

# **A Study on Duterteconomics: Drastic Policy Shift in PPP Infrastructure Development in the Philippines**

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## **Abstract**

This paper studies Duterteconomics of the Philippines which is regarded as drastic policy shift in PPP, Public-private partnership, infrastructure development. While Aquino administration focused on PPP-based infrastructure development as a priority policy, the Duterte administration launched "Duterteconomics", a large-scale infrastructure development plan of about 8 trillion pesos, about 160 billion USD, over 6 years in 2017 which mainly depends on national budget and ODA as financial source rather than PPP. This triggered debate of "PPP vs ODA" in the Philippines.

The paper discusses PPP related policies and measures implemented by Aquino administration including government organization, project development fund, PPP fund and relaxation of single borrowers' limit. Duterteconomics will be discussed from the point of view of 1) acceleration of infrastructure development, 2) shift from PPP to ODA, 3) hybrid PPP and 4) financial sources. The paper also examines changes in infrastructure development and its policy in the three decades after Marcos administration since 1986 as a background of these policy shift. The paper discusses that the issue is not about the "PPP vs ODA" but how to promote complementary relations between the public sector and PPP; in other words "PPP and ODA".

**Keyword:** Public-private partnership, Infrastructure, Philippines

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## 1. Introduction

In the Philippines, due to the electric power crisis that occurred in the 1980s, PPP-related law was established relatively early among emerging economies. The Philippine’s BOT, Build-Operate-Transfer, law was enacted in 1990, which was the first of its kind in Asia. After that, PPP projects were promoted in sectors including electric power, water supply, and transportation. The Aquino Administration, which was launched in 2010, made important policy change to develop infrastructure through PPP, not through public procurement, mainly to reduce fiscal burden. The policy change includes the establishment of a new government agency, called PPP center, to promote PPP, and various PPP support systems.

The Duterte administration, launched in 2016, announced "Dutertenomics", a large-scale infrastructure development plan of about 8 trillion pesos, about 160 billion USD, in April 2017. The plan aims to make a major policy change in infrastructure development from PPP of the Aquino former administration to (a) construction of infrastructure by public sector by using government budget and Official Development Assistance (ODA) jointly, (b) operation and maintenance of infrastructure by the private sector, the adoption of "hybrid method". In response to this, debate on "PPP vs ODA" has become active in the Philippines.

This paper aims to discuss Dutertenomics of the Philippines, which is regarded as a drastic policy shift in PPP infrastructure development, based on a review of relevant primary and secondary literature, anecdotal evidence, and the author's own knowledge on the subject coming from his involvement with the issue.

In this paper, section 2 discusses current status of infrastructure development and achievements in PPP in the Philippines, section 3 depicts overview of infrastructure development in the three decades after Marcos administration, and section 4 discusses policy shift in the Philippines’ PPP and Dutertenomics.

## 2. Current Status of Infrastructure Development and Achievements in PPP in the Philippines

In this section, current status of infrastructure development and achievements in PPP in the Philippines are described.

### 2-1. Current Status of Infrastructure Development in the Philippines

Regarding the current status of infrastructure, the Global Competitiveness Index by the World Economic Forum is often cited for international comparison in recognized studies. According to the Index, ranking concerning infrastructure development status are shown in Table 1. The Philippine's ranking and score are among the lowest in comparison with other ASEAN peer countries. In comparison with 2010-2011, there is no change in the ranking in 2017-18, while the score itself declined. Meanwhile, both Indonesia and Vietnam have greatly increased their ranking and scores.

Table 1 Quality of overall infrastructure Ranking and Score in ( )

	2010-2011	2017-2018
Philippines	113 (3.2)	113 (3.0)
Indonesia	90 (3.7)	68 (4.1)
Thailand	46 (4.9)	67 (4.1)
Vietnam	123 (3.0)	89 (3.6)

Source: The Global Competitiveness Report 2010-2011 & 2017-2018

UNESCAP's Access to Physical Infrastructure Index (APII) is based on data from 2013 to 2015 on the status of infrastructure development in transportation, energy, ICT, water supply and sanitation sector among 41 Asian and Pacific Region countries (UNESCAP (2017b)). The Philippines ranks 25th in all 41 countries, the score is 0.336, far below the average 0.431 in emerging countries in the region. It is lower than other ASEAN countries as shown in Table 2.

