

II. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM

A. Progress under the Poverty Partnership Agreement

5. The Poverty Partnership Agreement, signed by Government and ADB in October 2001, tracks progress against agreed goals, strategies, and selected key indicators of (i) macroeconomic stability and equitable growth; (ii) agricultural modernization with social equity; (iii) comprehensive human development and support for the vulnerable; and (iv) good governance and the rule of law. The Government's objective is to eliminate poverty within the decade; improve employment, education, and shelter; and provide food for every table. The Government, with support of some development partners, is developing systems to gather better poverty statistics to improve monitoring and implementation of its poverty reduction efforts, which emphasizes redistribution of economic opportunities, protection of the vulnerable, and enhancement of the capabilities of the poor to participate in decision-making. The Anti-Trafficking in Persons Act (May 2003) is a hallmark for protecting a highly vulnerable group. Supported by agricultural modernization and social equity progress, the country's rural population has benefited from the rise in agricultural value added.

6. Headcount poverty rose to 34% in 2000 from 33% in 1997. Average income and consumption of the poor in the last few years have risen slowly with no major improvements in access to basic services. For the rural poor, among the most disadvantaged are agrarian reform communities (ARCs), both in terms of income and living standards. The Comprehensive Agrarian Reform Program, which aims to distribute land and provide development support to 3.9 million rural poor, may not be accomplished by the target date of end-2005. Currently, the Department of Agrarian Reform (DAR) is successfully implementing the ADB-financed *Agrarian Reform Communities Project (ARCP)*,⁷ which aims to reduce poverty in about 152 ARCs, out of 1,573 nationwide, through (i) provision of infrastructure, land titling, and development support services for agricultural enterprises; and (ii) a capacity-building program for DAR, local government units (LGUs) and ARC organizations. The success of the ARCP augurs well for ADB's continued involvement.

7. The Government's National Urban Development and Housing Framework (1999–2004) emphasizes urban poverty reduction through a renewed focus on urban upgrading and slum eradication to improve urban land markets and address security of tenure for the urban poor. Poverty reduction and community participation provide a key focus to the formulation, design and implementation of urban sector projects and programs. ADB's strategy and operations in the urban sector are consistent with this approach.

8. Five projects for \$9.4 million under the Japan Fund for Poverty Reduction (JFPR) complement ADB lending and non-lending projects to address poverty reduction. For example, the *Supporting the Sustainable Livelihood for the Poor in Southern Philippines Project*, a \$2.8 million grant anchored to the *Infrastructure for Rural Productivity Enhancement Sector Project*,⁸ provides opportunities for the poor in up to 80 municipalities so they can better benefit from the improved infrastructure facilities financed under the anchor project. Supporting the agenda for corporate social responsibility, the JFPR-funded *Strategic Private Sector Partnerships for Urban Poverty Reduction in Metro Manila Project*⁹ targets 23 downtrodden Metro Manila communities of about 35,000 people, of whom 60% are severely poor. Comprehensive poverty reduction requires mobilization of the private sector and civil society; it is too complex and pervasive for the Government to handle alone.

⁷ ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of the Philippines for Agrarian Reform Communities Project*. (Loan 1667-PHI, approved on 18 December 1998 for \$93.2 million).

⁸ ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of the Philippines for Infrastructure for Rural Productivity Enhancement Sector Project*. Manila (Loan 1772-PHI, approved on 31 October 2000 for \$75 million).

⁹ JFPR No. 9022 for \$3.6 million, approved on 24 September 2002.

B. Progress in the Country Strategy and Program Focus Areas

1. Governance

9. Governance issues are central to the widespread perception that the country is becoming less competitive and provides a less attractive destination for investment. This is evidenced by the country's low international ranking on indexes compiled by reputable institutions; areas covered include corruption, competitiveness, foreign direct investment, and costs of doing business.¹⁰ For example, Transparency International's Corruption Perceptions Index for 2003¹¹ ranks the Philippines 92 out of 133 countries; a score that has declined steadily since 2001¹² reflects the perception by investors and business interests of a higher level of corruption among politicians and government officials over the past 3 years. As part of its response, the Government recently launched a widespread series of "lifestyle" checks on public officials.

10. The Philippines will benefit from implementing recently enacted economic legislation to improve governance. Most critical are the Government Procurement Act (December 2002); the Special Purpose Vehicle Act (January 2003) to help reduce the overhang of banks' bad debts; and the Anti-Money Laundering Amendment Act (March 2003) which enabled the Philippines to avoid sanctions by the Paris-based Financial Action Task Force, although the country remains on the list of noncomplying countries. The Judicial Compensation Act (October 2003) has already sparked a dramatic increase in applications for longstanding court vacancies, while the Supreme Court's ambitious *Action Plan for Judicial Reform* is being implemented by the Judiciary with donor support. A number of development partners undertook their governance assessments in 2003. ADB's assessment is being finalized. Improving governance is a key aspect of ADB's country strategy. ADB is supporting: (i) independence and accountability of the judiciary, (ii) strengthening the anti-money-laundering regime, (iii) decentralization of service delivery, and (iv) strengthening regulations and supervision of the nonbank financial sector. The Government, ADB and World Bank jointly completed the *Public Expenditure, Procurement and Financial Management Review* in 2003; and the joint *Decentralization and Service Delivery Study* is underway. Recommendations of the studies will help the Government develop platforms of further reform in these areas.

