

**PPP Workshop: Lessons from Asian Experience**  
**Chengdu, PRC, November 2009**

# **The South Luzon Expressway - SLEX (Philippines)**

Mr. Noel Eli B. Kintanar



# PPP Workshop: Lessons from Asian Experience

## 1. Introduction

1. The SLEX project is a PPP project to expand and upgrade a vital arterial road connecting the National Capital of the Philippines to economic growth centers south of the metropolis
2. The project suffered serious delays in the implementation as a result of the negative impact of the Asian Financial Crisis on prospective investors
3. Government intervened to accelerate the implementation of the project during a time that investment in the Philippines were perceived as risky

## PPP Workshop: Lessons from Asian Experience

### 2. Basic Project Data and Objectives

1. SLEX is Manila's most important road linking the dynamically growing region south of the metropolis
2. In 2005, its Average Annual Daily Traffic was estimated at 132,000 Passenger Car Units (PCUs) at its busiest segment. Traffic was forecasted to grow to 171,000 PCUs by 2010, upon completion of the project
3. The project involved expanding the road from 27 km. to 35 km road, upgrading the road quality and doubling its the capacity
4. The PPP enterprise was to be operated through the 30-year extension of a franchise granted to the government owned corporation in 1977
5. The PPP option was pursued when the government corporation operating the road could not finance its redevelopment

## PPP Workshop: Lessons from Asian Experience

### 2. Basic Project Data and Objectives

#### 1. Public Sector objective

1. Upgrade the road in line with urgent economic necessities and harsh political realities
2. To ensure immediate construction of SLEX, pursue the option of a “public sector comparator” project as a fall back plan
3. Secure a financially and technically capable private sector partner

#### 2. Private Sector objective –

1. Invest in a profitable project
2. Expand its toll road portfolio internationally



## PPP Workshop: Lessons from Asian Experience

### 3. Experience with the Procurement of the Project

1. Competitive tenders, as a matter of policy, are more desirable than an unsolicited or negotiated contracts. Unfortunately, the situation of the SLEX project, after almost 5 years of delay, limited the public sector's options in moving forward
2. Government needs to incorporate specific, measurable and time-bound project milestones to ensure that further delay would not be experienced
3. A public sector comparator option gives government leverage in the transaction and the option to pursue the PPP should be evaluated against this comparator

## PPP Workshop: Lessons from Asian Experience

### 4. Implementation Phase 1 – Design, Construction and Commissioning

1. The process of design, construction and commissioning of the SLEX project was led in large part by the private sector
2. Commissioning of the project was implemented through an independent third party consultant. Having the technical capability to monitor implementation, test and commission the project with the toll regulator would have been more desirable.
3. This arrangement could be disadvantageous to the consumer, especially if the project is over designed, and construction implementation does not meet best practice, due to the weakness of the public sector in overseeing this stage of the project.

## PPP Workshop: Lessons from Asian Experience

### 4. Implementation Phase 1 – Design, Construction and Commissioning

4. Government is in the best position to determine the long-term goals and targets of the transportation network, and, ensure that the consumer gets the best value for the toll fees charged. By leading the design stage, government can:
  1. Better estimate capital expenditure
  2. Determine how to implement in phases
  3. Ensure integration into the network
  4. Design the road for further upgrading
5. Political realities that SLEX had to be completed sooner, rather than later, meant that potential benefits from the design process were lost



## PPP Workshop: Lessons from Asian Experience

### 5. Operations and Maintenance

1. Keep toll adjustment formulas simple, if possible
2. The harsh realities of rate increases, as a result of PPP projects, can be managed by targeted marketing schemes implemented by the private proponent
3. The toll operating experience of the private sector should be incorporated as early as the design stage to avoid costly retrofitting of the project during actual operations.



## PPP Workshop: Lessons from Asian Experience

### 6. Experience with Partnership Support

1. PPPs, as genuine partnerships, have to be built over time
2. Problems in building partnership may be attributed to the different time frames in which the public and private sector operate:
  1. In the Philippines, the public sector takes a shorter-term view in line with the political cycle of the politicians that influence the projects
  2. The private sector has a much longer term view in line with the return of investment on “lumpy” infrastructure investments.

