



# **Philippines: Opportunities and Challenges in Infrastructure Investment**

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# **Outline of Presentation**



- I. INFRASTRUCTURE CHALLENGES IN THE PHILIPPINES**
- II. GOOD GOVERNANCE AGENDA OF THE AQUINO ADMINISTRATION**
- III. OPPORTUNITIES IN INFRASTRUCTURE PROJECTS**
- IV. ATTRACTING INVESTMENTS IN INFRASTRUCTURE**
- V. PHILIPPINES' HOSTING OF APEC 2015**

# 2005 World Bank Study on Infrastructure Challenges in the Philippines



1. Low spending on infrastructure
2. Inefficient use of existing resources
3. Poor business environment
4. Unsatisfactory public sector performance
  - a. Lack of long-term planning and coordination for infrastructure
  - b. Lack of a healthy framework for suitable financing opportunities for infrastructure
5. Decrease in private sector involvement

# PHL Response to Infrastructure Challenges



## **1. Increased infrastructure spending**

-from 1.0% in 2005 to 2.6% of GDP in 2012, achieve 5% of GDP benchmark by 2016

## **2. Adopted 5 Rs - Right project, Right quality, Right people, Right cost and Right on time**

## **3. Improved Business Environment**

-transparency & anti-corruption, streamlining and online processes

## **4. Multi-disciplinary approach and convergence in infrastructure projects**

## **5. Encourage greater private sector participation**

# **PHILIPPINE POLICY UNDER AQUINO ADMINISTRATION:**



**“GOOD GOVERNANCE IS GOOD ECONOMICS.”**

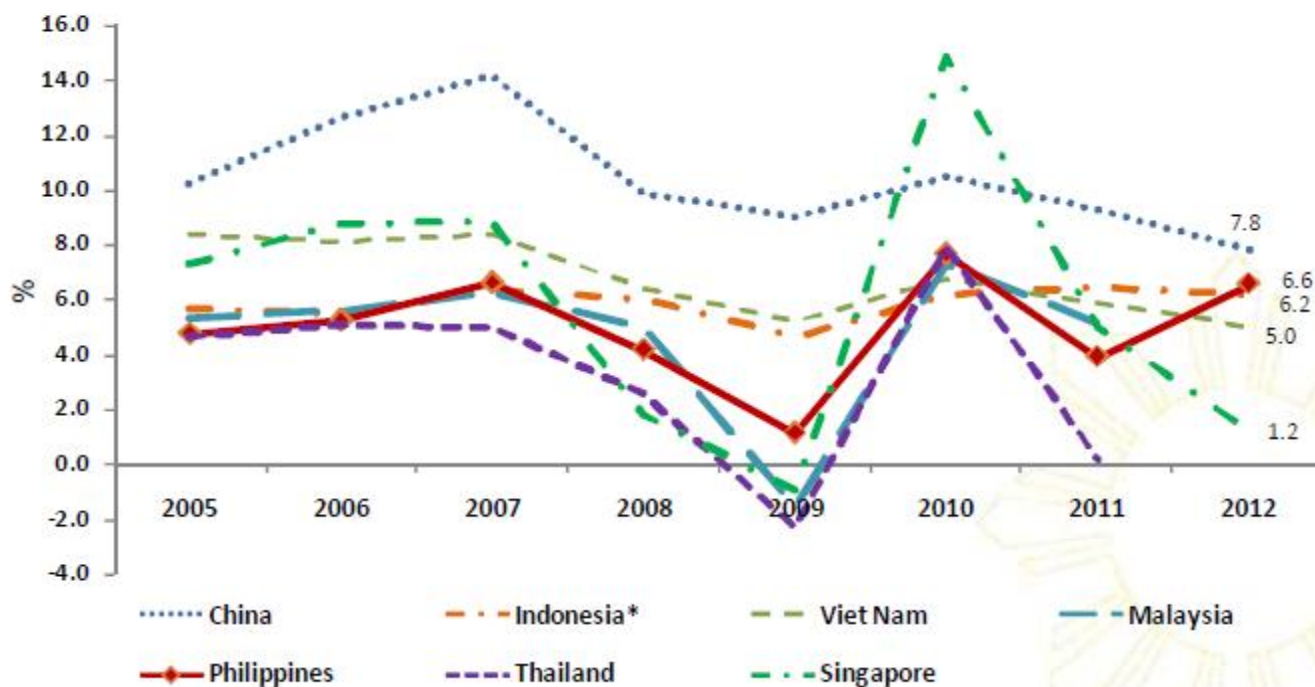
## **Philippine Development Plan 2011-2016 goals:**

