



OCT
2022

33rd Sustainable Shared Growth Seminar

**The Philippine Construction Industry and
Directly Unproductive Extra Costs**

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SUSTAINABLE SHARED GROWTH SEMINAR #33

College of Public Affairs and Development /University of the Philippines Los Baños
Sekiguchi Global Research Association / Atsumi International Foundation

THE PHILIPPINE CONSTRUCTION INDUSTRY AND DIRECTLY UNPRODUCTIVE EXTRA COSTS (A REGIONAL PERSPECTIVE)

JULY 18, 2022 (Mon.) 9AM-12NN via ZOOM

- 01 Introduction to the Philippine Construction Industry**
Dr. Richelle Zafra, College of Engineering and Agro-Industrial Technology, UPLB
- 02 BAC Procurement Procedures for Infrastructure Projects**
Eng'r. Justine Anne Mendoza, Office of the Vice-Chancellor for Planning and Development, UPLB
- 03 A Proxy Indicator for Industry Concentration: Shared Growth Implications**
Dr. Max Maquito, College of Public Affairs and Development, UPLB and Sekiguchi Global Research Association /Atsumi International Foundation
- 04 Public Barriers to Entry: A Regional Perspective**
Prof. Geny Lapina, College of Economics and Management, UPLB
- 05 DISCUSSION**

open to the general public free of charge

Program will be made available upon registering through link or scan the QR code, below.



TATAG
Cat TAPAT
BUILDING WITH INTEGRITY

<https://tinyurl.com/33KKKWebinar>



INTRODUCTION

The Sustainable Shared Growth Seminars are also known as the KKK seminars. KKK stands for Kahusayan (Efficiency), Katarungan (Equity), and Kalikasan (Environment), which represents the economic goals of sustainable shared growth. It is also the name of the revolutionary organization that fought for the independence of the Philippines from Spain. Unlike in Western or Asian (Japanese) context, for the Philippines, therefore, KKK stands for what is noble in her traditions, and is very much against repression. We feel that the Philippines is in dire need of sustainable shared growth, and requires nothing short of a revolution, albeit peaceful, in our way of thinking and acting on these issues.

This seminar series is organized by the Sekiguchi Global Research Association of the Atsumi International Foundation, based in Sekiguchi, Bunkyo-ku, Tokyo, Japan. The Nihongo equivalent for KKK are kouritsu (efficiency), kouhei (equity), and kankyou (environment), for which the Japanese characters are 効率, 公平, 環境, respectively.

JULY 18, 2022

The Philippine Construction Industry and Directly Unproductive Extra Costs KKK SEMINAR #33

OPENING REMARKS: JUNKO IMANISHI CHIEF REPRESENTATIVE, SGRA

Konnichi wa! こんにちは!

Thank you for joining us in this 33rd run of the Sustainable Shared Growth Seminar. This is the first time that the seminar series is focusing on the construction industry, and I would like to welcome, Dr. Richelle Zafra and Engineer Justine Anne Mendoza, who are joining us for the first time, and Prof. Geny Lapina, who has been with us in previous seminars as speaker as well as participant.

The topic of today's seminar is especially of interest to the Atsumi International Foundation, since it was established at the behest of my father, the late Takeo Atsumi, who served as the President of Kajima Construction, Inc, one of the major general contracting companies in Japan. Since, Dr Max Maquito was one of the first batch of scholars of the foundation, I think we can say that the construction industry was critical in establishing this seminar series. In fact, Kajima Construction, Inc. was very much supportive of the 5th

while the automotive industry is clustered in the province where UPLB is located, namely Laguna, the construction industry could be found nationwide



OPENING REMARKS: JUNKO IMANISHI CHIEF REPRESENTATIVE, SGRA

Asia Future Conference held in January 2020 and jointly hosted by CPAf of UPLB and the Sekiguchi Global Research Association (SGRA) of the Atsumi International Foundation.

It was of course not by design that Max chose to study the construction industry but more by chance. Max had the opportunity to be involved in a project that was commissioned by the Philippine Competition Commission (PCC). At that time, PCC was commissioning studies for various industries, and it just so happened that the construction industry was one of these. This project was done together with Dr. Richelle. It appears that Max has been able to link his industry study to the overall theme of the seminar series: sustainable shared growth. Hence, today's seminar.

This is not the first time that the Sustainable Shared Growth seminar has focused on a certain Philippine industry. During the first decade, seminars were held on the automotive industry, for which a roadmap was crafted by Max and Dr. Hiroshi Hirakawa (Professor Emeritus of Nagoya University, and a board member of the Atsumi International Foundation). Over a decade hence, Max is now again looking at another roadmap but this time it was crafted by the Philippine government and a construction industry association. The difference, I understand from Max, is that while the automotive industry is clustered in the province where UPLB is located, namely Laguna, the construction industry could be found nationwide. This I think is where it leads us to the concept of shared growth. I look forward, as I hope you do, too, in learning more about this.

Thank you again for joining, and do enjoy the rest of the seminar

OPENING REMARKS: JUNKO IMANISHI CHIEF REPRESENTATIVE, SGRA



escaping the very "hot" corona summer of Tokyo



we thank you for your continued support of the seminars!

PROGRAM

OPENING REMARKS

JUNKO IMANISHI

Chief Representative, Sekiguchi Global Research Association
Atsumi International Foundation

SEMINAR MANAGER

CHAIR AND MODERATOR | DR. RICHELLE ZAFRA

College of Engineering and Agro-Industrial Technology,
UPLB

CO-CHAIR | DR. MAX MAQUITO

College of Public Affairs and Development, UPLB

PROGRAM

PRESENTATIONS

PRESENTATION #1 | INTRODUCTION TO THE PHILIPPINE CONSTRUCTION INDUSTRY

Dr Richelle Zafra, CEAT, UPLB

PRESENTATION #2 | BAC PROCUREMENT PROCEDURES FOR INFRASTRUCTURE PROJECTS

Eng'r. Justine Anne Mendoza, OVCPD, UPLB

PRESENTATION #3 | A PROXY INDICATOR FOR INDUSTRY CONCENTRATION: SHARED GROWTH IMPLICATIONS

Dr. Max Maquito, CPAf/UPLB, SGRA/AISF

PRESENTATION #4 | PUBLIC BARRIERS TO ENTRY: A REGIONAL PERSPECTIVE

Prof. Geny Lapina, CEM, UPLB

DISCLAIMER

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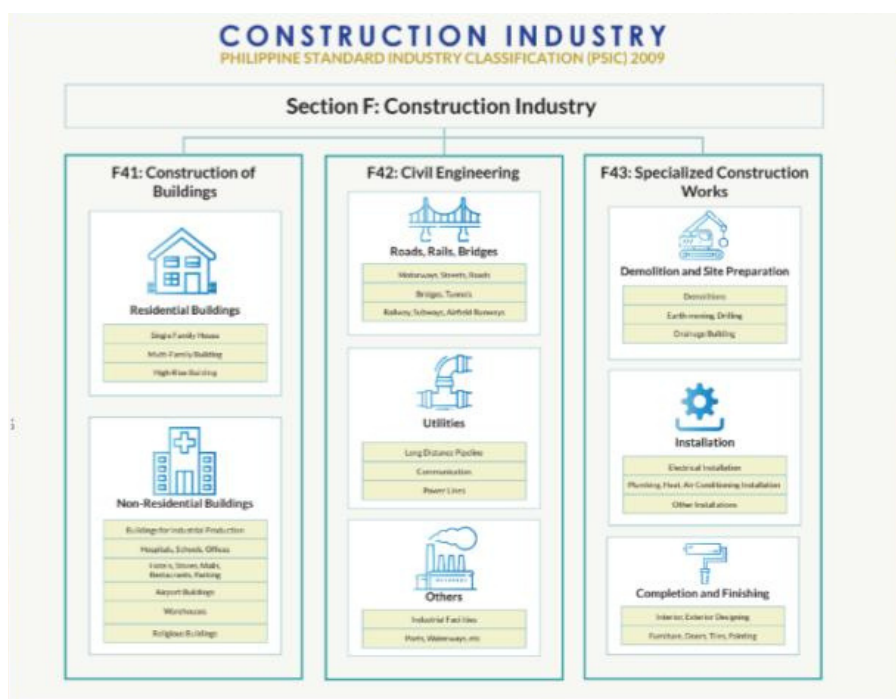
Presentation #1

PRESENTATION #1 | INTRODUCTION TO THE PHILIPPINE CONSTRUCTION INDUSTRY

Dr Richelle Zafra, CEAT, UPLB

What is the construction industry?

overview of the Philippine construction industry



Includes general construction and specialized construction activities for buildings and civil engineering works. It includes new work, repair, additions and alterations, the erection of fabricated buildings or structures on the site and also construction of a temporary nature.