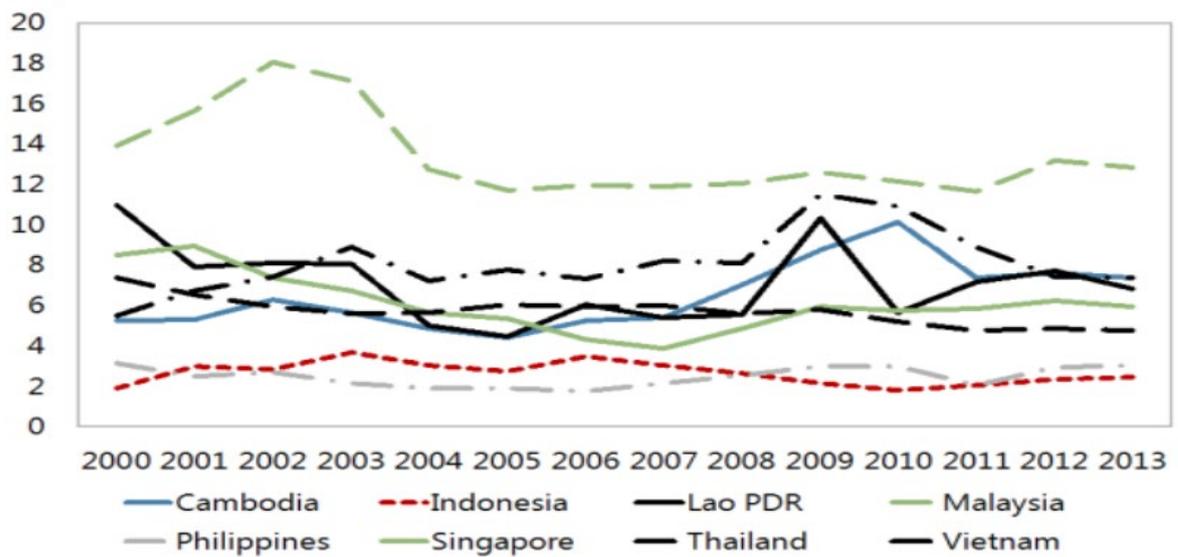
Table 2 APII Rank and Score

	APII Rank	APII Score
Philippines	24	0.336
Thailand	15	0.418
Indonesia	27	0.278
Vietnam	14	0.419

Source: UNESCAP 2017b

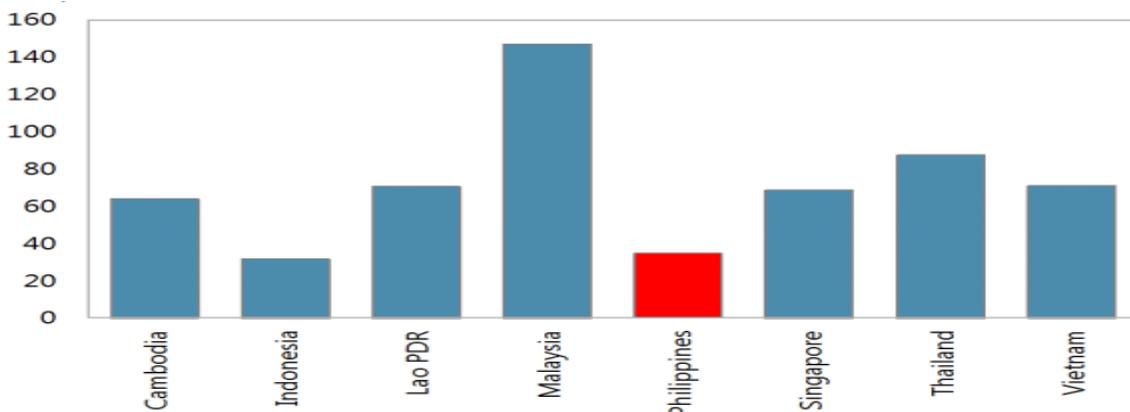
One of the reasons behind this relatively less development of infrastructure in the Philippines is the low level of public investment. According to a study by the IMF (2015b), the Philippines' public investment had consistently been the lowest among ASEAN countries in the recent past, averaging 2.5 % of GDP in 2000-2013 as shown in Figure 1. As a result, the study argues that the public capital stock is also one of the lowest among ASEAN countries, standing at around 35% of GDP in 2013 compared to the ASEAN average of 72% of GDP as shown in Figure 2.

Figure 1 Public Investment in percent of GDP



Source: IMF (2015b)

Figure 2 Public capital stock in percent of GDP in 2013



Source: IMF (2015b)

