

Philippines

PPP Center

**Technical Cooperation Project for
Capacity Development in Public-
Private-Partnership (PPP) Project
Formulation**

**Project Completion Report
(Appendix)**

December 2017

Japan International Cooperation Agency (JICA)

Deloitte Tohmatsu Financial Advisory LLC.

Castalia Limited.

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CONCEPT NOTE

CAPACITY ASSESSMENT AND CAPACITY DEVELOPMENT PROGRAM FOR IMPLEMENTING PPPs From November 2015 to December 2017

BACKGROUND AND RATIONALE

Public-Private Partnership is seen as a means to advance social infrastructure such as health facilities. In line with this, the Department of Health (DOH) sees the necessity of creating a Public-Private Partnership Office (PPP Office) to serve as the overall planning, implementing and coordinating body in health sector. A task force was organized within the DOH in March 2015 to develop the framework for the PPP unit in the DOH. As a result of the activities of the PPP task force, the DOH released Department Order 2015-0157 on August 2015, creating a Public-Private Partnership Committee on Health (PPP Committee on Health) made up of different offices and bureaus within the DOH Central office.

The Japan International Cooperation Agency (JICA) in cooperation with the Public-Private Partnership Center of the Philippines (PPP Center) is working on the PPP Capacity Assessment and Capacity Development Program to improve capability of Implementing Agencies (IAs) in carrying out PPP initiatives in their respective agencies. DOH was chosen as one of these IAs that will take part in this program.

As one of the participating IAs under this program, DOH, through its PPP Committee on Health is expected to collaborate with PPP Center and the experts from JICA, in the Capacity Assessments and Capacity Developments to improve DOH's capacity in carrying out successful PPP initiatives.

OBJECTIVES

The PPP Capacity Assessment and Capacity Development Program aims to undertake the following (for DOH):

1. Assess the current status of DOH's capacity for implementing PPPs
2. Identify challenges for implementing PPPs and provide recommendations for improvement
3. Formulate the PPP Capacity Development Program
4. Implement the PPP Capacity Development Program

Deliverables:

| Area | Examples |
|--------------|--|
| a) Documents | <ul style="list-style-type: none"> • Health sector PPP Manual/Guidelines for formulating, developing, tendering and implementing PPPs. Manual/Guideline will be based on "National Government Agency Public-Private Partnership Manual" by the PPP Center, but be focused on hospital PPPs identifying the character of the health sector from the legal, regulatory, institutional, policy and |

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| | | <p>operational framework and market conditions.</p> <ul style="list-style-type: none"> • Templates for formulating, developing, tendering and implementing PPPs specific to the Health sector. Templates such as feasibility study check list, risk allocation matrix, project proposal sheets and monitoring sheet will be accompanied with the relevant regulatory and institutional information in the Health sector . • Recommendations on improving institutional framework for promoting PPP activities in the Health sector. Parts of recommendations will be implemented as the capacity development programs. On the other hand, the scope of recommendations will cover post-capacity development programs. |
| b) | Events | <ul style="list-style-type: none"> • Seminars and Workshops for how to formulate and develop PPPs <ul style="list-style-type: none"> ➤ PPP project formulation: “Basic understanding of what we can do by PPP focusing on the health sector”, “What are the PPP good practices: lessons from case studies”, and “How to support the LGU’s PPP activities?” ➤ PPP project development: “Contents of a PPP feasibility and its meaning and its application to hospital PPPs: Value for Money(VfM), risk assessment and contingent liabilities, comparison of traditional procurement(RA9184) and PPP procurement(RA7718),” and “How to understand the result of the PPP feasibility study?” |
| c) | Practical Support | <ul style="list-style-type: none"> • Internal Consultations for institutional capacity development for implementing PPPs and advice for the delivery of each PPP project: support for how to evaluate PPP proposals from hospitals and LGUs through setting criteria for formulating and developing PPPs. • Support for establishing the permanent PPP Unit: analysis and suggestion on its function and role, and internal decision making structure for PPPs. |

The examples of deliverables are tentative and would primarily depend on the capacity assessment being undertaken for the Department of Health.

EXPECTED OUTPUTS

At the end of the activities, the following would have been achieved:

1. Assessment Report of the Capacity Level for implementing PPPs and recommendations for improvement
2. Capacity Development Plan and Implementing Programs to be undertaken
3. Materials for PPP Capacity Development Programs: Manuals/Guidelines, Seminars/Workshop Reports, Templates for implementing PPPs etc.

METHODOLOGY

The Capacity Assessment will be implemented with the following steps:

1. Collection and Analysis of Data, information and documents on PPP and related projects
2. Interviews and Workshops with those engaged in PPP projects in DOH
3. Internal Consultations for specific issues related to PPP projects

The Capacity Development Programs can be implemented in a number of ways which include, but not limited to, the following formats:

1. Publication of manuals/guidelines
2. Provision of support and advice towards effective decision making for implementing PPP projects
3. Formulation of templates for identifying, selecting, deciding and tendering PPP projects
4. Provision of learning opportunities: Seminars, Workshops and E-learning activities

PROGRAM

Refer to attached document for Program Details

BENEFICIARIES AND PRACTITIONERS

The beneficiaries and practitioners of this Capacity Assessment and Development activities will comprise the following:

- 1) Beneficiaries
Officials of DOH
- 2) Practitioners
PPP Center
JICA experts

BUDGET

The cost related to JICA Experts' activities will be borne by JICA.

**CAPACITY ASSESSMENT AND CAPACITY DEVELOPMENT PROGRAM FOR
IMPLEMENTING PPPs**

SCHEDULE OF ACTIVITIES

| YEAR/MONTH | ACTIVITY | FOCAL POINT |
|--------------------------------|---|---|
| November 2015 | Collection and Analysis of Data, Information and Documents on PPP and Project Governance | Practitioners JICA experts |
| Late November to December 2015 | Interviews with and Workshops for those engaged in PPPs Assessment of the Current Capacity level for implementing PPPS | Beneficiaries DOH Practitioners PPP Center JICA experts |
| From November on | “Spot” (on-the-job) Capacity Development programs and internal consultations | Practitioners JICA experts |
| Early January 2016 | Proposal on the Draft PPP Capacity Development Plan and Programs from JICA’s expert team | Practitioners JICA experts |
| Middle of January 2016 | Discussion on the Draft PPP Capacity Development Plan and Programs among PPP Center, JICA and its expert team | Beneficiaries DOH Practitioners PPP Center JICA experts |
| End of January 2016 | Formulation of the PPP Capacity Development Plan and Programs | Beneficiaries DOH Practitioners PPP Center JICA experts |
| February 2016~ | Implementation of PPP Capacity Development Programs | Beneficiaries DOH Practitioners PPP Center JICA experts |
| Early Summer 2017 | Evaluation of the effect of PPP Capacity Development Programs | Beneficiaries DOH Practitioners PPP Center JICA experts |

CONCEPT NOTE

CAPACITY ASSESSMENT AND CAPACITY DEVELOPMENT PROGRAM FOR IMPLEMENTING PPPs

From November 2015 to December 2017

BACKGROUND AND RATIONALE

The role of infrastructure development is an important aspect to boost economic growth, improve the social living standards of the people and promote the international investment. On the other hand, construction and maintenance of new infrastructure costs more and the budget constraints of the government makes it difficult to expand and improve infrastructure. Therefore, Public-Private Partnerships (PPP) wherein government service or private business venture is funded, constructed and operated through a partnership between the government and the private sectors, is expected to accelerate infrastructure development.

The Department of Public Works and Highways (DPWH) has a notable history of implementing infrastructure projects through PPP. These initiatives have been seen in toll road and expressway projects. However, it is understood that the DPWH would still require further enhancement of its capabilities in developing and implementing bankable PPP initiatives and in establishing consistent, efficient and transparent operational procedures.

The PPP Center is supported by JICA through the Capacity Assessment and Capacity Development Program where DPWH has been selected as one of the partner IAs to be given support.

OBJECTIVES

The Capacity Assessment and Capacity Development Programs aim to undertake the following:

1. Assess the current capacity level of DPWH in formulating, developing and implementing PPPs
2. Identify challenges for formulating, developing and implementing PPPs and provide recommendations for improvement
3. Formulate the PPP Capacity Development Program
4. Implement the PPP Capacity Development Program

Deliverables:

- a) Documents: Manual/Guidelines and Template Materials for implementing PPPs
- b) Events: Seminars and Workshops
- c) Practical Support: Internal Consultations for institutional capacity development for implementing PPPs and advice for the delivery of each PPP project

EXPECTED OUTPUTS

At the end of the activities, the following would have been achieved:

1. Assessment Report of the Capacity Level for implementing PPPs and recommendations for improvement
2. Capacity Development Plan and Implementing Programs to be taken
3. Materials which are used in PPP Capacity Programs: Manuals/Guidelines, Seminars/Workshop Reports, Templates for implementing PPPs etc.

METHODOLOGY

The Capacity Assessment will be implemented by following steps:

1. Collection and Analysis of Data, information and documents about PPP and related projects
2. Interviews and Workshops with those who are/were engaged in PPP projects in DPWH
3. Internal Consultations for specific issues related to PPP projects

The Capacity Development Programs can be implemented through any, but not limited to, following formats:

1. Publication of manuals/guidelines
2. Provision of support and advice for effective decision making structure for implementing PPP projects
3. Formulation of templates for identifying, selecting, deciding and tendering PPP projects
4. Provision of learning opportunities: Seminars, Workshops and E-learning

PROGRAM

Refer to attached document for Program Details

BENEFICIARIES AND PRACTITIONERS

The beneficiaries and practitioners to this Capacity Assessment and Development activities will comprise the following:

- 1) Beneficiaries
Officials of DPWH
- 2) Practitioners
PPP Center
JICA experts

BUDGET

The cost related to JICA Experts' activities will be borne by JICA.

**CAPACITY ASSESSMENT AND CAPACITY DEVELOPMENT PROGRAM FOR
IMPLEMENTING PPPs**

SCHEDULE OF ACTIVITIES

| YEAR/MONTH | ACTIVITY | FOCAL POINT |
|-------------------------------|--|--|
| November 2015 | Collection and Analysis of Data, Information and Documents about PPP and Project Governance | Practitioners JICA experts |
| From November on | “Spot” (on-the-job) Capacity Development programs and internal consultations | Practitioners JICA experts |
| Late November to January 2016 | Interviews and Workshops with those who are/were engaged in PPPs Assessment of the Current Capacity level for implementing PPPS | Beneficiaries DPWH Practitioners PPP Center JICA experts |
| Middle of February 2016 | Proposal of the Draft PPP Capacity Development Plan and Programs by JICA’s expert team | Practitioners JICA experts |
| End of February 2016 | Discussion on the Draft PPP Capacity Development Plan and Programs with PPP Center, JICA and its expert team | Beneficiaries DPWH Practitioners PPP Center JICA experts |
| Middle of March 2016 | Formulation of the PPP Capacity Development Plan and Programs | Beneficiaries DPWH Practitioners PPP Center JICA experts |
| April 2016~ | Implementation of PPP Capacity Development Programs | Beneficiaries DPWH Practitioners PPP Center JICA experts |
| Early Summer 2017 | Evaluation of the effect of PPP Capacity Development Programs | Beneficiaries DPWH Practitioners PPP Center JICA experts |

Republic of the Philippines
Department of Transport and Communications

CONCEPT NOTE

**CAPACITY ASSESSMENT AND CAPACITY DEVELOPMENT PROGRAM FOR
IMPLEMENTING PPPs**
From November 2015 to December 2017

BACKGROUND AND RATIONALE

The Department of Transportation and Communications (DOTC) has the largest number of projects included in the Pipeline of PPP Projects in the country—25 different projects at different stages of development ranging from railways, airports, transport hubs and ports. As such it is important that DOTC has substantial in-house capacity to identify, prioritize, develop, and implement feasible and bankable PPP initiatives in the transport sector.

In line with this, the Japan International Cooperation Agency (JICA) in cooperation with the Public-Private Partnership Center of the Philippines (PPP Center) is working on the PPP Capacity Assessment and Capacity Development Program to improve capability of Implementing Agencies (IAs) in carrying out PPP initiatives in their respective agencies. DOTC was chosen as one of these IAs that will take part in this program.

As one of the participating IAs under this program, the DOTC is expected to collaborate with PPP Center and the experts from JICA, in the Capacity Assessments and Capacity Developments to improve its capacity in carrying out successful PPP initiatives.

OBJECTIVES

The PPP Capacity Assessment and Capacity Development Program aims to undertake the following (for DOTC):

1. Assess the current state of DOTC's capacity for implementing PPPs
2. Identify challenges for implementing PPPs and provide recommendations for improvement
3. Formulate the PPP Capacity Development Program
4. Implement the PPP Capacity Development Program

Deliverables:

- a) Practical Support: Internal Consultations for institutional capacity development for implementing PPPs and advice for the delivery of PPP projects
- b) Documents: Manual/Guidelines and Template Materials for implementing PPPs
- c) Events: Seminars and Workshops

EXPECTED OUTPUTS

At the end of the activities, the following would have been achieved:

1. Assessment Report of the Capacity Level for implementing PPPs and recommendations for improvement
2. Capacity Development Plan and Implementing Programs to be undertaken

3. Materials for PPP Capacity Development Programs: Manuals/Guidelines, Seminars/Workshop Reports, Templates for implementing PPPs, etc.

METHODOLOGY

The Capacity Assessment will be implemented with the following steps:

1. Collection and Analysis of Data, information and documents on PPP and related projects
2. Interviews and Workshops with those engaged in PPP projects in the transport sector
3. Internal Consultations for specific issues related to PPP projects

The Capacity Development Programs can be implemented in a number of ways which include, but not limited to, the following formats:

1. Provision of support and advice towards effective decision making for implementing PPP projects
2. Publication of manuals/guidelines
3. Formulation of templates for identifying, selecting, deciding and tendering PPP projects
4. Provision of learning opportunities: Seminars, Workshops and E-learning activities

PROGRAM

Refer to attached document for Program Details

BENEFICIARIES AND PRACTITIONERS

The beneficiaries and practitioners of this Capacity Assessment and Development activities will comprise the following:

- 1) Beneficiary
Department of Transportation and Communications
- 2) Practitioners
PPP Center
JICA experts

BUDGET

The cost related to JICA Experts' activities will be borne by JICA.

**CAPACITY ASSESSMENT AND CAPACITY DEVELOPMENT PROGRAM FOR
IMPLEMENTING PPPs**

SCHEDULE OF ACTIVITIES

| YEAR/MONTH | ACTIVITY | FOCAL POINT |
|--------------------------------|---|--|
| November 2015 | Collection and Analysis of Data, Information and Documents on PPP and Project Governance | Practitioners JICA experts |
| November 2015 onwards | Capacity Development activities | Practitioners JICA experts |
| Late November to December 2015 | Interviews with and Workshops for those engaged in PPPs Assessment of the Current Capacity level for implementing PPPS | Beneficiary DOTC Practitioners PPP Center JICA experts |
| Early January 2016 | Proposal on the Draft PPP Capacity Development Plan and Programs from JICA's expert team | Practitioners JICA experts |
| Middle of January 2016 | Discussion on the Draft PPP Capacity Development Plan and Programs among PPP Center, JICA and its expert team | Beneficiary DOTC Practitioners PPP Center JICA experts |
| End of January 2016 | Formulation of the PPP Capacity Development Plan and Programs | Beneficiary DOTC Practitioners PPP Center JICA experts |
| February 2016 onwards | Implementation of PPP Capacity Development Programs | Beneficiary DOTC Practitioners PPP Center JICA experts |
| May 2017 onwards | Evaluation of the effect of PPP Capacity Development Programs | Beneficiary DOTC Practitioners PPP Center JICA experts |

**Republic of the Philippines
Iloilo City**

CONCEPT NOTE

**CAPACITY ASSESSMENT AND CAPACITY DEVELOPMENT PROGRAM FOR
IMPLEMENTING PPPs
From November 2015 to December 2017**

BACKGROUND AND RATIONALE

Republic Act 7160 or the Local Government Code of the Philippines placed the onus of socioeconomic development to local government units (LGUs). Provinces, cities and municipalities have been identified as the focal points in providing key services and infrastructure for the citizenry.

Iloilo City is considered the main commercial and industrial hub of the Western Visayas Region. Socioeconomic development in the City also translates to amplified benefits to other parts of the region, especially the localities within Panay Island. Among the development strategies of the City is to venture into Public-Private Partnerships (PPP) in providing vital infrastructure and promoting inclusive growth. In pursuit of this, however, there is a need to bolster the capacity of the City Government in developing feasible and bankable PPPs.

The Japan International Cooperation Agency (JICA) in cooperation with the Public-Private Partnership Center of the Philippines (PPP Center) is working on the PPP Capacity Assessment and Capacity Development Program to improve capability of Implementing Agencies (IAs) in carrying out PPP initiatives in their respective agencies. The City Government of Iloilo was chosen as one of these IAs that will take part in this program.

As one of the participating IAs under this program, the City Government of Iloilo is expected to collaborate with PPP Center and the experts from JICA, in the Capacity Assessments and Capacity Developments to improve its capacity in carrying out successful PPP initiatives.

OBJECTIVES

The PPP Capacity Assessment and Capacity Development Program aims to undertake the following (for Iloilo City):

1. Assess the current state of Iloilo City's capacity for implementing PPPs
2. Identify challenges for implementing PPPs and provide recommendations for improvement
3. Formulate the PPP Capacity Development Program
4. Implement the PPP Capacity Development Program

Deliverables:

- a) Practical Support: Internal Consultations for institutional capacity development for implementing PPPs and advice for the delivery of each PPP project
- b) Documents: Manual/Guidelines and Template Materials for implementing PPPs
- c) Events: Seminars and Workshops

EXPECTED OUTPUTS

At the end of the activities, the following would have been achieved:

1. Assessment Report of the Capacity Level for implementing PPPs and recommendations for improvement
2. Capacity Development Plan and Implementing Programs to be undertaken
3. Materials for PPP Capacity Development Programs: Manuals/Guidelines, Seminars/Workshop Reports, Templates for implementing PPPs, etc.

METHODOLOGY

The Capacity Assessment will be implemented with the following steps:

1. Collection and Analysis of Data, information and documents on PPP and related projects
2. Interviews and Workshops with those engaged in PPP projects in Iloilo City
3. Internal Consultations for specific issues related to PPP projects

The Capacity Development Programs can be implemented in a number of ways which include, but not limited to, the following formats:

1. Provision of support and advice towards effective decision making for implementing PPP projects
2. Publication of manuals/guidelines
3. Formulation of templates for identifying, selecting, deciding and tendering PPP projects
4. Provision of learning opportunities: Seminars, Workshops and E-learning activities

PROGRAM

Refer to attached document for Program Details

BENEFICIARIES AND PRACTITIONERS

The beneficiaries and practitioners of this Capacity Assessment and Development activities will comprise the following:

- 1) Beneficiary
City Government of Iloilo
- 2) Practitioners
PPP Center
JICA experts

BUDGET

The cost related to JICA Experts' activities will be borne by JICA.

**CAPACITY ASSESSMENT AND CAPACITY DEVELOPMENT PROGRAM FOR
IMPLEMENTING PPPs**

SCHEDULE OF ACTIVITIES

| YEAR/MONTH | ACTIVITY | FOCAL POINT |
|--------------------------------|---|---|
| November 2015 | Collection and Analysis of Data, Information and Documents on PPP and Project Governance | Practitioners JICA experts |
| November 2015 onwards | Capacity Development activities | Practitioners JICA experts |
| Late November to December 2015 | Interviews with and Workshops for those engaged in PPPs Assessment of the Current Capacity level for implementing PPPS | Beneficiary Iloilo City LGU Practitioners PPP Center JICA experts |
| Early January 2016 | Proposal on the Draft PPP Capacity Development Plan and Programs from JICA's expert team | Practitioners JICA experts |
| Middle of January 2016 | Discussion on the Draft PPP Capacity Development Plan and Programs among PPP Center, JICA and its expert team | Beneficiary Iloilo City LGU Practitioners PPP Center JICA experts |
| End of January 2016 | Formulation of the PPP Capacity Development Plan and Programs | Beneficiary Iloilo City LGU Practitioners PPP Center JICA experts |
| February 2016 onwards | Implementation of PPP Capacity Development Programs | Beneficiary Iloilo City LGU Practitioners PPP Center JICA experts |
| May 2017 onwards | Evaluation of the effect of PPP Capacity Development Programs | Beneficiary Iloilo City LGU Practitioners PPP Center JICA experts |



**Capacity Assessment
for the Department of Health
in Philippines**

**Deloitte Tohmatsu Financial Advisory
LLC and Castalia Limited**

**February
2016**

**This capacity assessment is undertaken
under the JICA assisted technical
cooperation programme.**

Acronyms and Abbreviation

| | | |
|---|---------------|--|
| A | AAMI | Association for the Advancement of Medical Instrumentation |
| | ADB | Asian Development Bank |
| | AHA | Aquino Health Agenda |
| | AO | Administrative Order |
| B | BCR | Benefit Cost Ratio |
| | BFAD | Bureau of Foods, and Drugs |
| | BHFS | Bureau of Health Faculties and Services |
| | BHS | Barangay Health Station |
| | BOT | Build-Operate-Transfer |
| C | CBA | Cost-Benefit Analysis |
| | CEP3H | Center for Excellence for PPPs on Health |
| | CIIP | Comprehensive and Integrated Infrastructure Program |
| | COP | Certificate of Possession |
| D | DOH | Department of Health |
| | DPO | Department Order |
| | DTFA | Deloitte Tohmatsu Financial Advisory LLC |
| E | EIRR | Economic Internal Rate of Return |
| F | FIRR | Financial Internal Rate of Return |
| G | GOCC | Government-Owned and Government-Controlled Corporation |
| H | HFEP | Health Facilities Enhancement Program |
| | HSRA | Health Sector Reform Agenda |
| I | IAs | Implementing Agencies |
| | ICC | Investment Coordination Committee |
| | ICC Guideline | ICC Project Evaluation Procedures and Guidelines |
| J | JICA | Japan International Cooperation Agency |
| | JV | Joint Venture |
| K | KP | Kalusugan Pangkalahatan |
| | KPIs | Key Performance Indicators |

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|---|----------------|--|
| L | LGUs | Local Government Units |
| M | MCA | Multi Criteria Analysis |
| | MDG | Millennium Development Goals |
| | MIS | Management Information System |
| | MPOC | Modernization of the Philippine Orthopedic Center |
| | MPSS | Minimum Performance Standards and Specifications |
| N | NEDA | National Economic and Development Authority |
| | NGA PPP Manual | National Government Agency Public-Private Partnership MANUAL |
| | NGAs | National Government Agencies |
| | NHIP | National Health Insurance Program |
| | NKFP | National Kidney Foundation of the Philippines |
| | NKTI | National Kidney Transplant Institute |
| | NOH | National Objectives for Health |
| | NPSV | Net Present Social Value |
| | NPV | Net Present Value |
| P | PDMF | Project Development and Monitoring |
| | PDP | Philippine Development Plan |
| | PET-CT | Positron Emission Tomography-Computed Tomography |
| | PFS | Preliminary Feasibility Study |
| | PHIC | Philippine Health Insurance Corporation |
| | PIP | Philippine Investment Program |
| | POC | Philippine Orthopedic Center |
| | PPP | Private-Public Partnership |
| | PSC | Public Sector Comparator |
| R | RFP | Request for Proposal |
| | RHU | Rural Healthcare Unit |
| | RITM | Research Institute for Tropical Medicine |
| S | SBAC | Special Bids and Awards Committee |
| | SDN | Service Delivery Network |

Confidential

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| T | TAA | Technical Assistance Agreement |
| | TF | Task Force |
| | TOR | Terms of Reference |
| | TRO | Temporary Restraining Order |
| | TT | Tetanus Toxoid |
| | TWG | Technical Working Group |
| U | UHC | Universal Health Care |
| | UHC HI-5 | Universal Health Care High Impact Five Plan |
| V | VfM | Value for Money |
| | VSSP II | Vaccine Self Sufficiency Project Phase II |
| W | WACC | Weighted Average Capital Cost |

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1 Introduction

Based on the agreement between the Japan International Cooperation Agency (JICA) and the PPP Center of the Philippines, an attached agency of the National Economic Planning and Development Authority (NEDA) and mandated to facilitate the implementation of the country's PPPs, JICA has undertaken the PPP Capacity Assessment and Capacity Development Program to improve capacity of Implementing Agencies (IAs) for promoting PPP initiatives. The Department of Health (DOH) was selected as one of these IAs that will take part in this program.

Directed by JICA, the consultants from Deloitte Tohmatsu Financial Advisory LLC (DTFA) and Castalia Limited (Castalia) (the JICA Expert Team), conducted the capacity assessment to identify DOH's capacity in promoting PPP initiatives by employing the capacity assessment tool developed by the same.

This capacity assessment report is undertaken under the JICA assisted technical cooperation programme and summarizes the capacity assessment results. This report also identifies the challenges DOH is facing, and for challenges identified, possible solutions to overcome such challenge have been provided. The possible solutions suggested in this report are to be discussed among PPP Center, JICA, the JICA Expert Team, and DOH, in order to elaborate and implement the Capacity Development Program.

2 Capacity assessment methodology

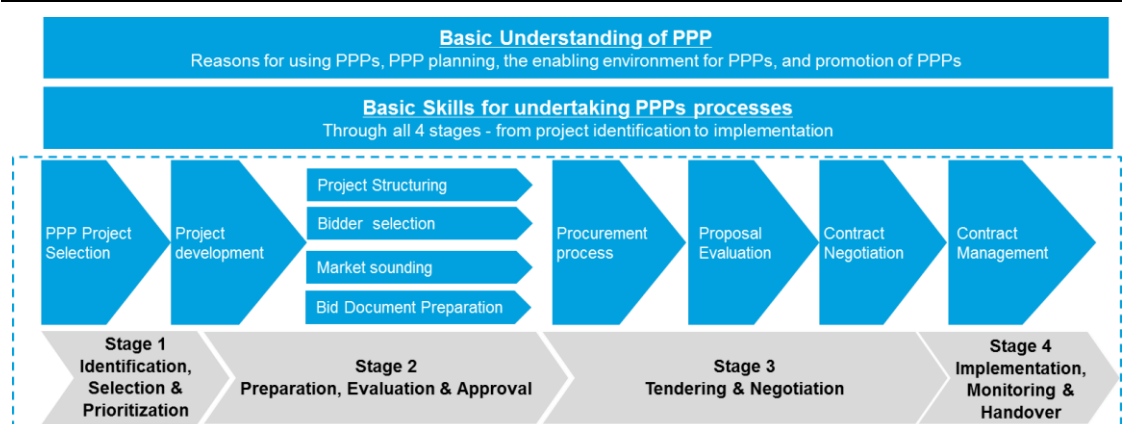
2.1 Capacity assessment content

The capacity assessment tool developed by the JICA expert team consists of a questionnaire that assesses two broad subject areas:

- **Basic understanding of PPPs:** Does the IA understand the objectives of PPPs, the advantages and limitations of PPPs, and the desired PPP enabling environment
- **Basic skills for undertaking PPP processes:** Does the IA have the basic skills needed to identify, prepare and implement PPP projects in a suitable manner.

Each subject area consists of several elements, as shown in the Table 2.1.

Table 2.1 Subject Areas Assessed by Capacity Assessment Tool



Source: Deloitte Castalia Joint Venture: Discussion Paper on PPP Capacity Development Program

2.2 Capacity assessment procedure

The first step in conducting the capacity assessment is to collect information on the three subject areas from the following potential sources:

- Project related documents, such as feasibility studies, bid documents, PPP contracts, and any implementation frameworks or processes
- The IA’s pipeline of PPP projects
- Interviews with undersecretaries/assistant secretaries or other IA staff, particularly members of IA’s PPP unit
- Interviews with the PPP Center staff who have worked with the specific IA
- Related laws and regulation documents
- PPP manuals and guidelines

The second step is to use the collected information to fill in the capacity assessment questionnaire or the “elements” for the two broad subject areas discussed above in the assessment sheet. As below example of the assessment sheet shows, each element consists of sub-elements or the “elements in detail.” (Complete assessment sheet has been provided as a separate document.)

Table 2.2 Example of Assessment

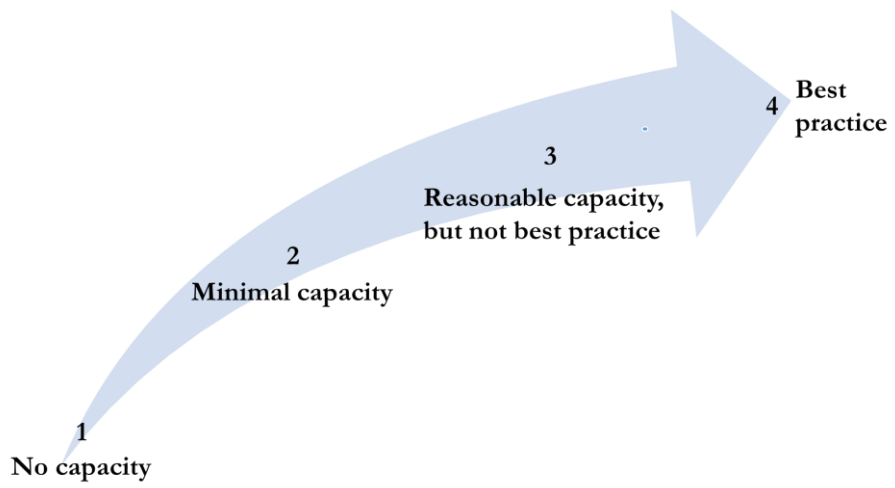
| | | |
|--|--|---|
| Area(s) | 1. Basic Understanding of PPP | |
| Sub-area(s) | - | |
| Element(s) | 1.3 Project evaluations | |
| To-Be | The guidance and manuals for studying, evaluating and prioritizing individual projects exist. These guidance and manuals require the feasibility studies of the PPP adoption, and they are actually employed and followed through. | |
| What we collect | National Government Agency Public-Private Partnership Manual (Draft) Project Development And Monitoring Facility (PMDA) Guideline Sector Guidelines Health prepared for PPP Center (draft) Guidebook on Public-Private Partnership in Hospital Management (ADB) Interview with DOH Officials | |
| Elements in detail | Score / 4 | Assessment |
| Formulation of Manuals/Guidelines for evaluation of PPP project identification, selection and prioritization | 4 | PPP Center has published numerous manuals/guidelines, such as NGA manuals, PMDF guidelines, Sector Guidelines for Health, which DOH can refer. These manuals/guidelines stipulate processes for evaluation of PPP project, its criteria, and requirements by authorities such as PMDF, NEDA, etc. Moreover, ADB contributed Guidebook on Public-Private Partnership in Hospital Management for Philippine health sector in 2013. Thus enough supports and manuals/guidelines for PPP projects in health have been provided. |
| Identification of clear criteria for evaluating PPP possibilities | 1 | The new PPP Committee has yet to start contemplating on the criteria for evaluating PPP possibilities. |
| Utilization of Manuals/Guidelines for evaluating PPP possibilities(Track record) | 1 | Existing manuals and guidelines do not appear to have been consulted with or referred to by DOH's new PPP Committee. |
| Score / 4 | 2 | |

For each element, the IA is scored against a number of sub-elements using the criteria shown in the Table 2.2. For example, consider the element of “value for money analysis”—this topic considers whether the IA understands how to determine if PPP procurement will deliver value for money (VfM). If the IA has never conducted VfM analysis it would score 1. If it has conducted basic VfM analysis for one to three projects and there were no major problems with the analysis, it would score 2. If it has conducted adequate VfM analysis for multiple projects, say four or more, but doesn’t yet undertake the more sophisticated VfM analysis of countries with mature PPP programs, it would score 3. And finally, if the IA had conducted multiple sophisticated VfM analysis it would score 4.

The third step in the capacity assessment is to analyse the results of each element.

The fourth step is to identify the challenges in promoting PPP and suggest capacity development activities for each challenge identified.

Table 2.3 Scoring Breakdown



3 Capacity Assessment for DOH

3.1 PPP function at DOH

As described below, PPP function at DOH has seen transitions:

In order to ensure effective and efficient formulation and implementation of PPP projects of the DOH and function as a clearinghouse for collecting experiences, analysis and dissemination of best practices, the Center for Excellence for PPPs on Health (CEP3H) was established by way of AO No. 2012- 0010 issued on 2 March 2012.

CEP3H was tasked to develop businesses case materials for modernizing DOH-retained hospitals¹, and since its creation, CEP3H worked on PPP project formulation and development activities in modernizing DOH-retained hospitals, with two most notable projects being the Modernization of the Philippine Orthopedic Center (MPOC) and the Vaccine Self Sufficiency Project Phase II (VSSP II). Aside from these, around 40 other proposed Projects have been identified and are at different stages of project development and formulation. It should be noted that not all of the Projects were eventually carried out as PPPs as defined under the Republic Act 7814 or the BOT Law.

CEP3H was dissolved in December 2014. However, in March 2015, in view of the necessity of creating a permanent PPP Office that will oversee the planning, implementation and coordination functions of the DOH the Secretary of Health issued Department Personnel Order (DPO) No. 2015-1289, charging the Task Force (TF) with the crafting of the overall framework of a permanent DOH PPP Committee and in August 2015, the PPP Committee was established by way of Department Order No. 2015-0157 with the support of JICA and the JICA Expert Team.

The PPP Committee is headed by the Cluster Head of the Office for Policy and Health Systems, and standing members includes Office of Health Operations, Health Facility Development Bureau, Legal Service, and Financial and Management Services (FMS), and it is tasked to:

1. Foster active partnership with the private sector through well-developed PPPs on health, pursuant to pertinent laws and regulations
2. Develop a robust pipeline of PPP projects on health, through prudent project development, promotion, procurement and management
3. Develop strong relationship with development agencies and relevant oversight and capacity building agencies for PPPs in the Philippines
4. Monitor and evaluate approved PPP projects

It might be noted that CEP3H members consisted entirely of in-organic employees of DOH and there were limited interactions between CEP3H members and organic DOH employees, and thus upon CEP3H dissolution, much of the PPP related capacities and institutional knowledge accumulated are gone with the dissolution of CEP3H.

Given the aforementioned consequences, it is suggested that a PPP Unit needs to be created which is composed of organic and permanent staffs with definite roles and functions, so as not to be considered just an ad hoc body. This way, it will be their core

¹ CEP3H was made up of personnel with expertise in finance, PPP policy, ICT, research, communications, public relations and project development. There was no expert consultant or personnel on social marketing, legal structuring and business development that would have been integral in the organization. The operational budget of the CEP3H was covered by the Office of the Secretary.

function to plan for the DOH PPP Program, implement and monitor such plan, affording the staffs to be focused and be the driving force for their PPP projects.

3.2 Assessment Methodology for DOH

Considering the said history of the DOH PPP unit, the capacity assessment for the DOH was carried out in the following manner:

- **Assessment of the current state and previous state:** in light of the aforementioned organizational changes at DOH, where deemed feasible and relevant, both the “current” state of DOH – i.e., the state post dissolution of CEP3H – as well as the “previous” state of DOH – i.e., the state at the time of CEP3H existence – have also been assessed.

Interviews with the following DOH offices and related institutions were conducted:

- Office for Policy and Health System
 - Legal Services
 - Financial Management Service
 - Technical Services
 - Health Human Resources Development Bureau
 - Current management of MPOC, VSSP and NKTI
 - Ex PPP Center official who is familiar with the MPOC and VSSP projects
- **Basic understanding of PPPs:** Only the current state – i.e., the state post-CEP3H dissolution of DOH is assessed, as, as explained in details in the sections that follow, at the time of CEP3H, organic DOH employees had little involvements with CEP3H and thus all PPP related capacities were kept within CEP3H, and the JICA Expert Team had limited access to personnel related to CEP3H.
 - **Basic skills for undertaking PPP processes:** Along with the current state, as the pertinent documents that enable assessments have been archived at DOH premise, the previous state of DOH when CEP3H was in operation, is assessed. Following two PPP projects out of the 4 cases summarized in the following sections have been analysed and assessed.
 - Case 1: Modernization of the Philippine Orthopedic Center Project
 - Case 2: Vaccine Self Sufficiency Project Phase II

Also, though not part of the assessments, following two projects at National Kidney Transplant Institute (NKTI) are referenced in the assessment sheet for comparison, these projects are not referred in the body of this assessment report as these are procured through different modalities not considered under the BOT Law. These cases however provide a good vantage point in examining prospects for future private sector interactions in the health sector, particularly through PPPs:

- Case 3: Dialysis Project at NKTI

- Case 4: Positron Emission Tomography-Computed Tomography (PET-CT) and Cyclotron Project at NKTI
- **Scoring mechanisms:** The DOH has no actual related experiences in implementing PPP projects and it is unavoidable that the overall scores are underestimated due to lack in the PPP experiences. Yet, the scores were given within the ceiling of 3 taking into account transferrable skills from the archived non-PPP procurements experience and past documents as well as potential capacity complements by transaction advisors to be hired.

3.3 Case 1: Modernization of the Philippine Orthopedic Center Project

The Modernization of the Philippine Orthopedic Centre (MPOC) Private-Public Partnership (PPP) Project was the first health PPP project² in the Philippines, which reached financial close. However, a call for termination is being signified by the awarded bidder after the contract signing but before the start of construction as explained in the following section in detail.

Project Conception

Plans and proposals for MPOC were prepared and submitted to the Secretary of Health in 2011 following a PPP Workshop where Chiefs of all DOH Retained Hospitals were given the opportunity to submit proposals for the use of a PPP structure in their hospitals.

The need for the modernization of the POC is based on the existing 700-bed centre receiving no major renovation or improvement since its construction 1963. This was primarily due to budgetary constraints. This has affected operations significantly. For example, only 300 out of the 700 beds of hospital are usable because of its current poor condition.

The project involves the construction of a 700-bed capacity super-specialty tertiary orthopedic hospital to be located within the National Kidney and Transplant Institute (NKTI) Compound along East Avenue, Quezon City – approximately six kilometres away from the existing POC.³

The new hospital facility will be built and maintained under the Build-Operate-Transfer (BOT) arrangement, with a concession period of 25 years. Specifically, the scope of the project includes the following:

- Construction of a orthopedic hospital at a new site;
- Supply, installation, operations and management of modern medical care and diagnostics equipment;
- Supply, installation, operations and management of the latest hospital operations, logistics and Management Information System (MIS) IT infrastructure; and

² PPPs are the projects undertaken by observing RA7718, the revised Build-Operate-Transfer (BOT) law, and those pursued under RA9814, Government Procurement Reform Act not considered to be PPPs in the country of Philippines, and are regarded as normal procurements

³ The original concept for the Modernization of the POC is to modernize the existing facilities of the Philippine Orthopedic Center which is located in Banawe Avenue, also in Quezon City. Legal conditionalities embedded in the deed of donaton where the Philippine Orthopedic Center inhibited this initial structure.

- Operations and Maintenance of the entire new facility including the in-house diagnostics centre, out-patient departments, inpatients departments, and all other related activities related to the operations of the hospital as per Minimum Performance Standards and Specifications (MPSS).

For the project, the DOH sought and received support from the Project Development and Monitoring Facility lodged in the PPP Center. Upon submission of a project concept to the PPP Center and providing initial information, the project received support from the PDMF for project development and determining project feasibility; assistance in project approval by pertinent government agencies; support in procurement of bidders and other project support until financial close. Deloitte Touche Tohmatsu India, Pvt. Ltd. was selected as the transaction adviser for the project with the PPP Center (particularly its Project Development Service) provided the DOH with technical support in terms of analyzing components of feasibility studies and reports submitted by transaction advisors. Given the specialized nature of the project being in the health sector, DOH took charge of examining health-related outputs of the transaction adviser.

In the initial proposal from the Orthopedic Center, the project cost was originally estimated to be PhP 4,559 million⁴. After the approval of DOH and relevant ministries, this cost estimation was increased to PhP 5,339 million as a result of detailed cost analysis in the feasibility study⁵. The key components of total project costs are as follows;

Table 3.1 Key Components of Total Project Cost

| Item | Value (in PhP) |
|--------------------------------|----------------|
| Building Cost | 2190.8 |
| Equipment Cost | 1949.9 |
| Building Permits & Relocation | 26.0 |
| Contingency on Direct Costs | 416.6 |
| DED & Architecture Design Cost | 86.2 |
| Construction Manager | 48.2 |
| Administrative Expenses | 165.1 |
| Independent Consultant | 53.4 |
| EIA & ECC Cost | 25.0 |
| Contingency on EIA & ECC | 2.5 |
| Project Development Costs | 90.0 |
| Financing Costs | 18.69 |
| Interest During Construction | 266.5 |
| Total Project Cost | 5,338.9 |

A Value for Money (VfM) analysis undertaken by transaction advisors, Deloitte India, found that VfM from the project development on PPP BOT mode is estimated at around PhP 2,148 million.

⁴ Executive Committee Resolution No. 2011-001 III Project Description and Estimated Cost

⁵ MPOC Feasibility Study Chapter 8.1.3 Cost & Time Related Assumptions P194

DOH issued the invitation to qualify to bid in November 2012. The Bidding for the MPOC followed the single stage/ two-envelope system for soliciting proposals under the BOT Law. Prospective Bidders were to submit the (1) respective qualification requirements; (2) Technical Proposal; and (3) Financial Proposal.

A lone bid coming from the Megawide World Citi Consortium (“Megawide”) was received by DOH for the project. Pursuant to the BOT Law, DOH proceeded with negotiations with the said lone bidding entity with a concession agreement eventually signed after these negotiations.

Concession Agreement

Under the concession agreement, 10% of the bed capacity is to be allocated for “Indigent Patients”, 60% for “Government Supported Patients”, and 30% for the “Pay Patients”.

At the time of signing, it was DOH’s intention to allocate 70% of the bed capacity to “Indigent Patient” and “Government Supported Patients” that are sought to be low to middle income class patients and the rest or the 30% of the capacity for the “Pay Patients” which can be used for commercial purposes, such as provision of advanced orthopedic care to high income class from ASEAN region.

The table below describes bed capacity allocation, and definition of each patient category.

Table 3.2 Bed Capacity Allocation

| Bed Capacity | Category | | Description | Patient Mix (Jan-Dec 2014) Orthopedic Center | | Patient Mix (Jan-Oct 2015) Orthopedic Center | |
|--------------|-------------------|-------------------------------|---|--|------------|---|------------|
| | | | | Total # of Patient | Percentage | Total # of Patient | Percentage |
| 70 10% | Indigent Patients | Charity (Service): | No payment received from the patient for the service rendered | 3659 | 53% | 2138 | 41% |
| 420 60% | | Government Supported Patients | PHIC (No Balance Billing) | No payment received from the patient for the service rendered but hospital will be reimbursed for the cost by PhilHealth | 2690 | 39% | 2736 |
| | PHIC (Co-Pay) | | PhilHealth covers up to a ceiling for the service rendered and the uncovered portion is paid by the patient | 325 | 5% | 297 | 6% |
| 210 30% | Pay Patients | Pay | Patient pays fully for the services rendered | 167 | 2% | 94 | 2% |
| 700 100% | Total | | | 6841 | 100% | 5255 | 100% |

It should be noted that the term “Government Supported Patients” is equivocal, and this equivocality could be one of the reasons that triggered the challenges DOH has met (to be described in more detail in the next section):

“Government Supported Patients” can either be interpreted as strictly Government Supported Patients under the category of “No-Balance Billing PhilHealth members” who will not be required to pay anything beyond their PhilHealth coverage, or PhilHealth members who will be billed for any amount beyond their PhilHealth coverage, and as such effectively make them “Pay Patients”.

If the Government Supported Patients (60%) were classified as “No Balance Billing PhilHealth members”, then the 70%-30% bed capacity mix of the MPOC, wherein the DOH’s original intention that the 70% of the bed capacity is allocated to low to middle income class patients would be achieved. However, if the Government Supported

Patients are classified as “PhilHealth members who will be billed beyond their coverage”, then they are effectively “Pay Patients”. As such, the patient mix becomes only 10% Indigent Patients, and 90% Pay Patients.

The DOH wanted this matter clarified with the concessionaire to ensure a smooth implementation of the concession agreement. Thus, DOH sent a letter to Megawide, and they confirmed that Government Supported Patients simply refers to “PhilHealth” members, who may either be No Balance Billing PhilHealth members or PhilHealth members who will be billed beyond their coverage. And they maintained that such categorization is left to their discretion, and as such, the entire 60% Government Supported Patients may all be Philhealth Members who will be billed beyond their Philhealth coverage.

The DOH does not agree with this interpretation because, as stated above, it will result to a 10% - 90% bed allocation – only 10% for Indigent Patients and 90% for Pay Patients similar to a private hospital. Hence, DOH elevated the matter to the Cabinet Secretary and the Office of the President for executive guidance since the implementation of the Contract would be inconsistent with the DOH’s mandate to make at least 60% bed allocation to Service Patients in government hospitals. This is consistent with the observation that the actual patient mix of the existing POC is different with the patient mix of the MPOC. After several meetings, the Office of the President referred the matter to the Office of the Presidential Legal Counsel to determine the legality of the provision concerning Government Supported Patient.

Petitions

After the signing of the concession agreement, the project met with the challenge primarily by a group of POC employees, health workers, and progressive legislators.

The group asked the Supreme Court to issue a temporary restraining order or a writ of preliminary injunction to stop the project from being implemented, due to two reasons:

- Government’s responsibility to provide affordable care for the poor
- Treatment of POC employees

Government’s responsibility to provide affordable care for the poor

The project would significantly downsize its bed capacity allocated to service (non-paying) patients from the current level, due to the private sector concessionaire’s motivation for profit. The group mentioned, “we believe that healthcare is a public good and should be provided for by the state. With privatization, hospital charges usually increase to make up for the initial capital invested by private institutions. The POC caters both to indigent patients—farmers, fisherfolk—who come a long way from their provinces and to patients who come from urban poor communities in Metro Manila. Patients who need healthcare the most are not affordable to pay the hospitalization expense. The government is responsible for providing and ensuring affordable health services for the people. Such duty should not be relinquished to a private entity through privatization or commercialization of a government hospital to the prejudice of the poor and underprivileged.”

⁶ “Health workers, patients bear the cost of orthopedic center privatization” July 27, 2015, Vera Files <http://verafiles.org/health-workers-patients-bear-the-cost-of-orthopedic-center-privatization/>

⁷ February 3, 2014, By MARK MERUEÑAS, GMA News

Treatment of POC employees

Some POC employees enjoined that they were dissatisfied as to the terms of their employment presented by DOH after the commencement of the new hospital's operation by the concessionaire: the employees were given the three options⁸:

- First, stay in the existing facility as regular government employees – DOH has free hand to propose what to do in the existing/old facility
- Second, be transferred to other government hospital with the same rank and plantilla positions
- Third, resign and transfer to the new facility under the concessionaire

Involvement of the PPP Center in the Development Phase of the MPOC Project

The PPP Center essentially vetted on components of the feasibility study, particularly the financial and legal aspects of the study. The PPP Center also looked into the pro's and con's of the different feasible modalities (i.e. BOT, BTO or any other PPP structures), determining the most suitable modality for the government. As the health sector was not really a common field for PPP initiative to emerge at that time, the PPP Center deferred to the judgement of the DOH if these aspects (if the hospital operations, workforce, equipment, allied services and other health sector specific items) were in order for the project. Looking at the financial and structuring aspects of the project alone, after thorough assessments of the outputs of the advisors, it turned out that the financial models prepared by the advisers were soundly made such that it proceeded to the NEDA approval.

Current Status

As stated above, DOH did not agree with the interpretation of the “Government Supported Patients” by Megawide interpretation because it will result to only 10% for Indigent Patients and 90% for Pay Patients.

Hence, DOH elevated the matter to the Cabinet Secretary and the Office of the President for executive guidance since the implementation of the Contract would be inconsistent with the DOH's mandate to make at least 60% bed allocation to Service Patients in government hospitals.

After several meetings, the Office of the President referred the matter to the Office of the Presidential Legal Counsel to determine the legality of the provision concerning Government Supported Patient.

While the Office of the Presidential Legal Counsel has not shown any reaction, Megawide served a notice of termination of the concession agreement to DOH in November 2015.

In turn, the DOH, in a letter dated March 3, 2016, expressed its conformity to the termination so as not to unduly burden the Megawide by putting an end to the expenses it has been incurring (losses). (Update As of this morning, March 11, 2016)

<http://opinion.inquirer.net/81129/for-onas-ouster-against-privatization-of-govt-hospitals>

⁸ Provided by PPP Center

Under the concession agreement, it must be noted that the DOH is not liable for any damages for failure to pursue the MPOC prior to the issuance of a Certificate of Possession and the Award to an Independent Consultant.

Lessons Learned

As the litigation illustrates, the detailed communication exercise to address the social and institutional concern to attain public acceptance is warranted in order to implement successful PPP project.

Also, commercial viability of the project could have been studied in greater depth. The POC has higher percentage of charity (service) patients from whom no payments are received for the services rendered: charity patient accounted for 53% and 41% of the POC patient mix in 2014 (Jan-Dec) and 2015 (Jan-Oct). Unless these patients move “PHIC” (No Balance Billing)” category patients from whom POC is reimbursed for the services rendered to the government via PhilHealth, commercial viability of the POC may not improve. It might be noted that better utilization of PhilHealth – such as the utilization of Point-of-Care enrollment scheme wherein less privileged patients are assessed by the hospital’s social welfare office and if validated to be indigent indeed, they are automatically enrolled into PhilHealth, allowing POC to receive reimbursement for the medial services rendered to patients – could be explored by POC to increase revenues/cash in-flows.

Lastly, the average length of stay in POC which stands at around 22 days may show that the business operations is less commercially viable in comparison to the other types of hospital such as general, maternal, or pediatric hospitals, which has much shorter average length of stays⁹. Average length of stay is relatively longer at POC for reasons such as patients waiting (staying) at POC till they receive donations for necessary implants.

⁹ International benchmark in relation to average length of stay is 5-8 days

3.4 Case 2: Vaccine Self Sufficiency Project Phase II

The Vaccine Self Sufficiency Project Phase II (VSSP Phase2) aims to accelerate domestic vaccine production to improve the self-sufficiency rate and reduce the procurement costs of vaccines for 10% to 30% with local formulation, filling, labelling, and packaging of Pentavalent (DPT-HepB-Hib), Tetanus Toxoid (TT) and Single HepB vaccines.

The project was to supply the basic volume of the vaccine to the government which was expected to bring stable source of revenue to the concessionaire and the excess amount of the vaccine could be sold off to the commercial market, which could be lucrative in that the concessionaire could aim for upsides in their revenue (the PPP scheme was such that the concessionaire would retain the demand or the revenue risk during the 15 year concession period).

Conception

The project was originally conceptualized by the former director (Dr. Remigio Olveda) of the Research Institute for Tropical Medicine (RITM) to build, own and operate (BOO) through a PPP.

The vision of the former director, Dr. Olveda was to nurture a biotechnology industry, and this project was intended to be the first step.

The project period was for 15 years and DOH would take over the ownership of the project after the project period.

Consultants

The technical and financial consultant was procured by the PPP Center through the conventional bidding process. As the procurement for consultants was undertaken before the ADB and Australian Agency for International Development (AusAID)¹⁰ infused funds into the Project Development and Monitoring Facility (PDMF), the consultant was procured through the regular government procurement guidelines (pursuant to Republic Act 9184).

The consultant did not have much specialties in the health sector, but has more experiences in transportation, as relevant source indicated. The consultant was not capable of conducting technical and financial analysis in health sector, especially the highly specialized nature of vaccine production.

As such, RITM was put into a situation where they had to take care of the technical aspects in taking the project up to the NEDA board with PPP Center taking care most of the financial aspects.

Current Status

The project was taken up to the NEDA Board. However, the President, the chairman of the NEDA Board, did not approve the project because of its relatively small project cost (400 Million Pesos) and suggested to procure funds purely from the government budget.

Given the instruction of the president, the project was procured in construction and operation services respectively under the standard government procurement procedures (RA9184).

¹⁰ After October 31, 2013, AusAID was institutionally integrated with the Department of Foreign Affairs and Trade

RITM selected the preferred bidders in construction and operation separately and requested approvals by DOH.

However, shortly after the submission of the approval request (of the contractors) to then Health Secretary Dr. Enrique Ona, the project has not progressed since as he resigned without any response to the said request, resulting the suspension of the bidding process.

Perceptions of RITM Employees

Because the project was to 1) create new facility wherein new employment opportunity was to be created, and 2) the existing employee is provided the opportunity to learn something new from the concessionaire and then internalize after the 15 year concession period, which is when RITM is to become the rightful owner of the facility, the employees were in fact supportive of the said PPP project.

Lessons Learned

Above case illustrates that PPPs in Philippines are vulnerable to political pressures. Additionally, the project needed to be scoped more extensively to attain larger and better economy of scale. However, aside from the political pressure and the economy of scale, VSSP II project has no negative side effects as was the case in the MPOC because the project seemingly had no parties to be affected, and only brings benefits to the stakeholders concerned.

3.5 Case 3: Dialysis Project at National Kidney Transplant Institute (NKTII)

National Kidney Transplant Institute (NKTII) is a tertiary medical institution originally established as the National Kidney Foundation of the Philippines (NKFP) in 1981. NKTII is the only government hospital specializing in kidney and allied diseases including organ transplantations, and provides not only renal related treatment, such as hemodialysis and transplantation, but also education for physicians wanting to specialize in internal medicine, nephrology and other allied medical specializations¹¹.

Conception

NKTII started with five hemodialysis machines, and in response to the rising number of patients, purchased 16 additional machines in 1998 and four in 2000. However, experiencing Asian financial crisis, DOH became unable to afford recurrent budget for hospitals, and as such, the NKTII management team, based on the decisions of the autonomous hospital Board¹², started considering a scheme involving private sector for the establishment of a new hemodialysis center with more than 30 new machines, as the NKTII was facing the issues such as the insufficient number of machines with existing machines becoming outdated and the increasing number of patients discontent with services.¹³

In 2002, the NKTII conducted a feasibility study with BOT Center, the predecessor of the present PPP Center, and decided to roll out the project.

¹¹ National Kidney and Transplant Institute website [9th November 2015 accessed] <http://www.nkti.gov.ph/>

¹² Being a corporatized hospital, NKTII has certain autonomy, allowing them to decide on the purchases of medical equipment at discretion

¹³ Oscar F. Picazo 'E.Public Hospital Governance in the Philippines'

Project Description

Fresenius Medical Care Phil, Inc., one of the world's largest dialysis service provider in Germany¹⁴¹⁵ won the procurement¹⁶, which was arranged as a JV¹⁷.

The contract period initially ran for five years (2003-2008), and the construction fee of the new Hemodialysis Center was a PHP 54 million, and the NKTII had an equity contribution of 20%.

Fresenius furnished state of the art hemodialysis machines, staffed service technicians, and had responsibility for service provision, maintenance and upgrading of the machines, and NKTII staff training.

In turn, the NKTII provided space and paid the lease fee for Fresenius per treatment in accordance with the pre- agreed lease payment schedule.

In order to ensure the service quality, the NKTII set a standard for services, observing the US Association for the Advancement of Medical Instrumentation (AAMI), Bureau of Foods, and Drugs (BFAD)¹⁸ and general industry standards¹⁹.

Project Outcome

This project improved among others, the access, affordability, and efficiency.

As for the access, the capacity of the treatment was increased, and the number of dialysis sessions increased from 15,185 in 2002 to 41,701 in 2009, enabling accesses to dialysis treatment to more Filipinos²⁰.

The treatment cost at the NKTII was not affected by the strategy: the fee at the NKTII was set almost half of those at private hospitals²¹, offering affordable treatment to Filipinos.

Finally, as for the efficiency, dialysis related revenue increased dramatically from PHP 42 million in 2002 to PHP 130 million in 2009²².

Additionally, the continuous training for dialysis treatment for staff was provided and patient satisfaction increased.²³.

Current Status

¹⁴ Sciences po Paris & United Nations Economic Commission for Europe (2012) 'Trade, Development and Public Private Partnership - An Analysis of PPP in Health Facilities: A way of Improving Trade in Health Service?' <http://www.csend.org/images/articles/files/Trade%20Development%20and%20PPPs%20Capstone%20Report.pdf>

¹⁵ UNECE, WHO, and ADB (2012), 'Discussion Paper [DRAFT] A Preliminary Reflection on the Best Practice in PPP in Healthcare Sector: A Review of Different PPP Case Studies and Experiences

¹⁶ Chantal Herberholz, 'Draft Proceeding of the Regional Forum, PPP in Health Manila 2012 '

¹⁷ Interview with NKTII

¹⁸ The BFAD is not called the Food and Drugs Administration (FDA)

¹⁹ Chantal Herberholz, 'Draft Proceeding of the Regional Forum, PPP in Health Manila 2012 '

²⁰ Chantal Herberholz, 'Draft Proceeding of the Regional Forum, PPP in Health Manila 2012 '

²¹ Chantal Herberholz, 'Draft Proceeding of the Regional Forum, PPP in Health Manila 2012 '

²² Oscar F. Picazo 'E.Public Hospital Governance in the Philippines'

²³ Oscar F. Picazo 'E.Public Hospital Governance in the Philippines'

The project has proven to be profitable, and the contract with Fresenius has been renewed for another five years²⁴. However, a new dialysis service provider is set to take over the services as per the NKTII management (B Braun).

3.6 Case 4: PET-CT and Cyclotron Project at NKTII

PET-CT Project

Following the success of haemodialysis project, NKTII considered the introduction of PET-CT and Cyclotron.

PET-CT is a medical device for diagnostic imaging using radiotracers. At the time of conception of the project, a single private hospital was the sole owner of a PET-CT facility. Without any service competitor, it virtually had sole influence in pricing of PET-CT procedures. As such, the project sought to provide diagnostics using PET-CT at affordable cost.

PET-CT project is a Joint Venture, with a Korean private company fully financed the equipment. Profit from the project is split between the private company and NKTII at 80% and 20% respectively.

The private company has responsibility for a) building construction, b) equipment devices and related facilities and software, c) service and maintenance program, and d) training and technology transfer.

Cyclotron Project

Cyclotron generator is a device for radiation therapy for cancer treatment, and attracts much attention as minimally invasive treatment (fewer side effects than anticancer drug in many cases). At the time of conception, no hospital was equipped with Cyclotron in Philippine and NKTII wanted to provide modern treatment for Filipinos with affordable cost by installing cyclotron manufacturing facility at NKTII premise.

