Philippines: Time to catch up

Mia Tahara-Stubbs

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The Philippines has fallen behind its neighbours in developing infrastructure despite robust economic growth over the past few years. But the new administration of President Rodrigo Duterte has pledged to accelerate spending on infrastructure, and, as *IJGlobal* data shows, the country has a huge pipeline of projects.

The Philippines' economic growth has outpaced many of its peers over the past few years but the country has suffered a chronic infrastructure deficit that is widely seen as having held back the country.

Annual GDP growth for the Philippines has averaged over 6% since 2012 and is expected to continue to expand by roughly 6% in 2016, according to the Asian Development Bank (ADB).

However, the Philippines has consistently had the lowest level of public investment among ASEAN countries in the recent past, with spending averaging at 2.5% of GDP between 2000 and 2014, according to an International Monetary Fund working paper.

As a result, the Philippines suffers lowly rankings for infrastructure quality. The country ranks 106th out of 140 countries for overall infrastructure and only a slightly better 81st for transport infrastructure, according to the World Economic Forum's 2015-16 Competitiveness Report.

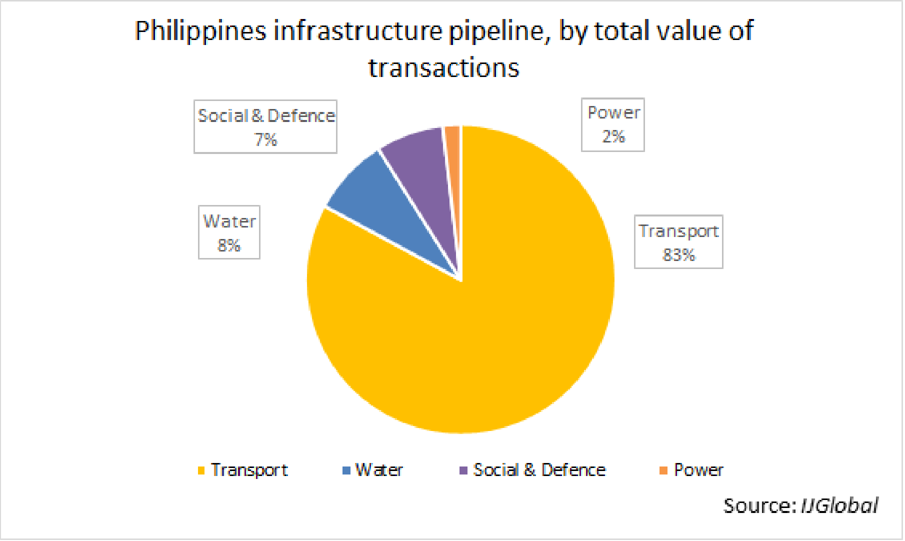
Boom times ahead

One of the key campaign themes of President Duterte, who was elected in May, was to remedy the situation by boosting spending on infrastructure and his new administration is committed to carrying out the pledge.

"The Philippines needs a massive infrastructure upgrade. Improving infrastructure is a core part of President Duterte's development plan for 2017-2022", socioeconomic planning secretary and former ADB lead economist Ernest Pernia told *IJGlobal* on the side-lines of the Philippines Energy and Infrastructure Forum in Manila on 7 September.

The government is aiming, in due time, to lift spending on infrastructure from 5% to 7% of GDP, he said.

In fact, the Philippines is already on a massive drive to build new infrastructure. As of September 2016, some 47 projects with a combined deal value of $16.54 billion are in the pipeline, *IJGlobal* data shows. By comparison, 43 transactions totalling $18.68 billion reached financial close during the six-year term of previous President Benigno Aquino, between June 2010 and 2016.



Most of the big ticket transactions are public transport projects and will be partly funded or at least backed by the government.

The Philippines has some 17 transport PPPs totalling $13.65 billion in the pipeline, ranging from the $2.14 billion Manila MRT-7 transit rail line to the $1.18 billion Calax Expressway and the $2.2 billion concession to modernise five regional airports.

Reducing red tape

One crucial effort is to streamline procurement and simplify the web of government agencies involved in approving projects.

“We want to link government planning and build bridges between various government agencies,” Noel Kintanar, Undersecretary at the Department of Transportation told *IJGlobal*.

The Duterte administration has already taken the first steps towards accelerating and streamlining procurement.

Last week, the National Economic and Development Authority approved nine major projects for a combined Ps171.14 billion ($3.58 billion) and also lowered the minimum acceptable rate of return, or the economic hurdle rate, to 10% from 15%.

The new government is also more open to unsolicited 'swiss challenge' bids from the private sector. The first to be approved, however, looks set to be Metro Pacific’s Ps170 billion bid to build the 8km NLEx-SLEx connector toll road in Manila that was submitted in 2010, under Gloria Macapagal-Arroyo’s administration.

While unsolicited bids may now be welcome, bidders should not expect to get public subsidies, Karen Singson, Chief of Staff and the incoming Undersecretary for Privatisation and Office of Special Concerns at the Department of Finance told *IJGlobal*.

“The private sector is welcome to structure and submit their own project bids but should not expect, for example, guaranteed payments from the state,” she said.