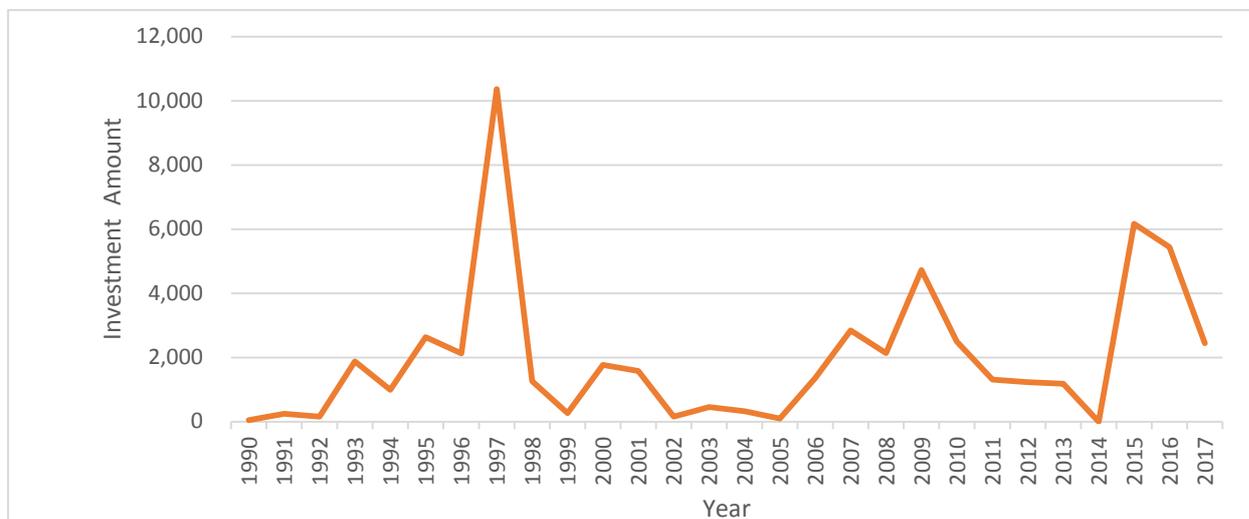
## 2-2. Achievement in PPP Infrastructure Development in the Philippines

Contrary to the infrastructure development situation, the Philippines' achievements in PPP Infrastructure Development are relatively positive in ASEAN.

In 1990, the first BOT, Build-Operate-Transfer, law (Republic Act (RA) No. 6957) was enacted in the Philippines which was the first of its kind in Asia, making the Philippines the oldest PPP country in Asia. The law was amended by Republic Act No. 7718 in 1994 to include other schemes such as BOO (Build-Own-Operate).

According to the World Bank PPI Database, PPP projects in the Philippines amounted to 56,073 million dollars (149 projects) from 1990 to 2017. In terms of investment value, the Philippine is the eighth largest country among emerging countries<sup>1</sup>. Historical investments in PPP for the Philippines is shown in Figure 3. The peak in 1997 and the contraction in 2002 go in line with trends in whole emerging and developing countries.

Figure 3 Investments in mil USD in PPP infrastructure projects, 1990-2017 in the Philippines



Source: Created by author using World Bank PPI Database

Comparison with ASEAN neighboring countries is as shown in Table 3. This also shows that the country has relatively good record of PPP.

<sup>1</sup> Philippine is ranked after Brazil, India, China, Turkey, Mexico, Russia and Indonesia.

Table 3 PPP projects for 1990-2017

	Number of Projects	Investment (million USD)
Philippines	149	56,073
Thailand	167	39,456
Indonesia	123	58,856
Vietnam	96	14,705

Source: World Bank PPI Database

World Bank PPI Database also shows that of total PPP projects in the Philippines, electricity sector accounts for an overwhelming share of 72.4% on the basis of number of projects and 66.8% on the basis of investment value. Also, top 6 sponsors by investment value in the Philippine during 1990-2017 are all local conglomerates which accounts for 62.7% of the total investment which is \$ 35,143 million.

The World Bank (2018) assesses the PPP environment of 135 economies in four aspects: 1) preparation, 2) procurement, and 3) contract management, and 4) the management of unsolicited proposals (USPs), with scoring of 1-100. Table 4 shows the scores for the 4 areas of 1) to 4) above for selected countries in Southeast Asia and the average of High-income country group. It is noted that Philippines' score is not only the highest in ASEAN but its score is higher than the High-income country group, although the Philippines belongs to Lower-middle-income group, which is 2 income groups lower than High-income group after Upper-middle-income group. The score of the Philippines is high especially in "Preparation" and "Contract Management" aspects. This reflects various PPP promotion measures implemented during the Aquino administration (2010-2016), which will be discussed in section 4.1.

Table 4 Score for PPP Regulatory Framework (1-100)

	Preparation	Procurement	Contract Management	USPs
Philippines	85	76	88	83
Thailand	27	45	58	Not regulated
Indonesia	63	74	58	58
Vietnam	77	77	62	25
High-income average	63	77	58	66

Source: World Bank (2018)

The ADB (2017) also tracks the development of the PPP business environment as well as the challenges of doing PPPs in nine Asian countries including the Philippines in four categories: regulatory framework, institutional capacity, PPP market maturity, and financial facilities. Although the report does not have rankings and scores for comparison, it points out that “much has been achieved in developing the PPP market in the Philippines”<sup>2</sup>.

