liabilities of pipeline and ongoing PPP projects. Our Bureau of Treasury (BTr) has developed a methodology for valuation of PPP projects' contingent liabilities that guides budgetary appropriations. We expect these measures will lead to improved investor confidence and responses to PPP projects.

Third, the Government has institutionalized the viability gap funding (VGF) system. Through the VGF, the Government provides non-remunerated grants to eligible PPP projects so that the project can charge affordable tariffs to the public while producing a competitive financial return for the investor. The VGF scheme helps improving the commercial attractiveness of economically viable, solicited user pay projects and facilitates the implementation of infrastructure projects with high economic benefits but an unattractive commercial rate of return.

Looking forward, for subprogram 2 of the program, the Government will continue to ensure fiscal sustainability of budget funding for Government direct support to PPP projects, including right-of-way, resettlement and VGF. The Government will also allocate adequate funding to cover contingent liabilities arising from PPP contracts that materialize in 2016 and 2017, and through the BTr, will continue to improve the framework for funding contingent liabilities. In addition, the Government, through the established technical working group, will develop and submit, for the consideration of the Development Budget Coordinating Committee, proposals on the necessary fiscal rules applicable to PPP project implementation, and for the incorporation of the financial liabilities derived from PPPs into the debt sustainability assessment.

Expanded and efficiently implemented pipeline of PPP projects
Determined efforts have been made to assist the development of a solid pipeline of projects that allows private investors to plan over the longer term. As a result, the Government has facilitated the signing of six national transport, health and education PDMF-supported PPP projects for a total investment of $1.5 billion, and an additional 10 feasibility studies have been completed for new projects.

To assist efforts in expanding the project pipeline, the Government is adopting integrated transport master plans for the nation and the main metropolitan regions to guide sector investment plans in a coherent manner and guide the county's transport infrastructure investments in the next 30 years. Initiatives in this area have included the finalization by the NEDA of the Roadmap for Infrastructure Development for Metro Manila. NEDA has also initiated preparation of the Philippines Transport Infrastructure Roadmap.

Strengthened core PPP institutions and implementing agencies are equally essential to assist project pipeline development. In this area, the Government has improved the capacity of the PPP Center through the allocation of increased resources to the PDMF, and also by increasing the number of permanent staff positions at the PPP Center. The adoption of new guidelines operationalizing probity in PPP projects' procurement, oversight support during implementation and development of local PPPs will critically assist transparency in procurement processes. A new appraisal process for PPP projects has been introduced, clearly defining the responsibilities of the leading agencies (PPP Center, DOF and NEDA), and speeding up and improving the quality of PPP project approval.

Improving the capacity of PPP projects' implementing agencies at the national and local level is a clear Government reform priority. With that in mind, the DOTC has strengthened its management structure with a dedicated assistant secretary position in order to oversee PPP project implementation, and has established an ad hoc contract management unit for PPP projects. In order to assist the identification and development of local PPP projects, the PPP Center has adopted a LGU Engagement Strategy. The roll out of PDMF support to LGUs will be assisted via in-house project-based internships, and partnerships with training institutions.

For subprogram 2, the Government will continue enhancing the capacity of the PPP Center to sustainably manage the PPP project pipeline. This will include adequate allocations to the

PDMF that reflect the increased scope of advisory services envisioned for the institution, and the proposed sequential roll-out of PPP activities to LGUs. In line with the increased scope of advisory services under the PDMF, the Government will conduct testing of probity in procurement of at least five national PPP projects and will recruit contract supervision consultants for at least five projects. With a view towards streamlining contract provisions and reduce investors uncertainty, the PPP Governing Board will also, under subprogram 2, adopt and disclose standard national PPP contracts for selected subsectors.

