



Public-Private Partnership Stories

Philippines: NAIA Expressway



Photo © John Ward

Decades of underinvestment in infrastructure in the Philippines has created a huge backlog of projects that need to be studied, developed, and tendered; demanding resources and expertise beyond the capacity of the government. Transportation infrastructure is a significant component of the government's focus, and to address this, IFC was hired to advise the government on the NAIA Expressway Project—a key part of Metro Manila's urban expressway system. The NAIA Expressway aims to provide a high-quality direct link to the country's international airport and augment heavily-congested major thoroughfares. When the fully elevated NAIA expressway is completed, average travel time for the routes identified is expected to be cut by at least 50 percent.

Optimal Infrastructure Development, Inc. (ODI), a subsidiary of one of the top Philippine conglomerates, San Miguel Corporation, won the international competitive tender for the 30-year concession to design, finance, construct, and operate NAIA Expressway. The agreement was signed in July 2013.

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

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The expressway is expected to mobilize \$250 million in private investment to build the toll road that is estimated to cater to about 100,000 passengers daily.

BACKGROUND

The new government that came into office in June 2010 was confronted with a massive infrastructure deficit, particularly in urban areas where the population has grown. Soon after it was elected, the government prioritized infrastructure development, launching an aggressive PPP program in November 2010. Ten priority projects were identified, targeting about \$4 billion in private capital (about 2 percent of GDP). Of this, just over 60 percent was labeled for transport infrastructure construction. The government brought in specialist advisory services from external partners to develop the priority projects, prepare and structure them into bankable PPP transactions while optimizing their development objectives, and select private partners through a transparent, open competitive tender process.

IFC'S ROLE

IFC was hired to advise the government on the NAIA Expressway in January 2011 with the Development Bank of the Philippines (DBP), a government financial institution that had been tasked to advise on the government's PPP Program.

Department of Public Works and Highways (DPWH), the sponsor implementing agency, also tapped outside assistance for technical studies to supplement pre-investment studies. These studies showed that the project would require public subsidy to be a bankable PPP. When the project stalled, IFC continued to work closely with DPWH to find an alternative solution. The new solution involved financing contributions from investors in a new leisure and entertainment area (Entertainment City) being developed near the airport. IFC took on the additional task of supporting the government in its negotiations with the Entertainment City investors to formalize the latter's financing contribution. The resulting Infrastructure Support Facility (ISF) offered staple financing to all bidders. This was packaged as a long-term, highly concessional, subordinated loan from the Entertainment City investors, covering about 50 percent of total project cost.

IFC also supported DPWH in securing the final government approval to proceed to tender, working with key stakeholders from the public sector and consulting with potential project sponsors and lenders.

TRANSACTION STRUCTURE

IFC proposed a 30-year concession for the design, financing, construction, and operation of the toll road facility. In turn, the private concessionaire will be authorized to collect tolls based on levels and an adjustment formula prescribed in the concession agreement. Government prescribed the toll road alignment and committed to deliver all the required rights-of-way (ROW) within this alignment. Nonetheless, bidders were given some flexibility to deviate from the prescribed alignment provided that they assume the responsibility for and cost of any additional ROW procurement beyond those the government committed to. In connection with the ISF financing, the concessionaire was also obligated to finance and construct access roads leading to Entertainment City, which upon completion will be turned over to Entertainment City management and operated as free roads.

Apart from ROW delivery, the DPWH guaranteed the timely issuance of the toll operations certificate that would allow the winning bidder to levy and collect tolls, and the implementation of the toll adjustment formula over the life of the concession. The guarantee is intended to shield the private concessionaire from political and regulatory risks related to toll increases.

The technical bid was set on a pass/fail basis, with minimum performance specifications and standards prescribed relating to the design, construction, operations, and management of the toll road. The financial bid allowed bidders to either offer a positive bid (upfront concession payment) or a negative bid (concessional financing through the ISF loan). The winning bid could therefore either be:

- the lowest required financing from the ISF, if all bidders required a financing support; or,
- the highest up-front concession payment to government, if one or more bidders submitted a positive bid.

BIDDING

Government adopted a two-stage (pre-qualification, then bid), two-envelope (technical and financial) bid approach. Seven international and local consortia and corporations responded to the invitation to pre-qualify, and four passed. Of the four, two corporations, Optimal Infrastructure Development, Inc. (OIDI) and Manila North Tollways Corporation (MNTC), eventually submitted bids and passed the technical criteria. Both bidders submitted positive financial bids. OIDI won the contract with a concession offer of about \$250 million.

EXPECTED POST-TENDER RESULTS

- In addition to the toll road to be built and subsequently transferred, the project facilitated a \$250 million income for the government in the form of an upfront concession payment.
- The project is expected to mobilize \$250 million in private investment to build the toll road that is estimated to cater to about 100,000 passengers daily.
- The ISF loan component (though ultimately not mobilized) showcased an innovative financing model for future toll road projects.
- Although the project was only the third to result from the country's new PPP program, it is the biggest in terms of investment, providing government a document template that sets key policies on crucial issues.

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