Although international recognition of PPP environment of the Philippines is relatively positive, results of some of PPP projects are mixed. OECD (2016) argues that the Philippine government tended to take excessive risk in past contracts, particularly foreign exchange and demand risks, to extend overly generous guarantees, and to shoulder heavy contingent liabilities. PPP succeeded in introducing power generation projects in the 1990s by mobilizing US \$ 8 billion, resulting in additional 8,000 MW capacity. On the other hand, in the series of those PPP power projects, the government took the demand risk into a "take-or-pay" format. This is part of the reason that the current Philippine electricity tariff is one of the highest in Asia.

Another example of government taking of demand risk can be witnessed in Metro Rail Transit (MRT) line 3 project, MRT 3, which started operation in 2003 through BLT, Build- Lease-Transfer, revenue from train fare accounted only around 30% of operating cost and lease fee. In this BLT contract, the government guaranteed IRR of 15% on a dollar basis. This BLT contract may affected incentives for efficient operation and improvement of services by the private operator.

### **3. Overview of Infrastructure Development in the Three Decades after Marcos Administration**

Addressing issues of infrastructure deficit has been priority for every administration after Marcos administration since 1986. In fact, for the last three decades, infrastructure development has been one of the core pillars of Medium Term Philippines Development Plan (MTPDP) of administrations. Table 5 shows major developments in infrastructure- related matters and infrastructure spending against GDP for each administration after the Marcos administration.

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<sup>2</sup> The report discusses that one challenge is the current limit of 40% of foreign ownership in the PPP project company in infrastructure projects where the operation requires a public utility franchise.

Table 5 Major developments in infrastructure related matters and infrastructure spending against GDP for each administration after the Marcos administration

	Major developments in infrastructure related matters	Infrastructure spending (% to GDP)
Aquino (1986-1992)	<ul style="list-style-type: none"> <li>- Enactment of the Reorganization Act of National Economic and Development Authority (NEDA) (Executive Order (EO) 230) : socio-economic policy making and project evaluation function was transferred from Office of the President (OP) to NEDA</li> <li>- Enactment of BOT Law (Republic Act (RA) 6957): first BOT law in Asia</li> <li>- Enactment of Local Government Code (RA7160) which decentralized of government function</li> <li>- Introduction of VAT</li> </ul>	2.2%
Ramos (1992-1998)	<ul style="list-style-type: none"> <li>- Enactment of RA7718: Amendments to RA 6957 BOT law</li> <li>- BOT Center established under OP</li> <li>- Enactment of Comprehensive tax reform law → Tax collection to GDP improved to 17% (highest ever)</li> <li>- Enactment of Electric Power Crisis Act (RA7648): granted the President emergency powers &amp; allowed the entry of private power producers → Installed capacity of power increased by 73%</li> <li>- Enactment of National Water Crisis Act (RA8041) → Privatization of Metropolitan Waterworks and Sewerage System (MWSS) . As a result, Manila Water &amp; Maynilad Water took over the function of MWSS as private entities.</li> <li>- Enactment of Public Telecommunications Policy Act (RA7925) → Privatization of the sector</li> </ul>	2.2%
Estrada (1998-2001)	<ul style="list-style-type: none"> <li>- MRT 3 completed</li> </ul>	2.2%
Arroyo (2001-2010)	<ul style="list-style-type: none"> <li>- BOT Center moved under Department of Trade and Industry (DTI)</li> <li>- Enactment of Electric Power Industry Reform Act (RA9136) → Privatization of power industry</li> <li>- VAT rate increased to 12%</li> </ul>	1.9%

	<ul style="list-style-type: none"> <li>- Light Rail Transit Line 2 (LRT 2) completed</li> <li>- Government Abrogated BOT contract of terminal 3 of Ninoy Aquino International Airport in Manila and expropriated the terminal → sent mixed signal to the private sector</li> <li>- Allegations of corruption: North Rail project and National Board Band Network project both supported by Chinese government</li> </ul>	
Aquino (2010-2016)	<ul style="list-style-type: none"> <li>- Shifted to PPP Program → “PPP vs ODA” debate</li> <li>- Renamed BOT Center as PPP Center and attached it to NEDA</li> <li>- Sovereign credit ratings upgraded to investment grade</li> <li>- Decongestion plan of Metro Manila commenced</li> </ul>	2.9%
Duterte (2016- )	<ul style="list-style-type: none"> <li>- Dutertenomics, “Build, Build, Build” program, announced</li> <li>- Coming back to ODA + National Budget from PPP → ”PPP vs ODA” debate</li> <li>- Decongestion of Metro Manila being planned and implemented</li> <li>- Long-term socio-economic plan “Ambisyon Natin 2040” (Our Ambition 2040) launched by NEDA</li> </ul>	6.8% (planned)

Source: Created by author

Policy reforms and developments related to infrastructure have been done mainly in the four areas: regulation, institution, finance and specific sectors. For financing aspect, there has been two channel, fiscal front and utilization of private fund. Considering high public debt and low revenues, each administration over the three decades introduced major fiscal reforms to finance development priorities, including public infrastructure. PPP related regulatory and institutional reforms have been introduced as well making the Philippines the best ASEAN environment for PPP as discussed.