- 1.** Contribute to inclusive growth and poverty reduction
- 2.** Accelerate Infrastructure Development  
given the Philippines' Climate Change Vulnerability and the need to provide Employment Opportunities
- 3.** Provide safe, efficient, reliable, cost-effective, and sustainable infrastructure



## Comparative GDP growth shows Philippines performing better in recent years...

### GDP Growth: Philippines vs. Other Asian Countries



Sources: ADB ARIC; official country websites

\*Indonesia: Reuters

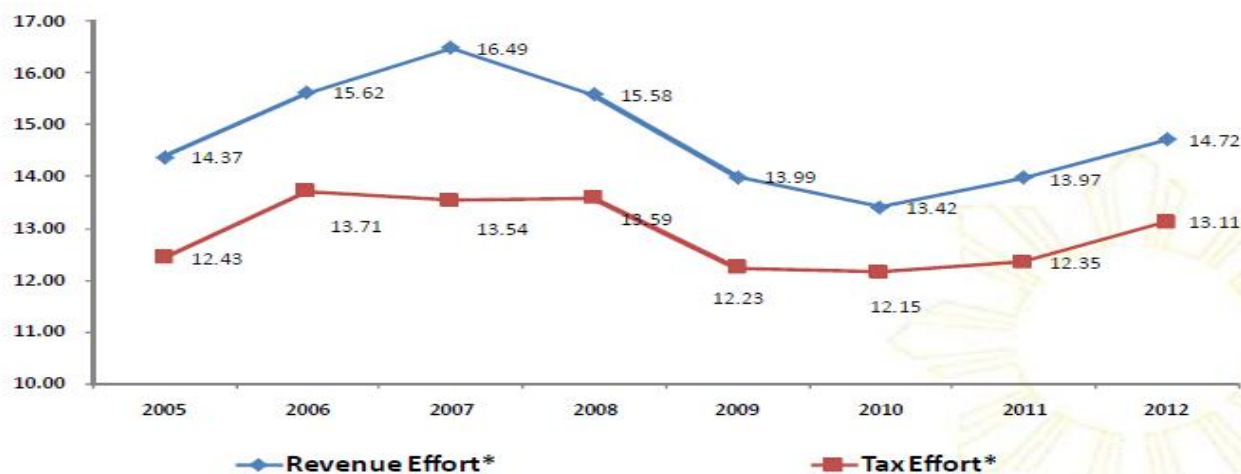
2012 FY data for Thailand and Malaysia are not yet available





## Improve revenue and tax efforts to increase resources for infrastructure and social spending

### Revenue and Tax Efforts (% of GDP)



\*Q1 – Q3 only

# **Improved Business Environment**



- **Better competitiveness rankings**
  - Jumped 10 notches to 65th place in the WEF Global Competitiveness Report 2012-2013
  - Climbed to 61st from 77th in the World Economic Freedom report
  - Improved to 97th from 107th in The Heritage Foundation's 2013 Index of Economic Freedom due to improvements on investment freedom and freedom from corruption and legislative reforms that enhance entrepreneurial development.
- **Streamlined business registration, permits & licensing systems**