NKTII simply leases the space for the cyclotron manufacturing facility to the same private Korean company partnering with the Cyclotron project for a lease fee. As was the case with the PET-CT project, the Cyclotron project was carried out as a Joint Venture.

²⁴ Chantal Herberholz, 'Draft Proceeding of the Regional Forum, PPP in Health Manila 2012'

²⁵ Interview with NKTII

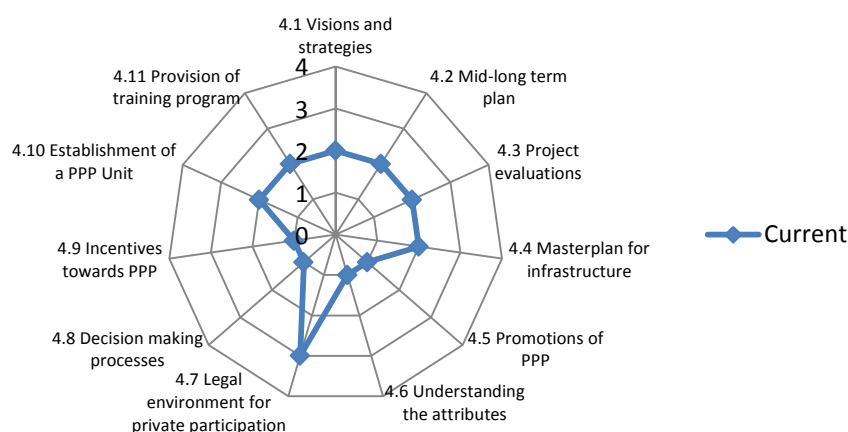
4 Capacity Subject Area 1: Basic Understanding of PPPs

This capacity subject area examines how well an IA understands the objective of PPPs, the advantages of PPPs, and if the environment to encourage private sector participation in infrastructure exists. It also considers the IA's visions, strategies, Masterplans, and other planning documents, and how well the IA uses these plans to generate infrastructure projects.

The IA's assessment summary is shown in Table 4.1.

The DOH currently has accumulated little PPP related experience, thus scorings are low across most of the elements assessed, and DOH may struggle in making effective use of PPP in promoting health in the Philippines.

Table 4.1 Scores for the Basic Understanding of PPPs



4.1 Visions and strategies

This topic assesses if the current state of the responsible segment/area is well understood, and the issues that could arise in the future for the segment/area have been identified. Also, whether the visions and strategies with concrete numerical targets and achievements have been formulated, and the said visions and strategies have been revised in accordance with the changes in economic and social situations, as appropriate.

With the understanding of the current state of the health sector, DOH has formulated the sector-wide strategy "Aquino Health Agenda and the concrete goals of Aquino Health Agenda are mentioned in the National Objectives for Health 2011-2016. Also, Philippines Development Plan (PDP) identified a strategy for substantial social service as a nationwide aim, whose numerical objectives have been revised based on clinical and demographic data as the PDP Midterm Update in 2014. Yet, the DOH lacks in the long-term strategic masterplan in the health sector that extends beyond 2016 and is under preparation to draw such masterplan. The Office for Policy and Health System is currently preparing for the 2016-2030 health policy paper for the consideration of the

next administration, and NEDA is drafting infrastructure master plan for 2016-2040 that will address health infrastructure for the same.

As such, the score is 2.

4.2 Medium or long term infrastructure plans

This topic considers if medium/long term plans on infrastructure constructions and refurbishments, and service offerings etc., based on the visions and strategies, exist. Whether the constructions and refurbishments based on the said plans have been implemented are also important.

It is understood that the Health Facilities Enhancement Program (HFEP) is the DOH's long-term infrastructure development plan. Guideline for applying for HFEP for the fiscal year 2017, which calls for the alignment with policies, however, the processes of selecting the projects to be funded under HFEP for the preceding fiscal years, which would enable to validate the conformity of the projects selected to be funded under HFEP to the policies, were not made available in the course of assessment.

As such, the score is 2.

4.3 Project evaluations

This topic assesses if the guidance and manuals for studying, evaluating and prioritizing individual projects exist. These guidance and manuals shall require the feasibility studies of the PPP adoption, and they are actually employed and followed through. Criteria for evaluation and utilization the manuals are also considered in this topic.

The PPP Center has published numerous manuals/guidelines, such as the National Government Agency Public-Private Partnership manual (the NGA manuals), the PDMF guidelines, the Sector Guidelines for Health, which the DOH can refer in the course of materializing PPP projects. These manuals/guidelines stipulate processes for evaluation of PPP project, its criteria, and requirements by authorities such as PDMF, NEDA, etc. Moreover, Asian Development Bank (ADB) contributed with publishing the Guidebook on Public-Private Partnership in Hospital Management for Philippine Health Sector in 2013. Thus, enough support and manuals/guidelines for PPP projects in health have been provided.

However, these manuals and guidelines do not appear to have been consulted with or referred to by the DOH's new PPP Committee.

As such, the assessment score is 2.

4.4 Master plans for infrastructure projects

This topic assesses if plans to construct and/or refurbish specific infrastructure, and/or provide specific service have been formulated. In addition, whether they are formulated after careful considerations of project scale and cost, based on thorough comparisons with other alternatives and appropriate demand forecasts is also discussed.

It is understood that the HFEP involves specific infrastructure projects plan based on the long-term vision, identifying specific plans on health facilities, such as the number of hospitals to be upgraded. However, details were not made available in the course of assessment.

As such, the assessment score is 2.

4.5 Promotion of PPPs

This topic assesses if top management promulgates, in written format, its plan to utilize PPP in infrastructure construction and refurbishment and service provisions and what is written is followed through.

The PDP Midterm Update describes the PPP scheme as a strategy for the development of health infrastructure in order to improve access to healthcare facilities²⁶. In this context, both construction and rehabilitation are encouraged as targets. Also, utilization of PPP scheme to achieve universal healthcare was stipulated in the AHA, the National Objective for Health 2011-2016, and AO No.2012-0004 Policy Framework for Public-Private Partnership in Health. From these documents, it is clear that DOH has identified undertaking PPP as a mean to enrich health facilities and to improve access to healthcare.

In addition, with understanding of PPP promotion policy, previous secretary of DOH utilized the PPP unit (CEP3H) and the current Secretary of Health created a task force for preparation of new PPP Unit in order to pursue the health policy and establish environment for implementation of PPP project²⁷.

However based on the fact that no single PPP project has been implemented to date, it can be said that what has been promulgated in written form has not been followed through. Thus despite the efforts that have been undertaken to promote PPP, the assessment score is 1.

4.6 Understanding the attributes of PPPs

This topic considers if top management fully understands the likely segments of PPP employments as well as the likely project schemes, based on the BOT Law framework and the recognition that the PPP entails VFM analysis.

The former PPP Unit (CEP3H) was under the Office of the Secretary of Health and had limited interactions with other DOH offices and thus there was a limited knowledge transfer of PPP related capabilities to DOH as a whole.

With the departure of CEP3H members, little PPP-related knowledge is left at DOH and thus DOH's understanding as to what could become the likely segment of PPP as well as the likely project scheme is limited.

As such, the assessment score is 1.

4.7 Legal environment for private sector participation

This section assesses whether laws, regulations, rules etc., to enable private sector participations have been instituted for the segments where private sector participations are expected.

In Philippine, legal framework for PPP are stipulated in the BOT law (RA7718) and revised IBR of the BOT law, while conventional public procurement is set under Procurement Reform Act (RA9184).

²⁶ Philippine Development Plan 2011-2016 Midterm Update p.259-

²⁷ DPO No.2015-1289 Task Force on the Creation of the DOH Public Private Partnership (PPP) Office

The BOT law declares that 'Policy of the State to recognize the indispensable role of the private sector as the main engine for national growth and development and provide the most appropriate incentives to mobilize private resources for the purpose of financing the construction, operation and maintenance of infrastructure and development projects normally financed and undertaken by the Government.' In addition, National Objectives for Health describes the private sectors' role as a partner to provide health services, human resource and technical assistance to improve the health system²⁸.

Based on the clear understanding of legal framework above, DOH issues DPOs and AOs²⁹ for implementation of PPP projects. The PPP Center on the other hand published guides and manuals for National Government Agencies (NGAs), PDMF manuals and Sector Guidelines on Health while the PPP Governing Board issues guidelines, policies, regulations and rules governing PPPs.

As the laws, rules and regulations such as the BOT law, the DOH administrative order, the National Objectives for Health, the published NGA manuals and PDMF guidelines among others, have created enabling environment for private sector participants in health sector,

As such, the assessment score is 3.

4.8 Responsibilities and decision making processes for implementing PPPs

This topic considers if the role of stakeholders in public side, such as IAs, the PPP Center and NEDA, are clearly identified from the formulation of potential PPP projects to the implementation and termination of PPP projects.

Moreover, decision making structure, to advance PPP projects within IA are also clarified.

Publications such as the NGA PPP Manual and the Sector Guidelines for Health identify and explain stakeholders' (e.g., IA, PPP Center and NEDA) roles within public sector but the DOH has yet to decide sector framework of utilizing PPPs, starting with formulation.

DPO No.2015-0157 Creation of a PPP Committee on Health refers to the creation of a decision making body to be established within the DOH that oversees the development and tendering of the project. The DOH should have the ownership and commitment to PPP projects as stipulated in the BOT Law³⁰. However, this new PPP Committee has just been created and no new PPP project is being contemplated at the moment and thus the current DOH has yet to work out on the internal decision making structure within IA.

As such, the assessment score is 1.

4.9 Incentives towards introduction of PPPs

This topic assesses if incentives to promote PPP, such as preferential budget allocations to PPP projects have been instituted and utilized with clear guidelines.

²⁸ National Objectives for Health p.131

²⁹ DPO No.2015-0157 Creation of PPP Committee on Health, AO NO.2010-0036 Aquino Health Agenda

³⁰ The Philippine Amended BOT Law Section 9 P 11

Though the sector policy framework stipulated that ‘technical, material, or financial incentives are to be developed and provided’³¹, preferential budget allocation does not appear to exist within the DOH.

As such, the assessment score is 1.

4.10 Establishment of a PPP unit

This topic assesses if the PPP unit consists of the staffs necessary to support PPP implementation – i.e., staffs with professional expertise (e.g., financial, legal, etc), project management capability, deal-making as well as public procurement experience. In addition, maturity of the PPP unit is also considered.

The new PPP Committee has just been created and may have expertise in legal, technical, procurement management and administration, as well as policy, and may gather expertise from within the DOH if necessary in such areas as social marketing, public relations, commercial and business promotion, business process reengineering. However, it may lack expertise in such areas as financial, project management and deal making capabilities.

In order to have a functioning PPP unit, it is suggested that DOH have plantilla positions for staff under the PPP unit and not just representatives from different offices.

As such, the assessment score is 2.

4.11 Provision of PPP capacity building and training programs on PPPs

This topic considers if capacity development programs for the staffs in PPP unit and related section have been instituted, and regularly carried out. The JICA Expert team deems that participations to these training programs are prerequisites for promotions and incentive bonuses etc. Then understanding of PPP manuals/guidelines for the personnel’s capacity development, and training program for staffs with incentive systems are clarified in this topic.

Though PPP Center provides various educational programs for both IAs’ executives and working level staffs³², they are not being actively employed for building capacity in PPP.

As such, the assessment score is 2.

³¹ AO No.2012-0004, Policy Framework for Public-Private Partnership in Health

³² http://ppp.gov.ph/?page_id=66 [Accessed on 25th Dec 2015]

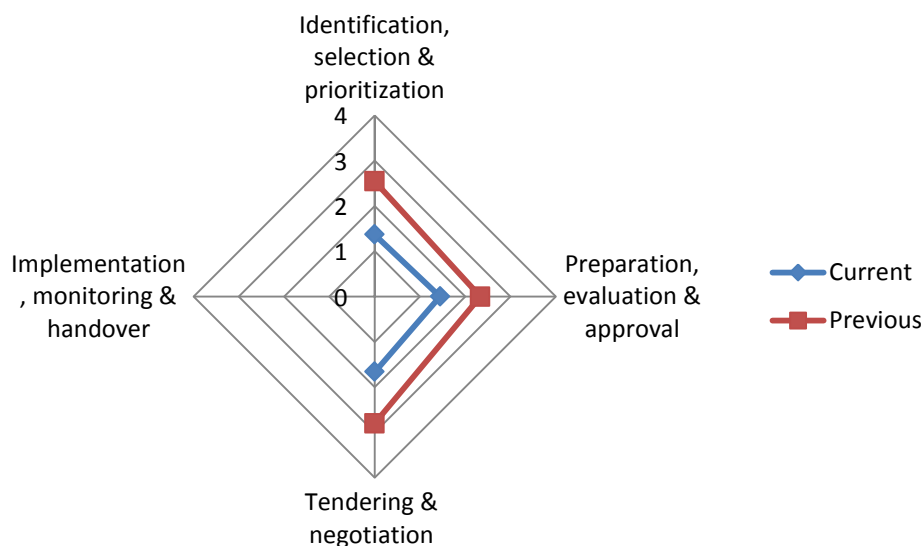
5 Capacity Subject Area 2: Basic Skills for Undertaking PPP Processes

This capacity subject area examines the IA’s experience in undertaking all PPP processes—from project identification to project implementation.

The basic skills for undertaking PPP processes are low at current DOH, as current members of the DOH have little experience in PPP. However, scores are not necessarily the lowest because DOH employees in functions such as legal, technical, procurement management and administration, policy, public relations, etc., might possess skills in their respective fields that could be transferrable to PPP. Scoring implementation stage was not practical and is left blank because, the DOH has never executed PPP projects even under the CEP3H, and thus for most assessment element, sufficient information to allow for the scoring was not available.

The IA’s performance against this topic is shown in Table 5.1.

Table 5.1 Scores of Basic Skills for Undertaking PPP Processes



5.1 Identification, Selection & Prioritization

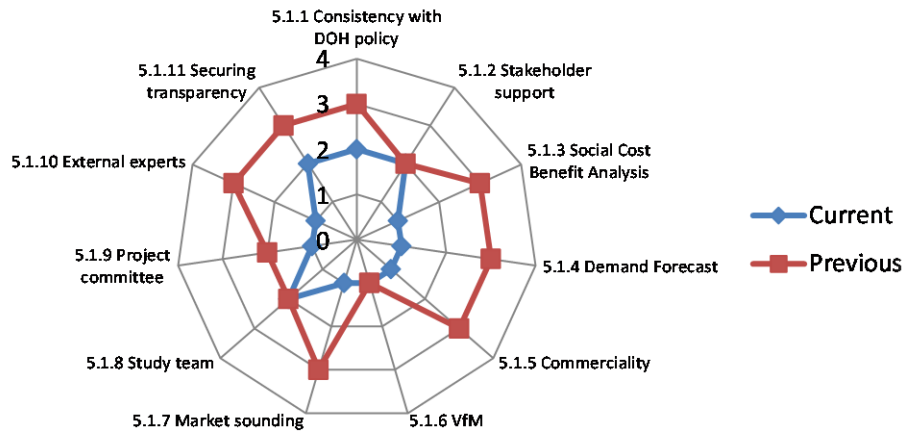
This sub-area considers the IA’s experience in undertaking early processes in the PPP cycle—project identification, selection and prioritisation.

Members of the DOH currently have little experience in PPP and thus the scores are less than the previous DOH – i.e., at the time CEP3H was operating – in most of the elements assessed.

As for the previous state of the DOH, it might be noted that the elements “5.1.2 Stakeholders handling” as well as “5.1.6 VfM calculations” are scored. As for “5.1.2 Stakeholders handling”, this is the case because, although the preliminary feasibility study for MPOC identified relevant stakeholders (patients, doctors, the DOH employees and DOH leadership) concluding that they would all benefit from PPP transaction, it ended up meeting with the challenge by the a group of indigent patients, POC employees, health professionals, concerned citizens and progressive legislators, suggesting that had the stakeholders been better handled, MPOC might have seen better outcome. As for “5.1.6 VfM calculations”, this is the case because obtaining data that allows for Public

Sector Comparator (PSC) was a challenge for MPOC project, suggesting that future health PPP project is likely to meet the same challenge of collecting PSC related data.

Table 5.2 Scores for Basic Skills for Undertaking PPP Processes



5.1.1 Consistency of the project to the policy of the implementing agency

This topic assesses whether the PPP projects are consistent with the national policy of the implementing agency and are identified to contribute to reach the policy goal.

As a policy framework, the PDP is the broadest national policy. The PDP aims to reduce poverty, improve health and nutrition status, expand social protection, and pursue the Millennium Development Goals (MDGs). Following the PDP, the DOH developed the AHA to achieve universal healthcare and set a policy framework for PPP in the health sector³³. The AHA seeks better healthcare for all, and explains that PPP is a scheme to improve government health facilities physically, to achieve universal healthcare, and to secure equitable access and better outcomes for disadvantaged Filipinos. In addition, the DOH identified the prioritized projects of hospital modernization in the HFEP as a mid-long term sectorial targets.

Further, the Sector Guidelines on Health state that, in the identification, selection and prioritization stage, projects shall be examined for their consistency with policies and reasonable background³⁴.

Assessment result – current state

As the current PPP Committee includes members from Health Policy and Development Planning Bureau³⁵, the DOH would be able to validate consistency of upcoming PPP projects with its overarching policies. However the members of the current PPP Committee have not had a chance to assess such consistency in real PPP case.

As such, the score of the current state is 2.

³³ AO No.2012-0004 Policy Framework for Public-Private Partnership in Health

³⁴ Sector Guidelines Health (Final Draft as of 23 December 2013)

³⁵ DPO No.2015-0157 Creation of a Public-Private Partnership (PPP) Committee on Health

Assessment result – previous state

In the MPOC project, the consistency of the project with the national policy³⁶ was checked in the preliminary feasibility study (PFS). VSSP also referred to the consistency with the national policy in its feasibility study report.

As such, the score of the previous state is 3.

5.1.2 Stakeholder support during project identification and selection

This topic assesses if written commitment from each entity, that has to do with the project being implemented, has been attained.

Assessment result – current state

Based on the lessons learned from the MPOC project, the DOH is now able to better identify and handle stakeholders with the assistance of external advisors. However, the current PPP Committee has never experienced the coordination of stakeholders in PPP setting.

As such, the score of the current state is 2.

Assessment result – previous state

Though PFS for the MPOC identified relevant stakeholders (patients, doctors, DOH employee and DOH) concluding that they would all benefit from PPP transaction, it ended up meeting with the challenges from other stakeholders.

As such, the score of the previous state is 2.

5.1.3 Social Cost Benefit Analysis

This topic considers whether a study team within the PPP unit properly undertakes social cost benefit analysis to assess the project's desirability in terms of its net contribution to the social welfare in the identification, selection and prioritization phase. To undertake appropriate social cost benefit analysis in the health sector, the JICA Expert Team deems that the common format of the social cost benefit analysis in the health sector shall be installed to secure the uniformity and accuracy among the potential PPP projects within the DOH PPP committee.

In the PPP framework, the NGA PPP manual stipulates that the social cost benefit analysis should be undertaken as a part of preliminary feasibility study for inclusion in the Comprehensive and Integrated Infrastructure Program (CIIP) and the Philippine Investment Program (PIP). The ICC Project Evaluation Procedures and Guidelines (ICC Guideline) and the NGA PPP Manual provide the methodology and criteria of the social cost benefit analysis. In the analysis, the ICC requires Economic Internal Rate of Return (EIRR) greater than 15%, Net Present Social Value (NPSV) and Benefit Cost Ratio (BCR) greater than zero as thresholds in the evaluation criteria and the Sector Guideline is bound with the methodology and the evaluation criteria derived from the NGA PPP Manual and ICC guideline.

³⁶ Draft Pre-Feasibility Report for MPOC

Assessment result – current state

Current employees of DOH has no experiences in PPP, and as such, the new PPP Committee needs to acquire skills to be able to evaluate PPP project utilizing BCR, NPSV and EIRR.

As such, the score of the current state is 1.

Assessment result – previous state

Preliminary feasibility study for the MPOC included the results of the social cost benefit analysis, evidencing that the project’s desirability in terms of its net contribution to the social welfare was properly analysed, consistent with the directions in the NGA PPP Manual.

The CEP3H could perform the social cost benefit analysis in accordance with the methodology and criteria stipulated in the NGA PPP manual with the assistance of the transaction advisor.

As such, the score of the previous state is 3.

5.1.4 Demand Forecast

This topic determines whether the IA properly undertakes demand forecast with the appropriate methodology and archives sufficient datasets within the PPP unit in the Multi Criteria Analysis (MCA) and preliminary feasibility study phases.

To pass the MCA, the DOH needs to examine whether the project can attain the predictable and stable revenues as the main criteria³⁷. If the project passes the MCA, the DOH should conduct demand forecast in the preliminary feasibility study as part of financial analysis³⁸. Forecasts should be respectively delivered with short, medium and long term (5, 10, 15+years) and should be provided with the different growth scenarios³⁹. In case if the PDMF fund is utilized in the study, the DOH is obliged to ensure successful implementation of the technical assistance under the Technical Assistance Agreement (TAA)⁴⁰ with the PPP center, thereby it is required to archive and provide sufficient datasets for the demand forecasts.

Assessment result – current state

Though, as above, the guidance for the demand forecast does exist with the NGA PPP Manual, based on the interview with the team involved in the formulation of the new PPP Committee, the new PPP Committee needs to acquire skills for demand forecast.

As such, the score of the current state is 1.

Assessment result – previous state

The preliminary feasibility study for the MPOC included the results of the demand forecast, evidencing that the projects were analysed with the considerable and reasonable assumptions, but did not follow the NGA PPP Manual simply because the preliminary feasibility study was conducted prior to the issuance of the NGA PPP Manual⁴¹.

³⁷ NGA PPP Manual Volume 1 Chapter 2.3.1 P24

³⁸ NGA PPP Manual Volume 1 Chapter 2.4.1 P27

³⁹ NGA PPP Manual Volume 1 Chapter 3.3.1 P38

⁴⁰ PDMF Guideline V. A 5.1 a P10

⁴¹ MPOC Section 3.2.3 P63 and 3.5.1 P107-108

For the datasets, the transaction advisor formulated realistic assumptions with sufficient amounts of historical and forecasted data including the regional population, patients, incidents and other relevant sources provided by the DOH and the POC.

On the contrary, the transaction advisor for the VSSP limited the scope of the demand analysis with the terms of only three historical years and two projected years with the single scenario. This outcome of the demand forecast for the VSSP is perhaps resulted due to the insufficiency of the relevant datasets.

As such, the score of the previous state is 3.

5.1.5 Commerciality

This topic determines whether the IA properly undertakes the financial analysis with the appropriate methodology and archives sufficient datasets within the PPP unit in the MCA and preliminary feasibility study. The financial analysis will be performed based on the similar PPP or private sector projects in order to find out if the project in contemplation will generate stable cashflows with good business prospects.

In the MCA, the DOH should identify the commerciality in the standpoints of the market acceptability and manageable life cycle costs as main criteria⁴². If the project passes the MCA, the DOH should perform the financial analysis with the support of the PPP Center⁴³. The methodology is embedded in the NGA PPP Manual and ICC Guideline, requiring that Net Present Value (NPV) greater than zero and Financial Internal Rate of Return (FIRR) greater than Weighted Average Capital Cost (WACC) to meet the criteria of the ICC evaluation⁴⁴.

Assessment result – current state

Current employees of DOH has no experiences in PPP, and thus the new PPP Committee needs to acquire financial analysis skills to properly undertake commerciality analysis and start archiving operational as well as financial datasets for future projects and for benchmarking.

As such, the score of the current state is 1.

Assessment result – previous state

The commerciality was secured in the MPOC project as evidenced in the eligible NPV and FIRR in the preliminary feasibility study and the formulation properly followed the methodology described under the ICC guideline. In the study, the transaction advisor suggested to deliver the cash support for the initial five years, proving that the transaction advisor considered the government support arrangement to improve the commerciality⁴⁵. As for the datasets, the reference was not revealed in the study. However, it is likely that the transaction advisor obtained financial information such as the capital costs mainly from the public information, considering the fact that the CEP3H had never executed the similar projects before and did not have sufficient datasets.

The commerciality analysis for the VSSP was less extensive in comparison to the MPOC project.

⁴² NGA PPP Manual Chapter 2.3.1 P26

⁴³ NGA PPP Manual Chapter 2.4.1 P27

⁴⁴ NGA PPP Manual Chapter 3.8 P50-58

⁴⁵ MPOC Preliminary Feasibility Study Chapter 3.5.1 P110-113

As such, the score of the previous state is 3.

5.1.6 VfM Calculation

This topic demonstrates whether the IA properly undertakes the Value for Money (VfM) calculation with the appropriate methodology and archives sufficient datasets within the PPP unit in the preliminary feasibility study. The JICA Expert Team considers the VfM calculation should be computed based on the similar projects with the Public Sector Comparator (PSC) and the estimated costs of proposed PPP projects. Specifically, it is preferable that the estimated costs of proposed PPP projects shall be formulated based on the market sounding from the private operators to be more precise on the VfM analysis.

The NGA PPP Manual refers to conduct preliminary VfM analysis, but the figures do not set forth as the criteria in the preliminary feasibility study⁴⁶.

Assessment result – current state

Current employees of DOH has no experiences in PPP, and thus the new PPP Committee needs to acquire skills for VfM analysis and start collecting data for PSC through the analysis of private sector data or inquiries with them.

As such, the score of the current state is 1.

Assessment result – previous state

For the MPOC project, the transaction advisor failed to provide the VfM analysis because the entire information required for PSC calculation, specifically the retained risk and transferable risk, were not available for the reasons such as non-availability of the past data for similar projects undertaken by the DOH.

Related information for the VSSP was not obtainable at this stage.

As such, the score of the previous state is 1.

5.1.7 Market Sounding (Preliminary Stage)

This topic demonstrates whether the IA properly undertakes the market sounding in the preliminary stage. The JICA Expert Team considers that there should be official or unofficial networks between public and private entities for the market sounding so that the IA can formulate the viable PPP structures.

The NGA PPP Manual suggests conducting market sounding in the pursuit of building market knowledge and assessing existence and capacity of the market⁴⁷. When conducting market sounding, the IA shall prepare the Preliminary Information Memorandum (PIM) to input prospective proponents with the overview of the project.

Assessment result – current state

Current employees of DOH has no experiences in PPP, and thus the new PPP Committee needs to acquire skills for market sounding.

As such, the score of the current state is 1.

⁴⁶ NGA PPP Manual Chapter 2.4.1 P28

⁴⁷ NGA PPP Manual Chapter 3.3.1 Box 1.3 P39

Assessment result – previous state

For the MPOC project, the transaction advisor conducted the market sounding with lenders and prospective proponents, confirming the market appetite and availability of long-term funds⁴⁸. However, from the very fact that the MPOC project met with the challenge primarily by a group of POC employees, health workers, and progressive legislators, it is not clear whether the market sounding conducted was successful in addressing the voices from all stakeholders, and to what extent the advices and insights obtained in the course of market sounding were incorporated into the project structure of MPOC.

No related information was obtainable for VSSP.

As such, the score of the previous state is 3.

5.1.8 Study team (within PPP unit)

This topic considers whether financial, legal and technical experts are staffed in the implementing agency to perform/check items 2.1.1 through 1.2.7 above, and assess their experience in their relevant areas of expertise in PPP projects.

The new PPP Committee is staffed with members from Office for Health Operations, Health Facility Developing Bureau, Legal Service, and Financial and Management Services. Moreover, the Committee may invite other bureaus of the DOH, external organizations and individuals per need basis⁴⁹.

Assessment result – current state

Based on the interviews conducted with DOH officials, DOH employees in functions such as legal, technical, procurement management and administration, policy, social marketing, public relations, commercial and business promotion, business process reengineering might possess relevant experiences in their respective fields that could be transferrable to PPP. However, it appears that DOH employees do not possess transferrable skills in such areas as project finance, project management and deal making.

As such, the score of the current state is 2.

Assessment result – previous state

The CEP3H consisted of external and contractual DOH professionals with relevant expertise and utilized help from the PPP Center and external advisors as appropriate. Study team for the MPOC may have been comprehensive and experienced. However, this may not have been the case for VSSPII as the project members were unable to rely on the capacity of external transaction advisor for legal, financial and technical matters.

Moreover, study team could have functioned better toward implementing successful PPP if CEP3H involved organic DOH employees in such areas as legal, technical, social marketing, public relations, commercial and business promotion, business process reengineering, etc., as they might possess relevant experiences in their respective fields that could be transferrable to PPP.

As such, the score of the previous state is 2.

⁴⁸ MPOC Preliminary Feasibility Study Chapter 2.9 P52

⁴⁹ DPO No.2015-0157 Creation of a Public-Private Partnership (PPP)Committee on Health

5.1.9 Project committee (decision making mechanism within the implementing agency)

This topic considers if there exists a body which decides on the advancement to the next phase based on the performances/analyses of 2.1.1 through 1.2.7 above, and this body regularly carries out meetings.

Assessment result – current state

Under the current framework, the new PPP Committee will examine prospective projects and decide to progress the projects or not.

However, the details of the Committee, such as staffing, budget allocation, management, etc. have not been decided yet.

As such, the score of the current state is 1.

Assessment result – previous state

Based on the interviews involving former members of the CEP3H, the previous Secretary of Health along with CEP3H decided whether to advance the project or not. As there were little involvement by the organic DOH employees, decision making mechanisms were not sustainable after the dissolution of the CEP3H.

As such, the score of the previous state is 2.

5.1.10 Employment of external experts

This topic considers whether the implementing agency is proactively studying business prospects in PPP format in view of the items 2.1.1 through 2.1.7, with appropriate external experts.

The PPP Committee can cooperate with external specialists for specialized technical capabilities, such as financial modelling, risk analysis, commercial promotion, business processing, etc., if necessary, and PDMF Guidelines stipulate that consultants should be selected from among the panel of firms, and the Project Study Committee (PSC) shall review TOR for external professionals⁵⁰.

Assessment result – current state

The new PPP Committee has yet to start to actively seek new business prospects in PPP format thus experts have yet to be involved, and it needs guidance in how to involve external experts.

As such, the score of the current state is 1.

Assessment result – previous state

The CEP3H involved external experts as appropriate.

The Draft Pre-Feasibility Report for MPOC included the results of cost benefit analysis, demand forecast, legal review, etc⁵¹, it can be presumed that the CEP3H is capable of selecting experienced advisors. However, the reports such as the Inception Report prepared by the external consultant for the VSSP does not refer to many items touched upon by the MPOC transaction advisor.

As such, the score of the previous state is 3.

⁵⁰ Project Development and Monitoring Facility (PDMF) Guidelines p.7-8

⁵¹ Draft Pre-Feasibility Report for MPOC

5.1.11 Securing accountability and transparency

This topic assesses if past study materials and data have been centrally collected systematically, so that comparisons among different projects are possible, and whether study results (summary thereof) can be publicized as needed.

Assessment result – current state

Past study materials are centrally collected but not sorted systematically.

As such, the score of the current state is 2.

Assessment result – previous state

Past study materials and data were centrally collected at CEP3H. Study results were not made public but the status of each projects was actively publicized.

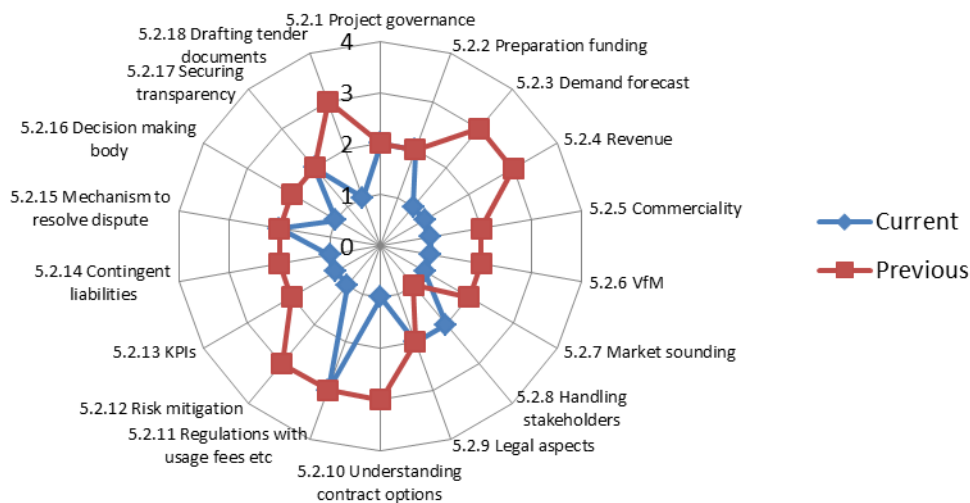
As such, the score of the current state is 3.

5.2 Preparation, Evaluation & Approval

This sub-area considers the IA’s experience in undertaking PPP development processes including project identification, selection and prioritisation.

As below the table below indicates, at previous DOH, CEP3H members possessed basic skills in many areas, however as the CEP3H consisted entirely of in-organic employees of DOH and the interactions between organic DOH employees and CEP3H members were limited, little PPP capacity is left at DOH after dissolution of CEP3H. This resulted in the comparatively lower scorings across most of many of the elements.

Table 5.3 Scores of Preparation, Evaluation & Approval



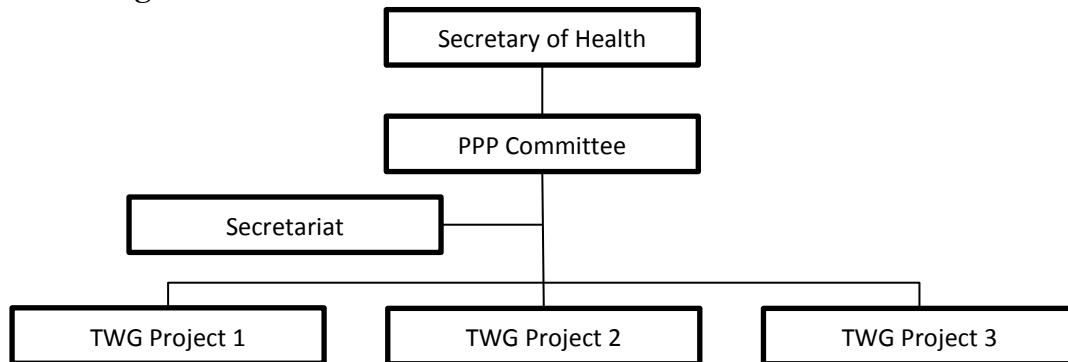
5.2.1 Project governance

This topic considers whether task force team to implement the project has been launched, had regular communication with the related parties, and had a clear decision-making process.

In the DOH policy framework, the new PPP Committee shall organize a Technical Working Group (TWG) to evaluate and develop technical and financial soundness of projects. The TWG validates technical quality of outputs and deliverables of transaction advisors, provides technical advices for the projects, and review documents for NEDA approval⁵².

The TWG involves individuals from the DOH central office, its attached agencies, and other institutions in the Philippine Government, as needed, depending on the project to be developed and the structure in DOH is showed below.

Table 5.4 Organizational Structure of the new DOH Committee



In addition, PDMF Guidelines also define the role of project specific Special Bids and Award Committee (SBAC) and TWG, in post-PDMF approval section⁵³. The SBAC is a party for the selection of consultants and/or transaction advisors for project preparation and its members are representatives from PPP Center and the IA. As for TWG, it will support SBAC in the selection of consultants and transaction advisors, and the members are representatives from PPP Center and the IA, same as SBAC. IA and PPP Center cooperate through SBAC and TWG and select consultants and/or transaction advisors and progress PPP project.

Assessment result – current state

New PPP Committee has yet to reach a stage of creating a task force for a project but is expected to involve more of related parties, especially those from the organic DOH employees, based on the lessons learned from CEP3H that organic employees of the DOH were not involved at DOH and that the PPP related capacity is lost as CEP3H dissolved.

In order to have a functioning PPP unit, it is suggested that DOH have plantilla positions for staff under the PPP unit and not just representatives from different offices.

As such, the score of the current state is 2.

⁵² DPO No.2015-0157 Creation of a Public-Private Partnership (PPP)Committee on Health

⁵³ Project Development And Monitoring Facility (PDMF) Guideline p.10

Assessment result – previous state

The CEP3H formed a task force involving the PPP Center and having worked under DOH Secretary, it had a clear decision structure. However, the other organic DOH employees had little involvement.

As such, the score of the previous state is 2.

5.2.2 Project preparation funding

This topic examines whether the IA ensures it has sufficient resources to prepare a project, through either the PDMF, its own budget, or some other funding source.

From the standpoint of regulation, project preparation funds can be sourced from the DOH budget, PDMF or other donor organizations⁵⁴. If utilizing PDMF fund, the DOH shall attach the following documents in application; (i) project concept note, (ii) indicative Terms of Reference (TOR) including cost estimates, and (iii) letter nominating the IA's representatives to the SBAC, Project Study Committee and Technical Working Group (TWG) established by the PPP center⁵⁵.

Assessment result – current state

Based on the interview with those involved in the formulation of the new PPP committee, the PDMF can be utilized for project preparation of PPP projects, but there is no preferential budget allocation of the DOH.

As such, the score of the current state is 2.

Assessment result – previous state

The DOH was successfully granted PDMF funds from the preliminary feasibility study for the MPOC project and the feasibility study for the VSSP. If the PDMF funds were not available, it is very challenging that the DOH allocates or realigns its own budget to the project preparation fund. Thus, the DOH had few options to attain funds aside from the PDMF or other donors.

As such, the score of the previous state is 2.

5.2.3 Demand forecast

This topic considers whether the IA understands the importance of accurate demand forecasts, and the factors, which influence demand forecasts. It also considers whether the IA provides the required data—including information on past projects—to help transaction advisors generate these demand forecasts, and that it ensures that advisors generate multiple scenarios (optimistic, baseline, pessimistic, and so on).

The PPP Center explains brief methodology of demand forecast in the NGA PPP manual⁵⁶ and the sector guideline refers the criteria of demand assessment⁵⁷. If the DOH does not have sufficient historical data on which to base demand forecasts, the sector

⁵⁴ NGA PPP Manual Chapter 3.2.4 P37

⁵⁵ PDMF Guideline Chapter 3 P7-8

⁵⁶ NGA PPP Manual Volume 1 Chapter 3.7 P48-49

⁵⁷ Health Sector Guideline Chapter 6.2 P26

guideline recommends to develop a payment mechanism based primarily on usage payments, preferably using output-based aid mechanism such as the voucher system⁵⁸.

Assessment result – current state

Current employees of DOH have no experience in PPP, and thus the new PPP committee needs to acquire skills for demand forecast.

As such, the score of the current state is 1.

Assessment result – previous state

For the MPOC project, the transaction advisor conducted the detailed demand analysis with the components of trends and patterns, POC services, supply analysis and modified projected demand for new facility⁵⁹. The revenue scenarios are in accordance with the ICC guideline and the transaction advisor seemed to have sufficient expertise to conduct decent demand forecast⁶⁰. On the other hand, the transaction advisor for the VSSP limited the scope of the demand analysis with the terms of only three historical years and two projected years with the single scenario. This outcome of the demand forecast for the VSSP is perhaps resulted due to the insufficiency of the relevant datasets⁶¹.

As such, the score of the previous state is 3.

5.2.4 Revenue (income source of private sector)

This topic examines whether the IA understands the need to provide the private sector operator with a reliable and sufficient source of revenue and the options for doing so—these options being government payments (such as availability payments, or shadow tariffs), user fees, and supplementary commercial revenue.

The PPP Manual emphasizes that the analysis of income and revenue streams is especially important when the objective of the project is to target lower income households who may not be able to avail of the service at the projected unit cost⁶². In this context, one of the major objectives of the DOH hospitals is to reach out medical services to the lower income households and health PPP projects shall be carefully analysed with the probability of drawing revenue. In terms of legality of the medical revenue, each DOH hospital is available to determine prices of their medical services at their discretion and the public doctors are able to provide medical services to the private patients⁶³, meaning that the DOH hospitals can secure multiple revenue streams.

Assessment result – current state

Current employees of DOH has no experiences in PPP, and thus the new PPP Committee needs to acquire knowledge on the PPP options to compensate private sector operator with a reliable and sufficient source of revenue.

As such, the score of the current state is 1.

⁵⁸ Health Sector Guideline Chapter 9.3.67 P43

⁵⁹ MPOC Feasibility Study 6.3 P99

⁶⁰ MPOC Feasibility Study 8.2 P205

⁶¹ Consulting Services Report for the VSSP P6-7 and P33

⁶² NGA PPP Manual Volume 1 Chapter 3.7 P50

⁶³ Meeting Note with NKTI

Assessment result – previous state

For the MPOC project, the transaction advisor conducted the detailed revenue analysis with the assumptions of core revenues, supportive revenues such as canteen and affiliation fee and cash support in the initial five years⁶⁴. For the VSSP, the analysis is only scoped with the core business, the vaccine provision without sensitivity test⁶⁵.

As such, the score of the previous state is 3.

5.2.5 Commerciality

This topic assesses whether the IA understands PPP projects from the perspective of the private sector. That is, they understand the conditions under which a PPP project will be commercially viable and bankable. It also considers whether the IA has used measures in the past to improve the attractiveness of a project to the private sector—such as in-kind contributions, guarantees, and other risk sharing mechanisms.

The brief components of financial model are mentioned in the NGA PPP manual and the manual requires maintaining NPV greater than zero and FIRR greater than WACC to comply the ICC guideline⁶⁶. The manual suggests attaining government support in any form if the commerciality is not sufficient as a result of financial analysis⁶⁷. The sector guideline explains the availability of government support⁶⁸. The availability payment was mentioned as the last resort of options for the DOH.

Assessment result – current state

The new PPP Committee needs to acquire financial analysis skills and start archiving operational as well as financial datasets for future projects and for benchmarking, particularly project finance skills which is distinctly different.

As such, the score of the current state is 1.

Assessment result – previous state

For the MPOC project, the commerciality of the project was carefully analysed with multiple scenarios that follow the requirements of the ICC Guideline⁶⁹. In the feasibility study, the government support is also recommended to inject the O&M cash support as a result of the financial analysis. For the VSSP, the transaction advisor provided the simple financial analysis, but did not confirm the stress case scenarios with sensitivity tests.

As such, the score of the previous state is 2.

5.2.6 VfM Analysis

This topic considers whether the IA understands how to determine if PPP procurement will deliver VfM. It also identifies whether the IA has historical data on project outcomes—under PPP and traditional procurement—from which they can calculate any

⁶⁴ MPOC Feasibility Study 8.1.4 P198

⁶⁵ Consulting Services Report for the VSSP

⁶⁶ NGA PPP Manual Volume 1 Chapter 3.8 P51-60

⁶⁷ NGA PPP Manual Volume 1 Chapter 3.13 75-78

⁶⁸ Health Sector Guideline P13, 44

⁶⁹ MPOC Feasibility Study Chapter 8.1 P184

private sector efficiencies. Such data is essential to the construction of a Public Sector Comparator (PSC).

The NGA PPP manual provides the detailed definition of VfM and requires positive VfM in order to proceed to further steps in implementing the project as a PPP project⁷⁰.

Assessment result – current state

Current employees of DOH has no experiences in PPP, and thus the new PPP Committee needs to acquire skills for VfM analysis and start collecting data for PSC through the analysis of private sector data or inquiries with them.

As such, the score of the current state is 1.

Assessment result – previous state

For the MPOC project, the transaction advisor provided the detailed VfM analysis with the components of the PSC including the raw PSC, competitive, transferable risk and retained risk and PPP mode as defined in the NGA PPP manual, resulting in the positive VfM⁷¹. Yet, it seemed that the transaction advisor struggled to provide the accurate VfM analysis because of the absence of the past track records. For the VSSP, the transaction advisor seemed to be unfamiliar with the VfM analysis as evidenced in the inaccurate components of the analysis which was not in line with the NGA PPP manual⁷².

As such, the score of the previous state is 2.

5.2.7 Market sounding

This topic identifies whether the IA or the public sector in general has networks with domestic and overseas private sector infrastructure investors and operators. Such networks are essential for measuring private sector interest in potential PPP projects.

As embedded in the NGA PPP manual, market sounding is obligated in the project preparation phase including project selection phase and due diligence phase⁷³. At project selection phase, the objective of the market sounding is to build market knowledge, capacity of the market and identify aspects that should be embedded to the project to make it appealing to the private sector. At the due diligence phase, the purpose is to obtain feedback on various technical and financial aspects of the transaction.

Assessment result – current state

Based on the interview with the person involved in the formulation of the new PPP committee, the new PPP Committee needs to acquire skills for market sounding.

As such, the score of the current state is 1.

Assessment result – previous state

For the MPOC project, the transaction advisor conducted market sounding through periodic dialogue including the one on one interaction with prospective bidders and lenders⁷⁴. The market sounding is specifically focused on the availability of the long-term funding with the lenders. However, from the very fact that the MPOC project met with the project met with the challenge primarily by a group of POC employees, health

⁷⁰ NGA PPP Manual P64

⁷¹ MPOC Feasibility Study 8.4 P213

⁷² Consulting Services Report for the VSSP Chapter 6.5.2 P107

⁷³ NGA PPP Manual Chapter 3.3.1 P39, and Chapter 3.1.4 P79-80

⁷⁴ MPOC Feasibility Study Chapter 6.6 P131

workers, and progressive legislators, it is not clear whether the market sounding conducted was successful in addressing the voices from all of the concerned stakeholders, and to what extent the advices and insights obtained in the course of market sounding were incorporated into the project structure of MPOC.

Market sounding was likewise done for the VSSP, but was done rather informally and individually during the early stages of project development. Overall, the CEP3H could perform the market sounding with the support and network of the transaction advisor.

As such, the score of the current state is 2.

5.2.8 Handling Stakeholders

This topic assesses whether the IA has mechanisms and processes in place to communicate with relevant stakeholders about PPP projects and their potential impact. The Expert Team deems that IAs should precisely identify the project stakeholders and map out their issues and concerns through periodic dialogue so that the IAs can ease potential disputes beforehand to ensure the project development.

At the project preparation phase, the NGA PPP manual stipulates to conduct the Social and Gender Impact Analysis for the affected persons as required by the Indigenous Peoples Rights Act and Bill of Rights of the Constitution that states the private property shall not be taken for public use without just compensation⁷⁵. In addition to the Social and Gender Impact Analysis, the manual requires IAs to implement stakeholder consultation from the initial stage of the project development to acquire the strong stakeholder support⁷⁶.

Assessment result – current state

Based on the lessons learned from MPOC project, the DOH may now be able to better identify and handle stakeholders. Yet, the DOH has never experienced in the stakeholder consultation and management in PPP setting

As such, the score of the current state is 2.

Assessment result – previous state

Though the feasibility study for MPOC identified relevant stakeholders (patients, doctors, DOH employee and DOH) concluding that they would all benefit from PPP transaction, communications with relevant stakeholders may have not been sufficient and it ended up meeting with the challenge by the a group of indigent patients, POC employees, health professionals, concerned citizens and progressive legislators.

As such, the score of the previous state is 1.

5.2.9 Understanding the legal aspects

This topic measures if all legal requirements that could affect project implementation have been analyzed, the project can legally be pursued in PPP format with no or solvable issue, and public sector has experiences in this kind of legal, and has not experienced project delays due to legal issues that has surfaced in the course of legal requirement analysis.

⁷⁵ NGA PPP Manual 3.6 P46-48

⁷⁶ NGA PPP Manual Chapter 2.3.1 P

Assessment result – current state

The PPP Committee involves Legal Service of DOH and it is expected that they will be able to arrange regulation on PPP in health sector⁷⁷.

Though the DOH legal department had little involvement to the originations of past PPP project, in house legal experts from Legal Service have started to identify legal requirements in relation to MPOC case, and as such they appear to be familiar with the legal aspects of PPP.

As such, the score of the current state is 2.

Assessment result – previous state

The PPP Center looked after the legal part because legal specialists were not in CEP3H. In the Draft Pre-Feasibility Report for MPOC project, the transaction advisors thoroughly identified the legal requirements⁷⁸. However, little was done by the external experts in project development for the VSSP.

As such, the score of the previous state is 2.

5.2.10 Understanding of various contract options

This topic considers if various options such as a pure public sector project, outsourcing of operation and maintenance, management contract, PFI and DB have been listed as a possible and alternative model, and the circumstances that warrant the adoption of a particular model have been clearly stipulated.

Assessment result – current state

Currently DOH officers have little experience in PPP and various PPP options need to be understood.

As such, the score of the current state is 1.

Assessment result – previous state

For potential PPP projects, CEP3H examined many types of projects including lease agreement and service management contract, although most of them saw procurements under RA9184 or the standard Philippine government procurement law ⁷⁹.

In both MPOC and VSSP various PPP options have been analyzed.

As such, the score of the previous state is 3.

5.2.11 Regulations surrounding usage fees and incentives for the private sector

This topic assesses if appropriate mechanism is set in place so that user charge level reflects cost of service incurred, and this mechanism can be applied even when operated by a private sector operator. Also, whether incentives are set in place so as to encourage private sector participations is considered.

⁷⁷ DPO No.2015-0157 Creation of a Public-Private Partnership (PPP) Committee on Health

⁷⁸ Draft Pre-Feasibility report for MPOC p.41-

⁷⁹ CEP3H project status report (As of 2nd quarter 2014)

Assessment result – current state

The Sector Guidelines for Health describes application of user charges and payment mechanism⁸⁰. Among five health project types, referral/tertiary care hospital, satellite primary healthcare clinic to the referral hospital, maternal care and birthing centers, pharmacy, and specialized treatment facility, only pharmacy and the specialized treatment facility may be able to transfer its demand risk through user fee. Thus, to a certain extent, mechanisms are set in place to adjust fee levels to reflect costs of services.

Incentives to encourage private sector participations can be considered on a per project basis.

As such, the score of the current state is 3.

Assessment result – previous state

Same observation as above.

5.2.12 Risk allocation and mitigation

This topic looks at whether the IA understands the possible project risks and if they archive past risk allocation and mitigation information and analysis from similar projects in the past.

The NGA PPP manual requires IAs to identify risk allocation between the private and public entities and mitigation measures⁸¹. The PPP manual also recommends confirming the feedbacks of private entities on inherent risks and risk mitigations in the pursuit of improving project viability.

Assessment result – current state

Current employees of DOH has no experiences in PPP, and thus new PPP Committee needs to acquire skills to analyse the project risk and related mitigation measures.

As such, the score of the current state is 1.

Assessment result – previous state

For the MPOC project, the transaction advisor discussed the risk allocation and mitigation measures with detailed economic analysis on multiple scenarios⁸² whereas the same have not been done for the VSSP project.

As such, the score of the previous state is 3.

5.2.13 Key Performance Indicators

This area determines whether the IA understands the importance of Key Performance Indicators (KPIs). In particular, it assesses if they have obtained KPI information from existing public services, if they periodically assess and amend KPIs of existing public services and then are capable of evaluating KPIs of specific PPP projects based on sector wide KPIs.

⁸⁰ Sector Guidelines Health p.42-

⁸¹ NGA PPP Manual Volume 1 Chapter 3.11 P68

⁸² MPOC Feasibility Study Chapter 9 P271-273

The NGA PPP manual requires IAs to design the output requirements, or Minimum Performance Standards and Specifications (MPSS) in the technical analysis⁸³. The sector guideline requires preparing the MPSS that must be aligned with the DOH needs⁸⁴.

Assessment result – current state

Current employees of DOH has no experiences in PPP, and thus the new PPP Committee needs to acquire skills to design the KPIs.

As such, the score of the current state is 1.

Assessment result – previous state

For the MPOC project, the DOH prepared the MPSS for the construction, equipment and O&M as set forth in the bidding documents⁸⁵. These documents are complied with the relevant manuals and guidelines, reflecting the needs of the DOH. In the bidding documents, there are also critical KPIs stipulated in the bidding documents to secure the expected standard of services such as surgery mortality rate and surgical site infection rate⁸⁶. For the VSSP, there is no specific description about the KPIs in the feasibility study.

As such, the score of the previous state is 2

5.2.14 Understanding contingent liabilities

This topic considers whether the IA has identified the contingent liabilities and risks that could arise in the long run and whether possible actions have been considered to address these issues have been incorporated as an “intervention” option in the PPP contract.

As pointed out in the section 5.2.12, the NGA PPP manual obliges IAs to identify the project risks including the recognition of the contingent liability. In line with that, the Manual requires to consider the introduction of incentive mechanism or government support if the private entity is not available to undertake the high project risk with the low commercial viability⁸⁷.

Assessment result – current state

Current employees of DOH has no experiences in PPP, and thus the new PPP Committee needs to acquire skills to identify the contingent liabilities and risks.

As such, the score of the current state is 1.

Assessment result – previous state

For the MPOC project, the transaction advisor conducted the risk analysis and risk mitigation measures including the government support, but did not mention about the intervention options in the PPP contract as it is generally arranged through contract negotiation at the later phase. As for the VSSP, the transaction advisor failed to provide the concrete risk analysis.

⁸³ NGA PPP Manual Volume 1 Chapter 3.3.1 P37

⁸⁴ Health Sector Guideline Chapter 7.1 P36-39

⁸⁵ MPOC Bid Documents Volume III Annexes to Draft BOT Agreement

⁸⁶ MPOC Bid Documents Volume III Annexes to Draft BOT Agreement Annex O Critical KPIs

⁸⁷ NGA PPP Manual Chapter 3.1.2 P71-81

As such, the score of the previous state is 2.

5.2.15 Dispute resolution mechanism

This topic assesses if the third party institution is to intervene when dispute between public sector and private sector arises, and fairness has been warranted.

Assessment result – current state

As legal framework, Philippine has ratified United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Award which stipulates dispute resolution in a third country⁸⁸. However, no record has been found that indicates DOH or CEP3H had thorough considerations toward dispute resolution processes in PPP setting – e.g., at what stage and how a third party should intervene .

As such, the score of the current state is 2.

Assessment result – previous state

Same as above.

5.2.16 Decision Making Body

This topic considers if there exists a body (such as a committee) that decides on the advancement to the next phase based on the analyses of 2.2.1 through 2.2.15 above, and this body regularly carries out meetings. The partnership with other stakeholders such as the PPP Center will be assessed as well.

Assessment result – current state

The PPP Committee is the decision making body. PPP Committee shall represent the DOH in official functions or transactions, manage PPP projects, including oversight of identification, selection, conceptual feasibility analysis, make recommendation for consideration of the Secretary, and contribute to the procurement process.⁸⁹ The Committee is expected to work with PPP Center, other public institutions, external professionals, etc.

Although the framework of decision making process has been stipulated as above, details of the current PPP Committee’s structure and functions have not been decided yet.

As such, the score of the current state is 1.

Assessment result – previous state

CEP3H along with the Secretary of Health decided whether to advance a project. However it may not have represented the voices of other DOH offices as there were little interactions between CEP3H and organic employees of DOH.

As such, the score of the previous state is 2.

⁸⁸ United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Award

⁸⁹ DPO No.2015-0157 Creation of a Public-Private Partnership (PPP) Committee on Health (VI-B)

5.2.17 Securing accountability and transparency

This topic assessed if past study materials and data have been centrally collected systematically, so that comparisons among different projects are possible. Also, study results (summary thereof) can be publicized as needed is considered.

Assessment result – current state

Past study materials are centrally collected but not sorted systematically.

As such, the score of the current state is 2.

Assessment result – previous state

Past study materials and data were centrally collected at CEP3H (these documents are archived at DOH premise.) CEP3H publicized PPP project in progress and bid information on web. However, study results were not made public.

As such, the score of the previous state is 2.

5.2.18 Drafting tender documents

This topic assesses whether the IA properly prepares the tender documents that reflects the purpose and objectives of IA's policy as the results of considerations of 2.2.1 to 2.2.15. The JICA Expert Team considers that tender documents shall be prepared to be consistent with the IA's policy and reflects the outcomes of the feasibility study.

The relevant guidelines and manuals do not expect IA to prepare the tender documents prior to the ICC approval, but it is often practiced overseas that the Terms of Reference (TOR) and other tender documents are attached in the feasibility study so that the IA and other government agencies can elaborate their requirements on the tender process.

Assessment result-current state

Current employees of DOH has no experiences in PPP, and thus the new_PPP Committee needs to acquire the skills to prepare the tender documents.

As such, the score of the current state is 1.

Assessment result – previous state

For the MPOC project, the transaction advisor presented the draft term sheet with the selection criteria that reflected the considerations of substantially all items from 2.2.1 to 2.2.15⁹⁰. However, it is unclear if the involvements by CEP3H in preparing tender documents were extensive. As for the VSSP, the transaction advisor did not provide any relevant information. This is because the project did not go past NEDA Board approval and as such, tender documents were not finalized and utilized.

As such, the score of the previous state is 3.

5.3 Tendering and Negotiation

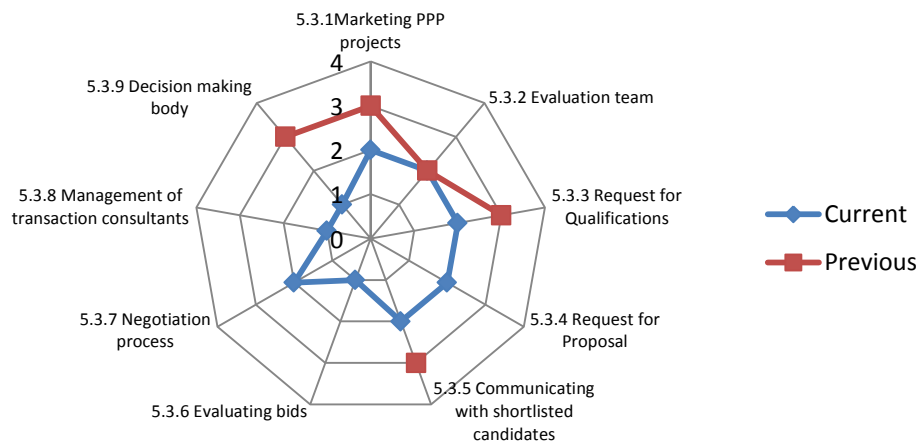
This sub-area considers the IA's experience in undertaking tendering and negotiation processes in the PPP cycle from marketing the project and tendering request for proposal to evaluating bids and to negotiating.

⁹⁰ MPOC Feasibility Study Annexures 12.1 P335-354

Though current members of DOH have little experience in PPP, transferrable skills that can be applied to the forthcoming PPP project may exist, and these skills may be found in the functions such as social marketing, public relation, legal, technical, procurement management and administration, commercial and business promotion, and business process engineering. These functions might have much to contribute in marketing of PPP, evaluating proposals upon tender, drafting tender document, and so on. However, they may need to acquire skills for project finance type financial modelling and PPP specific risk analysis in order to equip the holistic capacity in relation to tendering and negotiation.