Echoing calls for improved capacity of implementing agencies, the Government will provide capacity building to the PPP Center and project implementation units of the implementing agencies and selected local governments. The PPP Center will sign agreements with at least five LGUs, and will start delivering programmatic capacity building support to these selected LGUs. Measures to improve capacity for PPP project management at key implementing units will include the establishment, under the DOTC, of a dedicated PPP Implementation Unit reporting the Assistant Secretary for PPP implementation. An office of the Assistant Secretary for PPP project implementation will be established, together with a standing PPP Implementation Committee to decide on issues arising during construction and operation of the facilities. The large share of PPP project under this important department justifies our institutional development focus at the DOTC.

Strengthened legal and regulatory framework for PPPs

Recent reforms have shown the limitations of the current BOT law as regulatory framework for PPPs. The institutional framework now anchoring the PPP program has been expanded importantly with a number of initiatives that are now in need of institutionalization through the inclusion of amendments to the BOT Law. These amendments extend over a wide-range of areas. First, amendments to the law are needed to clearly define the structure of tax incentives for PPP projects of national significance, and also to incorporate into the law the streamlined PPP project appraisal and approval processes currently used within Government. The Government also aims to institutionalize in the new law key PPP institutions of recent creation, including the PPP Governing Board, the empowered PPP Center, the PDMF and its consultant engagement framework. Amendments to the law need to institutionalize also the funding mechanisms for Government direct and contingent liabilities arising from PPP projects, and define processes for efficient collaboration, coordination and accountability among Government agencies. The Government has supported the adoption of these amendments to the BOT law by the PPP Governing Board, and their submission to Congress.

To further strengthen the regulatory framework for PPPs, the Government has drafted new implementing rules and regulations on alternative dispute resolution in PPP projects, with a view towards providing a more inviting climate for private investments. In addition, new guidelines have been issued by the Government on material adverse Government action and termination payments.

Looking forward, the Government will continue improving the PPP implementation and regulatory frameworks under subprogram 2. This will include support to the adoption of final implementing rules and regulations on alternative dispute resolution in PPP projects. In addition, guidelines on material adverse Government action and termination payments will be reviewed and recommendations for amendments submitted to the consideration of the PPP Governing Boards.

Future Developments

The reforms required to assist enhanced participation of the private sector in infrastructure and sustain overall increasing rates of investment will demand a long-term commitment from both the Government and all other stakeholders. The Government's partnership with ADB has been particularly fruitful under this administration in reviving the national PPP program and developing a solid project pipeline that offers very significant opportunities for investors. Looking forward, the long duration of PPP projects and their varied risk-return characteristics as well as their complex structures, will also require facilitation of long-term funding by the capital markets. The Government is committed to continue to explore opportunities, for infrastructure projects generating a robust revenue stream, for project bond structuring and other financing options in line with the large size of investments required.

Conclusion

In closing, Mr. President, the Government will continue to implement proactive measures to ensure Philippines is able to sustain high and inclusive economic growth. We deeply appreciate ADB's leading role in support to reforms leading to an expanded participation of the private sector in infrastructure investment. To assist continuation of recent, successful efforts, we look forward to ADB's early consideration and approval of the Expanding Private Participation in Infrastructure Program programmatic approach and $300 million policy-based loan under subprogram 1.

Thank you.