- Introduction
- Contributions of the Construction Industry
- Industry Profile
- Construction Industry Policies
- Regulatory Framework
- Regulatory Policy

Source: Philippine Competition Commission (2021). Market Study of the Philippine Construction Industry. Unpublished Report.

**10.6
%**

average annual growth rate of value added (2000-2020)

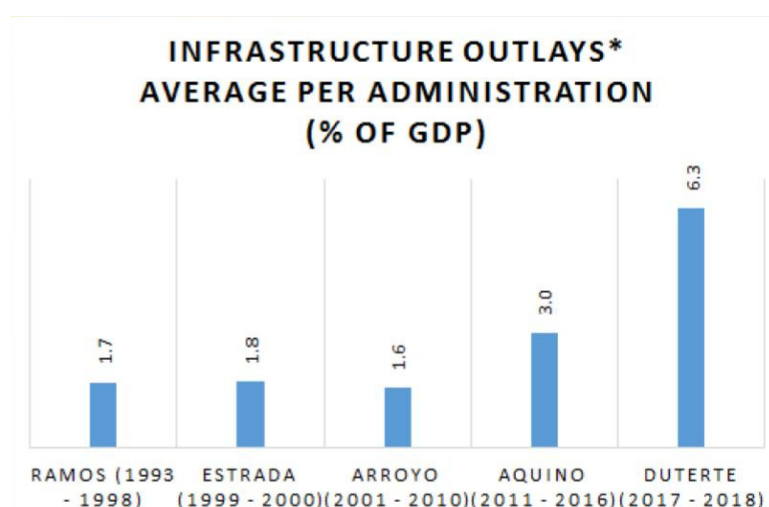
Presentation #1

PRESENTATION #1 | INTRODUCTION TO THE PHILIPPINE CONSTRUCTION INDUSTRY

Dr Richelle Zafra, CEAT, UPLB

construction industry policies

Build Build Build (BBB) Infrastructure Plan



Source: Infra spending surges in first two years of Duterte administration, better than any post-Marcos administration. Available online: <https://dbm.gov.ph> (accessed on 13 July 2022)

- The Duterte administration unveiled its economic development strategy on April 18, 2017 organized by the Department of Finance (DOF) and the Presidential Communications Operations Office (PCOO), in cooperation with the Center for Strategy, Enterprise & Intelligence (CenSEI).
- This plan set a target of spending at least PHP 8-9 trillion for big-ticket infrastructure projects from 2016 to 2022.

Country	Infrastructure Rank (out of 141)
Singapore	1
Malaysia	35
Brunei	58
Thailand	71
Indonesia	72
Philippines	96

#96

The Philippines continues to lag behind its ASEAN cohorts in terms of infrastructure

Source: World Economic Forum (2019)

Presentation #1

PRESENTATION #1 | INTRODUCTION TO THE PHILIPPINE CONSTRUCTION INDUSTRY

Dr Richelle Zafra, CEAT, UPLB

Philippine Construction Industry Roadmap (PCIR) 2020–2030



- **Launched on 28 March 2019** by the Department of Trade and Industry (DTI) through Construction Industry Authority of the Philippines (CIAP), in partnership with the Philippine Contractors Association (PCA)
- **The roadmap aims at boosting domestic construction spending from PhP 2.3 trillion in 2018 to PhP 40–130 trillion in 10 years starting in 2020.**

Source: Department of Trade and Industry–Philippine Contractors Association (2019). Philippine Construction Industry Roadmap: 2020–2030.

PRESENTER

Dr. Richelle G. Zafra



Dr. Richelle G. Zafra is an Associate Professor at the Department of Civil Engineering, University of the Philippines at Los Baños (UPLB). Her fields of interest are structural engineering, seismic assessment, numerical simulation, and high performance fiber reinforced cement composites. She obtained her PhD in Civil Engineering from the Tokyo Institute of Technology, Japan in 2011, her Master of Engineering from The University of Tokyo, Japan, and her Bachelor of Science in Civil Engineering from UPLB in 1997. She has been working at UPLB since 2000. Prior to joining the academe, she worked as a Junior Structural Engineer at DCCD Engineering Corporation, a leading local consultancy design firm. Dr. Zafra has presented in numerous international conferences and has published journal articles in peer-reviewed journals. She is an Associate Member of the Association of Structural Engineers of the Philippines and a member of the Philippine Institute of Civil Engineers. E-mail: rgzafra@up.edu.ph

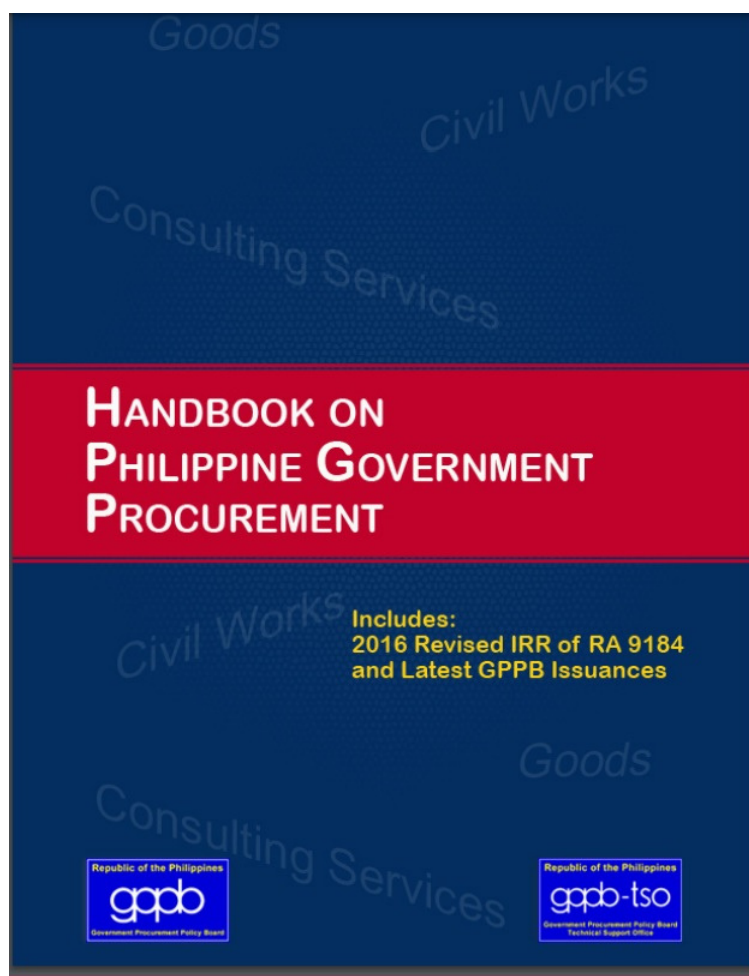
Presentation #2

PRESENTATION #2 | BAC PROCUREMENT PROCEDURES FOR INFRASTRUCTURE PROJECTS

Eng'r. Justine Anne Mendoza, OVCPD, UPLB

Bids and Awards Committee Procedures

overview of the Philippine construction industry



An act providing for the modernization, standardization and regulation of the procurement activities of the government and for other purposes.

Governing Principles

- Transparency
- Competitiveness
- Streamlined procurement process
- System of accountability
- Public monitoring

**RA
9184**

Government Procurement Reform Act (2002)

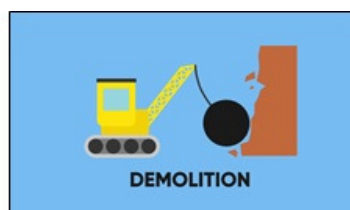
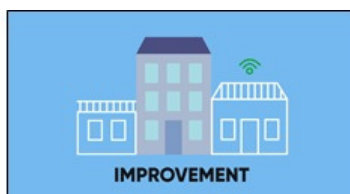
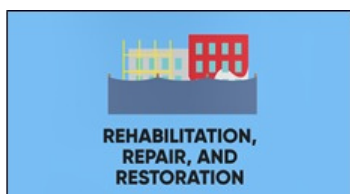
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PRESENTATION #2 | BAC PROCUREMENT PROCEDURES FOR INFRASTRUCTURE PROJECTS

Eng'r. Justine Anne Mendoza, OVCPD, UPLB

Bids and Awards Committee Procedures

overview of the Philippine construction industry



Infrastructure Projects.