# Manufacturing among top 5 investment sectors



## Better Business Environment to Increase Investments

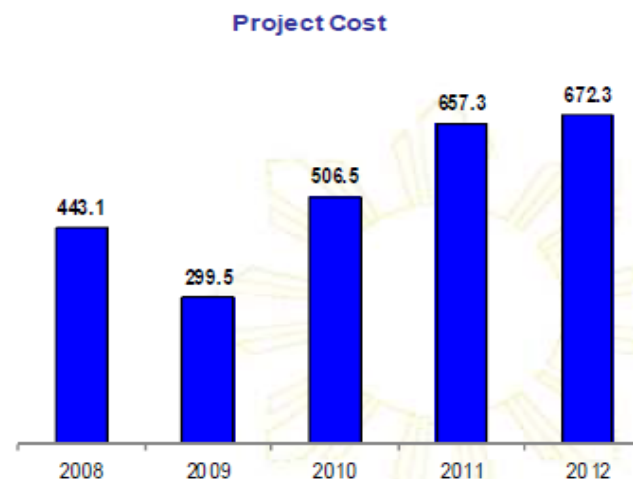
### Increasing BOI-PEZA Approved Investments

#### 2012 Performance

- Total BOI-PEZA approved investments amounted to PhP672.3 billion (US\$15.9 billion), which is 2.3% higher than 2011.
- 134,489 jobs to be generated
- Top 5 Sectors: Manufacturing; Electricity, Gas, Steam & Air Conditioning Supply; Real Estate Activities; Transportation & Storage; and Accommodation & Food Service Activities
- Top 5 Foreign Sources: Netherlands, Japan, US, Singapore and Korea
- Big ticket projects from: Masinloc Power Partners Co., Ltd.; Shell Gas and Energy Philippines Corporation; Therma Visayas, Inc.; Southwest Luzon Power Generation Corporation; Philippine Long Distance Telephone Company, Inc.; Semirara Mining Corporation; South Luzon Thermal Energy Corporation; SM Prime Holdings, Inc.; Palm Concepcion Power Corporation; and Toledo Power Company

#### BOI-PEZA Approved Investments Continue to grow from 2008-2012

*BOI-PEZA Approved Investments  
(in PhP Billion)*

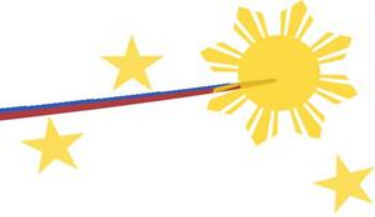


## C. Framework Agreement on Bangsamoro: towards just and lasting peace and the rule of law

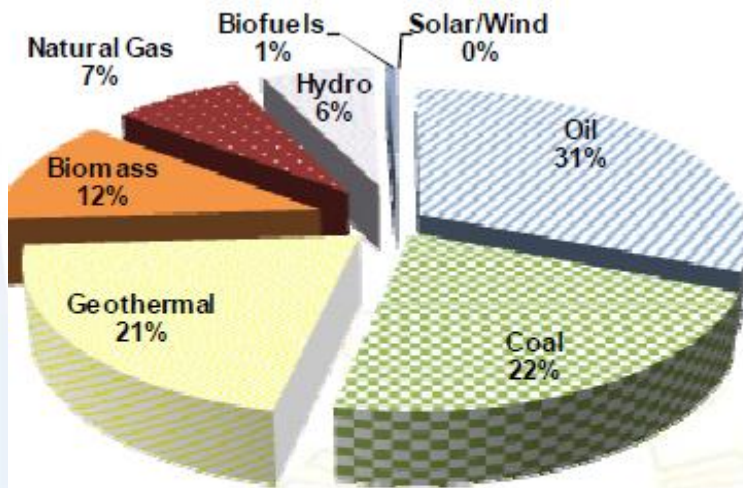
1. Promote economic opportunities under Framework Agreement
2. Philippine Development Forum in Davao last February 2013 focused on infrastructure investment, transport, and renewable energy.
3. In December 2012, investment commitment of Php23 billion (roughly US\$564,972,013.36) was generated during a **BIMP-EAGA** side event in Malaysia. (Source: Mindanao Development Authority)