With these developments, fiscal situation, including public debt and deficit to GDP, generally improved over the years, though revenue and infrastructure spending to GDP have been low in comparison to other ASEAN neighbors. Policy reforms in specific sectors including power, water and telecommunications were noteworthy, though as discussed earlier, reforms had mixed results.

One of the challenges of infrastructure development in the last three decades after Marcos administration is the continuity of policy and priority. It sometimes takes more than the presidential term of six year to complete a large infrastructure, considering every step of planning, financing, procurement and construction. Some larger

infrastructure may require master plan before going to feasibility study. This is part of reasons behind the lack of sufficient mass public transportation in Metro Manila<sup>3</sup> which is accelerating congestion in Metro Manila. Another policy shift over the administrations is PPP related policy which will be discussed in the next section.

#### **4. Drastic Policy Shift in PPP in the Philippines**

This section describes the drastic PPP policy change in the Aquino administration (2010-2016) and then discusses Dutertenomics which is another drastic change in PPP policy by the Duterte administration (2016-2022).

##### **4-1. Shift to PPP by the Aquino Administration**

The Aquino administration, which took office in 2010, reviewed the existing infrastructure development policies which depended mainly on government budget and ODA. As a result of the review, the administration prioritized infrastructure development and launched an aggressive PPP program in November 2010. Ten priority projects were identified, targeting about 4 billion USD in private capital. Based on this policy change, debate on "PPP vs ODA" became active in the Philippines.

One of the first large-scale PPP projects launched by the Aquino administration was Manila's "Ninoy Aquino International Airport Expressway Project". The Project had been formulated as traditional public work during the former Arroyo administration which handed it over to the Aquino administration. Based on this policy shift to PPP, the Aquino government changed the public works project to a PPP project. Through bidding, the government was able to obtain 11 billion pesos of premium, about 220 million USD. This successful bidding greatly boosted the PPP plan of the Aquino Administration.

The main achievements in PPP by the Aquino administration are as follows.

##### **(a) Government organization**

The administration reorganized the then BOT center, established under the Department of Trade and Industry in 1993, into PPP Center (PPPC) by Executive Order No. 8 in 2010, and transferred it under the National Economic Development Authority (NEDA). Main duties of PPPC are promotion of PPP Policy and assistance in formulation, implementation and monitoring of PPP projects.

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<sup>3</sup> Total length of LRT 1, LRT2 and MRT3 is 50.77 km.

As a result, the main roles of major government agencies in PPP became as follows.

PPP Governing Board (PPGGB): Chaired by Director General of NEDA, and composed of relevant departments including Department of Finance (DOF), Department of Budget and Management (DBM). This Board is responsible for overall policy issues in PPP.

NEDA: Review the appropriateness of specific PPP project, including validation of economic viability.

Investment Coordination Committee (ICC): Approval of PPP project.

DOF: Review risk sharing mechanism of specific PPP projects and the impact on government guarantees.

PPPC: Support to make business plan for specific PPP projects. Regarding the pipeline of the PPP project under preparation, relevant information is disclosed in the PPPC's website which could attract potential private sector including outside of the Philippines.

#### (b) Project Development Fund

Project Development and Monitoring Facility (PDMF) was established in PPPC in 2010 to support PPP project formation with the assistance of Asian Development Bank (ADB) and the Australian Government. Committed amount to PDMF is 42.9 million USD. This is a revolving fund meaning when the project is awarded successfully, the private sponsor will bear the cost of funds being used from PDMF. When the project was not awarded where Philippine government agency should be responsible for, then that agency will repay them in full to PDMF. If the project is terminated outside of the responsibility of the agency, the agency is obliged to repay half of fund utilized. According to PPPC, PDMF supported 35 PPP projects by the end of 2017.

#### (c) PPP Fund

In 2012, the Asian Development Bank (25 million USD), the Government Service Insurance System (GSIS) of the Philippines (400 million USD), the Netherlands pension fund, Algemene Pensioen Groep (APG), (150 million USD), and Australian Macquarie Infrastructure and Real Assets (MIRA) (50 million USD) established the Philippine Investment Alliance for Infrastructure Fund (PINAI Fund), the Philippine's first private fund specializing in PPP (total fund size of \$ 625 million). The fund already started investing in PPP projects including the electric power sector. Given the investment performance of the PINAI Fund, GSIS is considering the establishment of PINAI Fund 2.

