

Philippine Infrastructure Policy Reforms and Implementation: A Political Economy Perspective

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Objectives

- Analyze policy reforms for infrastructure development since 1986
- Describe the institutional arrangements in line with policy reforms
- Highlight continuing challenges in implementation of infrastructure projects

- Policymaking/formulation
- Policy implementation
- Policy monitoring and evaluation

Context

Political and economic environment after 1986

- Ascension to the presidency of Corazon Aquino in 1986 paved the way for the 1987 Constitution
- Fundamental political and economic reforms were introduced during the Aquino and Fidel Ramos administrations
- Business sector was at the forefront of policy reforms for **sustained growth**
- Civil society emphasized **social development** and **improved distribution of income and wealth**

The Medium Term Philippine Development Plan (MTPDP)

- Provides the framework for economic and social development of the Administration
- Main development objectives:
 - Sustained growth (efficiency)
 - Equitable development (equity)
- Public policy since 1986 has put **POVERTY ALLEVIATION** in the agenda
- In 2000, the Philippines acceded to the MDGs of the United Nations
- In the aftermath, MTPDP stresses **INCLUSIVE GROWTH**

The Medium Term Philippine Development Plan

- All MTPDPs commit in the long run to great reliance on the coordinative ability of the markets guided by a decentralized price system
- But markets are imperfect and sometimes fail leading to outcomes that fall short of what Philippine society requires
- Government intervenes – it is the institution that exercises collective actions to correct the limitations of the markets

The Medium Term Philippine Development Plan

- Good governance is vital
- Market reliance and good governance must go hand-in-hand
- One dimension of good governance is the elimination of graft and corruption

The Medium Term Philippine Development Plan

- Each MTPDP has a chapter dedicated to infrastructure development.
- Yet, 15 years into the millennium, the country still has a wide infrastructure gap. In a sense the Philippines is still in a catch-up mode when compared to other countries in the ASEAN region
- Policymaking for infrastructure development has proceeded smoothly but in some instances government has encountered problems associated with competition among interest groups. Each interest group competes for policies that advance its interests.

Infrastructure development

Infrastructures are illustrative of a public good

- Free markets are not always able to provide all infrastructure facilities that society requires
- No single agent will build infrastructure unless the agent is fully compensated for the effort
- Therefore, government at both national and local levels have to provide infrastructure using tax and spending schemes

Infrastructure development

- Yet, government is often faced with budget constraints. And infrastructure spending has to compete with other services as health, education and other social services
- Government therefore resorts to private provision of infrastructure facilities
- Private provision is possible if the private sector is permitted to recover cost with normal profits

Who are Involved in Infrastructure Policymaking?

1. The Executive Branch

- Fiscal position of the national government has always been a key part of any Administration's economic policy agenda.
- President signs bills that emerge from Congress before they become laws and are implemented
- Administrations are also responsible for sound budget management – they review and approve upward revisions of budget ceilings
- Administrations pursue tax administration reforms that complements specific tax measures

Who are Involved in Infrastructure Policymaking?

2. Legislative Branch – enacts laws, e.g. specific tax measures (VAT law and its amendments) and the BOT law and its amendment which has become the legal framework for the private provision of public infrastructure projects
3. Supreme Court – individuals or groups go to the SC to contest the constitutionality of a law or an Executive Order. Once the court decides, it becomes part of jurisprudence and guides future policies on the matter

Who are Involved in Infrastructure Policymaking Infrastructure ?

4. Creditors – private participation in infrastructure development is done through competitive bidding. Winner bidders normally form a consortium or a special purpose vehicle (SPV) before government issues a Notice to Proceed. The SPV is capitalized and is registered with the Securities and Exchange Commission. The SPV normally plans for a debt-to-equity ratio of 70%-30%. With a sizeable debt component, financial disclosures with creditors becomes a prerequisite for project implementation.

Who are Involved in Infrastructure Policymaking

4. Creditors (Con't)

Potential creditors would then be interested in the allocation of risk bearing between the SPV and government. Thus, risk rating of the Philippines is very material.

To mitigate the risk of default, creditors seek guarantees and other forms of insurance devices.

Creditors' preferences and appetite for risk taking is vital for infrastructure projects that are privately provided.

Who are Involved in Infrastructure Policymaking?

5. ODA Donors

ODA loans are a form of conditionality lending.

When governments accede to demands for reforms from donors, the conditionality practices of donors also become part of policy.

When a donor writes a standby credit arrangement with a client country and puts tightening of fiscal or monetary policies in the Letter of Intent, tight macroeconomic policy holds while the credit arrangement is in force.

Who are Involved in Infrastructure Policymaking?

In the Philippines, the ability of government to tap ODA financing hinges on being able to increase tax collections which then enables it, through its Department of Budget and Management to raise budget ceilings of implementing agencies of infrastructure projects.

Donors also have social and human-based policies – resettling of informal settlers, for e.g., and so government has had to adjust to donors' standards which sometimes require legislation.

Conditional lending by ODA donors is policymaking!

Policy Implementation

Infrastructure project implementation is mainly an Executive function.

I. Institutional arrangements:

1. National Economic and Development Authority (NEDA) is the lead agency in fiscal planning and infrastructure development. There is a NEDA Board which is headed by the President of the Republic. Its members include some implementing agencies of government – Public Works, Energy, Transportation and Communication, Agriculture, among others.

