



2008 BUDGET BRIEFER

CONGRESSIONAL PLANNING AND BUDGET DEPARTMENT

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BASIC INFRASTRUCTURE FOR ALL*

“The speed of the fleet is not determined by the fastest vessel, rather it is determined by the slowest one.” Developing the country’s infrastructure should be geared towards a socially inclusive growth – where all members of the society, particularly the poor, share in the process of economic growth, by improving their incomes and enhancing their access to basic services.

The Philippines has sought to improve the country’s infrastructure services and foster development. The country’s improving fiscal position in recent years has afforded some fiscal space to enable the government to pursue its infrastructure development plan. In fact, since 2005, public expenditure for infrastructure has continuously increased indicating a growing prioritization of public infrastructure. Nonetheless, the country remains a laggard especially in terms of basic infrastructure and consequently, overall economic competitiveness.

TABLE I
2007 INFRASTRUCTURE COMPETITIVENESS RANKINGS
OF SELECTED ASIAN COUNTRIES

PARTICULARS	Indonesia	RP	Thailand	India	Malaysia	China	Singapore
Overall Competitiveness	54	45	33	27	23	15	2
Infrastructure	54	51	48	50	26	28	3
Basic Infrastructure	50	55	35	36	25	8	1
Technological Infrastructure	55	31	48	37	18	27	2
Energy	52	49	35	53	15	33	6
Water	54	52	36	47	19	31	1
Air Transport	16	34	22	15	20	2	23
Roads	44	54	2	49	51	3	5
Railroads	4	51	41	34	45	43	2

Source: AIM Policy Center, 2007 World Competitiveness Yearbook, IMD International

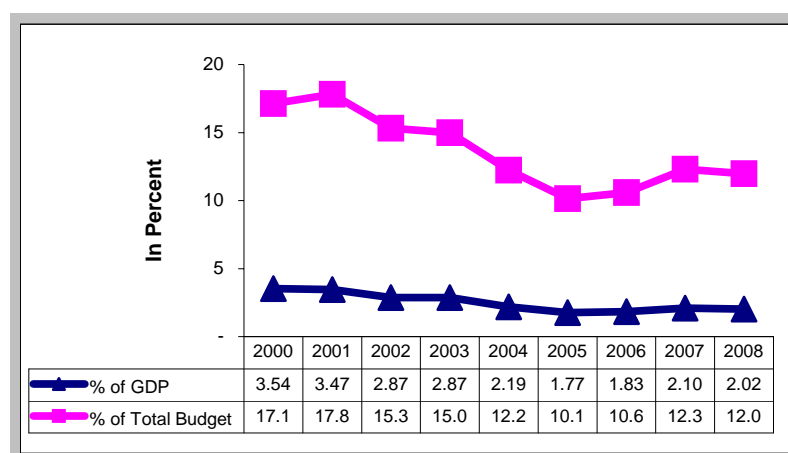
* This Budget Briefer is prepared by Ricardo P. Mira. This study benefited from the discussions with Director Manuel P. Aquino. This serves as an input to the CPBD’s Analysis of the President’s Budget FY 2008.

Putting in place adequate, cost-efficient, and good quality infrastructure, and ensuring a stable policy environment will help reverse the low infrastructure competitiveness of the Philippines vis-à-vis its Asian counterparts (*Please refer to Table 1*).¹ In turn, good infrastructure will facilitate the flow of investments necessary to generate employment and improve access to basic services.

PUBLIC SECTOR INFRASTRUCTURE BUDGET

For fiscal year 2008, the government proposed a P147.0 billion public infrastructure budget², 6.1% higher than the P138.6 billion allocation in 2007. While this is an increase in nominal terms, the allocation for public infrastructure is substantially lower than the programmed debt interest payment of P295.7 billion next year. Moreover, public infrastructure allocation as a percentage of GDP and of total budget will taper off in 2008 to 2.0% and 12.0%, respectively.

FIGURE I
PUBLIC SECTOR INFRASTRUCTURE BUDGET
AS PERCENT OF GDP & TOTAL BUDGET



1/ Nominal GDP used for 2007 and 2008 are P6,609.7 billion and P7,284.7 billion respectively,
2/ Total budget are actual allocations used in 2000 to 2007, and the proposed P1,227 billion allocation for 2008;

3/ Actual public sector infrastructure budget were used in 2005-2007, while the proposed public sector infrastructure budget of P144.6 billion is used for 2008;

Source: Table A.4 of the BESF Details of Selected Programs and Projects

¹ Based on the 2007 World Competitiveness Yearbook prepared by the International Management Development, a Switzerland-based graduate management institution that measures and ranks the ability of countries to create and maintain an environment that sustains market competitiveness. In the WCY 2007, the IMD ranked the competitiveness of 55 countries using 314 criteria based on the following factors: economic performance, government and business efficiency, and infrastructure.