#### (d) Relaxation of Single Borrowers' Limit

In the Philippines, the role of domestic banks is important in promoting PPP infrastructure development. While local conglomerates are active in PPP projects, their banking arms faced issue in single borrowers' limit (SBL).

Central Bank of the Philippines sets single borrowers' limit as 25% of net worth. However, the Central Bank added another 25% for SBL for PPP projects for the purpose of PPP promotion in 2010 until the end of 2013, later extended until the end of 2016.

In 2010, when the Aquino administration started, the ratio of infrastructure development to GDP was 1.8%, but in 2015 it was increased to 4%. The average of six years of the administration was 2.9%, exceeding 1.9% of the Arroyo administration. The Aquino administration from June 2010 to June 2016, 28 PPP projects were approved by the government, however PPP contract was signed for 12 projects and 3 projects were completed<sup>4</sup> by the end of the administration.

#### **4-2. Dutertenomics: Drastic Shift in PPP Policy**

In June 2016, when the Duterte administration took office, it announced 10-point Socio-Economic Agenda as the most important socio-economic priority. One of the agenda was about infrastructure and PPP; "Accelerating annual infrastructure spending to account for 5% of the gross domestic product (GDP), with public-private partnership playing a key role". In April 2017, "Dutertenomics" was announced. The Dutertenomics includes acceleration of infrastructure investment, achievement of sustainable development, and investment promotion. Because its most important pillar was massive infrastructure improvement, Dutertenomics is also called as "Build, Build, Build program".

#### (a) Acceleration of Infrastructure Development

During the term of the office until 2022, Dutertenomics plans infrastructure investment of 8.4 trillion pesos (about 168 billion USD), with 75 large-scale infrastructure projects. Moreover, the government plans to increase infrastructure investment rate with respect to GDP to 7.3% by 2022 making average rate during Duterte administration in

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<sup>4</sup> "Daang Hari-SLEX Link Road (Muntinlupa-Cavite Expressway) Project", "PPP for School Infrastructure Project (PSIP) – Phase I", and "Automatic Fare Collection System".

2017-2022 as 6.8%<sup>5</sup> which is significantly higher than the average of 2.9% for the Aquino government and 1.9% for the Arroyo administration. Among 75 large-scale infrastructure projects, railway sector is regarded as one of the most important sector which includes the Philippines' first ever subway project, "Metro Manila Subway Project", "Manila North-South Commuter Line (North) Project", and "Manila North-South Commuter Line (South) Project".

There is a bill at Congress aiming at granting emergency power to the President which does not require the congress's approval for the purpose of further implementation of infrastructure projects, especially which contribute decongestion of Metro Manila. Currently the bill is still in the deliberation stage.

(b) Shift from PPP to ODA

As a financial resource of this large-scale infrastructure development plan, Dutertenomics made drastic shift from PPP to government budget and ODA. The debate of "PPP vs ODA" again became active in 2017 as a result.

According to the Duterte administration, this policy shift was made because the Aquino administration was able to sign only 12 PPP contracts and complete the only 3 projects although 28 projects were approved.<sup>6</sup> This was mainly caused by the delay in PPP bidding process which involved various inquiries from private parties sometimes involving judicial branch. In some cases, contract negotiation was lengthened after bidding. Economist Intelligence Unit (EIU) (2015) argues that controversies related to bidding and award procedures for major transport infrastructure projects indicate certain weaknesses in public-sector decision-making and the whole process can be inefficient due to the length of time it takes to reach a final decision.

However, it should be noted that above factors mentioned including delay in bidding process, prolonged contract negotiation, controversies related to the bidding and award procedures including lawsuits filed by losing bidders are not inherent issues in PPP projects. Rather, these problems can happen in traditional procurement through

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<sup>5</sup> In 2017, the ratio was 5.4%.

<sup>6</sup> In a speech during general membership meeting of Management Association of the Philippines on May 30, 2017, NEDA Undersecretary mentioned as follows: "In the period 2010 to 2016, of the 28 PPP projects approved by the NEDA Board, 50 percent or 14 PPP projects have yet to be implemented or was discontinued or terminated. In comparison, for ODA and locally-financed projects, at least 80 percent are currently ongoing or have been completed. "

government budget and ODA. Causes for these delay could be the result of weaknesses in public-sector decision-making as argued by EIU (2015) and lack of enough capacities of the public sector rather than characteristics inherent in PPP scheme.

Moreover, many government departments and agencies are involved in the planning, contracting, and executing of large-scale infrastructure projects. Therefore there is always the challenge for smooth coordination across multiple departments and agencies. In response to this, in 2017, Project Facilitation, Monitoring and Innovation (PFMI) Task Force was established at NEDA with the purpose of monitoring and promoting the implementation of PPP projects and other priority projects included in Dutertenomics. It needs further follow-up as to whether this PFMI Task Force will deliver results.