# Philippine Energy



2012 \*



Consumed 42 million tons of oil equivalent (MTOE) with:

- 57% energy self-sufficiency
- 39% share of renewable energy (RE)
- 47% green energy (RE and natural gas)



## Renewable Energy (RE)

### Promoted the Use of Renewable Energy Resources

RE Resource	Awarded Contracts in 2012	Capacity (in MW)
Biomass	7	44.26
Geothermal	8	1,176.68
Hydropower	53	1,002.740
Solar	27	272.26
Wind	6	70.00
<b>TOTAL</b>	<b>101</b>	<b>2,565.94</b>







## Plans and Programs for Mindanao

- **Establish Interim Mindanao Electricity Market (IMEM)**
- **Promote energy exploration and development**
  - Oil and Gas (areas in Mindanao offered include those in Sulu Sea and Cotabato)
  - Coal (areas in Mindanao offered include Agusan del Norte, Misamis Oriental, Agusan del Sur, Surigao del Sur, Compostela Valley, Davao Oriental, Lanao del Sur, Lanao del Norte, South Cotabato, Sultan Kudarat, Sarangani, Zamboanga del Norte and Zamboanga Sibugay)
- **Completion of the Mindanao Energy Plan (MEP) by third quarter of 2013**



Agus and Pulangi hydropower plants  
(Lanao del Sur, Lanao del Norte, Iligan  
City and Bukidnon)



CEPALCO's 1-MW solar power plant in  
Cagayan de Oro City



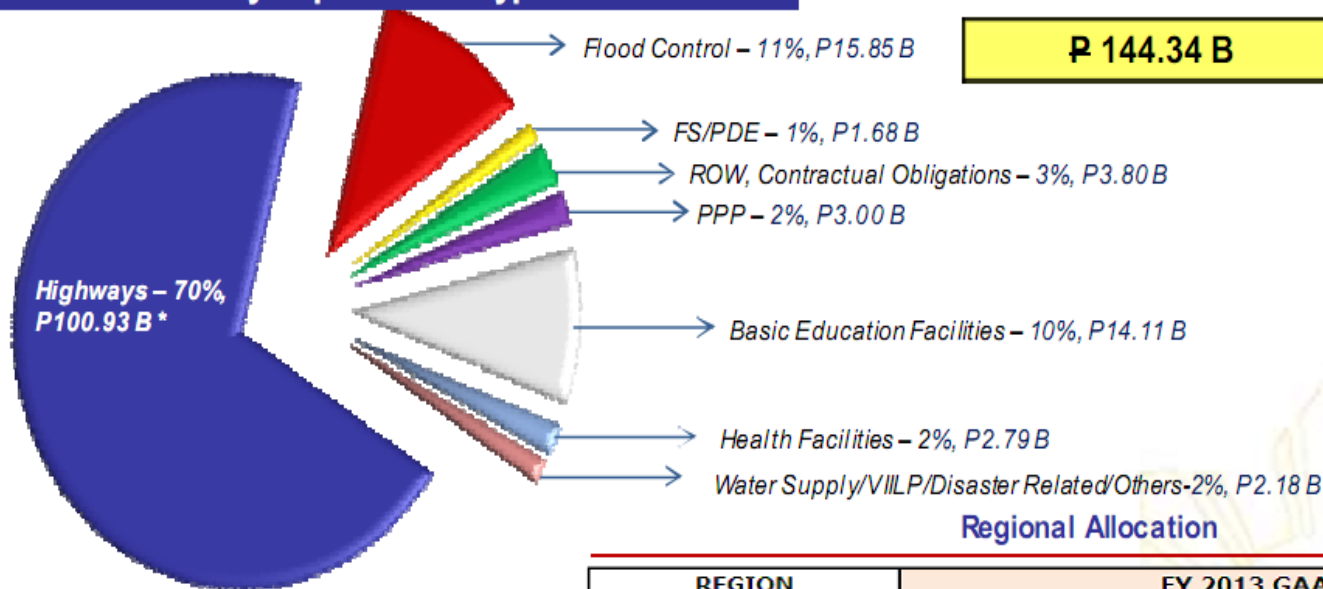
Mindanao I and II power plants in Mt.  
Apo, North Cotabato