Construction, Improvement, Rehabilitation, Demolition, Repair, Restoration or Maintenance of roads and bridges, railways, airports, seaports, communication facilities, civil works components of information technology projects, irrigation, flood control and drainage, water supply, sanitation, sewerage and solid waste management systems, shore protection, energy/power and electrification facilities, national buildings, school buildings, hospital buildings, and other related construction projects of the government.

BAC

Bids and Awards Committee

Committee to undertake the functions specified in RA 9184 and its Implementing Rules and Regulations (IRR) in order to facilitate professionalization and harmonization of procedures and standards.

Presentation #2

PRESENTATION #2 | BAC PROCUREMENT PROCEDURES FOR INFRASTRUCTURE PROJECTS

Eng'r. Justine Anne Mendoza, OVCPD, UPLB

Bidding Process

competitive bidding

Competitive Bidding Process

- ✓ Rule VI - Preparation of Bidding Documents
- ✓ Rule VII - Invitation to Bid
- ✓ Rule VIII - Receipt and Opening of Bids
- ✓ Rule IX - Bid Evaluation
- ✓ Rule X - Post-Qualification
- ✓ Rule XI - Award of Contract

- Advertisement,
- Pre-Bid Conference,
- Eligibility Screening of Prospective Bidders,
- Receipt and Opening of Bids,
- Evaluation of Bids,
- Post-Qualification, and
- Award of Contract

Section 41. Reservation Clause. The Head of Procuring Entity (HoPE) reserves the right to reject any and all bids, declare a failure of bidding, or not award the contract in the following situations:

a) If there is prima facie evidence of collusion between appropriate public officers or employees of the Procuring Entity, or between the BAC and any of the bidders, or if the collusion is between or among the bidders themselves, or between a bidder and a third party, including any act which restricts, suppresses or nullifies or tends to restrict, suppress or nullify competition;

PRESENTER

Eng'r. Justine Anne Mendoza



Eng'r Justine Anne Mendoza is currently assigned to the Office of the Vice Chancellor for Planning and Development as the technical staff for UPLB's infrastructure projects (from preparation and finalization, to implementation and turnover). She has been a member of the Bids and Awards Committee since 2021 and was a member of the Technical Working Group before that. She obtained my BS in Civil Engineering from UPLB in 2015, Master of Management in Business Management also from UPLB in 2021, and I'm currently pursuing Master of Science in Civil Engineering - Structural Engineering degree from UP Diliman.

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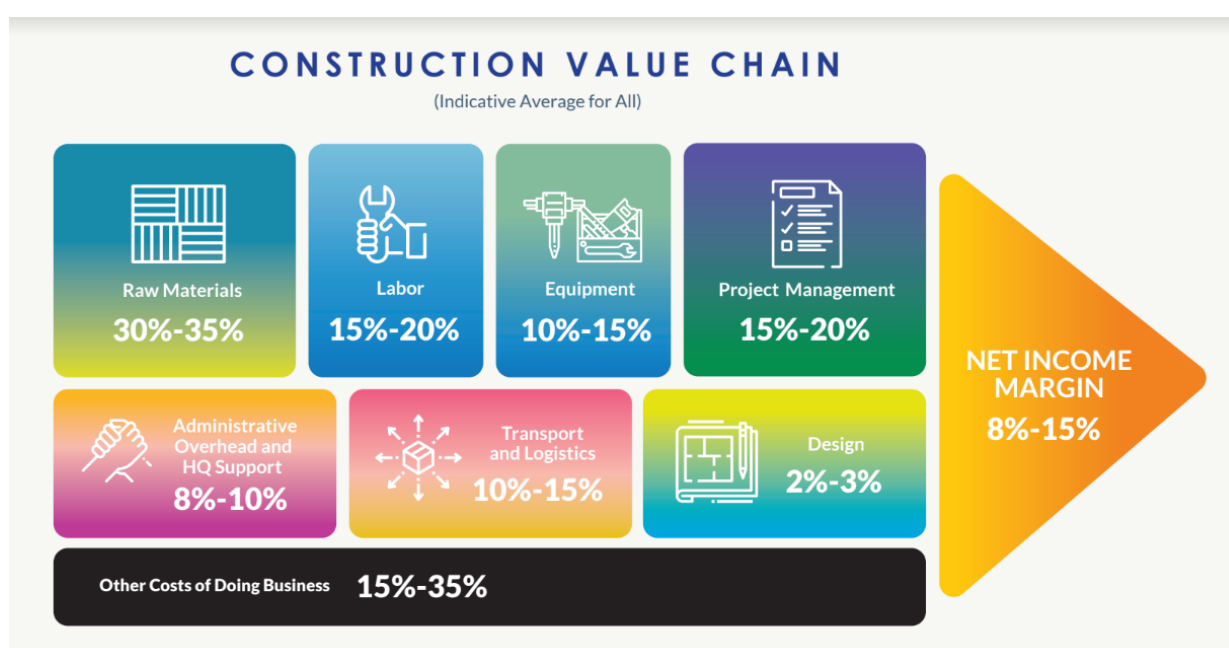
Presentation #3

PRESENTATION #3 | A PROXY INDICATOR FOR INDUSTRY CONCENTRATION: SHARED GROWTH IMPLICATIONS

Dr. Max Maquito, CPAf/UPLB, SGRA/AISF

Directly Un-Productive Extra Costs

In the Philippine construction industry



- **extortion (e.g., revolutionary tax and irregular payments for national and local permits)**
- **Government inefficiencies**
- **politically -related additional costs**
- **collusion**

Source: Source: DTI and PCA (2019) -- Philippine Construction Industry Roadmap (PCIR)

15-35%

other costs of doing business in the construction industry

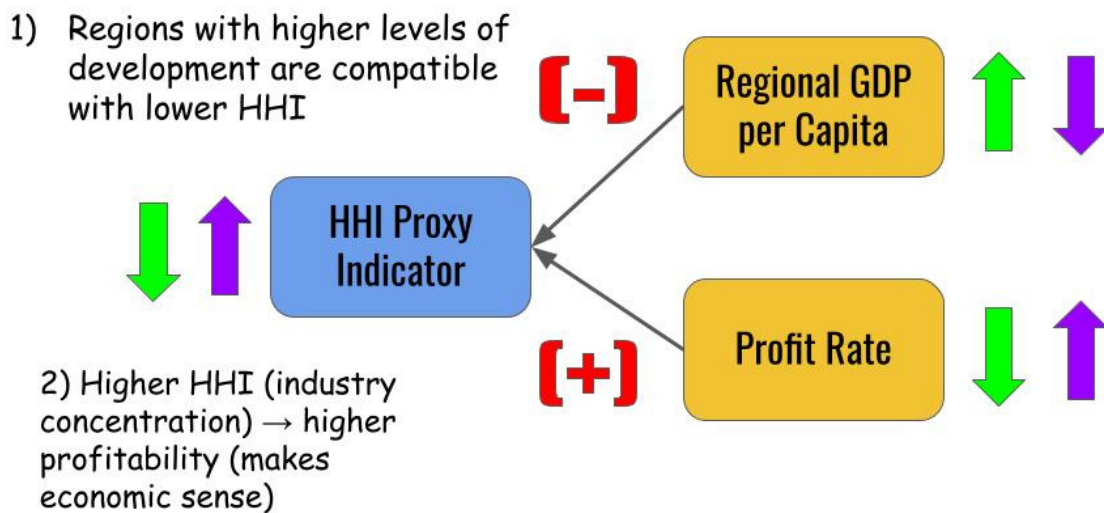
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Directly Un-Productive Extra Costs

In the Philippine construction industry



20

- we develop a proxy indicator for the HHI based on available data (highly aggregated; no firm level data)
- initial proxies gave problematic results
- the fix: use longitudinal data (cross-section + inter-temporal)

Figure shows the a priori economic relationships between HHI and Regional GDP per capita and profit rate



Herfindahl-Hirschman Index (HHI): a popular measure of industry concentration (higher concentration --> higher probability of collusion)

Presentation #3

PRESENTATION #3 | A PROXY INDICATOR FOR INDUSTRY CONCENTRATION: SHARED GROWTH IMPLICATIONS

Dr. Max Maquito, CPAf/UPLB, SGRA/AISF

Policy Implications

from discovered relationships of the Proxy HHI Indicator

01

- Regions with higher levels of development are compatible with lower HHI
- Lower HHI = lower level of concentration in the construction industry of the region
- Sharing seems to be compatible with higher levels of development → shared growth

02

- The proxy HHI could be used as part of a second layer of screening to ascertain the degree of competition within a certain industry
- The first layer constitutes: Bid rigging indicators and Whistle blowers
- The second layer could supply corroborating evidence

PRESENTER

Dr. Max Maquito



In his "previous life", Dr. Ferdinand C. Maquito (nickname: Max) was a mechanical engineer at a state-owned shipyard, after finishing his BS at the Engineering Department of the University of the Philippines, Diliman. A scholarship enabled him to shift specialization and earn his MS Industrial Economics from the Center of Research of Communication (now within the University of Asia and the Pacific). Right after which, he was able to get into the Japanese Ministry of Education scholarship to get into the PhD in Economics program of the University of Tokyo. A scholarship from the Atsumi International Foundation enabled him to finish his doctorate in Economics. He was an Adjunct Professor in Temple University Japan campus, before coming back to the Philippines to join CPAf, where he is now an Assistant Professor. His long stay in Japan, and working with the Sekiguchi Global Research Association of the Atsumi International Foundation have fueled his lifelong research and advocacy on sustainable shared growth.

