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PPIAF Enabling Infrastructure Investment

PUBLIC-PRIVATE PARTNERSHIPS BRIEFS

Philippines: Urban Passenger Rail

Overview

Severe traffic congestion and environmental degradation characterize Metro Manila, particularly at the city center where high density development continues. Urban sprawl has spilled over onto surrounding provinces that are within daily commuting distance, with population in these areas now reaching 5 million. About 22.5 million motorized trips are made each day—70 percent of which are taken on public transportation. Urban rail services provide a more efficient alternative to road-based services, but Metro Manila's mass/light rail transit (M/LRT) network needs to be expanded in reach and capacity to significantly increase daily passenger volumes.

This series showcases how the World Bank Group supports the development and implementation of public-private partnerships. This support comes in the form of public sector loans, private sector finance, sector and transaction advice, guarantees, and output-based aid.

Project Description

Under the current political administration, the Government of the Philippines has promoted public-private partnerships (PPPs) to accelerate the country's infrastructure development. To operationalize the policy, the Department of Transport and Communications (DOTC), the main transport planning and policy body, has launched a PPP program in the transport sector to attract private sector participation in the financing, development, operations, and management of the M/LRT system.

The first project was a PPP concession for the existing LRT Line 1 (LRT1), which consists of the construction of an extension to the southern district of Cavite, and operation of the entire section. In 2011, the International Finance Corporation (IFC) was appointed as Lead Transaction Advisor to the DOTC and the Light Rail Transit Authority (LRTA), which currently owns and operates the LRT 1, to put the project out to tender and to select the winning bidder through a competitive international process. Since the M/LRT services have been operated and managed by the public sector, it was a significant challenge for the government to facilitate and regulate project execution and service delivery by the private sector. DOTC sought technical support from the Public-Private Infrastructure Advisory Facility (PPIAF) to establish a PPP regulatory unit that would focus on contract management of the LRT 1 concession.

World Bank Group Role

IFC and PPIAF worked together to ensure successful outcomes from the Philippines' first M/LRT PPP concession. IFC prepared a transaction structure consisting of operation and maintenance (O&M) of the existing LRT1 as well as the design, financing, construction, operation, and maintenance of a 12-kilometer extension to Cavite. In addition to formulating the PPP transaction structure, IFC also prepared the concession agreement and conducted an international tender to help select a private concessionaire through a competitive and transparent process. Specifically, IFC provided the government with recommendations on financing mechanisms, risk allocation, and the design of the tender process. Light Rail Manila Corporation (LRMC), formed by major local conglomerates Metro Pacific Investments Corp, Ayala Corp, and the Macquarie Group, won the bid for the 32-year LRT1 concession. The winning proposal included the payment of $200 million in a concession fee to the government (forgoing 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.

In parallel, PPIAF provided assistance for DOTC and LRTA to establish a regulatory unit to oversee the M/LRT PPP concessions so that DOTC and LRTA could transition from being "providers" to "regulators" of services. Primary attention was given to the LRT 1 concession. PPIAF provided recommendations on how to set up the unit, taking into consideration the existing legal framework, timing, and available resources. Implementation support to DOTC and LRTA has followed, operationalizing the contract management components of the LRT 1 concession.

Outcomes

- Expanded transport services to nearly 1 million passengers daily.
- Generation of $200 million in concession fees from the winning bidders to DOTC.
- Improvement in Metro Manila and and the Cavite regions' competitiveness and quality of life, due to sustainable, mass transit-oriented development in Metro Manila and the surrounding provinces.
- Reduction of greenhouse gas emissions by 40,000 tons of CO_2 per year.