

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Report of the 4 March Asia-Pacific Infrastructure Partnership (APIP) Dialogue with the Philippine Government

Australian APEC Study Centre

- PURPOSE** For information.
- ISSUE** The Philippines Government invited APIP to hold a third Dialogue at Tagaytay City. The Dialogue was preceded by the fourth APEC PPP Experts Advisory Panel meeting and sponsored by the Department of Finance.
- APIP Dialogue Theme: Urban Infrastructure Development and Financing
- Agenda items discussed:
- Emerging trends and issues on Urban infrastructure and financing
 - Review of the Philippines situation
 - Overview of private infrastructure in the Philippines: achievements, challenges and urban issues
- BACKGROUND** The APIP panel commended the speed of the planning process and how this has progressed since the first Dialogue that was held in the Philippines in 2011. Plans seem to be well developed and considered, and the pipeline of projects is impressive.
- APIP panel member's recommendations noted the importance of integrated planning, to consider the greater Manila area as a whole to ensure overall planning coherence and connectivity for people and supply chains.
- The importance to have a pipeline of both short and long term projects was highlighted.
- PROPOSAL** None
- DECISION POINT** Note the report.

**Asia Pacific Infrastructure Partnership (APIP) Dialogue with the Government of the Philippines
4 March 2015
Sampaguita Room, Taal Vista Hotel, Tagaytay City, Philippines**

APIP DIALOGUE SUMMARY REPORT

INTRODUCTION

Since the establishment of APIP in 2010, a number of dialogues have been held with various governments. After the success of two previous dialogues, the Philippines Government invited APIP to hold a third Dialogue on the 4 March 2015 at the Taal Vista Hotel, Tagaytay City. The dialogue was preceded by a brief preparatory meeting of APIP panel members and the fourth APEC PPP Experts Advisory Panel meeting, which were sponsored by the Philippines Ministry of Finance.

Around 60 representatives from the Philippine Government, multilateral development institutions, ABAC members and APIP private sector panel members attended the APIP Dialogue, which was Co-chaired by Undersecretary Gil S Beltran, Department of Finance and Mr Mark Johnson AO, Chair of the APIP panel.

Finance Undersecretary Beltran acknowledged the attendance of the Philippine Officials, welcomed APIP panel members and noted that the purpose of this year's dialogue was to focus on the important topic of 'urban infrastructure development and financing' which is a key agenda item in the Cebu Action Plan. Citing the recent 'East Asia's changing urban landscape: Measuring a decade of spatial growth' World Bank report, Beltran noted that due to the considerable movement of people to urban cities in pursuit of employment and a better quality of living, there was a greater need for infrastructure development. This has raised issues for policymakers to specifically consider; how to plan and finance infrastructure development, and how to improve and develop outer cities that are considered locked in.

APIP Chairman Mark Johnson AO, acknowledged the very impressive progress in terms of the implementation of the Philippine Public Private Partnership (PPP) Center's program of work in the past several years, and welcomed the opportunity for the APIP panel to now discuss the much more complex issues of infrastructure development and financing in an urban environment.

Emerging trends and issues on Urban Infrastructure and financing, Asian Development Bank (ADB)

Currently 11 of the most polluted cities are in Asia and a third of these urban dwellers are living in slum areas, which is much higher than other regions. Asia's increasing population and economic growth drives the trend of urbanization. Urban centers are an important contributor to GDP and a key factor in ensuring the quality and effectiveness of Asia's productivity and overall stability. Rapid urbanization brings about a number of key challenges, especially for infrastructure services and financing, planning coherence and urban governance to address the fragmented lines of authority in planning and delivery inconsistencies.

An integrated planning framework for infrastructure development needs to consider environmental sustainability, social inclusiveness and competitiveness with the key enablers of effective governance, innovative financing and knowledge, and capacity development.