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Presentation #4

PRESENTATION #4 | PUBLIC BARRIERS TO ENTRY: A REGIONAL PERSPECTIVE

Prof. Geny Lapina, CEM, UPLB

Barriers to Entry Set by the Government in the Philippine construction industry

- A key assumption in perfectly competitive markets is easy entry of new firms. More firms competing means better prices for consumers, including government as “buyer” of services from private construction firms.
- Barriers to entry. Natural barriers (high costs of entry, i.e. natural monopolies) and artificial barriers (regulations, licenses, and patents).
- In the presentation today, “public barriers to entry” – mainly reviewing requirements for private firms to bid for government contracts

Third Stage of Adjustment on Allowable Ranges of Contract Costs (ARCC) and Single Largest Project (SLP) Completed / Track Record Requirements (Board Resolution No. 201, series of 2017)			
Size Range	License Category	Single Largest Project (P)	Allowable Ranges of Contract Costs (P)
Large B	AAAA and AAA	Above 225 Million	< or above 450 Million
Large A	AA	Above 150 Million up to 225 Million	Up to 450 Million
Medium B	A	Above 75 Million up to 150 Million	Up to 300 Million
Medium A	B	Above 15 Million up to 75 Million	Up to 150 Million
Small B	C & D	< 15 Million	Up to 30 Million
Small A	Trade/E	Up to 1 Million	Up to 1 Million

Note: Par. 3 of Sec. 23.11.2 of the IRR of RA 9184 allows Small A and Small B contractors without similar experience to bid only for contracts not more than fifty percent (50%) of the allowable range of contract cost of their respective size range(s).

Vertical barrier (moving up a category)
Horizontal barrier (entry license)

Source: <https://pcab.construction.gov.ph/>

**2M
PHP**

**the minimum net worth of a company
vying for a Category D**

Presentation #4

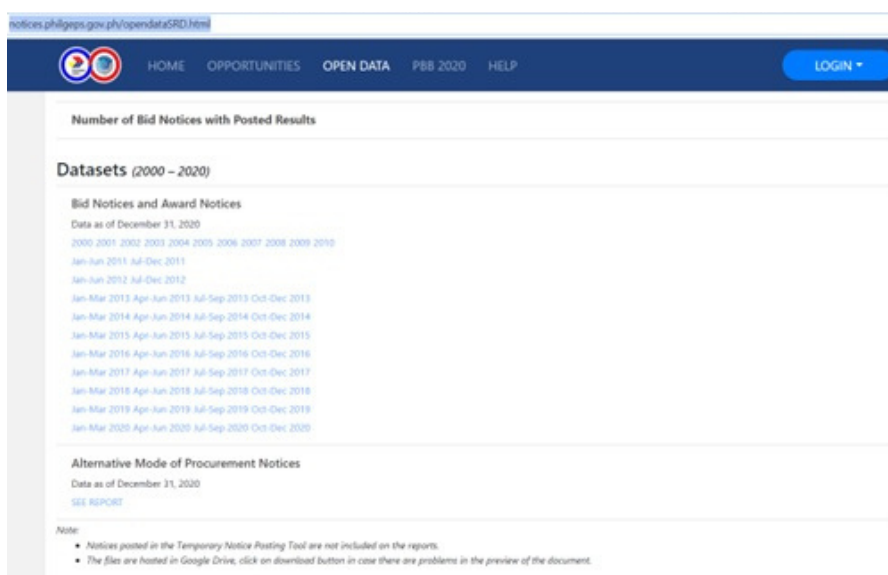
PRESENTATION #4 | PUBLIC BARRIERS TO ENTRY: A REGIONAL PERSPECTIVE

Prof. Geny Lapina, CEM, UPLB

Barriers to Entry Set by the Government in the Philippine construction industry



<https://ciap.dti.gov.ph/archive/publications>



<https://notices.philgeps.gov.ph/opendataSRD.html>

- There are database available!
- There are existing database for both PCAB and PhilGeps
- Government has a “digitization” drive of services and existing database would be useful for monitoring and evaluation
- Database and statistics experts can be tapped to help shape data and make them inter-operable

Presentation #4

PRESENTATION #4 | PUBLIC BARRIERS TO ENTRY: A REGIONAL PERSPECTIVE

Prof. Geny Lapina, CEM, UPLB

Barriers to Entry Set by the Government in the Philippine construction industry

What is ideal number of bidders for government infrastructure projects?

In government funded infrastructure projects, even if there is only one bid, the project can be awarded provided the bidder meets eligibility requirements. *(See Section 36 of IRR for RA 9184 and page 37 in Manual of Operations for the Procurement of Infrastructure projects)*



PRESENTER

Prof. Geny Lapina

Mr. Geny Lapiña is an Assistant Professor at the Department of Agricultural and Applied Economics, College of Economics and Management, University of the Philippines Los Baños. He completed his BS in Agricultural Economics from the College of Economics and Management of UPLB and his Masters in Development Economics from the School of Economics, University of the Philippines Diliman. Currently, he is working on his PhD in Development Studies from the College of Public Affairs at UPLB.

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ADDITIONAL THOUGHTS

from Dr. Richelle Zafra



Another policy that aims to improve the local construction industry that suffers from a lack of competitiveness with foreign companies is the Philippine Construction Industry Roadmap (PCIR) 2020–2030 (Figure A). This was launched on 28 March 2019 by the Department of Trade and Industry (DTI) through Construction Industry Authority of the Philippines (CIAP), in partnership with the Philippine Contractors Association (PCA). The roadmap aims at boosting domestic construction spending from PhP 2.3 trillion in 2018 to PhP 40–130 trillion in 10 years starting in 2020.



Figure A. Philippine Construction Industry Roadmap (PCIR) 2020–2030
Source: DTI-PCA, 2019

ADDITIONAL THOUGHTS

from Dr. Richelle Zafra



As shown in Figure 8B the Philippine construction industry is regulated by the Department of Trade and Industry (DTI) through its attached agency the Construction Industry Authority of the Philippines for policy and program coordination. The implementing arm of DTI includes the a) Philippine Contractors Accreditation Board (PCAB); b) Philippine Overseas Construction Board (POCB); c) Philippine Domestic Construction Board (PDCB); d) Construction Industry Arbitration Commission (CIAC); and e) Construction Manpower Development Foundation (CMDP).

