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Case Study: Philippines PPP Centre

Tags: Investment, Infrastructure, PPP, Case Study, Evidence

The Philippines Public Private Partnership Centre (PPPC) can provide important learning donors as a donor-funded infrastructure development technical assistance initiative. Which, although linked to government, does not sit institutionally within any Multilateral Development Bank (MDB)¹ or International Finance Institute (IFI) and operates with a large degree of autonomy. Its record indicates that the provision of a pool of experts to provide technical transactional advisory support can assist in achieving bankable projects.



Overview

Public Private Partnership Centre (PPPC) Role and Functions: The PPPC² facilitates implementation of the Philippines' Public-Private Partnership (PPP) programme, acting as the central coordinating and monitoring agency for all PPP projects in the Philippines. It is a relatively new organization having been set up in September, 2010, but has a long history as the successor of an earlier initiative, the Build-Operate-Transfer (BOT) Centre that was established in the 1990s. The PPPC is a public agency attached to the National Economic Development Authority (NEDA) but is operationally independent of government. Although operationally independent its governing body, The PPP Governing Board (PPPGB) is comprised of the Secretary of Socio-Economic Planning (Chairperson), Secretary of Finance (Vice-Chairperson), Secretary of Budget and Management, Secretary of Justice, Secretary of Trade and Industry, Executive Secretary and Private Sector Co-Chairman of the National Competitiveness Council.

A Project Monitoring Unit (PMD) is located within the PPPC and is responsible for coordinating with the Implementing Agencies (IAs) to monitor progress and ensure that contractual milestones and obligations are met. It also provides technical assistance to the IAs in managing and resolving any issues and bottlenecks during implementation. There does not seem to be any external third party monitoring, which can be problematic for quality control and resolution of conflicts. Whilst there is what is called a Project Evaluation Division (PED), its function is to facilitate the appraisal and approval process for the Investment Coordination Committee (ICC) and NEDA particularly in value for money analysis, commercial viability, bankability and financial structuring. It is not a division that is involved in evaluation of end product after implementation.

PPPC provides technical assistance to national government agencies (NGAs), government-owned and controlled corporations (GOCCs), government financial institutions (GFIs), state universities and colleges (SUCs) and local government units (LGUs) to help them develop and implement PPP projects. So far all the projects with awarded contracts or in the pipeline are national projects; there are no local government projects except for the Baggao Water Supply Project, currently at pre-qualification stage where the implementing agency is the Municipal Government of Baggao. The reasons for this and whether it relates to capacity or decision making powers should be investigated.

¹ Although the activities of one of PPPC's key facility is managed by the Asian Development Bank's (ADB) Technical Advisory Support (TAS), it is not institutionally linked to the ADB.

² The Public and Private Partnership Centre of the Philippines, Available at: <http://ppp.gov.ph/>

A positive aspect of the PPPC is that it has to work within a national regulatory framework that ensures prioritization of PPPs is consistent with public investment priorities of the country. Priority projects need to be consistent with the Philippine Development Plan, the Provincial Development Plan, and the Physical Framework Plan. Once this has been carried out the list is submitted to the NEDA and the ICC for approval³, NEDA will carry out both an economic appraisal and social appraisal according to the Governing Board's, Guidelines⁴. ICC, has also adopted the Generic Preferred Risk Allocation Matrix (GPRAM)⁵, formulated through the Philippines-Australia Partnerships for Economic Governance Reforms (PEGR) and based on the principle that risks should be borne by the party that is best able to manage it. The GPRAM covers many issues including site conditions, environment, cultural heritage, changes in tax regime, exchange rates and so on. Surprisingly there is nothing within the risk matrix which addresses, communities, and of course nothing around gender and inclusion.

Role and function and funding of PDMF⁶: The Project Development and Monitoring Facility (PDMF), is housed within the PPPC and managed by it and works with agencies implementing PPPs (IAs) to engage consultants and transaction advisors to assist in project preparation and transaction support. The PDMF appears to have been key to the success of the PPPC enabling it to reduce the risks and delays to project preparation by providing all the services needed to develop a bankable project. Although it must be highlighted that there has not been an independent evaluation of the value added of PDMF and exactly how it has impacted on the quality and quantity of projects awarded.