# DPWH FY 2013 Capital Outlays (Projects)

Based on GAA (In Billion Pesos)

## By Expenditure Type



*\*The P100.9 Billion allocated for Highways includes the P11.95 Billion for Tourism Infrastructure Projects*

## Regional Allocation

REGION	FY 2013 GAA			
	FOREIGN-ASSISTED	LOCALLY FUNDED	TOTAL	%
A. NCR	2.34	13.52	15.86	14.7%
B. NORTHERN LUZON	2.81	21.59	24.41	22.6%
C. SOUTHERN LUZON	1.73	19.02	20.75	19.2%
D. VISAYAS	0.71	18.71	19.42	18.0%
E. MINDANAO	1.66	25.93	27.59	25.5%
F. SUB TOTAL	9.26	98.77	108.03	100.0%
G. Central Office	6.47	-	6.47	
H. Nationwide	-	29.84	29.84	
GRAND TOTAL	15.72	128.62	144.34	

# Airports, Seaports, & Mass Transport Systems



## Locally Funded

- Airports and Navigational Facilities
- Bicol International Airport Development Project
- Ports
- LRT Line 2 East Extension (to Masinag)
- DOTC Road Transport IT Infrastructure Project
- MRT 3 Operation and Maintenance (EDSA LRT III)
- Subsidy for Mass Transport (MRT 3)
- Transport Studies Fund
- DOTC - Executive Management Information Systems
- Project Development Funds for Public-Private Partnership Transport Infrastructure
- Projects
  - MactanCebu Airport Expansion
  - Northern Integrated Bus Terminal System
  - Southern Integrated Bus Terminal System (2 terminals)
  - RORO Project
  - Davao Sasa Port Project

## Foreign assisted (ODA)

- Puerto Princesa Airport Development Project
- New Bohol (Panglao) Airport Development Project
- Bus Rapid Transit (BRT) System for Cebu City
- Maritime Disaster Response Helicopter Acquisition Project
- Multi-Role Response Vessel Acquisition Project
- LRT Line 1 Cavite Extension





## **D. Water**

### **1. Apply Integrated Water Resources Mgt (IWRM)**

- using river basin analysis for flood control and taking care of water source

### **2. Rationalize financing to fulfill MDG commitments**

- private sector investment is skewed towards Metro Manila



## E. ICT

- Cellular mobile telephone service is by far the most dominant telecom service
- 79% of the country have fiber-based backbone network for domestic and international broadband connectivity
- Increasing e-government systems – 94% web presence among national government agencies
- Creation of universal access and service fund utilizing spectrum user fees (SUF) – part may be allocated to aid prospective private operators in rural and unserved areas of the Philippines

# F. Social Infrastructure



## 1. Waste Management

- existing incentives, capacity building of Local Government Units

## 2. Housing

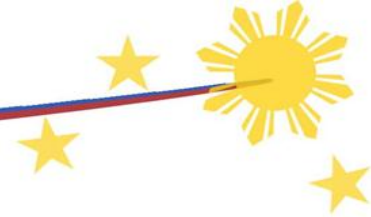
- target of 1.47 million housing units from 2011-2016

## 3. Health Facilities

- increased public investment through rationalization of sources of funds of national and local government funds, PAGCOR, PCSO)

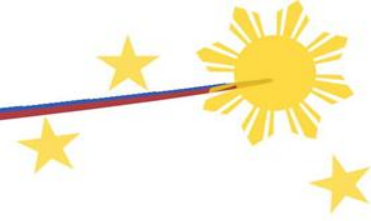
- 4. Education** – increased budget for salaries of teachers, PPP for construction of classrooms 16,000 by end of 2016