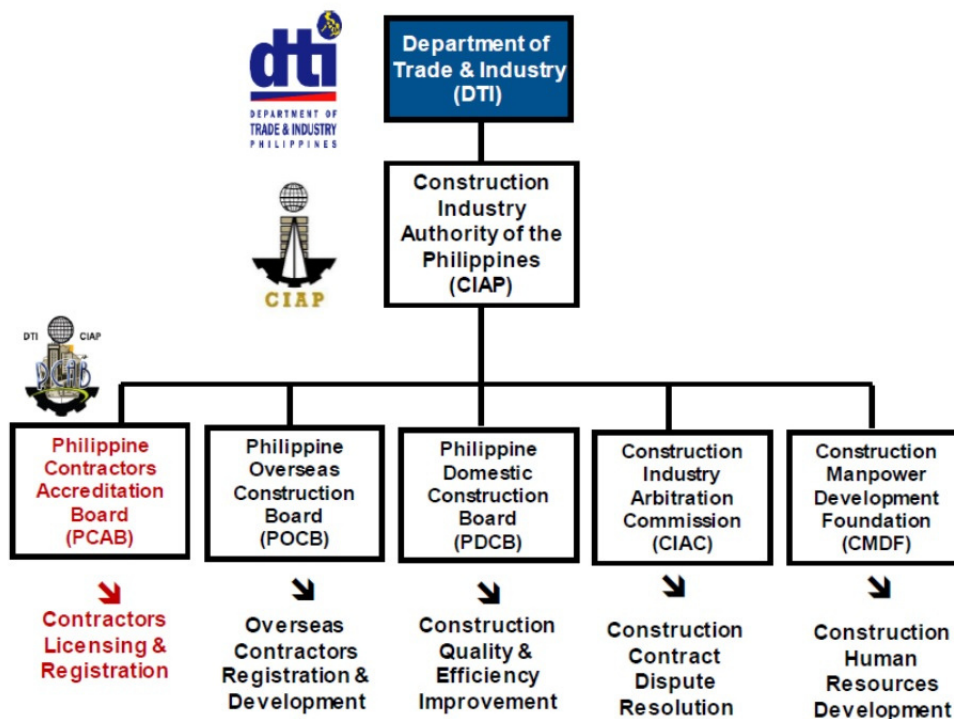


Figure B. Regulators of the Philippine Construction Industry
Source: CIAP-PCAB

ADDITIONAL THOUGHTS

from Dr. Richelle Zafra



RA No. 9184 (Government Procurement Reform Act) is an Act Providing for the Modernization, Standardization and Regulation of the Procurement Activities of the Government and for Other Purposes. It covers all procurement activities of the Government of the Philippines and its branches and instrumentalities, regardless of sources of funds, whether foreign or local. Pursuant to this law, most public infrastructure projects in the country are procured through competitive bidding which follows the standardized bidding procedures.

RA No. 6957 (Philippine Build-Operate-Transfer Law) is a law that provides a wide range of projects that can be wholly or partially undertaken by the private sector under a build-operate-transfer (BOT) arrangement. All national government agencies and LGUs are authorized until this law to enter into contractual arrangements to undertake infrastructure development projects. The BOT Law provides for the submission of unsolicited proposals.

Under RA No. 4566 (Contractors' License Law), the Philippine Contractors Accreditation Board (PCAB) is vested with the authority to issue, suspend, and revoke licenses of contractors. It also provides a list of required documents for regular and special license application.

References:

Department of Trade and Industry (DTI)-Philippine Contractors Association (PCA). (2019). Philippine Construction Industry Roadmap: 2020-2030.

Philippine Competition Commission (PCC) (2021). Market Study of the Philippine Construction Industry. Unpublished Report.

ADDITIONAL THOUGHTS

**from Eng'r. Justine Anne
Mendoza**



Topic: BAC Procurement Procedures for Infrastructure Projects

The procurement for government infrastructure projects is guided and administered by the Republic Act No. 9184, otherwise known as the “Government Procurement Reform Act (2002)”, which provides for the modernization, standardization, and regulation of the procurement activities of the government. This Act abides by its five governing principles: (1) transparency in the procurement process and its implementation, (2) competitiveness by extending equal opportunity to encourage eligible and qualified private contracting parties to participate, (3) streamlined procurement process that will uniformly apply to all government procurement, and shall be made simple and adaptable to advances in modern technology to ensure effectiveness and efficiency, (4) system of accountability where the public officials who are directly and indirectly involved in the procurement process and implementation of contracts, when warranted by circumstances, can be investigated and held liable for their actions relative hereto, and (5) public monitoring with the end view of guaranteeing that these contracts are awarded pursuant to the provisions of this Act and its IRR, and that all these contracts are performed strictly according to specification.

Under this Act, Infrastructure Projects are defined as the construction, improvement, rehabilitation, demolition, repair, restoration, and maintenance of various structures such as roads, bridges, railways, airports, utilities, hospitals, schools, government buildings, etc. The procurement activity for such government projects is facilitated by the Procuring Entity’s appointed Bids and Awards Committee (BAC) who then ensure that the guidelines under this Act and its Implementing Rules and Regulations are strictly adhered to.

ADDITIONAL THOUGHTS

**from Eng'r. Justine Anne
Mendoza**



Unless an alternative mode is proposed and approved, the BAC's default mode of procurement of government infrastructure projects is through "Competitive Bidding" which is open to participation by any interested and eligible party, and consists of seven stages: (1) advertisement, (2) pre-bid conference, (3) eligibility screening of prospective bidders, (4) receipt and opening of bids, (5) evaluation of bids, (6) post-qualification, and (7) award of contract.

Each project is unique; therefore, each project has its own Approved Budget for the Contract (ABC), eligibility criteria, scope of works, design plans and technical specifications, completion schedule, and conditions for its implementation. The bidding documents contain all these provisions which are then consulted with the end users, the BAC, and its technical committee before finalization.

The advertisement for the procurement activity is then made public and posted at any conspicuous place in the premises of the Procuring Entity, and in the Philippine Government Electronic Procurement System's (PhilGEPS) website for seven calendar days. A pre-bid conference is subsequently held to clarify and explain any of the requirements, terms, conditions, and specifications stipulated in the Bidding Documents, including questions raised by the prospective and interested bidders.

ADDITIONAL THOUGHTS

**from Eng'r. Justine Anne
Mendoza**



Bids to be submitted by the prospective bidders contain two envelopes: (1) the Eligibility and Technical envelope, and (2) the Financial envelope. Immediately after the deadline of the submission of bids, the first envelope is opened to determine each bidder's compliance with the requirements and shall be checked against a checklist to ascertain their presence. If compliance is determined, the second envelope is then opened to check whether the bid is lower than the ABC, and if there are no bid items left blank. At this stage, the BAC only uses a non-discretionary "pass or fail" criterion, and is subject to further examination by the assigned member of the Technical Committee.

The assigned member of the Technical Committee will then proceed with the Bid Evaluation stage where the completeness of the bid and its arithmetical corrections are examined. The bids shall be ranked in the ascending order of their total calculated prices, as evaluated and corrected for computational errors, to identify the Lowest Calculated Bid (LCB). The LCB will then proceed to the Post-Qualification stage where all statements made by the bidder and all documents submitted under the Legal, Technical, and Financial Requirements are verified and ascertained to be true and correct. In case of no adverse findings, the LCB is converted to the Lowest Calculated Responsive Bid (LCRB) and the BAC shall recommend to the Head of the Procuring Entity (HoPE) the award of contract to this bidder. However, in case there is prima facie evidence of collusion among those involved in the procurement activity (the public officers of the Procuring Entity, BAC, any of the bidders, or an associated third party), the HoPE reserves the right to reject any and all bids, declare a failure of bidding, or not award the contract in its entirety.

ADDITIONAL THOUGHTS

from Prof. Geny Lapina



Public Barriers to Entry in the Construction Industry

Case of government projects

An important assumption in perfectly competitive markets is the ease of entry of new firms. When there are barriers to entry, only one or a few firms operate in a certain market. Hence, the market can be said to be an “imperfect market” and is generally not desirable because it may result in higher prices for consumers or may be costly for society. There are two broad types of barriers to entry, and these are natural barriers and artificial barriers. Natural barriers are those that give any firm a natural advantage and a classic example is the high investment costs needed to operate in a market. Often, natural barriers result in natural monopolies or oligopolies. Specific examples of natural barriers are found in telecommunications, electricity, and water generation markets. In these markets, investment costs are too high for any new firm to compete. On the other hand, artificial barriers are often based on regulations, licenses, or patents. It is in this aspect that the public barriers to entry in the construction industry fits. There are certain regulations that all construction firms must adhere to so that they can secure licenses as well as win contracts from the government.

One major condition in the construction industry is for all contractors to secure a license from the Philippine Contractors Accreditation Board or referred to as PCAB license. Box 1 below summarizes these PCAB conditions with some KII feedback.

ADDITIONAL THOUGHTS

from Prof. Geny Lapina



In the PCAB conditions, there are several conditions but the condition with the potential to serve as a barrier to entry is the net worth and equity criteria. These criteria can serve as a horizontal barrier where it affects new firms as entry level and serves as a vertical barrier for existing firms to get to higher level categories.

An additional regulation for contractors or firms to secure government contracts is for each firm to also meet the “Third Stage of Adjustment on Allowable Ranges of Contract Costs” or ARCC and Single Largest Project or SLP requirements. These have good intentions of ensuring contractors have the experience to implement projects within the size ranges. This is similar to the PCAB where there are potentially horizontal and vertical barriers to entry in each size range conditions.