Overview of the Urban Infrastructure Network

The Urban Infrastructure Network (UIN) is a joint initiative of Australia and China, proposed by the Australian APEC Study Centre at RMIT University and supported by the Australian Government. The UIN concept was endorsed by the APEC Business Advisory Council (ABAC) and commended by ABAC to APEC Leaders and Finance Ministers in 2014. The objective of the UIN is to promote the development of a holistic policy planning framework to provide guidance to APEC leaders at national, subnational, and multinational levels of government on meeting the infrastructure development challenges arising from the rapid urbanization in the Asia-Pacific region.

There are three urban development areas of focus and workstreams: (1) design and planning; (2) infrastructure project and development; and (3) project finance and investment. The working groups aim to develop an action plan and guidelines of best practices that can be agreed upon at the second biennial forum of the Network to be held in 2016, so that it can be presented to APEC Leaders and other key stakeholders later that year. Membership is open to any interested practitioners from APEC economies.

Review of the current Philippine situation

There are currently 41.9 million Filipinos living in urban areas. It is estimated that by 2030, 56.3% of the population will be living in urban areas and that this will increase to a total of 65.6% of the population in 2050. The current core urban issues that need to be addressed are: overcrowding and congestion, traffic congestion and inefficient urban transport, safer and affordable housing, natural disaster risks and environmental degradation from frequent flooding and rising flood damage. There is an acute shortage of drinking water, inadequate sanitation coverage, poor services and poor solid waste disposal.

The National Economic Development Authority (NEDA) outlined the strategies and plans in the Philippine Development Plan that seek to address this: (1) improving connectivity and efficiency among urban center regional growth hubs; (2) improving wastewater and solid waste management; and (3) improving coordination and planning, and streamlining government processes.

The Philippine Institute for Development Studies (PIDS) emphasized that the current urban development plans should have a strong focus on the need to facilitate the movement of people within and between the production spaces and social spaces and the national level urban planning should not overly focus on housing at the expense of the overall infrastructure plan. The LGU-level urban planning, is currently over focused on land use conversion and zoning but should place a greater emphasis on interconnectivity at a higher geographical level. And aside from these frameworks, actual physical plans should also safeguard land for infrastructure.

Transport

The Department of Transport and Communication (DOTC) presented its PPP project timeline and noted that 4 out of the 9 PPP projects awarded in the present administration are DOTC projects.

The DOTC identified the following challenges in terms of Policy (legal readiness and project implementation, institutionalizing new organizational structure and building capacity); Resources (encouraging participation of local and international firms and lenders to participate, timing of tenders); and People (PPP acceptance of various agencies, risk aversion of various stakeholders, political environment and transitioning of plans and projects and ensuring inclusive growth).

APIP Secretariat

The Australian APEC Study Centre, RMIT University
GPO Box 2476, Melbourne VIC 3001
Contact: Ms Elissa Macleod

Tel: +61 (3) 9925 1083 • Fax: +61 (3) 9925 5624 • Mobile: +61 (0) 431 381 154
Email: elissa@apec.org.au

Urban Public Works

The Philippine Department of Public Works and Highways (DPWH) identified three key urban public work issues; (1) infrastructure development for growth; (2) governance for institutions and social welfare; and (3) green traffic and pollution management.

The infrastructure budget has increased and the capital outlay of DPWH amounts to a total of Php 273.9 Billion this year. The DPWH plans to; (1) institutionalize good governance and Anti-Corruption Reforms; (2) upgrade the quality and safety of roads and bridges with stronger private sector participation; (3) provide better access to tourism destinations, ports and food production areas; (4) continue work on the Master Plan for flood management in Metro Manila and surrounding areas, with other stakeholders; (5) develop the Mindanao Logistics Network Program, and undertake resilience and disaster risk management projects.

Energy Sector

The Department of Energy (DOE) outlined key energy plans and programs to climate-proof energy infrastructure and facilities to develop indigenous sources of energy and to expand the use of natural gas. To continue the long term push for sustainable fuels for transport public utility vehicles. Implementing these measures is expected to achieve 10% energy efficiency and 10% energy savings by 2030. These outcomes will need assistance from the private sector.