Policy Implementation

- 1. Institutional arrangements (Con't)**
2. NEDA Secretariat – assists the NEDA Board and undertakes technical analysis to assist decision making by the NEDA Board. It has 3 functions: policy and planning, investment programming, and project evaluation and monitoring

Policy Implementation

1. Institutional arrangements

3. NEDA inter-agency committees – these include:
 - Development Budget Coordinating Committee (DBCC) – formulates the annual budget submission to Congress
 - Investment Coordination Committee (ICC) – coordinates fiscal, monetary and exchange rate policies and prevent debt crisis
 - Infrastructure Committee (Infracom) – endorses all infrastructure projects of the National Government

Policy Implementation

National government is expected to provide infrastructures in several sectors: transport, telecommunications, electric power, etc.

Build-Operate-Transfer Law – incentive for private sector to participate in the government's infrastructure program.

Policy Implementation

BOT Law – covers transport (light rail transits, airports, expressways) telecommunications, water and power, school buildings, public food markets

BOT projects are covered by contracts which spell out the private sector partner and the period of cooperation. Contractual disputes arise, bringing the courts into the picture. When courts intervene, implementation is put on hold resulting in delays in completing projects.

Policy Implementation

II. Setting priorities

Because of budget constraints, a system of prioritization is necessary. In reviewing a project for implementation some questions asked are:

- what social objective in the MTPDP is being served
- if project is a public investment, where does the project lie in the priority sector or subsector of the MTP Investment Plan (MTPIP)
- will project be a purely government project or will this be PPP. What are the private and social rates of return?

Policy Implementation

III. Infrastructure Programs – An Illustration

A. Transport

1. **Land** - roads, bridges, expressways and rail to support rapid urbanization
 - farm-to-market roads to support agriculture
 - interregional roads to promote tourism

Road maintenance is also vital and funding comes from road users charges collected annually from registration of motor vehicles

Policy Implementation

A. Transport (Con't)

2. Sea - inter-island vessels (private operators who avail of incentives from government which provides relending facilities for fleet improvement)

- port provision and regulation (incentives include providing technical and financial assistance in preparing master plans and feasibility studies)

Policy Implementation

A. Transport

3. Air – building of new airports and renovating existing ones

Problems:

1. Right of Way – especially in urban areas where there are informal settlers. In other areas there are ancestral domains rights that are violated

Policy Implementation

Problems (Con't)

2. Contractual disputes – Terminal 3 airport which has foreign investors worrying about doing business in the Philippines. In particular, they are concerned with high judicial risks

Policy Implementation

B. Energy

- Laws enacted in the mid 2000s – Biofuels Act and Renewable Energy Act
- Price support to renewable energy sources (wind and solar) was to be achieved through feed-in tariffs. Tariffs are designed for cost recovery with normal profits
- Priority given to energy projects that would reduce generation and transmission costs. Exploration of new sources of natural gas

Policy Implementation

C. Water

- Priority is water supply, sewerage and sanitation
- In Metro Manila there are two water concessionaires and the concern is to institute policy refinements to ensure smooth implementation of water supply privatization
- Implementation problems: ROW, financing of water districts, contract writing, regulation of concessionaires' operations such as those using return-on-rate base

Policy Evaluation

Agencies involved in evaluation and monitoring are the implementing agencies, the NEDA through the NEDA Secretariat (NS) and the Department of Budget and Management. NS gets a lot of support from the ODA donors, especially after donor and client countries acceded to the *Paris Declaration for Aid Effectiveness* which emphasizes country ownership and mutual accountability.

Policy Evaluation and Monitoring

Two project outcomes: 1) water supply and 2) electric power

1. Water supply

- Supply of water was privatized because of government's (MWSS) inability to provide in a most efficient and reliable manner adequate water to Metro Manila. Government suffered huge financial and system losses and failed to meet performance indicators.

Policy Evaluation and Monitoring

1. Water supply (Con't)

- Two private concessionaires won the right to operate the water supply service in Metro Manila
- In 1997, with the AFC, the peso depreciated significantly. The two concessionaires had taken over the foreign debt of the MWSS. The peso depreciation raised their foreign debt obligations in peso terms substantially.

Policy Evaluation and Monitoring

1. Water supply (Con't)

- Government allowed accelerated recovery of their foreign exchange losses with contractual amendments. The amendments helped the concessionaires but the crisis hampered capital improvements and delayed realization of benefits to stakeholders.
- Service has improved with 24-hour service coverage, benefitting households and businesses.

Policy Evaluation and Monitoring

1. Water supply (Con't)

MWSS is no longer engaged in water supply and its role is mainly being an oversight body monitoring the concessionaires and setting standards for the service. It leads in rate rebasing, which is done regularly.

Policy Evaluation and Monitoring

2. Electric power

- A law was passed (EPIRA) which ended the monopoly of the National power Corporation over power generation and transmission, effectively privatizing the electric power industry.
- NPC power plants were auctioned
- Transmission continued to be a public utility but it could be assigned to the private sector through competitive bidding

Policy Evaluation and Monitoring

2. Electric power (Con't)

- There is now a consortium of local and Chinese investors that runs the National Grid today
- Luzon, a major island of the country is benefitting with less and less brownouts now occurring although the situation could get worse in view of the delay in the construction of a coal-fired power plant because of issues on environmental compliance

Conclusion

Much progress has been achieved with the introduction of policy reforms for infrastructure development. Reforms have opened up an important role for the private sector in infrastructure development.

Conclusion

Still challenges remain.

- Capacity building for infrastructure agencies in all stages of the project cycle
- Transparent procurement procedures, at both national and local levels
- Improved budget formulation and execution
- Judicial reforms, especially adjudication of contractual disputes
- Good governance is vital to achieve greater success

Thank you