## **PPP Workshop: Lessons from Asian Experience**

### **7. Summary and Lessons Learned**

**The PPP approach did achieve its main objectives:**

- 1. The toll road is substantially completed. SLEX today is now a 35 km. toll road with an expanded capacity from the previous 4-lane expressway (two in each direction) to a world-class, 8-lane toll road**
- 2. The major bridges and structures have been retrofitted to meet modern engineering standards**
- 3. Toll operation facilities have been upgraded to meet the growing demand for the road**
- 4. The new toll road operator has the financial, managerial and technical capability to ensure that the operations and maintenance of SLEX can be supported at a globally acceptable toll road standards**

## PPP Workshop: Lessons from Asian Experience

### 7. Summary and Lessons Learned

5. Under the project structure, government had little financial exposure in the investment, its only significant expenditure in the upgrading of SLEX being the acquisition of 8 kilometers of Road Right-of-Way
6. Although the project has experienced some delays in implementation; arguably, the private sector proponent has constructed the road as fast, if not faster than if the public sector would have implemented the public sector comparator project

## **PPP Workshop: Lessons from Asian Experience**

### **8. Evaluation of the PPP Arrangement**

**Did the PPP arrangement provide Value for Money? The PPP arrangement allowed the public sector to:**

- 1. “Leverage” its limited resources to construct the complete project package**
- 2. Price the use of infrastructure**
- 3. Accelerate the construction program to stimulate the economy**
- 4. Re-allocate public resources to non-revenue generating development projects**



# PPP Workshop: Lessons from Asian Experience

## 8. Evaluation of the PPP Arrangement

### Factors Generating Value under a PPP:

1. *Competitive Tendering* – Harsh political and contractual realities constrained the public sector's options in conducting a competitive tender
2. *Review of Project Feasibility* – Government mobilized professionals for the project review, but were reactive rather than proactive
3. *Construction & Completion Risk* – The PPP arrangement worked well in allocating completion risk to the private sector, which could best manage this risk
4. *Reduce whole life project cost* – The long-term nature of the concession agreement led to decisions would reduce whole life project costs

## PPP Workshop: Lessons from Asian Experience

### 8. Evaluation of the PPP Arrangement

Factors Generating Value under a PPP continued:

5. *Improve service quality* – International standards and experience in design, operation and maintenance were introduced in the SLEX Project
6. *Project Innovations* – Vis-à-vis the public sector comparator, innovations in the project were introduced by the private sector.
7. *Risk Allocation & Cost* – Much of the pre-operating, completion, and operating risk was passed to the private sector under the concession. These are areas that the previous government-owned toll operator were weak at managing.

# PPP Workshop: Lessons from Asian Experience

## 9. General Evaluation

The PPP arrangement led to:

- **Introducing private sector efficiencies in the design, construction and operation of the project.**
- **Allocating project risk to entities that are in the best position to manage such risk**
- **Securing a toll road operator that has a better track record in providing world class services.**
- **Accelerating project implementation**

## PPP Workshop: Lessons from Asian Experience

### 10. General Recommendations

- **Clearly identify and prioritize critical infrastructure projects that are viable for Public-Private Partnerships;**
- **Focus public sector political will to clear the numerous policy challenges and bureaucratic hurdles of financially viable and economically desirable PPP projects;**
- **Mobilize the resources to prepare the project feasibility, project structure, technical prerequisites, contract documents and the tender documents necessary for a competitive selection of its private sector partner to implement the PPP projects;**



## PPP Workshop: Lessons from Asian Experience

### 10. General Recommendations

- Establish a transparent and credible tender process open to pre-qualified private sector proponents that are financially and technically capable of implementing the project.
- Strengthen the legal environment, technical and financial knowledge and most especially, the independence of the government institutions that are tasked to regulate PPP projects.