Overall aim of PDMF is to build a robust pipeline of viable and well-prepared PPP infrastructure projects and it does this by facilitating pre-investment activities of potential PPP projects for IAs and LGUs. From 2010 to 2014, the PDMF has supported 68% of the total PPP projects and has approved 60% of total applications. In 2013, a total of 24 projects had been approved for PDMF support of which 6 projects worth a total of \$1.14 billion were rolled out with PDMF support, six projects were undergoing pre-investment studies and 12 projects were in the process of procurement of Transaction Advisers.

PDMF funded support can be accessed through a panel of transaction advisors. At present there are 22 firms registered in this panel and include a roster of national and international companies. The types of activities for which the PDMF can be utilised include the following:

- Preparation of project pre-feasibility and feasibility studies;
- Project restructuring;
- Preparation of bid documents and draft contracts;
- Transaction advisory;
- Assistance to the implementing agency in the tendering process, including bid evaluation and award of PPP projects through competitive selection.

The PDMF financed by a revolving fund receives funding from the Government of Philippines and AusAid, the latter being administered by the ADB which oversees the transaction advisory service. This is an interesting collaboration between an MDB/IFI and a bilateral donor. The revolving fund has been increasing over time, in 2011 it had a total value of \$13 million⁷, made up of \$7 million from Philippines Government and \$6 million from the Australian Government's grant co-financing, by 2014, the PDMF revolving fund had a value of \$23 million⁸ from the Government of the Philippines and \$18 million from AusAid, thus a total value of \$41 million. Recent information received from PPPC revealed that as of 30 June 2016, total PDMF fund is US\$ 112.9 million, of which US\$ 83.9 million is from the Government of the Philippines, US\$ 18.0 million from AusAid and US\$ 11.0 million from other sources.

On successful completion of the bidding process, the project development cost is recovered from the successful bidder plus an administrative fee of 10%. The PDMF process as set out in the PPPC website and reproduced in Annex I Figure 10 shows it to be involved at all stages from project conceptualization to project

3 World Bank, Benchmarking Public-Private Partnerships Procurement, 2017: Assessing Government Capability to Prepare, Procure, and Manage PPPs, 2016.

4 PPPC, Public-Private Partnership (PPP) Governing Board, Policy Circular No.01A-2016, 2016, Available at: <http://ppp.gov.ph>

5 PPPC, Generic Preferred Risk Allocation Matrix, issued by ICC, 2010, Available at: <http://ppp.gov.ph/>

6 PPPC, Project Monitoring Development and Monitoring Facility Guidelines, 2011.

7 Ibid.

8 Adam Smith International, G20 Development Working Group, *Assessment of the Effectiveness of Project Preparation Facilities in Asia*, September 2014

preparation and project appraisal, at the project implementation stage the funds are to be reimbursed and made available to another project.

Oversight of PDMF: The PPPC’s PMDF Service is mandated to manage and administer the PDMF. ADB solely manages the technical assistance from which the PDMF funds are sourced. The PPPC website describing the oversight structure of the PDMF is reproduced in Figure 9 and consists of three main components:

- The PPP Governing Board which is the overall policy-making body for all PPP related activities, including the PDMF. The PPPC acts as the Secretariat for the Governing Board;
- PDMF Committee, for which the PDMF Governing Board is responsible for approving applications for PDMF support. It prescribes and recommends policies, procedures and guidelines for the use of the PDMF, as well as recovery of costs charged to the revolving fund;
- PDMF Committee Secretariat provides technical and administrative support to the PDMF Committee.

