Sustainability and Efficiency of Public Investment Spending in the Philippines: Challenges and Opportunities

Tokyo Fiscal Forum
10-11 June 2015

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Overview of presentation

- Adequacy and sustainability of infrastructure spending
- Public investment management issues
Infrastructure deficit drags down country’s competitiveness ranking

Inadequate supply of infrastructure cited as the second most problematic factor for doing business in the Philippines

### Ranking of ASEAN countries (out of 144 countries surveyed) in terms of quality of infrastructure

<table>
<thead>
<tr>
<th>Country</th>
<th>Quality of overall infrastructure</th>
<th>Quality of roads</th>
<th>Quality of Ports</th>
<th>Quality to air transport</th>
<th>Quality of electricity supply</th>
<th>Mobile telephone subscriptions</th>
<th>Fixed telephone lines</th>
<th>Wastefulness of government spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>5</td>
<td>6</td>
<td>2</td>
<td>1</td>
<td>6</td>
<td>17</td>
<td>31</td>
<td>3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>20</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>39</td>
<td>30</td>
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<tr>
<td>Thailand</td>
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<td>58</td>
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<tr>
<td>Indonesia</td>
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<td>64</td>
<td>84</td>
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<tr>
<td>Philippines</td>
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<tr>
<td>Cambodia</td>
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<td>116</td>
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<td>Vietnam</td>
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<td>87</td>
<td>88</td>
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<td>Myanmar</td>
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<td>134</td>
<td>125</td>
<td>137</td>
<td>117</td>
<td>144</td>
<td>125</td>
<td>78</td>
</tr>
</tbody>
</table>

Infrastructure inadequacy associated with low levels of public infrastructure spending

- Some improvement evident in 2007-2013 still some distance from the estimated need of 5%-6% yearly
Public spending on infrastructure co-variant with government fiscal position

- Declining revenue effort and debt overhang tended to pull down national government infrastructure spending (albeit with some lag) ➔ need to improve government revenue effort to create fiscal space for infra spending
Challenge in the future is to maintain, if not increase, fiscal space for infra spending ....

- There is pressure to reduce both the corporate income tax rate and the personal income tax rate structure in line with those of other ASEAN countries in the context of AEC 2015
  - Philippine corporate income tax rate and top marginal personal income tax rate is highest in ASEAN

- Government is considering a tax reform package to address this that will possibly include:
  - Rationalization of fiscal incentives
  - Increasing the VAT rate (now at 12%)
  - Imposing a national surcharge on the real property tax imposed by local governments
  - Increase excise tax on petroleum products
Public-Private Partnership

- Philippines readiness to undertake sustainable PPPs rated as 7th (out of 20 countries and 1 jurisdiction) in Asia Pacific by EIU in 2014

- Regulatory framework for PPPs enacted into law in 1990 and amended in 1994 (Republic Act 7718), one of oldest in the region

- Executive Order (EO) 8 of 2010, EO 136 of 2013 and new IRR for RA 7718 – aimed at improving legal framework for PPP
Public-Private Partnership

Since 2010:

- Roles of various government agencies involved in PPPs streamlined; PPP Center strengthened

- Project preparation improved with:
  - establishment of Project Development and Monitoring Facility to support robust pipeline of about 50 projects from project development to contract award with some US$ 3 billion worth of projects awarded in 2011-2014
  - Capacity building for government implementing units, oversight agencies to help them process PPPs

- Improvement in alternative dispute resolution (but still takes long)

- Awarding of contracts generally viewed positively but sometimes controversial
Challenge in Public-Private Partnership

- Need to ensure that PPP projects do not create undue contingent liability for the government

  - Philippine experience with PPPs in the 1990s not positive in this regard
Public investment management issues

- Present administration guided by comprehensive 2011-2016 Philippine Development Plan (PDP) and Philippine Investment Program (PIP) which “revalidated” in 2013
  - Planned infrastructure investment for 2013-2016 amounts US$ 13 billion (or 77% of total investment in PIP)

- Projects with project cost in excess of PhP 1 billion and/or ODA projects need approval of the Investment Coordinating Committee (ICC)
  - Vetting of projects below the cut-off done by proponent agencies
Public investment management issues

- Philippine Development Plan (PDP) and PIP at times faulted for lack of strategic focus – “wish list”
  - Weak central oversight and political interference ➔ proliferation of small projects
Lack of strategic focus in public infrastructure spending in the past

- Some improvement evident in 2011-2015
Public investment management issues

- Project approval after PIP – weakens link between planning and budget
- Sectoral fragmentation (too many agencies involved in implementing projects within any given sector)
  - Lack of coordination across agencies
- Slow implementation of infrastructure projects
  - Partly due to low absorptive capacity of implementing agencies
  - Partly related to Procurement Law
- Insufficient MOOE, particularly true of roads and transport infrastructure
Thank You!