New Australian Aid Investment

Connecting Transport Infrastructure for Economic Development (CONNECTED)

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Challenges in unlocking the economic growth potential of transport infrastructure in the Philippines

Continued and sustained investment in quality public infrastructure has long been recognised as a driver of national economic growth. Transport infrastructure, specifically, improves connectivity between production areas and national, regional, or global markets, and provides people, particularly the poor, with better access to employment and income opportunities.

The Philippines, however, currently faces the challenge of inadequate transport infrastructure connectivity. It has a combination of an inadequate stock of infrastructure, insufficient quality of existing infrastructure and inefficient management of the transport sector as a whole. The Philippine government since 2010 has tried to address the issue through substantial increases in allocations for transport and other infrastructure, reaching the equivalent of 5% of GDP in the 2016 national budget. The administration of President Duterte has stated its intention to increase future infrastructure budget allocations to reach the equivalent of 7% of GDP by 2022. However, actual expenditure remains below the allocated budget. [For example, the Commission on Audit recently reported that the Department of Transportation and Communications only spent 52% of its 2015 budget.] Improvements in the fiscal space complemented by other reforms have not been fully effective in pushing infrastructure spending and delivery. Particularly for transport infrastructure, the poor spending and implementation are linked to a few underlying challenges:

› Transport planning is currently fragmented. At the national level, there is poor horizontal coordination and flow of information across oversight and spending agencies in the prioritisation of transport infrastructure programs, activities and projects. Similarly, there is weak vertical coordination across national and subnational levels of government. Poor plans lead to transport infrastructure that is poorly coordinated across sectors and across different transport modes.

› At the subnational level, stakeholders are supposed to coordinate priorities for transport infrastructure through regional development plans. However, as national line agencies are the budget holders, these regional plans are subsequently broken into projects by agency and are submitted up to the relevant Central Office for consideration. This process tends not to provide an adequate mechanism for ensuring the appropriate balance and coordination between national and regional priorities in final funding allocations.

› Weak institutional capacities negatively affect both planning and execution of transport infrastructure projects. Implementing agencies may lack capacity for policy development and planning, technical aspects of project preparation, procurement, and resolving right of way issues.

Australia's proposed intervention

A new aid investment focused on improving transport infrastructure is being designed and is expected to be operational by July 2017 (AUD25 million over 6 years). The investment will align with Australia's Aid Investment Plan 2015-2018 objective of enhancing the foundations for economic growth through carefully targeted investments in infrastructure development. It will also support President Duterte's intent to accelerate annual infrastructure spending to 7% of GDP by 2022.

The ***goal*** is to:

› Increasing economic activity for inclusive social and economic development by improving transport infrastructure connectivity

To this end, the investment will focus on two ***outcomes***:

1. *Improving coordination of national government agencies to better manage the transport infrastructure sector*. To achieve this, the investment recognises the need to strengthen:
    » the institutional, policy, and process framework within which transport infrastructure plans and budgets are developed and spent; and
    » the application of policies and processes in the sector

   The investment will work with spending agencies (e.g., DPWH, Department of Transportation), planning and oversight agencies (e.g., NEDA, DBM), and the various advisory and approving entities (e.g. INFRACOM, ICC, SCPPA, DBCC) involved in transport infrastructure.

2. *Improving planning of transport infrastructure in specific geographic locations*. To achieve this, the investment will work on improving coordination and connectivity among national government oversight agencies and implementing agencies and their respective central and regional offices, Regional Development Councils, and local government units, private sector, and civil society based at the subnational level. (Specific regions where the project will work with will be selected in the future). The intra- and inter- agency coordination is expected to facilitate the identification, prioritisation, planning, budgeting and implementation of comprehensive regional transport infrastructure plans. The geographic focus is intended to demonstrate the positive impact of improving horizontal and vertical linkages in transport infrastructure planning.

Proposed approach

› Capacity building and technical assistance will be integral activities for implementation.

› Engagement with stakeholders, recognising that many of the obstacles to better transport infrastructure delivery are inter-agency in nature.

› A Facility to provide flexibility in engaging with new opportunities and be adaptive to changing situations, recognising the complexity and unpredictability of the transport infrastructure sector.

This information is provided for planning purposes only and it does not represent solicitation or constitute a request for proposal, nor is it a commitment to purchase or tender for any described services. The scale, scope and focus of any proposed program may change at any time and is subject to formal approval by the Australian and Philippine Governments before any procurement process will commence. Should a procurement commence, we anticipate commencing in early 2017. This information is subject to delays, revision or cancellations.