Very truly yours,

CESAR V. PURISIMA
Secretary

028471

POLICY MATRIX

Outputs [*ADB and JICA Assistance*]	Subprogram 1 Accomplishments (Policy triggers in bold) June 2013—June 2015	Subprogram 2 (Policy triggers in bold) July 2015—June 2017	Medium-term directions and expected results (2018—2022)
Output 1: Strengthened government financial support to PPPs			
1.1 Ensuring adequate budget funding for government obligations in PPP projects. • *ADB TA Strengthening PPPs in the Philippines (TA7796)* • *ADB TA on Strengthening Evaluation and Fiscal Cost Management of PPPs in the Philippines* • *Proposed ADB TA on Strengthening PPPs in the Philippines (2nd phase)* • *JICA TA: Capacity Development of Public Private Partnerships Project Formulation in the Philippines*	The Government implemented measures to ensure sustainable funding for government direct and contingent support to PPP projects in line with its national fiscal policy framework. Accomplishments included: 1. **In the 2015 GAA, the Government allocated funds for government share in PPPs as follows: (i) P8.85 billion and P1.23 billion for DPWH and DOTC, respectively, to cover these agencies' costs of right-of-way acquisition and resettlement in PPP projects, and (ii) P3.8 billion for DPWH to ensure adequate access roads to major airports and RORO facilities developed by DOTC.**	The Government continues to implement fiscal sustainability of budget funding for government direct and contingent support to PPP projects. These measures will include: 1. **In the 2016 and 2017 GAAs , the Government will allocate adequate funds for (i) DPWH and DOTC to cover these agencies' costs of right-of-way acquisition and resettlement in PPP projects, (ii) DPWH to ensure adequate access roads to major airports and RORO facilities are developed by DOTC, and (iii) VGF for PPP projects of DOTC and DPWH.**	• At least 5 national PPP projects tendered annually • PPP projects timely reach financial close due to credible and sustainable mechanisms for budget funding of government share in PPP projects and contingent liabilities arising from PPP contracts.
	2. The Government institutionalized VGF scheme to improve commercial attractiveness of economically viable, solicited user-pay PPP projects through provision of cash subsidy to the concessionaires as part of government		

Outputs [*ADB and JICA Assistance*]	Subprogram 1 Accomplishments (Policy triggers in bold) June 2013—June 2015	Subprogram 2 (Policy triggers in bold) July 2015—June 2017	Medium-term directions and expected results (2018—2022)
	contribution to the PPP projects.		
	3. **In the 2015 GAA, the Government allocated P30 billion to cover contingent liabilities arising from the PPP contracts under the risk management program of the unprogrammed fund.**	**2. In the 2016 and 2017 GAAs, the Government will allocate adequate funds to cover contingent liabilities arising from the PPP contracts that may materialize in 2016 and 2017.**	• Government funding for PPPs is fiscally sustainable. • A creditworthy contingent liability funding mechanism established raising bankability of PPP projects.
	4. To ensure fiscal sustainability of the growing PPP project portfolio: (i) DBCC established an inter-agency TWG, chaired by BTr with DOF's Privatization Group, DBM and PPPC as members, to monitor contingent liabilities of pipeline and ongoing PPP projects; and (ii) [BTr] developed the methodology for valuation of PPP projects' contingent liabilities to inform budgetary coverage of contingent liabilities under the risk management program of the unprogrammed fund.	3. TWG will submit proposals to DBCC on (i) fiscal rules related to PPPs, and (ii) incorporation of PPPs in debt sustainability assessment. Fiscal risk statements for 2015 and 2016 will reflect aggregate estimate of contingent liabilities arising from PPP projects. .	
		4. BTr will continue improving the framework for funding mechanisms of PPP contingent liabilities, including through submission of proposals to DBCC for consideration.	
Output 2: Expanded and efficiently implemented pipeline of PPP projects			
2.1 Enhancement of the strategic planning and institutions for a sustainable PPP program.	The Government introduced measures to: improve long-term infrastructure planning; build capacity to implement PPP program; and strengthen results based performance in the PPP program. Accomplishments included:	The Government will continue to: improve long-term infrastructure planning; build capacity to implement PPP program; and strengthen results based performance in the PPP program. These measures will include:	• All solicited PPP projects originate from long-term integrated