It might be noted that the scoring is left blank to the extent sufficient information to allow for the scoring was not obtainable for a given element – “5.3.6 Evaluating Bid” for the previous DOH, for instance.

Table 5.5 Scores for Tendering and Negotiation



5.3.1 Marketing the PPP Project

This topic looks at whether the IA markets PPP projects for tendering by publishing information which can easily be accessible or through media promotions and presentations.

Under the BOT law, all agencies and LGUs shall provide their respective list of priority projects to be published at least once every six months in a newspaper and the website of the PPP center if available⁹¹. The publication of invitation to pre-qualification and bid for a particular project should be conducted if the terms and conditions are approved⁹².

Assessment result – current state

The new PPP unit has no experience in marketing PPP projects. However, social marketing/public relations function exists in the DOH and thus some capabilities if not full capabilities can be developed.

As such, the score of the current state is 2.

Assessment result – previous state

⁹¹ Amended BOT law Section 2.4 P24

⁹² (BOT law Section 5.2 P33)

Project information for MPOC was listed in the website of the PPP center. In addition, the publication of bidding process was disclosed at two national newspapers in accordance with the BOT law⁹³. However, detailed study results have not been publicized to date. In terms of the dialogue with potential investors, pre-bid conference was held with the attendances of nine prospective bidders⁹⁴.

As such, the score of the previous state is 3.

5.3.2 Establishment of an evaluation team

This topic considers whether the IA has established a committee to evaluate proposals submitted by prospective operators. In particular, it assesses if the committee consists of PPP specialist, financial, legal and technical experts in the relevant field, thus warranting fair evaluation process.

At the procurement stage of the PPP project, the PBAC is the responsible party to oversee all aspects of the pre-bidding and bidding process including that of the Swiss challenge process for unsolicited projects⁹⁵. The IAs shall appoint PBAC members with knowledgeable persons of procurement procedures and mix specialists of key stakeholders⁹⁶. The BOT law is stipulated to appoint the appropriate composition of the PBAC with the legal officer and other relevant expertise⁹⁷.

Assessment result – current state

Based on the interviews conducted with DOH officials, DOH employees in functions such as legal, technical, procurement management and administration, policy, social marketing, public relations, commercial and business promotion, business process reengineering might possess relevant experiences in their respective fields that could be transferrable to PPP. However, it appears that DOH employees do not possess transferrable skills in such areas as project finance type financial modelling and PPP specific risk analysis. Thus, DOH will be able to evaluate PPP proposals to a certain extent.

As such, the score of the current state is 2.

Assessment result – previous state

For the MPOC project, the PBAC members were comprised of appropriate persons including those from CEP3H and undersecretary of Health⁹⁸. However, the involvement by organic DOH employees with expertise in such areas as social marketing and public relation, technical and legal etc., were limited.

As such, the score of the previous state is 2.

⁹³ MPOC PBAC Resolution No.2012-004

⁹⁴ MPOC PBAC Resolution No.2013-006

⁹⁵ NGA PPP Manual Volume 2 Chapter 4.4 P5

⁹⁶ NGA PPP Manual Volume 2 Chapter 8.2.3 P45

⁹⁷ BOT Law Section 3.1 P7-8

⁹⁸ MPOC PBAC resolution No.007 P2

5.3.3 Request for qualifications

This topic looks at whether IA establishes adequate technical, legal and financial criteria for evaluating qualifying potential bidders that enable the PPP to reach its full potential and does not favour particular operators.

The BOT law stipulates the objective of the financial criteria⁹⁹, but not for the technical criteria. Qualification requirements shall be embedded in the instructions to bidders¹⁰⁰.

Assessment result – current state

Based on the interviews conducted with DOH officials, DOH employees in legal and technical functions may have at least some, if not all, technical and legal capacities to draft relevant sections in the request for qualification. However but may struggle in drafting finance section.

As such, the score of the current state is 2.

Assessment result – previous state

For the MPOC project, the PBAC stipulated the clear criteria in the documents of instruction to the bidders, announcing the requests for pre-qualification to all potential investors through local and international publications in line with the provisions as set forth in the BOT law. In the bidding documents, there are eligibility criteria for a construction contractor and a hospital operator to secure the qualified proponents¹⁰¹.

As such, the score of the previous state is 3.

5.3.4 Request for proposal

This topic looks at whether the IA establishes a request for proposal (RFP) which details the business structure of the PPP project, the details of requirements (legal, technical and financial) and procurement process, draft of the contract and that the RFP clarifies the roles of the private and public sector.

In the RFP process, IA is expected to present the project description, risk allocation arrangements and other details of requirements in the Information Memorandum although there is no standard format¹⁰².

Assessment result – current state

Based on the interview with the person involved in the formulation of the new PPP committee, such capabilities as legal and technical exists within DOH and with the assistances from PPP Center and external advisors the DOH will be able to cover the expertise. Yet, it currently lacks in the experiences of drafting the RFP for PPP project.

As such, the score of the current state is 2

Assessment result – previous state

For the MPOC project, it is likely that the PBAC prepared the requisite bidding documents in accordance with the BOT law with the assistance of PPP Center and external advisors, but no pertinent documents were found.

⁹⁹ BOT Law Section 4.2 P9-10

¹⁰⁰ NGA PPP Manual Volume 2 Chapter 4.5 P6

¹⁰¹ BOT Agreement Annex J and Annex L

¹⁰² NGA PPP Manual Volume 2 Chapter 4.5 P6

As such, there may be insufficient information to allow the scoring of the previous state.

5.3.5 Communicating with short-listed candidates

The topic considers whether the IA has clearly stated in the tender documents how and when they will communicate with prospective candidates such as having Q&A sessions.

The NGA PPP Manual stipulates that pre-bid conference shall be conducted thirty (30) working days after the simultaneous issuance of the comparative proposal documents to all bidders¹⁰³.

Assessment result – current state

The existing BAC that handles government-funded procurement activities in the DOH, may be able to apply its skills it has accumulated through normal procurements and draft tender documents. Yet, the current BAC has no experiences in communicating with short-listed candidates under PPP setting.

As such, the score of the current state is 2.

Assessment result – previous state

For the MPOC project, pre-bid conference was held to provide an opportunity to raise clarifications on the RFP documents¹⁰⁴ and the PBAC also had one-on-one meetings for the prospective bidders. In addition, the PBAC issued bid bulletins to announce material bidding information to the prospective bidders such as schedule changes.

As such, the score of the previous state is 3.

5.3.6 Evaluating bids

This topic considers whether the IA has established a fair and transparent evaluation process where bids are evaluated against predetermined criteria.

As described in the health sector guideline, IAs shall finalize and stipulate the MPSS before the bidding stage. Once the MPSS is sufficiently developed, the PBAC needs to determine the technical evaluation criteria based on the MPSS¹⁰⁵. Also, the hospital risk management shall be a component in the evaluation of the PPP project¹⁰⁶.

Assessment result – current state

Current DOH members have little experience in actual PPP and thus may need to solidify evaluation and authorization processes in preparation of actual PPP. However, at least some if not all technical and legal capacities to draft request for qualification exists except for project finance.

As such, the score of the current state is 1.

Assessment result – previous state

No information on the evaluation process for MPOC project has been obtained.

As such, there may be insufficient information to allow the scoring of the previous state.

¹⁰³ NGA PPP Manual Volume 2 Chapter 8.2.8 P47

¹⁰⁴ MPOC PBAC Resolution Bid Bulletin No.5

¹⁰⁵ Health Sector Guideline Chapter 7.1 P36

¹⁰⁶ Health Sector Guideline Chapter2 P12

5.3.7 Negotiation process

This topic looks at whether the IA has established a contract negotiation team to finalize the PPP contract granted. It also looks at whether a basic strategy for negotiating has been prepared and authorized within the IA.

At the procurement stage of the PPP project, the PBAC is responsible for overseeing all aspects of the pre-bidding and bidding process including that of the Swiss challenge process for unsolicited projects and in this regard, the PBAC is the responsible entity to proceed contract negotiation with the prospective bidder. The NGA PPP manual requires focusing on the project scope, implementation arrangements, reasonable rate of return and other parameters determined by ICC, and the terms and conditions of the draft contract¹⁰⁷. When conducting contract negotiation, the Health Sector guideline suggests preparing the negotiation plan, a list of non-negotiable and negotiable items¹⁰⁸.

Assessment result – current state

DOH's in-house lawyers may have capacity to formulate negotiation strategies and actually negotiate the PPP terms. Yet, the DOH has no experience in the negotiation process in PPP project.

As such, the score of the current state is 2.

Assessment result – previous state

No information was available as to the formation of contract negotiation team nor who was granted the authority to negotiate. CEP3H did draft PPP agreement which presumably reflects DOH's negotiation strategy but no detailed information on the negotiation strategy was not obtainable.

As such, there may be insufficient information to allow the scoring of the previous state.

5.3.8 Management of transaction consultants

This topic assesses whether the IA is capable of managing the external consultants who develop the PPP project, market it to the private sector, and oversee the transaction.

Assessment result – current state

Based on the interview with the person involved in the formulation of the new PPP Committee, the current members of DOH have little exposure to PPP.

As such, the score of the current state is 1.

Assessment result – previous state

For the MPOC project, the PBAC was the responsible party to oversee the project development works including the utilization of external advisors but insufficient information is available to enable the assessment element.

As such, there may be insufficient information to allow the scoring of the previous state.

¹⁰⁷ NGA PPP Manual Volume 2 Chapter 8.2.3 P44

¹⁰⁸ Health Sector Guideline 10.1.2.2 P50

5.3.9 Decision making body within the IA

This topic looks at whether a decision body, such as a committee, is established within the IA that oversees the development and tendering of the project before moving onto the next phase - implementation, operation and handover.

Within three (3) calendar days from the date the financial evaluation is completed, the PBAC will submit to the Head of the IA a recommendation of award. The PBAC will prepare and submit a detailed evaluation/assessment report on its decision regarding the evaluation of the bids and explain in clear terms the basis of its recommendations¹⁰⁹.

Assessment result – current state

Based on the interview with the person involved in the formulation of the new PPP committee, the said body can presumably be established in due course ahead of launching an actual PPP project. Yet, current employees of DOH has no experiences in PPP.

As such, the score of the current state is 1.

Assessment result – previous state

For MPOC project, the PBAC was the responsible party to oversee the project development though detailed information on PBAC was available. However, the how PBAC functioned is not clear as the membes involved in PPP projects are no longer with DOH.

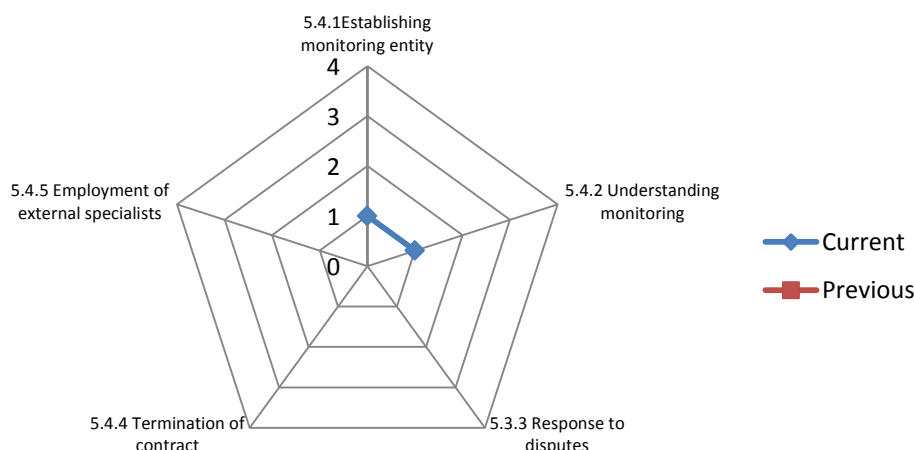
As such, the score of the previous state is 3.

5.4 Implementation, Monitoring and Handover

This sub-area considers the IA’s experience in implementation, monitoring and handover in the PPP cycle.

The DOH has never executed PPP projects even under the CEP3H, and thus for most assessment element, sufficient information to allow for the scoring is not available, and if the information was deemed sufficient, scoring is not high.

Table 5.6 Scores for the Implementation, Monitoring and Handover



¹⁰⁹ NGA PPP Manual Volume 2 Chapter 7.1 P37 and NGA PPP Manual Volume 3 10.3.1 P4

5.4.1 Establishment of monitoring entity

This topic assesses whether the IA has established an internal monitoring team which prepares monitoring guidelines and KPIs for monitoring based on agreements between the private sector proponent and the IA.

As set forth in the NGA PPP manual, it is stipulated that the DOH needs to form contract management team once the project is awarded. The scope of the management includes administration throughout whole project period including construction, operation and maintenance phase¹¹⁰. The Contract Management Committee shall draft the contract administration manual, organizing all the necessary information including the timelines, responsibilities of involved parties and required tasks and the manual should be drafted before the financial close¹¹¹.

Assessment result – current state

DOH currently has limited exposure to PPP project and thus it may have limited capacity to draft contract administration manual, organize all the necessary information including the timelines, responsibilities of involved parties.

As such, the score of the current state is 1.

Assessment result – previous state

The DOH has never executed the PPP projects under the CEP3H and has never established the monitoring entity.

As such, there may be insufficient information to allow the scoring of the previous state.

5.4.2 Undertaking monitoring

This topic considers whether the IA has defined tasks and deadlines which need to be monitored. It also assesses whether the KPIs are regularly monitored and guidance is provided to the private sector proponent when needed.

As per NGA PPP Manual, the Contract Management Committee will undertake the necessary monitoring and evaluation activities as part of its contract management activities and report to the Project Steering Committee. The Contract Management Committee is composed of the IA, the PPP Center, oversight agencies such as DOF and other agencies that may be deemed¹¹². The major monitoring activities will be overseeing the MPSS and financial model projections and others¹¹³.

Assessment result – current state

DOH currently has limited exposure to PPP project and thus it may have limited capacity to advise on monitoring through KPIs and provide guidance to the private sector when needed.

¹¹⁰ Health Sector Guideline Chapter 10.2 P51

¹¹¹ NGA PPP Manual Chapter 10.3.4 P8

¹¹² NGA PPP Manual Volume 3 Chapter 11.2 P12

¹¹³ MGA PPP Manual Volume 3 Chapter 11.3.5 P26

As such, the score of the current state is 1.

Assessment result – previous state

The DOH had never executed the PPP projects under the CEP3H and had never undertaken project monitoring.

As such, there may be insufficient information to allow the scoring of the previous state.

5.4.3 Response to contingencies and disputes

This topic looks at how the IA will respond to circumstances, not discussed at the time of the contract, arise.

Per NGA PPP manual, the Contract Management Committee is the responsible+ party that should prevent disputes and, if they arise, explore ways to minimize serious impacts on the project to the contract. A first priority is to avoid resorting to arbitration or litigation¹¹⁴.

Assessment result – current state

For the MPOC project, the BOT agreement stipulates to settle the dispute resolutions in each project phases¹¹⁵. For the construction dispute, it shall be referred to and settled through arbitration by the Construction Industry Arbitration Commission. For the rest of the disputes, these shall be referred and settled through the International Chamber of Commerce with the legal seat and venue at Singapore. Based on the interview with the person involved in the formulation of the new PPP committee, the legal division is understood to be involved in re-negotiation or disputes with the private sector operator for the MPOC project as directed by Secretary Garin, but the detail is not known at this time.

As such, there may be insufficient information to allow the scoring of the current state.

Assessment result – previous state

The DOH had never executed the PPP projects under the CEP3H and had never undertaken dispute resolution.

As such, there may be insufficient information to allow the scoring of the previous state.

5.4.4 Termination of contract

This topic considers whether the IA is capable of terminating a project in accordance with the contract. In addition, it assesses the IA's capability in providing payment to the private sector proponent based on the calculation agreed on by both the private and public sector.

The Contract Management Committee should properly calculate the termination payments to the contractor¹¹⁶.

¹¹⁴ NGA PPP Manual Volume 3 Chapter 10.3.2 P7

¹¹⁵ BOT Agreement Section 31 P79

¹¹⁶ NGA PPP Manual Volume 3 Chapter 11.3.6 P29

Assessment result – current state

Based on the interview with the person involved in the formulation of the new PPP committee, the DOH will be obligated to conduct all duties including termination payments as set forth in the PPP contract. It is said that the legal division will be responsible as directed by Secretary Garin, but the detail is not clear

As such, there may be insufficient information to allow the scoring of the current state.

Assessment result – previous state

The DOH had never executed the PPP projects and had never experienced calculation of termination payment under the CEP3H.

As such, there may be insufficient information to allow the scoring of the previous state.

5.4.5 Employment of external specialists and organization

This topic looks at whether the IA hires external specialists to help prepare the project, select the private sector proponent and help in the monitoring process.

Assessment result – current state

Based on the interview with persons involved in the formulation of the new PPP committee, the DOH currently has limited exposure to PPP project and no experience in an active PPP thus the capacity is not known at this time.

As such, there may be insufficient information to allow the scoring of the current state.

Assessment result – previous state

The DOH had never executed the PPP projects under CEP3H and thus had never undertaken monitoring

As such, there may be insufficient information to allow the scoring of the previous state.

6 Challenges Identified and Possible Solutions

In this section, we have identified the challenges DOH is facing for most of the items with low scorings, and for each of the identified challenge, we have provided the possible solutions to overcome the challenge.

The content of this section does not necessarily mean that all of the identified challenges and related solutions listed herein are to be addressed in the forthcoming capacity development: some of the challenges may be need to be addressed sooner than the others and some may not be realistically addressable in the course of this capacity development program.

The content of this section is to be discussed among PPP Center, JICA, JICA Expert Team and DOH, and the concerned institutions may reach agreements as to the “high-level work plans”, after considering, among others, the following 4 items:

- Priority challenges: which challenges need to be overcome with priority?
- Support form: what form of support will be most effective to overcome priority challenges? Will it be in the form of 1) hands-on support, 2) event (such as seminar, training), 3) document (e.g., document on the suggested areas in hospital operations suitable to employ PPP modality –i.e., likely segments of PPP in health)
- Support initiative: who – PPP Center, JICA, external consultants, etc. – will support DOH for each of the identified priority challenges?
- Support span: should the support be provided in short-term (to 2016), mid-term (to mid-2017) or long-term?

Such high-level work-plans, may look something like below ¹¹⁷. To ensure implementation, specific and detailed plans with milestones for each of the high-level work plan may further need to be fleshed out.

It should be noted that PPP Center, as the lead agency under which this technical cooperative programme was put together and formalized, is to ensure that DOH's PPP initiative and capacity building requirements are aligned with the PPP Center's objectives and its existing interventions – e.g. training, technical assistance, project development, monitoring, etc.

Short-term High-Level Work Plan (to 2016)

Identify likely segments of PPP being mindful of current DOH situation to expand new PPP horizon

- End goal: DOH identifies likely segments of PPP
- Proposed steps:
 - Analyse the operations and financials of “typical” DOH hospitals to identify likely segments of PPP
 - Determine and understand the issues of DOH by conducting interviews, workshops. Issues may surround the attributes of PPPs – i.e., funding and room for further efficiencies and innovations
 - Conduct “market sounding” of private hospitals to identify areas of their

¹¹⁷ These are presented here just for illustrative purpose

interest, and operational and financial benchmarks they look into

- Conduct preliminary stakeholder analysis in light of what has happened to MPOC project
- Supports mainly provided by: JICA

Mid-term High-level Work Plan (to mid-2017)

Create sustainably functioning PPP unit through “on-the-job” trainings

- End goal: DOH has created project pipelines for pre-FS
- Proposed work plan:
 - PPP unit members consisting of organic employees (“Members”) undertake the proposed work plan on the left
 - Members “long list“ actual potential projects
 - Members decide on criteria for advancement then “short list” projects
 - Members make necessary arrangements for further advancement – e.g., funding for pre-FS
- End goal: Support mainly provided by: PPP Center and JICA

Table 6.1 Summary Sheet for the Proposed Capacity Development Plan

| 4. Basic Understanding of PPP | | | | |
|-------------------------------|--|-----------|---|--|
| Assessment Element | | Score | Challenge Identified | Possible Solution |
| 4.3 | Effective use of guidance and manuals | Current:2 | Making effective use of PPP related guidance and manuals that are already available | Inventory PPP related guidance and manuals available for DOH and study them |
| 4.5 | PPP promotion | Current:1 | PPP promotion promulgated at national level is not being followed through | Analysis of the reason why it is not being followed through and lifting the obstacles identified |
| 4.6 | Likely components of the health system that are viable for PPP | Current:1 | Understanding what segments or components in health operations can be carried out as PPPs | 1 Understand the basic ideas of PPP, then 2 analyze health PPPs in foreign countries, and then 3 analyze what could become the likely segment of PPPs by the analysis of |

| | | | | |
|------|--|-----------|--|---|
| | | | | operations and financials of typical DOH hospitals |
| 4.8 | Assigning responsibilities within public sector in PPP implementation and establishing PPP related decision making structure within IA | Current:2 | DOH may need guidance in establishing a decision making structure within IA to advance PPP project | Members of the new PPP unit will go through "on-the-job-training" by going through the whole life-cycle of a PPP project, starting with project identification and selection, followed by project development, implementation, tendering, and project management. And before the commencement of each stage, decide on the decision making structure - e.g., ahead of project identification and selection, PPP unit will (first analyze then) decide on the likely segments of PPP, and then decide on the criteria - such as alignment with DOH objective, operational and financial benchmarks to clear before advancing a project further, etc. |
| 4.9 | Incentives towards introduction of PPPs | Current 1 | PPP is not sought to be effective tool at DOH to improve efficiencies and lift funding constraints | Perform analyses to identify areas that could make effective use of PPP |
| 4.10 | PPP unit members | Current:2 | Current members of the new PPP unit lack experiences in implementing PPP | Acquire experiences in PPP through the exercise of actual implementation of a pilot PPP project, starting with the project identification, selection and prioritization |

| 4.11 | Training system | Current:2 | Little PPP related trainings have been conducted at DOH and regularly held capacity development program may need to be instituted | Formulate DOH specific capacity development program |
|---|--------------------------------------|-------------------------|--|--|
| 5. Standard Process of PPP | | | | |
| 5.1 Identification, Selection and Prioritization | | | | |
| Assessment Element | | Score | Challenge | Possible Capacity Building |
| 5.1.2 | Commitments from related entities | Current:2 Previous:2 | Thorough analysis of stakeholders (e.g., patients and employees being transferred) and handling them before proceeding to a project may be warranted given what has happened in MPOC | Exercise to identify stakeholders and analyse how to handle them for a PPP project in contemplation |
| 5.1.3 | Social cost-benefit analysis | Current:1 Previous:3 | No experience in evaluating PPP projects utilizing Benefit Cost Ratio (BCR), Net Present Social Value (NPSV) and Economic Internal Rate of Return (EIRR). | Acquire skills to be able to evaluate PPP project utilizing BCR, NPSV and EIRR |
| 5.1.4 | Demand forecast | Current:1 Previous:3 | No experience in demand forecast | Acquire skills for demand forecast |
| 5.1.5 | Commerciality | Current:1 Previous:3 | "No experience in analysing commerciality through financial analysis. | Acquire financial analysis skills that will enable the analysis of commerciality and start centrally archiving operational and financial data in order to accumulate data for future projects and for benchmarking |
| 5.1.6 | VfM calculations (preliminary stage) | Current:1 Previous:1 | No experience in VfM analysis. Obtaining data on private sector for PSC purpose may also be a challenge | Start market sounding exercises to know more about private sector interests and to collect operational and financial benchmarking private sector will look for |

| 5.1.7 | Market sounding (preliminary stage) | Current:1 Previous:3 | No experience in market sounding | Start market sounding exercises to know more about private sector interests and to collect operational and financial benchmarking private sector will look for |
|---|---|-------------------------|---|--|
| 5.1.9 | Establishing PPP related decision making structure | Current:1 Previous:2 | Same as 4.8 | Same as 4.8 |
| 5.2 Preparation, Evaluation and Approval | | | | |
| Assessment Element | | Score | Challenge | Possible Capacity Building |
| 5.2.2 | Project Preparation Funding | Current:1 Previous:3 | Same as 4.9 | Same as 4.9 |
| 5.2.3 | Demand forecast | Current:1 Previous:3 | Same as 5.1.4 | Same as 5.1.4 |
| 5.2.4 | Funding recourse (income source) of private sector operator | Current:1 Previous:3 | No experience in comparing PPP options to compensate private sector operators | Learning about the options to compensate private sector operator through "pilot" PPP case |
| 5.2.5 | Commerciality | Current:1 Previous:2 | Same as 5.1.5 | Same as 5.1.5 |
| 5.2.6 | VfM calculations (reiterated) | Current:1 Previous:2 | Same as 5.1.6 | Same as 5.1.6 |
| 5.2.7 | Market sounding (Re-listed) | Current:1 Previous:2 | Same as 5.1.7 | Same as 5.1.7 |
| 5.2.8 | Stakeholders handling | Current:2 Previous:1 | Same as 5.1.2 | Same as 5.1.2 |
| 5.2.10 | Options for infrastructure construction, refurbishments, and service provisions (considerations for the various | Current:1 Previous:3 | No experience in comparing PPP options | Learning about the options through pilot PPP project |

| | | | | |
|--------------------------------------|---|-------------------------|--|--|
| | contract options) | | | |
| 5.2.11 | Regulations surrounding usage fees and incentives for private sector participation | Current:3 Previous:3 | Patient services where fees can be flexibly set may further need to be explored. Also the areas of services that incentivize private sector most might need to be understood | Identify areas where services fees can be flexibly set by analyzing medical practices of private sector. Conduct interviews with private sector and identify areas of health services that incentivize private sector the most |
| 5.2.12 | Risk Allocation and Mitigation | Current:1 Previous:3 | No experience in analysing project risk and related risk mitigation measures | Exercise to identify risks and risk mitigation for a pilot PPP project |
| 5.2.13 | KPI | Current:1 Previous:4 | No experience in analysing project risk and related risk mitigation measures | Exercise to formulate KPIs for a pilot PPP project |
| 5.2.14 | Circumstances that warrants public interventions (Intervention Option) | Current:1 Previous:2 | No experience in designing the KPIs | Exercise to identify the contingent liabilities and risks for a pilot PPP project |
| 5.2.16 | Decision making body (decision making mechanism within implementing agency) | Current:1 Previous:2 | Same as 2.1.9 | Same as 2.1.9 |
| 5.2.18 | Drafting tender documents (Applicable only when the implementing agency has PPP experience) | Current:1 Previous:3 | No experience in an actual PPP project | Exercise to draft tender documents (termsheet) for a pilot PPP project |
| 5.3 Tendering and Negotiation | | | | |
| Assessment Element | | Current | Challenge | Possible Capacity Building |
| 5.3.1 | Marketing the PPP | Current:2 Previous:3 | No experience in marketing PPP project | Conduct marketing of the pilot PPP project |

| | | | | |
|--|--------------------------------------|---|---|--|
| 5.3.2 | Establishment of the Evaluation Team | Current:2 Previous:2 | Project finance type financial modelling and PPP specific risk analysis may be lacking | Exercise to create financial modelling as well as identify risks for a pilot PPP project |
| 5.3.3 | Request for Qualifications | Current:2 Previous:3 | Setting a financial criteria for evaluating potential bidders may be a challenge | Draft actual request for qualification in a pilot PPP project |
| 2.3.4 | Request for Qualifications | Current:2 Previous: insufficient informatio n | Drafting financial criteria in request for proposal may be a challenge | Draft actual request for proposal in a pilot PPP project |
| 5.4 Implementation, Monitoring and Handover | | | | |
| Assessment Element | | Score | Challenge | Possible Capacity Building |
| 5.4.1 | Establishment of monitoring entity | Current:1 Previous: insufficient informatio n | Drafting contract administration manual may be a challenge | Exercise to create contract administration manual for a pilot PPP project |
| 5.4.2 | Monitoring | Current:1 Previous: insufficient informatio n | Advising on monitoring through KPIs and providing guidance to private sector when needed may be a challenge | Capacity may be gained from running an actual PPP project |

7 Appendix

7.1 Legal and Institutional Framework in Health Sector

7.1.1 Governing Authorities: Department of Health (DOH)

DOH is the principal health agency and responsible for the Philippine health system by policy making, regulation on all healthcare providers, and provision of basic public healthcare through national facilities.

EO identifies DOH's mandates below;¹¹⁸

DOH is mandated to provide assistance to local government units (LGUs), people's organization and other members of civic society in effectively implementing programs, projects and services that will:

- a) promote the health and well-being of every Filipino;
- b) prevent and control diseases among populations at risks;
- c) protect individuals, families and communities exposed to hazards and risks that could affect their health; and
- d) treat, manage and rehabilitate individuals affected by disease and disability.

DOH consists of the central office, 16 regional offices, relevant agencies such as the Philippine Health Insurance Corporation (PhilHealth), Philippine National AIDS Council, Philippine Institute of Traditional Alternative Health Care, as well as 70 DOH-retained hospitals. Attached regulatory agencies include the Food and Drug Administration (FDA.), which ensures the safety, efficacy, and quality of health products, such as food, drugs, cosmetics, devices, and vaccines¹¹⁹.

DOH regulatory power over its retained hospitals are stipulated in the "RA No.4226, The Hospital Licensure Act" which describes that the Bureau of Health Facilities and Services (BHFS) of DOH central office is the licensing agency and the regulatory body to set standards in the construction and operation of DOH hospitals as well as private hospitals¹²⁰.

7.1.2 Health Facilities

All hospitals (DOH hospitals, LGUs hospitals, and private hospitals) are classified into three levels as below:

- Level 1 hospital provides primary care, emergency care and treatment, minor surgery, etc.
- Level 2 hospital is departmentalized and should have intensive care unit, respiratory care service, and a tertiary clinical laboratory.
- Level 3 hospital should be organized with a blood bank, an ambulatory surgery clinic, a dialysis facility. It also provides teaching/training program for specialties.

In addition to above, following facilities exist:

¹¹⁸ EO No.102, s.1999 redirecting the Function and Operations of the Department o Health

¹¹⁹ RA7111: Food and Drug Administration Act of 2009

¹²⁰ RA No.4226, The Hospital Licensure Act

- **Rural Healthcare Unit (RHU) and barangay health station (BHS):** The RHU and the BHS are public facilities at local level, providing primary healthcare services such as clinic healthcare, dental healthcare and TB control as well as health promotion and disease prevention. They are staffed by doctors, nurses, midwives, medical technologists and sanitary inspectors.
- **Clinic:** Clinics provide outpatients' healthcare and dental and laboratory services.

7.1.3 Service Providers

Health services in Philippines are offered through both public and private sector.

Public health service provider

Public health facilities are governed and regulated by the DOH or the Local Government Units (LGUs).

DOH hospitals are spread across Philippines and provide mainly advanced medical treatments.

LGUs have responsibilities in primary healthcare, and provide health and social services through the development of

- the local public health policy
- RHU and BHS
- LGU hospitals at the provincial level

LGUs has responsibilities of local health boards at the provincial (led by the governor), city (led by the city mayor), and municipal (led by the municipal mayor) levels¹²¹.

Private health service provider

Private health service providers are established and operated by private entities, such as individuals, associations, corporations, non-profit and organization. As of 2012, 1095 hospitals out of 1823 were privately owned hospitals. Most clinics are owned by individuals or private corporations.

High income class prefers private hospitals because these private hospitals tend to be well furnished with advanced equipment and are able to provide better quality services.

7.1.4 PhilHealth (National Health Insurance Program)

In 1995, National Health Insurance Program (NHIP) was established under RA No.7875, to provide financial protection and access to basic health services with affordable cost, to all Filipinos. The same law also created Philippine Health Insurance Corporation, more popularly known as PhilHealth, and gave functions, member recruitment, premium collection, recruitment of accredited facilities, and coordination with other agencies¹²². PhilHealth is a tax-exempt, government-owned and government-controlled corporation (GOCC), attached to the Department of Health. It is funded by premiums collected from its paying members, budget allocation from the National Government (DOH) and

¹²¹ RA 7160 Local Government Code 1991

¹²² RA No.7875 The National Health Insurance Act

LGUS, as well as the proceeds from its investments¹²³,

PhilHealth covers six types of members; 1) Members in the Formal Economy, who have contract with public or private sector. The premium contribution payments are equally shared by the employee and the employer, 2) Members in the Informal Economy, most of them are self-employed, 3) Lifetime members, who have reached the age of retirement under the law and have paid at least 120 monthly premium contributions, 4) Senior Citizens, who are 60 years old and above and are not currently covered by any of the existing membership categories of PhilHealth, 5) Sponsored Members whose contribution is paid by Government, LGUs, or other entities, and 6) Indigent Members, who are identified by the Department of Social Welfare and Development (DSWD), based on specific criteria.

As for the benefits, PhilHealth covers procedures below;

a. In-patient care:

1. Room and board;
2. Services of health care professionals;
3. Diagnostic, laboratory, and other medical examination services;
4. Use of surgical or medical equipment and facilities;
5. Prescription drugs and biologicals, subject to the limitations of the Act; and,
6. Health Education.

b. Out-patient medical and surgical care:

1. Services of health care professionals;
2. Diagnostic, laboratory and other medical services;
3. Personal preventive services;
4. Prescription drugs and biologicals, subject to the limitations of the Act; and,
5. Health Education.

c. Emergency and transfer services;

d. Health Education Packages

On the other hand, the procedures not covered by PhilHealth are non-prescription drugs and devices, out-patient psychotherapy and counselling for mental disorders, drug and alcohol abuse or dependency treatment, cosmetic surgery, home and rehabilitation services, optometric services, normal obstetrical delivery, and other cost-ineffective procedures¹²⁴

¹²³ Raymunda R. Silfverbery, 2014, 'The Sponsored Program of the Philippine National Health Insurance – Analyses of the Actual Coverage and Variations across Regions and Provinces', Philippine Institute for Development Studies

¹²⁴ PhilHealth website <http://www.philhealth.gov.ph/> [Accessed Jan, 15, 2016]

7.2 Political (Policy) Environment in Health Sector

7.2.1 History of Policy Developments in Health Sector

To provide comprehensive healthcare for all Pilipino, the Philippine government has developed series of health policies. Long-term policies since late 1990s may be represented by:

- Health Sector reform Agenda (1999-2004)
- FOURmula One for Health (2005-2010)
- Aquino Health Agenda (2011-2016)

Health Sector Reform Agenda (HSRA, 1999-2004)

The Philippine government faced many problems such as the inequality in access to health service among income groups and residential areas, inadequate budget, insufficient facilities, and weak governance on quality and expenditure of health services and medical products. To improve health status of Pilipino, the government launched a new framework called Health Sector Reform Agenda (HSRA). It focused on 5 areas; 1) authorizing fiscal autonomy to government hospitals, 2) ensuring funding for priority public health program, 3) strengthening local health systems, 4) reinforcing the capacities of health regulatory agencies, 5) increasing the coverage of social health insurance.

This program helped the enrolment and benefits of PhilHealth to increase: the coverage rates expanded to 83.2% in 2004, from 38.5% in 2000⁵. (However, it declined again from 2004 to 2007, due to non-enrolment or non-renewal of many indigents.)

FOURmula One for Health (F1 for Health, 2005-2010)¹²⁵

F1 is a long-term implementation plan in order to ensure sustainable, essential health service package that leads to better health outcomes.

It consists of 4 pillars; 1) health service delivery, 2) health regulation, 3) health finance, and 4) good governance over the whole health sector, including local health system and internal management.

The highlight is its decentralization policy. DOH still remains the governance over the health sector and policy making structure, but other functions brought to regional and local units. F1 helped to strengthen PhilHealth and establish efficient hospital licensure system including regulation of health facilities.¹²⁶

Aquino Health Agenda (AHA, 2011-2016)^{127,128}

Through the former two plans – i.e., HSRA and F1 – basic healthcare capacity and PhilHealth coverage have improved, but the disparity in access to healthcare still remained as the critical issue, and as such, ‘Kalusugan Pangkalahatan (KP)¹²⁹, was launched in 2010. KP’s ultimate objective is an achievement of Universal Health Care (UHC). To deliver quality and affordable healthcare to all Filipinos, the financial risk

¹²⁵ Department of Health ‘FOURmula One (F1) for Health National Health Development Plan 2006 – 2010’

¹²⁶ Developing Country Perspectives on Public Service Delivery

¹²⁷ DOH 2011 ‘Philippine National Health Research System, National Unified Health Research Agenda 2011-2016’
ISSN 1908-4250

¹²⁸ <http://www.ncpam.doh.gov.ph/index.php/universal-health-care>

¹²⁹ Administrative Order No. 2010-0036

protection and responsive health system are deemed indispensable. Thus strategic thrusts are set as below¹³⁰;

- Financial risk protection through expansion in NHIP enrolment and benefit delivery
- Improved access to quality hospitals and health care facilities
- Attainment of the health-related MDGs

AHA mentioned that, as a financial mechanism, Public-Private Partnership (PPP) ¹³¹ is a big help to success universal health care, especially in services requiring capital investments. Improvement of access to quality health facilities shall be achieved by repair, rehabilitation and construction of priority facilities, and provision of fiscal autonomy and income retention schemes for government hospitals and health facilities.

7.2.2 Current Policy Goals in Health Sector

Two policy goals that complements AHA may be:

- National Objectives for Health 2011-2016
- The Universal Health Care High Impact Five Plan

National Objectives for Health 2011-2016 (NOH)¹³²

Allied with AHA, target figures of both service delivery system and health outcomes are set out in this program as to improve the capacity of health workers, the number of facilities to be upgraded, the health insurance coverage rate, and child mortality.

This report describes the private sector as a partner to attain maximum results through PPP for health wherein PPP is defined as an agreement between the government and private sector, expected to contribute through the sharing of expertise and knowledge and its resources. NOH presented that private sectors could work within the stewardship of public sector, and could be service providers of healthcare, human resources, and technical assistance to develop better health systems.

The Universal Health Care High Impact Five Plan (UHC HI-5, April 2015 – June 2016)¹³³

UHC HI-5 is a short-term national health program to reduce maternal, infant and under-five mortality (death rate), and HIV and AIDS incident. It emphasizes on the five interventions which would bring high impact on health, namely; 1) maternal care, 2) infant care, 3) under five mortality, 4) halting HIV-AIDS, and 5) establishing SDNs (Service Delivery Network). HI-5 is also relevant with poverty problems in some provinces.

¹³⁰ <https://www.doh.gov.ph/sites/default/files/transparency%20seal/4Chapter2.pdf>

¹³¹ AHA defined PPP as a partnership between the public and private sectors, which may range from health care provision to logistics management, from information and communication technology to capacity building of health providers.

¹³² DOH 'National Objectives for Health 2011-2016'

¹³³ http://www.doh.gov.ph/sites/default/files/health_magazine/DOHApril.compressed.pdf

7.2.3 Current Policy Issues in Health Sector

There may be two current policies issues in health sector.

- Health Outcomes
- Financing

Health Outcomes

Philippine is still lagging behind other countries in health outcomes.

Maternal health and child mortality are serious problems: infant mortality in 2013 was 23 per 1,000 live birth in Philippine, as compared to 10 in Europe region, and maternal mortality was 120 per 100,000 live birth in Philippine, while 17 in Europe region¹³⁴¹³⁵. DOH is promoting immunization program, micronutrient supplementation strategy and family planning education.

Also the government implements a prevention and awareness program on infectious diseases such as tuberculosis, malaria, dengue fever, influenza, bird flu, as well as HIV and AIDS, in order to improve the health outcomes.

Financing

Along with other developed and developing countries, health expenditure is rising in Philippine and the health budget is constantly insufficient¹³⁶.

To help address this issue, the government passed the Sin Tax Reform bill in 2012. This new tax system on all tobacco and alcoholic products brought new funds to healthcare. The DOH budget increased by 57% in 2014 and by 63% in 2015 from the 2013 budget level, and in 2015, 38% of the whole DOH budget was financed by the Sin Tax^{137 138}.

As below only 9% was to be allocated for upgrading facilities (to be implemented under Health Enhancement Facilities Program) in 2015¹³⁹.

¹³⁴ DOH 'Annual Report 2014'

¹³⁵ WHO website

¹³⁶ The DOH budget for 2015 is PhP 87.6 billion (PhP 37.06 billion for PhilHealth premium, PhP 20.49 billion for DOH hospitals, PhP 19.55 billion for health programs such as TI, HIV-AIDS, malaria and dengue, PhP 5.6 billion for local health facilities).

¹³⁷ Sin Tax Law Incremental Revenue for Health Annual Report CY 2015

¹³⁸ Depart of Finance, Annual Report 2013 <http://www.dof.gov.ph/>

¹³⁹ Sin Tax Law Incremental Revenue for Health Annual Report CY 2015

Table 7.1 Distribution of the Sin Tax Incremental Revenue for Health¹⁴⁰

| Prescribed Allocation | PAPs | Sin Tax increment (PHP billion) | % to Total Sin Tax Incremental Revenue for Health |
|---|--|---------------------------------|---|
| 80% for Universal Health Care Expenditure (NHIP, MDG, Health Awareness) | PhilHealth Premiums | 24.56 | 73% |
| | Programs for Attainment of MDGs | 3.41 | 10% |
| | Hospital Operations | 1.33 | 4% |
| | Quick Response Fund | 0.5 | 1% |
| | Health Policy, Regulations, and Gen. Admin. | 0.03 | 0.09% |
| | Health Awareness Programs | 0.01 | 0.02% |
| | Health Facilities Enhancement Program incl. Co of DOH Hospitals | 2.87 | 9% |
| | SUBTOTAL | 26.97 | 80% |
| 20% for Medical Assistance and HEFP | Medical Assistance to Indigent Patients including provision of medicines | 2.72 | 8% |
| | Health Enhancement Facilities Program | 2.67 | 8% |
| | Implementation of Doctors to the Barrios | 1.38 | 4% |
| | SUBTOTAL | 6.77 | 20% |
| Total Sin Tax Increment | | 33.74 | 100% |

7.2.4 Role of PPP towards Attaining Policy Goals in the Health Sector

The health sector reforms have not progressed as originally planned and one of the main reasons may be the budget constraints. PPP can be one of the solutions to lift such budgetary constraints: the public sector can transfer its fiscal burden to the private sector through PPP. Also, with the knowledge and the capacity of private partners, service delivery system would be more efficient, and technology and knowledge transfer can be done to the public sector. Moreover, the public nature of government-provided healthcare can be retained because the government still keeps its authority over service

¹⁴⁰ Sin Tax Law Incremental Revenue for Health Annual Report CY 2015

delivery. The PPP projects should be designed to be consistent with the policy objectives, and to complement other public procurement and public service delivery methods.

7.2.5 PPP Unit of DOH

In order to ensure effective and efficient implementation of PPP projects of the DOH and function as a clearing house for collecting experiences, analyses and dissemination of best practices, the Center for Excellence for PPPs on Health (CEP3H) was established by way of AO No. 2012- 0010 issued on 2 March 2012.

After creation, CEP3H worked on PPP project formulation and development activities in modernizing DOH-retained hospitals, with two most notable projects being the Modernization of the Philippine Orthopedic Center (MPOC) and the Vaccine Self Sufficiency Project Phase II (VSSP II). Aside from this, around 40 other proposed PPP Projects were identified and are at different stages of project development and formulation.

CEP3H dissolved in December 2014. However, in view of the necessity of creating a permanent PPP Office that will oversee the planning, implementation and coordination functions of the DOH, in March 20, 2015, the Secretary of Health issued Department Personnel Order (DPO) No. 2015-1289, charging the Task Force (TF) with the crafting of the overall framework of a permanent DOH PPP unit.

7.2.6 Developing Health Sector PPP Models that Work in Philippines

The Health Policy Notes of DOH mentioned four general types of PPPs in health in the Philippines and ADB through its technical assistance to DOH identified five proposed applications in PPP in health.

Four general types of PPP in health on the Health Policy Notes of DOH

- Outsourcing of clinical, technical (ancillary) or support services to private enterprises or organizations
- Contracting the direct provision of a health facility or certain health services with a private provider
- Collaboration with the private sector to develop or deliver health services for a specific disease or to specific group of areas
- Contracting or integrating private insurance schemes to cover specific population

Five Proposed Applications in PPP in health¹⁴¹¹⁴²¹⁴³

- Hospital Operations & Management
- Laboratory
- Pharmacy
- Outpatient Services
- Birthing Clinics

¹⁴¹ Five Application in PPP in Health, ADB, November 2012

¹⁴² PPP Orientation-workshop for Baguio General Hospital & Medical Center

¹⁴³ International Finance Corporation, 'PPPs in Health Care: An International Respective'

7.2.7 Challenges in Health PPP¹⁴⁴

Implementing health PPP may require more strategic, tactical and operational flexibilities than those in other sectors. The characteristics of health sector may be summarized as follows:

- Variations of tasks

Health sector has a variety of projects, such as prevention program, medicine produce project, health service provision project, etc., and each project consists of many tasks (for example, in health service provision, when a physician is tasked to diagnose a patient, the doctor may work with nurses, nurse aids, paramedics, and pharmacies, etc, who might need to observe their own occupations' rules.)

- Fast changing business environment, such as demand, diagnostic, technology trends

Disease trends will be affected by demographic change, environmental change, life habit change, etc.

Also, technological breakthroughs may call for new diagnostic devices, new treatments and drugs, that could be costly.

- Strong regulation over service provision.

The government sets stronger regulation on health than other sectors. For instance, there is a regulation that medical service must be provided by qualified physicians and nurses are required to maintain the service quality, and without the qualified providers, health service provision would stop.

To fulfil the conditions, the public sector should set a good framework with suitable risk sharing scheme and enough incentive to attract the private partner.

Lastly, due to the social character of healthcare, some have a perspective that PPP is the government's gradual way of abandoning its duty to provide adequate health care for people. Opposing groups believe PPP scheme would bring higher service fees and less service packages for the vulnerable, and may mix up with privatization.

In Philippines, even some media reported the hospital rehabilitation projects as if PPP scheme is equal to privatization.¹⁴⁵ To increase public acceptance, transparency process in PPP projects and spread of correct information may be as important.

¹⁴⁴ PPP in Health Manila 2012 'Draft Proceedings of the regional forum'

¹⁴⁵ The Manila Times, April 24, 2013, <http://www.manilatimes.net/privatization-of-philippine-orthopedic-center-leaves-the-poor-in-limbo/510/>

7.3 List of PPP Projects

As of 26 February 2016, PPP Center lists below project as the only DOH's PPP initiative under development:

- Rehabilitation of the National Center for Mental Health

Aside from above, PPP Center once listed below projects as the DOH lead PPP initiatives:

- Modernization of Philippine Orthopedic Center
- Vaccine Self Sufficiency Project Phase II
- Vicente Sotto MMC Modernization Project
- Trimedical Complex



**Capacity Assessment
for the Department of Public
Works and Highways
in the Philippines**

**Deloitte Tohmatsu Financial Advisory
LLC and Castalia Limited**

**April
2016**

Acronyms and Abbreviations

| | | |
|---|---------------|--|
| A | AC | Ayala Corporation |
| | AO | Administrative order |
| | ASDI | Alabang –Sto. Tomas Development Inc. |
| | APEC | Asia Pacific Economic Cooperation |
| B | B/C | Benefit-to-Cost |
| | BCR | Benefit Cost Ratio |
| | BOT | Build-Operate-Transfer |
| C | CALA | Cavite - Laguna |
| | Castalia | Castalia Limited |
| | CBA | Cost-Benefit Analysis |
| | CIIP | Comprehensive and Integrated Infrastructure Program |
| | COA | Commission on Audit |
| D | DBM | Department of Budget and Management |
| | DBP | Development Bank of the Philippines |
| | DENR | Department of Environment and Natural Resources |
| | DO | Department Order |
| | DOF | Department of Finance |
| | DOJ | Department of Justice |
| | DPWH | Department of Public Works and Highways |
| | DTFA | Deloitte Tohmatsu Financial Advisory LLC |
| E | EIRR | Economic Internal Rate of Return |
| | EO | Executive Order |
| | ESSD | Environmental and Social Safeguards Division |
| | ESSO | Environment and Social Services Office |
| F | FIRR | Financial Internal Rate of Return |
| G | GOCC | government-owned and government-controlled corporation |
| | GPRAM | Generic, Preferred Risk Allocation Matrix |
| H | HSH | High Standard Highways |
| I | IAs | Implementing Agencies |
| | ICC | Investment Coordination Committee |
| | ICC Guideline | ICC Project Evaluation Procedures and Guidelines |
| | IFC | International Finance Corporation |
| | IROW | Infrastructure Right-of-Way |

| | | |
|---|----------------|--|
| | ISF | Infrastructure Support Facility |
| J | JICA | Japan International Cooperation Agency |
| | JV | Joint Venture |
| L | LGUs | Local Government Units |
| M | MCA | Multi Criteria Analysis |
| | MDG | Millennium Development Goals |
| | MIS | Management Information System |
| | MNTC | Manila North Tollways Corporation |
| | MPSS | Minimum Performance Standards and Specifications |
| N | NBP | New Bilibid Prison |
| | NEDA | National Economic and Development Authority |
| | NGA PPP Manual | National Government Agency Public-Private Partnership MANUAL |
| | NGAs | National Government Agencies |
| | NPSV | Net Present Social Value |
| | NPV | Net Present Value |
| | NRIMP | National Roads Improvement and Management Program |
| | NSSMP | National Sewerage and Septage Management Program |
| O | OIDI | Optimal Infrastructure Development, Inc. |
| P | PDD | Project Development Division |
| | PDMF | Project Development and Monitoring Facility |
| | PDP | Philippine Development Plan |
| | PFEMS | Policy Formulation, Evaluation and Monitoring Service |
| | PFS | preliminary feasibility study |
| | PIP | Philippine Investment Program |
| | PMO-BOT | Project Management Office for Build-Operate-Transfer |
| | PNCC | Philippine National Construction Corporation |
| | PPP | Public-Private Partnership |
| | PSC | Public Sector Comparator |
| | PTE | Permit to Enter |
| R | RA | Republic Act |
| | RFP | Request for Proposal |
| | ROW | Right of Way |
| S | SBAC | Special Bids and Awards Committee |
| T | TAA | Technical Assistance Agreement |

| | | |
|---|------|-------------------------------|
| | TF | Task Force |
| | TOR | Terms of Reference |
| | TRB | Toll Regulatory Board |
| | TRO | Temporary Restraining Order |
| | TWG | Technical Working Group |
| U | Usec | Under Secretary |
| V | VfM | Value for Money |
| W | WACC | Weighted Average Capital Cost |
| | WB | World Bank |

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1 Introduction

The Japan International Cooperation Agency (JICA) and the Public-Private Partnership (PPP) Center of the Philippines have agreed on a PPP Capacity Assessment and Capacity Development Program to improve capability of Implementing Agencies (IAs) to undertake PPPs. The Department of Public Works and Highways (DPWH) has been selected as one of these IAs that will take part in this program.

Directed by JICA, the consultants from Deloitte Tohmatsu Financial Advisory LLC (DTFA) and Castalia Limited (Castalia) - the JICA Expert Team, has undertaken multiple consultations with DPWH and PPP Center staff and conducted a capacity assessment of DPWH using the capacity assessment tool developed by the JICA Expert Team. The tool examines the following areas: basic understanding of PPPs and basic skills for undertaking PPPs processes.

This report summarizes the capacity assessment results. This report also identifies the challenges DPWH is facing, and for each of the identified challenge, possible solutions to overcome have been provided. The possible solutions suggested in this report are to be discussed among PPP Center, JICA, the JICA Expert Team, and DPWH, and the concerned institutions may elaborate and implement the Capacity Development Program.

2 Capacity Assessment Methodology

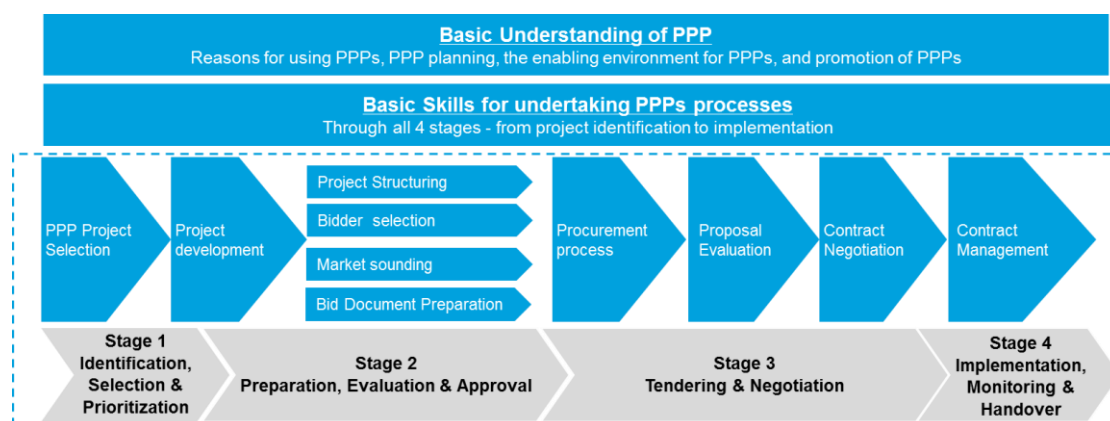
2.1 Capacity assessment content

The capacity assessment tool developed by the JICA Expert Team consists of a questionnaire that assesses two broad subject areas:

- **Basic understanding of PPPs:** Does DPWH understand the objectives of PPPs, the advantages and limitations of PPPs, and the desired PPP enabling environment.
- **Basic skills for undertaking PPP processes:** Does DPWH have the basic skills needed to identify, prepare and implement PPP projects in a suitable manner.

Each subject area consists of several elements, as shown in the Figure 2.1.

Figure 2.1: Subject Areas Assessed by Capacity Assessment Tool



Source: the JICA Expert Team: Discussion Paper on PPP Capacity Development Program

2.2 Capacity assessment procedure

The first step undertaken by the JICA Expert Team was to collect information on the capacity subject areas from the following sources:

- Project related documents, such as feasibility studies, bid documents, PPP contracts, and any implementation frameworks or processes
- DPWH's pipeline of PPP projects
- Interviews with undersecretaries/assistant secretaries or other IA staff, particularly members of IA's PPP unit
- Interviews with the PPP Center staff who have worked with the specific IA
- Related laws and regulation documents
- PPP manuals and guidelines

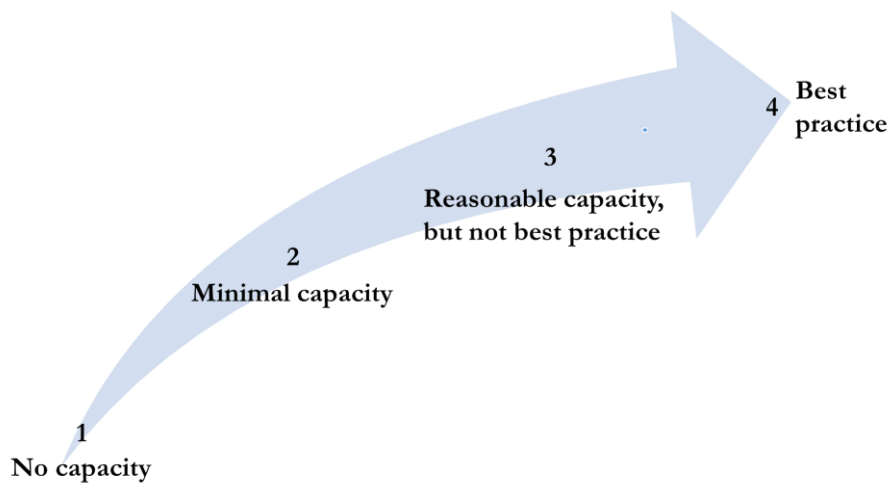
The second step undertaken by the JICA Expert Team was to use the collected information to complete the capacity assessment questionnaire. The questionnaire covers the two broad subject areas discussed above. Each subject area is broken down into elements. The results of the questionnaire are presented in Section 4 and 5.

For each element, DPWH was scored against a number of sub-elements using the criteria shown in Figure 2.2. For example, the element “value for money analysis” considers whether DPWH understands how to determine if PPP procurement will deliver value for money (VfM). If DPWH has never conducted VfM analysis it would score 1. If DPWH has conducted basic VfM analyses for one to three projects and there were no major problems with the analyses, it would score 2. If it has conducted adequate VfM analysis for multiple projects, but doesn’t yet undertake the more sophisticated VfM analysis of countries with mature PPP programs, it would score 3. And finally, if DPWH had conducted multiple sophisticated VfM analyses it would score 4.

The third step in the capacity assessment undertaken by the JICA Expert Team was to examine the results of each element.

The fourth step was to identify the challenges in promoting PPP and suggest capacity development activities for each challenge identified.

Figure 2.2: Scoring Breakdown



3 Capacity Assessment for DPWH

3.1 PPP function at DPWH

DPWH acts as a State's Implementing Agency responsible for the planning, design, construction and maintenance of infrastructure, especially the national highways, flood control and water resources development systems, and other public works in accordance with national development objectives, according to Executive Order (EO) no. 124 which prescribes DPWH's power and functions.

DPWH is advanced compared to other governmental agencies in terms of PPP implementation as it has a specialized organization for PPP projects and it actually has implemented PPP projects.

DPWH had PMO-BOT (Project Management Office for Build-Operate-Transfer), which was created in conformity to Department Order (DO) 228, pursuant to the provisions of R.A 6957 (BOT Law). PMO-BOT had functioned as a project management office for projects planned and structured under the BOT Law. PPP Service was established afterwards, building on the BOT-PMO and in line with Executive Order 8 issued by President Aquino, and has been established as a more structured organization made up of divisions and functions as an organization to handle PPP projects in DPWH. Its mission is "to develop and promote PPP projects consistent with national development goals and objectives", and its vision is to be "an organization with efficient partnership with the private sector with an end view of fostering economic growth through PPP initiatives". PPP Service has the specific functions as described in Table 3.1.