² This include the public sector infrastructure budget for FY 2008 of P140.8 billion provided in Table A.4 of the BESF, plus the P3.7 billion allocation for LRT Line 1 expansion, and the P 2.4 billion MRT 3 subsidy.

PUBLIC INFRASTRUCTURE EXPENDITURE BY TYPE

Roads. Infrastructure, such as roads, facilitates access to markets, off-farm employment, and social services (e.g. education). Empirical studies have shown that the provision of roads, complemented with human capital variable such as schooling, has a favorable effect on the well-being of the poor. A 1% increase in road access combined with schooling is directly associated with a 0.11% increase in the income of the poor.³

One of the indicators that may be used to determine the state of road development across the country is the share of national roads that is paved. The country's national road network is considered to be the backbone of the transport sector. Hence, ensuring a paved road network, which will link impoverished areas to urban growth centers, will help provide adequate all-year reliable and safe access throughout the country and promote growth and competitiveness.

TABLE 2
LENGTH OF NATIONAL ROADS, PERCENTAGE PAVED
AND CONDITION

PARTICULARS	National Roads (km)	Paved Road Ratio ^a (%)	Visual Condition ^b			
			Good	Fair	Poor	Bad
Philippines	29,374	70.0	5,629	8,786	6,081	6,124
NCR	1,032	99.4	--	--	--	--
CAR	1,845	33.4	222	929	411	190
Region I	1,610	89.6	315	505	467	319
Region II	1,765	69.5	234	616	495	343
Region III	2,032	86.3	221	451	533	768
Region IVA	2,407	77.7	807	672	434	392
Region IVB	2,185	46.2	407	734	687	293
Region V	2,198	72.2	413	685	412	570
Region VI	2,881	74.8	751	707	513	666
Region VII	2,036	82.7	433	621	291	337
Region VIII	2,373	76.6	352	516	417	875
Region IX	1,218	67.9	187	398	344	193
Region X	1,682	69.4	423	514	254	422
Region XI	1,448	62.2	420	435	247	223
Region XII	1,304	62.6	168	591	230	--
CARAGA	1,358	48.0	276	412	346	106

a/ As of September 7, 2007. Paved roads ratio is the percentage of all concrete and asphalt roads to the total national road length;

b/ Visual road condition value in kilometers, as of July 2007;

Source: DPWH

³ Arsenio Balisacan and Ernesto Pernia. 2002. *Probing Beneath Cross National Averages: Poverty, Inequality and Growth in the Philippines*. ERD Working Paper Series No. 7, Asian Development Bank, Manila;

It can be observed from Table 2 that better quality road infrastructure based on the paved roads ratio is skewed towards some host regions of metropolis and progressive cities – i.e. NCR (99.4%), Ilocos Region (89.6%), Central Luzon (86.3%) and Central Visayas (82.7%). Conversely, poorer regions have less than half of their national roads paved – i.e. Cordillera (33.4%), MIMAROPA (46.2%), and Caraga (48%). The poor state of national roads is even worse in the district level, particularly in the following areas where paved roads ratio are substantially low: *1st district, Apayao (9%), 2nd district, Apayao (10%), 1st district Agusan del Norte (11%), Kalinga (16%), 1st district Palawan (24%), 2nd district Surigao del Norte (25%), 2nd district Palawan (28%), Cataduanes (29%), Aurora (31%), 3rd district Bukidnon (32%), and 1st district Davao Oriental (32%).*

About 20,553 kms. of national roads in the country are paved or 70% of the 29,374 kms. total national roads. However, only 5,629 kms. or 27% of the total paved roads are in good condition. The rest require minor repairs to extensive road reconstruction, from partial depth patching to total asphalt overlay. The poor road surface translates into higher vehicle operating cost per kilometer. A study cited by the World Bank estimated that a 1% improvement in the International Roughness Index (IRI) for national roads would yield a 4% reduction in vehicle operating cost, equal to P13 billion annually.⁴ The incidence of road accidents is another manifestation of the quality of road system. A separate study revealed that road accidents cost the economy as much as P49.2 billion in 2002, or over 1% of GDP (Sigua 2004). Hence, it is imperative to scale up maintenance of the national road network, which will yield a net benefit of 0.1% of GDP (World Bank 2005).⁵

The allocation for roads development in 2008 of P61.9 billion, which is expected to mitigate the huge backlog in road infrastructure, is 52.2% higher than the 2007 allocation of P40.2 billion. Although this outlay is roughly 0.85% of projected GDP in 2008, it is still lower than the road investment requirement estimated by the World Bank at 1% of GDP annually over the period 2004 to 2009.⁶ Meanwhile, the concreting of the 8,619 kms. unpaved national roads would require approximately P112 billion using the DPWH benchmark cost of P13 million per kilometer (DPWH Programming Division 2006).