## **IV. ATTRACTING INVESTMENTS IN INFRASTRUCTURE**



1. Mobilize local savings – smart and transparent spending
2. Promote Incentives & Public Private Partnership Projects
3. Work with IFIs like ADB, IFC to create instruments that attract funds on the sidelines
4. Attract private infrastructure funds
5. Create a benchmark so that banks can start offering longer-term financing
6. Continue to Improve Institutional and Regulatory Environment of Infrastructure sectors

## Incentives that apply to Infrastructure Investment



1. Income Tax Holiday (ITH)
  - a. Six (6) years for projects with pioneer status and for projects located in a Less Developed Area (LDA)
  - b. Four (4) years for new projects with non-pioneer status
  - c. Three (3) years for expansion/modernization projects
2. Duty exemption on imported capital equipment, spare parts and accessories
3. Exemption from wharfage dues and any export tax, duty, impost and fees
4. Tax exemption on breeding stocks and genetic materials
5. Tax credits on imported raw materials
6. Tax and duty-free importation of consigned equipment
7. Additional deduction for labor expense
8. Employment of foreign nationals
9. Simplification of customs procedures
10. Access to bonded manufacturing warehouse

# **Public-Private Partnership Program**



## **INVESTMENT INCENTIVES AND GOVERNMENT UNDERTAKING**

The following may be made available to private proponents, especially for solicited proposals:

1. Investment Incentives under the Omnibus Investment Code; Renewable Energy Act of 2008; Tourism Act of 2009; Mini-Hydroelectric Power Incentives Act
2. Government Undertakings in the form of cost sharing, credit enhancements, direct government subsidy, direct government equity, performance undertaking, legal and security assistance.

## **REPAYMENT SCHEMES**

•Project proponent repaid through:

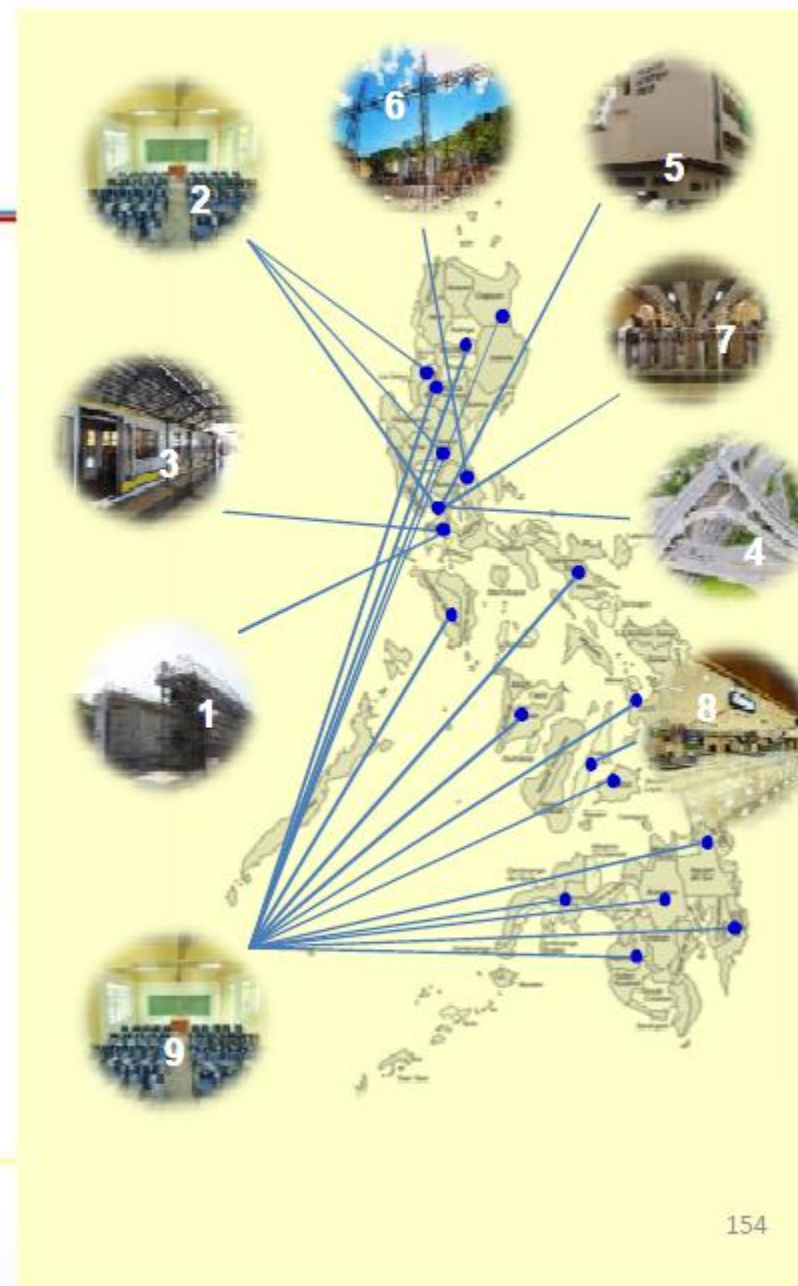
1. Tolls, fees, rentals and other charges from users of facility for a fixed term not to exceed 50 years
2. Share in revenue of the project