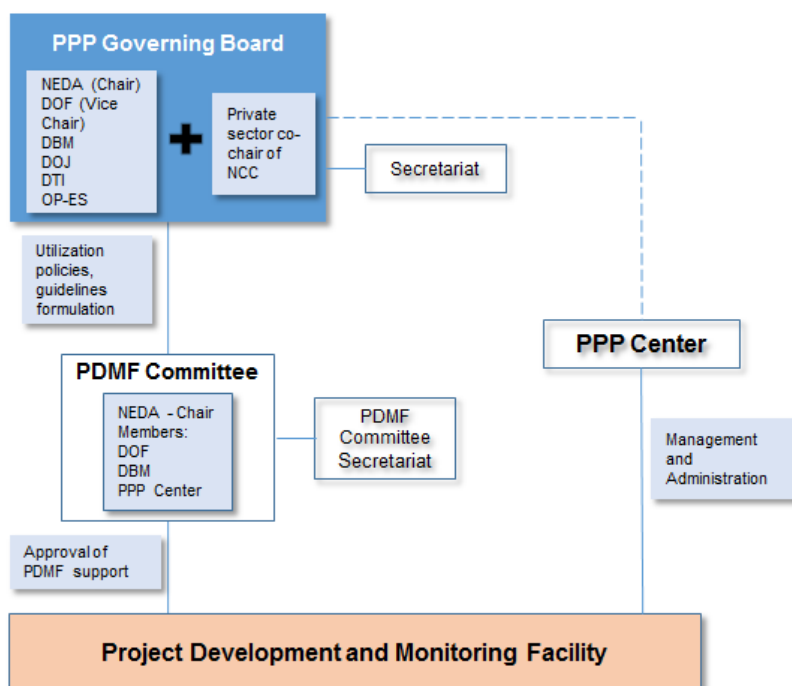


Figure 1: Oversight Management Structure of PDMF. Source: PPPC

Figure 2: Benchmarking of Philippines in Managing PPPs (100 = International Best Practice Score). Source: World Bank, Benchmarking Public-Private Partnerships Procurement, 2017: Assessing Government Capability to Prepare, Procure, and Manage

Topic	Philippines	EAP average
Preparation of PPPs	96	47
Procurement of PPPs	85	58
PPP Contract Management	84	53
Handling of Unsolicited Bids	67	56

A recent World Bank study benchmarked the performance of the regulatory frameworks and practices governing the procurement and management of PPPs in 83 countries across four stages of the PPP project cycle: preparation, procurement and contract management and the handling of unsolicited proposals (USPs).⁹ Philippines scored highly relative to other East Asian countries, as shown in detail in Annex I, Table 10, and in summary in the following table.

Coverage of gender and inclusion (G&I) and climate and environment (C&E): A World Bank study¹⁰ on PPPs stated that “PPP supported by the Bank Group are largely successful in achieving their development outcomes, but data are scarce on effects on the poor”. In the case of PPPC, the guidelines allow for consideration of social issues at two specific points, during the initial prioritization of projects by NEDA and then again during the project preparation advisory service provided by PDMF. The level to which they are expedited in practice is not known.

Guidelines for the appraisal of projects during the initial prioritization by NEDA, does set out issues to be considered as a part of the social appraisal, specifically mentioning that the projects need to be “responsive to national objectives of poverty alleviation, employment generation and income redistribution”. Although the social appraisal is only required to be qualitative, it is significant to note that with regard to income distribution the appraisal is required to consider the “the extent to which the income of the poorest sector of

⁹ World Bank, 2016
¹⁰ World Bank, 2012.

the population is improved as a result of the project". There is also some mention of the need to consider gender¹¹.

The program does not address any specific climate and environment objectives.

Evidence of economic development contribution

Research on the economic development and growth contribution of the PPPC or even of its individual projects has not been sighted as yet, but an indication of its potential impact on economic development can be seen by the range and scale of projects which have to date passed the contract award stage. As of 11th of October 2016 (See Annex I, Table 10) a total of 14 projects had reached contract award stage of which three were complete, four were under construction and the remaining seven were at the pre-construction stage.¹² The total value of these projects is \$6,564 million.