⁴ *Scott Wilson Kirkpatrick & Co. Ltd. Better Roads Philippines. DPWH. April 1999*

⁵ *This is a conservative estimate which does not take into account other benefits which include non-market benefits related to travel time savings and increase in vehicle travel.*

⁶ *The estimate is based on the formula developed by the World Bank assuming an average projected growth of GDP of 4% a year. This investment requirement included private sector participation in road development (Philippines: Meeting Infrastructure Challenges).*

TABLE 3
REGIONAL PUBLIC INVESTMENT IN ROADS

REGION	Total Budget ^a (in PM)	% to Total Roads Budget ^a	Rank	Per sq. km. Roads Budget ^b (in Pesos)	Rank
Philippines	45,935.8	100.0	--	134,877	--
Luzon	23,282.0	50.7	--	158,203	--
NCR	3,046.5	6.6	6	4,917,659.4	1
CAR	2,549.3	5.5	11	131,455.8	11
Region I	2,160.9	4.7	12	166,059.5	5
Region II	1,140.1	2.5	17	40,388.5	17
Region III	5,092.6	11.1	1	236,337.3	3
Region IVA	4,439.3	9.7	2	267,233.8	2
Region IVB	3,322.0	7.2	4	112,149.2	12
Region V	1,531.3	3.3	13	84,462.2	14
Visayas	9,631.8	21.0	--	161,219.4	--
Region VI	3,817.9	8.3	3	185,100.5	4
Region VII	2,624.4	5.7	10	165,199.0	6
Region VIII	3,189.6	6.9	5	137,295.3	9
Mindanao	13,022.0	28.3	--	97,422.1	--
Region IX	1,486.0	3.2	15	87,172.8	13
Region X	3,041.5	6.6	7	149,296.9	7
Region XI	2,737.8	6.0	9	134,086.5	10
Region XII	1,217.4	2.7	16	54,152.2	15
CARAGA	3,014.0	6.6	8	140,378.7	8
ARMM	1,525.3	3.3	14	47,850.0	16

a/ Accounted only P45.9 billion DPWH budget for roads & bridges with regional breakdown; does not include payment completed works, Right-of-Way (payment), consultation services;

b/ Refers to the percentage of roads investments per sq. km. of land area

Source: DPWH computation based on the 2008 National Expenditure Program (NEP)

Based on the proposed DPWH regional allocation for roads development, the regions in Luzon will get a significant portion, comprising 50.7% of the entire roads budget. Central Luzon and CALABARZON, with already progressive road infrastructure takes 11.1% and 9.7%, respectively of the P45.9 billion fund. Except for Eastern Visayas, which cornered 8.3% of the roads budget, regions with dismal road infrastructure – i.e. Autonomous Region of Muslim Mindanao (3.3%), Zamboanga Peninsula (3.2%), and SOCKSARGEN (2.7%), continue to be left behind vis-à-vis the allocation for roads in other regions. In terms of land area, the NCR will get the largest allocation of P4.9 million per square kilometer. The fact that private investments flow to areas where infrastructure is well-developed should prompt the government to effectively address equity issues in terms of distributing public investment for roads towards more impoverished regions, especially in conflict-affected areas, to stimulate their potential and boost regional economic growth (Reside 2006).

Water Supply. The President's Priority Program on Water (P³W) aims to provide safe and potable water to 432 waterless⁷ municipalities outside Metro Manila (*see Annex 2*). The project will set aside P500 million each year during the medium term (from 2005 to 2010) to support the government's poverty alleviation efforts.

TABLE 4
REGIONAL ALLOCATION OF
THE P³W FUND (2005 to 2007¹)

REGION	No. of Municipalities	No. of Barangays	Allocation (In P Million)	Percentage to Total
Luzon	187	628	507.7	33.9
CAR	14	23	27.0	1.8
Region I	23	82	59.6	4.0
Region II	20	157	48.2	3.2
Region III	28	80	38.0	2.5
Region IV-A	44	132	167.2	11.2
Region IV-B	27	50	73.1	4.9
Region V	31	104	94.7	6.3
Visayas	83	350	260.1	17.3
Region VI	44	177	153.2	10.2
Region VII	22	107	57.2	3.8
Region VIII	17	66	49.7	3.3
Mindanao	180	666	731.2	48.8
Region IX	27	51	67.8	4.5
Region X	36	93	102.2	6.8
Region XI	17	68	116.4	7.8
Region XII	15	77	66.9	4.5
Region XIII	17	63	72.4	4.8
ARMM	68	314	305.5	20.4
Total	403	1,372	1,499.0	100.0

^{1/} As of August 2007

^{2/} Based on the 2000 National Census; This is used by NAPC in identifying the 432 waterless communities.

Source: DPWH

From 2005 to 2007, close to P1.5 billion has been provided to fund the water system projects of 403 municipalities and 1,372 barangays outside of Metro Manila. Note that much of these funds were directed to communities where access to potable water supply is needed most.⁸ The ARMM and CALABARZON (Region IVA) cornered 20.4% and 11.2%, respectively of the total fund releases.