At the time of the start of the Duterte administration, six projects were in the bidding stage as PPP, of which four projects have been changed to ODA projects and the remaining two projects canceled by government decision. The Aquino administration focused on solicited PPP scheme, making unsolicited PPP scheme as an exception. However, Duterte administration made position that it welcomes both solicited and unsolicited PPP.

#### (c) Hybrid PPP

Dutertenomics is not a complete shift from PPP to the public sector/ODA. The Government priority is to complete the construction phase by the public sector while leaving operation and maintenance to the private sector. They call it "Hybrid PPP" scheme. This is to utilize the highly capable private expertise in operation and maintenance, while spending budget and ODA for construction at lower cost. Although this is not popular scheme in other parts of the world, there are several PPP projects under this scheme in the Philippines including "Subic-Clark-Tarlac Expressway Project".

In the bidding and negotiation process before a PPP contract, it is necessary to carefully study and negotiate how to share risk between public and private sectors. In the case of ordinary PPP projects, it is necessary to conduct these study and negotiation before construction, leading to possible delay in the start of the construction phase. For this reason, "hybrid PPP" is government priority. Construction stage can be started with government finance or ODA first while during the construction period, bidding and contract negotiation for operation and maintenance of PPP project after completion

could be done so that loss of time could be minimized. By this "hybrid PPP" scheme, public sector will bear risks in the construction phase like traditional public procurement. It can be said that this scheme is an attempt to simplify procedures and process to speed up project implementation.

The hybrid PPP scheme may shorten preparation and implementation time, however there are several issues of hybrid PPP scheme that need for careful studies. First, risks during construction, which is one of the biggest risks in infrastructure development, will be shouldered by the government and not by the private proponent in hybrid PPP. Second, since the planning and design, including carrying capacity and alignment, of the project will be solely determined by the public, demand risk may not be shouldered by the private sector. Third, there is possible conflict or tension between the firm which builds the infrastructure and operates/maintains it, if problems occur after construction. In other words, there is interface risk. Fourth, the design, specifications, standards and systems of the infrastructure decided at the construction stage, may limit the private sector that can participate in the operation and maintenance stage.

Therefore, by pursuing "hybrid PPP", utilization of some benefits of PPP as pointed out by the World Bank Institute (2014) as "Whole-of-life costing: Full integration incentivizes the single party to complete each project function (design, build, operate, maintain) in a way that minimizes total costs" may not be achieved. For this reason, it is necessary to involve or even share with the interested private entities some information of the project including design, specification, and standards in early stage of the construction<sup>7</sup>. Also, it should be noted that in some ODA, the procurement condition is tied to specific countries that may affect PPP bidding for operation and maintenance after the construction phase.

#### (d) Financial Source of Duterteconomics

Duterte administration emphasizes the ODA and tax reform as a financial source of large-scale infrastructure development plan by the government. Regarding the former, the Philippine government has expectation for multilateral institutions including Asian Development Bank, which used to focus mainly on program loans but now active in infrastructure. As for bilateral donors, Japan, China and South Korea are high on the list, especially Japan for "Quality infrastructure Initiative" and China for "One Belt

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<sup>7</sup> By doing these, it may take longer and, in the end, Hybrid PPP may not save time as originally planned.

One Road Initiative”. The government also expects AIIB, Asian Infrastructure Investment Bank, in this sector as well.

By utilizing ODA, the government could source fund with relatively longer-term maturity and concessional terms<sup>8</sup> than private money through PPP. However, it needs to consider issues including foreign debt and government fiscal burden in the case of ODA<sup>9</sup>. Also, as mentioned above, in some ODA, the procurement condition is tied to specific countries that may not be economical nor best quality in view of a life cycle of the infrastructure. ODA borrowing also bears foreign exchange risk unless it is denominated in Philippine Peso.

As for the tax reform, the government expects to increase revenues by reducing VAT exemption items, increasing tax on automobiles, gasoline, and sweetened beverages and other measures. The first tax reform was passed in 2017 by Congress. The government is preparing a second package of tax reform including review of incentives for foreign direct investment, which is causing some controversies among foreign investors.

The Philippine public debt to GDP has decreased to 32.6% (2017) from its recent peak of 68.0% recorded in 2003. In addition, the ratio of public interest payment in government expenditure is at a low of 13.9% (2017). Due to this relatively stable fiscal situation, the government is in the position that large-scale infrastructure projects can be promoted without depending too much on PPP. The Philippine government has formulated a fund procurement plan of “80% domestic borrowing and 20% overseas borrowing in principle” in order to ease the influence of external shocks.