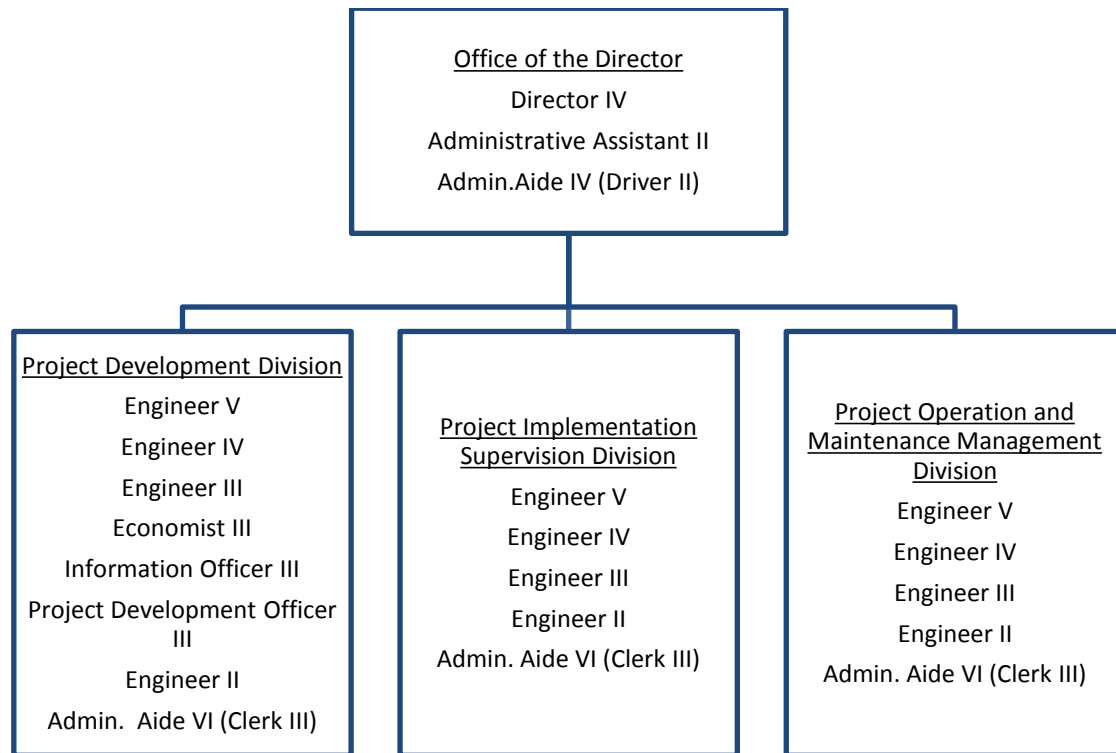
Table 3.1: Functions of PPP Service

1. Initiates, prepares and reviews PPP project proposals, concept papers and other necessary documentation for proposals undertaken in-house or by other agencies, consultants and private sector investors.
2. Initiates the inclusion in the DPWH infrastructure program of priority projects that may be financed, constructed, operated and maintained by the Private Sector.
3. Prepares and consolidates work and financial plans and budgetary requirements of DPWH-PPP projects as well as the needed GOP portion of project cost in a timely manner.
4. Coordinates with government agencies, private sector investors, lending agencies and donor countries and project stakeholders on project preparation and investment requirements of viable DPWH-PPP projects;
5. Prescribes the minimum design and performance standards, and specifications and the economic parameters which shall be observed by the bidders/contractor in preparing its bids;
6. Indicates the facilities associated with DPWH-PPP projects which are to be provided by the Government;
7. Conducts feasibility studies of PPP projects and prepares bidding documents to guide prospective bidders in preparing and submitting their pre-qualification application and bid proposal;
8. Participates in the negotiation and finalization of PPP contracts and coordinates the acquisition of the needed road right-of-way;
9. DPWH to sign for approval the detailed engineering designs and plans prepared by the proponent and reviewed and certified by the Independent Consultant;
10. Review and recommends for approval the detailed engineering designs and plans prepared by the DPWH and/or proponents for such projects.
11. Monitors the progress of work and compliance with the contract agreement of the PPP contractor and recommends remedial and corrective measures to be undertaken; and
12. Performs other duties and responsibilities

Source: DPWH: website

The PPP Service consists 3 divisions with 37 positions in total (including vacant positions) and organizational structure is as described in Figure 3.3. Most of the staff has engineering background, but not with legal and financial background, hence they have in-house advisors to compensate.

Figure 3.1: Organizational Structure of PPP Service



Source: documents collected from DPWH

3.2 Pipeline of PPP projects

DPWH has 11 PPP projects in its pipeline, as shown in Table 3.2. These projects are at various stages of completion from procuring advisors to contract award and implementation. All of these projects have been supported by the PPP Center.

Contract has been awarded for 3 projects, 3 projects are on bidding stage, 1 project on National Economic and Development Authority (NEDA) approval stage, 1 project on Investment Coordination Committee (ICC) approval stage, and 4 projects are under conceptualization / development). As shown clearly in below table, all of them are for land transport (expressway and toll road), and none for water / sewerage and septage sectors.

Table 3.2: DPWH PPP Projects as of 1 April 2016

| No. | DPWH Projects | Cost (PHP Billion) | Project Status | Sector |
|-----|--|--------------------|---|--------|
| 1 | Daang Hari-SLEX Link Road (Muntinlupa-Cavite Expressway) Project | 2.23 B | Contract Awarded | Road |
| 2 | NAIA Expressway (Phase II) Project | 17.93 B | Contract Awarded | Road |
| 3 | Cavite - Laguna (CALA) Expressway | 35.43 B | Contract Awarded | Road |
| 4 | Laguna Lakeshore Expressway Dike Project | 122.80 B | No Bid Submitted | Road |
| 5 | NLEx-SLEx Connector Road | 23.20 B | For Submission of Comparative Proposals | Road |
| 6 | Plaridel Bypass Toll Road | 9.33 B | NEDA Board approval | Road |
| 7 | Manila Bay Integrated Flood Control, Coastal Defense and Expressway Project | 536.03 B | Finalization of Project Structure | Road |
| 8 | Central Luzon Link Expressway (Phase II) | TBD | Procurement of consultants | Road |
| 9 | Operation, Maintenance & Improvement of Kennon Road and Marcos Highway Project | TBD | Procurement of consultants | Road |
| 10 | NLEX East Expressway | TBD | Procurement of consultants | Road |
| 11 | Camarines Sur Expressway Project | TBD | Procurement of consultants | Road |

Source: PPP Center: Status of PPP Projects

3.3 Assessment methodology for DPWH

The capacity assessment for DPWH was carried out in the following manner:

- **Assessment of the PPS and Environmental and Social Safeguards Division (ESSD):** As described in 3.1 and 3.2, DPWH has had a specialized organization for PPP and implemented PPP projects, hence the organization to be assessed is that organization, i.e. PPS. At the same time, the experiences of PPP projects in DPWH are limited to the transport sector and DPWH has the intention to extend the sectors to water/sewerage and septage sectors. Hence, this capacity assessment has been undertaken toward PPS and ESSD which is responsible for water/sewerage and septage sectors. Although ESSD of DPWH and other related central government organizations have promoted LGU/Water District to deliver sewerage and septage projects with the 40% financing subsidy which the National Government provides under NSSMP, there has been no projects.
- **Basic understanding of PPPs:** Both PPS and ESSD were assessed on this subject area.

- **Basic skills for undertaking PPP processes:** PPPS was assessed on this subject area through the following two case studies (ESSD was not assessed due to the fact that no PPP projects have been implemented so far under ESSD);
 - Case 1: NAIA Expressway Project (Phase II)
 - Case 2: Daang Hari-SLEX Link Road (Muntinlupa-Cavite Expressway) Project

3.4 Case Study 1: NAIA Expressway Project (Phase II)

The NAIA Expressway Project (Phase II) is a project to connect between NAIA Terminal I, II and III, and link the Skyway and the Manila-Cavite Toll Expressway. The total length of 4-lane expressway is 7.75 km elevated expressway and 2.22 km at-grade feeder road. The estimated project cost is P 17.936B.

The project is consisted of 1) construction of Phase II road; 2) construction of at-grade feeder roads leading to/from PAGCOR Entertainment City; and 3) operation and maintenance of the expressway.

Background

In November 2010, an aggressive PPPs promotion policy for developing infrastructure for supporting sustained and inclusive economic growth was launched by the Philippine government. The NAIA Expressway Project was among the government's prioritized PPP projects to be delivered under the BOT Law.

In preparation for the procurement, which would be done, through the solicited proposal, DPWH was supported by JICA to update the feasibility study. In November 2012, JICA published the report "Preparatory Survey for Expressway Projects in Mega Manila Region NAIA Expressway Project (PhaseII) Final Report."

Moreover, other international organizations supported DPWH for preparing for procurement activities. For example, the Development Bank of the Philippines (DBP) with the International Finance Corporation (IFC) has started acting as Lead Transaction Advisors for the competitive tender for the project since January 2011. IFC hired external consultants for proceeding to the tendering activities: LeighFisher was the expressway technical specialists, Hogan Lovells Singapore as the international legal consultants and local lawyers were hired.

The project was approved by NEDA Board on 29 May 2012.

Figure 3.2: Route of the NAIA Expressway



Phase II–A Macapagal Blvd. – MIA Road/NAIA Terminals 1 and 2

Phase II–B Domestic Road-Andrews Avenue–Sales Road including Entertainment City

Source: DPWH website

Table 3.3: Schedule of NAIA Expressway Project (Phase II)

| Timeline | Event |
|--------------------------------|---|
| 29 May 2012 | Approval of NEDA Board |
| 20, 27 July and 03 August 2012 | Advertisement/Publication |
| 08 April 2013 | Submission of Bids |
| 06 May 2013 | Notice of Award |
| July 08, 2013 | Signing of Concession Agreement |
| July 2013 – January 2014 | Detailed Engineering Design, Phase II A |
| July 2013 – April 2014 | Detailed Engineering Design, Phase II B |
| January 2014 – March 2015 | Construction, Phase II A |
| April 2014 – April 2016 | Construction, Phase II B |
| May 2016 | Revised Target Accomplishment, Phase II A |
| May 2016 | Revised Target Accomplishment, Phase II B |

Source: DPWH website

Tendering Process and Concession Agreement

A two-stage (pre-qualification, then bid) and two-envelope (technical and financial) bid approach was adopted for selecting the preferred bidder. Four out of seven consortia and corporations responded to the invitation to pre-qualification were prequalified as bidders. Optimal Infrastructure Development, Inc. (OIDI) which was a subsidiary of San Miguel Corporation and Manila North Tollways Corporation (MNTC) took part in the bid and passed the technical criteria. Finally, OIDI won the international competitive tender. A concession offer was reported to be about \$250 million¹. The concession agreement was signed in July 2013.

Under the concession agreement, the concession period is a 30-year including construction. Concessionaire is responsible for the design, financing, construction, and operation of the toll road facility and they will be authorized to collect tolls based on the rules and the formula written in the concession agreement. On the other hand, public entities are responsible for delivering Right-of-Way (ROW) within the alignment of the toll road. In addition, DPWH will allow the concessionaire to collect tolls and adjust the toll tariff based on.

Current Status

In original schedule, construction works would have been finished before the Asia Pacific Economic Cooperation (APEC) Leaders' Summit in November 2015. However, due to the combination with other infrastructure, work has been delayed and the targeted completion period was revised to May 2016. According to the PPP Center, 74.44% of construction works was completed as of 03 March 2016.

Lessons Learned

The NAIA Expressway Project (Phase II) was planned, developed, tendered and implemented with the various international support. Therefore, DPWH successfully managed to deliver required tasks although it was only the third PPP projects under the new PPPs program launched in 2010. The process of delivering this project is expected to be the template for other similar projects in a toll road sector in the Philippines.

On the other hand, as of April 2016, the schedule is delayed. As the concession period includes a design and construction period, it is concerned that the delay of the completion will make a negative effect on the profitability of the project for the concessionaire. The causes of the delay should be identified and should be reflected into the projects going forward so that risk allocation between public and private is properly arranged.,

3.5 Case Study 2: Daang Hari-SLEX Link Road (Muntinlupa-Cavite Expressway) Project

The Daang Hari-SLEX link road (Muntinlupa–Cavite expressway) project was the first PPP project which was bid-out and awarded under the new PPP program since 2010. It

¹ IFC website: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/06/09/090224b082f0afed/1_0/Rendored/PDF/Philippines000NAIA0Expressway.pdf

is a new 4-lane toll road which connects from the junction of Daang Reyna and Daang Hari in Las Piñas/Bacoor, Cavite to SLEX through the Susana Heights Interchange in Muntinlupa, traversing the New Bilibid Prison (NBP) Reservation. The project cost is P 2.23 B Billion.

“The proposed link-road will use the Susana Heights Interchange as exit and entry from north and south of SLEX and will include the construction of a new bridge/widening of the existing bridge crossing SLEX as well as the expansion of the Susana Heights toll plaza”.

Figure 3.3: Route of Daang Hari-SLEX Link Road



Source: DPWH website

Background

According to DPWH’s website, there were four objectives of the project. Firstly, the new toll road will be the alternative route between Metro Manila/Cavite, and improve Region IV–A’s/CALABARZON’s competitiveness as an investment destination. Secondly, it will ease the congestion in Cavite, Las Piñas, and Muntinlupa. Thirdly, it will reduce travel time by an average of 45 minutes from Daang Hari to Alabang Interchange. Finally, it will provide a new access to the National Bilibid Prison (NBP) property, where mixed commercial, residential, and institutional estate is planned to be developed in the future.

Originally, the project was implemented by Alabang –Sto. Tomas Development Inc., (ASDI) which was a joint venture of National Development Company (NDC) and Philippine National Construction Corporation (PNCC). However, the project was among the “flagship projects” for PPP program of the government. Therefore, in Economic Managers’ meeting of Commission on Audit (COA) in February 2011, the privatization of ASDI was proposed and, consequently, it was decided to “bid out the entire projects with the winning bidder to reimburse ASDI for the value of works accomplished”.

² PPP Center website : https://ppp.gov.ph/?ppp_projects=daang-hari-slex-link-road-project&wppa-album=28&wppa-photo=1058&wppa-cover=0&wppa-occur=2

³ COA website:
http://www.coa.gov.ph/phocadownloadpap/userupload/annual_audit_report/GOCCs/2013/Corporate-Government-Sector/Philippine-National-Construction-Corporation/ASDI_ES2013.pdf

Tendering Process and Concession Agreement

A two-stage (pre-qualification, then bid) and two-envelope (technical and financial) bid approach was adopted for selecting the preferred bidder. The project was approved by the NEDA Board in April 2011.

Three out of twenty-five consortia and corporations responded to the invitation to pre-qualification were prequalified as bidders. Ayala Corporation (AC) and South Expresslink Corporation took part in the bid and passed the technical criteria. Finally, AC won the competitive tender. The concession agreement was signed in April 2012.

Table 3.4: Schedule of Daang Hari-SLEX Link Road (Muntinlupa-Cavite Expressway) Project

| Timeline | Events |
|-------------------------------------|--|
| 29 April, 2011 | NEDA Board Approval |
| 22 December, 2011 | Issuance of Notice of Award |
| 02 April, 2012 | Signing of the Concession Agreement |
| April 2012 – June 2015 June 2015 | Design and Construction (Segment 1 & 2) Completion: |
| 22 June, 2015 | Permit to Enter (PTE) was issued by Fine Properties Inc. |
| 29 June, 2015 | DPWH issued Notice to Proceed to Ayala Corporation |
| 01 July, 2015 | Certificate of Substantial Completion issued |
| 24 July, 2015 | Full commission of the project and Inauguration Ceremony by President Benigno Simeon C. Aquino III |
| 24 July, 2015 | Operation |

Source: DPWH website

Current Status and Lessons Learned

It was reported that completion of construction works has been delayed due to the problems in the delivery of the ROW by public entities and on-site challenges. Finally, the toll road started operation on 24 July, 2015.

As mentioned above, the project was originally proposed and delivered by a JV of public companies and it became the first PPP project under the new PPPs initiative. However, it can be said, as the project design and existing constructed facilities and infrastructure had been already in place prior to bidding, discretion of the concessionaire was relatively smaller compared with the pure Greenfield PPPs. In addition, in common with the case of NAIA Expressway Project, construction works were delayed. The causes of the delay should be identified and what kinds of arrangements are needed from the perspective of Public/Private risk allocation should be considered.

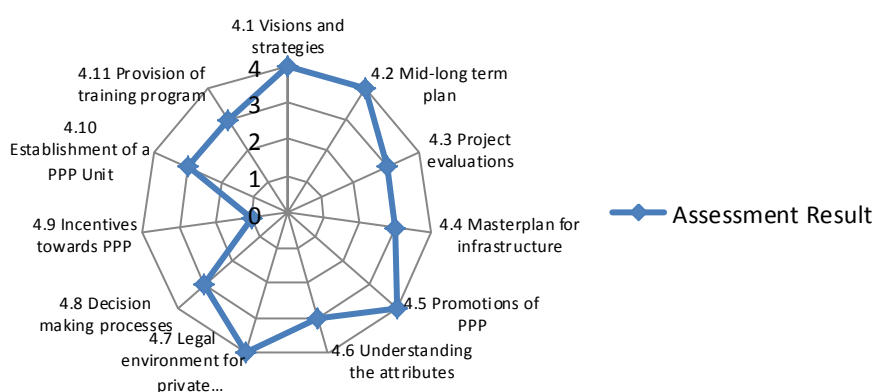
4 Capacity Subject Area 1: Basic Understanding of PPPs

This capacity subject area examines how well DPWH understands the objectives of PPPs, the advantages of PPPs, and if the environment to encourage private sector participation in infrastructure exists. It also considers the IA’s visions, strategies, masterplans, and other planning documents, and how well DPWH uses these plans to generate infrastructure projects.

DPWH’s performance against this capacity area is shown in Figure 4.1.

The results show that DPWH is a well-established institution and has a reasonable level of understanding of PPPs, especially in the PPPS. The scorings are quite high across most of the elements assessed, and further improvement will enable the DPWH implement more PPP projects and ones in new sectors.

Figure 4.1: Scores for the Basic Understanding of PPPs



4.1 Visions and strategies

To-be

Current state of the responsible segment/area is well understood, and the issues that could arise in the future for the segment/area have been identified. Based on the said acknowledgements, the visions and strategies with concrete numerical targets and achievements have been formulated. Further, the said visions and strategies have been revised in accordance with the changes in economic and social situations, as appropriate.

Assessment Result **4/4**

For the overall infrastructure sector, the national strategy is formulated and described in the Philippine Development Plan (PDP) 2011-2016 (Chapter 5: Accelerating Infrastructure Development). The government aims inclusive growth and poverty reduction as a whole, and infrastructure development program in the PDP aims to contribute to them by accelerating “the provision of safe, efficient, reliable, cost-effective,

and sustainable infrastructure.” For road sub-sector and water and sanitation sub-sectors, the strategy and strategic plan are set, following above overall infrastructure aim.

For sanitation, sewerage, and septage management, the PDP sets the strategic plan with the focuses of 1) development of effective national leadership and sanitation governance, 2) development of regulatory framework, 3) rationalization of investments and financing to provide infrastructure in strategic areas, 4) mainstreaming of sanitation in emergency / disaster response, and 5) improvement of service delivery through vigorous communication.

In addition, DPWH sets out strategic objectives in its own designated sectors, and the accomplishment is recorded in DPWH's annual report each year. The PPP Service also has its own objectives and they are tracked by scorecard.

DPWH has a mechanism of the revision of the strategy in accordance with social and economic conditions. NEDA annually updates result matrix of PDP and DPWH also publishes the annual report in which it discloses the current level of accomplishments. Furthermore, the PPP Service recommends revisions of the strategy to NEDA in accordance with social and economic changes, and asks for approval.

4.2 Medium or long term infrastructure plans

To-be

Medium/long term plans on infrastructure constructions and refurbishments, and service offerings etc., based on the visions and strategies, exist. The constructions and refurbishments based on the said plans have been implemented.

Assessment Result 4/4

At the national level, the PDP 2011-2016 published by NEDA serves as the medium-term development plan and it comprehends infrastructure, however, there is no official long-term development plan. At the department level, DPWH has both long-term and medium-term infrastructure development plan; High Standard Highways (HSH) Master Plan as a long-term plan for road sector, and Medium Term Plan 2011-2016 as a medium-term plan. In addition, there are several sector-specific long-term masterplans developed by JICA and other ODA Agencies. For example, as stated above, for the road sector, the Master Plan on High Standard Highway Network Development in the Republic of the Philippines (by JICA), the National Roads Improvement and Management Program (NRIMP) (by World Bank (WB)) etc. exist. "Water Supply and Sanitation Policy under PPP" is now being developed, according to the DPWH website.

The DPWH revises the plan in accordance with the progress of the plan, and social and economic conditions, according to the interview with the DPWH.

4.3 Project evaluations

To-be

The guidance and manuals for studying, evaluating and prioritizing individual projects exist. These guidance and manuals require the feasibility studies of the PPP adoption, and they are actually employed and followed through.

Assessment Result 3/4

The PPP Center has published numerous manuals/guidelines, such as the National Government Agency Public-Private Partnership manual (the NGA PPP Manual), the Project Development and Monitoring Facility (PDMF) guidelines, to which the DPWH can refer in the course of materializing PPP projects. These manuals/guidelines stipulate processes for evaluation of PPP projects, its criteria, and requirements by authorities, such as PDMF, NEDA, etc. and DPWH basically follows these documents. DPWH, as an Implementing Agency, coordinating with the PPP Center, provides advisory support and legal advice in PPP project preparation and development. Transaction advisors are also tapped to facilitate the bidding / tendering process.

However, according to the answers to the questionnaire used for this assessment, PPP Services faces the challenges at project identification stage in identifying proper and reasonable mechanics/criteria on how to identify projects to be implemented through PPP.

4.4 Master plans for infrastructure projects

To-be

Master plans to construct and/or refurbish specific infrastructure, and/or provide specific service have been formulated. And they are formulated after careful considerations of project scale and cost, based on thorough comparisons with other alternatives and appropriate demand forecasts.

Assessment Result 3/4

The DPWH formulates specific infrastructure development plan based on the PDP 2011-2016 and long-term master plans developed together with the ODA agencies, which have been formulated based on thorough analysis with concrete objectives in line with national & sector-wide policies.

Upon construction and refurbishment of specific infrastructure, the DPWH refers to data and information of past and equivalent projects as it has the track record of past projects by themselves. Comprehensive and Integrated Infrastructure Program (CIIP) also has all the past projects of the country, and PPP Center has the track record as well.

With communicating with external professionals such as the transaction advisors and PPP Center personnel, the DPWH uses their knowledge and experiences of PPP for figuring out the possible and viable schemes for the projects.

However, according to the interview with the PPP Service and answers to the questionnaire used for the assessment, the PPP Service recognizes the necessity of strengthening of financial and legal skills and knowledge to enable them to evaluate possible project schemes with more clear understanding of financial aspects because they already have sufficient knowledge and experiences in engineering area.

4.5 Promotion of PPPs

To-be

Top management promulgates, in written format, its plan to utilize PPP in infrastructure construction and refurbishment and service provisions.

Assessment Result 4/4

The DPWH leadership adheres to the pronouncement of the Aquino administration to carry out PPP projects to drive infrastructure development in its sectors. The Public Private Partnership Program is set as one of five of DPWH's strategic programs, and the DPWH declares that it will continue to pursue infrastructure investments with the private sector to augment the country's much needed infrastructure development in its annual reports.

With understanding of the PPP promotion policy, the DPWH actually communicates their understanding and promotion of the PPPs through its website, international and local conferences, and its annual reports. The PPP projects by DPWH are also featured in different promotion materials and activities by the PPP Center.

In regards to identification of targeted types of projects for PPPs, the DPWH recognizes each PPP scheme and provides the PPP project list in its website. This includes the information of general bid bulletins, special bid bulletins, and procurement schedules.

4.6 Understanding of the attributes of PPPs

To-be

Based on the recognition that the PPP entails VfM analysis, top management fully understands the likely segments of PPP employments as well as the likely project schemes.

Assessment Result **3/4**

The DPWH top level management understands the PPP benefits and limitations including the need to ensure favorable VfM, importance of project financing, appropriate risk allocation matrix, etc. This is because VfM is a key component of pre-feasibility and feasibility studies undertaken by its transaction advisors.

The DPWH top management and working level management of the PPP Service have a clear understanding of possible PPP schemes and modalities as well. The DPWH has utilized its understanding in PPP in the past and ongoing projects by considering different PPP schemes (e.g. BOT, BTOM, BT, etc.) to come up with an efficient scheme for the project.

In selecting and developing PPP projects, the DPWH follows the BOT Law and the NGA PPP manual, Volume 1, and they also have their own screening criteria.

On the other hand, the ESSD recognizes the lack of sufficient understanding of PPP schemes, and requests for trainings. As for identification of projects for PPPs, the PPP Service still has some difficulties for particular project-specific concerns and asked for technical assistance on this.

4.7 Legal environment for private sector participation

To-be

Laws, regulations, rules etc., to enable private sector participations have been instituted for the segments where private sector participations are expected.

Assessment Result **4/4**

In the Philippines, the legal framework for PPP is stipulated in the BOT law (RA7718) and revised IRR of the said law, while conventional public procurement is set under Procurement Reform Act (RA9184).

The BOT law declares that 'Policy of the State to recognize the indispensable role of the private sector as the main engine for national growth and development and provide the most appropriate incentives to mobilize private resources for the purpose of financing the construction, operation and maintenance of infrastructure and development projects normally financed and undertaken by the Government.

The PPP Center published the NGA PPP Manual and PDMF manuals while the PPP Governing Board issues guidelines, policies, regulations and rules governing PPPs. The laws, rules and regulations have created enabling environment for private sector participants.

The DPWH has a clear understanding of constitutional and legal restrictions and possibilities for private sector to participate in PPP projects and it is reflected in the PPP Service's flow chart, and they can ask for advice or help from the PPP Center and legal advisors in the PPP Service when required.

Regarding risk allocation, the DPWH through the PPP Center and external advisors utilize the PPP Center's Generic, Preferred Risk Allocation Matrix (GPRAM) to clearly identify risk allocation for PPP projects. Compensation in terms of project termination and contingent liabilities are clearly indicated in the concession agreements.

4.8 Responsibilities and decision making processes for implementing PPPs

To-be

From the formulation of potential PPP projects to the implementation and termination of PPP projects, the role of stakeholders in public side, such as IAs, the PPP Center and NEDA, are clearly identified. Moreover, budget allocation system and procurement process for PPP projects are clarified.

Assessment Result 3/4

Publications such as the NGA PPP Manual explain stakeholders' (e.g., IAs, PPP Center and NEDA) roles within public sector. DPWH, especially the PPP Service, has its own flow charts for each division, which determine the roles and responsibilities, and the decision making process in the department, from the formulation of potential PPP projects to the implementation and termination of PPP projects.

As for budget allocation, however, funds are improperly allocated to PAPs (Project Activities and Programs), according to PPP Service, due to the difference of the value requested by PAPs (a market value) and the one provided by the government (a zonal value).

4.9 Incentives towards introduction of PPPs

To-be

Incentives to promote PPP, such as preferential budget allocations to PPP projects have been instituted and utilized.

Assessment Result **1/4**

In terms of organizational budgeting, there is no incentive system such as preferential budget allocation to agencies for promoting PPPs, which is preferable to be set. However, even without that, the DPWH implements PPP projects ahead of other executive departments in the Philippines.

4.10 Establishment of a PPP unit

To-be

The PPP unit consists of the staff necessary to support PPP implementation – i.e., staff with professional expertise (e.g., financial, legal, and technical etc.), project management capability, deal-making as well as public procurement experience.

Assessment Result **3/4**

The DPWH has the PPP Service, which has a clear mission and vision with organized structure as described in detail in 3.1. The DPWH has a relatively matured PPP unit, but they also recognize the necessity of further improving themselves with legal and financial knowledge additionally.

4.11 Provision of PPP capacity building and training programs on PPPs

To-be

Training programs for the staff in the PPP unit and related section, in order to develop their capacities, have been instituted, and regularly carried out. Participations to these training programs are prerequisites for promotions and incentive bonuses etc.

Assessment Result **3/4**

The PPP Center provides direct advisory services and legal advice for the DPWH PPP projects in PPP project preparation and development (on an “as needed” basis) aside from providing access to manuals / guidelines and capacity building seminars and workshop. DPWH itself provides several in-house trainings on planning, design, construction and maintenance of infrastructure development, but very limited for PPP-related seminars and trainings.

As for career promotion, there is no clear pathway for career promotion by participating in educational programs of PPPs. As an organic organization in the DPWH, personnel for the PPP Service adheres to standard government career progression processes.

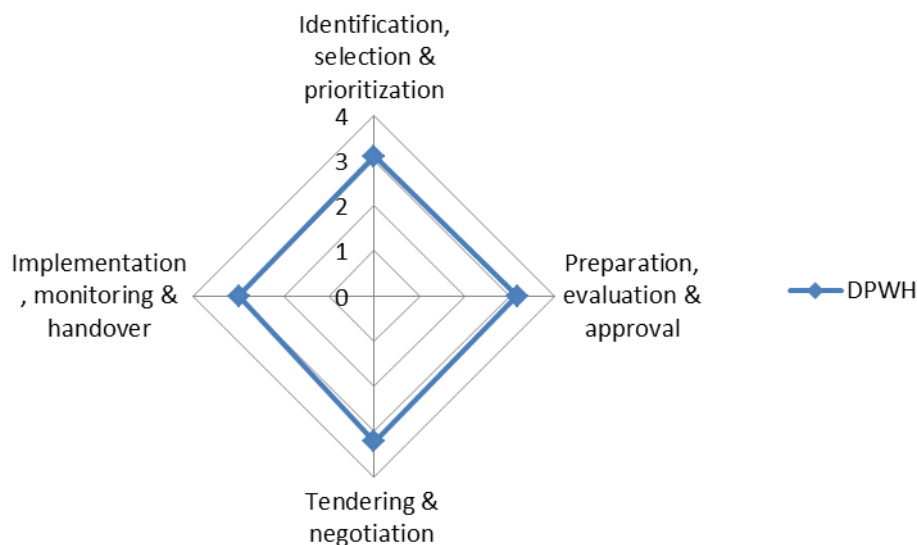
5 Capacity Subject Area 2: Basic Skills for Undertaking PPP Processes

This capacity subject area examines DPWH’s experience in undertaking all PPP processes—from project identification to project implementation.

The basic skills for undertaking PPP processes are high at current DPWH, as management and working-level people of PPP Service have experienced many PPP projects in toll road sector. DPWH and its PPP Service have also established systematic PPP delivery process and improved its system. By implementing PPP projects, DPWH as an organization, have accumulated PPP related skills. On the other hand, due to its department mandate, there are not sufficient professionals in financial and legal fields for PPPs. Although the DPWH hires external financial and legal consultants who support PPP planning, development and project implementation, it might not be sufficient to cope with increasing number of PPP projects and complicated PPP business structures.

DPWH’s performance against this capacity subject area is shown in Figure 5.1.

Figure 5.1: Scores of Basic Skills for Undertaking PPP Processes



5.1 Identification, Selection & Prioritization

This sub-area considers DPWH’s experience in undertaking the early processes in the PPP cycle—project identification, selection and prioritisation.

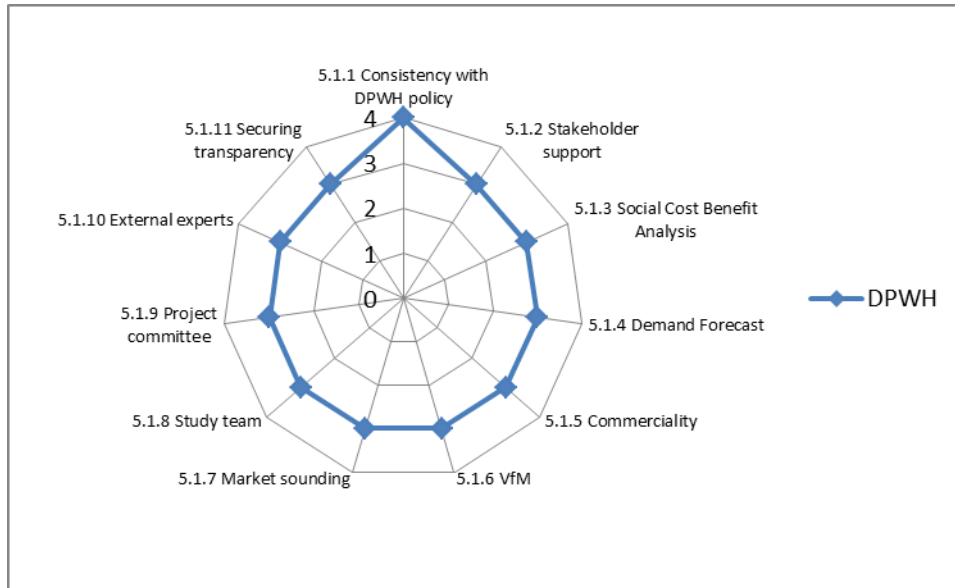
The DPWH has many experiences for identifying, selecting and prioritizing the potential PPP projects. Personnel from the PPP Service are aware of Multi-Criteria Analysis (MCA) approach, which is mentioned in the NGA PPP manual. They practice those criteria for screening the potential PPP projects.

In the case of the NAIA Expressway Project, JICA made the important role for providing the sufficient data and information by cooperating in the preliminary feasibility report with the DPWH. It is likely that the DPWH managed to set the criteria for screening the potential PPP projects.

On the other hand, in the case of Daang Hari-SLEX Link Road (Muntinlupa-Cavite Expressway) Project, as the project was originally implemented by a JV consisting of

public companies, it is unclear that DPWH was authorized to do the scrutinized project selection activities.

Figure 5.2: Scores for Basic Skills for Undertaking PPP Processes



5.1.1 Consistency of the project to the policy of the implementing agency

To-be

The PPP projects are consistent with the implementing agency's policy goal and understood to make significant contribution to the reach policy goal (i.e., the project is the integral part of national policy.). This topic assesses whether the PPP projects are consistent with the national policy of the implementing agency and are identified to contribute to reach the policy goal.

Assessment Result **4/4**

In the 2011-2016 PDP, it is mentioned that massive infrastructure investment is required to achieve Philippines's development target of sustained and inclusive growth. Both the NAIA Expressway Project and the Daang Hari-SLEX Link Road Project have been chosen as the priority projects of the Republic of Philippines under its PPP Program launched by President Benigno Aquino III in November 2010.

The DPWH also sets the PPP Service Objectives for measuring its progress status in which base line and targets are set and evaluated every year.

Table 5.1: DPWH's PPP Service Objectives

| PPP Service Objectives | | Measures | Responsible Unit |
|------------------------|---|--|---|
| Social Impact | Construct safe, seamless and high standard expressways | Percentage kilometer of expressways with acceptable International Roughness Index (IRI) | All Divisions |
| | | Kilometer of operated expressways | Project Development Division (PDD) and Project Implementation and Supervision Division (PISD) |
| ES | Encourage participation of private sector in procurement and bidding activities | No. of investors and lenders participated in the Market Sounding / Investment forum | PDD |
| | Conduct Business Case Studies to determine project viability | No. of PPP projects with Business Case Studies | PDD |
| Processes | Implement the High Standard Highway Master Plan | Bid out Pipeline projects from Business Case up to Full FS designed as PPP program | PDD |
| | Customize PPP bidding and concession agreement | Number of signed concession agreement | |
| People | Enhance competency of PPP personnel. | Number of trained staff as future Managers | Project Manager / Division Chief |
| | Strengthen the PMO-BOT to PPP Service | Number of staff that can participate independently with the TWG in formulating Bid Documents | Project Manager / Division Chief |
| Resources Stewardship | Optimize available resources | % of Project funds released against its programmed allocations | Project Manager / Division Chief |

Source:DPWH

NAIA Expressway Project

The NAIA Expressway Project is expected to contribute to the target of DPWH's "Medium Term Plan 2011-2016" to ease congestion in Metro Manila. Moreover, the High Standard Highway Network Development Master Plan was formulated with the support of JICA in 2010. In the plan, various researches for evaluating the feasibilities of projects have been implemented, the NAIA Expressway project was chosen as one of eight first priority projects. Therefore, the NAIA Expressway project was consistent with DPWH's policy goal.

Daang Hari-SLEX Link Road Project

The Daang Hari-SLEX Link Road was taken as a strategic component of the Metro Manila Urban Expressway System. Although the construction work of the road was originally started by public JV, the DPWH recognized its importance for removing congestion in the Metro Manila.

5.1.2 Stakeholder support during project identification and selection

To-be

Written commitment from each entity that has to do with the project being implemented, be it outside or inside the implementing agency, in order to meet the challenges, has been attained.

Assessment Result 3/4

The Project Development Division (PDD) conducts coordination meetings with stakeholders (attendees, PAP's, etc.). Although coordination meetings are held at the project preparation stage, it is likely that the DPWH internally communicates with relevant units within their department on ROW acquisition, RAP, Environmental and social requirements.

NAIA Expressway Project

The steering committee was launched for implementing "Preparatory Survey for Public - Private Partnership (PPP) Infrastructure Development Projects in the Republic of the Philippines". Stakeholders from within the state such as DPWH, DOTC and NEDA, participated in this committee as the members. However, it is unclear whether the role of each stakeholder was identified at the project formulation stage.

Daang Hari-SLEX Link Road Project

All the stakeholders were identified in an investment proposal by ASDI. However, it is unclear whether the role of each stakeholder was identified at the project formulation stage.

5.1.3 Cost benefit analysis

To-be

A common format for cost-benefit analysis exists and it is utilized in the project study phase (projects that exceed predetermined net present value and cost-benefit have been selected for implementation)

In the PPP framework, the NGA PPP manual stipulates that the social cost benefit analysis should be undertaken as a part of preliminary feasibility study for inclusion in the CIIP and the Philippine Investment Program (PIP). The ICC Project Evaluation Procedures and Guidelines (ICC Guideline) and the NGA PPP Manual provide the methodology and criteria of the social cost benefit analysis. In the analysis, the ICC requires Economic Internal Rate of Return (EIRR) greater than 15%, Net Present Social Value (NPSV) and Benefit Cost Ratio (BCR) greater than zero as thresholds in the evaluation criteria and the Sector Guideline is bound with the methodology and the evaluation criteria derived from the NGA PPP Manual and ICC guideline.

Assessment Result 3/4

The PPP Service of DPWH recognizes the meaning and the importance of social cost benefit analysis mentioned in the NGA PPP manual. However, in the past PPP projects, preliminary studies have been done with the support of international organizations such as JICA. Although the studies supported by international organizations seem to introduce the idea of cost-benefit analysis, it is important to set common formulation and criteria for screening the potential PPP projects.

NAIA Expressway Project

"The Study of Masterplan on High Standard Highway Network Development in the Republic of the Philippines" and "Preparatory Survey for Expressway Project in Mega Manila Region NAIA Expressway Project (PhaseII)" were implemented for evaluating cost-benefit analysis with the support of JICA. However, as these were done by consultants selected by JICA, it is unclear that the common format was completely adopted or not.

Daang Hari-SLEX Link Road Project

The project was initiated by ASDI. In its investment proposal, it quoted the result of an economic evaluation of the project by the DPWH-JICA Study Team, and concluded that the project would achieve considerable economic benefit. ASDI also mentioned, "the net present value (NPV) of the economic benefits that can be derived from the project assuming that it is the only new road built within the CALA study area is estimated at Php 15.93 billion. The computed benefit-to-cost (B/C) ratio is 17.6". That calculation was done based on DPWH evaluations.

5.1.4 Demand forecast

To-be

Demand forecast of a target project is based on the past track record, and scenario analysis such as optimistic, baseline and pessimistic scenarios has been conducted. Also, factors that affect demand forecast have been analysed.

Assessment Result 3/4

Data from the DPWH is provided as available. As the DPWH has much experience for making road master plan, it seems to accumulate related data.

NAIA Expressway Project

The DPWH provided sufficient data and information of the past and relevant projects. Preparatory studies were implemented by collecting current information of travel time, V/C Ratio, average travel speed etc. Through the implementation of preparatory studies, many factors are set such as functional importance of a link in the HSH network and improvement of inter-modal linkage, project readiness, environmental and social impact, economic and financial viability etc. In the "Preparatory Survey for Public - Private Partnership (PPP) Infrastructure Development Projects in the Republic of the Philippines", multiple PPP modalities have been evaluated. Consequently, it confirmed that pure BOT scheme, BOT with subsidy, service payment scheme and lease scheme would be feasible.

Daang Hari-SLEX Link Road Project

The DPWH and the DPWH-JICA study team implemented the project related studies and the data and information of the studies are used in the investment proposal formulated by ASDI. The DPWH, through a JICA technical assistance grant, has hired ALMEC Corporation to carry out the traffic demand forecasting for the priority roads in the CALA study area including the proposed toll road. Through the activities, it is likely that DPWH understands factors that influence demand forecast. However, as the PPP project was originally proposed and implemented by ASDI, it is unclear that they prepared multiple and realistic scenario.

5.1.5 Commerciality

To-be

Similar PPP projects or private sector projects have been implemented in the past and (operational results such as past accounting records are available and the data shows relatively stable income flows) the project is thought to be possible to be sold with good business prospects.

Assessment Result 3/4

In general, the DPWH implements business case through consultants/advisers at the preparation stage. Therefore, although it is unclear that the DPWH collects the financial information of the past PPP toll road projects, it is sure that the DPWH has gathered the data and information of past research studies.

NAIA Expressway Project

Although it was likely that consultants were able to access toll tariff information of existing expressway, it is unclear whether the DPWH provided them with revenue and expenditure structure of existing expressways. On the other hand, in "Preparatory Survey for Public - Private Partnership (PPP) Infrastructure Development Projects in the Republic of the Philippines", two criteria were set:

1. Financially viable if IRR for SPC is higher than WACC (11.5%)
2. Investment viable if Equity IRR is higher than the rate of return on equity (15%)

The NAIA Expressway Project met the both criteria.

Daang Hari-SLEX Link Road Project

Although it was likely that consultants were able to access toll tariff information of existing expressway, it is unclear whether the DPWH provided them with revenue and expenditure structure of existing expressways. As an investment proposal mentioned an expected IRR, it is likely that the DPWH understands the conditions for PPP feasibility.

5.1.6 VfM calculation

To-be

This topic demonstrates whether DPWH properly undertakes the VfM calculation with the appropriate methodology and archives sufficient datasets in the preliminary feasibility study. The JICA Expert Team considers the VfM calculation should be computed based on the similar projects with the Public Sector Comparator (PSC) and the estimated costs of proposed PPP projects. Specifically, it is preferable that the estimated costs of

proposed PPP projects shall be formulated based on the market sounding from the private operators to be more precise on the VfM analysis.

The NGA PPP Manual refers to conduct preliminary VfM analysis, but the figures do not set forth as the criteria in the preliminary feasibility study⁴.

Assessment Result 3/4

NAIA Expressway Project

In "Preparatory Survey for Public - Private Partnership (PPP) Infrastructure Development Projects in the Republic of the Philippines", the comparison between PSC and PFI-LCC was done. Therefore, it is likely that the DPWH understood the factors of VfM and provided equivalent data and information for calculating VfM.

Daang Hari-SLEX Link Road Project

As the project was originally proposed and implemented by ASDI, it is unclear if the DPWH provided them with related data and information at the preliminary stage.

5.1.7 Market sounding (preliminary stage)

To-be

This topic demonstrates whether DPWH properly undertakes market sounding activities at the preliminary stage. The JICA Expert Team considers that there should be official or unofficial networks between public and private entities for the market sounding so that the IA can formulate the viable PPP structures.

The NGA PPP Manual suggests conducting market sounding in the pursuit of building market knowledge and assessing existence and capacity of the market⁵. When conducting market sounding, the DPWH shall prepare the Preliminary Information Memorandum (PIM) to input prospective proponents with the overview of the project.

Assessment Result 3/4

There is a system of holding dialogues with private sector in the DPWH, but not in a periodic way. These are done on a per project basis. In DPWH's internal paper, it is mentioned that it conducts business case studies at the planning & project preparation.

NAIA Expressway Project / Daang Hari-SLEX Link Road Project

Although it could not be confirmed that the DPWH conducted market sounding activities at the project formulation stage, it is assumed the DPWH could provide sufficient data and information from the preparatory studies.

5.1.8 Study team (within PPP Service)

To-be

⁴ NGA PPP Manual Chapter 2.4.1 P28

⁵ NGA PPP Manual Chapter 3.3.1 Box 1.3 P39

This topic considers whether financial, legal and technical experts are staffed in the implementing agency to perform/check items 5.1.1 through 5.1.7 above, and assess their experience in their relevant areas of expertise in PPP projects.

Assessment Result **3/4**

In DPWH's internal paper, it would engage teams of consultants/advisers for preparing business case studies at the project preparation stage. Therefore, the DPWH appears to set up study teams for implementing reliable studies. On the other hand, based on the comments of the PPP Service staff, their internal capacity in terms of legal and financial fields are weaker compared to their technical/engineering capacities.

NAIA Expressway Project

For formulating "Preparatory Survey for Public - Private Partnership (PPP) Infrastructure Development Projects in the Republic of the Philippines", Steering Committee and Technical Working Group (TWG) were established. Members of the Steering Committee consisted of DPWH, DOTC, NEDA and JICA. Members of TWG consisted of DPWH, DOTC and NEDA.

NAIA Expressway Project / Daang Hari-SLEX Link Road Project

Members of TWG of the DPWH consisted of PMO - BOT, PMO - FS, Planning Service, Environment and Social Services Office (ESSO), Infrastructure Right-of-Way (IROW) and PMO - TEAM. However, as mentioned by the DPWH PPP Service, they do not have financial and legal experts on board. While some personnel have broad and general understanding of financial and legal aspects but not proficient enough to do legal and financial analysis and modelling by themselves. Thus, they rely on PPP Center personnel with financial analysis skills and other external experts from time to time.

5.1.9 Project committee (decision making mechanism within the implementing agency)

To-be

This topic considers if there exists a body which decides on the advancement to the next phase based on the performances/analyses of 5.1.1 through 5.1.7 above, and this body regularly carries out meetings.

Assessment Result **3/4**

NAIA Expressway Project / Daang Hari-SLEX Link Road Project

PPP projects primarily involve the office of Undersecretary (Usec) for Planning and PPP as well as the PPP Service. In DPWH's internal paper, it engages teams of consultants/advisers for preparing business cases and feasibility studies at the project preparation stage.

5.1.10 Employment of external experts

To-be

This topic considers whether the implementing agency is proactively studying business prospects in PPP format in view of the items 5.1.1 through 5.1.7, with appropriate external experts.

The PPP Committee can cooperate with external specialists for specialized technical capabilities, such as financial modelling, risk analysis, commercial promotion, business processing, etc., if necessary. The PDMF Guidelines stipulate that consultants to be acquired through the said facility should be selected from among the panel of firms, and the Project Study Committee (PSC) shall review the TOR for the transaction advisory service needed⁶.

Assessment Result 3/4

As previously mentioned, the DPWH hires external advisors/consultants for doing project planning and preparation. With relatively extensive experience, personnel from the PPP Service understand what they can expect external advisors/consultants to provide needed project development and transaction support and understand their reports and outputs. On the other hand, as majority of PPP Service staff are professionals in technical/engineering field, they feel difficulty for coping with legal and financial issues even if they hire legal/financial professionals.

NAIA Expressway Project

Databases and previous studies are lodged in the PPP Service. External professionals are given access to the database by acquiring acceptance and internal office clearances. Moreover, the DPWH understood and made use of the materials from external advisors/consultants.

Daang Hari-SLEX Link Road Project

For submitting an investment proposal, ASDI made use of a lot of materials from DPWH studies. From those studies, the JICA Expert Team could confirm that the DPWH hired consultants with technical/engineering expertise.

5.1.11 Securing accountability and transparency

To-be

This topic assesses if past study materials and data have been centrally collected systematically, so that comparisons among different projects are possible, and whether study results (summary thereof) can be publicized as needed.

Assessment Result 3/4

By default, the DPWH (particularly the PPP Service) institutionally learns from previous projects. It is understood that each project has differences in nature and aspects. The DPWH however, similar to other IAs learn from the experiences of previous projects, both the good and bad aspects.

NAIA Expressway Project / Daang Hari-SLEX Link Road Project

⁶ Project Development and Monitoring Facility (PDMF) Guidelines p.7-8

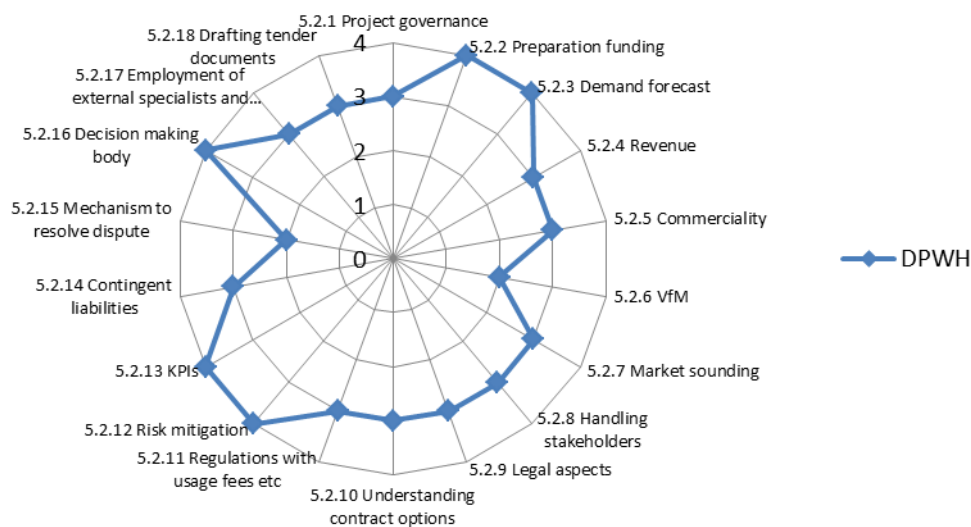
In its website, the DPWH clearly introduces the purpose and the structure of PPP Services. Furthermore, it is possible to have access to the summary of the past PPP projects.

5.2 Preparation, Evaluation & Approval

This sub-area considers DPWH’s experience in undertaking PPP development processes including project identification, selection and prioritisation.

The DPWH implemented the feasibility studies with the PPP Center and other international organizations such as IFC. In the case of the NAIA Expressway Project, IFC and external consultants who were hired by IFC contributed to establish the PPP project structure and the consequent approval from NEDA Board. Although the case of the Daang Hari-SLEX Link Road Project is different from normal procedure, it is assumed that the DPWH worked substantially on the project preparation and evaluation processes.

Figure 5.3: Scores of Preparation, Evaluation & Approval



5.2.1 Project governance

To-be

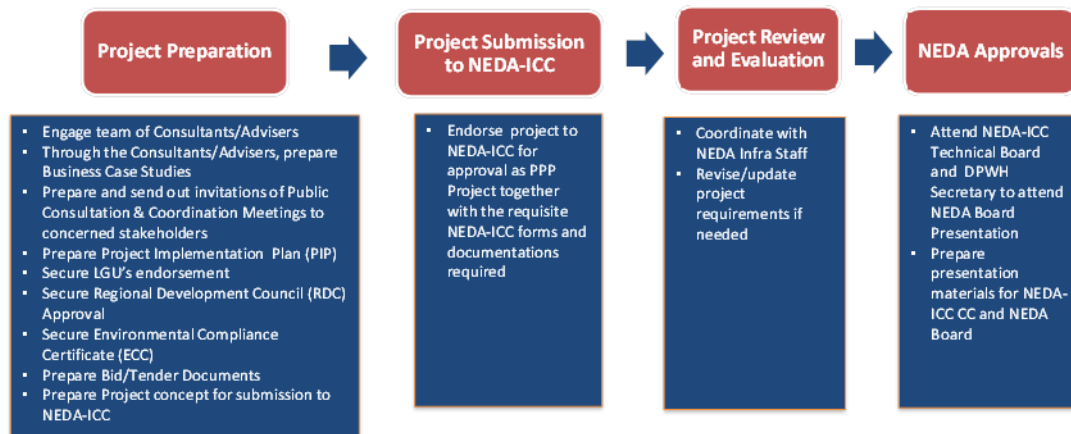
This topic considers whether task force team to implement the project has been launched, had regular communication with the related parties, and had a clear decision-making process.

Assessment Result 3/4

These are being established on a per project basis in the DPWH, this primarily involves personnel from the DPWH PPP Service. In all phases of the project, the DPWH

regularly communicates with different agencies like the Department of Budget and Management (DBM); the Department of Finance (DOF); the Toll Regulatory Board (TRB), etc. A clear decision making structure is set up by way of the IRR of 7718, and the internal operations within the DPWH are defined in their internal document (PPP Service; the Office of the Undersecretary for Planning and PPP (Usec. Cabral) and in some instances Office of the Secretary of Public Works and Highways)

Figure 5.4: Organizational Structure of the DPWH PPP Decision Making



Source: DPWH

5.2.2 Project preparation funding

To-be

This topic examines whether the DPWH ensures it has sufficient resources to prepare a project, through the PDMF, its own budget, or some other funding source.

From the standpoint of regulation, project preparation funds can be sourced from the DPWH budget, PDMF or other donor organizations⁷. If the DPWH utilizes the PDMF fund, the DPWH shall attach the following documents in application; (i) project concept note, (ii) indicative Terms of Reference (TOR) including cost estimates, and (iii) letter nominating the IA's representatives to the SBAC, Project Study Committee and TWG established by the PPP Center⁸.

Assessment Result 4/4

The DPWH has sufficient resources to do feasibility studies through the PDMF. Moreover, the DPWH did equivalent studies with the supports from international organizations.

NAIA Expressway Project

In the Preparatory Survey for Public - Private Partnership (PPP) Infrastructure Development Projects in the Republic of the Philippines, initial project cost was estimated at 12,160 million pesos at 2010 price and O&M cost was also estimated. The initial FS was carried out by IFC working together with the DBP. Later on, a transaction

⁷ NGA PPP Manual Chapter 3.2.4 P37

⁸ PDMF Guideline Chapter 3 P7-8

adviser was hired to carry the project forward and to have an updated FS for this particular project.

5.2.3 Demand forecast

To-be

This topic considers whether the DPWH understands the importance of accurate demand forecasts, and the factors, which influence demand forecasts. It also considers whether the IA provides the required data—including information on past projects—to help transaction advisors generate these demand forecasts, and that it ensures that advisors generate multiple scenarios (optimistic, baseline, pessimistic, and so on).

Assessment Result 4/4

Data from the DPWH is provided as available. As the DPWH has much experience in developing road master plans, it is assumed to have accumulated related data.

NAIA Expressway / Daang Hari-SLEX Link Road

As the DPWH formulated the Highway Network Master Plan and the preparatory survey for PPP, they understand the factors that will influence demand forecasts.

NAIA Expressway Project

Although it is unclear that the DPWH provided consultants with the data and information of the past projects, sufficient data related to the NAIA expressway project had already been collected as the result of Preparatory Survey for Public - Private Partnership (PPP) Infrastructure Development Projects in the Republic of the Philippines. Moreover, with the support of external advisors, the DPWH tried to arrange providing staple finance: the use of Infrastructure Support Facility (ISF) that covers about 50% of total project cost.

Daang Hari-SLEX Link Road Project

In the traffic forecast activities of an investment proposal by ASDI, negative external factors such as economic downturns were identified and those factors were taken into account for deciding the traffic forecast.

5.2.4 Revenue (income source of private sector)

To-be

This topic examines whether the DPWH understands the need to provide the private sector operator with a reliable and sufficient source of revenue and the options for doing so—these options being government payments (such as availability payments, or shadow tariffs), user fees, and supplementary commercial revenue.

The PPP Manual emphasizes that the analysis of income and revenue streams is especially important when the objective of the project is to target lower income households who may not be able to avail of the service at the projected unit cost⁹. In case of toll road projects, the Toll Regulatory Board is responsible for approval and tariff negotiation for all toll roads in the Philippines. Therefore, when set tariff level is not

⁹ NGA PPP Manual Volume 1 Chapter 3.7 P50

expected to be enough to collect upfront investment cost, it might be possible for asking for public intervention. Hence, revenue source for private entities should be carefully evaluated.

Assessment Result **3/4**

In DPWH's internal paper, it coordinates with the PPP Center, the DOF and other government office, financing institutions, and private sectors. Therefore, it is likely that the DPWH will take public intervention for improving project feasibility, if necessary.

NAIA Expressway Project

The Preparatory Survey for Expressway Projects in Mega Manila Region NAIA Expressway Project (Phase II) mentioned the lesson and countermeasure from past similar projects. Legal issues for implementing the NAIA Expressway projects were evaluated in feasibility study and the Preparatory Survey for Expressway Projects in Mega Manila Region NAIA Expressway Project (Phase II). Although there have been no other possible sizable revenue resources aside from toll tariff revenue, the development of a new major leisure and entertainment area were good incentives for potential investors to bid on the project.

Daang Hari-SLEX Link Road Project

Although financial evaluation was implemented in an investment proposal report by ASDI, it was unclear whether it was based on the provision of past financial data and information. Moreover, although the report mentioned some legal issues such as ROW which would influence on project's business structure, it is difficult to ascertain whether a comprehensive approach has been applied to the research. In an investment proposal, toll collection was the only revenue sources. However, it is assumed that the area development would contribute to the increase of traffic volume.

5.2.5 Commerciality

To-be

This topic assesses whether the DPWH understands PPP projects from the perspective of the private sector. That is, they understand the conditions under which a PPP project will be commercially viable and bankable. It also considers whether the IA has used measures in the past to improve the attractiveness of a project to the private sector—such as in-kind contributions, guarantees, and other risk sharing mechanisms.

The brief components of financial model are mentioned in the NGA PPP manual and the manual requires maintaining NPV greater than zero and FIRR greater than WACC to comply the ICC guideline¹⁰. The manual suggests attaining government support in any form if the commerciality is not sufficient as a result of financial analysis¹¹. The sector guideline explains the availability of government support.

Assessment Result **3/4**

NAIA Expressway Project

¹⁰ NGA PPP Manual Volume 1 Chapter 3.8 P51-60

¹¹ NGA PPP Manual Volume 1 Chapter 3.13 75-78

It is unclear if the DPWH provided consultants with detailed financial data and information related to past projects. However, the Preparatory Survey for Expressway Projects in Mega Manila Region NAIA Expressway Project (Phase II) mentioned the lesson and countermeasure from the past similar projects. The NAIA Expressway ended up with the winning proponent paying a bid premium instead of requiring public funding to implement.

Daang Hari-SLEX Link Road Project

It is unclear whether the DPWH provided consultants with detailed financial data and information related to past projects. However, the project IRR based on the investment proposal by ASDI was expected to be 18.10%. Consequently, the government changed the business scheme to PPPs. Therefore, the government seemed to understand that the project's feasibility and viability as a PPP project.

5.2.6 VfM analysis

To-be

This topic considers whether the DPWH understands how to determine if PPP procurement will deliver VfM. It also identifies whether the IA has historical data on project outcomes—under PPP and traditional procurement—from which they can calculate any private sector efficiencies. Such data is essential to the construction of a PSC.