Box 1. PCAB licensing requirements and KII feedback

Classification	Category	Minimum Qualification Requirements				
		Financial Capacity		Technical Experience (TTE) Construction Experience		(2) Overall Credit Points
		Minimum Net Worth / Equity (P)	Credit Points	Both: (1) (2) (years)	Minimum Credit Points	
A. GENERAL ENGINEERING	AAA	1,000,000,000.00	10,000.00	10	60	300
06-A (Road, Highway, Flyover, Bridge, Airport, etc.)	AAA	1,000,000,000.00	1,000.00	10	60	300
06-B (Water Supply)	AA	500,000,000.00	900.00	10	50	250
06-C (Water Treatment Plant & Systems)	A	300,000,000.00	300.00	7	21	105
06-D (Water Sewerage or Sanitary)	B	100,000,000.00	100.00	5	10	50
06-E (Water Sewerage or Sanitary Engineering)	C	50,000,000.00	50.00	3	3	15
06-F (Water Sewerage or Sanitary Engineering)	D	2,000,000.00	20.00	3	3	15
B. GENERAL BUILDING	AAA	1,000,000,000.00	10,000.00	10	60	300
06-A (Building or Industrial Plant)	AAA	1,000,000,000.00	1,000.00	10	60	300
06-B (Coverage or Storage System)	AA	500,000,000.00	900.00	10	50	250
06-C (Water Treatment Plant & Systems)	A	300,000,000.00	300.00	7	21	105
06-D (Water Sewerage or Sanitary)	B	100,000,000.00	100.00	5	10	50
06-E (Water Sewerage or Sanitary Engineering)	C	50,000,000.00	50.00	3	3	15
06-F (Water Sewerage or Sanitary Engineering)	D	2,000,000.00	20.00	3	3	15
C. SPECIALTY	AAA	1,000,000,000.00	10,000.00	10	60	300
SP-01 (Structural Steel Work)	AAA	1,000,000,000.00	1,000.00	10	60	300
SP-02 (Concrete Precast/Prestressing or Posttensioning)	AA	500,000,000.00	900.00	10	50	250
SP-03 (Plumbing & Sanitary Work)	A	300,000,000.00	300.00	7	21	105
SP-04 (Mechanical Work)	B	100,000,000.00	100.00	5	10	50
SP-05 (Mechanical Work)	C	50,000,000.00	50.00	3	3	15
SP-06 (Mechanical Work)	D	2,000,000.00	20.00	3	3	15
SP-07 (Mechanical Work)	E	100,000.00	1.00	none	none	none
SP-08 (Mechanical Work)	F	100,000.00	1.00	none	none	none
SP-09 (Mechanical Work)	G	100,000.00	1.00	none	none	none
SP-10 (Mechanical Work)	H	100,000.00	1.00	none	none	none
SP-11 (Mechanical Work)	I	100,000.00	1.00	none	none	none
SP-12 (Mechanical Work)	J	100,000.00	1.00	none	none	none
SP-13 (Mechanical Work)	K	100,000.00	1.00	none	none	none
SP-14 (Mechanical Work)	L	100,000.00	1.00	none	none	none
SP-15 (Mechanical Work)	M	100,000.00	1.00	none	none	none
SP-16 (Mechanical Work)	N	100,000.00	1.00	none	none	none
SP-17 (Mechanical Work)	O	100,000.00	1.00	none	none	none
SP-18 (Mechanical Work)	P	100,000.00	1.00	none	none	none
SP-19 (Mechanical Work)	Q	100,000.00	1.00	none	none	none
SP-20 (Mechanical Work)	R	100,000.00	1.00	none	none	none
SP-21 (Mechanical Work)	S	100,000.00	1.00	none	none	none
SP-22 (Mechanical Work)	T	100,000.00	1.00	none	none	none
SP-23 (Mechanical Work)	U	100,000.00	1.00	none	none	none
SP-24 (Mechanical Work)	V	100,000.00	1.00	none	none	none
SP-25 (Mechanical Work)	W	100,000.00	1.00	none	none	none
SP-26 (Mechanical Work)	X	100,000.00	1.00	none	none	none
SP-27 (Mechanical Work)	Y	100,000.00	1.00	none	none	none
SP-28 (Mechanical Work)	Z	100,000.00	1.00	none	none	none
SP-29 (Mechanical Work)	AA	100,000.00	1.00	none	none	none
SP-30 (Mechanical Work)	AB	100,000.00	1.00	none	none	none
SP-31 (Mechanical Work)	AC	100,000.00	1.00	none	none	none
SP-32 (Mechanical Work)	AD	100,000.00	1.00	none	none	none
SP-33 (Mechanical Work)	AE	100,000.00	1.00	none	none	none
SP-34 (Mechanical Work)	AF	100,000.00	1.00	none	none	none
SP-35 (Mechanical Work)	AG	100,000.00	1.00	none	none	none
SP-36 (Mechanical Work)	AH	100,000.00	1.00	none	none	none
SP-37 (Mechanical Work)	AI	100,000.00	1.00	none	none	none
SP-38 (Mechanical Work)	AJ	100,000.00	1.00	none	none	none
SP-39 (Mechanical Work)	AK	100,000.00	1.00	none	none	none
SP-40 (Mechanical Work)	AL	100,000.00	1.00	none	none	none
SP-41 (Mechanical Work)	AM	100,000.00	1.00	none	none	none
SP-42 (Mechanical Work)	AN	100,000.00	1.00	none	none	none
SP-43 (Mechanical Work)	AO	100,000.00	1.00	none	none	none
SP-44 (Mechanical Work)	AP	100,000.00	1.00	none	none	none
SP-45 (Mechanical Work)	AQ	100,000.00	1.00	none	none	none
SP-46 (Mechanical Work)	AR	100,000.00	1.00	none	none	none
SP-47 (Mechanical Work)	AS	100,000.00	1.00	none	none	none
SP-48 (Mechanical Work)	AT	100,000.00	1.00	none	none	none
SP-49 (Mechanical Work)	AU	100,000.00	1.00	none	none	none
SP-50 (Mechanical Work)	AV	100,000.00	1.00	none	none	none
SP-51 (Mechanical Work)	AW	100,000.00	1.00	none	none	none
SP-52 (Mechanical Work)	AX	100,000.00	1.00	none	none	none
SP-53 (Mechanical Work)	AY	100,000.00	1.00	none	none	none
SP-54 (Mechanical Work)	AZ	100,000.00	1.00	none	none	none
SP-55 (Mechanical Work)	BA	100,000.00	1.00	none	none	none
SP-56 (Mechanical Work)	BB	100,000.00	1.00	none	none	none
SP-57 (Mechanical Work)	BC	100,000.00	1.00	none	none	none
SP-58 (Mechanical Work)	BD	100,000.00	1.00	none	none	none
SP-59 (Mechanical Work)	BE	100,000.00	1.00	none	none	none
SP-60 (Mechanical Work)	BF	100,000.00	1.00	none	none	none
SP-61 (Mechanical Work)	BG	100,000.00	1.00	none	none	none
SP-62 (Mechanical Work)	BH	100,000.00	1.00	none	none	none
SP-63 (Mechanical Work)	BI	100,000.00	1.00	none	none	none
SP-64 (Mechanical Work)	BJ	100,000.00	1.00	none	none	none
SP-65 (Mechanical Work)	BK	100,000.00	1.00	none	none	none
SP-66 (Mechanical Work)	BL	100,000.00	1.00	none	none	none
SP-67 (Mechanical Work)	BM	100,000.00	1.00	none	none	none
SP-68 (Mechanical Work)	BN	100,000.00	1.00	none	none	none
SP-69 (Mechanical Work)	BO	100,000.00	1.00	none	none	none
SP-70 (Mechanical Work)	BP	100,000.00	1.00	none	none	none
SP-71 (Mechanical Work)	BQ	100,000.00	1.00	none	none	none
SP-72 (Mechanical Work)	BR	100,000.00	1.00	none	none	none
SP-73 (Mechanical Work)	BS	100,000.00	1.00	none	none	none
SP-74 (Mechanical Work)	BT	100,000.00	1.00	none	none	none
SP-75 (Mechanical Work)	BU	100,000.00	1.00	none	none	none
SP-76 (Mechanical Work)	BV	100,000.00	1.00	none	none	none
SP-77 (Mechanical Work)	BW	100,000.00	1.00	none	none	none
SP-78 (Mechanical Work)	BX	100,000.00	1.00	none	none	none
SP-79 (Mechanical Work)	BY	100,000.00	1.00	none	none	none
SP-80 (Mechanical Work)	BZ	100,000.00	1.00	none	none	none
SP-81 (Mechanical Work)	CA	100,000.00	1.00	none	none	none
SP-82 (Mechanical Work)	CB	100,000.00	1.00	none	none	none
SP-83 (Mechanical Work)	CC	100,000.00	1.00	none	none	none
SP-84 (Mechanical Work)	CD	100,000.00	1.00	none	none	none
SP-85 (Mechanical Work)	CE	100,000.00	1.00	none	none	none
SP-86 (Mechanical Work)	CF	100,000.00	1.00	none	none	none
SP-87 (Mechanical Work)	CG	100,000.00	1.00	none	none	none
SP-88 (Mechanical Work)	CH	100,000.00	1.00	none	none	none
SP-89 (Mechanical Work)	CI	100,000.00	1.00	none	none	none
SP-90 (Mechanical Work)	CJ	100,000.00	1.00	none	none	none
SP-91 (Mechanical Work)	CK	100,000.00	1.00	none	none	none
SP-92 (Mechanical Work)	CL	100,000.00	1.00	none	none	none
SP-93 (Mechanical Work)	CM	100,000.00	1.00	none	none	none
SP-94 (Mechanical Work)	CN	100,000.00	1.00	none	none	none
SP-95 (Mechanical Work)	CO	100,000.00	1.00	none	none	none
SP-96 (Mechanical Work)	CP	100,000.00	1.00	none	none	none
SP-97 (Mechanical Work)	CQ	100,000.00	1.00	none	none	none
SP-98 (Mechanical Work)	CR	100,000.00	1.00	none	none	none
SP-99 (Mechanical Work)	CS	100,000.00	1.00	none	none	none
SP-100 (Mechanical Work)	CT	100,000.00	1.00	none	none	none