⁷ Waterless communities (outside of Metro Manila) – identified by the Water and Sanitation Coordinating Office (WASCO), are areas with less than 50% of total households having access to potable water.

⁸ CPBD staff estimates indicate that allocation for P³W is positively but not strongly correlated to the percentage of waterless households per region.

TABLE 5
NUMBER OF MUNICIPALITIES NOT PART OF THE ORIGINAL
BENEFICIARIES OF THE P³W FUND (2005-2006)^a

REGION	No. of Municipalities	No. of Barangays	Allocation (In Million)	Percentage to Total (%) ^b
Luzon	100	331	250.1	13.8
CAR	12	19	23.8	0.3
Region I	15	37	32.7	1.4
Region II	7	85	18.3	1.3
Region III	19	58	17.8	0.4
Region IV-A	26	81	109.6	5.7
Region IV-B	7	17	19.6	1.7
Region V	14	34	28.3	3.0
Visayas	36	101	134.7	8.6
Region VI	20	66	79.1	5.1
Region VII	9	15	34.4	1.8
Region VIII	7	20	21.2	1.7
Mindanao	65	219	228.0	11.0
Region IX	4	5	4.9	1.4
Region X	18	54	46.8	1.7
Region XI	11	29	50.7	3.3
Region XII	6	37	15.7	2.1
Region XIII	13	34	43.4	1.3
ARMM	13	60	66.5	1.2
Total	201	651	612.8	33.4

a/ CPBD generated data

b/ Refers to funds provided to beneficiary municipalities not part of the original list of municipalities identified under the P³W project as percentage to the total P³W fund for three years of P1.5 billion;

Source of Basic Data: DPWH

Notwithstanding the improvement in fund distribution, there have been downsides in the planning and implementation of the P³W program. On the planning aspect, the National Anti-Poverty Commission (NAPC) relied solely on the 2000 national census in identifying the 432 waterless municipalities, as beneficiaries of the P³W fund. There may have been a substantial difference in the status of waterless communities in the country since its implementation in 2005. Moreover, it was not clearly established whether the municipality-based or the barangay-based approach would be more efficient and effective in addressing potable water supply access gaps of households. The CPBD reckons that it may be best to position strategically potable water supply projects where adjacent waterless communities could jointly share potable water sources.

Note that funding was also provided to other waterless communities, which were not part of the original list of beneficiaries of the P³W program. For the period 2005 to 2007, nearly

33.4% or P612.8 million of the P1.5 billion total allocation, were diverted to 201 municipalities (comprised of 651 barangays), which are not part of the original beneficiary waterless communities. However, three out of the ten waterless municipalities with the highest incidence of households that lack access to potable water – i.e. Tubaran (99.5%) and Maguing (98.5%) in Lanao del Sur, and Magsaysay (97.3%) in Palawan, were not funded in the three-year implementation of the program.

The purpose of identifying waterless communities/beneficiaries during the planning stage is to come up with a strategic approach in addressing potable water access gaps of households nationwide by developing a prioritization scheme of beneficiary communities. Hence, it is necessary to update the inventory of waterless communities nationwide, which should guide the funding requirements and implementation of the P³W program. Moreover, it is strongly recommended that a detailed and standardized reporting system be developed to track the implementing agency's performance in improving communities' as well as households' access to clean and safe water. Further, technical support should be provided to local government units to enhance their capabilities in developing their plans, preparing feasibility studies, and availing of funding for potable water supply projects.

Railway System. The national government is obliged to pay an annual subsidy to the Metro Rail Transport Corporation (MRTC), the local consortium of the MRT 3, for 25 years as part of the build-lease-transfer (BLT) agreement. For fiscal year 2008, the proposed government subsidy for MRT 3 is P2.4 billion, lower than the P2.5 billion endorsed by the MRTC, which will cover equity rental, maintenance and insurance payments.

The business risks related to the operations of the MRT 3 borne entirely by the government adds pressure on the government's recovering finances. Foremost is the foreign exchange risks associated with the payment of long term obligations denominated in US dollars, vis-à-vis the revenues in pesos generated from the MRT 3 fare box. In fact, when the project was finalized in 1997, the going rate of the peso to the dollar was still P27. Based on the MRTC computations, the \$34.8 million equity rental and the \$7.8 million maintenance scheduled in 2008 is even pegged at P50 to a \$1. The variance in the exchange rate is still too wide despite the appreciation of the peso in recent months. Furthermore, the government guarantee attached to the project assured the consortium a 15% return on their investments.

