

Bold Inclusive Reforms for Infrastructure for the Next Decade

This policy note was prepared following a roundtable of industry experts in late 2015 organized by the Australian-New Zealand Chamber of Commerce with the Joint Foreign Chambers to discuss the status of the infrastructure sector in the Philippines. The note includes a brief summary of the various advancements and challenges along with the opportunities and recommended policies and projects that the JFC believes are priorities for the next decade, for the next administration and its successor.

Infrastructure - one of the seven big winner sectors identified in the Arangkada Philippines document - is composed of the following: (a) Policy, which focuses on amendments and implementation of certain laws needed for sectoral growth of the sector, notably the PPP program, (b) Transportation: Airports, Roads, Rail, and Seaports (the most urgent as they directly complement the country's robust economy); (c) Power (crucial as essential for the activities of modern man.); (d) Water Supply; and (e) Telecommunications.

The Infrastructure Sector: Achievements and Challenges

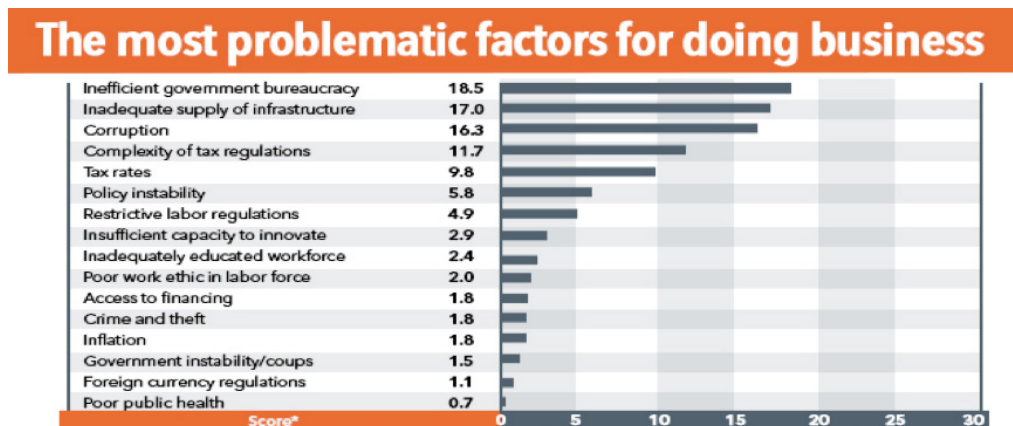
According to the World Bank, the Philippines achieved an average GDP growth of 5% in the last decade, due to sound economic fundamentals and a competitive global workforce. However, poor and inadequate infrastructure remains as one of the top three challenges faced by the Philippines, alongside corruption and red tape. With Greater Metro Manila (GMM) ranked as the fourth largest urban area with an estimated population of 24 million (including urban expansion in the nearby provinces of Batangas, Bulacan, Cavite, Laguna and Rizal), investments in quality and resilient infrastructure should remain as a priority agenda of the government.

The chart below from the 2015 WEF Global Competitiveness Index rates infrastructure as the second most problematic factor that impedes doing business in the Philippines.

If the Philippines is to catch up with its ASEAN neighbors in the global competitiveness index, it has to invest far more in infrastructure. Currently, the Philippines ranks 6th in overall infrastructure among the ASEAN-6 in the 2015-2016 WEF Global Competitiveness Index and only 8th in infrastructure quality among all ten ASEAN member countries.