The NGA PPP manual provides the detailed definition of VfM and requires positive VfM in order to proceed to further steps in implementing the project as a PPP project¹².

Assessment Result **2/4**

NAIA Expressway Project / Daang Hari-SLEX Link Road Project

In the feasibility studies, official/unofficial communications with private entities have not been found.

NAIA Expressway Project

It is unclear whether the DPWH provided consultants with sufficient financial data related to the NAIA Expressway Project. However, as the feasibility study evaluated financial issues in detail, it is likely that the DPWH provided the result of pre-VfM assessments.

In the "Preparatory Survey for Public - Private Partnership (PPP) Infrastructure Development Projects in the Republic of the Philippines", the concept of PSC and PFI-LCC was mentioned. As it was mentioned that the projects in which the PSC is higher than PPP - LCC would be suitable for PPP, it is assumed that the DPWH understood the factors of VfM.

Daang Hari-SLEX Link Road Project

Although financial evaluation is implemented in an investment proposal, it cannot be ascertained whether the DPWH provided financial related data for improving the reliability of the report. Moreover, there was no mention about PPP-LCC issues.

¹² NGA PPP Manual P64

5.2.7 Market sounding

To-be

This topic identifies whether the DPWH or the public sector in general has networks with domestic and overseas private sector infrastructure investors and operators. Such networks are essential for measuring private sector interest in potential PPP projects.

As embedded in the NGA PPP manual, market sounding is obligated in the project preparation phase including project selection phase and due diligence phase¹³. At project selection phase, the objective of the market sounding is to build market knowledge, capacity of the market and identify aspects that should be embedded to the project to make it appealing to the private sector. At the due diligence phase, the purpose is to obtain feedback on various technical and financial aspects of the transaction.

Assessment Result 3/4

NAIA Expressway Project / Daang Hari-SLEX Link Road Project

Dialogues for exchanging opinions about general PPP issues with private entities happen but not in a periodic manner. It is done on a project basis.

Market sounding is an embedded practice in all agencies. However, information indicating how/when the market sounding was implemented cannot be obtained. Furthermore, information on whether the results of the market sounding activities were reflected in PPP modality and specific conditions could not be collected. Market sounding also enables the DPWH to gauge the private sector appetite on the project being conceptualized.

As the Highway Network Development Master Plan and preparatory survey for PPP projects have been conducted before the implementation of the feasibility study, it is likely that the DPWH could provide such information.

5.2.8 Handling stakeholders

To-be

This topic assesses whether the DPWH has mechanisms and processes in place to communicate with relevant stakeholders about PPP projects and their potential impact. The JICA Expert Team deems that IAs should precisely identify the project stakeholders and map out their issues and concerns through periodic dialogue so that the IAs can ease potential disputes beforehand to ensure the project development.

At the project preparation phase, the NGA PPP manual stipulates to conduct the Social and Gender Impact Analysis for the affected persons as required by the Indigenous Peoples Rights Act and Bill of Rights of the Constitution that states the private property shall not be taken for public use without just compensation¹⁴. In addition to the Social and Gender Impact Analysis, the manual requires IAs to implement stakeholder consultation from the initial stage of the project development to acquire the strong stakeholder support¹⁵.

¹³ NGA PPP Manual Chapter 3.3.1 P39, and Chapter 3.1.4 P79-80

¹⁴ NGA PPP Manual 3.6 P46-48

¹⁵ NGA PPP Manual Chapter 2.3.1 P

Assessment Result 3/4

NAIA Expressway Project / Daang Hari-SLEX Link Road Project

For the DPWH, since projects have primarily been on toll roads, stakeholders have essentially been the same- DPWH, the Toll Regulatory Board, the DBM, the DOF, the Department of Justice (DOJ), the Department of Environment and Natural Resources (DENR), and concerned Local Government Units (LGUs). In every project, the DPWH shared information with stakeholders. The process of stakeholder handling has not been confirmed in both feasibility studies

5.2.9 Understanding the legal aspects

To-be

This topic measures if all legal requirements that could affect project implementation have been analyzed, the project can legally be pursued in PPP format with no or solvable issue, and public sector has experiences in this kind of legal, and has not experienced project delays due to legal issues that has surfaced in the course of legal requirement analysis.

Assessment Result 3/4

As the DPWH has considerable experience of planning, tendering and implementing PPP projects in the toll road sector, it is ready to provide advisors/consultants with information on relevant laws and regulations. Staff of the PPP Service also understand the concerns which are derived from legal issues.

NAIA Expressway Project

The "Legal framework Chapter" was set in the feasibility studies. In that chapter, governing law, implementing laws and regulations, legal issues and concerns were identified and analysed. Therefore, the DPWH appear to provide advisors/consultants with enough legal information and understand the extent of analysis involved.

Daang Hari-SLEX Link Road Project

It cannot be ascertained whetehr the DPWH provided the related laws and regulatory information for the project. However, it is likely that the DPWH could understand the legal feasibility of proposed PPP scheme.

5.2.10 Understanding of various contract options

To-be

This topic considers if various options such as a pure public sector project, outsourcing of operation and maintenance, management contract, PFI and DB have been listed as a possible and alternative model, and the circumstances that warrant the adoption of a particular model have been clearly stipulated.

Assessment Result 3/4

As the DPWH has considerable experience of planning, tendering and implementing PPP projects in toll road sector, it seems to understand the advantages and the disadvantages of PPP modalities. However, as experience of the DPWH in terms of carrying out PPPs is limited to the toll road sector, it is likely that the DPWH can experience challenges in applying practical knowledge they obtained for other other sectors within their mandate (i.e. sewerage and septage).

NAIA Expressway Project

The PPP modalities had already been evaluated in the preparatory studies. Moreover, section “Comparing BOT, BTO and BT schemes” was incorporated in these studies. Consequently, the report concluded that the project would be implemented through a BTO arrangement.

Daang Hari-SLEX Link Road Project

Evaluation of PPP modalities has not been found in the investment proposal by ASDI. It is unclear, after the change of project implementing entities, how the DPWH decided on structure of a BTO arrangement for the project.

5.2.11 Regulations surrounding usage fees and incentives for the private sector

To-be

This topic assesses if appropriate mechanism is set in place so that user charge level reflects cost of service incurred, and this mechanism can be applied even when operated by a private sector operator. Also, whether incentives are set in place so as to encourage private sector participations is considered.

Assessment Result 3/4

The TRB, which is an attached agency of DOTC, was established in 1977. It has following powers:

- a) grant authority to operate a toll facility and to issue the necessary Toll Operation Certificate;
- b) issue, modify and promulgate the rates of toll that will be charged the direct users of toll facilities; and
- c) approve or disapprove petitions for toll increases

NAIA Expressway Project

In its feasibility studies, revenue for this project would be mainly from toll fees. As a result, the Financial Internal Rate of Return (FIRR) (after tax) which shows the basic indicator of financial viability for public infrastructure projects was 5.41%. The report concluded that the ratio was sufficient to collect upfront costs for constructing the toll road. From those activities mentioned above, the DPWH appears to have evaluated possible options for revenue with the support of external advisors/consultants.

Daang Hari-SLEX Link Road Project

In its investment proposal, ASDI evaluated the estimated revenue for the project. Consequently, they did not seek particular incentives from the public sector for the project.

5.2.12 Risk allocation and mitigation

To-be

This topic looks at whether the DPWH understands the possible project risks and if they archive past risk allocation and mitigation information and analysis from similar projects in the past.

The NGA PPP manual requires IAs to identify risk allocation between the private and public entities and mitigation measures¹⁶. The PPP manual also recommends confirming the feedbacks of private entities on inherent risks and risk mitigations in the pursuit of improving project viability.

Assessment Result **4/4**

Information and data of past projects are archived in the PPP Service. The archived information includes commercial projections and discussions on risks attributed to the projects.

NAIA Expressway Project

Possible risks were identified and analysed in the “Preliminary Risk Assessment” section of the feasibility studies. The risks identified in that section were derived from Long-Range Planning/Programming phase to Operation and Maintenance phase. Each risk was explained in typical risk issues, and objective of risk assessment and expected outcomes were also mentioned in detail. Through those risk assessment, DPWH learned the possible risks if carried out as a PPP and how these risks can be mitigated.

Daang Hari-SLEX Link Road Project

Risk allocation matrix was made in an investment proposal. Therefore, it is assumed that the DPWH understood possible risks.

5.2.13 Key performance indicators

To-be

This area determines whether the DPWH understands the importance of KPIs. In particular, it assesses if they have obtained KPI information from existing public services, if they periodically assess and amend KPIs of existing public services and then are capable of evaluating KPIs of specific PPP projects based on sector wide KPIs.

The NGA PPP manual requires IAs to design the output requirements, or Minimum Performance Standards and Specifications (MPSS) in the technical analysis¹⁷. The sector guideline requires preparing the MPSS that must be aligned with the DPWH needs.

Assessment Result **4/4**

In its website, the DPWH stated that they introduced KPIs to appropriately evaluate performance of private proponents. Moreover, the DPWH sets a PPP Service scorecard in which PPP service objectives and measures were set up. PPP Service objectives and measures mentioned above are annually evaluated.

¹⁶ NGA PPP Manual Volume 1 Chapter 3.11 P68

¹⁷ NGA PPP Manual Volume 1 Chapter 3.3.1 P37

5.2.14 Understanding contingent liabilities

To-be

This topic considers whether the DPWH has identified the contingent liabilities and risks that could arise in the long run and whether possible actions have been considered to address these issues have been incorporated as an “intervention” option in the PPP contract.

As pointed out in the section 5.2.12, the NGA PPP manual obliges IAs to identify the project risks including the recognition of the contingent liability. In line with that, the Manual requires to consider the introduction of incentive mechanism or government support if the private entity is not available to undertake the high project risk with the low commercial viability¹⁸.

Assessment Result 3/4

NAIA Expressway Project

In the section of risk analysis of the feasibility, contingent liabilities such as damage by earthquake, natural hazards-flood, storm, lightning and strong winds were identified. However, expected outcomes were not suggested. Therefore, although the DPWH understands the contingent liabilities and their effects on projects implementation, it is unclear how the DPWH would cope with those problems.

Daang Hari-SLEX Link Road Project

There was no information available that directly mentioned contingent liabilities in the Risk Allocation Matrix for the project.

5.2.15 Dispute resolution mechanism

To-be

This topic assesses if the third party institution is to intervene when dispute between public sector and private sector arises, and fairness has been warranted. Executive Order 78 mandates Alternative Dispute Resolution clauses to be included in current Concession Agreements.

Assessment Result 2/4

NAIA Expressway Project

In the draft bidding document of the preparatory study, it was suggested that the Dispute Resolution Board will provide a more practical instrument to resolve disputes or disagreement than having the top officials of the parties to resolve them.

Daang Hari-SLEX Link Road Project

There was no mention of how disputes are to be resolved in the investment proposal by ASDI for the project.

¹⁸ NGA PPP Manual Chapter 3.1.2 P71-81

5.2.16 Decision making body

To-be

This topic considers if there exists a body (such as a committee) that decides on the advancement to the next phase based on the analyses of 5.2.1 through 5.2.16 above, and this body regularly carries out meetings. The partnership with other stakeholders such as the PPP Center will be assessed as well.

Assessment Result 4/4

The DPWH has strong partnership with the PPP Center from time to time lends a hand in some special aspects of PPP Project development (i.e. finance). The DPWH is also supported by the PPP Center in terms of deciding on pertinent elements such as commerciality of PPP projects. Essentially, the DPWH has a clear structure for decision making that is implemented depending on what issue or matter has to be decided on. During project development, the DPWH as well as PPP Center and transaction advisers meet to discuss possible issues that need to be resolved.

5.2.17 Employment of external specialists and organizations

To-be

This topic assessed if purpose as well as the standing of the project have been clarified to the private sector operator, and mechanism is in place to monitor the progress of private sector operator. Staffs of the DPWH understand the scope of work to be outsourced and they provide appreciate guidance to private sector operator.

Assessment Result 3/4

The DPWH established the PPP Service that consists of staff who are familiar with a good understanding of PPPs, relative to other Implementing Agencies. Moreover, the DPWH has hired legal and financial advisors to help in examining PPP projects. On the other hand, due to its sector character, background of staff are dominated by engineers.

With substantial past PPP experience and the preparatory study which was formulated before the feasibility study, it is relatively easier for the DPWH to communicate with consultants and transaction advisors.

5.2.18 Drafting tender documents

To-be

This topic assesses whether the IA properly prepares the tender documents that reflects the purpose and objectives of IA's policy as the results of considerations of 5.2.1 to 5.2.15. The JV Team considers that tender documents shall be prepared to be consistent with the IA's policy and reflects the outcomes of the feasibility study.

The relevant guidelines and manuals do not expect IA to prepare the tender documents prior to the ICC approval, but it is often practiced overseas that the Terms of Reference (TOR) and other tender documents are attached in the feasibility study so that the IA and other government agencies can elaborate their requirements on the tender process.

Assessment Result 3/4

Due to its experience for delivering PPP procurements, it is likely that the DPWH and its staff understand the detailed conditions written in the draft tender documents. The draft tender documents were consistent with the result of feasibility studies. Conditions stated in the tender documents are reflective of the conditions and matters approved by NEDA.

5.2.19 Securing accountability and transparency**To-be**

This topic assesses how IAs systematically collect and classify past study materials and data so that comparisons among different projects are possible. Also, study results (summary thereof) can be publicized as needed.

Assessment Result 3/4

The DPWH and the PPP Center have systematically collected past research and study reports related to PPPs. It is easy to know DPWH's PPP policy from their website. Moreover, bid results are accessible from the DPWH and the PPP Center websites. However, it is not easy to have access reports and studies except JICA studies. Clearances and formal requests are required to gain access to detailed information on these items.

The PPP process per se is clearly stated in RA 7718. Deviating from the process stipulated in this law is not allowable under the law. On the other hand, lessons from past similar projects are examined in the preparatory study.

5.3 Tendering and Negotiation

This sub-area considers the IA's experience in undertaking tendering and negotiation processes in the PPP cycle from marketing the project and tendering request for proposal to evaluating bids up to the stage of negotiating.

The two projects examined for this assessment adopted a two-stage (pre-qualification, then bid) and two-envelope (technical and financial) bid approach. The DPWH managed to attract many local and international companies/consortium for the participation of the bids. As the same as the stage of 5.2 Preparation, Evaluation & Approval, international organizations and external consultants supported the DPWH and the PPP Center for delivering tendering activities.

Figure 5.5: Scores for Tendering and Negotiation



5.3.1 Marketing the PPP project

To-be

This topic looks at whether the DPWH markets PPP projects for tendering by publishing information which can easily be accessible or through media promotions and presentations.

Under the BOT law, all agencies and LGUs shall provide their respective list of priority projects to be published at least once every six months in a newspaper and the website of the PPP Center if available¹⁹. The publication of invitation to pre-qualification and bid for a particular project should be conducted if the terms and conditions are approved²⁰.

Assessment Result 4/4

In previous PPP projects, the DPWH was positively engaged in marketing and utilizing various types of communication channels to prospective investors and potential private proponents. As a result, the DPWH has succeeded in attracting the interests from local and international companies/consortiums.

NAIA Expressway Project

The PPP Center updates the information of the PPP project pipeline regularly. The DPWH published the "NAIA Expressway Project Preliminary Information Memorandum" and held the investors briefing in June 2011. Moreover, the DPWH and the PPP Center published "NAIA Expressway Project Information Memorandum" in June 2012. In that sense, it is assumed that the DPWH provided potential investors with many opportunities for joining the project. Dialogues through pre-bid conferences have been carried out during the course of bidding out the NAIA Expressway project.

Daang Hari-SLEX Link Road Project

¹⁹ Amended BOT law Section 2.4 P24

²⁰ (BOT law Section 5.2 P33)

The DPWH and the PPP Center published "Daang Hari-SLEX Link Road Preliminary Information Memorandum". The PPP Center updates the information of the PPP project pipeline. Moreover, the DPWH and the PPP Center published "Daang Hari-SLEX Link Road Information Memorandum" in June 2011. Although it is difficult to confirm whether the systematic dialogues were implemented, it is likely that potential investors could have had opportunities to share opinions during the period between the publication of the preliminary information memorandum and that of the information memorandum.

5.3.2 Establishment of an evaluation team

To-be

This topic considers whether the IA has established a committee to evaluate proposals submitted by prospective operators. In particular, it assesses if the committee consists of PPP specialist, financial, legal and technical experts in the relevant field, thus warranting fair evaluation process.

Assessment Result 3/4

The Special Bids and Awards Committee (SBAC) are established for overseeing and managing the tendering processes for PPP projects. Although the detail of the committee and its activities are not accessible to the JICA Expert Team, it is assumed that the SBAC of the NAIA Expressway Project properly evaluated the proposal by bidders based on the evaluation criteria.

5.3.3 Request for qualifications

To-be

This topic looks at whether the DPWH establishes adequate technical, legal and financial criteria for evaluating qualifying potential bidders that enable the PPP to reach its full potential and does not favour particular operators.

The BOT law stipulates the objective of the financial criteria²¹, but not for the technical criteria. Qualification requirements shall be embedded in the instructions to bidders²².

Assessment Result 3/4

This has been done and has been clearly stipulated in bid documents that have been open to the private sector. Moreover, the DPWH and the PPP Center supervised the activities by the external consultants for qualifying prospective bidders.

NAIA Expressway Project

Announcement of the request for qualification has been done at the PPP Center's web site. Information has been updated through SNS (Facebook) as well.

Daang Hari-SLEX Link Road Project

²¹ BOT Law Section 4.2 P9-10

²² NGA PPP Manual Volume 2 Chapter 4.5 P6

Announcement of the request for qualification has been done at the PPP Center's website. In addition, the advertisement of the invitation to pre-qualify to bid was updated at the newspaper.

5.3.4 Request for proposal

To-be

This topic looks at whether the DPWH establishes requests for proposals (RFP) that detail the business structure of the PPP project, the details of requirements (legal, technical and financial) and procurement process, draft of the contract and that the RFP clarifies the roles of the private and public sector.

In the RFP process, the IA is expected to present the project description, risk allocation arrangements and other details of requirements in the Information Memorandum although there is no standard format²³.

Assessment Result 3/4

The DPWH clearly stated and included RFPs in bid documents provided to the private proponents.

5.3.5 Communicating with short-listed candidates

To-be

The topic considers whether that DPWH has clearly stated in the tender documents how and when they will communicate with prospective candidates such as having Q&A sessions.

The NGA PPP Manual stipulates that pre-bid conference shall be conducted thirty (30) working days after the simultaneous issuance of the comparative proposal documents to all bidders²⁴.

Assessment Result 4/4

With considerable PPP experience, DPWH managed to communicate with short-listed candidates for PPP projects.

NAIA Expressway Project

Prospective bidders have been given the opportunities of Q&A in September 2012. The result of Q&As mentioned above was open to everyone by disclosing these in the PPP Center's website. After the Q&A sessions with prospective bidders, several conditions such as Qualification Documents Submission Date have been amended. Moreover, amended information is made available to the public by disclosing these at the PPP Center's website.

Daang Hari-SLEX Link Road Project

²³ NGA PPP Manual Volume 2 Chapter 4.5 P6

²⁴ NGA PPP Manual Volume 2 Chapter 8.2.8 P47

The DPWH held its prequalification conference for the Daang Hari SLEX Link Road Project, following the invitation to prospective bidders to prequalify to the bid. However, it is unclear whether potential investors had Q&A opportunities. Pre-qualified bidders were given opportunities to request for amendments of related documents after the Pre-Bid Conference.

5.3.6 Evaluating bids

To-be

This topic considers whether the IA has established a fair and transparent evaluation process where bids are evaluated against predetermined criteria.

Assessment Result 3/4

The SBAC would essentially have a good understanding of this as they were provided with evaluation templates. The planned outline of the bidding process was published in the NAIA Expressway Project Information Memorandum in June 2012.

5.3.7 Negotiation process

To-be

This topic looks at whether the IA has established a contract negotiation team to finalize the PPP contract granted. It also looks at whether a basic strategy for negotiating has been prepared and authorized within the IA.

Assessment Result 3/4

Although the details of negotiation process was not accessible to the JICA Expert Team, the DPWH successfully managed to sign contracts with awarded bidders for both the NAIA Expressway project and Daang Hari-SLEX Link Road project. This points to the capabilities of the agency to properly negotiate pertinent aspects for the project with private proponents.

5.3.8 Management of transaction consultants

To-be

This topic assesses whether the IA is capable of managing the external consultants who develop the PPP project, market it to the private sector, and oversee the transaction.

Assessment Result 3/4

The PDMF advisors are registered to the PPP Center system. It is likely that the reports by external advisors have been stored in both the PPP Center and DPWH.

The PPP Service of the DPWH, which is the central section for formulating, tendering PPP projects consists of technical, legal and financial professionals. Although it is said that legal and financial functions were relatively weaker than technical/engineering capabilities of their workforce, it is likely that they understand basic structures and principles of PPP projects. On the other hand, the DPWH maintains regular

communication with transaction advisors acquired for project during kick off meetings to level off expectations and the tasks that have to be undertaken.

5.3.9 Decision making body within the IA

To-be

This topic looks at whether a decision body, such as a committee, is established within the IA that oversees the development and tendering of the project before moving onto the next phase - implementation, operation and handover.

Assessment Result 3/4

NAIA Expressway Project / Daang Hari-SLEX Link Road Project

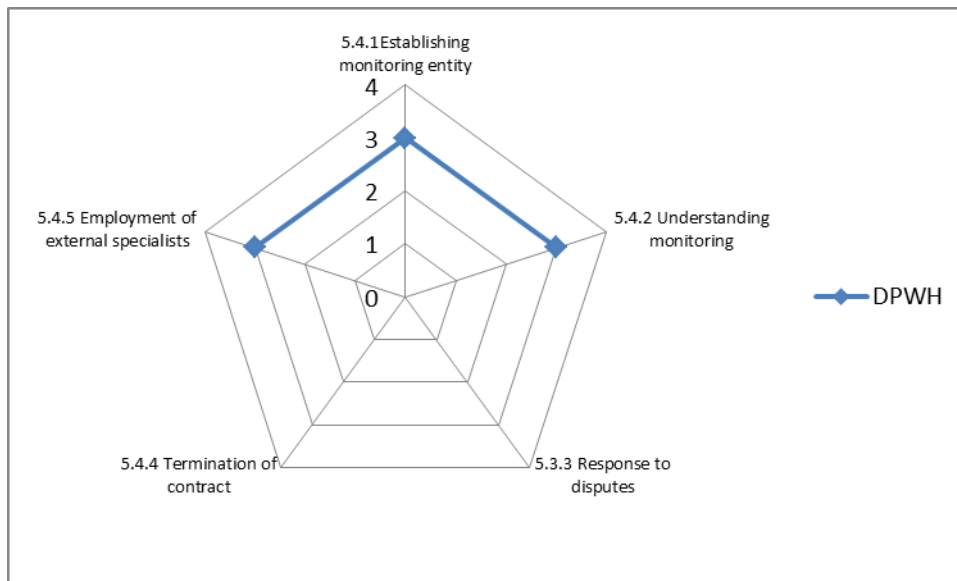
Due to the previous experiences in carrying out a toll road projects as PPPs, it is likely that the DPWH, the PPP Center and equivalent organizations have managed to establish strong working relationship. Moreover, the transaction advisers and in some instances the PPP Center provided the DPWH with sufficient information for decision-making. Although records of the past meetings have not been provided to the JICA Expert Team, it is likely that the DPWH and the PPP Center held regular and special meetings as well as shared common goals because they managed to implement many successful PPP projects.

5.4 Implementation, Monitoring and Handover

This sub-area considers the IA's experience in implementation, monitoring and handover in the PPP cycle.

The JICA Expert Team confirmed that independent consultants have delivered regular monitoring activities, found problems and suggested solutions. However, in both projects assessed, delays were experienced in implementing construction works. As the causes of the delay were ROW issue and on-site challenges, it is possible that the DPWH, other related organizations, and external consultants could not find the potential risks. As the delay of the schedule would make a negative effect of the projects commerciality, it is desired that possible risks are identified and the possible risk allocation and risk mitigation options are set in advance.

Figure 5.6: Scores for the Implementation, Monitoring and Handover



5.4.1 Establishment of monitoring entity

To-be

This topic assesses whether the IA has established an internal monitoring team which prepares monitoring guidelines and KPIs for monitoring based on agreements between the private sector proponent and the IA.

Assessment Result 3/4

In its internal paper, the DPWH monitors and supervises the implementation of PPP Projects in coordination with independent consultants.

NAIA Expressway Project

An independent consultant was appointed and worked in coordination with the DPWH. Coordination meetings, at which the private company, the DPWH(PPPS), the PPP Center, and the independent consultant attend, has been held. As the PPP Center regularly participated in the meetings, it is assumed that monitoring activities have been implemented in coordination with the PPP Center's Policy Formulation, Evaluation and Monitoring Service (PFEMS).

Daang Hari-SLEX Link Road Project

Structure of monitoring activities were clearly stated in the monitoring report. However, cooperation activities between the PPP Service and the PPP Center's PFEMS could not be found in materials provided for analysis.

5.4.2 Undertaking monitoring

To-be

This topic considers whether the DPWH has defined tasks and deadlines which need to be monitored. It also assesses whether the KPIs are regularly monitored and guidance is provided to the private sector proponent when needed.

As per the NGA PPP Manual, the Contract Management Committee will undertake the necessary monitoring and evaluation activities as part of its contract management activities and report to the Project Steering Committee. The Contract Management Committee is composed of the IA, the PPP Center, oversight agencies such as the DOF and other agencies that may be deemed necessary for proper contractual management of projects²⁵. The major monitoring activities will be overseeing the MPSS and financial model projections among others²⁶.

Assessment Result 3/4

Past monitoring reports of PPPs have been systematically archived.

NAIA Expressway Project

As the PPP Center regularly participated in the meetings, it is assumed that monitoring activities have been implemented in coordination with the PPP Center's PFEMS. Based on the analysis and items indicated in reports of monitoring activities, counter actions were pointed out and appropriate actions to address concerns were undertaken.

Daang Hari-SLEX Link Road Project

As the role of independent consultant, they are expected to advise the DPWH and Concessionaire in the event of accidents and recommend solutions.

5.4.3 Response to contingencies and disputes

To-be

This topic looks at how the IA will respond to circumstances, not discussed at the time of the contract, arise.

Per the NGA PPP manual, the Contract Management Committee is the responsible party that should prevent disputes and, if they arise, explore ways to minimize serious impacts on the project to the contract. A first priority is to avoid resorting to arbitration or litigation²⁷

Assessment Result -/4

There has been no termination case in the PPP projects carried out by the DPWH. Therefore, the JICA Expert Team will not put score on this topic.

5.4.4 Termination of contract

To-be

This topic considers whether the DPWH is capable of terminating a project in accordance with the contract. In addition, it assesses the DPWH's capability in providing payment to the private sector proponent based on the calculation agreed on by both the private and public sector.

²⁵ NGA PPP Manual Volume 3 Chapter 11.2 P12

²⁶ MGA PPP Manual Volume 3 Chapter 11.3.5 P26

²⁷ NGA PPP Manual Volume 3 Chapter 10.3.2 P7

The Contract Management Committee should properly calculate the termination payments to the contractor²⁸.

Assessment Result -/4

Conditions for termination are clearly stated in the contract signed with the private proponent. However, there has been no termination case in any of DPWH's PPP projects. Therefore, the JICA Expert Team will not put score on this topic.

5.4.5 Employment of external specialists and organization

To-be

This topic looks at whether the DPWH hires external specialists to help prepare the project, select the private sector proponent and help in the monitoring process.

Assessment Result 3/4

Past monitoring reports of PPP projects have been systematically archived.

NAIA Expressway Project

In a project, independent consultants pointed out the challenges and suggest solutions for improving project delivery. Therefore, it is assumed that independent consultant understand the goals of the project and have regular coordination and communications with the DPWH and the PPP Center.

²⁸ NGA PPP Manual Volume 3 Chapter 11.3.6 P29

6 Challenges Identified and Possible Solutions

In this section, we have identified the challenges the DPWH is facing for most of the items with low scorings, and for each of the identified challenge, we have provided the possible solutions to overcome the challenge.

The content of this section is to be discussed among PPP Center, JICA, the JICA Expert Team and the DPWH, and the concerned institutions may reach agreements as to the “high-level work plans”, after considering, among others, the following 4 items:

- Priority challenges: which challenges need to be overcome with priority?
- Support form: what form of support will be most effective to overcome priority challenges? Will it be in the form of 1) hands-on support, 2) event (such as seminar, training), 3) document (e.g., document on the suggested areas in hospital operations suitable to employ PPP modality –i.e., likely segments of PPP in public works)
- Support initiative: who – PPP Center, the JICA Expert Team, external consultants, etc. – will support the DPWH for each of the identified priority challenges?
- Support span: should the support be provided in short-term (to 2016), mid-term (to mid-2017) or long-term?

To ensure implementation, specific and detailed plans with milestones for each of the high-level work plan may further need to be fleshed out.

6.1 PPP Service

The PPP Service of DPWH consists of skilled personnel who have relatively considerable experience in carrying out PPP projects. The PPP Service as the PPP promoting organization has improved its institutional framework for achieving successful PPP projects. From the result of the assessment, the DPWH, with the support of the PPP Center, international organizations, and external advisors/consultants, have managed to identify, select, develop, tender and implement PPP projects without serious problems.

On the other hand, the JICA Expert Team found several challenges for DPWH in carrying out PPP projects. Among several challenges, one of the biggest concerns identified is the insufficient capacity in financial and legal aspects of PPPs. Although the said problem was not recognised in the assessment of the past projects, personnel from the PPP Service pointed out that their capacity in financial and legal fields are relatively weaker than ideal as opposed to their more robust capacities in terms of technical/engineering aspects as majority of personnel in their organization have engineering backgrounds.

Moreover, DPWH has selected, identified and developed PPPs with the support of international institutions. Considering that the Philippines need ODA or other financial supports from international institutions, it is reasonable for DPWH to receive supports from them. On the other hand, it is important for PPP Service to develop capacity which has been supported by international institutions for functioning as the sustainable section in the long term.

To promote PPPs in the Philippines, the DPWH, as one of the front-runners in advancing PPPs in the Philippines, is expected to broaden and deepen its PPP capacity. In

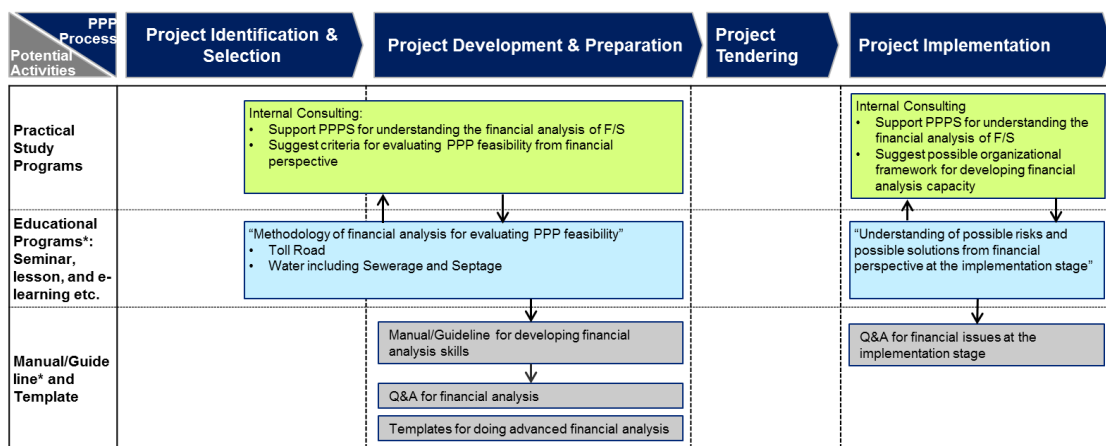
other words, the DPWH needs to increase the number of PPPs which will attract private investors not only in toll road sector but also in other sectors.

As the concept of PPPs includes private finance, public entities should consider how they would set PPP conditions that can make potential investors more confident in stability and certainty of the projects being developed. In this sense, to develop bankable public works projects as PPPs, the importance of enhancing capacities of the DPWH to better manage the financial and legal aspects of PPPs need to be increased. Staff of the PPP Service admittedly identified these two fields in PPP project implementation as their weak spot. Therefore, the JICA Expert Team suggests that the capacity development programs will be mainly focused on achieving advanced financial and legal capacity for developing bankable PPPs.

Figure 6.1: Short-term and Mid-term High-Level Work Plan (to mid-2016)

DPWH staff gain more advanced knowledge and skills in financial and legal fields and knows how to apply them to PPP projects.

- Proposed steps:
 - Internal Consulting : Support PPP Service for understanding the financial analysis of F/S and suggest criteria for evaluating PPP feasibility from financial perspective. Consequently, PPP Service can develop a system to evaluate soundness of financial analysis for PPP projects.
 - Educational programs: Methodology of financial analysis for developing bankable PPPs in Toll Road and Water sectors including Sewerage and Septage sectors.
 - Design of template and manuals for evaluating the financial feasibility of PPP projects including potential ones.
- Support mainly provided by the JICA Expert Team



* Programs and manual/guideline which will be provided in this TA will be a supplement of the PPPC's activities from sector specific views as the PPPC has already provided various types of manuals/guidelines and educational opportunities..

6.2 ESSD

For developing PPPs in Sewerage and Septage sector outside of Manila, the DPWH faces mainly two limitations. One is that there have been few Sewerage and Septage related projects in the Philippines. Furthermore, IAs of the said projects are mainly LGUs or water districts. Therefore, it is difficult for the DPWH to encourage IAs to tackle Sewerage and Septage projects regardless of their project modalities. Although related central government organizations established “Support for the Nationwide Roll-out of the National Sewerage and Septage Management Program (NSSMP)”, there have been no IA/Water districts that started projects as of the beginning of 2016.

The other is that, in general, the Sewerage and Septage projects need a certain degree of public intervention not only in the Philippines but also in other countries. As it is difficult to recover the upfront cost by water treatment fee from users, arrangement of public payments such as availability payment might be needed. Under the condition of few Sewerage and Septage projects in the Philippines, advanced capacity and skills are needed to suggest adequate PPP modality and the level of public intervention.

Considering the challenges of the Sewerage and Septage projects and the role of the DPWH, the JICA Expert Team suggest following designated PPP capacity of ESSD:

- Understanding advantages and concerns of PPPs and developing capacity for applying the basic idea of PPP to Sewerage and Septage projects
- Identification of role of ESSD for supporting LGU/Water district’s activities for delivering the Sewerage and Septage projects showing the PPP option.

Short-term High-Level Work Plan (to 2016)

Screening of likely segments of PPP in the Sewerage and Septage Sector

- End goal: ESSD identifies and understand the basic concept of PPP modalities as it applies in the Sewerage and Septage Sector
- Proposed steps:
 - Breakdown of Sewerage and Septage Sector related services and analysis of existing or potential players
 - Analyse the role and contract conditions of private entities in existing Sewerage and Septage projects in the Philippines and foreign countries
 - Educational programs for encouraging the concept and the process of PPP in the Sewerage and Septage sector
- Support mainly provided by: PPP Center and the JICA Expert Team

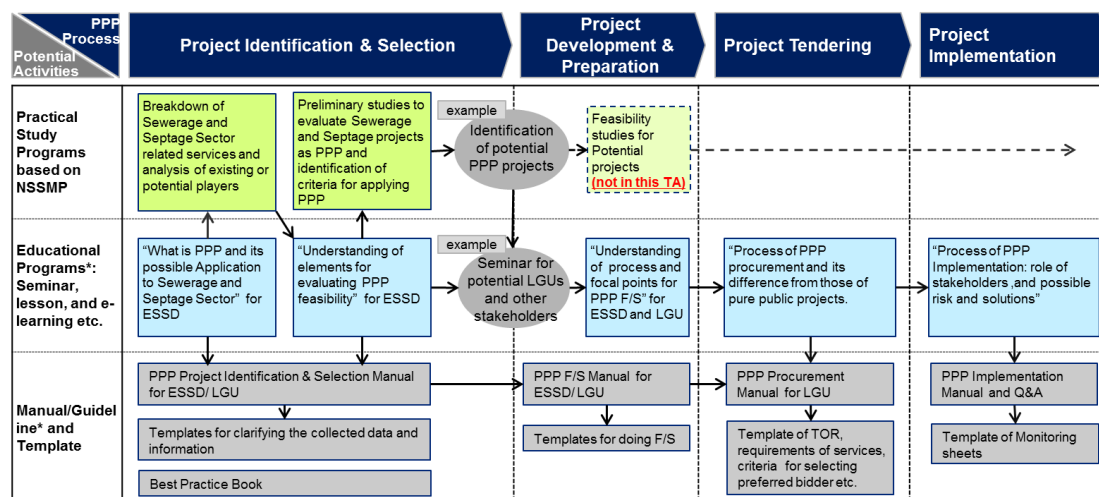
Mid-term High-level Work Plan (to mid-2017)

Implementation of PPP preliminary studies with LGUs/Water Districts

- End goal: DPWH successfully has created the framework for showing PPP options with rationale to LGU/ Water Districts and showing possible support for screening potential PPP projects.
- Proposed work plan:
 - Preliminary studies with LGUs/Water districts to evaluate Sewerage and

Septage projects as PPP and identification of criteria for applying PPP

- Seminars for sharing PPP knowledge with LGUs/Water districts
- End goal: Support mainly provided by: PPP Center and JICA



* Programs and manual/guideline which will be provided in this TA will be a supplement of the PPPC's activities from sector specific views, as the PPPC has already provided various types of manuals/guidelines and educational opportunities..

Table 6.1: Summary of the Weak Points for Delivering PPPs from the Assessment Sheets (Elements of score 1 and 2)

| 4. Basic Understanding of PPP | | | |
|--|-------|--|---|
| Assessment Element | Score | Challenge Identified | Possible Solution |
| 4.9 Incentives towards introduction of PPPs | 1 | Although PPP service worked hard for leading successful PPP projects, incentive system for encouraging PPPs for both organization level and section level are not found. | Re-evaluation of criteria for developing PPPs in not only a toll road sector but also other sectors such as a water and sanitation. Suggestion of incentives for evaluating PPP feasibility at both organizational and section level |
| 5. Standard Process of PPP | | | |
| 5.2 Preparation, Evaluation and Approval | | | |
| Assessment Element | Score | Challenge | Possible Capacity Building |
| 5.2.6 VfM calculations (reiterated) | 2 | It is unclear that DPWH could provide sufficient data and information of past | Capacity development for evaluating the PPP |

| | | | | |
|--------|--------------------|---|--|--|
| | | | <p>road projects for leading reliable VfM calculations. In addition, although the DPWH had basic understanding of the factors which influenced a PPP feasibility in a toll road sector, staffs of PPP Service recognize that they need more discipline for developing PPPs. Furthermore, they are expected to challenge PPPs in new sectors aside from a toll road sector.</p> | <p>feasibility from not only VfM perspective but also bankable and investable perspective of private entities.</p> |
| 5.2.15 | Dispute resolution | 2 | <p>Although the DPWH has not had serious dispute issues, staffs of PPP Service struggle for coping with minor challenges at an implementation stage. Due to the limited number of legal staffs inside PPP Service, the DPWH needs to develop more efficient and riskless project structure from the legal perspective.</p> | <p>Capacity development for attaining basic risk analysis on typical PPP projects in a toll road sector and other DPWH related sectors such as water and sanitation.</p> <p>Development of tools for understanding the legal issues such as Q&A book and lessons from precedent cases.</p> |



Capacity Assessment for DOTC

Report to JICA

**March
2016**

Acronyms and Abbreviations

| | |
|-------|--|
| ADB | Asia Development Bank |
| AFCS | Automatic Fare Collection System |
| BOT | Build-Operate-Transfer |
| BTOM | Build-Transfer-Operate-Maintain |
| CBA | Cost-Benefit Analysis |
| DOTC | Department of Transport and Communications |
| DPWH | Department of Public Works and Highways |
| EIRR | Economic Internal Rate of Return |
| GPRAM | Generic Preferred Risk Allocation Matrix |
| GOCC | Government-Owned and Government-Controlled Corporation |
| IA | Implementing Agency |
| IC | Independent Consultant |
| ICC | Investment Coordination Committee |
| ITS | Integrated Transport System |
| JICA | Japan International Cooperation Agency |
| JV | Joint Venture |
| KPI | Key Performance Indicator |
| LGU | Local Government Unit |
| LRMC | Light Rail Manila Corporation |
| LRT | Light Rail Transit |
| LRTA | Light Rail Transit Authority |
| LRV | Light Rail Vehicle |
| NAIA | Ninoy Aquino International Airport |
| MCA | Multi Criteria Analysis |
| MCIA | Mactan-Cebu International Airport |
| MOU | Memorandum of Understanding |

Confidential

| | |
|------|---|
| MRT | Metro Rail Transit |
| NEDA | National Economic and Development Authority |
| NGA | National Government Agency |
| O&M | Operations and Maintenance |
| PAF | Philippines Air Force |
| PBAC | Project Bids and Awards Committee |
| PDMF | Project Development and Monitoring |
| PDP | Philippine Development Plan |
| PPP | Private-Public Partnership |
| PSC | Public Sector Comparator |
| PSG | Project Steering Group |
| RFP | Request for Proposal |
| RFQ | Request for Qualification |
| ROW | Right of way |
| SBAC | Special Bids and Awards Committee |
| TOR | Terms of Reference |
| TRO | Temporary Restraining Order |
| TWG | Technical Working Group |
| VfM | Value for Money |

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1 Introduction

The Japan International Cooperation Agency (JICA) and the PPP Center of the Philippines have agreed on a PPP Capacity Assessment and Capacity Development Program to improve the capacity of Implementing Agencies (IAs) to undertake PPPs. The Department of Transport and Communications (DOTC) has been selected as one of these IAs.

Directed by JICA, the consultants from Deloitte Tohmatsu Financial Advisory LLC (DTFA) and Castalia Limited (Castalia) - the JICA Expert Team, has undertaken multiple consultations with DOTC and PPP Center staff and conducted a capacity assessment of DOTC using the capacity assessment tool developed by the Team. The tool examines the following areas: cross-cutting PPP issues and selecting, developing, tendering and implementing feasible PPP projects.

Our analysis shows that DOTC—with 21 projects in its pipeline, more than any other IA—has some capacity to develop and tender PPPs. Nevertheless, compared to international best practice, DOTC’s capacity could be improved across all areas examined. In particular, DOTC’s capacity to select PPP projects and implement PPPs is in need of assistance. This is not surprising given that these are the two areas where DOTC does not receive help from external advisors.

Currently DOTC has six PPPs under implementation most of which have only reached the implementation stage in the last two years. Yet the initial stage of PPP implementation is a high risk period in the project cycle. It involves delivering many government obligations such as ROW or existing assets and setting up the institutional structures that will govern and monitor the project over the concession period. Failure to adequately undertake these tasks is likely to lead to long delays and large contingent liabilities for the government, both of which will erode a project’s VfM and may ultimately undermine its objectives.

On this basis, the JICA capacity building program for DOTC will focus on PPP implementation. This work will be integrated with any capacity development activities undertaken by the PPP Center or other organizations. This decision to focus on implementation also reflects the conclusions of the capacity development unit of the PPP Center and is in line with recent requests for capacity building submitted by DOTC to the PPP Center.

The remainder of this report discusses:

- The capacity assessment methodology
- DOTC’s pipeline of projects
- DOTC’s performance against Capacity Area 1: Cross Cutting Issues
- DOTC’s performance against Capacity Area 2: Skills for Undertaking PPPs
- Challenges identified and possible solutions.

2 Capacity assessment methodology

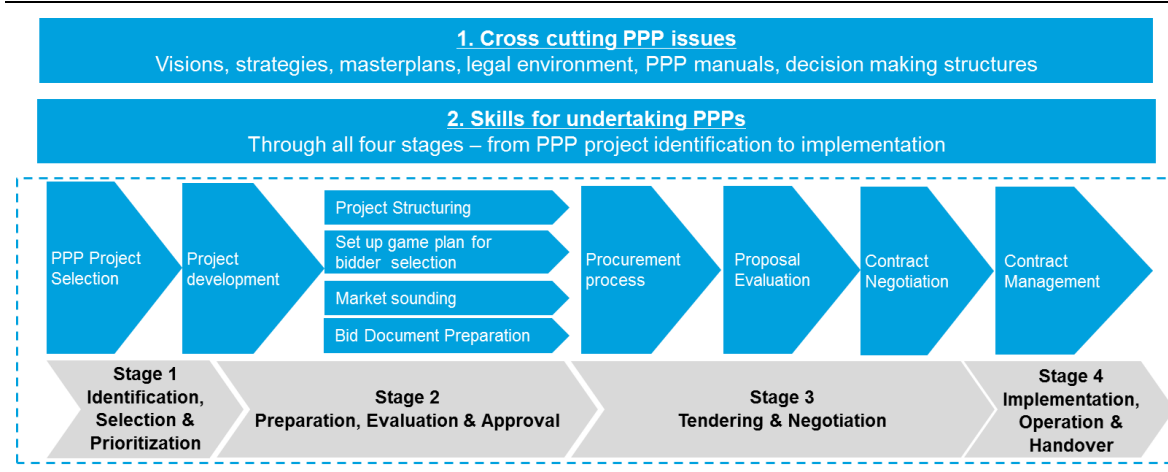
2.1 Capacity assessment content

The capacity assessment tool developed by the JICA expert team consists of a questionnaire that assesses two broad subject areas:

- **Cross cutting issues:** Has DOTC set up the right institutional framework, training programs and guidance material to help staff through PPP processes? Does DOTC understand the objectives of PPPs, the advantages and limitations of PPPs and the desired PPP enabling environment?
- **Skills for undertaking PPP processes:** Does DOTC have the skills needed to identify, prepare, tender and implement PPP projects that achieve VfM?

Each subject area consists of several elements as shown in Figure 2.1.

Figure 2.1: Subject areas assessed by capacity assessment tool



2.2 Capacity assessment procedure

The first step undertaken by the expert team was to collect information on the capacity subject areas from the following sources:

- Project related documents, such as feasibility studies, bid documents, PPP contracts, and any implementation frameworks or processes
- DOTC's pipeline of PPP projects
- Interviews with undersecretaries/assistant secretaries or other IA staff particularly members of the IA's PPP Unit, Project Development Unit and Implementation Unit
- Interviews with PPP Center staff who have worked with the specific IA
- Related laws and regulation documents
- PPP manuals and guidelines

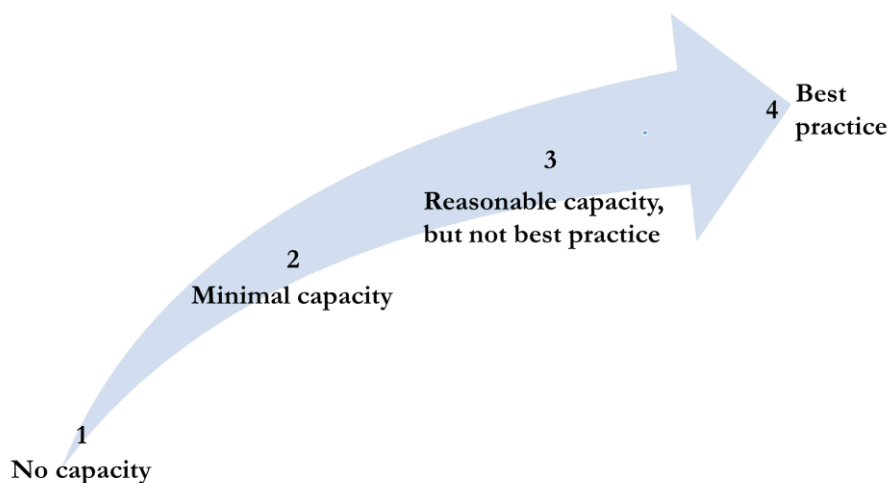
The second step undertaken by the expert team was to use the collected information to complete the capacity assessment questionnaire. The questionnaire covers the two broad

subject areas discussed above. Each subject area is broken down into topics. The results of the questionnaire are presented in Sections 4 and 5.

For each topic, DOTC was scored against a number of sub-topics using the criteria shown in Figure 2.2. For example, the topic “value for money analysis” considers whether DOTC understands how to determine if PPP procurement will deliver value for money (VfM). If DOTC has never conducted VfM analysis, it would score 1. If it has conducted basic VfM analyses for one to three projects and there were no major problems with the analyses, it would score 2. If it has conducted adequate VfM analyses for multiple projects, say four or more, but doesn’t yet undertake the more sophisticated VfM analysis of countries with mature PPP programs, it would score 3. And finally, if DOTC had conducted multiple sophisticated VfM analyses it would score 4.

The third step in the capacity assessment undertaken by the expert team was to examine the results of the questionnaire and determine where DOTC could most benefit from capacity development activities. The conclusions from this work form the capacity development program and are discussed in Section 6.

Figure 2.2: Scoring breakdown



3 Pipeline of PPP projects¹

This Section of the report discusses DOTC's pipeline of PPP projects, first by stage of completion and then by sector. It then sets out a case study for one of DOTC's most complex PPPs and the largest PPP to reach the implementation stage—the Manila LRT Line 1 Extension, Operations and Maintenance Project. The point of this discussion is to provide context to the capacity assessment in subsequent sections of the report.

3.1 PPP projects by stage of completion

DOTC has 21 PPP projects in its pipeline, as shown in Table 3.1. These projects are at various stages of completion, from procuring advisors to contract award and implementation. All of these projects have been supported by the PPP Center.

DOTC has more experience in the early stages of project development, having undertaken these processes more often. DOTC has applied for and received funding from the Project Development and Monitoring Facility (PDMF) to procure advisors for 20 projects; worked with advisors (PDMF or otherwise) to develop feasibility studies for 19 projects; and taken 15 projects to the ICC and NEDA board for approval.

DOTC has started the tendering process for 13 projects and awarded five contracts. In contrast, DOTC has only three PPPs under implementation. These differences in experience no doubt influence the outcomes of the capacity assessment in Section 5.

3.2 PPP projects by sector

3.2.1 Urban Rail

Urban Rail PPPs in Mega Manila make up the majority of the DOTC pipeline with seven projects totalling PHP414 billion. The projects involve contracting out the operation and maintenance of the existing LRT and MRT lines in Manila, extending these lines in some places, a new automated fare collection system and the construction of three new lines including a PHP170 billion - 653km commuter and long-haul rail line in the south on Manila.

The Manila LRT Line 1 Extension, Operations and Maintenance Project, the largest DOTC PPP under implementation, is discussed as a case study in Section 3.3.

3.2.2 Road public transport

DOTC has six road public transport projects in its pipeline. One is a bus rapid transit (BRT) project to link the cities of Navotas and South Caloocan to Manila, Pasay, and Parañaque; three intermodal transport terminals totalling PHP466 billion that will connect passengers from the provinces around Manila to other urban transport such as the LRT, city buses, taxis and other public utility vehicles serving Metro Manila; and finally two IT infrastructure projects with one upgrading the IT infrastructure of the Land Transportation Franchising and Regulatory Board (LTFRB) and the other is for an automated motor vehicle inspection system.

3.2.3 Airports

DOTC has eight airport PPPs in its pipeline with a total project cost of PHP255.59 billion. The Mactan-Cebu International Airport (MCIA) project has reached its financial close with the Megawide-GMR consortium selected as the private counterpart to carry out:

¹ As of January 2016

- the construction of a new passenger terminal
- rehabilitation of existing terminal
- construction of an apron for the new passenger terminal
- operation, maintenance and management of the new and old passenger terminals.

Five other airport projects are in the tendering process with both the NAIA development project waiting for NEDA approval and the Clark International Airport project awaiting the completion of a feasibility study.

3.2.4 Ports

DOTC's pipeline includes a port modernization project in Davao and an integrated roll-on, roll-off ferry system linking multiple islands.

Table 3.1: DOTC PPP projects as of January 2016

| No. | DOTC Projects | Cost (PHP Billion) | Project Status | Sector |
|-----|---|--------------------|---------------------------|------------------|
| 1 | Manila LRT Line 1 Extension, Operations and Maintenance Project | 64.9 B | Handover phase | Urban rail |
| 2 | Automatic Fare Collection System (AFCS) | 1.72 B | Under implementation | Urban rail |
| 3 | Mactan-Cebu International Airport Passenger Terminal Building | 17.52 B | Construction phase | Airports |
| 4 | Southwest Integrated Transport System (ITS) | 2.50 B | Under implementation | Public transport |
| 5 | MRT Line 7 | 69.30 B | Under implementation | Urban rail |
| 6 | South Integrated Transport System (ITS) | 4.00 B | Under implementation | Public transport |
| 7 | LRT Line-2 O&M | No CAPEX | Bid submission | Urban rail |
| 8 | Davao Sasa Port Modernization | 18.99 B | Bid submission | Ports |
| 9 | Bacolod Airport and Iloilo Airport Operations, Maintenance & Development* | 50.66 B | Bid submission | Airports |
| 10 | New Bohol (Panglao) Airport, Laguindingan Airport, and Davao Airport Operations, Maintenance & Development* | 57.53 B | Bid submission | Airports |
| 11 | North-South Railway (South Line) | 170.7 B | Pre-qualification | Urban rail |
| 12 | Road Transport IT Infrastructure (Phase II) | 0.298 B | Issuance of bid documents | Public transport |
| 13 | LRT Line 6 | 65.09 B | Pre-qualification | Urban rail |

| No. | DOTC Projects | Cost (PHP Billion) | Project Status | Sector |
|-----|---|--------------------|-------------------------|------------------|
| 14 | LRT Line 4 | 42.89 B | Pre-bidding stage | Urban rail |
| 15 | Ninoy Aquino International Airport (NAIA) Development | 74.56 B | NEDA approval | Aviation |
| 16 | Motor Vehicle Inspection System (MVIS) | 44.55 B | Feasibility study | Road transport |
| 17 | Clark International Airport | 55.32 B | Feasibility study | Airports |
| 18 | Integrated Transport System-North Terminal | TBD | Feasibility study | Public transport |
| 19 | Central Spine Roll-on/Roll-off (RORO) port network | TBD | Feasibility study | Ports |
| 20 | Manila East-Rail Transit System | TBD | Procurement of advisors | Road transport |
| 21 | R1-R10 Link Mass Transport System Development | TBD | Procurement of advisors | Public transport |

* Regional airport O&M projects have been bid out in two bundles: bundle 1 includes Bacolod and Iloilo airports, while bundle 2 includes Davao, Laguindingan and New Bohol airports.

Source: PPP Centre

3.3 Case study: The Manila LRT Line 1 Extension, Operations and Maintenance Project

With an estimated total expenditure of PHP 64.90 billion (US\$1.30 billion²), the LRT1 and Cavite Extension PPP is the largest PPP awarded under the Aquino administration. Thus it is critical that this contract is implemented well as it carries with it large financial and reputational risks for the government, and it can serve as a model for future concessions.

DOTC and the Light Rail Transit Authority (LRTA) serve jointly as the grantors of the concession. The LRTA is a government owned and controlled corporation (GOCC) and the current owner and operator of the LRT1 and LRT2.

Under the Concession Agreement, the concessionaire is expected to meet the following obligations for a period of 32 years:

- Operate and maintain the existing LRT1
- Finance, design and construct the Cavite Extension. This is an 11.7 km elevated extension from the LRT1's Baclaran station which includes eight stations
- Operate and maintain the integrated LRT1 (existing and extension)

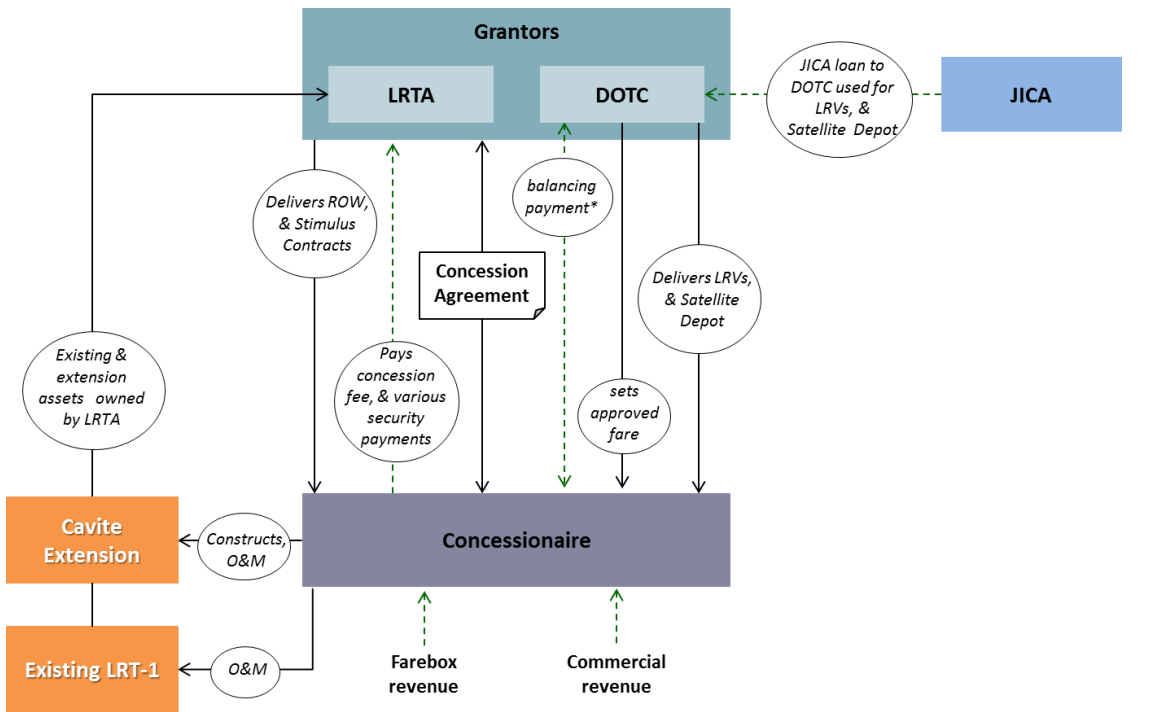
² Exchange on 21 March 2016: 1 PHP = USD 0.022

- Perform system enhancement works covering whole-of-life investments for the integrated system.

Figure 3.1 shows: (i) the main contractual obligations the grantors and the concessionaire have to uphold, and (ii) the key financial flows.