TABLE 6
MRT 3 ANNUAL TOTAL OBLIGATIONS
VIS-À-VIS TOTAL REVENUES
(IN MILLION PESOS)

PARTICULARS	2006	2007	2008
Total Obligations	4,329.6	4,217.0	4,330.0
Less: Total Revenue	1,654.9	1,705.0	1,790.0
Subsidy (as endorsed by DOTC)	2,674.7	2,512.6	2,539.6
Subsidy (as approved by DBM)	1,490.0	2,189.1	2,411.1
Annual Ridership (In Million)	135.2	140.5	147.5
Per Capita (Passenger) Subsidy ¹	11.0	15.6	16.3

¹CPBD staff estimates (In Pesos)

Source: MRTC

In 2007 and 2008, the proposed subsidy of the government of P15.6 and P16.3 per passenger is even higher than the average fare per rider of P12.5⁹. Note that the subsidy is borne entirely by all Filipino taxpayers even those from Mindanao who do not use the MRT. Hence, it is important to move towards the realization of the user-pay principle to mitigate the need of increasing government subsidies on infrastructure projects. While efforts to raise the train fare to break-even level of approximately P60 per passenger may be difficult as it would face adverse reactions from the very price-sensitive riding public, the government may opt to adjust fare rate in the order of P15 to P16. This could help reduce government subsidy on MRT 3. A reasonable and economically responsive fare rate adjustment is imperative, albeit a politically unpopular move on the part of the government.

Meanwhile, the proposal for a government take over of the MRT 3 is gaining headway, mainly because this is the best solution to plug a major fiscal leak caused by the government's continued subsidy for MRT 3 operations. According to MRTC, the buy out could generate savings of up to \$420 million but will cost the government US\$919.4 million, which may be funded through borrowings to take advantage of the lower interest rates, through appropriation from Congress, or a combination of both financing options. However, it is useful to come up with a comparative analysis of the operational efficiency of the different lines to determine the soundness of the proposed MRT 3 buy-out.

On the other hand, LRT Line I North and South extensions are due to commence next year. The LRT Line 1 North Extension, which will close the MRT-LRT loop, will involve the construction of a 5.71 km. entirely elevated line from Monumento Station of Line 1 to North Avenue Station of Line 3. About P1.7 billion of the P6.3 billion project is scheduled for

⁹ This is the average between the minimum train fare of P9 and the maximum train fare of P16.

release next year to fund civil works, electromechanical requirements, consultancy fees, among others. The construction of the project will run from 2008 to 2010. The LRT South project will extend the existing line of LRT 1 in Baclaran, traversing Parañaque, Las Piñas, to Niyog, Bacoor. The P2.0 billion proposed appropriation for 2008 will finance relocation of utilities, right-of-way payments, etc. The 17.3 billion project will be implemented from 2008 to 2012.

Rural Electrification. An important component in development is the provision of electricity supply in rural areas. Expanding access to electricity especially in rural areas forms part of the government's effort to alleviate poverty and achieve sustainable economic growth. The Expanded Rural Electrification Program (EREP) integrates efforts on rural electrification by the government – through the Department of Energy (DOE), National Electrification Administration (NEA), etc., and the private sector – MERALCO, and other private investor-owned utilities (PIOUs). The program aims to provide electricity to barangays, including sitios, all the way to the household level.

There has been significant progress in the government's rural electrification initiatives as shown in the 95% electrification rate of barangays (*Please refer to Table 7*) and 76% of households. In fact, some of the poorest provinces (*Please refer also to Annex 3*) are heading toward full barangay energization, which include Biliran (100%), Mt. Province (100%), Surigao del Sur (98%), Misamis Occidental (99%), and Agusan del Sur (94%). However, the ARMM, which has 75.9% barangay, and 21% household electrification rate, continues to lag behind other regions in the country. This may be explained partly by the peace and order situation as well as the poor road network infrastructure in the region. Hence, security and accessibility issues should be addressed to accelerate total electrification in the region.

Despite the President's commitment to achieve 100% barangay electrification in 2008, as part of her Ten Point legacy programs, total electrification of the country's 41,980 barangays was moved to 2009 due to lack of funds. Roughly P200 million is required to energize a barangay according to NEA's estimates. For FY 2008, the government will infuse P322 million to the NEA as subsidy to the 120 electric cooperatives (ECs) to energize the targeted 160 barangays next year. However, the NEA should adopt a performance and need-based standard in providing subsidies to ECs to optimize results in rural electrification vis-à-vis targets. On the other hand, a P6.0 billion revolving fund of the NEA is allocated for the short and long term loan requirements of ECs to finance their capital expenditure needs.