Date	No. of projects awarded
2011	1
2012	1
2013	3
2014	3
2015	4
2016 (Oct)	2

Project-level impacts

The School Infrastructure Project (PISP): Already constructed, involved the design, financing and construction of over 9,000 one story and two story classrooms including furniture in various sites in three different regions in the Philippines. The aim being to supplement the current program of the Department of Education in reducing classroom backlog. Costing \$220 million it is a build lease and transfer (BLT) project with private sector participation from a Consortium of BF Corporation Riverbanks and Citicore Holdings Investment.

Metro Manila Skyway (MMS) Stage 3: With a budget of \$832 million and currently under construction is a project of the Toll Regulatory Board. It is a 14.8km, six lane elevated toll road and the last of three stages of the Metro Manila Skyway System. A key benefit of the project is the improvement of accessibility, mobility and connectivity in and out of Metro Manila via eight strategically located interchanges. The project is a component of the Supplemental Toll Operations Agreement (STOA) entered into by and among the Republic of the Philippines through the Toll Regulatory Board, CITRA and the Philippine National Construction Corporation.

Key success challenges in delivery

The reviews of the PPPC^{13,14,15} suggest a number of factors which have contributed to its achievements.

- **Independence:** although linked to NEDA, the PPPC is a separate agency and this allows a level of autonomy and focus to supporting, assessment and preparation of PPP projects;
- **Engagement with implementing agencies:** PPPC has been successful at liaising with various national agencies to build up a pipeline of projects. Whilst this mainly consists of transport projects (airports, rail and roads) there are also projects in other sectors such as water and social infrastructure;
- **A clear regulatory framework:** BOT law sets out a number of prescribed contractual arrangements - build operate and transfer (BOT), build own and operate (BOO), build transfer and operate (BOT);
- **Transparent bidding process:** it was set out by the BOT law, consisting of (i) invitation to pre-qualify and bid, and (ii) bid submission and evaluation;
- **Robust, effective project preparation:** it is based on a comprehensive prescribed appraisal methodology, covering impact, affordability and risk identification assessment as well as more conventional financial viability considerations.

¹¹ PPPC, *Public-Private Partnership (PPP) Governing Board, Policy Circular No.01A-2016*, 2016, Available at: <http://ppp.gov.ph>

¹² Adam Smith International, 2014

¹³ Rickards, M. and Hermetin, A., *Philippine PPP Proposals and Challenges*, InfraRead Issue 6: September, 2015.

¹⁴ G20 Development Working Group, *Assessment of the Effectiveness of Project Preparation Facilities in Asia*, Adam Smith International, September 2014

¹⁵ World Bank, 2016

Whilst the above indicate factors that have enabled the fairly impressive list of contracts awarded there are still areas of concern about the integrity and efficiency of the preparation process:

- Nature of oversight of PDMF process and the screening of bankable projects;
- The extent to which issues around clean energy / environment and GI mainstreamed;
- The need for communication with stakeholders to be an integral part of project preparation. Earlier projects had not recognized the importance of this but now strategic communications has been mainstreamed in all transaction advisory ToRs. A point picked up by the World Bank's Benchmarking report, as shown in Annexe II is that there is no publication of contracts;
- There is also the danger that where bottlenecks do emerge the solutions may contravene international best practice. For example, obtaining the Right of Way (RoW) has delayed the bidding process for some projects leading to a review of how to speed up the process. Any solution must ensure that negative impacts are mitigated and livelihoods are maintained.

Conclusions

- It is possible to have a well-functioning technical assistance platform that is not only independent from government, but also not institutionally attached to an MDB/IFI or bi-lateral.
- A well thought through structure such as a PDMF can be the conduit for support by multi-lateral and bi-lateral donors;
- ADB's management of the PDMF fund harmonises efforts to the extent that AusAid is not setting up a separate management of its contribution to funds, but is guided by ADB;
- Sustainability of project preparation funds can be achieved through cost recovery;
- It is important the going forward there should be measures to ensure the quality of the technical advisory service;
- There should also be provision for third party monitoring and evaluation.
- There is potential for further research on how to: Develop more local projects; Attract international investment; Understand the value of technical advisory at each stage; Better integrate gender and inclusion e.g. within tools such as GPRAM