## **5. Conclusion**

Section 4 stated that there were two major policy shifts in infrastructure development recently; first from public to PPP in 2010 and second one from PPP to public in 2017. Both shifts triggered debate of "PPP vs ODA" in the Philippines. However, it is not realistic to develop all necessary infrastructure which lags behind ASEAN peer

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<sup>8</sup> Many development financial institutions and bilateral donors determine terms and conditions of ODA money by recipient country’s income category. Currently, the Philippines is categories in “lower-middle income”, since current GNI per capita is USD 3,660 by the World Bank Atlas of 2018. However, if GNI per capita surpass USD 3,896 which is threshold of “upper-middle income” for “country classifications by income level: 2018-2019” of the World Bank, terms and conditions of the borrowing will be less concessional.

<sup>9</sup> In case of PPP, there may be issues including contingent liabilities.

countries by public alone. Therefore, it is not about "PPP vs ODA", but how to promote complementary relations between the public and PPP/private in consideration of the characteristics the specific project and the PPP related environment both domestically and internationally. In other words, the Philippines should consider "PPP and ODA". In this context, PPP in the Philippines should be further promoted and its PPP environment should be further improved.

As mentioned above, during the Aquino administration, the Philippines PPP environment was greatly improved. According to the EIU (2015), the country's PPP environment was categorized as "Developed" as the only country in ASEAN. The Duterte administration started promoting infrastructure development through public investment, nevertheless the country's PPP institutions and support systems are sustained.

The Philippines needs to accelerate infrastructure development which lags behind neighboring ASEAN countries. Currently, the Duterte administration is steadily securing financial resources from international development financial institutions and bilateral donors including ADB, Japan, China, Korea, and AIIB. The administration has also increased government revenue through tax reform.

However, the Philippines is no exception in the overall macro-economic downside risk that is beginning to be seen among emerging countries. Recent inflation and peso depreciation added to Basel III regulatory requirements may also affect PPP environment negatively. Furthermore, if the Philippine government bonds currently rated as investment grade falls, there is risk that the cost of raising funds will rise.

It is noted that support for PPP is being expanded in ODA operations globally. To illustrate this, followings are some of major recent developments.

- World Bank: The bank increased paid-in capital of USD 5.5 billion for private sector window of the bank, IFC, in 2018.
- ADB: The bank plans to boost its private sector operations to reach one-third of ADB operations by 2024<sup>10</sup> which includes scaling up support for PPP.
- OECD: The organization has been advocating the concept of "blended finance<sup>11</sup>", an

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<sup>10</sup> "Strategy 2030" by ADB (2018)

<sup>11</sup> "Blended finance" is defined as activities that combine "concessional public finance with non-concessional private finance and expertise from the public and private sector, special-purpose vehicles, non-recourse project financing, risk mitigation instruments

approach to mix different forms of capital in support of development, which includes PPP since 2015.

- USA: The BUILD Act, Better Utilization of Investments Leading to Development Act, was signed into law in 2018. It establishes a new agency, the US International Development Finance Corporation (IDFC) whose mission is to mobilize private sector capital and skills for the economic benefit of less developed countries. It is expected that PPP will be one of main operations of IDFC
- Japan: “Infrastructure System Export Strategy”, where PPP is one of the main agenda, was formulated in 2013 and is revised yearly.

However, support for PPP through ODA faces with several challenges including limited number of “bankable” projects, less developed regulatory framework, institutional capacity, and financial support on the side of recipient government.

Therefore, in terms of infrastructure development in the Philippines, from the viewpoint of "PPP & ODA" rather than "PPP vs ODA", it is necessary to further improve PPP environment in order to strengthen mutual complementarity between public and PPP/private.

At present, discussions are in progress in congress to shift to federalism from unitary government system in the Philippines. This is one of the election promises of President Duterte. Although many PPP projects are implemented in the Metro Manila area, PPP projects outside of Metro Manila including Cebu, the second biggest city, and Davao, the third biggest city, are also being formulated, planned, and implemented. When shift to the federal system is implemented, it may create another uncertainty in PPP environment in the country.

About two years have passed since the launch of Dutertenomics. It is still too early to evaluate this policy shift. It needs more time to monitor the progress of large-scale infrastructure projects listed in Dutertenomics; its implication to the speediness of project preparation, bidding and implementation, as well as to its cost and user fee.

PPP projects developed and approved during the Aquino administration will be completing and getting into operation and maintenance phase. The success or failure of

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and pooled funding structures.” (Paragraph 48 of The Addis Ababa Action Agenda of 3<sup>rd</sup> International Conference on Finance for Development in 2015)

the PPP project can be determined not only at the construction stage but also at the operation and maintenance stage: whether efficient and effective infrastructure services can be provided at an appropriate fee, if forecast including demand for the project is within the range assumed by the private participants, and if public interest is protected. Therefore further validations are expected on the results of these PPP projects.

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