TABLE 7
BARANGAY ELECTRIFICATION LEVEL BY REGION
(AS OF JULY 2007)

REGION	Potential Barangays	Electrified Barangays	Unelectrified Barangays)	Electrification Level (%)
Philippines	41,980¹	40,486	1,894	95.49
NCR	1,694	1,694	--	100.00
CAR	1,176	1,122	54	95.41
Region I	3,265	3,264	1	99.97
Region II	2,311	2,219	92	96.02
Region III	3,102	3,092	10	99.68
Region IV-A	4,012	3,946	66	98.35
Region IV-B	1,457	1,350	107	92.66
Region V	3,471	3,246	225	93.52
Luzon	20,488	19,933	555	97.29
Region VI	4,050	4,008	42	98.96
Region VII	3,003	2,999	4	99.87
Region VIII	4,390	4,098	292	93.35
Visayas	11,443	11,105	338	97.05
Region IX	1,904	1,724	180	90.55
Region X	2,020	1,918	102	94.95
Region XI	1,160	1,155	5	99.57
Region XII	1,194	1,103	91	92.38
CARAGA	1,310	1,279	31	97.63
ARMM	2,461	1,869	592	75.94
Mindanao	10,049	9,048	1,001	90.04

Note: 1/ Based on the NSCB Issuance as of December 2005

Source: DOE

The DOE for its part will provide a combined P182 million to fund the electrification of the targeted 50 barangays under the Barangay Electrification Program (BEP) and the targeted 100 barangays under the Remote Area Electrification Project (RAEP), respectively. These programs aim to energize off-grid barangays, or those poor communities in remote and non-viable areas not served by franchise utilities using renewable energy sources – i.e. solar photovoltaic (PV) system, small wind power, micro-hydro, etc. The national government proceeds from Malampaya (Service Contract 38) of P500 million will also finance electrification requirements of 250 barangays in 2008. Moreover, a centavo per kilowatt-hour electricity sales of generating companies and firms engaged in exploration of alternative energy sources will likewise finance the rural electrification program. All these plus the funding support from the private sector – i.e. PNOC-EDC, MERALCO, Team Energy,

KEPCO, among others, will help fast-track the electrification of the remaining 1,894 barangays in 2009.

Both the government and the public constituents should work hand-in-hand in achieving a sustainable rural electrification program. Far-flung communities, especially those energized by alternative sources of power perceived to be quite costly, should share in the maintenance requirements of these assets. For instance, communities should invest in the purchase of new solar batteries, as these would expire after every four (4) years. However, the bigger challenge on the part of the government is to step up policy reforms toward a genuinely competitive power market and ensure quality, reliable, and affordable supply of electricity for the public as envisioned in the EPIRA. Having high electricity prices in the country would undermine the government's electrification program and will only aggravate the electrification gap, and consequently the poverty situation in the countryside.

Airports and Seaports. Developing a safe, efficient and seamless air and sea transport system is necessary given the archipelagic configuration of the Philippines. This requires the modernization and expansion of the country's airports and seaports to spur travel and tourism, trade, and investment opportunities from growth centers to the countryside (*Please refer to Table 8*).

Airports. In her 2007 SONA, the President stressed that airport development projects should be closer to prime tourist destinations in the country to serve the needs of the targeted 3.4 million tourists next year. These include airport projects in Palawan (P27.5 million), Kalibo (P388 million), Bohol (P696.5 million), Siargao (P42.8 million) and Dipolog (P185.2 million). However, there are serious structural maintenance and improvement needs in the country's major international airports – i.e. the Ninoy Aquino International Airport (NAIA) and the Diosdado Macapagal International Airport (DMIA), etc., which should be promptly addressed.¹⁰ The Foreign Chambers of the Philippines identified the following challenges:¹¹

- **NAIA Passenger Terminals.** The heavy passenger traffic and long delays during peak periods, including the poor airport facilities in the NAIA create negative impression to many foreign and local travelers. The NAIA terminals pale in comparison with the modern and efficient airport terminals in most Asian cities – i.e. Bangkok, Beijing, Guangzhou, Hanoi, Hong Kong, Incheon, Jakarta, Kuala Lumpur, Nagoya, Narita, Singapore, Xiamen, Osaka and Shanghai. Further, the construction

¹⁰ While these airports are under the GOCCs – the Manila International Airport Authority (MLAA) and the Bases Conversion Development Authority (BCDA), respectively, government budgetary support is still needed to address maintenance and rehabilitation requirements.

¹¹ "Philippine Tourism and Major Airports in Central Luzon", *The Foreign Chambers of the Philippines*, July 2007

of the Terminal 2 did not help ease passenger traffic problems in other NAIA terminals because it only served passengers of Philippine Airlines (PAL) and Air Philippines. Hence, it is of great importance to resolve as soon as possible the prevailing issues confronting the opening of the NAIA Terminal 3, so it can be made available for public use.