Asian Development Bank (ADB) Overview of private infrastructure in the Philippines

Now is a good time to attract investment to the Philippines. There is high GDP growth, increased competitiveness, a stable political environment, improved corporate governance, sound fiscal management and credit rating upgrades.

APIP PANEL RECOMMENDATIONS

The APIP panel commended the speed of the planning process and how this has progressed since the first Dialogue held in 2011. Plans seem to be well developed and considered, and the pipeline of projects is impressive.

Asian PPPs have been evolving a lot in recent years, and though still in the early stages, a lot can be learned from the experiences of front runners such as Australia, the UK and others. In the UK, the government issued guidance for PPPs, UK PF2 based on the reflections of past experiences, which could be reviewed for the possible application in Asian PPPs.

Integrated planning

The panel noted that it may be helpful to create an overall integrated infrastructure Master Plan such as 'Metro Manila 2025' as this could be a valuable resource for both the private and public sector. It would allow the private sector time to allocate resources and provide confidence for long term planning; it should also clearly identify the lines of authority for the urban development plans and their implementation.

As an internal planning framework, this document could provide a basis for consistency of decision making across all levels of government, articulate performance targets and enable risks to be better quantified. It could also be used as a benchmark against other cities in Asia that are competing for the funds and investors.

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The Australian APEC Study Centre, RMIT University

GPO Box 2476, Melbourne VIC 3001

Contact: Ms Elissa Macleod

Tel: +61 (3) 9925 1083 • Fax: +61 (3) 9925 5624 • Mobile: +61 (0) 431 381 154

Email: elissa@apcc.org.au

This planning and integration process should be undertaken in a holistic manner within and between line agencies, and include policy and legal requirements. This is important because there may not be time to change laws during project implementation, and laws changed could affect long term projects and financing. Legal impediments will discourage investment.

Regulatory structures must also be in place to deal with issues such as pricing and taxes, and be independent, to avoid any conflict of interest because this will discourage private sector participation and investments in PPP projects. The regulatory authority should also competently deal with issues over the life of the project.

Integrated planning and connectivity for greater Manila

The panel noted that the growth of the Philippines will come in large part from the greater Manila area. The challenge will be seeing that area as a whole, and ensuring that there is overall planning coherence and connectivity for people and supply chains. There should also be identifiable key responsibility and accountability for the overall urban development planning, implementation of projects, transportation and *land use*.

From an integrated point of view, Manila is a metropolis with a broader urban sprawl. Melbourne, Australia has a similar situation with an urban sprawl, several layers of government and has recently been rated as the world's most livable city. Advocacy from the private sector through the 'Committee for Melbourne' has helped to inform and encourage the government to work better, from an economic point of view, and how the city functions as a whole, from a community point of view. The private sector is well placed to assist with these challenges, deliver solutions and create better outcomes. Melbourne's experience also demonstrates that, in a city with established PPPs forming part of the transport network, existing PPP operators may, due to the presence of incumbency, offer better solutions for some network enhancements through 'unsolicited projects' (or modifications to existing PPPs) than the government can necessarily deliver without involving the existing operator.

The panel acknowledged that greater mobility is essential, and an absolute pre condition in moving forward towards social inclusion. New infrastructure should only be created selectively and greater emphasis could be placed on better management of existing transport infrastructure systems. PPPs are complex in an urban environment and the government could consider the continuum of partnership schemes to engage the private sector, such as BOT.

Pipe line of short and long term projects

The private sector needs a pipeline of both short and long term projects to be able to allocate resources and keep their project teams together for future 'bids' and work. Long term planning gives a sense of predictability and visibility for interested investors.

Conclusion

The panel wished the Philippines good fortune and noted that APIP is willing assist wherever possible.