Of the PHP 64.90 billion cost approved by NEDA, PHP 25.44 billion will be provided by the government. This contribution will be in the form of providing 120 light rail vehicles (LRVs) delivering 11.7 linear kilometres of right of way (ROW), completing two stimulus contracts, Automated Fare Card System (AFCS) equipment, constructing the satellite depot and expanding the existing depot. DOTC is responsible for both the funding and delivery of these obligations; in particular, they will need to procure a design and construct contract for the satellite depot. DOTC has signed a loan agreement with JICA to finance the cost of the LRVs and the satellite depot. In addition to these grantor deliverables, if needed, the grantors will also have to provide intermediate ROW (length undefined) and implement Emergency Upgrade Contracts.

Figure 3.1: Main contractual obligations and financial flows under the PPP



Green dotted lines represent flow of money, solid lines represent relationships

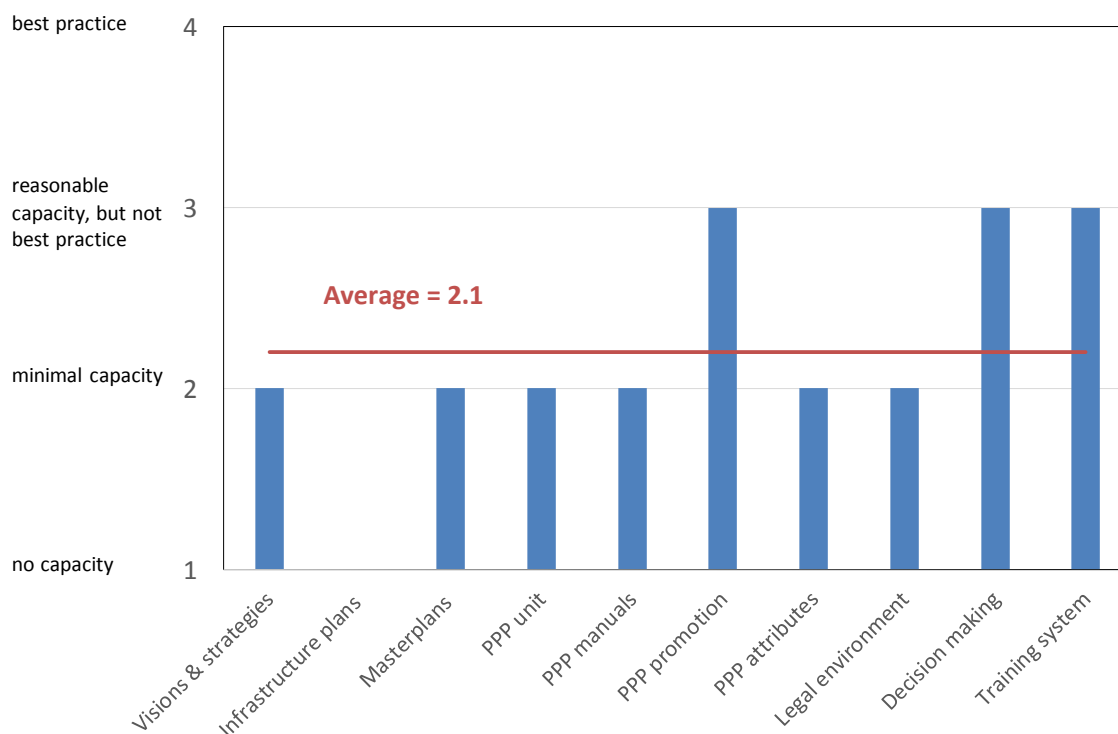
*balancing payments are quarterly payments net of KPI charges, surplus and deficit fares, and any compensation payments

4 Capacity subject area 1: cross cutting issues

This capacity subject area examines whether DOTC sets up the right institutional framework, training programs, planning documents and guidance material to help staff through PPP processes.

DOTC's performance against this capacity subject area is shown in Figure 4.1. The results show that DOTC has a reasonable understanding of PPPs. In particular, DOTC scores highly for its efforts to promote its PPP projects and its take up of PPP training opportunities. Conversely, DOTC scores poorly for its lack of integrated plans for transport sub-sectors, and its failure to set up a designated PPP Unit.

Figure 4.1: DOTC's understanding of cross cutting issues



4.1 Visions and strategies for the transport sector

This topic assesses whether DOTC has formulated a transport vision or strategy. In line with best practice, this strategy should contain concrete numerical targets and should be periodically revised to account for changes in economic and social conditions.

DOTC does not have its own transport vision or strategy. Instead, the Philippine Development Plan (PDP) 2011-2016 which covers multiple economic and social sectors that includes an infrastructure strategy covering the transportation sector is being used to set out specific targets for sub-sectors within the transportation sector. For example, the PDP included targets for:

- Reductions in travel time on the LRT and MRT lines in Manila

- Air passengers carried per year
- Load transported via the central spine of roll-on-roll-off ferries.

A mid-term update of the PDP was published in 2014. The update reflected changes in the economy and tracked progress against targets. It also tracked the country's progress against international transport rankings such as the quality of rail infrastructure indicator compiled in the Global Competitiveness Report of the World Economic Forum.

Given that DOTC does not have its own transport strategy and relies on the national level strategy chiefly prepared by NEDA, its score for this topic is 2/4.

4.2 Medium or long term plans for transport sub-sectors

This topic considers whether DOTC has undertaken medium or long term infrastructure plans for transport sub-sectors (such as urban rail). In line with best practice, these plans should reflect the priorities set out in the broader transport vision or strategy.

DOTC was fully involved and made valid contributions to the NEDA initiated process to formulate the "Roadmap for Transport Infrastructure Development for Metro Manila and its Surrounding Areas", which was funded by JICA. The Roadmap covers the following sectors: rail, road/expressway, road-based public transport, traffic management, airports and seaports. The Roadmap was officially approved by the NEDA Board as a masterplan for the transport sector in Manila.

However, DOTC has not undertaken its own comprehensive sub-sector infrastructure plans for areas outside Manila. Further, DOTC has not developed funding plans for any sub-sectors. Without a funding plan, any sub-sector plans or proposed list of infrastructure projects is not implementable; it is only a "wish list". Projects that do not have sufficient funding cannot be carried out, regardless of whether they are publically procured or procured as PPPs. The Roadmap estimates the cost of the proposed transport projects and puts forward an investment and financing strategy, but stops short of a full funding plan.

Given these mixed results, DOTC's score for this topic is 2/4.

4.3 Masterplans for transport projects

This topic assesses whether DOTC has prepared masterplans for infrastructure projects. In line with best practice, project masterplans should reflect the priorities set out in medium or long term sub-sector infrastructure plans.

DOTC prepares project masterplans on an ad-hoc basis. That is, only some of the projects in DOTC's pipeline have masterplans. Some of these masterplans match the priorities put forward by the PDP. However, DOTC does not tend to follow a formal process of identifying projects based on the PDP.

As such DOTC has only minimal capacity in this area and so scores 2/4.

4.4 Establishment of a PPP Unit

This topic considers whether DOTC has established a PPP Unit with sufficient technical, financial and legal expertise to support the development and implementation of PPPs.

DOTC has ad-hoc teams for PPP projects under the Office of the Undersecretary for Planning. Within this office separate areas take care of different tasks but do not have processes to ensure effective communication. For example, different areas take care of the

PPP project development, PPP tendering, and PPP implementation. This contrasts with DPWH for example, which has established a designated PPP area. This also contrasts with international best practice which encourages continuity of staff and sharing of information throughout the project cycle. This has a number of advantages:

- Staff are obliged to think about how the project will be implemented while designing the project and developing the PPP contract
- Staff are already familiar with the project and the PPP contract at the start of the implementation phase.

DOTC's ad-hoc PPP teams generally include staff with some degree of legal, financial and technical skills. However, experience has shown that DOTC staff struggle with financial issues in particular, and that DOTC often relies on the assistance of the PPP Center and the Department of Finance to manage the financial aspects of project development. DOTC also involves other attached agencies such as the Philippine Ports Authority and the LRTA for advice on technical issues.

A key issue constraining DOTC's ability to develop PPPs is that it cannot hire more permanent staff. This is because DOTC has not completed the staff rationalisation process established by the Arroyo administration in the early 2000's. Until DOTC completes this process its options for staffing PPP teams are to reallocate permanent staff from other areas, or hire staff on a contractual basis. Currently the latter is preferred as it doesn't relate in a loss of staff in another area. As such, PPP development and implementation staff are mostly employed on short term contracts, meaning staff turnover is high and there is no emphasis on retaining staff with experience to work on subsequent PPPs.

Overall, PPP processes could be significantly improved if a designated, well-resourced PPP Unit followed projects from identification through to implementation. As such, DOTC's score for this topic is 2/4.

4.5 PPP manuals

This topic considers whether DOTC has developed manuals or guidelines to help staff select, develop, tender and implement PPP projects. In the Philippines, a National Government Agency (NGA) PPP Manual has been prepared by the PPP Center with help from ADB consultants for all IAs (IAs do not produce their own manuals). As such, the evaluation below pertains to DOTC's use of this national-level manual.

DOTC has not been observed to regularly refer to the NGA manual, and as such its compliance with the manual is mixed. For example, as will be discussed further in Section 5.1, DOTC does not use multi-criteria analysis (MCA) to determine if projects are suitable for PPP delivery or prioritise projects using initial cost benefit analyses. In contrast, DOTC does broadly follow the manual's guidelines for PPP project development and tendering.

Given these mixed results, DOTC's score for this topic is 2/4.

4.6 Promotion of PPPs

This topic considers whether DOTC promotes PPPs as a means of procuring infrastructure projects and services.

DOTC does not have a specific PPP promotion policy. However, they follow the Aquino Administration's policy, as laid out in the Philippines Development Plan 2011-2016, of

promoting PPP procurement to drive infrastructure development in the transport sector. Their PPP pipeline suggests that they are promoting PPPs in the rail and airport sectors in particular.

DOTC promotes PPPs in their pipeline via their website, and at international and local conferences. DOTC projects are also featured in different promotion materials and activities of the PPP Center.

Given this level of PPP promotion, albeit ad-hoc and not governed by an explicit DOTC policy, DOTC's score for this topic is 3/4.

4.7 Understanding the attributes of PPPs

This topic assesses whether senior management understand the advantages and limitations of PPPs and that the key reason to use PPP procurement is to achieve VfM. It also considers whether senior management understand the various PPP modalities and the criteria for choosing between them.

DOTC understands that, if appropriately incentivised, the private sector can operate infrastructure assets more efficiently and achieve greater benefits, leading to better VfM. However, they do not conduct any analysis to determine which projects are likely to deliver greater VfM as PPPs. Further, the misperception that PPPs create additional funds is still apparent within DOTC as well as other agencies.

DOTC understands the different PPP modalities allowed under the BOT law (such as BOT, BT, and BTOM), and directs their advisors to consider these modalities during project preparation. However, they do not follow any systematic process (such as VfM analysis) for deciding between PPP modalities.

Overall, DOTC's score for this topic is 2/4.

4.8 Legal environment for developing, tendering, and implementing PPPs

This topic evaluates DOTC's understanding of the laws and regulations which apply to PPPs, as well as DOTC's compliance with these laws and regulations. It also considers whether any of DOTC's projects have encountered problems or delays due to legal issues.

DOTC understands and adheres to the laws governing PPPs, particularly Republic Act 7718, the "BOT law". Further, DOTC generally directs their advisors to conduct a legal analysis for projects under development.

Nevertheless, DOTC has encountered many legal problems with their projects. For example:

- In August 2015, a temporary restraining order (TRO) was filed and granted to stop DOTC from conducting the bidding process for the Davao Airport Expansion PPP. The petition alleged that DOTC failed to conduct mandated local consultations on the project, and cited irregularities in the bidding process
- In 2009, the DOTC signed a Memorandum of Understanding (MOU) with SM regarding the location and naming rights of a common station for the MRT3, LRT1, and eventually the MRT7. During the subsequent development of the Manila LRT Line 1 Extension, Operations and Maintenance Project, a different site for the common station was selected in order to avoid disruption of the

MRT3 during the construction period and to save PHP1 billion in construction costs. As a result, SM filed a TRO against the project with the Supreme Court (SC) in 2014. As of January 2016, this issue has not been resolved. The TRO has delayed the implementation of the Manila LRT Line 1 Extension, Operations and Maintenance Project, which includes construction of the common station. The TRO is also delaying the financial close of the MRT7 PPP Project. Documents to reach financial close are currently under review by DOTC

- In November 2015, a coalition of groups filed another TRO with the Supreme Court. The TRO alleged that the Manila LRT Line 1 Extension, Operations and Maintenance Project is unconstitutional and not in line with the BOT Law. The petition alleged that:
 - As a franchise for a public utility, the concession agreement was void for being entered into by DOTC and the LRTA when only Congress can grant a franchise for a public utility
 - DOTC violated the right of the people to information on matters of public concern (under Section 28, Article II of the Constitution) since no public consultation was made prior to the signing of the concession
 - The delegation of authority by the LRTA to DOTC and LRMC was illegal as only the LRTA has the mandate to operate and build the LRT1.

The legal basis of these claims is questionable. Various newspaper articles state that they were made by “militant groups”. Submitting gratuitous legal cases is a common tactic in the Philippines, used by interest groups seeking to delay or prevent a project from proceeding or pursuing publicity.

Overall, despite DOTC’s adherence to national laws and processes, they have encountered multiple legal problems. Further, in most cases they have been unable to resolve the legal dispute in a timely fashion, leading to long and costly project delays. As such, DOTC’s score for this topic is 2/4.

4.9 Responsibilities and decision making processes for PPPs

This topic considers whether DOTC understands its role, and the role of other stakeholders such as the PPP Center and NEDA, in developing, tendering, and implementing PPP projects, and if they have established decision making processes for implementing PPPs.

DOTC understands its roles and responsibilities throughout the PPP process, and the decision making structure in DOTC is established. Major decisions for PPP projects are made by the Secretary and Undersecretaries. There are other bodies within the DOTC responsible for decision making at different stages of PPP development. For example: the planning office, which houses the PPP ad-hoc team, makes decisions during the project preparation and approval stages, then the Project Bids and Awards Committee (PBAC) makes decisions during the procurement process.

DOTC has not set up clear responsibilities and decision making processes for implementing its largest PPP, the Manila LRT1 Extension, Operations and Maintenance Project. For example, they have not yet set up a clear delineation of responsibilities between the LRTA and DOTC.

Overall, DOTC's decision making abilities would be improved if a designated, well-resourced PPP team followed projects from identification through to implementation.

Given these mixed results, DOTC's score for this topic is 3/4.

4.10 Provision of PPP capacity building and training programs for PPPs

This topic assesses if DOTC provides training or capacity building programs for staff that work on PPPs and if attending these programs influences a staff member's career progression.

DOTC project development staff actively participate in training and seminars organized by the PPP Center or donor agencies. The PPP Center also provides access to manuals and guidelines.

However, there is no clear link between improving PPP skills and promotion within DOTC. This is exacerbated by the fact that most of the project development staff are employed on a contractual basis.

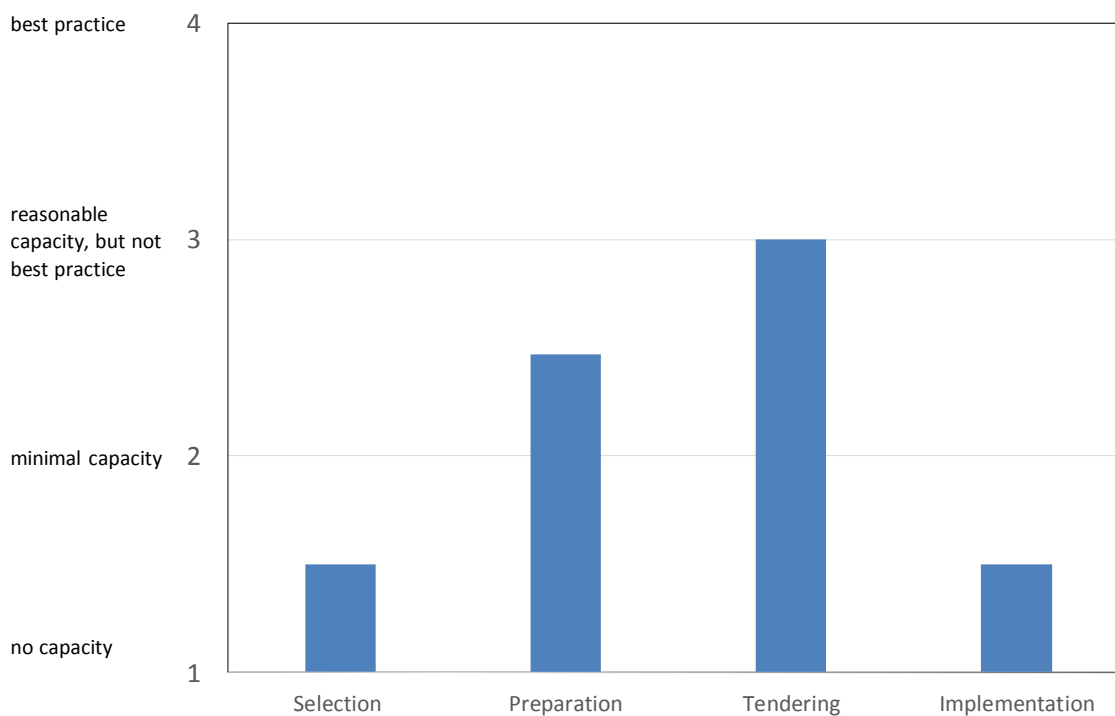
DOTC's score for this topic is 3/4.

5 Capacity subject area 2: skills for undertaking PPPs

This capacity subject area examines DOTC’s experience in undertaking all PPP processes—from project identification to project implementation.

DOTC’s performance against this capacity subject area is shown in Figure 5.1. The results show that DOTC has some capacity to undertake project development and tendering with the help of its advisors. DOTC performs worse against those areas where they do not use external advisors—project selection and project implementation.

Figure 5.1: DOTC’s standard processes for PPPs

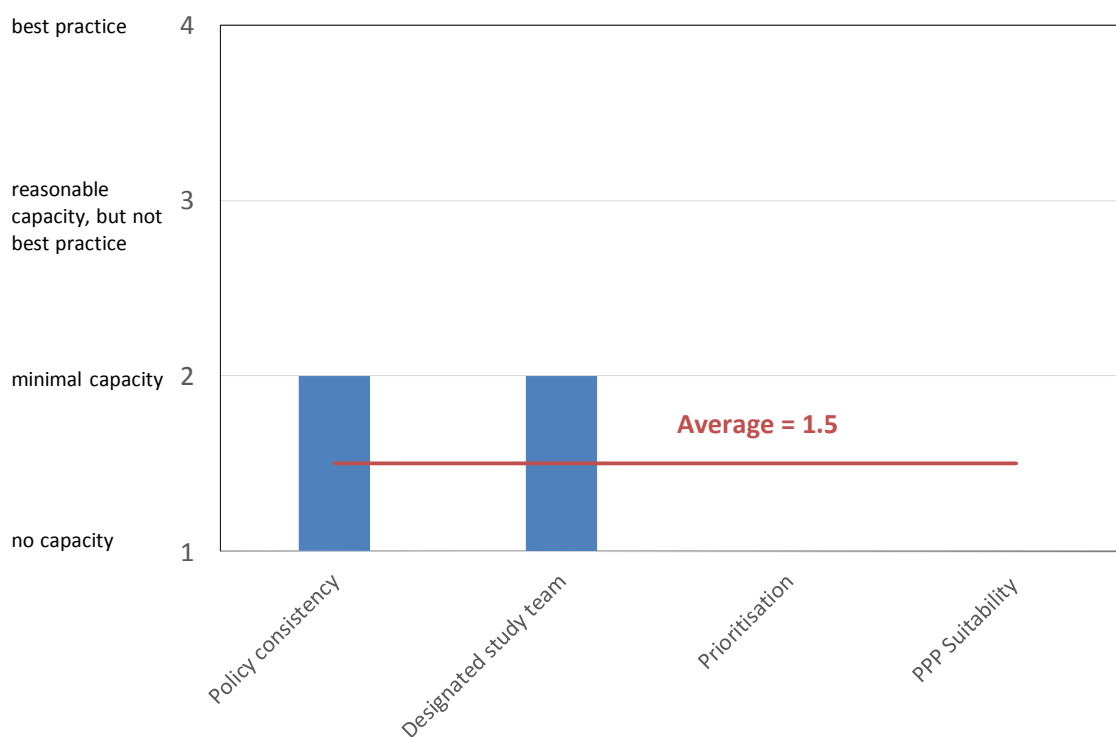


5.1 Identification, selection, and prioritization

This sub-area considers DOTC’s experience in undertaking the early processes in the PPP cycle—project identification, selection and prioritisation.

DOTC’s performance against this topic is shown in Figure 5.2. The results show that DOTC struggles with all aspects of project selection.

Figure 5.2: DOTC’s processes for PPP identification, selection, and prioritization



5.1.1 Consistency of the project to the policy of the implementing agency

This topic assesses whether the PPP projects identified by DOTC are consistent with DOTC’s policies and goals.

A number of studies have developed valuable data sources and set out clear priorities for the transport sector in the Philippines, with a particular focus on mass transit in Manila.³ However, the extensive array of studies has not translated into concrete actions. For example, the Metro Manila Urban Transportation Integration Study (MMUTIS), completed in 1999, set out a 15-year scaled-back rail network plan that took into account a projected budget envelope as well as corollary improvements in the road network. Yet very little of this plan has been implemented (the same is true for the major road projects set out in the study).

The major problem is that mass transit projects are developed on a piecemeal basis, and without due regard to the concept of a railway network, much less the importance of integration with other public transport modes such as buses and jeepneys.

Further, it often appears that little thought is applied to the sequencing of projects. Many aspects of infrastructure are complementary—the viability of one project may depend on the existence of another, such that projects need to be developed in a certain order or

³ These include the: Metro Manila Urban Transportation Integration Study (MMUTIS), 1999; Mega Manila Public Transport Planning Support System (MMPTPSS), 2011; Metro Manila Urban Transportation Integration Study Update and Capacity Enhancement Project (MUCEP), 2012; Metro Manila General Transit Feed Specifications (GTFS) Study, 2013; Roadmap for Transport Infrastructure Development for Metro Manila and its Surrounding Areas, 2014; and Metro Manila Road Transit Rationalisation Study, 2014.

concurrently. Yet it is often the case that projects are put forward before complementary infrastructure has been developed. In other cases, projects are brought forward too late, once irreversible plans are underway that undermine the project's viability.

For example, the recently approved PPP for the LRT6 (a 19 km southward extension of the LRT1) needs to integrate with the Manila LRT Line 1 Extension, Operations and Maintenance Project, which is currently under implementation. The proposed solution is to have passengers disembark and transfer between the two rail lines, even though the two lines are continuous. This cost to passengers could have been avoided if the projects were integrated from the start.

Due to these problems, DOTC's score for this topic is 2/4.

5.1.2 Project selection team within a PPP Unit

This topic considers whether a team within the PPP Unit is established to work on project selection, and whether staff in the team have prior experience with PPP projects.

DOTC works collaboratively with the PPP Center for examining potential PPP projects. However, DOTC does not have a PPP Unit nor does it have a specific team focussed on project selection. Instead, as discussed above, DOTC generates ad-hoc teams in the project development division to work on PPP projects. It is not clear whether there are ad-hoc teams to work on project selection.

Further, DOTC's capacity to select and prioritise projects is limited. For example, DOTC staff do not have a good understanding of the Manila mass transit studies conducted by external experts, which they could use to prioritise projects.

As such, DOTC's score for this topic is 2/4.

5.1.3 Project prioritisation

This topic determines whether DOTC undertakes analysis, including initial cost-benefit analyses (CBAs), with which to prioritise infrastructure projects.

The NGA PPP Manual Volume 1 provides guidance for IAs on how to identify, select, and prioritize PPP projects. This guidance refers to the need to conduct a preliminary CBA.

DOTC does not conduct initial CBA during project selection.⁴ Nor is it clear whether DOTC conducts other forms of formal analysis—such as multiple criteria analysis (MCA)—to prioritise projects.

As such, DOTC's score for this topic is 1/4.

5.1.4 Project suitability for PPP procurement

This topic considers whether DOTC conducts analysis to determine whether a project is suitable for PPP delivery.

The National Government Agency PPP Manual, Volume 1 sets out threshold criteria and a framework for multi-criteria analysis (MCA) to help IAs decide whether a project is suitable for PPP procurement. Importantly it emphasises that the purpose of PPP procurement is to deliver VfM, and that a VfM analysis should be part of early project preparation.

⁴ CBA is only conducted during the project preparation stage, as the project needs to show net benefits to be approved by the ICC and NEDA.

However, DOTC has not been observed to comply with its suggestions. DOTC does not formally conduct any analysis to determine a project’s suitability for PPP procurement during the project selection phase. Instead it is following a broad strategy of tendering publically operated assets to private sector operators. A basic level of VfM analysis is undertaken, however this occurs during the feasibility study by transaction advisors once PPP procurement is already selected.

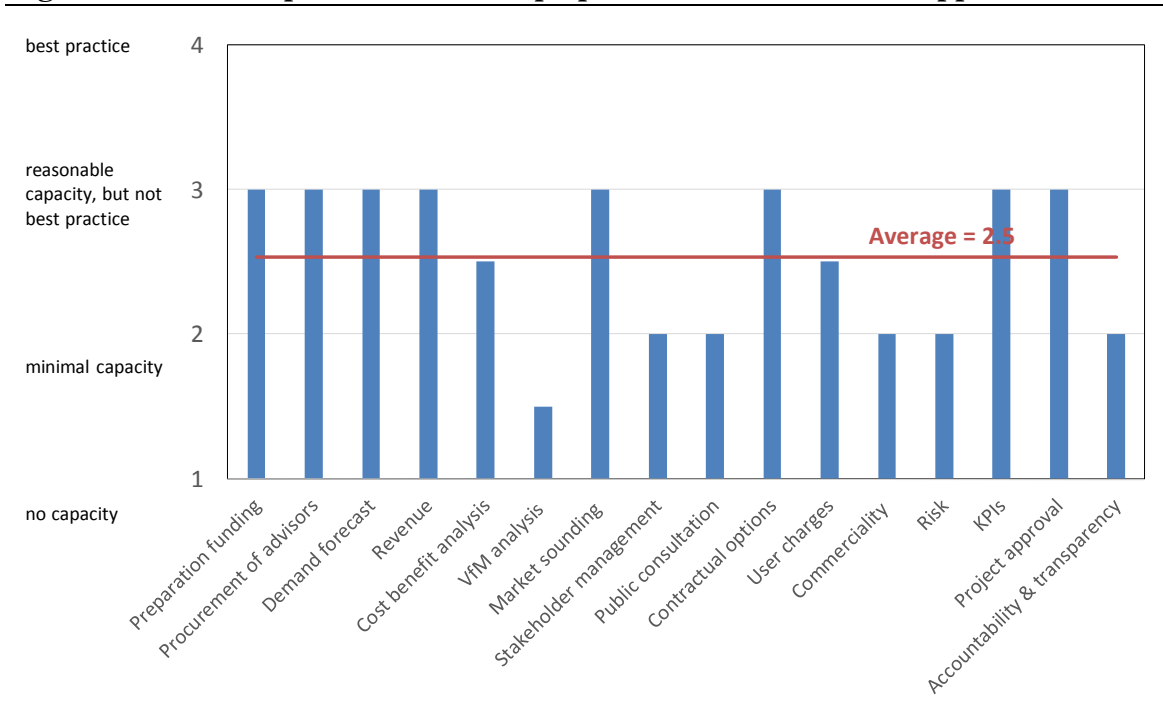
Given these failings, DOTC’s score for this topic is 1/4.

5.2 Preparation, evaluation, and approval

This sub-area considers DOTC’s experience in undertaking PPP development processes including project preparation, evaluation and approval.

DOTC’s performance against this topic is shown in Figure 5.3. The results show that DOTC has some degree of capacity across all topics, with the exception of VfM analysis.

Figure 5.3: DOTC’s processes for PPP preparation, evaluation, and approval



5.2.1 Project preparation funding

This topic examines whether DOTC ensures it has sufficient funding to cover the cost of preparing a project, either through the PDMF, its own budget, or some other funding source.

DOTC has successfully secured project preparation funding from the PDMF for 20 projects. They have also sought funding from donors on limited occasions. For example, the IFC and the Development Bank of the Philippines (DBP) provided advisory services for the development and tender of the Davao Sasa Port O&M PPP, Manila LRT1 Extension, Operations and Maintenance Project, and the Operation and Maintenance of LRT Line 2 Project.

If DOTC is unable to fund project preparation through external sources, they could use their departmental budget and seek reimbursement from the winning bidder for the project. However, this reimbursement is likely to be received in a subsequent budget year, and there is a risk it will not be received at all if the project fails to be awarded.

DOTC's track record of successfully funding project preparation, albeit overly dependent on the PDMF, results in a score of 3/4.

5.2.2 Procurement of external advisors

This topic examines how DOTC procures external consultants to undertake project development and manage the transaction for those PPPs that are selected to move forward.

Almost all of DOTC's PPP projects have been developed by advisors procured through the PDMF. Under the PDMF, the PPP Center is heavily involved in the process of procuring advisors and developing their TOR. As such, DOTC's capacity to undertake this process on their own cannot be assessed.

However, DOTC does have substantial experience procuring consultants for non-PPP projects, particularly for ODA-funded projects. This process is likely to be fairly similar, suggesting that DOTC does have reasonable capacity to procure external experts. Further, DOTC staff include experts in the government procurement law, which also covers the procurement of external consultants.

DOTC's score for this topic is 3/4.

5.2.3 Demand forecast

This topic considers whether DOTC understands the importance of accurate demand forecasts and the factors which influence demand forecasts. It also considers whether DOTC provides the required data—including information on past projects—to help transaction advisors generate these demand forecasts and that it ensures that advisors generate multiple scenarios (optimistic, baseline, pessimistic, and so on).

DOTC understands the impact of demand forecasts on the financial and economic viability of transport PPPs. Demand forecasts are a key part of the work done by their transaction advisors, and they direct these consultants to present multiple realistic scenarios in their feasibility studies.

DOTC are willing to provide transaction advisors with transport demand databases compiled by previous consultants. For example, the origin and destination database for Metro Manila, developed under the Manila Urban Transport Integration Study Update and Capacity Enhancement Project (MUCEP). However, DOTC does not have the skills to use or interpret this data themselves.

As such, DOTC's score for this topic is 3/4.

5.2.4 Revenue considerations

This topic examines whether DOTC understands the need to provide the concessionaire with a reliable and sufficient source of revenue, and the options for doing so, such as: government payments (availability payments or shadow tariffs), user fees, and supplementary commercial revenue (such as leasing LRT station space to retailers).

The PPP revenue stream is generally designed by the project's transaction advisors with input from DOTC. DOTC has shown that they understand the need to provide a suitable revenue

stream. For example, given the policy choice to keep LRT fares low in Manila, DOTC understands that they also need to provide availability payments and allow the concessionaire to collect advertising and rental revenue to make a project commercially viable.

So far, DOTC has experience with user fees, supplementary commercial revenue, and availability payments, but is yet to design a project that includes shadow tariffs.

DOTC's score for this topic is 3/4.

5.2.5 Cost-benefit analysis

This topic determines whether DOTC has experience using CBA to evaluate projects and determine whether they should proceed to tendering.

CBA is undertaken by transaction advisors as part of a project's feasibility study. Some projects may also have a pre-feasibility study that contains a less-detailed CBA. As discussed in Section 5.1.3, DOTC does not use CBA to select or prioritise projects.

DOTC directs their advisors to determine whether projects are economically viable and should proceed. To do so, DOTC uses the criteria set out in the ICC guidelines—the project must have an EIRR of 15 percent or more. However, DOTC staff do not appear to have the skills required to interrogate or modify CBA done by external advisors.

DOTC's score for this topic is 2/4.

5.2.6 VfM analysis

This topic considers whether DOTC understands how to determine if PPP procurement will deliver VfM. It also identifies whether DOTC has historical data on project outcomes—under PPP and traditional procurement—from which they can calculate any private sector efficiencies. Such data is essential to the construction of a Public Sector Comparator (PSC).⁵

DOTC understands that a VfM analysis must be undertaken as part of the feasibility study prepared by the transaction advisors. However, very little emphasis is placed on this analysis by senior staff and it is treated as a compliance exercise. Staff do not appear to understand that VfM must be secured throughout the entire project cycle. Nor do they understand that VfM can only be achieved if the private sector is allocated risks that affect the project's objectives and incentivised to manage these risks. This may be related to the limited ICC guidance on VfM and the simplified PSC calculation required by the ICC and NEDA board. Further, DOTC does not have sufficient data on project outcomes—for both PPPs and publically procured projects—to realistically calculate private sector efficiencies. Therefore, it is also unable to calculate an informative PSC.

DOTC's score for this topic is 2/4.

5.2.7 Market sounding

This topic identifies whether DOTC or the public sector in general has networks with domestic and overseas private sector infrastructure investors and operators. Such networks are essential for gauging private sector interest in potential PPP projects.

DOTC conducts market sounding with assistance from transaction advisors. The transaction advisors prepare lists of questions for DOTC to ask the private sector during market sounding

⁵ The PSC is an estimate of the cost that the government would pay were it to deliver a project by itself.

activities. Market sounding is conducted in the lead up to tendering and may also be performed earlier during the development of the feasibility study. The process is used to gather information from the private sector that can be used to improve the commercial viability of a project.

For example, during market sounding activities for the Manila LRT 1 Extension, Operations and Maintenance Project, the private sector suggested that capital costs could be split between the government and concessionaire such that:

- the government procures the above rail capital (LRT vehicles)
- the concessionaire procures the below rail capital (the mega structure of the railway, stations and signalling system etc).

DOTC responded to these suggestions and incorporated the changes into the project that went to tendering.

So far, DOTC's market sounding activities have been mostly limited to domestic participants. DOTC could potentially increase competition for their PPP projects and improve their projects' VfM by engaging more international investors.

Given these mixed results, DOTC's score for this topic is 3/4.

5.2.8 Stakeholder management

This topic assesses whether DOTC has processes in place to communicate with other government stakeholders, and whether they consistently consult with such stakeholders in order to improve project design, garner support for projects, and secure government approvals.

DOTC generally identifies and directly involves other government stakeholders—such as attached agencies and relevant local government units—during project development. Project study committees consisting of DOTC staff and other stakeholders are usually established for each project to facilitate communication. Agreements are made between stakeholders to establish clearly defined responsibilities.

However, DOTC has struggled to achieve consistent support from its co-grantor—the LRTA—for LRT PPPs. This is related to the loss in responsibility for the LRTA as the operation and maintenance of LRT lines are contracted out to the private sector through PPPs.

Further, DOTC showed an unwillingness to engage with DPWH during the development of the LRT4 PPP project. A proposal was made to include elevated roadway along-side the elevated rail, in order to accommodate the expected increase in road traffic along the route. The cost to build this roadway at the same time as the rail structure would have been significantly lower than building it separately in the future. As this proposal involved roadway, DPWH would have needed to be involved in the PPP. However, DOTC did not explore this proposal with DPWH.

DOTC's score for this topic is 2/4.

5.2.9 Public consultation

This topic assesses whether DOTC has public consultation processes in place and whether such consultation ensures broad-based public support for PPP projects.

Public consultation is one of the mandatory project development processes required for NEDA Regional Development Council approval. Generally, public consultation is done by the transaction advisors with input from DOTC. A key focus of the consultations, especially for rail projects, is to identify any issues with the proposed alignment and make adjustments when required.

There is evidence to suggest that the public consultation undertaken by the advisors and DOTC is not always effective at garnering public support. As discussed in Section 4.8, petitioners recently submitted a complaint to the Supreme Court alleging that the Manila LRT Line 1 Extension, Operations and Maintenance Project is disadvantageous to the government and violates constitutional provisions. Among their complaints they argue that the respondents violated the right of the people to information on matters of public concern (under Section 28, Article II of the Constitution) since no public consultation was made prior to the signing of the concession. A similar petition was made for the Davao Airport expansion PPP.

DOTC's score for this topic is 2/4.

5.2.10 Understanding of various contractual options

This topic determines whether DOTC understands the various procurement options available to deliver projects, such as public procurement, O&M contracts, management contracts, BOTs, JVs, and so on. In particular, it considers if DOTC understands how to select the procurement method that will deliver the greatest VfM and meet other selection criteria.

DOTC was initially assisted by the PPP Center to understand different PPP modalities. However, given their substantial pipeline of projects, DOTC is now sufficiently familiar with the main types of PPP modalities permissible under the BOT law.

DOTC has an adequate understanding of how to select the best PPP modality on a project-by-project basis. They are generally assisted by the PPP Center and their transaction advisors in analysing project viability under different PPP modalities. For example, DOTC advised the external experts preparing the feasibility for LRT4 to consider BT and BTOM modalities.

However, DOTC does not systematically compare PPP procurement to other forms of procurement.

As such, DOTC's score for this topic is 3/4.

5.2.11 Regulations surrounding usage fees and incentives for the private sector

This topic assesses whether DOTC understand how to set appropriate user fees, including the mechanism to adjust user fees during the concession period.

DOTC does not have any standard policy for setting user fees. Instead, user fee structures are developed on a project-by-project basis, with input from market sounding, and then stipulated in the concession agreement.

In setting user fees for recent LRT projects, DOTC has been primarily motivated by ensuring social acceptance of fares. Improving financial viability or incentivising the concessionaire to maximise patronage have been secondary conditions. That is, fares are set well below estimates of willingness to pay and the majority of revenue is provided by availability payments.

For example, fares for the LRT1 PPP were set in line with the existing low fares and then increased every two years according to a formula which takes account of inflation.

As such, DOTC's score for this topic is 3/4.

5.2.12 Commerciality

This topic assesses whether DOTC understands PPP projects from the perspective of the private sector. That is, they understand the conditions under which a PPP will be commercially viable and bankable. It also considers whether DOTC has used measures in the past to improve the attractiveness of a project to the private sector, such as:

- in-kind contributions
- public debt or equity
- guarantees or other risk sharing mechanisms.

While DOTC has experience with in-kind contributions to PPPs, it is somewhat constrained by national policy in its ability to improve commercial viability in other ways. For example, there are no mechanisms through which DOTC could provide public debt or a government guarantee for the direct and contingent liabilities it takes on.

Despite the limited mechanisms available, DOTC has demonstrated its willingness to work with its transaction advisors to improve the commercial attractiveness of its PPP projects. For example, as discussed in section 5.2.7, following market sounding consultations with bidders, DOTC amended the Manila LRT Line 1 Extension, Operations and Maintenance Project such that the government would provide an in kind contribution of the light-rail vehicles, satellite depot, and ROW.

Despite this change, the first tender for the PPP failed to attract sufficient interest. Three of the four prequalified bidders withdrew from the tender, while the lone bidder's offer was deemed unacceptable by the government. The pre-qualified bidders—specifically, San Miguel Corporation and DMCI Holdings—said the project was not commercially viable, even after the government extended the bid deadline twice to give the prequalified bidders more time to draft their offers.⁶

DOTC subsequently consulted with the bidders to improve the commercial viability and bankability of the project. Following consultations, DOTC agreed to cover the concessionaire's real property tax obligations, provide a two-year structural warrantee over the existing LRT1 asset, subsidise unexpected surges in power rates beyond a particular range, permit a 5 percent fare increase upon completion of the project, and to allow the submission of negative bids. DOTC then re-bid the project but still received only one bid.

Other DOTC PPP projects have also received limited interest due to concerns about commerciality. While four companies pre-qualified for the Integrated Transport System (ITS) South Terminal Project, only two submitted bids. Datem Inc. formally withdrew as a bidder because of concerns about the commercial viability of the project.⁷ The Road Transport IT Infrastructure Project attracted only one bidder—the consortium of IL&FS Technologies Ltd.

⁶ Gomez, L. 2014, "LRT expansion not viable", accessed 10 January 2016 at: <http://www.thestandard.com.ph/business/148623/lrt-expansion-not-viable-ang.html>

⁷ Macolor, A. 2015, "DOTC bids out P4-B Integrated Transport System South Terminal project" accessed 10 January 2016 at: <http://kickerdaily.com/dotc-bids-out-p4-b-integrated-transport-system-south-terminal-project/>

of India and SAHI Technologies Unlimited—even after the deadline for submitting bids was extended multiple times.⁸

Although DOTC understands the concepts of commercial viability and bankability, the evidence shows that they have consistently failed to generate sufficient bidding competition. As such, DOTC's score for this topic is 2/4.

5.2.13 Risk allocation and mitigation

This topic examines DOTC's understanding of the process of identifying, evaluating and allocating project risks between the government and concessionaire. It also considers whether DOTC systematically includes risk mitigation measures in the project design.

The risk allocation is undertaken by transaction advisors with support from DOTC. DOTC understands the risk allocation process and the way to allocate common risks—as suggested by the PPP Center's generic, preferred risk allocation matrix (GPRAM). As such, DOTC is able to evaluate the transaction advisors' output at a basic level.

However, DOTC has little experience considering more complicated risks that occur on a project-by-project basis. For example, the LRT6 project is a further extension to the Manila LRT Line 1 Extension, Operations and Maintenance Project. There are technical, administrative, commercial, and legal risks associated with trying to integrate the two lines. DOTC's current proposed solution is to have two separate operators run trains on their section of the track, such that passengers have to disembark and transfer between the two rail lines, even though the two lines are continuous. If the risks associated with integration were considered and managed in advance, this cost to passengers could have been avoided.

Further, DOTC does not have processes whereby the risk evaluation feeds back into the design of risk mitigation measures.

DOTC's score for this topic is 2/4.

5.2.14 Design of key performance indicators

This area determines whether DOTC understands the use of key performance indicators (KPIs) to incentivise the concessionaire to achieve the desired outcomes of the project and whether the process of setting KPIs is informed by the outcomes of previous projects.

The process of establishing KPIs is mostly performed by transaction advisors with input from DOTC. DOTC's PPPs generally include availability payments and an abatement regime for such payments based on the achievement of KPIs. Thus it is apparent that DOTC understands the importance of KPIs in encouraging the concessionaire's performance. However, DOTC has not implemented enough PPPs to accumulate useful information with which to inform the design of KPIs for subsequent projects.

As such, DOTC's score for this topic is 3/4.

5.2.15 Project approval

This topic considers whether DOTC has the capacity to prepare the requirements for ICC and NEDA Board approval.

⁸Desideiro, L. 2016, "DOTC resets LTFRB IT PPP pre-bid talks"
<http://www.philstar.com/business/2016/01/24/1545602/dotc-resets-ltfrb-it-ppp-pre-bid-talks>

DOTC has sent 14 projects to the NEDA Board, all of which have been approved. It has therefore demonstrated that it has the ability to prepare the forms and coordinate the government approvals required to progress a PPP project to tendering. DOTC’s score for this topic is 3/4.

5.2.16 Securing accountability and transparency

This topic assesses whether DOTC systematically archives past study materials and data—such as feasibility studies—so that comparisons among projects are possible. Further, it assesses whether study results are publicised where appropriate to ensure transparency.

DOTC keeps past studies on file, however, they are not centrally located, nor are study results systematically communicated with relevant areas. Very few studies are made publically available.

DOTC considers lessons learned from past projects when designing a new project in the same sub-sector. Indeed, this process is built into the PDMF. TORs for transaction advisors procured under the PDMF include a report that documents lessons from previous projects. The PPP center also has processes for learning from past projects which they draw on when providing assistance to DOTC.

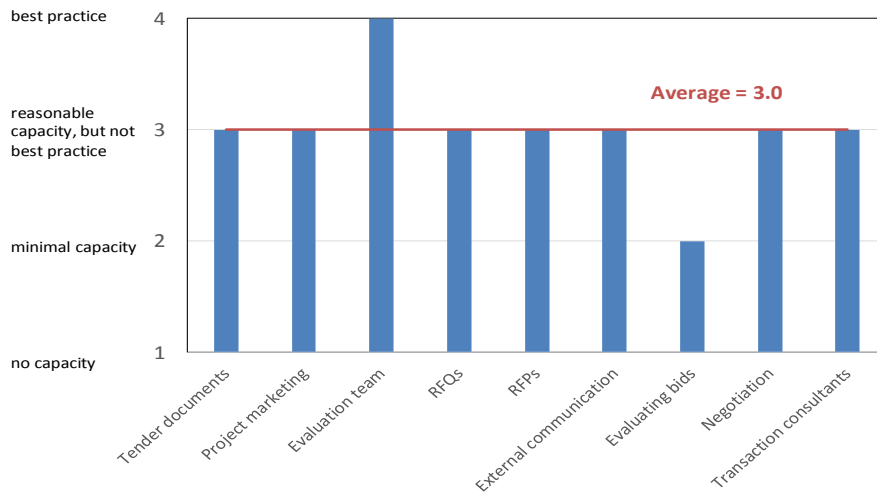
DOTC’s score for this topic is 2/4.

5.3 Tendering and negotiation

This sub-area considers DOTC’s experience in undertaking PPP tendering and negotiation with bidders.

DOTC’s performance against this topic is shown in Figure 5.4. The results show that DOTC has a reasonable degree of capacity across all topics with the exception of project marketing and evaluating bids.

Figure 5.4: DOTC’s processes for PPP tendering and negotiations



5.3.1 Understanding of tender documents

This topic considers whether DOTC understands the tender documents drafted by transaction advisors and can confirm whether they reflect the project's desired outcomes and DOTC's broader policy goals.

DOTC has a firm understanding of the key elements of the tender documents. Among other areas, they provide extensive input to the bid parameters, pre-qualification requirements, and the technical specifications. Tender documents reflect both the original feasibility study and any modification required by the ICC or the NEDA Board.

Tender documents are reviewed by the Project Development Team and approved at the highest level in DOTC—the Secretary.

DOTC's score for this topic is 3/4.

5.3.2 Marketing the PPP project and generating competition

This topic evaluates whether DOTC markets PPP projects for tendering by engaging the media, presenting the project to potential bidders, and ensuring that sufficient information is publically available.

The PPP Center provides information on the country's pipeline of PPP projects on its website and publishes promotional material for potential bidders. The PPP Center also holds regular seminars, the PPP roadshow and other marketing events both locally and internationally. DOTC provides the PPP Center with information on its projects and often participates in PPP Center events. For example, DOTC attended the 2015 PPP roadshow in Canada. However, DOTC does not undertake project marketing activities of its own.

DOTC's track record of tendered PPPs indicate that demand is strongest from large domestic conglomerates and partnerships between these conglomerates and foreign firms. Such partnerships bring mutual benefits. Domestic firms gain access to foreign technology and experience, and foreign firms gain access to the Philippines market (given restrictions on foreign ownership and investment in the Philippines).

Given this level of PPP marketing, albeit with the help of the PPP Center, DOTC's score for this topic is 3/4.

5.3.3 Establishment of an evaluation team

This topic considers whether DOTC establishes a committee to evaluate bids for each PPP project. In particular, it assesses whether the committee includes the expertise required to undertake a fair and accurate evaluation of the bids—PPP, financial, legal, and technical expertise.

DOTC establishes a Project Bids and Awards Committee (PBAC) for every PPP project that goes to tender. DOTC has a screening process to select committee members with capacity to undertake the bid evaluation process. The PBAC is supported by the project's study committee and transaction advisors.

DOTC's score for this topic is 4/4.

5.3.4 Request for qualifications

This topic assesses DOTC's experience in conducting the request for qualifications (RFQ) process and whether DOTC establishes adequate technical, legal and financial criteria for qualifying potential bidders that do not favour or preclude particular operators.

The RFQ process, including the establishment of qualifying criteria, is normally undertaken by the transaction advisors with supervision by DOTC. DOTC also ensures that the RFQ is announced in local and international publications in line with the BOT law. DOTC has undertaken the RFQ process for 12 PPPs over the last five years and so has a reasonable level of experience.

DOTC's score for this topic is 3/4.

5.3.5 Request for proposal

This topic examines DOTC's experience in conducting the request for proposal (RFP) process. The RFP should state the legal, technical and financial requirements of the bidder (if a RFQ was not undertaken), detail the procurement process, include a draft of the contract, and clarify the roles and responsibilities of the private and public sector.

As per the RFQ, the RFP is undertaken by transaction advisors with supervision and approval by DOTC. The PPP Center assists DOTC to approve the RFP documents, particularly the draft contract. DOTC has undertaken the RFP process for 10 PPPs over the last five years and so has a reasonable level of experience.

DOTC's score for this topic is 3/4.

5.3.6 Communicating with qualified bidders

The topic considers whether DOTC has clearly stated in the tender documents how and when they will communicate with qualified bidders, for example through Q&A sessions. It also assesses whether DOTC actually implements these communication processes to ensure a fair tender process.

DOTC details their pre-bid communication arrangements in the RFP documents. With the help of transaction advisors, DOTC holds open pre-bid conferences to provide an opportunity for qualified bidders to ask questions about the RFP documents. DOTC's answers are made available to all in attendance. DOTC also holds closed one-on-one conferences of one hour with each qualified bidder.

DOTC issues bid bulletins on their website detailing any amendments to the RFP documents. This information is publically available.

Given that DOTC follows the required communication procedures, albeit with the help of advisors, their score for this topic is 3/4.

5.3.7 Evaluating bids

This topic considers whether DOTC follows an effective, fair and transparent bid evaluation process based on predetermined criteria and whether the process helps ensure VfM.

DOTC works with their transaction advisors to establish clear bidder evaluation criteria and the evaluation methodology, which are clearly understood by the PBAC. DOTC has a number of policies in place to ensure a fair and transparent evaluation process including:

- DOTC uses a bid challenge system whereby bidders can appeal results

- DOTC provides feedback to bidders if requested
- DOTC publishes the winning bidder on their website.

Despite this setup, DOTC has experienced many problems evaluating bids. First, DOTC's PBACs often struggle to meet their own timelines. In some cases, this is because the PBAC requires more information to make a decision and this information takes time to obtain. In other cases, the PBAC cannot convene in sufficient numbers to form a quorum during the allotted time period. Overall, this demonstrates that, at best, the PBACs are disorganised, and at worst, they do not have sufficient capacity to make informed decisions.

Second, DOTC bid evaluations are often challenged. For example:

- A losing bidder for the Mactan-Cebu Airport terminal PPP—Filinvest-Changi Airport consortium—challenged the eligibility of the winning bidder—Megawide-GMR consortium. This challenge caused delays in the issuance of the notice of award to the winning bidder
- A losing bidder for the Automatic Fare Collection System (AFCS) PPP—SM Consortium—filed a motion for reconsideration. It alleged that the winning bidder violated the PBAC's requirement for an unconditional and unqualified bid.

Many of DOTC's bid evaluations for non-PPP projects have also been challenged. These include the bid evaluations for the: Motor Vehicle License Plates Supply Project, relocation of the Mactan Air Force Base, and a maintenance contract for the MRT3.

As such, DOTC's score for this topic is 2/4.

5.3.8 Negotiation process

This topic examines DOTC's experience with establishing Contract Negotiation Teams and devising and implementing negotiation strategies to finalise the PPP contract with the preferred bidder.

DOTC organises a Contract Negotiation Team per project. This Team negotiates the terms of the contract with the preferred bidder with the help of the transaction advisors. DOTC has finalised four PPP contracts over the last five years and so has a fair understanding of the process. In particular, DOTC undertook extensive negotiations following the second round of bidding for the Manila LRT Line 1 Extension, Operations and Maintenance Project, as the tender only attracted one qualified bidder.

DOTC's score for this topic is 3/4.

5.3.9 Management of transaction advisors

This topic assesses whether DOTC is capable of managing the external consultants who develop the PPP project, market it to the private sector, and oversee the transaction.

DOTC holds an initial meeting with their transaction advisors immediately upon signing their contract. During these meetings they clarify their overall goals and share relevant information with the advisors.

While DOTC does monitor their advisors in terms of their timeline for delivering outputs, DOTC staff often do not have sufficient capability to question the results. DOTC's policies call for Project Development Teams with appropriate technical, financial and legal experts to monitor advisors. However, DOTC has had difficulty fulfilling this policy due to

understaffing. In particular, staff with these specialist skills are often hired on a short-term contract basis and so may not see the project through from development to transaction.

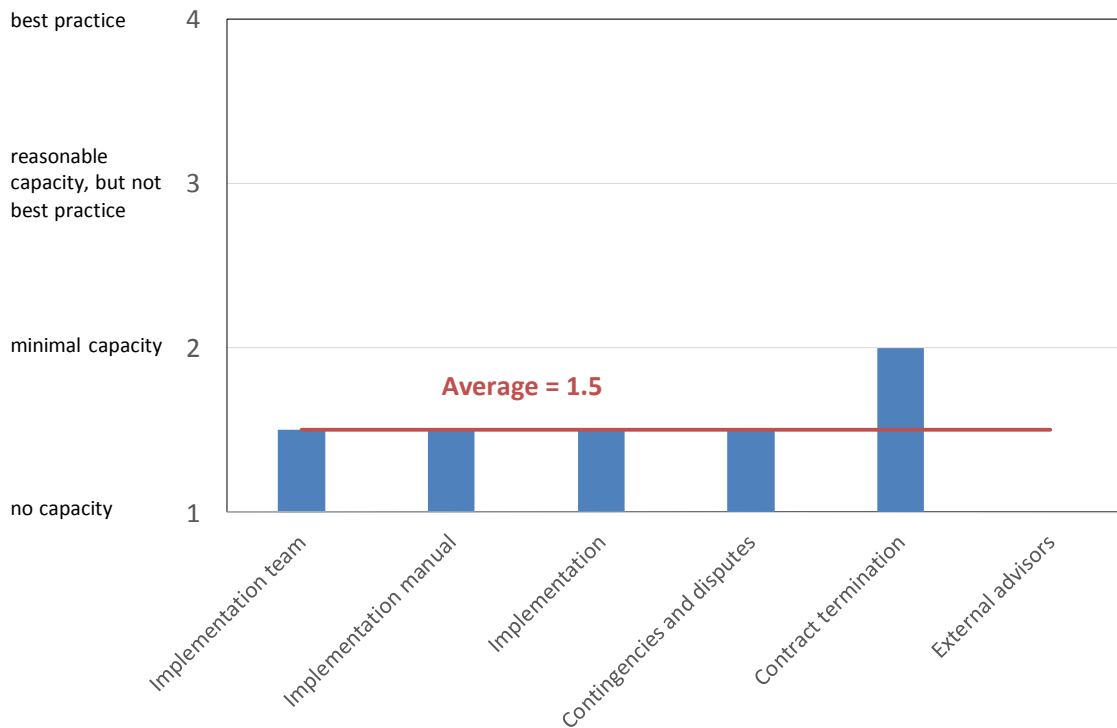
DOTC’s score for this topic is 3/4.

5.4 Implementation, monitoring, and handover

This sub-area considers DOTC’s experience in undertaking PPP implementation, monitoring and handover. DOTC’s performance against this topic is shown in Figure 5.5. The results show that DOTC lacks capacity in all aspects of this area.

This lack of capacity is unsurprising given that only six of DOTC’s projects have reached the implementation phase, and most of these six are only in the early stages of implementation. Each is described below.

Figure 5.5: DOTC’s processes for PPP implementation, operation, and handover



The Manila LRT 1 Extension, Operations and Maintenance Project

The project involves the design, construction, and financing of a 11.7 kilometre extension of the LRT1 from the existing Baclaran Station to Cavite, as well as the operation and maintenance of the integrated system upon completion of the project. The concessionaire will also undertake future system maintenance and upgrades as well as permitted commercial development.

To date, the concessionaire (Light Rail Manila Corporation, LRMC—a joint venture company of Metro Pacific's Metro Pacific Light Rail Corporation (MPLRC), Ayala Corporation’s AC Infrastructure Holdings Corporation (AC Infra), and Macquarie Infrastructure Holdings

(Philippines) PTE Ltd. (MIRA)) has assumed possession and operation of the current LRT1. The concessionaire has completed soft renovation of the stations, and major station renovations are due to start in early 2016.

Actual construction of the Cavite Extension has not started. Construction was originally scheduled to begin in October 2015 but has been delayed due to problems with ROW acquisition including informal settler families' resettlement and utilities relocation, and changes in station location. The current tentative construction start date is June 2016.

The Mactan-Cebu International Airport Passenger Terminal Building

The project involves the construction of a new passenger terminal building in the Mactan-Cebu International Airport (MCIA), with a capacity of around 8 million passengers per year, as well as the operation of the old and new facilities.

The project was awarded in November 2014 to the GMR-Megawide Cebu Airport Corporation. However, construction only started in January 2016. This delay was primarily due to the failed bid for the relocation of the Philippine Air Force (PAF) Base, which occupied the terminal site.

The Automatic Fare Collection System (AFCS)

The project involves the decommissioning of the old, magnetic-based ticketing system and replacement with smart card technology on LRT Line 1 and 2 and MRT Line 3. The concessionaire will operate and maintain the fare collection system and apportion revenues between the separate rail operators.

The contract was signed in March 2014 and the AFCS has been functional since October 2015.

Southwest Integrated Transport System Project

The Southwest Terminal of the Integrated Transport System (ITS) will connect passengers coming from Cavite to other transport systems such as the future LRT1 extension, city buses, taxis, and public utility vehicles that serve Metro Manila. The project includes passenger terminal buildings, arrival and departure bays, public information systems, ticketing and baggage handling facilities, and park-and-ride facilities.

The private partner will undertake the design, construction, and financing of the ITS terminal as well as the operation and maintenance of the whole facility. It can also collect revenue from any commercial developments within the terminal.

The target construction start date for this project is April 2016.

South Integrated Transport System Project

The South Terminal of the ITS will connect passengers coming from Laguna/Batangas to other transport systems such as the future North-South Commuter Railway project (currently the Philippine National Railways), city buses, taxis, and public utility vehicles serving inner Metro Manila. Its structure is the same as the Southwest ITS project.

The target construction start date for this project is October 2016; construction is expected to be completed in 18 months.

MRT7

The project involves the financing, design, construction, operation, and maintenance of:

- a 22 kilometre elevated railway line with 14 stations from San Jose Del Monte, Bulacan to the MRT3 North Avenue station in Quezon City. Of the 14 stations, 3 are depressed/underground, 8 are elevated and 3 are at-grade.
- a 22 kilometer asphalt road from the Bocaue Interchange of the North Luzon Expressway (NLEX) to the intermodal terminal in Tala. This component will divert northern provincial buses operation to San Jose Del Monte in an effort to decongest EDSA.

This project is an unsolicited proposal from Universal LRT Corporation Limited (ULC) which San Miguel acquired 51 percent interest in 2010.

The target construction start date for this project is August 2016; construction is expected to be completed in 42 months.

