

**BOARD OF DIRECTORS
DEVELOPMENT EFFECTIVENESS COMMITTEE**

**CHAIRPERSON'S SUMMARY OF THE COMMITTEE DISCUSSION ON 24 NOVEMBER 2005
OF THE SECTOR ASSISTANCE PROGRAM EVALUATION OF
ASIAN DEVELOPMENT BANK ASSISTANCE TO PHILIPPINES POWER SECTOR**

1. The Development Effectiveness Committee (DEC) discussion of the independent evaluation of ADB's assistance program to the power sector in the Philippines had been scheduled in end-September. However, the Government had requested more time to review the final draft. The DEC has regularly emphasized that it considers it of fundamental importance that government is kept engaged throughout the evaluation process, as an ultimate user of the evaluation findings. While, in the end, it is possible that government and ADB may not agree on certain conclusions or recommendations of an evaluation, the point is for the evaluation process and analysis to benefit from transparent and candid feedback from government at key stages of the process. In this context, DEC was informed by staff that preceding the finalization of this evaluation report, a concluding meeting between the government and ADB was held, which focused on the issue of accounting methodology used to best understand the financial health of the sector.

2. The reason DEC chose to discuss this sector assistance program evaluation (SAPE) is that, in the Philippines, power sector performance has a major if not primary impact on economy-wide issues of fiscal imbalance and weak investment climate, and it is ADB that has been the country's lead development partner in the sector. As the report puts it, if the power sector restructuring succeeds, ADB will have made a major development impact. If it fails, ADB must bear a major responsibility. In this context, DEC appreciated the comprehensive scope of the evaluation report, its balance, and its candidness, especially in pointing to what ADB might have done better. As in other countries, it has turned out to be more complex to restructure the power sector than initially envisioned, especially on the scale initiated in the Philippines.

3. DEC acknowledged Management's response to the SAPE, which indicated a basic agreement by Management with the lessons and recommendations, particularly that ADB should continue to provide assistance to the Philippines power sector. DEC said Management's point was well taken that the evaluation's "partly successful" rating of ADB assistance from the late 1980s to the present should be qualified since the power sector restructuring is still ongoing, requiring more time than the Government initially expected.

4. At the DEC meeting, the director general of the Southeast Asia Department asserted that the bottom line was that without ADB assistance, the power sector in the Philippines would be "worse off". The core of the problem had been the political economy. At the same time, she agreed that ADB should have had more hands-on involvement in the financial reporting and management of the sector to have better anticipated the deterioration and unsustainability of the sector's financial position. In addition, the pace and sequencing of the privatization program could have been better planned. DEC members were of the view that ADB's apparent inability to influence Government policies for the sector in the late 1980s and early 1990s might be considered a key failed opportunity for ADB. By the same token, influence on overall sector policy should be the primary performance measure for future ADB assistance.

5. A DEC member emphasized that a key lesson was that ADB could do a better job on risk analysis at entry and continued risk assessment during implementation. He also suggested that ADB should do better analysis of sector governance beforehand and that it would be to ADB's advantage to specify clear and monitorable performance indicators for any ADB program loan so that the impact of the program could be better distinguished from overall sector performance. Another DEC member wondered whether ADB had taken a sufficiently long term approach to the sector at the start of its involvement.

6. DEC members considered that the main unachieved goal had been affordability of power supply in the Philippines, with electric tariffs among the highest in Asia in both absolute terms and relative to income. In this context, future ADB analysis of the sector should explicitly look into the impact on poverty. A DEC member suggested that an underlying problem might be ADB's insistence on cost recovery; for developing countries with large rural populations cost recovery might not be feasible, especially when compounded by an archipelagic geography. In such cases, the emphasis would need to be on lowering cost through greater efficiencies. In this context, the DEC member did not agree with a recommendation that even higher tariffs should be a precondition for an ADB loan to help refinance overall sector indebtedness.

7. A DEC member considered the report's recommendations too broad and general to be easily actioned and monitored. He noted that Management had not responded directly to the Report's recommendations and in the absence of such a response, there was no clear and agreed basis for monitoring follow-up action. However, the report included certain concrete sub-recommendations in the accompanying text that were more monitorable and he proposed that these should be incorporated into the main recommendations for benchmarking follow-up action. In particular, he thought the recommendations relegated to Appendix 7, on addressing the perception of corruption in the power sector in the Philippines, should have been among the recommendations in the main body of the report since these pointed to where risks of corruption might be the greatest. He also suggested that ADB's Integrity Division re-examine the report to determine whether any further formal investigations into possible corrupt practices were warranted. Another DEC member thought the analysis of corruption had relied too heavily on a newspaper scan. Director General, Southeast Asia Department (SERD) assessed that compared to government financed projects, ADB assisted projects in the sector left less room for corruption.

8. Moving forward, ADB's next step is to carefully plan for a comprehensive and integrated power sector development program (PSDP) whose policy agenda, while initiated by ADB, will be developed in full coordination with the World Bank and Japan Bank for International Cooperation, which were also assisting the sector. DEC agreed with the five "pillars" proposed for the program: (i) financial viability of the sector, (ii) regulatory framework and performance, (iii) market restructuring toward competition, (iv) private sector participation in power generation and transmission, and (v) consumer protection. One DEC member noted that the nature and level of future ADB support should be carefully calibrated to specific progress in sector reforms, and with fewer and more strategic objectives, for which there is demonstrable commitment. Another DEC member wondered if the proposed pillars went far enough in terms of private sector participation: shouldn't ADB encourage the private sector to push the reform agenda as well as finance the sector, with ADB providing a proactive support role? One member noted the importance of a joined-up public/private sector approach.

9. I concluded that DEC generally endorsed the key lessons and recommendations of the SAPE, subject to the qualifications expressed by individual members. I expressed appreciation for the candid insights provided by Director General, SERD and her elaboration on the driving

factors and approach in designing ADB's coming program of assistance. Future Board consideration of a new program loan for the sector would be guided by the views expressed at the DEC discussion. Finally, I took the opportunity to welcome the attendance of the Managing Director General at the DEC meeting.

Agus Haryanto
Chairperson
Development Effectiveness Committee

8 December 2005