Outputs [*ADB and JICA Assistance*]	Subprogram 1 Accomplishments (Policy triggers in bold) June 2013—June 2015	Subprogram 2 (Policy triggers in bold) July 2015—June 2017	Medium-term directions and expected results (2018—2022)
• ADB TA Strengthening PPPs in the Philippines (TA7796) • ADB TA on Strengthening Evaluation and Fiscal Cost Management of PPPs in the Philippines (TA8650) • *Proposed ADB TA on Strengthening PPPs in the Philippines (2nd phase)* • JICA TA: Roadmap for Transport Infrastructure Development for Metro Manila and its Surrounding areas	5. **Contracts for six national transport, health and education PDMF-supported PPP projects signed for at least a total investment of $1.5 billion. In addition, 10 feasibility studies completed for new PPP projects**.	5. **With PDMF support, (i) at least 10 national PPP projects will have been competitively tendered and awarded; and (ii) feasibility studies and bidding documents for at least five LGU PPP projects will be prepared.** Feasibility studies and bidding documents will reflect gender equality in accordance with the guidelines on gender mainstreaming in PPP projects.	infrastructure plans • Construction started or progressed in at least 10 national PPP projects prepared with PDMF support • Five LGU PPPs prepared with PDMF support.
	6. **NEDA Finalized and submitted to NEDA Board the Roadmap for Infrastructure Development for Metro Manila and Its Surrounding Areas (Region III and Region IV-A), and initiated preparation of the Philippine Transport Infrastructure Roadmap.** 7. A revised National Sewerage and Septage Management Program, allowing the participation of water districts, for INFRACOM approval.	6. **The Government will adopt the Philippine Transport Infrastructure Roadmap that will integrate policy initiatives, strategies and actions on transport infrastructure.**	
	8. DOTC initiated update of the Strategy for the Development of National Airports, and prepared a 3-year rolling infrastructure plan of DOTC that sets out the short and medium-term investment program for DOTC.	7. The Government will select and initiate development of the first batch of PPP projects in the regional transport infrastructure roadmaps and the DOTC's 3-year rolling infrastructure plan.	

Outputs [*ADB and JICA Assistance*]	Subprogram 1 Accomplishments (Policy triggers in bold) June 2013—June 2015	Subprogram 2 (Policy triggers in bold) July 2015—June 2017	Medium-term directions and expected results (2018—2022)
	9. **Given an increased PPP program, the Government enhanced PPPC's capacity through:** (i) increased PDMF resources due to $2 million equivalent contributions by line-departments and receipt of $6 million refund from four successfully bid out PPP projects; (ii) increase of permanent staff positions from 70 (52 filled) in 2013 to 99 (80 filled, of which 56 are women) in 2015; (iii) Amendments to PDMF guidelines adopted to operationalize probity in PPP projects' procurement, oversight support during PPP project implementation, and development of local PPPs; and (iv) procedures drafted for interaction between PPPC and PPP Units at sector departments to ensure efficient and effective collaboration, coordination, and accountability among government agencies.	**8. The Government will continue to enhance PPPC's capacity to sustainably manage the PPP program through:** (i) PPPC staffing and structure will continue to be strengthened and adequate additional funding will be allocated to PDMF in 2016 and 2017 GAAs to reflect increased scope of PDMF and facilitation of LGU PPPs. (ii) With PDMF support, (i) probity in PPP projects' procurement will be tested in at least five national PPP projects, and (ii) construction supervision consultants for at least 5 PPP projects will be recruited. (iii) Providing capacity building to the PPPC and project implementation units of the IAs in project implementation and monitoring, and contract management.	
	10. **To speed up and enhance quality of approval of PPP projects, the Government introduced a new process for appraising PPP projects by assigning (i) the PPPC as secretariat to coordinate appraisal of PPP projects' value for money, commercial viability, bankability, and financial structuring; (ii) the NEDA for appraisal of socioeconomic aspects; and (iii) the DOF for appraisal of risk allocation, financial viability, and fiscal sustainability of PPP**		

