

BLENDED FINANCE IN DEVELOPMENT

**PHILIPPINES:
POOR
GOVERNANCE
JEOPARDISES
DEVELOPMENT
RESULTS**

BASED ON RESEARCH BY
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PHILIPPINES



NAME:

Light Rail Transit Line 1

PROJECT TYPE:

11.7 km extension of rail line

BUDGET:

USD 1.36 billion

DONORS:

Japan International Cooperation Agency and private actors

OPERATORS:

Light Rail Manila Corporation (Philippines)

CONTRACTOR:

Alstom Transport (France), Bouygues Travaux (France), RATP Group (France)

The Philippine Development Plan (PDP) 2017-2022 acknowledges the importance of accelerating infrastructure development as a major foundation for sustainable development. It gives priority to projects and programs on transport, water resources, energy, information and communications technology, as well as to social infrastructure sectors. To achieve this, the PDP specifies a major increase in government spending on infrastructure (from at least 5.3 per cent of GDP in 2017 to 7.4 per cent by 2022). However, given the limited public resources available, the Philippines' government has foreseen engaging the private sector in infrastructure projects through blended financing or Public-Private Partnerships (PPP).

This brief looks at the extension of the existing Light Rail Transit Line 1 (LRT1). This project is part of the PDP and aims at easing the growing traffic congestion in Manila and nearby provinces and at increasing passenger capacity from 500,000 to 800,000 passengers. The LRT1 has two components: on the one hand, to construct 11.7 km of additional railway line and eight new stations and, on the other hand, to manage the light rail transit system operations and maintenance. The LRT1 will be operational in 2020.



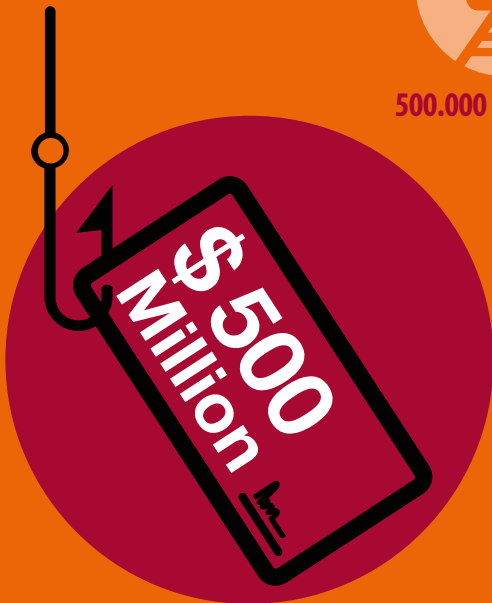
500.000 PASSENGERS



800.000 PASSENGERS



Manila



BLENDED FINANCING¹

To support the implementation of the project, the Philippine Government, with the support of the Development Bank of the Philippines, appointed the International Finance Corporation (IFC) as the financial lead adviser for the extension project on

a PPP model. As financial lead adviser, the IFC is responsible for the operation and maintenance of the existing line, and participates as well in the designing, financing, construction, operation and maintenance of the proposed extension.

In October 2014, the Light Rail Transit Authority (LRTA) and the Department of Transportation (DOTr) – originally owners and operators of the Light Rail Train system – awarded a 32-year concession contract² to the Light Rail Manila Corporation (LRMC)³ to operate and maintain the existing line, as well as, to construct the proposed extension.

The LRMC will carry out the extension and related operations through a USD 501 million contract awarded to Alstom

Transport and Bouygues Travaux Publics in February 2016. These two companies will be in charge of providing an integrated metro solution for the extension project. Parallel to this, the DOTr and the LRTA will undertake complementary projects through traditional public procurement. For example, the RATP Group, operator of the Paris Metro, has been selected as the technical partner for the LRMC.

The estimated investment for the project is of PHP 64.915bn (USD1.36bn), of which the Philippine Government will fund PHP 25.35bn (USD 533 million) through official development assistance (ODA) from the Japan International Cooperation Agency (JICA). For the remaining PHP 39.6bn, the plan assumes that private sector investments will raise them.

DEVELOPMENT EFFECTIVENESS

This project highlights some significant shortfalls as to the application of the development effectiveness principles:

THE DEVELOPMENT EFFECTIVENESS PRINCIPLES

- 1. Ownership of development priorities by developing countries:** developing countries to be in the driving seat of development initiatives.
- 2. Focus on results:** a lasting impact on eradicating poverty and reducing inequality, and on enhancing developing countries' capacities, aligned with their own priorities.
- 3. Inclusive development partnerships:** openness, trust, mutual respect and learning lie at the core of effective partnerships, recognising the different and complementary roles of all actors.
- 4. Transparency and accountability:** accountability to the intended beneficiaries, as well as to those impacted by development initiatives. Transparent practices form the basis for enhanced accountability.

ACCOUNTABILITY, TRANSPARENCY AND PUBLIC CONSULTATION

In terms of **accountability, transparency and public consultation**, the awarding of project contracts should follow the process prescribed by Philippine law (the revised Build-Operate-Transfer Law and the Government Procurement Reform Act 9184, among others). This includes consultation of stakeholders as well as scrutiny by several committees.

According to the interviews carried out, there were consultations with civil society actors and potentially affected communities, including families affected by

the acquisition of right-of-way who will receive compensation. A local interagency council is overseeing the relocation of all informal settlers affected by the project, to solve arising problems and to ensure that the relocation is compliant with international standards.