The Aquino Administration has performed with relative success in pursuing infrastructure development that enables greater private sector participation. Through government's PPP Program, key infrastructure initiatives have been pursued since 2010. The government's infrastructure spending is expected to increase to 5% of GDP in 2016. While ROW amendments have been passed by Congress, passage of other critical legislation to support long-term infrastructure planning and development (i.e. BOT amendments and Procurement Law amendments) remains a critical task for the current and new administrations to pursue. Furthermore, delays experienced in some of the

Figure 1: The Most Problematic Factors for Business in the Philippines



* From the list of factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

WEF GCR Infrastructure Component Rankings, ASEAN-6, 2015-2016

	Overall infra	Road	Railroad	Port	Air	Power supply
Indonesia	81 of 140	80	43	82	66	86
Malaysia	16 of 140	15	13	16	21	36
Philippines	106 of 140	97	84	103	98	89
Singapore	4 of 140	3	8	2	1	3
Thailand	71 of 140	51	78	52	38	56
Vietnam	99 of 140	93	48	76	75	87

Source: World Economic Forum 2015-2016 Global Competitiveness Report

PPP projects continue to hinder government's full potential and success in undertaking aggressive infrastructure development.

The Philippines could benefit from innovative technologies and solutions to address its infrastructure development needs. The government should do more to prioritize key aspects of the sector including transportation, telecommunications, water, and sanitation, and improve efficiency in order to realize better the economy's potential. With the right leadership, political mindset, and innovative solutions, the Philippines can resolve the challenges of infrastructure and achieve higher growth. The following highlights recommendations, programs, and policies that may be prioritized by the next two administrations for the period of 2016-2026.

Recommendations

Ultimately, over the next several administrations, the Philippines should target putting in place Quality Modern Infrastructure, the components of which are described below.

COMPONENTS OF QUALITY MODERN INFRASTRUCTURE

1. An extensive, seamless access road network.
2. An extensive, seamless light rail network for Metro Manila.
3. North and South rail lines for commuters and inter-city passengers and cargo.
4. Two gateway international airports for Luzon with modern terminals and point-to-point fast rail service connecting the airports.
5. Three seaports with competing operators (to decongest Manila with parallel international cargo operations in Batangas and Subic).
6. Reliable, more affordable electric power supply.

7. Reliable water supply and flood control.
8. Inexpensive high quality telecommunications services and a competitive telco market.
9. Similar infrastructure in other urban areas (e.g. Cagayan de Oro, Cebu, Davao, Zamboanga).

I. Infrastructure Policy

1. Next administration should continue existing infrastructure policies and projects.
2. Increase the total infrastructure investment level to above 10 percent of GDP.
3. Encourage more private sector participation in operations and maintenance of infrastructure assets.
4. Encourage a more competitive environment and faster implementation of government projects by reforming the Government Procurement Act and creating a level playing field for foreign investors and construction firms. Time and effort are important to avoid inefficiency in project expenditures, which raises the cost of doing business as well as project cost.
5. Improve the investment environment for infrastructure through legislative and administrative reforms that encourage greater private sector participation in infrastructure projects – amendments of RA 7718 (the BOT law aka the PPP Act), RA 9184 (Government Procurement Act), and HB 5588 (Right of Way Act).
6. Continue and expand investments that are consistent with a concrete program, such as the JICA Mega Manila Transport Roadmap and other projects.
7. Develop new commercial and residential hubs to decongest Metro Manila, especially in the Clark area and Eastern Luzon. Target relocation of specific labor-intensive manned firms to reduce population of Manila. Exploit underutilized airport infrastructure and road networks available in Clark and Subic. Attractive incentives for business and individuals should be provided to encourage transfers.
8. Support PPP projects that promote best practices in project design accuracy, contracting, division of responsibilities, performance measures, risk management and neutral-objective mechanisms to prevent and resolve disputes.
9. Generate stable, non-discriminatory and transparent legal, regulatory and investment environments fundamental to provide businesses the assurance and predictability required for long-term, capital intensive investments.