Philippine Contractors Accreditation Board (PCAB)

“R.A. 4566 as amended by P.D. No. 1746 provides that no contractor (including sub-contractor and specialty contractor) shall engage in the business of contracting without first having secured a PCAB license to conduct business. It is an offense to engage in contracting business without a license first being obtained. (Source: <https://pcab.construction.gov.ph/>)

The net worth and equity requirement goes up as one applies for a higher category, hence a further horizontal barrier (meaning a firm needs to gather enough net worth/equity in addition to experience of moving up)

- Based on KIIs, a major hurdle is minimum net worth / equity requirement for getting a PCAB license
- At the bottom category D, one needs at least PhP 2 million

ADDITIONAL THOUGHTS

from Prof. Geny Lapina



Box 2. Additional requirements to bid for government projects

Further, for government projects, additional requirements also in place

Third Stage of Adjustment on Allowable Ranges of Contract Costs (ARCC) and Single Largest Project (SLP) Completed / Track Record Requirements (Board Resolution No. 201, series of 2017)			
Size Range	License Category	Single Largest Project (P)	Allowable Ranges of Contract Costs (P)
Large B	AAAA and AAA	Above 225 Million	< or above 450 Million
Large A	AA	Above 150 Million up to 225 Million	Up to 450 Million
Medium B	A	Above 75 Million up to 150 Million	Up to 300 Million
Medium A	B	Above 15 Million up to 75 Million	Up to 150 Million
Small B	C & D	< 15 Million	Up to 30 Million
Small A	Trade/E	Up to 1 Million	Up to 1 Million

Note: Par. 3 of Sec. 23.112 of the IRR of RA 9184 allows Small A and Small B contractors without similar experience to bid only for contracts not more than fifty percent (50%) of the allowable range of contract cost of their respective size range(s).

↑ Vertical barrier (moving up a category)
← Horizontal barrier (entry license)

KIIs: One cannot easily bid for government projects without the Single Largest Project handled. This is on top of the initial PCAB requirements. As such, this is an additional “barrier” for public infrastructure projects

Note, that the word potential barriers were used above as it is not definite that the PCAB, ARCC, and SLP serve as public barriers for firms. There were mixed views on whether these are barriers from a few selected KIIs. On one hand, they are well intentioned to ensure quality of contractors but if well enforced. But other new firms contend that they cannot meet such stringent standards or criteria. What is clear is that there is scope to still understand and study the criteria to determine if they are effectively public barriers to many firms and hence limits competition. Overall, tracking these public barriers to entry as it affects how many firms participate in government projects in various locations in the country can serve as an additional monitoring tool for the government. A primary objective is to ensure fair competition that allows better use of public resources dedicated to construction projects of the government. A secondary objective is to ensure that abuse and corruption is minimized, especially if there are huge public resources flowing into construction related activities.

ADDITIONAL THOUGHTS

from Dr. Max Maquito



The term “Directly Un-Productive Extra” (DUPE) costs in the subtitle of KKK33 seminar is inspired by the term “Directly Unproductive Profit-making” (DUP) activities coined by the economist Bhagwati in his 1982 paper. As the term implies, DUP refers to activities that yield a profit, especially for the one conducting these activities, but do not really produce an output that would be of value to the general public. DUP is a generalization of activities which includes the “rent-seeking” coined by Kreuger, (1974) based on the idea of Tullock (1967). An example would be the lobbying of private companies to avail of licenses that are issued at the discretion of the government.

The DUPE in KKK33 retains this nuance since it refers to the “other costs of business” in construction projects that are profit making for those who extract and benefit from such costs, but at the expense of the users of the construction projects. The additional “E” forms a word that more precisely describes what such costs ultimately do. The Cambridge Dictionary defines “dupe” as “to deceive someone, usually by making that person do something that they did not intend to do”. Two of the DUPE costs, collusion and corruption in the construction industry together constitute an act that essentially deceives society into having them pay, through their taxes, for sub-standard goods for which they have no intention whatsoever to pay. Construction projects are indispensable for building infrastructure that would contribute to our country’s development. DUPE costs, however, could literally undermine the contribution of such infrastructure. In fact, the Construction Industry Roadmap recognizes the need for eliminating DUPE costs for the roadmap to bring the industry to a brighter future.

ADDITIONAL THOUGHTS

from Dr. Max Maquito



The discourse in economics tends to highlight two kinds of failures: market or government failures. This tends to polarize economists into those who believe in the preeminence of markets and those of governments to coordinate economic activities. DUPE costs apparently represent failures of the market (when there is collusion) and the government (where there is corruption). At the very least, it should make us wary of market failures, but at the same time it should not make us run to seek assistance from the government. A middle ground is needed.

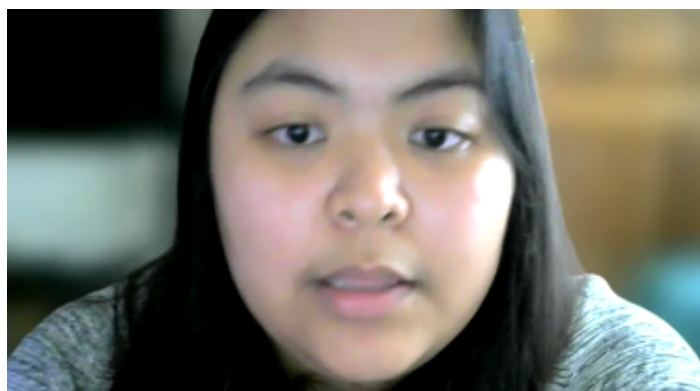
Our study of the construction roadmap seems to highlight how fixing the market imperfections is important, and how government is also part of the problem. This would tend to support the position of those leaning towards markets in the market-government spectrum of economics research and advocacy. The middle ground that I seek, however, is one where industrial policy is of strategic importance in coordinating government and business interests for the good of the motherland.

Indeed, we should earnestly strive for building with integrity (tapat at tatag)!