- **NAIA Runway.** There are also serious and immediate constraints to NAIA's runway capacity and safety. The design of the runway is well below standards for new generation aircraft, creating serious potential safety concerns. For instance, distances between the centerline runways and centerlines of taxiways do not meet the new International Civil Aviation Organization criteria, the UN body that supervises international aviation regulation and standards. Moreover, NAIA's International Runway called 06-24 was built in the 1940s when the biggest aircraft carried no more than 50 tons. Today an average B747 weighs 350 to 400 tons. With a single runway serving all international flights, runway 06-24 therefore faces heavy maintenance. In fact, with the current annual growth in total passenger throughput of above 10%, the runway full capacity is estimated to be breached in 2010.
- **DMIA.** The nearing full capacity of NAIA international runway in 2010 as well as the difficulty in constructing an international runway at the NAIA, which is at par with international benchmarks, makes it imperative to develop the DMIA as an alternative international airport in Central Luzon. However, critical structural improvements of the DMIA, and infrastructure development needs in surrounding areas should likewise be undertaken, which include among others an expansion and/or rehabilitation of the DMIA international runway, the construction of a bigger passenger terminal, an efficient ground transportation linking DMIA to city centers – i.e. road system, a high speed train (long term), etc.

Given the financial constraints of the government, funding requirements for the maintenance and rehabilitation of these international airports may be undertaken through a partnership agreement with the private sector as provided in the build-operate-transfer (BOT) law. However, lessons learned in the NAIA Terminal 3 should guide the government in contracting projects with a private proponent. A framework that would address key issues on public-private project development contracts should well be put in place: transparency and competition in the bidding process, cost recovery and a reasonable rate of return on the part of the private investor, and most importantly, safeguards to public interest. After all, with the government's increasing contingent liabilities from guarantees and subsidies it provides to the private contractors, it is the public – taxpayers and users who are adversely affected.

TABLE 8
NG BUDGET ALLOCATION FOR PORTS & AIRPORTS
(BY REGION)

PARTICULARS	Airports & Navigational Facilities	Ports & Lighthouses
Philippines	7,751,442,000	64,913,000
Foreign-Assisted Projects	3,454,042,000	48,413,000
Locally-Funded Projects	4,297,400,000	16,500,000
Nationwide	55,610,000	--
NCR	392,000,000	--
CAR	--	--
Region I	46,800,000	--
Region II	386,100,000	--
Region III	169,000,000	--
Region IV	36,500,000	--
Region V	759,500,000	4,500,000
Region VI	527,000,000	--
Region VII	164,200,000	12,000,000
Region VIII	689,500,000	--
Region IX	536,370,000	--
Region X	115,000,000	--
Region XI	5,000,000	--
Region XII	217,000,000	--
Region XIII	186,820,000	--
ARMM	11,000,000	--

Source: Details of Selected Programs and Projects FY 2008, DBM

Seaports. The government will allocate P64.9 million for municipal port projects in Regions IV and VII (P16.5 million), and feeder port projects nationwide (P48.4 million). The DOTC also proposed to allocate P243 million for the establishment of the Mactan Buoy Base to support the Philippine Coast Guard's (PCG) search and rescue operations, including marine environmental protection.

ICT Development. Notwithstanding concerns over the impact of digital divide on development, broader access to information and communications is crucial, nonetheless, to poverty reduction, since it could contribute to new sources of income and employment, improve delivery of basic social services like health and education, and foster national competitiveness. Developments in ICT enhances participative governance, allowing the public to participate in the decision-making process by enabling citizens to voice out their needs by utilizing the Internet and web technology as communications and business-transacting tool. ICT likewise promotes transparency and accountability in various

government transactions. In view thereof, the Philippines has pursued ICT development through the national development agenda. In recent years, these projects have been funded through the P1 billion E-government Fund institutionalized in the annual national budget.

For FY 2008, the E-Government Fund will finance socially relevant projects of the Commission on Information and Communications Technology (CICT) such as the iSchool and eSkwela. The iSchool project aims to provide public high school teachers and students access to relevant digital content and applications in education by setting up internet laboratory in 40 public high schools in the country. The project involves the provision of 21 computer units, 1 server, 1 multimedia projector, 1 printer, free internet connection, to beneficiary schools, as well as computer training needs of educators. As of March 2007, 10 out of 40 schools were already connected to the internet. However, with the P405.4 million total project cost or P10.1 million per public high school, the project seems to be very expensive. It has been reported in the papers that Marikina's wide area network (WAN) project connecting public schools and public health centers costs only P12 million.

TABLE 9
2008 PROPOSED E-GOVERNMENT FUND PROJECTS

AGENCY	PROJECT	AMOUNT
CICT	Community E-Center Project (for iSchools and eSkwela)	400,000,000
TESDA	Integrated TVET Mgt. System through Prepaid Card enabled Portal Project	297,000,000
NSO	Unified Multi-Purpose Identification System in Government (Phase 2)	132,746,289
OP-PSR	Philippine Cyberspace Security System	60,685,000
DBM-PS	Philippine Government Electronic Procurement System (PhilGEPS)	50,000,000
NGAs	Electronic Payment and Collection System	--

Source: NCC

The iSkwela project aims to provide disadvantaged youth with useful educational opportunities to help reduce the digital divide and enhance their capacity to be successful participants in the global and knowledge-based economy. This P30 million project will

establish ESkwela centers in major centers around the country to conduct ICT-enhanced alternative education programs for the out-of-school youths.