### Awarded Projects | Live Bidding

- (1) Daang Hari-SLEX Link Road Project (awarded)
- (2) PPP For School Infrastructure Project – Phase I
- (3) LRT Line 1 South Extension
- (4) NAIA Expressway Phase II
- (5) Modernization of the Philippine Orthopedic Center
- (6) Rehabilitation, O&M of Angat Hydro-Electric Powerplant Auxiliary Turbines 4 & 5
- (7) Automated Fare Collection System
- (8) Mactan-Cebu Intl. Airport New Passenger Terminal Building
- (9) PPP for School Infrastructure Project Phase II



# Infrastructure Funds



## **1. Philippine Investment Alliance for Infrastructure (PINAI)**

- \$625 Million private equity fund focused exclusively on Philippine infrastructure projects
- ADB, state-owned pension fund Government Service Insurance System (GSIS), Dutch pension fund asset manager APG, and the Macquarie Group established in July 2012

## 2. ASEAN Infrastructure Fund (AIF)



- established in April 2012
- As of October 2012, US\$450 million (RM1.4 billion) with 20 per cent contributions from all Asean member countries, excluding Myanmar, and the remainder co-financed by the Asian Development Bank (ADB).
- regional connectivity priorities: the Greater Mekong Subregion (GMS); the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP–EAGA); and the Indonesia–Malaysia–Thailand Growth Triangle (IMT-GT). These projects will eventually contribute to the ASEAN highway network and ASEAN power grid.

### **3. Financing from U.S. Agencies**



- a. Millennium Challenge Corporation (MCC) -**
  - \$214 million for a road rehab project
- b. US Export-Import (Ex-IM) Bank**
  - \$5 billion East Asia Energy Facility
- c. Overseas Private Investment Corporation (OPIC)**
  - \$14 billion portfolio for customized financing, political risk insurance, private equity funds

# Infrastructure Development:

## Philippine Priority for APEC 2015

- Infrastructure Development and Investment as a possible APEC Priority for 2015
- Link infrastructure needs and issues with inclusive growth and with the work of APEC so far such as Indonesian proposal for a Multi-Year Initiative on APEC Infrastructure (2013-2016)
- 2<sup>nd</sup> Meeting of the Committee on Host Economy APEC Priorities: commission studies to firm up the priorities
- Continue consultations with academe, agencies (DOF, PPP Center, NEDA), private sector





**Thank You!**  
***Salamat Po!***