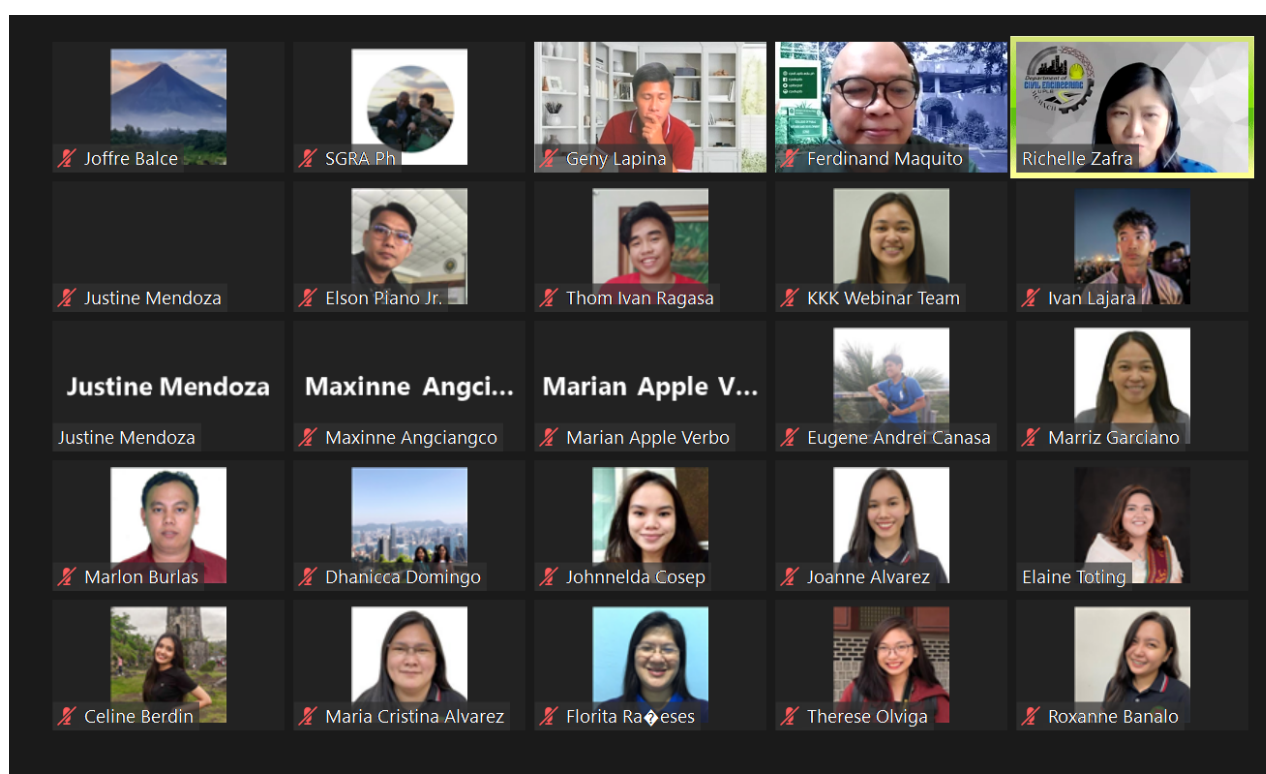
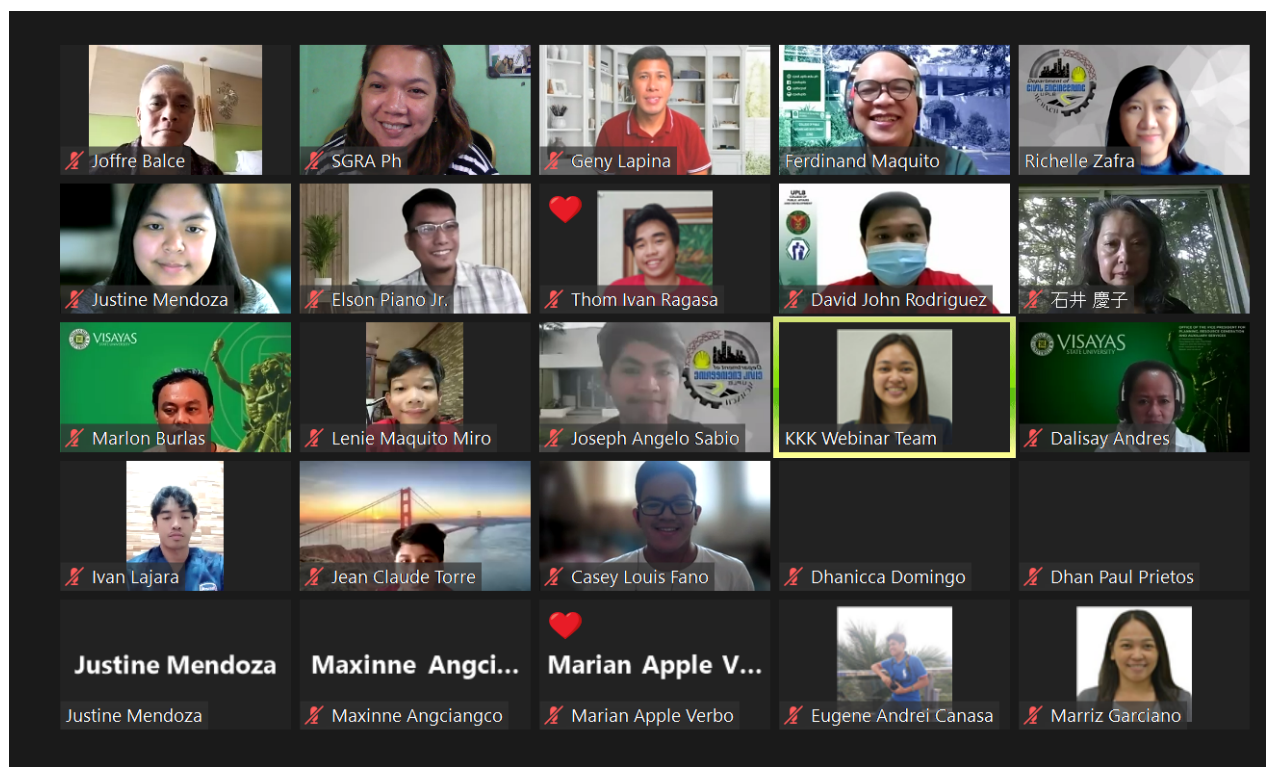
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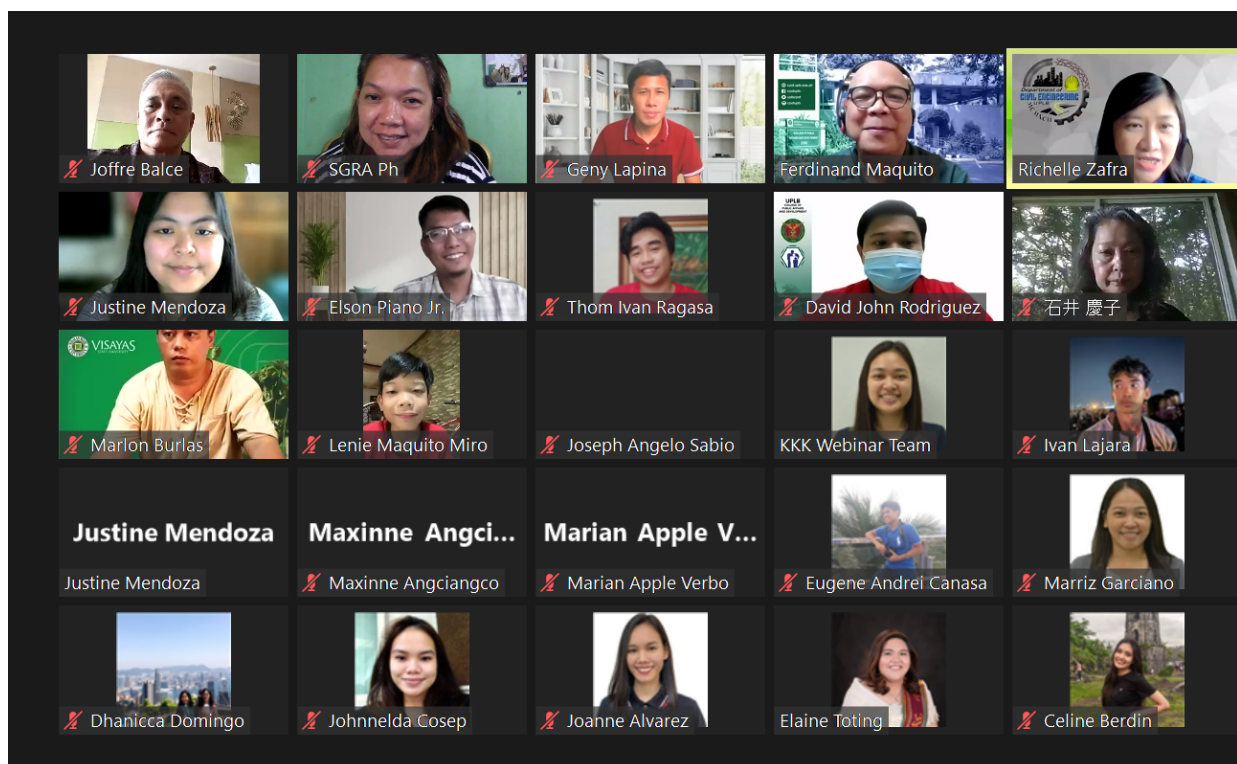


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thank you!

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**We thank you for
your continued
support in our
efforts to contribute
to Sustainable
Shared Growth.
Be safe!**

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SUSTAINABLE 
SHARED GROWTH
SEMINAR #33
REPORT