Outputs [*ADB and JICA Assistance*]	Subprogram 1 Accomplishments (Policy triggers in bold) June 2013—June 2015	Subprogram 2 (Policy triggers in bold) July 2015—June 2017	Medium-term directions and expected results (2018—2022)
	projects.		
	11. PPPC initiated development of standard national PPP contracts for selected subsectors to streamline contract provisions on risk allocation, termination payments, dispute resolution, and material adverse government action.	9. **The PPP Governing Board will adopt and disclose standard national PPP contracts for selected subsectors.**	
		10. VA procedures institutionalized in the ICC review process, and applied in at least two PPP projects submitted to ICC for approval.	
2.2 Strengthening PPP systems at implementing agencies at national and local levels. a. *ADB TA Strengthening PPPs in the Philippines (TA7796)* b. *Proposed ADB TA on Strengthening PPPs in the Philippines (2nd phase)* c. *JICA TA: Capacity Development of Public Private Partnerships Project Formulation in the Philippines*	12. The Government implemented measures to build capacity of implementing agencies at national and local levels. These measures included: • A PPP project development team established under the project development unit of DOTC that is responsible for preparation of own- and ODA-funded projects. • DOTC improved PPP project implementation through (i) establishment of dedicated assistant secretary position to oversee PPP project implementation; (ii) establishment of ad hoc contract management units for PPP projects awarded in 2013—2014; and (iii) submission of request to DBM for establishment of a regular PPP	The Government will implement measures to build capacity of implementing agencies at national and local levels. These measures will include: **11. DOTC will establish and staff a dedicated PPP Implementation Unit reporting to the assistant secretary for PPP implementation.** **12. DOTC will establish the Office of the Assistant Secretary for PPP project implementation, and a standing PPP Implementation Committee to decide on issues arising during construction and operation of the infrastructure facility.**	• **PPP project preparation, procurement, and implementation adequately institutionalized in implementing agencies at national level and selected LGUs.**

Outputs [*ADB and JICA Assistance*]	Subprogram 1 Accomplishments (Policy triggers in bold) June 2013—June 2015	Subprogram 2 (Policy triggers in bold) July 2015—June 2017	Medium-term directions and expected results (2018—2022)
	Implementation Unit.		
	13. PPPC adopted and initiated implementation of the LGU Engagement Strategy envisaging support to LGUs via in-house project-based internships, partnerships with local training institutions on PPP trainings, and developing a project development facility for LGU PPPs.	13. PPPC will sign agreements with at least five LGUs and start delivery of programmatic capacity building support to these LGUs.	
Output 3: Strengthened legal and regulatory frameworks for PPPs			
3.1 Enhancing the PPP legal and regulatory framework. *ADB TA Strengthening PPPs in the Philippines (TA7796)* *Proposed ADB TA on Strengthening PPPs in the Philippines (2nd phase)*	The Government implemented measures to improve the PPP legal and regulatory framework. Accomplishments included: **14. Adoption by the PPP Governing Board and submission to Congress of amendments to the BOT Law that are important to sustain the country's PPP program.** Salient proposed amendments are: (i) institutionalization of: the PPP Governing Board, the empowered PPPC, the Project Development and Monitoring Facility and its consultant engagement framework, the new process of appraisal of PPP projects, and the funding for government direct and contingent liabilities arising from PPP projects, (ii) improved process of selection of investors for solicited and unsolicited PPP projects, and (iii) provision of investment incentives for more private participation in infrastructure.	The Government will continue strengthening the PPP legal and regulatory framework. These measures will include: 14. **PPPC will continue improving the PPP implementation and regulatory frameworks, including through regularly informing the PPP Governing Board on emerging issues and proposed solutions.**	Consistent and updated PPP legal and regulatory framework in place
	15. Draft IRRs for EO78 on Alternative Dispute Resolution in PPP projects submitted to relevant agencies for their final reviews and comments.	**15. Adoption of IRR for EO78 on Alternative Dispute Resolution in PPP projects.**	

Outputs [*ADB and JICA Assistance*]	Subprogram 1 Accomplishments (Policy triggers in bold) June 2013—June 2015	Subprogram 2 (Policy triggers in bold) July 2015—June 2017	Medium-term directions and expected results (2018—2022)
	16. To improve quality of PPP projects and contractual arrangements, guidelines have been issued on termination payments, and guidelines on material adverse government action have been drafted.	16. PPPC will conduct a review of application of the adopted guidelines and submit results of such review to the PPP Governing Board for consideration.	