II. Transport

A. Airports

SHORT TERM

1. Minimize further congestion at NAIA using the best available tools: traffic restrictions, rapid exit taxiways, upgrade ancillary facilities, more direct foreign flights to secondary gateways, pricing at NAIA to use landing fees to incentivize carriers to use airport at least congested times.
2. Urgently invest in a new terminal at Clark International Airport for Central/Northern Luzon. Incentivize LCCs to develop hubs at Clark.
3. Complete or accelerate airport projects for Albay, Caticlan, Clark, Kalibo, Laoag, Mactan, Puerto Princesa, Panglao, Tacloban, and elsewhere. Upgrade feeder airports to night landing capable to ease congestion at NAIA.
4. Place Clark and NAIA under a single airport authority to coordinate best usage of the twin facilities for Greater Metro Manila.
5. Privatize maintenance and operations of major international airports.
6. Review and enhance capability of CAAP to sustain its Category 1 status.
7. Decide the location of a successor multi-runway international airport to replace NAIA in 10 to 15 years.
8. Study and decide the feasibility of a dedicated fast train to connect Clark with NAIA and any successor airport.

LONG TERM

1. Fully implement EO 29 (pocket open skies), which eases restrictions on foreign airlines flying to international airports outside Manila.
2. Strengthen the mandate of CAAP as the airport and aviation regulatory authority, separating its operational from development functions.
3. Upgrade hub airports outside the Greater Capital Region so they achieve ICAO standards.

B. Seaports

SHORT TERM

1. Avoid recurrence of congestion at Manila ports. Limit future growth of the Manila ports. Complete the modernization of Manila North Harbor.
2. Continue to increase utilization of Batangas and Subic ports. Expand the capacity of Batangas.
3. Connect Manila ports directly to the Metro Manila skyway system and improve skyways design for increased truck weight.
4. Minimize truck bans.
5. Ensure efficient road infrastructure to connect to Batangas and Subic ports.
6. Develop/modernize other key ports outside of Metro Manila including Cagayan de Oro, Cebu, and Sasa Port Davao.
7. Issue EO to separate regulatory and operational functions of PPA
8. President should sign amendment to EO 170-2003 to allow prime movers at ports to move chassis on/off RoRo ships, saving 15-20% on shipping costs.

LONG TERM

1. Grant long term permits to private firms to operate government ports.
2. Upgrade and expand the RoRo network.
3. Implement agro-industrial and manufacturing clustering near key regional ports to create cargo volume for larger ships and reduce shipping costs.
4. Privatize more ports currently under government supervision

1. The ROW Act was enrolled and sent to the president in early 2016. The PPP Act was close to passage in the Congress when it recessed on February 3.

C. Roads and Rail

SHORT TERM

1. Appoint a DPWH secretary who continues current nationwide programs for roads, bridges, and water projects. Appoint a DOTC secretary who will implement all projects.
2. Merge the DPWH and DOTC.
3. Intensify convergence program for tourism and agricultural areas. Complete upgrade of 2,100 kms of national highway to high standard. Improve linkages of national highways to Ro-Ro network
4. Form a Presidential Traffic Task Force. Strengthen the authority of MMDA.
5. Implement short-term traffic management measures to deal with the increasing volume of new car sales. Follow key recommendations of MAP and others.
6. Rationalize bus franchises and requirement for vehicle road worthiness, scale up P2P buses, and complete the 3 intermodal transport terminals for GMM.
7. Enforce better road user discipline and traffic management to reduce restrictions of traffic flow, e.g. prevent waiting in traffic zones, bus/ truck driver training, drive in correct lanes, clear accidents quickly. Recertify drivers/require remedial driving training. Implement road safety measures. Open routes through villages and study surge congestion pricing.
8. Complete three ongoing skyway projects: NAIA Skyway Phase II, SLEX Skyway Phase III, and NLEX-SLEX Connector. Build more flyovers and bridges in Metro Manila.
9. Complete CALAX (47 km), Central Luzon Expressway (36km), Plaridel Bypass (25km).
10. Encourage cashless transactions in toll operations and seamless inter-operability between toll roads.
11. Rehabilitate LRT-1 and MRT-3, PNR Commuter South, doubling capacity. Complete LRT-1 South extension, LRT-2 East and West extensions.
12. Privatize through long-term concessions all light and inter-urban rail.
13. Harmonize regulations to remove LGU fees on inter-urban freight.
14. Develop mass transit systems for Cebu and Davao. Build a third Mactan-Cebu bridge.