5.4.1 Establishment of an implementation team

This topic assesses whether DOTC establishes a PPP Implementation Team with the capacity to undertake long-term contract management and monitoring, deliver short-term obligations, and respond to immediate contingencies.

DOTC had not set up a PPP Implementation Team prior to the commencement of the implementation of their first PPPs. In lieu of establishing a new unit, DOTC first attempted to use the implementation staff responsible for non-PPP projects. They hoped this area could also absorb PPP projects. However, this area resisted the increase in responsibility as they felt they did not have sufficient capacity to handle both types of projects. Subsequently, DOTC designated the PPP project development office as responsible for PPP implementation. However, this office was still responsible for developing PPPs in the pipeline and so did not have sufficient capacity for PPP implementation. For example, the Implementation Team for the ACFS project initially consisted of one project development officer with other responsibilities.

Eventually, DOTC realised they would need more capacity for PPP implementation and as such they created a PPP Implementation Unit in mid-2015. Staff were gradually assigned to this Unit as more projects reached implementation. The Unit handles all contract management, coordinating, and monitoring tasks. Technical tasks are handled by the independent engineering consultants. Staff are organised into teams for each PPP project as such:

- Manila LRT Line 1 Extension, Operations and Maintenance Project: 11 staff
- MCIA: 3 staff
- ACFS: 7-10 staff
- ITS Southwest: 3 staff
- ITS South: 4 staff
- MRT7: a separate area is currently handling the MRT7 project. However, DOTC plans to hand over project implementation to a team of 6-7 staff in the Unit.

Not all Teams are mutually exclusive. For example, some staff members working on the Manila LRT Line 1 Extension, Operations and Maintenance Project will also be responsible for the MRT7 project.

Teams are structured around different components of the project. For example, the team for the Manila LRT Line 1 Extension, Operations and Maintenance Project currently includes a project manager and four sections:

- Existing System Section
- Right of Way Section
- Automated Collection Fare System (ACFS) Section
- Common Station Section

The Team is staffed to deal with the immediate tasks at hand—the hand-over of the existing asset and preparation for the construction phase. Recently, DOTC hired more staff for the ROW Section as the deadline for this task is fast-approaching. The Team is yet to hire staff to undertake contract administration more generally, deliver DOTC's obligations under the contract, or monitor the concessionaire's performance and adherence to its obligations.

Another concern is that there is no continuity between the staff that developed the project and the staff that are now responsible for implementing the project.

DOTC's score for this topic is 2/4.

5.4.2 Establishment of an implementation manual

This topic assesses whether DOTC prepares an implementation and monitoring manual which explains what is required of DOTC in implementing the PPP and the processes for meeting these requirements. In particular, the manual should highlight the main risks of the project and set out the necessary tools and processes to mitigate those risks.

Preparing a project implementation manual is considered international best practice as it provides a road map on how to manage the contract efficiently, enabling an IA to take a proactive approach to project implementation. Further, the NGA PPP Manual Volume 3 suggests that IAs develop a contract administration manual for all PPP projects. However, DOTC does not prepare such manuals for its projects.

DOTC has established some standardised processes for different projects on an ad-hoc basis. For example, the ACFS Team has agreed on monitoring parameters and the frequency of monitoring with private party. DOTC has also prepared several process maps to standardise some of their repetitive tasks for the Manila LRT 1 Extension, Operations and Maintenance Project.

DOTC acknowledges the importance of establishing systematic implementation processes through an implementation manual. However, its lack of capacity means that Teams spend all their time dealing with day-to-day reactive management of the project and do not have time to focus on strategic issues.

DOTC's score for this topic is 2/4.

5.4.3 Undertaking project implementation and monitoring

This topic evaluates DOTC's experience in implementing and monitoring PPP projects. It considers whether implementation and monitoring has been effective in ensuring that: the concessionaire undertakes its obligations; the government delivers its obligation on time to avoid penalties; and long delays are avoided.

The PPP Center recently prepared guidance and monitoring protocols for IAs implementing PPP projects. DOTC is complying with these protocols. For example, they have set up Project Steering Groups and Technical Working Groups (TWGs) for each PPP project under implementation, and they have been submitting regular project updates upon request of the PPP Center. However, from February 2016, Project Monthly Monitoring Reports are being prepared by the PPP Center Project Manager and will be reviewed by DOTC.

Despite these structures, DOTC has encountered many problems in implementing their PPP projects, which have led to delays. The most common problems across multiple projects are discussed below.

Establishing an escrow/blocked account

DOTC's PPP contracts require DOTC to establish an escrow/blocked account from which balancing and penalty payments between the concessionaire and the government will be paid. Such an account is designed to facilitate timely payment of obligations (compared to the need for the government to seek an annual appropriation).

However, while DOTC can establish such an account, there is currently no legal basis for the government to transfer national budget funding to a blocked account known as the Trust Liability Account. Without funding, the blocked account cannot serve its purpose.

For some PPPs, the government can transfer the concessionaire's premium payment into the account, thus meeting the funding requirement. However, not all PPPs involve a premium payment. Further, for PPPs where DOTC has a co-grantor which is a GOCC (such as the Manila LRT 1 Extension, Operations and Maintenance Project and the MCIA project), premium payments have to be paid directly to the National Treasury and cannot be paid into a clocked account.⁹

Acquiring the ROW or project site

Acquiring land for PPP projects has also been problematic for DOTC. For example, DOTC has already obtained ROW for the Manila LRT 1 Extension, Operations and Maintenance Project and resettled affected communities at significant cost. However, the obtained ROW does not match the planned route in some places. This is due to an inaccurate report from DOTC's technical consultant. As such, the required ROW has not been delivered to the concessionaire. DOTC has now missed the deadline set out in the contract such that the concessionaire could call for termination of the contract, although it has not done so.

For the MCIA PPP, DOTC has struggled to secure the project site. The project site was previously occupied by the Philippines Air Force (PAF). As such, before construction of the MCIA terminal could begin, DOTC had to construct a new base for the PAF and demolish the existing base.

DOTC experienced significant delays in acquiring the site due to a failed bid to procure a contractor to build the new PAF base. Once a contractor was procured, the PAF did not agree to the contracted design of the new base. While the PAF was originally consulted on the design, they stated that they were not given sufficient time to check all elements of the design. This meant that DOTC had to enter into a contract variation with the contractor, causing

⁹ DOF policy stipulates that all government revenues into PPP projects cannot be considered revenues of GOCC, but have to be returned to Treasury.

further delays in acquiring the site for the MCIA. The PPP Center closely monitored the issue, including the necessary high-level coordination to help resolve the issue. The head of both agencies met to discuss the relocation of the PAF to the new base. The PAF identified their priority works on the new site and eventually relocated once the new site was mostly completed. This reduced the delay in acquiring the site for the PPP.

Contracting an independent engineering consultant

DOTC often struggles to engage an independent consultant (IC) to verify the technical requirements set out in each PPP contract. The concession contracts for all of DOTC's projects under implementation require DOTC to engage an IC within a specified time period. The procurement process for engaging the IC often fails for the following reasons:

- RA 9184 procurement procedures are not flexible enough to cope with the dynamic timelines of PPP projects.
- Lack of local expertise- Inclusion of international consultants is key to satisfy the needed requirements to perform the tasks of an IC in complex and breakthrough PPP projects. RA 9184, however, generally does not allow participation of international experts unless otherwise justified. The local market, unfortunately, is not yet equipped with the necessary experience and expertise required by complex PPP projects
- Ad hoc function of the Bids and Awards Committee
- Limited technical capacity of the Bids and Awards Committee and TWG.

Each tender takes three to six months; thus failed tenders can delay the PPP project. All of DOTC's projects—except the ACFS—have experienced at least one failed IC tender. For example, DOTC has already undertaken two failed tenders to engage an IC for the Manila LRT 1 Extension, Operations and Maintenance Project and has now exceeded the deadline for meeting this obligation.

In some cases, DOTC has resorted to procuring an interim IC. Because the contract value of an interim IC is lower, DOTC does not have to follow such stringent requirements. However, this is clearly not a long-term solution.

Coordination between project teams

Some of DOTC's PPP projects have encountered structural interface issues with other DOTC projects.

One example which is of most concern is that the Southwest ITS and a station of the Manila LRT 1 Extension, Operations and Maintenance Project are both designed to use the same ROW. This issue did not become apparent until both contracts were already signed, at which stage redesigning the projects is likely to require DOTC to negotiate a contractual variation with at least one of the concessionaires. With the help of the PPP Center, the Implementation Teams of both projects are now cooperating to propose technical solutions that negate the need for such a contractual variation. Nevertheless, this issue played a role in delaying both projects.

These examples reflect poor coordination within DOTC and a siloed approach to project development and implementation. Ensuring continuity between Project Development and Implementation Teams and organising teams according to specialisation instead of along

project lines (recommendations discussed in Section 5.4.1) would help ensure that such interface issues were discovered earlier (before contract signing) and did not lead to implementation delays.

Coordinating with co-grantors

Effective project implementation requires regular communication and a clear delineation of tasks when a PPP has more than one grantor. However, DOTC has struggled to achieve consistent support from its co-grantor—the LRTA—for LRT PPPs. For example, while a MOU between the LRTA and DOTC, for the Manila LRT 1 Extension, Operations and Maintenance Project, has been drafted, it has not been signed. DOTC noted that the LRTA does not want to be responsible for any approvals and is currently forwarding even minor administrative tasks back to DOTC.

DOTC's score for this topic is 2/4.

5.4.4 Response to contingencies and disputes

This topic examines DOTC's processes for responding to contingencies and disputes with the concessionaire, and DOTC's experience so far responding to any contingencies and disputes that have arisen.

As a general rule, all of DOTC's PPP projects include dispute resolution mechanisms. These are generally developed by the transaction advisors with input from DOTC. For example, the Manila LRT 1 Extension, Operations and Maintenance Project includes three mechanisms for dispute resolution:

- Level 1: amicable resolution
- Level 2: Project Dispute Resolution Board (which is yet to be established)
- Level 3: arbitration in Singapore

DOTC's other PPP projects include similar dispute resolution mechanisms. However, DOTC has not developed standard processes for responding to potential contingencies.

DOTC also establishes a Project Steering Group (PSG) for each PPP under implementation. The PSG contains senior staff from both the government and the concessionaire. The PSG meets regularly—usually once a month—to coordinate and address any concerns or disputes. As projects move into the post-construction period, the PSG may meet less regularly. For example, the ACFS PSG now only meets on an as-needs basis.

The government has also established a government-wide group—the Economic Development Committee, Sub-Committee on PPP Project Execution. The Sub-Committee is composed of high-level representatives from concerned agencies to address critical PPP implementation issues and bottlenecks, and facilitate the timely resolution thereof. It is co-chaired by the Cabinet Secretary and the Socioeconomic Planning Secretary. The Sub-Committee may also convene if there are major issues that cannot be resolved by the IAs and project proponent. For example, they meet to resolve issues where one project's ROW encroaches on another's.

Despite these contract provisions and institutional framework, DOTC does not appear to have the capacity to respond to disputes and contingencies in a timely fashion. For example, the Manila LRT 1 Extension, Operations and Maintenance Project contract includes a two-year structural warranty of the existing infrastructure. The concessionaire has been making multiple claims against this warranty. The time required to validate and process these claims is taxing

the capacity of the Unit, especially since there are no processes in place to standardise the processing and approval of claims. Many claims have not been resolved because the concessionaire expects the government to replace below standard components while the government believes the components can be repaired. DOTC is further concerned about the potential for the double counting of claims, given that the claim categories set out in the contract are not mutually exclusive. They are also aware that compensation against each category of claims is not capped.

DOTC has also been struggling to deal with the need for a variation order for the same project. The ROW set out in the contract is no longer feasible in some places, in part due to an encroachment on the ROW by a freeway being procured by DPWH. The change in ROW affects the size of certain stations and the depot. Variation orders are required to deal with these changes to the ROW. This is because DOTC has the obligation to provide a certain amount of commercial development area to the concessionaire. Changes to the size of stations could therefore impact the concessionaire's revenue.

DOTC has had some success dealing with contract provisions with the MCIA project. As discussed above, a delay in acquiring the project site delayed the PPP project. The PPP contract contained a provision that, in the event of such a delay, the two parties could negotiate on a new agreement in lieu of contract termination. This provision was designed to prevent a deadlock. However, it has not prevented the concessionaire seeking compensation for the delay.

DOTC also had to negotiate with the MCIA concessionaire regarding the demolition of the existing PAF base. DOTC originally planned to contract separately for the demolition, but the contracting process was causing delays. As such, DOTC negotiated with the concessionaire, post contract signing, to undertake this work with reimbursement of costs.

DOTC's score for this topic is 2/4.

5.4.5 Termination of contract

This topic considers whether DOTC is capable of terminating a project in accordance with the contract. Also it assesses DOTC's capability in providing payment to the private sector proponent based on the calculation agreed on by both the private and public sector.

The termination conditions and calculation of the termination payment are clearly set out in the concession agreements for DOTC's projects. These provisions are established by legal advisors with input from DOTC staff. As such DOTC staff have a high-level understanding of the conditions that can lead to contract termination. However, DOTC has not yet undertaken a contract termination, nor have they established standardised contract termination processes. As such, their understanding of the contract termination process is likely to be only cursory.

DOTC's score for this topic is 2/4.

5.4.6 Employment of external advisors

This topic determines whether DOTC hires external specialists to provide advice during project implementation and monitoring. In particular, it considers whether the project development and transaction advisors assist DOTC with preparing an implementation manual and with the early stages of project implementation.

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DOTC does not engage external advisors to assist with any implementation or monitoring, notwithstanding significant difficulties and complexities that need to be dealt with in the initial period post financial close. The transaction advisors procured through the PDMF are only employed until the financial close of the project. (The independent engineering consultant only assists with verifying technical standards.) This is inconsistent with best practice, where the IA would typically retain legal, financial and other specialist advisors, and would have adequate budget to fund these services.

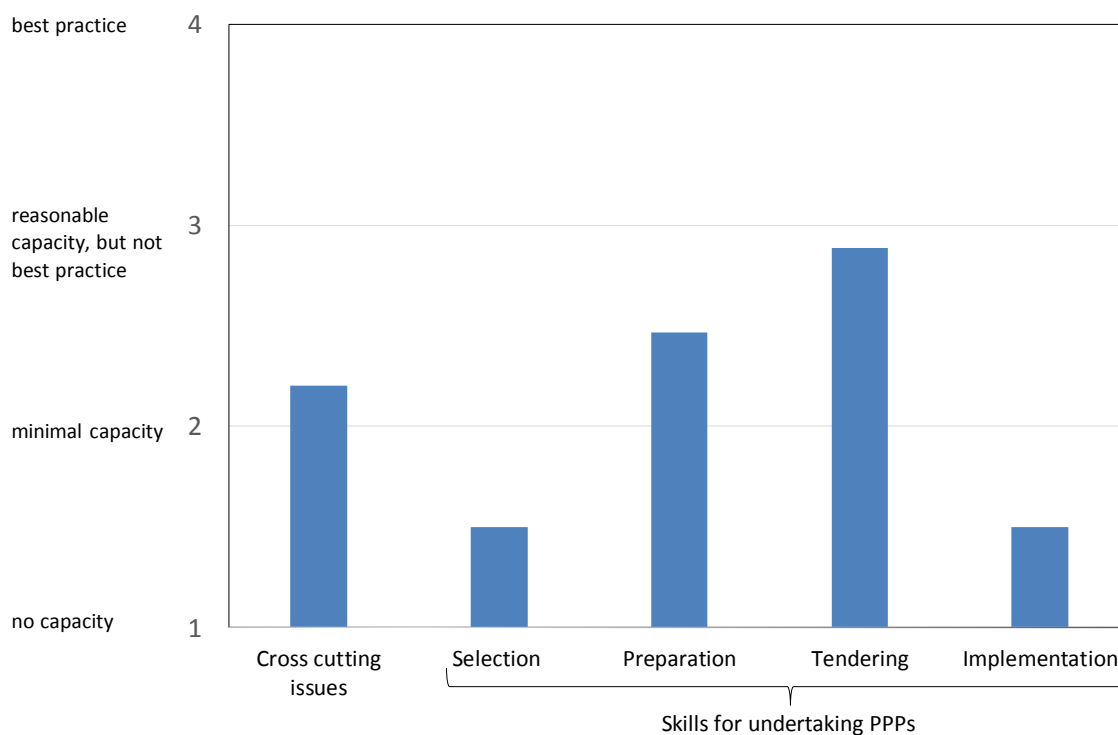
DOTC's score for this topic is 1/4.

6 Challenges identified and possible solutions

The content of this Section is to be discussed among the PPP Center, JICA, the JICA Expert Team and DOTC in order to reach agreement on the proposed work plan outlined in Section 7.

The capacity assessment shows that DOTC lacks capacity across all areas examined: cross-cutting issues; and selecting, developing, tendering, and implementing feasible PPP projects (Figure 6.1).

Figure 6.1: DOTC's capacity across all areas



However, within these sub-area, DOTC's capacity is variable. For example, within the sub-area of developing PPPs, DOTC has reasonable capacity for eight topics, but minimal or no capacity for six topics.

As such, this Section summarises the topics where DOTC is in most need of capacity assistance (that is, topics where DOTC scores a 2 or less). In addition, for each of these identified challenges, this Section provides a brief description of the possible capacity building solution (Table 6.1).

More work is required to develop these possible solutions into capacity development plans. At a minimum, the following questions need to be discussed:

- What—what challenges need to be overcome with priority?
- How—how should the capacity support be provided to effectively overcome the priority challenges? Potential forms of support include: hands-on support, seminars, and guidance documents.

- Who—who should provide these different forms of support: the PPP Center, JICA, external consultants, etc.?
- When—when, and for how long should the support be provided?

Section 7 below suggests that PPP implementation is a priority challenge for DOTC. It then sets out a proposed capacity development plan that answers the remaining questions: the how, who and when of the support.

Table 6.1: Summary of challenges and possible solutions

| Cross cutting issues | | | | |
|----------------------|--------------------|-------|--|--|
| Assessment Element | | Score | Challenge Identified | Possible Solution |
| 4.1 - 4.3 | Planning documents | 2 | DOTC does not have a sector vision, sub-sector plans, a funding plan, or project master-plans to guide infrastructure investment. | Work with DOTC to develop a sector strategy, sub-sector plans, and a sector funding plan. |
| 4.4 | PPP Unit | 2 | DOTC has ad-hoc teams for PPP projects. Separate areas take care of different tasks but do not have processes to ensure effective communication. | <p>Design and set up a designated, well-resourced PPP Unit that would follow projects from identification through to implementation. Target PPP capacity building activities on this Unit. Incentivise talented staff to join and remain within the Unit.</p> <p>Organise staff within the PPP Unit using a matrix approach which includes:</p> <ul style="list-style-type: none"> ▪ Project Management Teams organised by PPP project ▪ Technical Specialist Teams organised by specialisation (such as finance, engineering, and so on). |
| 4.5 | PPP manuals | 2 | DOTC's compliance with the NGA PPP manual is mixed. For example, DOTC does not use MCA or CBA to prioritise projects. | Ensure that staff are familiar with PPP related guidance and manuals through workshops and training sessions held on a regular basis. Further, orientation programs for new DOTC employees to familiarize themselves with PPP related guidance and manuals is another possible solution |
| 4.7 | PPP attributes | 2 | <p>The misperception that PPPs create additional funds is still apparent within DOTC.</p> <p>DOTC does not follow any systematic process (such as VfM analysis) for deciding between PPP modalities.</p> | <p>Create guidance on how to conduct VfM analysis throughout the procurement cycle. Follow this with training on VfM. Guide DOTC staff through VfM analyses for existing projects. Emphasise that the purpose of PPP procurement is to deliver VfM.</p> |
| 4.8 | Legal environment | 2 | Despite DOTC's adherence to national laws and processes, they have encountered multiple legal problems. In most cases they | Ensure that legal advisors are part of the PPP Unit and attached to all project teams. |

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| | | | have been unable to resolve the legal dispute in a timely fashion, leading to long and costly project delays. | Where necessary, ensure that DOTC project development and implementation staff have access to on-call external legal advisors at all times. |
|--|--|--|---|---|

Skills for undertaking PPPs

Identification, Selection and Prioritization

| Assessment Element | | | Challenge | Possible Capacity Building |
|--------------------|-----------------------|---|--|---|
| 5.1.2 | Designated study team | 2 | DOTC does not have a PPP Unit nor does it have a specific team focussed on project selection. | As per 4.4. |
| 5.1.1 | Policy consistency | 2 | PPP projects do not flow from sector plans. Instead they are generally developed on a piecemeal basis, and without due regard to the concept of a transport network, or the need to integrate with other transport modes. DOTC does not apply analysis to the sequence of transport projects. | Undertake hands-on capacity building activities to develop the key competencies required for PPP selection, including: <ul style="list-style-type: none"> ▪ Develop a sector strategy, sub-sector plans, and sector funding plan as per 4.1-4.3 ▪ Identify transport infrastructure projects in line with the sector strategy |
| 5.1.3 | Prioritization | 1 | DOTC’s capacity to select and prioritise projects is limited. DOTC does not conduct initial CBA during project selection. Nor is it clear whether DOTC conducts other forms of formal analysis—such as multiple criteria analysis (MCA)—to prioritise projects. | <ul style="list-style-type: none"> ▪ Assess the funding available for identified projects, e.g. government funding, user fees ▪ Prioritize projects based on net benefits ▪ Sequence projects based on their interaction with other investments |
| 5.1.4 | PPP suitability | 1 | DOTC does not formally conduct any analysis to determine a project’s suitability for PPP procurement during the project selection phase. Instead it is following a broad strategy of tendering publically operated assets to private sector operators. | <ul style="list-style-type: none"> ▪ Determine which priority projects will generate VfM if delivered as a PPP. |

| Assessment Element | | | Challenge | Possible Capacity Building |
|--------------------|--------------|---|--|----------------------------|
| 5.2.6 | VfM analysis | 2 | DOTC understands that a VfM analysis must be undertaken as part of the feasibility study prepared by the transaction advisors. | As per 4.7. |

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| | | | However, very little emphasis is placed on this analysis and it is treated as a compliance exercise. Staff do not appear to understand that VfM must be secured throughout the entire project cycle. Nor do they understand that VfM can only be achieved if the private sector is allocated risks that affect the project's objectives and incentivised to manage these risks. | |
| 5.2.8 | Stakeholders management | 2 | DOTC has struggled to achieve consistent support from its co-grantor—the LRTA—for LRT PPPs. DOTC showed an unwillingness to engage with DPWH during the development of the LRT4 PPP project. | Help DOTC develop MoUs with IAs with whom they regularly interact. Use the MoUs to set out in advance how the IAs will interact and to resolve key conflicts in advance. |
| 5.2.9 | Public consultation | 2 | The public consultation undertaken by the advisors and DOTC is not always effective at garnering public support. Groups have lodged legal complaints that DOTC failed to adequately inform the public about a number of PPP projects including the Manila LRT Line 1 Extension, Operations and Maintenance Project, and the Davao Airport expansion. | Review DOTC's public consultation processes and determine whether they are in line with international best practice. Determine whether complaints are legitimate or whether special interest groups are making gratuitous claims in order to generate publicity or delay projects they are against. If required, develop guidance on how public consultation processes can be improved. |
| 5.2.12 | Commerciality | 2 | Many DOTC PPP projects have received limited bidder interest due to concerns about commerciality. These include the Manila LRT Line 1 Extension, Operations and Maintenance Project, the ITS South Terminal, and the Road Transport IT Infrastructure Project. | Review DOTC's market sounding activities to determine whether DOTC sufficiently understands and responds to bidder concerns about commerciality. Explore additional options for improving the bankability of DOTC's projects. These would include: <ul style="list-style-type: none"> ▪ public debt or equity ▪ guarantees or other risk sharing mechanisms This work is outside the remit of DOTC and would instead involve working with the PPP Center and DOF. |
| 5.2.13 | Risk | 2 | DOTC understands the risk allocation process undertaken by advisors and also understands the GPRAM. However, DOTC has little experience considering more complicated risks that occur on a project-by-project basis. For example, the technical, administrative, commercial, and legal risks associated with trying | Conduct training on risk allocation that goes beyond the GPRAM. Emphasise that a PPP will only deliver VfM if the private party is responsible for, and has the ability to reduce, the impact of key project risks. |

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| | | | to integrate the Manila LRT Line 1 Extension, Operations and Maintenance Project with the LRT6. | Guide DOTC staff through risk allocation activities for existing projects with complicated risks. |
| 5.2.16 | Accountability & transparency | 2 | DOTC keeps past studies on file, however, they are not centrally located, nor are study results systematically communicated with relevant areas. Very few studies are made publically available. | Develop accountability standards for DOTC in line with international best practice. |

Tendering and Negotiation

| Assessment Element | Score | Challenge | Possible Capacity Building | |
|--------------------|-----------------|-----------|--|--|
| 5.3.7 | Evaluating bids | 2 | <p>DOTC has experienced many problems evaluating bids.</p> <p>First, DOTC's PBACs often struggle to meet their own timelines, demonstrating that, at best, the PBACs are disorganised, and at worst, they do not have sufficient capacity to make informed decisions.</p> <p>Second, DOTC bid evaluations are often challenged, including evaluations of the MCIA terminal and the ACFS.</p> | <p>Determine the cause of recent cases where the PBAC failed to meet timelines or bids were challenged. If required:</p> <ul style="list-style-type: none"> ▪ Recommend skills requirements for PBAC members ▪ Ensure that the PBAC receives external support ▪ Ensure PBAC staff are incentivised to prioritise PBAC meetings over potential schedule conflicts ▪ Review PBAC timelines to ensure that the committee has sufficient time to review bids and reach agreement ▪ Ensure bid challenge procedures are adequate ▪ Ensure bidder evaluation criteria and the evaluation methodology are in line with best practice. |

Implementation, Monitoring and Handover

| Assessment Element | Score | Challenge | Possible Capacity Building | |
|--------------------|-----------------------|-----------|---|---|
| 5.4.1 | Implementation team | 2 | <p>There is no continuity between staff who develop the project and staff who implement the project. PPP implementation teams are siloed and organised around different components of the project.</p> | As per 4.4. |
| 5.4.2 | Implementation manual | 2 | <p>DOTC acknowledges the importance of establishing systematic implementation processes through an implementation manual. However, its lack of capacity means that Project Implementation Teams spend all their time dealing with day-to-day reactive</p> | Design a template implementation manual that DOTC can use to develop project-specific manuals with help from external |

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| | | | management of the project and do not have time to focus on strategic issues. | advisors. Conduct training on how to use this template implementation manual. Work with DOTC to develop project implementation manuals alongside the development of the concession agreement. This work would be ongoing; typically, the project implementation manual is developed by external advisors. |
| 5.4.3 | Undertaking project implementation and monitoring | 2 | Despite these structures, DOTC has encountered many problems in implementing their PPP projects, which have led to delays. The most common problems include: establishing an escrow/blocked account, acquiring the ROW or project site, contracting an independent engineering consultant, coordination between project teams, and coordinating with co-grantors. | Conduct training on PPP implementation for all staff involved in PPPs. This training could be based on the guidance set out in the NGA PPP Manual. Make this training mandatory for staff entering the PPP Implementation Unit. Provide hands-on capacity building activities to DOTC as they encounter implementation problems. |
| 5.4.4 | Contingencies and disputes | 2 | DOTC has not developed standard processes for responding to potential contingencies. Despite these contract provisions and institutional framework, DOTC does not appear to have the capacity to respond to disputes and contingencies in a timely fashion. DOTC has also been struggling to deal with the need for a contract variation for the same project. | Capacity building activities 5.4.1 and 5.4.2 will also assist with these challenges. |
| 5.4.5 | Contract termination | 2 | DOTC has not yet undertaken a contract termination, nor have they established standardised contract termination processes. As such, their understanding of the contract termination process is likely to be only cursory. | |
| 5.4.6 | External advisors | 1 | DOTC does not engage external advisors to assist with any implementation or monitoring, notwithstanding significant difficulties and complexities that need to be dealt with in the initial period post financial close | In line with international best practice, DOTC should retain their transaction advisors, at least through the early stages of project implementation. This issue is however outside the remit of DOTC, and would involve changes to the PDMF, or the development of a separate funding arrangement for implementation advisors. |

7 Proposed capacity development plan

The capacity assessment shows that DOTC lacks capacity across all areas examined. However, it is clear from Figure 6.1 and Table 6.1 above that the sub-areas in most need of assistance are PPP project selection and PPP implementation. This is not surprising given that these are the two areas where DOTC does not receive help from external advisors.

Further, PPP implementation is the area where DOTC has the least experience. As shown in Table 3.1 above, DOTC has developed and tendered multiple PPPs, but has only six PPPs under implementation, most of which have been under implementation for less than two years.

Yet the initial stage of PPP implementation is a high risk period in the project cycle. It involves:

- acquiring the ROW or project site
- handing-over any existing assets
- delivering other up-front government obligations (such as viability gap funding or in-kind contributions)
- setting up the institutional structures that will govern and monitor the project over the concession period (such as a project steering group).

Failure to adequately undertake these tasks is likely to lead to long delays and large contingent liabilities for the government, both of which will erode a project's VfM and may ultimately undermine its objectives. As discussed in Section 5.4, there are already signs that this is occurring for DOTC's six projects under implementation.

On this basis, it is proposed that the JICA capacity building program for DOTC focus on strengthening DOTC's capacity around PPP implementation. While PPP project selection is an ongoing problem that remains in need of capacity building, PPP implementation is a more urgent problem for DOTC.

The remainder of this section sets out a proposed capacity development strategy for assisting DOTC with PPP implementation. It discusses:

- The importance of effective PPP implementation (Section 7.1)
- What is involved in PPP implementation (Section 7.2)
- International best practice for PPP implementation (Section 7.3)
- A high level proposed work plan for discussion that reflects DOTC's needs and international best practice for PPP implementation (Section 7.4).

7.1 The importance of effective PPP implementation

International experience has shown that services outsourced to the private sector require as much, if not more, management by the grantor of the contract than those provided in-house. This is in particular true of PPP contracts, which, although output-driven, require considerable management efforts on the part of the IA. Sound project implementation is therefore crucial to the success of a PPP. Failure to adequately implement the project will inevitably erode its value for money (VfM) and may ultimately undermine its objectives. There are many reasons for this and they have to do with the main characteristics of PPP projects, which typically:

- Involve long-term agreements where deviations, even slight, can have a significant cumulative positive or negative effect on the project's outcomes over time
- Involve complex tasks, where it is difficult to foresee all possible future events at the outset and in which it is important for the IA to maintain some room for manoeuvre
- Are generally designed around performance outputs that imply close monitoring during operation to ensure that the project delivers on its promises and, ultimately, VfM.

Effective risk allocation is key to the achievement of VfM. The concession agreement sets out the allocation of risks between the IA and the concessionaire. This initial allocation of risks must be managed over the whole life of the project in order to:

- Clarify and/or modify it when unforeseen risks or consequences of those risks arise
- Ensure that the concessionaire bears the risks it is required to bear and mitigates them adequately
- Monitor and manage effectively the risks borne by the IA.

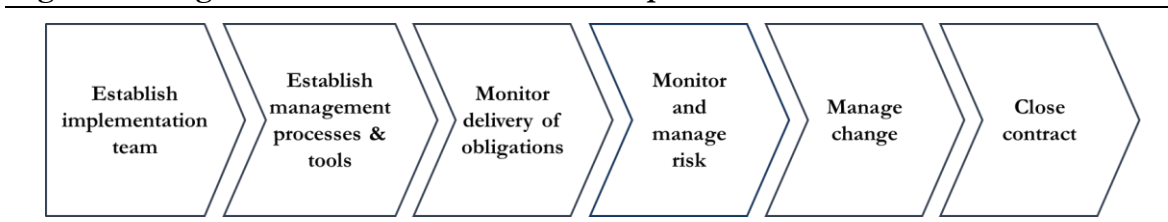
Opportunities for public expenditure savings often arise over the course of a PPP contract. Savings can be achieved—and better still, shared between the parties—only through proper monitoring by the IA. These savings may enable IAs to release financial resources that can be usefully reinvested in other projects.

Finally, project implementation is important because a project is rarely undertaken in complete isolation from other PPP initiatives. Engaging in effective management and monitoring of existing PPPs is key to identifying improvements that could be made in future contracts, thereby creating a virtuous cycle.

7.2 What is involved in PPP implementation

With the contract signed and the financing closed, it's easy to feel that the work on the PPP is done. In reality, the job is just beginning. The focus shifts now to making sure that the private party delivers what was promised, that the IA facilitates that delivery as agreed, and that when the unexpected happens both parties adapt effectively. This involves undertaking the broad tasks shown in Figure 7.1.

Figure 7.1: High-level tasks involved in PPP implementation



Undertaking these tasks requires a team with significant capacity. In particular, some of the more complex tasks required are:

- **Enforcing the abatement regime for availability payment PPPs.** The abatement regime sets out the penalties imposed on a concessionaire if it fails to meet key performance indicators (KPIs). It incentivises the concessionaire to deliver the project to the required standard and compensates the government for below standard performance, thus ensuring VfM. Implementing the abatement regime requires constant monitoring of KPIs, calculating payments according to the contract, and potentially negotiating with the concessionaire over disputed payments
- **Negotiating contract amendments.** Many PPPs will require changes to the contract during the concession period. VfM can be hard to achieve for these contract variations because the government has to negotiate directly with the concessionaire—there are no competitive pressures on the negotiation. Nevertheless, an experienced and capacitated government unit can still pursue VfM through a thorough interrogation of the scope of works and by basing their negotiations on an internal public sector comparator (PSC)¹⁰
- **Resolving disputes.** Disputes between the government and PPP concessionaires will inevitably occur. As such, PPP contracts typically set out the mechanisms for resolving different types of disputes, such as an independent project dispute resolution board. However, the actual process of using these mechanisms is complex and requires government staff with experience and capacity. Failure to manage a dispute resolution process effectively can result in costly delays and large pay-outs from the government.

7.3 International best practice for PPP implementation

Experience shows that in many countries, the government tends to overly focus on PPP development and procurement issues leading to contract signature. IAs are inclined to assume that the PPP contract will take care of itself once it has been signed or once the project has been completed. However, to ensure that PPPs deliver their promised benefits over the long run, this “deal” focus needs to shift to a long-term “management” culture.

Countries with advanced and successful PPP programs understand this and therefore conduct project implementation proactively, rather than reactively throughout the project lifecycle. They take steps to prepare for project implementation prior to contract signature, as well as on a regular basis during the life of the contract.

Project implementation will not be effective if IAs wait for tasks to arise without, for example, thinking about the most appropriate way to perform the tasks and gather the necessary information. Unless the contractual, organisational and budgetary resource aspects of implementation are properly planned from the outset, results are unlikely to be satisfactory doing contract operation.

Some of the key structures that enable an IA to undertake a proactive approach to project implementation include:

- A capacitated PPP Unit within the IA
- A project implementation manual

¹⁰ The PSC is an estimate of the cost that the government would pay were it to deliver a project by itself.

7.3.1 A PPP Unit

International experience shows that the optimal organisational structure to deliver PPPs is to establish a PPP Unit within an IA. This unit would be responsible for project development, tendering and implementation. Such a structure enables continuity of staff and sharing of information throughout the project cycle. In practical terms, this means that the Project Team follows the PPP from development to tendering and to implementation. As previously discussed in Section 4.4, this has the following benefits:

- Staff are incentivised to think about how the project will be implemented while developing the project and writing the PPP contract. This means that staff will take the time to ensure that the project can be easily implemented, that risks are fully identified, and that risk mitigation measures are included. These incentives can help balance any political pressure to develop and award as many projects as possible in a short time period
- Staff are already familiar with the project and the PPP contract at the start of the implementation phase.

International experience also shows that staff within a PPP Unit should be organised using a matrix approach which includes:

- Project Management Teams organised by PPP project
- Technical Specialist Teams organised by specialisation (such as finance, engineering, and so on).

Project Management Teams manage one PPP throughout the project cycle but draw on technical specialists who apply their skills to multiple projects as required. This approach has the following advantages:

- Flexibility; this is important given that the workload for each project will vary over time
- Better transfer of experience and knowledge as the PPP portfolio increases.

As discussed in Section 5.4.1, DOTC does not organise their PPP staff in line with best practice. This has no doubt contributed to many of the current implementation problems. For example:

- The fact that DOTC development staff were not incentivised to think about project implementation may have contributed to the following problems:
 - DOTC is required to set up an escrow account for each of its projects, even though it is not legally able to transfer money into such an account
 - DOTC is required to contract an independent engineering consultant within a limited time period for each of its projects, even though such a process can take upwards of 12 months.
- The fact that PPP projects are developed and implemented by separate teams with limited interaction may have contributed to structural interface issues. For example, the Southwest ITS and a station of the Manila LRT Line 1 Extension, Operations and Maintenance Project are both designed to use the same ROW.

7.3.2 Project implementation manuals

A PPP project implementation manual provides a road map on how to manage a specific PPP contract efficiently. The manual is not a substitute for the concession agreement, which will always remain the “reference” document, but provides a bridge from the agreement to DOTC’s internal processes.

The implementation manual should explain clearly, in a reader friendly style and without legal jargon, what is expected of DOTC in implementing the PPP. The manual provides DOTC with a means of planning and setting out its own organisational arrangements. In particular, the manual should highlight the main risks of the project and set out the necessary tools and processes to mitigate those risks. The manual will serve as a reference document throughout the life of the contract, facilitating any handover that may be required between different members of the Project Implementation Team.

The contents of the manual are typically not covered in the PPP contract itself, as DOTC is often reluctant to share with the concessionaire information regarding its own arrangements or because it may be inappropriate to set out in a contractual agreement provisions that might be subject to frequent unilateral changes. This is typically the case of internal procedures involving different departments within DOTC’s administration.

The manual should be drafted by the Project Management Team with the help of specialists, particularly legal specialists. This approach ensures that the manual will be drafted in everyday language and be accessible to those who will actually implement the project.

Some parts of the manual, especially those dealing with the interface between DOTC and the concessionaire (e.g. data collection, performance measurement, billing validation process) may usefully be shared with the concessionaire to obtain feedback and ensure that it too will develop a similarly well-coordinated organisational set-up.

Even though most project implementation activities will only be carried out during the project’s operational phase, the manual needs to be produced in advance. The manual should be developed in parallel with the PPP contract and finalised before the contract is signed.

The manual should then be regularly updated throughout the life of the project to take account of changes internal to the contract itself (mainly resulting from contract amendments) or to the external environment (for example, changes in the law, changes in the way in which DOTC is organised). The first version of the manual can focus mainly on design and construction matters, while those relating to the operating period can be developed during the project’s construction phase. Likewise, guidance on managing periodic reviews and the end of the contract can be produced as progress is made.

As discussed in Section 5.4.2, DOTC does not prepare implementation manuals for its projects. This has no doubt also contributed to many of its current problems. For example:

- The concessionaire for the Manila LRT Line 1 Extension, Operations and Maintenance Project has made multiple claims against a structural warranty of the existing LRT1 infrastructure. The lack of a standardised process to validate and process these claims contributes to the fact that such claims are taxing the capacity of the Unit and have not been resolved.

7.4 Proposed work plan

In line with the assessment of DOTC's PPP implementation capacity and international best practice, the proposed capacity development plan for DOTC is designed to enable DOTC to undertake a proactive approach to PPP implementation. It includes two interrelated components:

- Developing the optimal institutional structure within DOTC to deliver PPPs from project conception through to implementation
- Developing a “template” implementation manual.

A timeline for the proposed work plan is shown in Appendix A.

As this TA project is focused on PPP capacity building, it cannot involve direct project support—such as assisting DOTC to develop implementation manuals for specific PPPs. Ideally, subsequent TA projects would provide support in this area. Such support could build on the template manual developed under this project.

Helping DOTC to implement their PPPs more proactively has the potential to significantly improve the VfM they achieve from their PPP projects by improving DOTC's ability to:

- Design PPP projects and write PPP contracts that are easier to implement
- Deliver on its contractual obligations on time, thus reducing the risk of delays and associated penalty payments
- Improving their ability to monitor the concessionaire and ensure that they deliver on their obligations
- Improving their ability to monitor risks, and mitigate these risks where possible, in order to reduce the possibility of contingent liabilities arising.

DOTC is not the only IA to be struggling with PPP implementation in the Philippines. Other IAs also lack an optimal institutional structure for implementing PPPs, and implementation manuals for their PPP projects. At the same time, PPP implementation is an area that does not receive donor support. As such, this TA project could be a valuable test case for a process that could eventually be broadened to other IAs and potentially backed by donor funding in a similar way as the PDMF.

7.4.1 Set out the optimal institutional structure for a PPP Unit in DOTC

This component involves designing an optimal organisational structure for DOTC to develop, tender, and implement PPP projects. It would describe the set-up of a PPP Unit in line with international best practice and DOTC's specific context, including:

- Potential locations for the Unit within DOTC
- Organisation of the Unit into Project Management Teams and Technical Specialty Teams
- Job descriptions and skills requirements for important positions
- Transitional arrangements for moving from DOTC's current arrangements to the optimal structure.

The aim of reorganising DOTC's PPP staff into a PPP Unit is to improve:

- Incentives for designing projects that deliver VfM
- The efficiency of developing and implementing PPPs
- The application of specialist skill to PPPs
- Communication and coordination between projects
- the ability to interface between various project components (within the project)
- The ability to apply lessons learnt to new projects
- Staff capacity to attend to strategic issues
- The retention of staff with PPP experience.

It is considered that this is the correct approach to institutional design, notwithstanding certain constraints that currently impact DOTC’s ability to hire new permanent staff. In our view, it is better to design for the optimal institutional arrangement, and then work around the constraints, some of which may only be temporary, rather than start with a compromised design based on the constraints.

7.4.2 Develop a template implementation process manual

This component of the work plan involves designing a template implementation manual that DOTC can use to develop project-specific manuals for projects that reach the implementation stage. The template manual will set out the topics to be covered by a typical project implementation manual and what information is required under each topic. An indicative list of these topics is shown in Table 7.1. The template manual will also include checklists and template forms that DOTC can use to standardise regular implementation tasks.

While the template will be general in nature, it will include case studies of current DOTC projects to illustrate how to undertake different sections of the manual.

Where possible, information will be conveyed in diagram format to give DOTC a quick reference for undertaking a regular process. An example process map—for approving balancing payments—as shown in Figure 7.2.

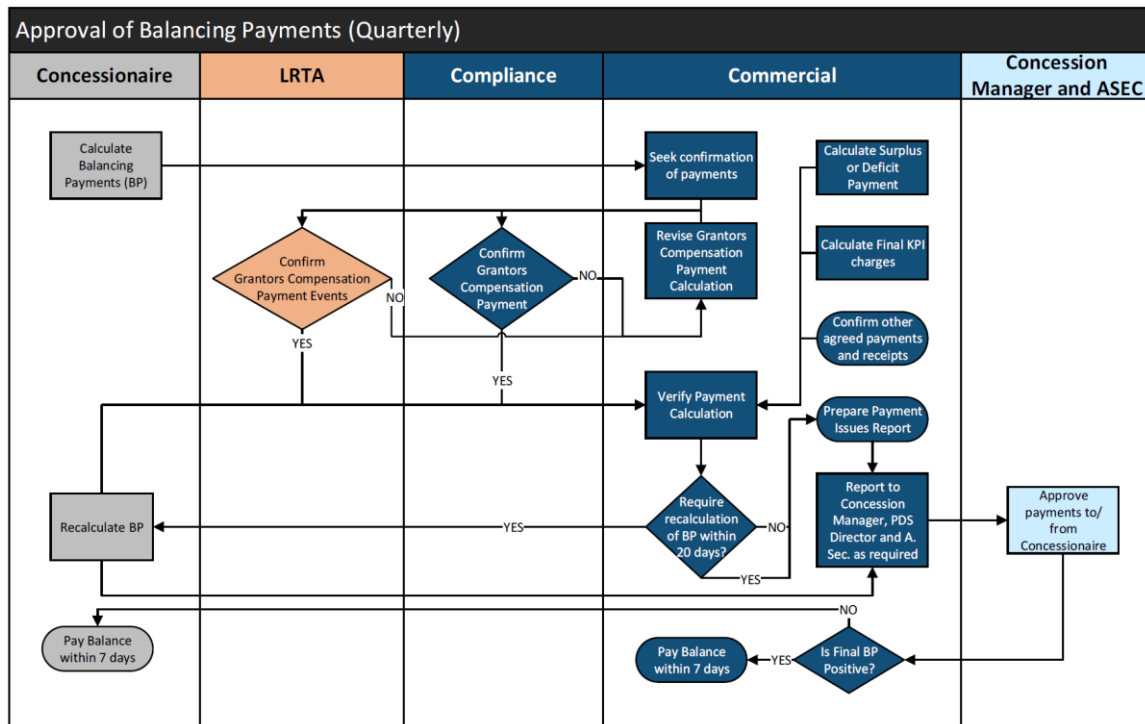
This work will also involve training and workshops to help DOTC staff understand how to apply the template to their specific projects.

Table 7.1: Topics to be covered by an implementation manual

| Topic | Sub-topics |
|------------------------------|---|
| Governance and communication | Boards and committees, communication and information processes, decision-making processes, delegated powers, stakeholder management (including end-users), meetings (type, purpose, frequency, attendance, outputs) |
| Structure of DOTC’s team | Capacity required to implement a PPP (internal DOTC staff and external consultants), organisational chart, roles and responsibilities, key contacts |
| Performance monitoring | Responsibility for monitoring, KPIs monitored, frequency of monitoring, consequences of underperformance, software/programs for recording data |
| Payments | Frequency of regular payments, information required to approve a payment, internal process for approving payments, responsibility for approving payments |

| Topic | Sub-topics |
|---------------------|--|
| Claims and disputes | Types of claims provided in the contract, risk management processes (including risk rating, probabilities and mitigation – based on past experience), process for determining the validity of a claim, process for resolving a dispute, process for managing contract variations |
| Compliance | Responsibilities of the concessionaire under the contract and when are they required (e.g., take out insurance), responsibility for monitoring the concessionaire’s compliance with these obligations, consequences of non-compliance |

Figure 7.2: Example process map



Appendix A: Work Plan

| <i>Year</i> <i>Month</i> | 2016 | | | | | | | | | | | | 2017 | | | | | | | |
|--|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|-----|-----|-----|-----|-----|-----|--|
| | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | |
| Seek acceptance of the capacity assessment report and proposed capacity development plan | █ | █ | | | | | | | | | | | | | | | | | | |
| Design the optimal institutional structure for a PPP Unit in DOTC | | | █ | █ | █ | █ | | | | | | | | | | | | | | |
| Workshop the proposed PPP Unit structure and develop transitional arrangements | | | | | | █ | █ | █ | █ | | | | | | | | | | | |
| Formulate template PPP implementation manual | | | | | | | | | █ | █ | █ | █ | | | | | | | | |
| Develop and deliver training and workshops on how to use the PPP implementation manual | | | | | | | | | | | | █ | █ | █ | █ | █ | | | | |
| Evaluate capacity development activities and prepare final report | | | | | | | | | | | | | | | | █ | █ | █ | █ | |



Capacity Assessment for Iloilo

February
2016

Acronyms and Abbreviations

| | |
|------|---|
| BOT | Build-Operate-Transfer |
| BPO | Business Process Offshoring |
| BT | Build-Transfer |
| BTOM | Build-Transfer-Operate-Maintain |
| IA | Implementing Agency |
| JICA | Japan International Cooperation Agency |
| JV | Joint Venture |
| LGU | Local Government Unit |
| MoU | Memorandum of Understanding |
| NEDA | National Economic and Development Authority |
| PDMF | Project Development and Monitoring |
| PPP | Private-Public Partnership |
| SBAC | Special Bids and Awards Committee |
| VfM | Value for Money |

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1 Introduction

The Japan International Cooperation Agency (JICA) and the PPP Center of the Philippines have agreed on a PPP Capacity Assessment and Capacity Development Program to improve the capacity of Implementing Agencies (IAs) to undertake PPPs. The Local Government Unit of Iloilo City (“Iloilo City”) has been selected as one of these IAs.

Directed by JICA, the consultants from Deloitte Tohmatsu Financial Advisory LLC (DTFA) and Castalia Limited (Castalia) (the JICA Expert Team), have undertaken multiple consultations with Iloilo City and PPP Center staff, and conducted a capacity assessment of Iloilo City using the capacity assessment tool developed by the Team. The tool examines the following areas: cross-cutting PPP issues; and selecting, developing, tendering, and implementing feasible PPP projects.

The capacity assessment has revealed that Iloilo City has a limited understanding of PPPs and no experience with any of the four phases of the PPP cycle. Iloilo City’s experience is limited to the development of four JV projects, which, while providing useful experience, follow a different process from that required for developing PPPs.

On this basis, the JICA capacity building program for Iloilo City will focus on the key competencies required for the first phase of PPP development: project identification, selection and prioritisation. This work will be integrated with any capacity development activities undertaken by the PPP Center or other organizations.

The remainder of this report discusses:

- The capacity assessment methodology (Section 2)
- Case studies of previous Iloilo City infrastructure projects involving the private sector (Section 3)
- Iloilo City’s performance against Capacity Area 1: Cross Cutting Issues (Section 4)
- Iloilo City’s performance against Capacity Area 2: Skills for Undertaking PPPs (Section 5)
- The proposed capacity development plan (Section 6).

2 Capacity Assessment Methodology

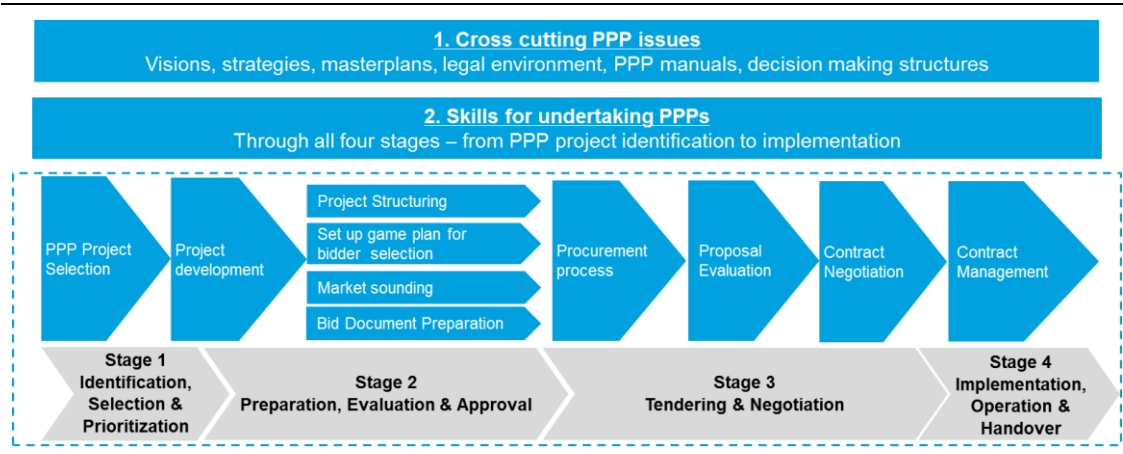
2.1 Capacity Assessment Content

The capacity assessment tool developed by the JICA expert team consists of a questionnaire that assesses two broad subject areas:

- **Cross cutting issues:** Has Iloilo City set up the right institutional framework, training programs, and guidance material to help staff through PPP processes? Does Iloilo City understand the objectives of PPPs, the advantages and limitations of PPPs, and the desired PPP enabling environment?
- **Skills for undertaking PPP processes:** Does Iloilo City have the basic skills needed to identify, prepare, tender and implement PPP projects that achieve value for money (VfM)?

Each subject area consists of several elements, as shown in Figure 2.1.

Figure 2.1: Subject Areas Assessed by Capacity Assessment Tool



2.2 Capacity assessment procedure

The first step undertaken by the expert team was to collect information on the capacity subject areas from the following sources:

- Iloilo City’s pipeline of infrastructure projects
- Project related documents, such as feasibility studies, bid documents, contracts, and any implementation frameworks or processes
- Interviews with government personnel, and other relevant stakeholders such as business councils
- Related laws and regulation documents
- PPP manuals and guidelines

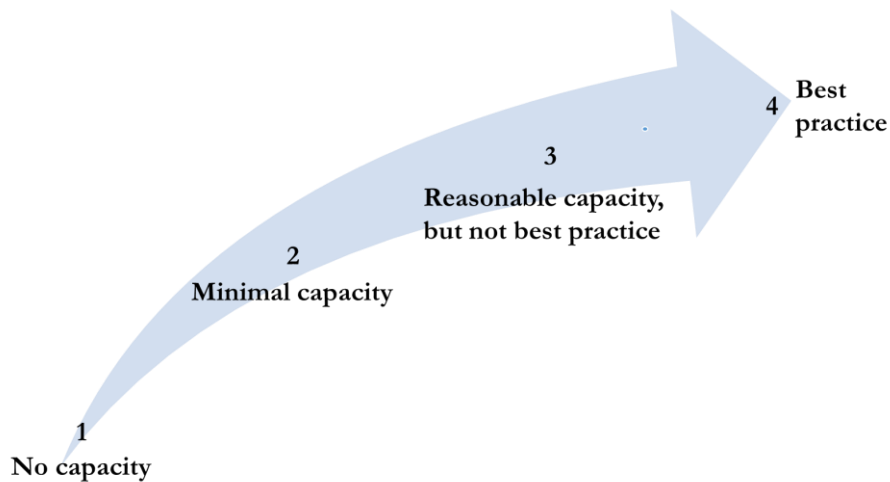
The second step undertaken by the expert team was to use the collected information to fill in the capacity assessment questionnaire. The questionnaire covers the two broad subject areas discussed above. Each subject area is broken down into topics. The results of the questionnaire are presented in Sections 4 and 5.

For each topic, Iloilo City was scored against a number of sub-topics using the criteria shown in Figure 2.2. For example, the topic “value for money analysis” considers whether Iloilo City understands how to determine if PPP procurement will deliver VfM.

If Iloilo City has never conducted VfM analysis it would score 1. If it has conducted basic VfM analyses for one to three projects and there were no major problems with the analyses, it would score 2. If it has conducted adequate VfM analyses for multiple projects, say four or more, but doesn't yet undertake the more sophisticated VfM analysis of countries with mature PPP programs, it would score 3. And finally, if Iloilo City had conducted multiple sophisticated VfM analyses it would score 4.

The third step in the capacity assessment undertaken by the expert team was to examine the results of the questionnaire and determine where Iloilo City could most benefit from capacity development activities. The conclusions from this work form the capacity development program and are discussed in Section 6.

Figure 2.2: Scoring Breakdown



3 PPP Case studies

Iloilo City of Iloilo City has not developed a PPP, but it does have experience undertaking joint venture (JV) projects. Table 3.1 describes the JVs under development or implementation in Iloilo City.

Table 3.1: JVs undertaken by Iloilo City

| Project | Project Status | Comments |
|---|------------------------|---|
| Guimaras-Iloilo Ferry Terminals System (GIFTS) Project | Construction | Construction on hold as the JV partner failed to secure appropriate construction permits |
| Hospital and Medical Waste and Septic Waste Treatment Facility (HWTF) | Construction | Construction phase nearly completed |
| Waste-to-Energy (WTE) Project | Bidding | The City is seeking additional bids for this unsolicited project. |
| Central Market Revitalization Project | Intention to re-tender | Project was originally tendered as a JV but received only one bid. Iloilo City now plans to re-tender the project as a PPP. |

Source: Interview with City Planning Department of the Iloilo City government

Below we provide case studies for two of these JVs—The Central Market Revitalization Project and the Guimaras-Iloilo Ferry Terminals System Project (GIFTS). The point of this discussion is to provide context to the capacity assessment in subsequent Sections of the report.

3.1 Central Market Revitalization Project

In 2008, Iloilo City announced plans to revitalize Iloilo’s Central Business District (CBD) to promote tourism and business growth. As part of this plan Iloilo City launched the CBD Revitalization Project in early 2012. The project involves improving public infrastructure and public utilities, and conserving heritage buildings. The project was divided into several sub-projects including the Central Market Revitalization Project. This project involves the rehabilitation of Iloilo City’s oldest market.

A pre-feasibility study for this project was undertaken in 2008 and funded by the Cities Development Initiative for Asia (CDIA).

Iloilo City presented the project to property developers, finance institutions and prospective investors at an investment forum in 2012.¹ Iloilo City also consulted other stakeholders such as the Iloilo Business Club and heritage conservation groups. The project received particular interest from Ayala Land Inc. and SM Prime Holdings Inc (SM Group).²

¹ The Daily Guardian, “Giant property firms may vie for city’s CBD development”, accessed 10 January 2016 at: <http://thedailyguardian.net/index.php/local-news/17591-giant-property-firms-may-vie-for-citys-cbd-development>

² Ibid

Iloilo City set up a Special Bids and Awards Committee (SBAC), which invited prospective proponents to pre-qualify and bid. CDIA provided support throughout the bid process. The SM Group submitted the only valid bid; other prospective bidders failed to meet the qualification criteria or did not submit bids because they found the project unattractive.

The project has received heavy opposition from a group of market vendors who allege that the project will result in unfavourable terms for both the City government and the market vendors.

Given these issues, Iloilo City has decided to re-bid the project and is considering re-developing the project as a PPP.

3.2 Guimaras-Iloilo Ferry Terminal System (GIFTS)

The development of the Guimaras-Iloilo Ferry terminal was initially part of a plan to improve and modernize multiple ferry ports—Parola (Iloilo City), Buenavista (Guimaras), and Jordan (Guimaras)—in order to accommodate the increasing number of commuters between Guimaras and Iloilo, and to attract more tourists to Guimaras. The Mayors of all three cities and the Governor of Guimaras gave their support to the project.

The project was based on a pre-feasibility study funded by CDIA and prepared by external consultants in 2008.³ It was planned to be procured as a PPP and was part of the PPP Center's project pipeline in 2010.

However, the project was delayed substantially by a number of factors:

- The ownership of the Parola port site had to be transferred from the Philippines Coast Guard to the Iloilo City government. This required a proclamation from the President and approval from various government agencies including DPWH and DOH
- Consultations with multiple stakeholders were required, including: the provincial government, boat operators, the Philippines Port Authority, and the Coast Guard
- Iloilo elected a new Mayor which required re-signing of the memorandum of understanding (MoU) between the three cities
- The Iloilo City government did not have a strong understanding of the relevant PPP laws and policies it was required to follow.

Over the period of this delay, rehabilitation and development of the Buenavista and Jordan ports begun under public procurement. By 2012, the Guimaras-Iloilo Ferry Terminal in Parola remained the only port from the original project that still required development.