The strong opposition facing big-ticket ICT projects, which include the proposed national broadband network (NBN), the cyber education project (CEP), and many ICT projects that failed in the past, should be a learning experience. The E-Government framework of creating an e-enabled bureaucracy could be expanded to cover all ICT projects of national government agencies, provided that the P1 billion allocation each year should also be increased. This would necessitate the creation of an independent, reliable and apolitical body composed of technical experts in ICT to design and monitor the implementation of the country's ICT development plan. The body will also be tasked to review, evaluate and determine the necessity of ICT project proposals from national government agencies and local government units.

CONCLUSION

The national expenditure program manifests the fundamental role of the government as a major provider of basic public infrastructure – i.e. paved roads, rural electrification, potable water supply, among others. Hence, enhancing revenue collection efficiency will foster more sustainable public infrastructure development. For several years, the weak fiscal situation has constrained the government from channeling much-needed public funds into infrastructure. Underinvestment in infrastructure, which continues to be lower than the 5% of GDP benchmark,¹² and low efficiency in infrastructure spending are key factors that explain the huge infrastructure backlog in the country. This has contributed largely to poverty situation in the countryside leaving many Filipinos disenfranchised in the development process.

The government's renewed call for a "social payback", through a broad-based infrastructure-led development strategy, where all sectors of the economy share the gains of economic development is a tall order. The growing demand for infrastructure services due to rapid population growth and urbanization, weigh heavily on the government's scarce resources to finance key infrastructure projects. Infrastructure bias across regions, pointing to lack of basic infrastructure services especially in the depressed areas in Mindanao, is also a persisting problem. Worse, rising graft and corruption linked to many infrastructure projects has contributed to poor quality of infrastructure in the country.

¹² *The World Bank has consistently urged developing nations like the Philippines to gradually increase infrastructure investments to 5% of GDP, in order for infrastructure to have an impact on growth and poverty reduction.*

Therefore, the key challenge in achieving a sustainable and inclusive growth is to move towards a virtuous development cycle where increased government revenues translates to improved service delivery and greater private sector participation in economic development – through increased infrastructure investments, and improved willingness of the public to pay taxes and duties. Moreover, addressing peace and order problems, and promoting a stable policy environment could also help in addressing access gaps of basic infrastructure services especially among the poor.

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ANNEXES

ANNEX I
INFRASTRUCTURE COMPETITIVENESS RANKING
(REGIONAL COMPARISON)

Year	Indonesia	Philippines	Korea	India	Thailand	China	Malaysia	Taiwan
2007	54	51	19	50	48	28	26	21
2006	61	56	24	54	46	37	31	20
2005	60	55	23	54	47	42	34	18
2004	60	59	27	57	50	41	30	20
2003	59	56	30	58	49	41	31	23
2002	46	47	23	49	42	37	31	20

Source: WCY 2007, IMD

ANNEX 2
NUMBER OF WATERLESS COMMUNITIES/HOUSEHOLDS
UNDER THE P³W PROGRAM (BY REGION)

REGION	No. of Waterless		% to Total	No. of Waterless	% to Total
	Municipalities	Barangays	Barangays	Households	
Philippines	432	10,066	24.0	2,486,261	16.3
CAR	8	129	11.0	19,582	7.4
Region I	12	263	8.1	60,006	7.2
Region II	29	630	27.3	141,355	25.5
Region III	10	165	5.3	50,280	3.1
Region IV	28	603	11.0	141,177	5.9
Region V	28	677	19.5	167,374	18.7
Region VI	74	1,765	43.6	515,438	42.5
Region VII	36	897	29.9	268,089	23.7
Region VIII	22	620	14.1	103,808	14.5
Region IX	34	809	42.5	162,169	27.2
Region X	28	596	29.5	117,076	21.6
Region XI	14	254	21.9	112,746	10.6
Region XII	19	480	40.2	191,568	38.2
CARAGA	15	293	22.4	84,363	21.5
ARMM	75	1,885	76.7	351,230	89.3

Source: National Anti-Poverty Commission (NAPC), 2004 PSY

ANNEX 3
BARANGAY ELECTRIFICATION
IN THE TEN POOREST PROVINCES
(AS OF 31 JULY 2007)

Provinces	Coverage	Energized Barangays	Electrification Level (%)	Unergized Barangays
Masbate	528	325	62	203
Zamboanga Norte	691	604	87	87
Lanao del Norte	462	370	80	92
Maguindanao	275	202	73	73
Shariff Kabungsuwan	175	135	77	40
Agusan Sur	314	296	94	18
Misamis Occ.	490	483	99	7
Surigao del Sur	309	302	98	7
Mt. Province	144	144	100	0
Biliran	117	117	100	0

Source: NEA