The project will also require the relocation of some infrastructure for water and electric utilities in order not to hamper the delivery of basic services for the duration of the project.

OWNERSHIP

The project fits into the Philippine Development Plan (PDP) 2017-2022. The Philippine government expects that it will generate a **positive impact** on business and productivity⁴ as well as on air quality. According to the plans, the project will create jobs, generate businesses in the areas served by the line, and improve quality of life for commuters.

However, a large-scale public-private infrastructure project of this kind inevitably also has **implications for social, environmental, labour and human rights**.



INCLUSIVITY

Despite the fact that trade union participation is important to ensure respect and implementation of labour standards during the implementation of the project and to raise concerns on related issues, the Philippine authorities did not consult trade union representatives for this project.

Nonetheless, trade unions continue to play their watchdog role and monitor closely how the project develops. Among other matters, the unions pay special attention to the displacement of communities to allow for right-of-way⁵ (RoW) and depots; fare prices; the affordability, efficiency, reliability and safety of the public transport system; environmental damage; job losses; respect for human rights standards; the right to decent and green jobs; and compliance with labour standards and workers' fundamental rights.

DEVELOPMENT RESULTS

With regard to **labour rights**, the Philippines expects the project to generate jobs. The government's PPP Center is requested by the Department of Labour and Employment to determine the number of workers needed for the project.

Unfortunately, **trade unions** are not sufficiently involved in this project and in PPP projects in the Philippines in general. It is therefore extremely difficult to ensure that all necessary measures are in place to protect the rights of workers and local communities at each stage of the project. Moreover, this approach is bluntly contravening the Agenda 2030 and its sustainable development goals (SDGs).

The unwillingness of the government to involve unions and its decision to heavily regulate and suppress trade unions is not only making it more difficult for workers to organise and engage in PPP projects but it also impacts negatively on SDG16 (peaceful and inclusive societies, and effective, accountable and inclusive institutions).

Moreover, the shift from government to private sector provision of public services has entailed changes in the labour market. Trade unions have voiced concerns over the difficulty of securing jobs and incomes in an industry dominated by short-term project-based employment contracts. To address this situation, unions have stressed the need for continued skill-ing, re-skilling and upgrading of skills for workers. As authorities and employers are ignoring these proposals, they also undermine the Philippines commitment regarding SDG 8 (inclusive, sustainable economic growth, full and productive employment and decent work for all) and SDG 10 (reduce inequalities). Subsequently, insecure and low-paid jobs will not help people out of the poverty trap, in opposition to SDG 1 (eradicate poverty).

In addition, a number of **governance, management and operational issues** emerged from interviews conducted with PPP officials and a LRTA engineer. These problems affected the results of the project, notably in terms of delays and costs:

- Slow government procedures for budget approval and procurement caused further delays because of the need to realign the budget for inflation or to conduct new bidding procedures.
- Discussions over the payment structure⁶ when details were not sufficiently specified in the contract.
- Lack of capacity in implementing agencies, exacerbated by some personnel being appointed for political reasons rather than based on their technical skills and experience.
- Lobbying by influential businessmen, not taking into account the impact on the community.
- Delays in acquiring right-of-way,⁷ partly due to the concerns of some local politicians who opposed relocations because it would imply less constituents and less votes during elections.
- Questions over the role and responsibility of the Commission on Audit.



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¹ Manila Light Rail Transit Line 1 (LRT-1) Cavite Extension, in Railway Technology: <https://www.railway-technology.com/projects/manila-light-rail-transit-line-1-lrt-1-cavite-extension>

² Including the construction period.

³ The LRMC is comprised of major local and international conglomerates such as the Metro Pacific Light Rail (MPLRC), the Ayala Corp's AC Infrastructure Holding Corporation (AC Infra) and the Macquarie Group.

⁴ Ben O. de Vera. Jica: Traffic congestion now costs P3.5 billion a day. Philippine Daily Inquirer. 22 February 2018. In <http://newsinfo.inquirer.net>. Accessed 25 March 2018.

⁵ A right-of-way is a type of easement granted or reserved over a piece of land for transportation purposes, this can be for a highway, public footpath, rail transport, as well as electrical transmission lines, oil and/or gas pipelines.

⁶ The payment mechanism lies at the heart of the PPP contract. The primary purpose of the payment mechanism is to remunerate the PPP Company sufficiently for it to be willing to enter into the PPP contract and provide the service. The payment mechanism is the principal means for allocating risks and providing incentives in the PPP contract.

⁷ By the time of this study the project had not started.

RECOMMENDATIONS

- Review the contract agreement between the Department of Transportation and the Light Rail Manila Corporation, in order to protect public interest.
- Ensure a meaningful participation and inclusion of all stakeholders, such as trade unions and civil society representatives, throughout all phases of the project.
- Ensure that decent work and decent living conditions are extended to displaced families, and that their livelihoods and needs are not hampered.
- Decide and act on right-of-way without sacrificing accountability, transparency and social rights. Key stakeholders, especially trade union and civil society representatives should take part in those negotiations to ensure that social responsibilities are upheld (i.e. on livelihoods, financial assistance, relocations).
- The Commission on Audit must undertake a comprehensive review of the contract and thus play a role from the early stages of the PPP project.



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