LONG TERM

1. Strengthen and implement the Mega Manila Transport Roadmap, connect it to transport systems of several cities in Luzon, and replicate in other major urban areas, e.g. Cebu and Davao.
2. Modernize/rationalize jeepneys and tricycles, reducing noise and pollution.
3. Complete the MRT-7 and LRT-6 light rail projects by 2020. Also LRT-4.
4. Build more skyways and toll roads in Metro Manila (above C-5, C-6, Laguna Lakeshore Dike Expressway).
5. Complete major inter-urban rail projects by 2020 to upgrade public transport systems: North-South Commuter Railway (Malolos to Tutuban), Clark Rail (Clark to Malolos), and North-South Railway Project (South Line to Bicol).
6. Build a dedicated fast train to connect Clark with NAIA (with a planned link for any NAIA successor airport).
7. Develop and implement one or more lines of the Mega Manila Subway Project by 2026.
8. Create a new railroad regulatory body.
9. Restructure and recapitalize PNR and LRTA. Overhaul charters of both agencies.
10. Pre-qualification requirements for PPP projects should be relaxed to ensure fair competitive tendering and allow evaluation of global design and technology.

III. Power

SHORT TERM

1. Ensure that the policies of EPIRA are continued. Maximize access of Retail Electricity Suppliers to contestable customers. Maintain adequate power reserves .
2. Assure gradual shift from older to new base load plants.
3. Ensure power supply in Mindanao with privatization and rehabilitation of hydro power plants, adding non-hydro plants, and maintaining security of transmission towers. Connect Mindanao grid with the national grid.
4. Install battery storage for renewables.
5. Remove the 60-40 equity provision in the IRRs for renewable energy projects.

LONG TERM

1. Achieve a 33/33/33 generation mix between coal, gas, and renewables.
2. Strengthen electric power distribution in rural areas, as many Electric Cooperatives (ECs) are unable to handle technical/ financial issues. Increase support to the National Electrification Administration to enable ECs to upgrade operational/ financial standards, as well as encourage privatization

IV. Telecommunications

SHORT TERM

1. Enact the DICT Act.
2. Appoint Data Privacy Commission to fully implement RA 10173.
3. Create a program policy specific for the broadband sector in the Philippines to include local IP peering and shared infrastructure.
4. Amend RA 7295 to create open access policy for telecommunications.
5. Improve spectrum management.
6. Amend CA 146 to exempt segments of the internet that do not serve the public directly.
7. Update Philippine Digital Strategy and develop a National Broadband Plan.
8. Reform the National Telecommunications Commission.
9. Expand free wifi in high-traffic public buildings and schools.

LONG TERM

1. Target and achieve making broadband in the country inexpensive and reliable, thereby bringing digital benefits to all Filipinos and increasing national competitiveness.
2. Amend constitutional provisions on public utilities to remove restrictions on foreign investment in telecommunications.
3. Develop more broadband infrastructure to enable highly network-dependent businesses and allow work from home.

V. Water, Sewerage, and Sanitation

SHORT TERM

1. Pass the proposed Water Regulatory Commission (WRC Bill) to develop and regulate the country's water system and address institutional fragmentation.
2. Enact a Water Reform Act to establish necessary legal and institutional framework to guide development of water sources throughout the country.
3. Support approval of proposed policy amendments of DPWH's National Sewerage and Sanitation Management Program (NSSMP), such as increased subsidy and inclusion of water districts and septage projects.
4. Improve operations and management of Water Districts by insulating them from political interference and removing obstacles to privatization and consolidation to achieve economies of scale in water distribution and sewage.
5. Upgrade the existing irrigation network and fund its rapid expansion to assist farmers to be more productive and reduce impact of climate change.

Conclusion

Building modern, efficient infrastructure to make the Philippines competitive with other competing emerging market economies is critical to sustaining a high level of economic growth that is inclusive and will enable more domestic as well as foreign investment in the Philippines.

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