

Public-Private Partnership Stories

Philippines: Manila LRT-1 Cavite Extension



Manila's Light Rail Transit Line 1 (LRT-1) started commercial operations in 1984. It was the first LRT line built in the Philippines. Thirty years later, it continues to be an integral part of the urban transport system, carrying about half a million passengers daily along one of the densest traffic corridors in Metro Manila. But years of under spending on maintenance had taken a toll on the system with infrastructure fast deteriorating, the available train fleet significantly shrinking, and safety becoming an urgent concern. As part of a major public-private partnership (PPP) program, the government, through the Development Bank of the Philippines, hired IFC as the lead advisor on a PPP for the operation and maintenance of the existing Line 1 as well as the design, financing, construction, and operation and maintenance of a 12-kilometer extension to the southern district of Cavite.

The Light Rail Manila Consortium (LRMC), comprised of local and international companies, won the bid for a 32-year concession to build and operate the Manila LRT-1 Cavite Extension project. The concession agreement was signed in October 2014. The winning proposal included USD 200 million in upfront concession fees and a commitment to invest \$925 million in the construction of the Cavite extension. Once complete, the project is expected to benefit more than one million daily passengers.

This series provides an overview of public-private partnership stories in various infrastructure sectors where IFC was the lead advisor.

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BACKGROUND

The Government of the Philippines (GoP), under its Medium-Term Philippine Development Plan for 2011-2016, has sought to mobilize additional resources and expertise from the private sector to overcome limited fiscal resources and accelerate the development of the country's transport infrastructure. GoP has also sought to separate ownership, operations, and regulatory functions in the transport sector to better address institutional weaknesses, such as overlapping functions that may give rise to conflicts of interests and unclear lines of accountabilities that ultimately hinder the delivery of good public transport services.

To operationalize this policy, the GoP mounted an ambitious PPP Program to attract private sector participation in the financing, development, operations and management of Metro Manila's mass/light rail transit (M/LRT) system, while retaining ownership and regulation of the public sector. The PPP Program for the LRT system, under the leadership of the Department of Transportation and Communications (DOTC), is expected to deliver much needed investments required to integrate the LRT network, expand its reach, and increase service capacities and efficiencies through enhanced performance and accountability.

IFC'S ROLE

The DOTC, with its attached agency, the Light Rail Transit Authority (LRTA), engaged IFC in partnership with the Development Bank of the Philippines (DBP) to structure the PPP and assist in conducting an international competitive tender for the Cavite Extension project.

IFC's mandate included formulating the PPP transaction structure, preparing the concession agreement, and helping select a private concessionaire through a competitive and transparent process to operate the existing system and to develop and operate the Cavite extension. IFC provided GoP recommendations on financing mechanisms, risk allocation, and the design of the tender process.

TRANSACTION STRUCTURE

IFC proposed a transaction structure based on a 32-year concession agreement. The concession specified a completion date for the Cavite extension of 48 months after the signing of the concession agreement. The concessionaire will have the rights to all revenues derived from LRT fares and commercial developments.

The DOTC and the LRTA will undertake complementary projects, via traditional public procurement, intended to promote the Project's viability and sustainability. This will include the design and procurement of new rolling stock required for the Project and depot development, which covers the construction of a new satellite depot and expansion of the

current depot. This public component of the Project will be funded through Official Development Assistance (ODA) from the Japan International Cooperation Agency (JICA).

The agreement was structured to balance risk, protect the rights of all parties and the riding public, and provide measurable investment and performance objectives.

BIDDING

Light Rail Manila Consortium (LRMC) formed by major local conglomerates, Metro Pacific Investments Corp, Ayala Corp, with the Macquarie Group, won the bid for Manila LRT1 Cavite Extension project. LRMC, in turn, has engaged the services of Paris Metro operator RATP to operate the line. The winning proposal included the payment of \$200 million in a concession fee to the government, foregoing a maximum subsidy of \$112 million that was offered by the government, as well as a commitment to invest over \$900 million to design and build the Cavite Extension.

The concession agreement was signed in October 2014.

EXPECTED POST-TENDER RESULTS

- Yield \$312 million in fiscal impact.
- Leverage \$925 million in private investments.
- Improve access to transportation services to over 1,000,000 passengers daily.
- Reduce Green House Gas emissions by 40,000 tones CO₂ per year.
- Enhance Metro Manila and Cavite regions' competitiveness and quality of life, fostering sustainable, mass transit-oriented development in Metro Manila and the surrounding provinces.
- Provide replication potential throughout the light rail sector in the Philippines.