In early 2012, Iloilo-based property developer, Double Dragon Properties, Corp. submitted an unsolicited proposal to the Iloilo City government to construct the GIFTS as a JV. The project involved developing the ferry terminal, a park beside the terminal, and a small shopping mall to serve the needs of commuters between Iloilo and Guimaras.

Multiple departments within Iloilo City were involved in assessing the proposal, including: accounting, environment, and legal, as well as city assessors and architects. On

³ CDIA was supported by the German Development Cooperation, and the Swedish International Development Cooperation Agency

several occasions, the Mayor was also involved in assessing the proposal and negotiating with the proponent.

Once the proposal was agreed, Iloilo City established a JV selection committee and held a pre-bid conference to promote the project. Iloilo City received ongoing help from CDIA for the tendering process. Iloilo City conducted a Swiss challenge in October 2012 which invited alternative proponents to pre-qualify and bid. The original proponent won the Swiss Challenge and Iloilo City signed a 25-year JV with agreement Double Dragon in November 2012.

Subsequently Double Dragon began construction of the project. However, in July 2015, a lawyer filed a criminal complaint before the Iloilo City Prosecutor's Office, alleging that Double Dragon had violated the Philippines building code. Double Dragon had begun construction without the required locational clearance and building permits⁴. Construction of the project has since been on hold.

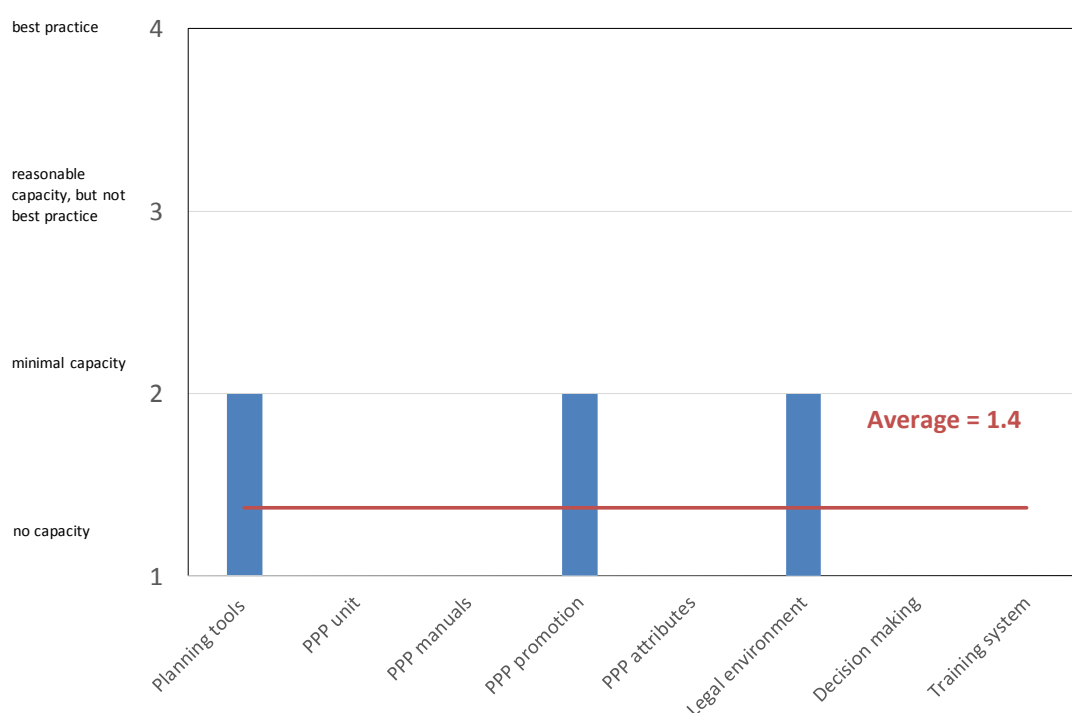
⁴ Franco, J. 2015, "Double Dragon, firm sued for violating building code in Iloilo", accessed 10 January 2016 at: <http://newsinfo.inquirer.net/708624/double-dragon-firm-sued-for-violating-building-code-in-iloilo>

4 Capacity Subject Area 1: Cross Cutting Issues

This capacity subject area examines whether Iloilo City sets up the right institutional framework, training programs, planning documents, and guidance material to help staff through PPP processes.

Iloilo City's performance against this capacity subject area is shown in Figure 4.1. The results show that while Iloilo City has good planning processes, it has a poor understanding of PPPs. In particular, Iloilo City has a limited understanding of the benefits and limitations of PPPs, does not have a clear understanding of its role in undertaking PPP projects, and has not established decision making processes for implementing PPPs nor a PPP unit. This is no doubt due to the fact that it has not implemented a PPP.

Figure 4.1: Iloilo City government's Basic Understanding of PPPs



4.1 Infrastructure Planning Tools

This topic assesses whether Iloilo City has formulated a city infrastructure vision or strategy. In line with best practice, this strategy should contain concrete numerical targets, and should be periodically revised to account for changes in economic and social conditions. It also assesses whether Iloilo City plans for specific projects in line with the infrastructure strategy and whether these projects get implemented within the planned time horizon.

Iloilo City has experience formulating infrastructure plans with concrete numerical targets and achievements. Existing plans include the 2013-2019 Iloilo City Comprehensive Development Plan, the 2011-2020 Iloilo City Comprehensive Land Use Plan (CLUP), and the Metro Iloilo-Guimaras Economic Development Council Roadmap 2015. These plans are regularly updated to account for changes in economic and social conditions.

The CLUP sets out specific priority infrastructure projects for the City over a ten-year time horizon. It also discusses the City's new and proposed development areas, and the regulatory function of Iloilo City.

Iloilo City has proven competent at realising the plans laid out in the CLUP. Examples of completed projects include the concreting and widening of the Diversion Road connecting Iloilo City with the airport, the upgrading of the Iloilo River Esplanade, and the GIFTS (still under implementation). In fact, the City Planning Office has expressed the need to update the CLUP this year, because most of what was planned has already been accomplished ahead of schedule.

However, a key weakness of Iloilo City's infrastructure planning process is that proposed projects do not derive from an economic vision or development strategy for the City. That is, there is no detailed analysis of the City's economic objectives, or how they link to its economic comparative advantages, nor a clear and transparent process for identifying projects.

Another weakness of Iloilo City's infrastructure planning process is that it does not include a funding plan. A funding plan identifies how infrastructure projects can be paid for. Without a funding plan, any proposed list of projects is not implementable; it is only a "wish list". A project that does not have sufficient funding cannot be carried out, regardless of whether it is a PPP or not. Further, the planning documents not include a discussion of how PPPs can be used to help deliver Iloilo City's infrastructure needs.

As such, Iloilo City's score for this topic is 2/4.

4.2 Establishment of a PPP unit

This topic considers whether Iloilo City has established a PPP unit with sufficient technical, financial, and legal expertise to support the development and implementation of PPPs.

Iloilo City has not established a PPP unit. Further, the lack of technical, financial and legal expertise to support the development and implementation of PPPs within Iloilo City hinders the potential to establish a PPP unit in the future.

Therefore, Iloilo City receives a score of 1/4.

4.3 PPP Manuals

This topic considers whether Iloilo City has developed manuals or guidelines to help staff identify, select and prioritize feasible PPP projects, and whether these manuals or guidelines have been used. In the Philippines, PPP manuals have been prepared by oversight agencies for all IAs (IAs do not produce their own manuals), as such our evaluation pertains to these national level manuals.

The PPP Center has prepared a manual for using PPPs at Iloilo City level – *PPP Manual for LGUs*. The manual includes three volumes as described in Table 4.1. However, the overwhelming majority of LGU staff members have not read this manual.

Therefore, Iloilo City receives a score of 1/4.

Table 4.1: PPP Manual for LGUs - Volumes 1, 2 and 3

| No. | Volume Name | Description |
|-----|--|--|
| 1 | <i>Understanding PPP Concepts and Frameworks</i> | Familiarises LGUs with the basic concepts and frameworks relevant to PPPs in the Philippines |
| 2 | <i>Developing PPP Projects for Local Government Units</i> | Helps LGUs understand the processes involved in undertaking a PPP. More specifically, it aims to help LGUs understand the legal, procedural, and the due-diligence requirements for PPPs. It also elaborates on the steps and processes LGUs can use to structure PPPs |
| 3 | <i>Utilizing LGU PPP Project Templates and Bid Documents</i> | Clarifies the concepts and tools presented in the first two volumes by providing examples of PPP projects that have been successfully implemented by LGUs |

Source: PPP Manual for LGUs

4.4 Promotion of PPPs

This topic considers whether Iloilo City promotes PPPs as means of procuring infrastructure projects.

While Iloilo City does not have a formal PPP promotion plan, the Mayor has indicated his support for using PPPs to procure infrastructure projects. Iloilo City has attempted to procure some projects—the GIFTS and the Central Market—as PPPs, but did not have the capacity to undertake the more complex PPP processes. As such, the projects were eventually tendered as JVs.

As such, we give a score of 2/4.

4.5 Understanding the Attributes of PPPs

This topic assesses whether senior management understand the advantages and limitations of PPPs, and that the key reason to use PPP procurement is to achieve VfM. It also considers whether senior management understand the various PPP modalities, and the criteria for selecting and developing PPPs.

Some staff within Iloilo City understand that, if appropriately incentivised, the private sector can operate infrastructure assets more efficiently, and achieve greater benefits, leading to better VfM. However, the misperception that PPPs create additional funds is still apparent within Iloilo City, and is even held by senior staff.

Iloilo City does not have a good understanding of the PPP modalities allowed under the BOT law (such as BOT, BT, and BTOM) as it has never implemented a PPP.

Therefore, we give a score of 1/4.

4.6 Legal Environment for Private Sector Participation

This topic evaluates Iloilo City’s understanding of the laws and regulations which apply to private sector participation in infrastructure, as well as the IA’s compliance with these laws and regulations.

Iloilo City is not fully aware of the laws, regulations, and rules that apply to PPPs. Nor does it have a strong understanding of these policies. For example, Iloilo City’s lack of knowledge of PPP laws and policies was one factor that delayed the development of the

City's original plan to modernise 3 ports in Iloilo and Guimaras as a PPP, and eventually led to the GIFTS project being developed as a JV. For the Central Market Project, Iloilo City had to revisit the contractual terms even after awarding the JV contract.

Iloilo City does have experience implementing JVs and is familiar with the JV guidelines prepared by the National Economic and Development Authority (NEDA). It also developed its own ordinance to provide the legal authority to enter into JVs.

We give Iloilo City a score of 2/4 for this topic, as Iloilo City is familiar with JV guidelines—which still promote private sector participation in infrastructure—but does not understand PPP laws and regulations.

4.7 Responsibilities and Decision Making Processes for Implementing PPPs

This topic considers whether Iloilo City understands its role in developing, tendering and implementing PPP projects, and if it has established decision making processes for implementing PPPs.

Iloilo City has never implemented a PPP and does not clearly understand its role in developing, tendering, and implementing PPP projects. Furthermore, it has not established a decision making process for implementing PPPs.

Therefore, we give Iloilo City a score of 1/4 for this topic.

4.8 Provision of PPP Capacity Building and Training Programs on PPPs

This topic assesses if Iloilo City provides training or capacity building programs for PPP unit staff, and if attending these programs influences a staff member's career progression within the unit.

Iloilo City Staff has not attended any PPP capacity building and training programs. As such, Iloilo City's score for this topic is 1/4.

5 Capacity Subject Area 2: Skills for Undertaking PPPs

This capacity subject area examines Iloilo City’s experience in undertaking all PPP processes—from project identification to project implementation.

As mentioned, the Iloilo City government has never implemented a PPP. As such, a full capacity assessment of their skills in this area is not possible. However, Iloilo City does have experience implementing JVs, as discussed in Section 3.

In undertaking these JVs, Iloilo City has developed capacity in some areas that may be transferable to PPP selection, development, tendering, and implementation. In addition, Iloilo City gained some direct capacity developing both the GIFTS and the Central Market as PPPs before they were converted to JVs.

The Sections below describe the areas where Iloilo City may have some transferable capacity to undertake PPPs, and note those areas where Iloilo City has no experience.

Overall, we find that Iloilo City’s capacity to select, develop, tender and implement PPPs—while not lacking entirely—is still minimal.

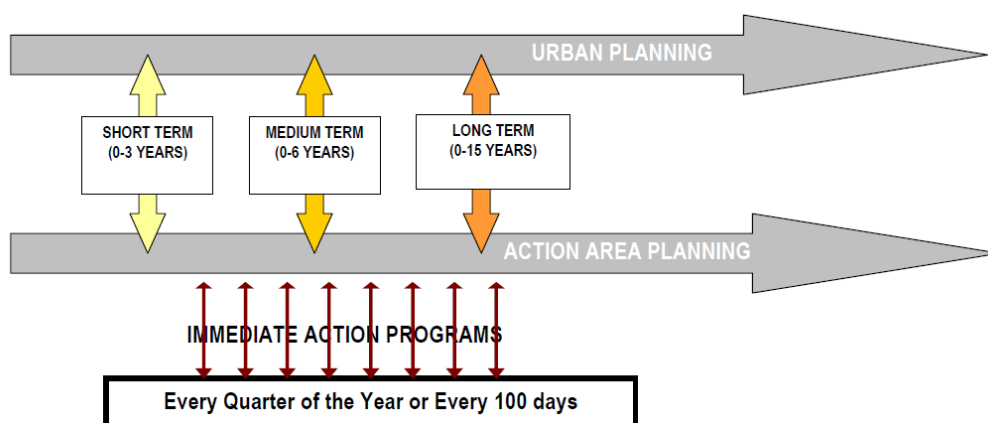
5.1 Identification, Selection & Prioritization

This sub-area considers Iloilo City’s experience in undertaking the early processes in the PPP cycle—project identification, selection and prioritisation.

While the Iloilo City government has never implemented a PPP project, it does have experience identifying, selecting and prioritising non-PPP infrastructure projects.

The cities overarching project planning framework, as undertaken in the CLUP, is shown in Figure 5.1. The CLUP sets out Iloilo City’s infrastructure plans over the short, medium and long term.

Figure 5.1: Planning Framework



Source: Comprehensive Land Use Plan

Iloilo City first identifies potential projects through a multi-stakeholder assessment. This involves focus-group discussions with business groups, academia, youth groups, the church, and the urban poor and other marginalized groups to identify their infrastructure needs. Iloilo City then identifies projects to address these needs.

While stakeholder consultation is an important part of the project identification process, it is not sufficient. International best practice shows that infrastructure projects should

derive from an economic vision or development strategy. This ensures that infrastructure funding is directed to projects that support the government’s overarching development priorities and that infrastructure development is organised and coherent.

Following project identification, Iloilo City prioritises projects through a two-stage process:

- First Level Assessment: projects are examined against selection criteria—desirability, redundancy, practicality and efficiency—to produce a short list of projects
- Second Level Assessment: the short list of projects is examined to identify any conflicts, compatibility and complementarities.

This process appears to be overly focussed on the technical feasibility of projects. It is difficult to understand if economic analysis (cost-benefit analysis) or financial analysis is part of the prioritisation process.

Despite the CLUP planning framework, projects selection is often haphazard. The City Planning Office noted a number of recent occasions when new infrastructure funding became available at short notice. However, Iloilo City did not have an existing list of priority projects to which it could direct this funding. Instead, the funding went towards new projects that were rapidly developed and did not pass through a centralised selection and prioritisation process. As such, the funding was unlikely to be directed to the best projects.

A key step missing in Iloilo City’s planning process is a funding plan. As discussed in Section 4.1, without a funding plan, any proposed list of projects is not implementable; it is only a “wish list”. A funding plan will determine the amount of infrastructure spending available each year and therefore the amount of prioritisation necessary.

Finally, Iloilo City does not undertake analysis to determine whether a project would be suitable for PPP procurement. Nor does it have a general framework to decide which method of procurement will deliver the greatest VfM. Iloilo City does appear to have some knowledge of the characteristics of a good JV project.

5.2 Preparation, Evaluation & Approval

This sub-area considers Iloilo City’s experience in undertaking PPP development processes, including project preparation, evaluation and approval.

While the Iloilo City government has never developed a PPP project, it does have some experience in preparing, evaluating and approving JV projects. This experience is discussed below.

Iloilo City has successfully secured funding from the Cities Development Initiative for Asia (CDIA) and other Official Development Assistance (ODA) programs to hire external advisors to assist with the development of a number of JVs, including the GIFTS and the Central Market Revitalisation Project.

However, Iloilo City does not have the capacity to analyse or evaluate these feasibility studies prepared by consultants. In particular, Iloilo City indicated its limited understanding of: VfM analysis, economic/cost-benefit analysis, and financial analysis. These elements are crucial in evaluating PPP projects.

Further, Iloilo City may struggle to secured funding for PPP project development. It has indicated that it does not have the capacity to prepare a project concept note, which is

required to secure project development funding from the Project Development and Monitoring Fund (PDMF) administered by the PPP Center.

Iloilo City has indicated a limited understanding of the legal aspects that could affect a project's viability and the circumstances under which projects can be legally pursued as PPPs. During the original preparation of the GIFTS as a PPP, Iloilo City encountered several legal hurdles which indicated a lack of understanding of PPP policies and the BOT law. This caused delays and led to the project being procured as a JV rather than a PPP.

During the preparation of its JV projects, Iloilo City showed that it was capable of undertaking market sounding activities to gauge private sector interest. For example, Iloilo City organized investor forums in July 2012 to promote the Central Market project. This experience is likely to be somewhat transferable to PPP projects. However, PPP projects can be expected to be larger and more complex than the JV projects implemented so far. In this case, Iloilo City would need to engage with larger domestic firms and potentially international firms.

Iloilo City has demonstrated some capacity to handle different stakeholders. For example, during the inception stage of the Central Market Revitalisation Project, Iloilo City consulted with various stakeholders such as the Iloilo Business Club and heritage conservation specialists. Nevertheless, some interest groups have since alleged that the project will result in unfavourable terms for both the local government and the market vendors. They have raised concerns such as higher stall lease rates, and the potential loss of government control over the market floor. Iloilo City is currently trying to address these concerns as it redevelops the project as a PPP.

Finally, Iloilo City does not have experience allocating risks between the government and the private party. This is a complex but essential part of PPP project development. Allocating the private party the risks they are better able to manage at a lower cost is what drives the VfM of PPP procurement. On the other hand, allocating too many risks to the private party will make a project unattractive to the private sector.

5.3 Tendering and Negotiation

This sub-area considers Iloilo City's experience in undertaking PPP tendering and negotiation with bidders.

Iloilo City has never tendered a PPP. However, it has successfully tendered and awarded two JV projects (the GIFTS and HWTF) and is in the processes of bidding out the Waste-to-Energy project as a JV. Some elements of this process are transferrable to PPP tendering. For example:

- Iloilo City has experience developing JV bid documents with the help of consultants
- Iloilo City has issued invitations to prospective bidders to pre-qualify and bid for JV projects, also with the help of consultants
- Iloilo City has established Special Bids and Awards Committees (SBACs)—consisting of high level government officials—to oversee the tendering process and the evaluation of bids
- Iloilo City has experience dealing with a range of private proponents. For example, the GIFTS was awarded to a prominent Iloilo based firm (Double Dragon), the Central Market was initially awarded to the largest shopping mall and retail operator in the Philippines (SM), and HWTF was awarded to a

Korean firm. This also highlights Iloilo City's capacity to undertake market sounding and attract a wide range of private proponents.

Importantly however, tendering JVs does not give Iloilo City transferable experience in designing and negotiating a PPP contract. Under a JV, the government and a private partner are jointly in control of a business. When unforeseen events occur, the two partners negotiate a way forward. In contrast, under a PPP the government grants a concession to a private party to finance, build, operate and maintain an infrastructure asset. As such, the contract has to provide fair and reasonable arrangements to deal with all potential future contingencies over a long time period (typically 30 years). This requires foresight about what events might occur; and this foresight can only be built from significant experience undertaking PPPs.

5.4 Implementation, Monitoring and Handover

This sub-area considers Iloilo City's experience in undertaking PPP implementation, monitoring and handover.

While the Iloilo City government has never implemented a PPP project, it does have experience implementing JV projects.

Currently, two of Iloilo City's three JV projects are under implementation. Construction has begun for the GIFTS and HWTF. Iloilo City is involved in monitoring the obligations of the JV partner for both projects.

Iloilo City establishes Monitoring and Evaluating Teams for infrastructure projects under implementation, whether they be traditionally procured projects or JVs. These teams are made up of LGU staff, and may also include stakeholders from the private sector and civil society. Monitoring systems and procedures are also developed, which establish performance indicators, benchmark data and determine the frequency of monitoring activities.

However, Iloilo City's experience with implementing the GIFTS indicates that its implementation capacity could be improved. Due to a government oversight, the JV partner began construction before securing certain permits. The government subsequently issued a notice of violation and construction has been on hold since. This has led to a delay of more than eight months.

While experience implementing JVs is somewhat transferable to PPP implementation, overall, PPP implementation is far more complex. This is because PPP contracts are far more rigorous and prescriptive. They set out multiple obligations, monitoring requirements, other procedures, and institutional arrangement for each party to follow. Failure to follow the contract can result in delays and penalties which will erode the VfM of the project. Dealing with contingencies is also more complex under a PPP. Under a JV arrangement the two parties can negotiate an agreed response, while under a PPP the parties will have to abide by arrangements stipulated in the contract, whether these arrangements are optimal or not.

6 Proposed Capacity Development Plan

The content of this Section is to be discussed among the PPP Center, JICA, the JICA Expert Team, and Iloilo City in order to reach agreement on the proposed work plan.

The JICA Expert Team first consulted with the Iloilo City government in November 2015. At this time the Mayor of Iloilo presented his plan to re-develop the Panay Railway as a key transport service for the island of Panay, which includes Iloilo City. The Mayor's motivation for this project is to promote tourism and industry in Iloilo City and the broader region. The Expert Team noted that capacity building activities are to be informed by a capacity assessment, but endorsed the Mayor's focus on unlocking the economic potential of the region and the City. The Mayor expressed willingness to proceed on this basis. .

The capacity assessment has since revealed that the Iloilo City government has a limited understanding of PPPs and no experience undertaking PPPs. Iloilo City's experience is limited to the development of four JV projects.

Therefore, we propose a capacity development plan that will focus on the key competencies required for the first phase of PPP development. The phases of this work include:

- Economic Vision—develop an overall economic vision for the future of Iloilo City (Section 6.1)
- Project Identification—identify and review desired or required infrastructure projects for Iloilo City (Section 6.2)
- Project Funding—assess the funding level for identified projects—i.e. government funding/potential to recover costs through user fees (Section 6.3)
- Project Prioritization and Sequencing—prioritize projects based on net benefits, and sequence projects based on their interaction with other investments (Section 6.4)
- Project Delivery—determine which priority projects will generate VfM if delivered as a PPP (Section 6.5).

The Expert Team recently presented this plan to the Mayor and noted that while the plan does not include specific work on the Panay Railway project, it may provide the economic basis for improving the Island's interconnectivity through a railway or other transport project. The Mayor expressed his support for the plan and directed the Expert Team to proceed with the support of Iloilo City government staff.

Further ahead, we suggest that Iloilo City receive capacity building support for the remaining three phases of the PPP cycle—project development, tendering, and implementation.

6.1 Vision for the Future of Iloilo

Developing an overarching economic development vision is international best practice in infrastructure planning. The vision for the future of Iloilo plays a key role in determining which infrastructure projects should be selected and prioritized.

In our consultations, Iloilo City has articulated a vision for the future of Iloilo City that focuses on three potential growth drivers:

- Tourism—Iloilo City plans to become a hub for business travellers visiting for conferences and continuing on to visit other parts of Panay island; the

Department of Tourism has also proposed that Iloilo City regain its status as a cruise ship destination

- Professional Services (including Business Process Offshoring (BPO))—Professional services and BPO already play a role in the economy of Iloilo City; services currently account for 82 percent of economic activity in Iloilo⁵. Continued growth in the service industry will require improved living conditions in order to attract educated workers
- Manufacturing—Iloilo City plans to attract manufacturers through a Special Economic Zone.

Iloilo City of Iloilo City must ensure that there is appropriate investment in infrastructure to support all of these potential growth drivers. PPPs will likely play a role in ensuring that Iloilo City achieves the highest VfM when procuring the required infrastructure.

6.2 Review Proposed Infrastructure Projects

The JICA expert team has consulted with Iloilo City of Iloilo City, as well as stakeholders such as the Chamber of Commerce. From these consultations we have created a consolidated list of proposed infrastructure projects. Our initial consultations have identified potential projects in sanitation and sewerage, transportation, urban renewal, and Special Economic Zones (SEZ). Each category contains projects that could be delivered as PPPs.

We will continue to refine and assess our list of potential projects through ongoing consultations. Projects will be reviewed based on pre-feasibility criteria such as:

- ability of the project to improve the delivery of basic services
- ability of the project to support Iloilo’s vision for the future
- level of political support for the project
- ability of the project to deliver net economic benefits to Iloilo.

6.3 Develop Funding Plan for Good Projects

Without a funding plan, the proposed list of projects is not implementable; it is only a “wish list”. A project that does not have sufficient funding cannot be carried out, regardless of whether it is a PPP or not.

As such, the JICA expert team will develop a funding plan for projects that have passed the pre-feasibility criteria. The funding plan for projects will identify how projects can cover their costs through:

- National funding provided in the General Appropriations Act (GAA)
- Overseas Development Assistance (ODA) from international donors, such as JICA
- User charges contributed by beneficiaries of infrastructure projects (for example, tolls on roads, tariffs paid for electricity, etc.)
- Local Government sources of revenue.

⁵ Iloilo City Government, 2014, “Socio Economic Profile”, accessed 10 January 2016 at: <http://www.iloilocity.gov.ph/iloilocity2014/iloilogen.php?id=296>

6.4 Prioritise and Sequence Potential Projects

The infrastructure funding available to Iloilo City will be limited. As such, it will need to prioritise projects based on net benefits. Projects that deliver the greatest net benefit per dollar of government funding should be given the highest priority.

The JICA expert team will also assess if specific projects need to be integrated into a logical sequence of projects. Many aspects of infrastructure are complementary—the viability of one project may depend on the existence of another, such that projects need to be developed in a certain order or concurrently. If projects are put forward before complementary infrastructure has been developed, or after irreversible plans are underway that undermine the project, they will not be bankable. For example, it would not make sense to build a SEZ before port facilities and roads that will serve the SEZ are constructed.

6.5 Identify Potential PPP Projects

The JICA expert team will identify which of the proposed projects—that have been deemed feasible, have adequate funding, and are part of a logical sequence—could be best delivered as a PPP. Projects best delivered as a PPP will achieve the highest VfM under PPP delivery compared to other delivery options (such as public procurement).

There are a range of criteria that help determine whether PPP delivery will achieve VfM. They include:

- The project involves risks that cannot be transferred to the private sector under alternative delivery models, but which the private sector is prepared to take at a price lower than it would cost government to manage the risk itself
- The project is complex or unique, and therefore likely to benefit from the additional due diligence which private sector financiers will perform
- The project is of sufficient size to justify the transaction costs associated with a PPP.

The purpose of PPP procurement is not to deliver public infrastructure that the government cannot otherwise afford. PPPs do not provide “extra funds”, and thus their primary purpose is not to overcome fiscal constraints on government borrowings. The costs of the project, including the cost of private finance, must be covered at all times by payments from either the government or users.

Lastly, the JICA expert team will assist Iloilo City to apply for assistance from the PDMF to develop projects identified as potential PPP projects.

Overall, the processes described above will ensure that the efforts of the PPP Center and Iloilo City are directed to projects that will deliver the greatest net benefits to Iloilo.

Appendix A: Timeline for Capacity Development

| Year Month | 2015 | 2016 | | | | | | | | | | | | 2017 | | | | | | | |
|---|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|-----|-----|-----|-----|-----|-----|-----|
| | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug |
| Phase I: Implementation of the Capacity Assessment | | | | | | | | | | | | | | | | | | | | | |
| Undertake capacity assessment | ■ | ■ | | | | | | | | | | | | | | | | | | | |
| Phase II: Analysis of the Capacity Assessment Results and Development of the Implementation Plan for Capacity Building | | | | | | | | | | | | | | | | | | | | | |
| Formulate capacity development plan; reassess proposed work plan if required | ■ | ■ | ■ | | | | | | | | | | | | | | | | | | |
| Phase III: Implementation of Capacity Building | | | | | | | | | | | | | | | | | | | | | |
| Develop Vision for the Future of Iloilo | | ■ | ■ | ■ | | | | | | | | | | | | | | | | | |
| Review Proposed Infrastructure Projects | | | ■ | ■ | ■ | ■ | ■ | ■ | | | | | | | | | | | | | |
| Develop Funding Plan for Good Projects | | | | | | | | | ■ | ■ | ■ | ■ | ■ | | | | | | | | |
| Prioritize and Sequence Potential Projects | | | | | | | | | | | | | | ■ | ■ | ■ | ■ | ■ | ■ | | |
| Identify Potential PPP Projects | | | | | | | | | | | | | | | | | | | ■ | ■ | ■ |

CAPACITY DEVELOPMENT PROGRAM FOR PUBLIC- PRIVATE PARTNERSHIPS IN HEALTH SECTOR IN THE PHILIPPINES

COMPREHENSIVE CAPACITY BUILDING PLAN

Background

Public private partnership (PPP) is a model of long-term contractual agreement between the government and private partner to carry out infrastructure projects for the public. Such a contractual agreement varies significantly from standard procurement of government in many aspects in terms of complexity and dynamics. It can, on the other hand, provide benefits in terms of operation efficiency, innovations and output quality, so long as PPP initiatives are well-structured and developed methodically. In practice, PPPs are widely understood as financial, rather than technical ventures. Thus, it is important to identify, prioritize, develop and examine sound PPP projects that would on one hand provide reasonable gains to the private sector, while at the same time enable the government to achieve its development goals.

In the Philippines, carrying out key infrastructure projects through PPPs has been acknowledged as one of the means to support the country's comprehensive development program. Tapping into private sector know-how, financial and operating capabilities is seen as an essential approach to sustain the socioeconomic growth of the country. PPPs in the country can cut through the government budget cycles and financial constraints to narrow the gap in this steadily growing population and economy.

By mid-March, [seven] dedicated work staffs for the new PPP for Health Management Unit have been appointed, and they have started conducting a stakeholders consultation including bilateral, multilateral, and other related partner institutions, in order to develop the prioritization standards for the PPP in health, which will be based on the Philippine Health Agenda (PHA), Philippine Hospital Development Plan (PHDP), the National Objectives for Health (NOH), [the 12 legacies for health and President Duterte's marching orders.]

This training program is meant to support the newly appointed members of the new "PPP for Health Management Unit". The program covers the general aspects of PPPs as well as sector specific aspects in health sector in the Philippines. It also includes the roles and responsibilities of different stakeholders in this initiative and looks into capacitating the members to identify, prioritize and manage PPPs in the said sector. The capacity-building initiative is both theoretical and practical in nature as it includes both lecture sessions and simulations to provide participants with the "real feel" of working on PPPs in health sector. It not only looks at the government side of PPPs, but more importantly, it provides a vantage point to better understand how private sector sees PPP projects and what for them would constitute a viable PPP project. It is designed to have sessions and activities involving the members and several breakout sessions specifically discussing health sector.

This capacity building plan is developed as part of the support for the DOH under the Capacity Development for PPPs in the Philippines, a comprehensive technical assistance project funded by the Japan International Cooperation Agency (JICA) and implemented with The Public-Private Partnership Center of the Philippines.

Objectives

The capacity-building plan is designed to help achieve the following objectives:

- **To equip participants with the fundamental knowledge and operational concepts on Public-Private Partnerships;**
- **To familiarize participants on the different roles the public and private sector can play in PPPs for health sector;**
- **Understand how PPPs can be used as viable tools to help implement Philippine Health Agenda 2016-2022;**
- **To capacitate participants in identifying, prioritizing and selecting PPPs in health; and**
- **To familiarize participants on how to properly deal with unsolicited proposals submitted by private proponents.**

A total of 6 modules will be carried out. Definite schedules will be set accordingly.

Desired Institutional Outcome

In conducting this capacity building exercise, the following outputs are envisaged:

- **Newly appointed dedicated members for the new “PPP for Health Management Unit” have the capacity to examine and oversee potential PPP projects – both solicited and unsolicited projects**
- **A model for conducting sustained capacity building exercises is tested**
- **Newly appointed dedicated members for the new “PPP for Health Management Unit” will have greater capacity in conducting training exercises**

Content

The training program will focus on the following broad discussions:

- **Introduction on PPPs**
- **PPPs in health sector**
- **Identification of potential PPPs**
- **Project prioritization**
- **PPP viability and bankability from “the other side of the table”**
- **Unsolicited PPP proposals: examining, handling and evaluating**
- **Process of developing PPPs beyond basic**
- **Proper procurement of PPPs under RA 6957 as amended by RA 7718**
- **Process of developing PPPs beyond basic studies**
- **Managing PPPs**

Target Group

This capacity building initiative primarily focuses on the following stakeholders:

- **Newly appointed dedicated members for the new “PPP for Health Management Unit”**
- **[Interested DOH employees to the extent the total number of participants are less than or equal to [5]]**

All participants will be required to undertake lectures, role-playing and simulation exercises in this lecture.

Trainers for the capacity building exercise

- Mr. Hidefumi Takahashi (DTFA)
- Mr Shizuma Yokozawa (DTFA)
- Mr. Hiroshi Ijichi (DTFA)
- Mr. Yasuhisa Furusawa (DTFA)
- Mr. Juan Paulo M. Fajardo (DTFA)
- Mr. Yuta Kumo (DTFA)
- Ms. [Feroisa Francisca T. Concordia] (PPP Center)
- Ms. [Dionne Marga M. Larin] (PPP Center)
- Ms. [Dionna Fe M. Falamig] (PPP Center)

Methodology

The capacity building exercise will be implemented using different training methods

- Lectures and presentations
- Small group discussions
- Simulations
- Group assignment
- Individual assignments
- Evaluation of participants' performance
- Collection of feedback and participant comments on the capacity building activity

Preparatory Activities

The following pre-implementation activities will be carried out:

- **Detailed capacity building needs assessment** – capacity needs will be ascertained for pre-identified participants.
- **Detailed scheduling of sessions** – detailed scheduling of the training session will be confirmed with all stakeholders. This will be done no later than 2 weeks before the scheduled capacity building session.
- **Determination of participants in the capacity building exercise** – before starting the entire capacity building sessions, participants will be determined and formally communicated by the agencies where they belong. Participants will be bound to attend no less than two-thirds of the training activities to ensure sustained absorption of information.

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| Participants | |
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- Training will be conducted within the premise of DOH central office. Reservations of the training rooms will be done by DOH and all the facility costs related to

trainings including meals if any will be borne by DOH

Course Outline

| Time Frame | Topic/Content | Specific Objectives | Planned Materials | Activities | Assessment/ Evaluation |
|---|--|--|---|---|---|
| Module 0 (Mar 20 th before actual capacity building activities) | Preparatory Activities | <ul style="list-style-type: none"> To conduct capacity building needs assessment To finalize participants in the capacity building exercise To conclude logistical preparations To fine-tune and harmonize learning materials (as a result of needs assessments) | | <ul style="list-style-type: none"> Coordination and liaison activities Revision and fine tuning of materials (as needed) Review and commenting on materials to be used | <ul style="list-style-type: none"> Needs assessments conducted Participants finalized Learning materials fine-tuned and completed |
| Module 1 (around Mar 27 th) (4hr+2~4hr) | Introduction on PPP: What is PPP and what we can expect from it | <ul style="list-style-type: none"> To discuss the PPP concept in general, including the pros and cons of PPPs (4hrs) To discuss PPPs in the Philippine context including the process, policies, and legal and institutional framework for PPP implementation (by PPPC) (2~4hrs) | <ul style="list-style-type: none"> PPP Center's presentation materials National Government Agency Public - Private Partnership MANUAL (Draft) Original text book by the JICA Expert team | <ul style="list-style-type: none"> Lecture Workshops/ Group dynamics Simulations | <ul style="list-style-type: none"> Participants score at least 75% in the post-session test Participants complete outputs from simulations and group dynamics satisfactorily Group assignment provided |

| Time Frame | Topic/Content | Specific Objectives | Planned Materials | Activities | Assessment/ Evaluation |
|---|------------------------------|--|---|---|--|
| Module 2 (around Mar 28 th) (4hrs) | PPPs in health sector | <ul style="list-style-type: none"> • Review of hospital functions and likely areas for PPP: availability concept revisited and core vs non-core functions • Improve hospital services - BPR (Business Process Reengineering) and PPP • Improved outcomes hospital operations • Issues noted at DOH hospitals (analyses from hospital site visits) and how PPP might assist to cope with the issue • State of outsourcings at DOH retained hospitals • Likely health PPP modalities in the Philippines: PPP modalities will be elaborated and differentiated based on legal framework as health “PPPs” in the health sector includes lease contract (i.e. equipment), service contract, mere outsourcing etc. • To highlight examples of PPPs in health – e.g., cases in NKT1, VSMMC, Orthopedic Center, Tama Hospital (Japan) • PPP is not privatization | <ul style="list-style-type: none"> • Original text book by the JICA • Expert team | <ul style="list-style-type: none"> • Lecture • Reporting session • Workshops/ Group dynamics | <ul style="list-style-type: none"> • Analyses of Orthopedic Center case from privatization standpoint |

| Time Frame | Topic/Content | Specific Objectives | Planned Materials | Activities | Assessment/ Evaluation |
|--|---|--|--|--|---|
| Module 3 (week of Apr 17) (4 hrs) | Identification of potential PPPs Project prioritization PPP viability and bankability from “the other side of the table” | Identification of potential PPPs <ul style="list-style-type: none"> • To understand required information and data for initial selection and identification of potential projects and their respective rationale • To familiarize participants on how to identify potential PPP projects in health sector • To enable participants to operationalize the different criteria and apply methods such as VfM and GPRAM Project prioritization <ul style="list-style-type: none"> • To familiarize participants on how to prioritize potential PPP projects in health sector: introduction to “Project Screening Form” PPP viability and bankability from “the other side of the table” <ul style="list-style-type: none"> • To understand the criteria of non-state actors • To understand key concepts in ensuring PPP project viability and bankability such as viability gap funding, use of availability payment | <ul style="list-style-type: none"> • National Government Agency Public - Private Partnership MANUAL (Draft) • Original textbook for understanding the principle of VfM by the JICA expert team • Draft PPP Screening Form | <ul style="list-style-type: none"> • Lecture • Workshop/ group dynamics • Simulations | <ul style="list-style-type: none"> • Individual outputs of participants on how to identify outputs using different methodologies • Individual participants prepare a summative document on the topic “What makes a PPP Project appealing to the private sector” |

| Time Frame | Topic/Content | Specific Objectives | Planned Materials | Activities | Assessment/ Evaluation |
|---|--|--|---|--|--|
| Module 4 (week of May 8) (4 hrs) | Unsolicited proposals: examining, handling and evaluating | <ul style="list-style-type: none"> To understand the nature of unsolicited proposals and how these differ from solicited proposals To understand the dynamics of handling, managing and evaluating through the unsolicited mode To understand the parameters of properly and objectively evaluating proposals | <ul style="list-style-type: none"> National Government Agency Public - Private Partnership MANUAL (Draft) General Guidelines for Unsolicited Proposals in the Philippines (Draft) Possible criteria for evaluating unsolicited proposals by the JICA Expert team | <ul style="list-style-type: none"> Lecture Role Playing Game (Agency, Original Proponent, challenger) | <ul style="list-style-type: none"> Individual performance of participants in diagnostic exam Successful staging of the role playing game |
| Module 5 (week of May 29) (4 hrs) | Process of developing PPPs beyond basic studies | <p>Process of developing PPPs beyond basic studies</p> <ul style="list-style-type: none"> To understand in a more detailed manner the process of PPPs in the Philippines from project development to implementation To conduct an open interview session with officials from the PPP Center to better understand the dynamics of PPP project development through implementation Understand how to prepare project evaluation forms for NEDA approval of projects Understand how to prepare draft documents such as contracts, bid advertisements and minimum performance standards and specifications Output specifications and availability payment in health PPP (revisited) <p>Managing PPPs</p> | <ul style="list-style-type: none"> National Government Agency Public - Private Partnership MANUAL (Draft) Sample of PPP documents | <ul style="list-style-type: none"> Lecture Open conference with PPP Center Officials Guided preparation of mock bid documents | <ul style="list-style-type: none"> Successful staging of open conference with PPP Center Officials Insight report: How can we better improve the PPP Process Group preparation of draft contract conditions, and minimum performance standards and specifications Case study in output specification and availability payment – Garthnavel Royal Hospital Individual participants to prepare KPIs for monitoring and evaluation plans |

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|--|--|---|--|--|--|
| | | <ul style="list-style-type: none">• To better understand the roles and responsibilities of IAs and other stakeholders in monitoring during construction and coordinating/overseeing during implementation | | | |
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| Time Frame | Topic/Content | Specific Objectives | Planned Materials | Activities | Assessment/ Evaluation |
|---|---------------------------|--|--|--|---|
| Module 6 Recap (week of Jun 5) (4 hrs) | Final Recap | <ul style="list-style-type: none"> • To recapitulate all topics discussed • To understand areas that still need further clarification • To apply Scoping Practice Guidebook to real case: “run through” session to allow the participants to be familiarized as to how to use the Scoping Practice Guide book • To obtain feedback from participants | <ul style="list-style-type: none"> • Scoping Practice Guidebook • Project Screening Form | <ul style="list-style-type: none"> • Summative lecture • Administering feedback form | <ul style="list-style-type: none"> • Application of Scoping Practice Guide book • Individual participants prepare individual summative papers on what they have learned in the whole capacity building program covering all modules discussed |
| Completion Program (week of Jun 5) | Completion program | <ul style="list-style-type: none"> • To organize a completion program to recognize the participants in the exercise | | <ul style="list-style-type: none"> • Formal completion program | <ul style="list-style-type: none"> • Completion program conducted |

Course Requirements

To complete the capacity building program, participants should:

- Attend no less than 4 of the 6 modules with mandatory participation to Module 6
- Submit all outputs indicated in the program (including papers, reports, and tests)
- Actively participate in discussions and field exercises
- Attend the completion program

References Adopted

- RA 6957 as amended by RA 7718
- PPP CENTER'S PRESENTATION MATERIALS

**CAPACITY DEVELOPMENT
PROGRAM FOR PUBLIC-PRIVATE
PARTNERSHIPS IN THE ROADS,
SEWERAGE AND SEPTAGE
SECTORS IN THE PHILIPPINES**

COMPREHENSIVE CAPACITY BUILDING PLAN

Background

Public private partnership (PPP) is a model of long-term contractual agreement between the government and private partner to carry out infrastructure projects for the public. Such a contractual agreement varies significantly from standard procurement of government in many aspects in terms of complexity and dynamics. It can, on the other hand, provide benefits in terms of operation efficiency, innovations and output quality, so long as PPP initiatives are well-structured and developed methodically. In practice, PPPs are widely understood as financial, rather than technical ventures. Thus, it is important to identify, prioritize, develop and examine sound PPP projects that would on one hand provide reasonable gains to the private sector, while at the same time enable the government to achieve its development goals.

In the Philippines, carrying out key infrastructure projects through PPPs has been acknowledged as one of the means to support the country's comprehensive development program. Tapping into private sector know-how, financial and operating capabilities is seen as an essential approach to sustain the socioeconomic growth of the country. PPPs in the country can cut through the government budget cycles and financial constraints to narrow the infrastructure gap in this steadily growing economy.

Expressways and toll roads have been a fixture in the Philippines' PPP market. The DPWH, through its Public-Private Partnership Service has been the project management, promotion and coordinating arm that has rolled out several expressway projects such as the Muntinlupa-Cavite Expressway (MCX, previously called the Daang-Hari SLEx Link Road) and the NAIA Expressway Phase II. While as an organization, the PPPS has successfully awarded a number of projects, its personnel has noted that there are some points for strengthening in their group, especially in terms of financial and legal capacities as it applies to the roads sector.

On the other hand, the sewerage and septage sector is one field that is seen to benefit substantially with introducing well structured PPPs, be it in construction of new facilities, rehabilitation of existing structures or in handing over the reins for operation and maintenance to private entities. In the DPWH, the Environmental and Social Safeguards Division (ESSD) is considered the coordinating arm for such initiatives. It has been institutionally assigned to oversee the activities in line with the National Sewerage and Septage Management Program (NSSMP). ESSD as a unit necessitates a better understanding of how PPPs can be used as a vehicle to carry out sewerage and septage development initiatives, especially at the local level.

This training program is meant to support both the PPPS and ESSD as it covers both the roads as well as the sewerage and septage sector. It covers the general aspects of PPPs as well as sector specific aspects in the roads and sewerage and septage sector in the Philippines. It also includes the roles and responsibilities of different stakeholders in this initiative and looks into capacitating national and local agencies to identify, prioritize and manage PPPs in the said sector. The capacity-building initiative is both theoretical and practical in nature as it includes both lecture sessions and simulations to provide participants with the "real feel" of working on PPPs in the above stated sectors. It not only looks at the government side of PPPs, but more importantly, it provides a vantage point to better understand how private sector sees PPP projects and what for them would constitute a viable PPP project. It is designed to have sessions and activities involving the two DPWH units and several break out sessions specifically discussing the

roads as well as sewerage and septage sectors separately.

This capacity building plan is developed as part of the support for the Department of Public Works and Highways under the Capacity Development for PPPs in the Philippines, a comprehensive technical assistance project funded by the Japan International Cooperation agency and implemented with The Public-Private Partnership Center of the Philippines.

Objectives

The capacity-building plan is designed to help achieve the following objectives:

- To equip participants with the fundamental knowledge and operational concepts on Public-Private Partnerships;
- To familiarize participants on the different roles the public and private sector can play in PPPs for roads, sewerage and septage sectors;
- Understand the contextual realities of the roads, sewerage and septage sector, locally and internationally and how PPPs can be used as viable tools to carry out infrastructure initiatives of the government;
- To capacitate participants in identifying, prioritizing and selecting PPPs for roads, sewerage and septage initiatives in the Philippines; and
- To familiarize participants on how to properly deal with unsolicited proposals tendered by private proponents.

A total of 8 modules will be carried out twice a month. Definite schedules will be set accordingly.

Desired Institutional Outcome

In conducting this capacity building exercise, the following outputs are envisaged:

- DPWH PPP Service and DPWH-ESSD has the institutional capacity to examine and oversee potential PPP projects
- A model for conducting sustained capacity building exercises (even beyond sewerage and septage PPPs) is tested
- PPP Service and DPWH ESSD, and PPP Center staff will have greater capacity in conducting training exercises
- Participating local government units have a greater understanding on how to properly and methodically carry out PPP projects in the sewerage and septage sector, and the road sector

Content

The training program will focus on the following broad discussions:

- Introduction on PPPs
- PPPs in road, water and sanitation sectors
- Selection and identification of potential PPPs for the sewerage and septage sector, and the road sector
- Developing PPPs in the roads, sewerage and septage sector in the Philippines
- PPPs from “the other side of the table”
- Dealing with unsolicited PPP proposals
- Proper procurement of PPPs under RA 7718
- Beyond awarding: managing PPPs during construction and operation phases (for both roads and sewerage and septage projects)

Target Group

This capacity building initiative primarily focuses on the following stakeholders:

- Personnel and officials in the DPWH involved in PPPs for roads as well as

sewerage and septage

On-site short capacity building program could be held for the following stakeholders (focused particularly on sewerage and septage):

- **Local government officials and personnel involved in procurement, finance, sewerage and septage and environmental management. Targeted local governments will be identified mainly from seventeen prioritized local governments / water districts for NSSMP.**
- **Officials and personnel from local water districts. Targeted local governments will be identified mainly from seventeen prioritized local governments / water districts for NSSMP.**

All participants will be required to undertake lectures, role-playing and simulation exercises in this lecture.

Trainers for the capacity building exercise

- Mr. Yasuhisa Furusawa (DTFA)
- Mr. Hidefumi Takahashi (DTFA)
- Mr. Yuta Kumo (DTFA)
- Ms. Kathleen Geslani (PPP Center)

Methodology

The capacity building exercise will be implemented using different training methods

- Lectures and presentations
- Small group discussions
- Simulations
- Field works
- Group assignment
- Individual assignments
- Evaluation of participants' performance
- Collection of feedback and participant comments on the capacity building activity

Preparatory Activities

The following pre-implementation activities will be carried out:

- **Detailed capacity building needs assessment** – capacity needs will be ascertained for pre-identified participants. This will be based on the standard training needs assessment materials by the PPP Center modified for the sewerage and septage sector.
- **Detailed scheduling of sessions** – detailed scheduling of the day-long training session will be confirmed with all stakeholders. This will be done no later than 2 weeks before the scheduled capacity building session.
- **Determination of participants in the capacity building exercise** – before starting the entire capacity building sessions, participants will be determined and formally communicated by the agencies where they belong. Participants will be bound to attend no less than 80% of the training activities to ensure sustained absorption of information.

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| PPP Service | |
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- Intra-organizational budgeting and logistical preparations – stakeholders who are bound to participate. Cost cover and sharing for the exercises will also be discussed and formalized

Course Outline

| Time Frame | Topic/Content | Specific Objectives | Planned Materials | Activities | Assessment/ Evaluation |
|---|--|---|---|---|---|
| Week 0 (1 month before actual capacity building activities) (Both PPPS and ESSD) | Preparatory Activities | <ul style="list-style-type: none"> To conduct capacity building needs assessment (via pre-testing) To finalize participants in the capacity building exercise To conclude logistical preparations To fine-tune and harmonize learning materials (as a result of needs assessments) | | <ul style="list-style-type: none"> Coordination and liaison activities Revision and fine tuning of materials (as needed) Review and commenting on materials to be used | <ul style="list-style-type: none"> Needs assessments conducted Participants finalized Learning materials fine-tuned and completed |
| Module 1 (Nov) (4 hrs) (Both PPPS and ESSD) | Introduction on PPP: What is PPP and what we can expect from it | <ul style="list-style-type: none"> To discuss the PPP concept in general, including the pros and cons of PPPs To discuss PPPs in the Philippine context including the process, policies and legal framework for PPPs in the Philippines To highlight examples of successful PPP projects in the Philippines and around the world To understand mistakes and failed PPP initiatives and understand the risks and limitations of PPPs | <ul style="list-style-type: none"> PPP 101 A PPP Manual for LGUs National Government Agency Public - Private Partnership MANUAL E-learning material Original text book by the JICA Expert team | <ul style="list-style-type: none"> Lecture Workshops/ Group dynamics Simulations | <ul style="list-style-type: none"> Participants score at least 75% in the post-session test Participants complete outputs from simulations and group dynamics satisfactorily Group assignment (preparation for reporting on water and sanitation, and road sector in the Philippines) provided |

| Time Frame | Topic/Content | Specific Objectives | Planned Materials | Activities | Assessment/ Evaluation |
|---|---|--|--|--|---|
| Module 2-1 (for ESDD) (Nov) (4 hrs) | PPPs in the water and sanitation sector (WatSan) | <ul style="list-style-type: none"> To understand the business structure of water and sanitation in the Philippine context To identify the roles of public and private entities for water and sanitation in the Philippines Discuss the challenges for improving service quality of water and sanitation sector To conduct simulation exercises to identify possible PPP modalities, including bundling and unbundling projects | <ul style="list-style-type: none"> Original text book by the JICA Expert team | <ul style="list-style-type: none"> Lecture Reporting session Workshops/ Group dynamics Simulations | <ul style="list-style-type: none"> Reporting of participants conducted satisfactorily on: Watsan in the Philippines Challenges for improving service quality of the Watsan sector Presentation of outputs from Month 1 session given by assigned participants Outputs from simulation and group dynamics provided satisfactorily |
| Module 2-2 (for PPPS) (Nov) (4 hrs) | PPPs in the road sector | <ul style="list-style-type: none"> To understand the business structure of the road PPPs in the Philippine context To identify the roles of public and private entities for the road PPPs in the Philippines To conduct simulation exercises to identify possible PPP modalities | <ul style="list-style-type: none"> Original text book by the JICA Expert team | <ul style="list-style-type: none"> Lecture Reporting session Workshops/ Group dynamics Simulations | <ul style="list-style-type: none"> Reporting of participants conducted satisfactorily on: Tendency of Road PPPs in the Philippines Presentation of outputs from Month 1 session given by assigned participants Outputs from simulation and group dynamics provided satisfactorily |
| Module 3 (Dec) (4 hrs) | Selection and identification of potential PPPs | <ul style="list-style-type: none"> To understand required information and data for initial selection and identification of potential projects and their respective rationale To familiarize participants on how to identify potential PPP projects in Sewerage and septic, and road projects To enable participants to operationalize the different criteria and apply methods such as VfM, cost-benefit and | <ul style="list-style-type: none"> A PPP Manual for LGUs National Government Agency Public - Private Partnership MANUAL E-learning material Original textbook for understanding the principle of | <ul style="list-style-type: none"> Lecture Workshop/ group dynamics Simulations | <ul style="list-style-type: none"> Individual outputs of participants on how to identify outputs using different methodologies |

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|-----------------------------------|---|---|--|--|--|
| | | <p>GPRAM</p> <ul style="list-style-type: none"> • Discuss the process of approvals and evaluation of projects before actual procurement. | VfM by the JICA expert team | | |
| Module 4 (Dec) (4 hrs) | PPP viability and bankability from “the other side of the table” | <ul style="list-style-type: none"> • To understand the criteria of non-state actors • To understand key concepts in ensuring PPP project viability and bankability such as viability gap funding, use of availability payment and government guarantees • To conduct a simulation to harmonize state and non-state interest for PPP projects: Cases will be prepared in both sewerage and septage, and road PPPs | <ul style="list-style-type: none"> • A PPP Manual for LGUs • National Government Agency Public - Private Partnership MANUAL • E-learning material • Summary of PPP basic business case for Baguio-city | <ul style="list-style-type: none"> • Lecture • Presentation from guest speaker (from the private sector) • Workshop/ group dynamics | <ul style="list-style-type: none"> • Individual participants prepare a summative document on the topic “What makes a PPP Project appealing to the private sector” |
| Module 5 (Jan) (8 to16 hrs) | Understanding of needs of LGUs/WDs | <ul style="list-style-type: none"> • To conduct field works in Baguio City to better understand specific needs of LGUs and WDs • To better understand the challenges in improving service quality in the water and sanitation sector | <ul style="list-style-type: none"> • Analysis of water and sanitation services and its business structure in LGUs/WDs by the JICA Expert team | <ul style="list-style-type: none"> • Organized field work with case LGU • Focus Group Discussion | <ul style="list-style-type: none"> • Debriefing of results of FGDs conducted with all participants involved |
| Module 6 (Feb) (4 hrs) | Unsolicited proposals: examining, handling and evaluating | <ul style="list-style-type: none"> • To understand the nature of unsolicited proposals and how these differ from solicited proposals • To understand the dynamics of handling, managing and evaluating through the unsolicited mode • To understand the parameters of properly and objectively evaluating proposals in both sewerage and septage, and road sector | <ul style="list-style-type: none"> • National Government Agency Public - Private Partnership MANUAL • E-learning • Possible criteria for evaluating unsolicited proposals by the JICA Expert team | <ul style="list-style-type: none"> • Lecture • Role Playing Game (Agency, Original Proponent, challenger) | <ul style="list-style-type: none"> • Individual performance of participants in diagnostic exam • Successful staging of the role playing game |

| Time Frame | Topic/Content | Specific Objectives | Planned Materials | Activities | Assessment/ Evaluation |
|------------------------------|--|---|--|--|--|
| Module 7 (Mar) (4 hrs) | Process of developing PPPs beyond basic studies | <ul style="list-style-type: none"> To understand in a more detailed manner the process of PPPs in the Philippines from project development to financial closure To better understand the interplay between different stakeholder and agencies, especially the role of the PPP Center in the process To conduct an open interview session with officials from the PPP Center to better understand the dynamics of PPP project development through financial close Understand how to prepare project evaluation forms for NEDA approval of projects Understand how to prepare draft documents such as contracts, bid advertisements and minimum performance standards and specifications | <ul style="list-style-type: none"> A PPP Manual for LGUs National Government Agency Public - Private Partnership MANUAL Sample of PPP documents | <ul style="list-style-type: none"> Lecture Open conference with PPP Center Officials Guided preparation of mock bid documents | <ul style="list-style-type: none"> Successful staging of open conference with PPP Center Officials Insight report: How can we better improve the PPP Process Group preparation of draft contract conditions, and minimum performance standards and specifications |
| Module 8 (Mar) (4 hrs) | Managing PPPs | <ul style="list-style-type: none"> To better understand the roles and responsibilities of IAs and other stakeholders in monitoring during construction and coordinating/ overseeing during implementation in both sewerage and septic, and road PPPs To better understand how to prepare mock monitoring and evaluation plans | <ul style="list-style-type: none"> Sample of monitoring sheets Example of monitoring sheets for sewerage and septage sector PPP projects by the JICA Expert team | <ul style="list-style-type: none"> Lecture Workshop/ Group Dynamics Simulation | <ul style="list-style-type: none"> Individual participants should prepare KPIs for monitoring and evaluation plans |
| Recap 2 | Final Recap | <ul style="list-style-type: none"> To recapitulate all topics | | <ul style="list-style-type: none"> Summative lecture | <ul style="list-style-type: none"> Individual participants |

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| | | <p>discussed</p> <ul style="list-style-type: none"> • To understand areas that still need further clarification • To obtain feedback from participants | | <ul style="list-style-type: none"> • Administering feedback form | <p>prepare individual summative papers on what they have learned in the whole capacity building program covering all modules discussed</p> |
| Completion Program | Completion program | <ul style="list-style-type: none"> • To organize a completion program to recognize the participants in the exercise | | <ul style="list-style-type: none"> • Formal completion program | <ul style="list-style-type: none"> • Completion program conducted |

Course Requirements

To complete the capacity building program, participants should:

- Attend no less than 6 of the 8 modules
- Submit all outputs indicated in the program (including papers, reports, and tests)
- Actively participate in discussions and field exercises
- Attend the completion program

References Adopted

- RA 7718
- PPP101
- NATIONAL GOVERNMENT AGENCY PUBLIC-PRIVATE PARTNERSHIP MANUAL
- Discussion on PPP Capacity Development Program for DPWH Business Case in Baguio City Water District (DTFA)