11. The Philippines is one of 21 countries to have signed the Anticorruption Action Plan for Asia and the Pacific, which was developed with assistance from ADB and the Organisation for Economic Co-operation and Development. ADB, in close collaboration with the private sector, civil society, and other development partners, will continue supporting initiatives to (i) reduce incentives for corruption, (ii) improve revenue collections, (iii) increase the effectiveness and efficiency of the operations and delivery of national and local government services, (iv) improve the financial capability of local government, (v) improve corporate governance in both public and private institutions, and (vi) promote the development of the financial sector.

¹⁰ For example: Institute of Management Development's *World Competitiveness Yearbook 2003*, shows the Philippines slipping from 12th to 22nd in a group of 30 countries; UNCTAD's *World Investment Report 2002* highlights that foreign direct investment in the Philippines is well below potential; World Bank's *Doing Business in 2004 – Understanding Regulation* shows the high cost of doing business in terms of regulation, often subject to corruption.

¹¹ Transparency International Corruption Perceptions Index Report. 2003. October.

¹² From 2.9 points in 2001 to 2.5 in 2003. The maximum score of 10 means "highly clean"; zero is "highly corrupt."

2. Environment and Natural Resources

12. A Country Environment Assessment is under preparation for the new CSP. In view of the close nexus between poverty reduction and natural resources management, ADB will continue to focus on improvement of irrigation facilities through beneficiary participation, rural infrastructure, fisheries and coastal resources management, agrarian reform, and rural microfinance. ADB will support multi-stakeholder participation to improve the planning, conservation, development, and management of freshwater, forest, land, and aquatic resources. Included in the nonlending program is a master planning study to pilot river basin management using the integrated river basin management approach. Project preparation to extend the gains in policy reform and practices for improving urban air quality to regional cities outside the capital region is also programmed.

3. Human Development

13. **Education.** ADB focuses on improving secondary education in the poorest provinces and strengthening skills development systems nation-wide, with particular attention to encouraging organizational development in the sector agencies through quality assurance and results-based management systems. ADB supports institutional capacity to develop policy, set and monitor standards, and target educational programs to the poor. Assistance will be given for developing an education master plan for the Autonomous Region in Muslim Mindanao, and to study current educational needs in Mindanao. To avoid duplication and ensure synergy of efforts, both activities will be carried out in close consultation with other development partners active in Mindanao.

14. **Health.** ADB continues to support primary health care services, women's health and early childhood development. ADB in close coordination with the other development partners is reviewing the Government's Health Sector Reform Agenda, in particular local health system development and capacity building of LGUs to deliver services in a more decentralized environment.

15. **Urban Development:** Addressing the livelihood, shelter and basic needs of slum dwellers is one of the fundamental MDGs. Poverty reduction and community participation provide a key focus to the formulation, design and implementation of urban sector projects and programs. With an emphasis on long-term relations with key national agencies and selected cities, ADB has developed a coherent, phased series of interventions to promote urban upgrading and slum eradication. Following on from the proposed *Development of Poor Urban Communities Sector Project*,¹³ the proposed *Metro Manila Urban Services for the Poor Sector Project (MMUSP)* is predicated upon the adoption of the Government's visionary 15-Year Strategy for Slum Eradication in Metro Manila, developed with ADB assistance. Key approaches for MMUSP are being pilot-tested under three of the five ongoing JFPR projects in the Philippines. Further support is drawn from ADB's membership in the Cities Alliance and other "on-the-ground" arrangements with development partners – donor agencies, NGOs, private sector, LGUs and community groups. Several ongoing projects provide infrastructure for safe water and sanitation services in urban and rural areas, while investment for PSP in water supply schemes is being evaluated. A proposed investment to improve the basic infrastructure that supplies half of Metro Manila's water is being developed under a TA Loan.¹⁴

¹³ For Board consideration under summary procedure on 19 December 2003.

¹⁴ ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed TA Loan to the Republic of the Philippines for MWSS New Water Sources Development Project*. Manila (Loan 2012-PHI, approved on 14 October 2003 for \$3.26 million).

4. Infrastructure

16. **Energy.** ADB is the lead development partner in the energy sector, with a focus on the electricity subsector. The Electric Power Industry Reform Act (EPIRA, June 2001) and the National Power Corporation's (NPC's) Privatization Plan (October 2002), have permitted significant progress in implementing the power sector's regulatory framework. Meanwhile, the delay in the privatization of TRANSCO—the national transmission company formed under EPIRA—has prompted the Government to accelerate the privatization of NPC's generating assets, which are less affected by the factors slowing TRANSCO's privatization.¹⁵ ADB is regularly involved in policy dialogue and in reviewing and monitoring the privatization process. In the energy sector, ADB will continue to pursue reforms to promote good governance, strengthen the regulatory framework, and ensure healthy market competition, while evaluating investment to encourage private sector participation (PSP), particularly for new generating capacity. Subject to adequate progress in reforms, ADB could consider an energy sector development program (SDP) combining investment (project or sector) and a policy-based loan, perhaps with a PCG or other instrument, to respond to the sector's financing needs and policy reform agenda in a comprehensive and integrated fashion. Investment in critical infrastructure cannot be postponed indefinitely without causing greater harm to the power sector, its prospects for privatization, and the economy at large. If privatization of TRANSCO takes longer than expected, ADB may support awarding a management contract for the operations and maintenance of TRANSCO, as well as upgrading transmission facilities to avoid power outages.

17. **Transport.** To promote poverty reduction, ADB assigns high priority to improving access to remote areas of the Southern Philippines, at relatively low costs and improving the efficiency of the intermodal transport system, by reducing deficiencies in land, air, and sea systems and improving network interconnections. Physical interventions will target the complementary secondary road-port-airport network, and related transport services. Key issues for sector level policy dialogue include (i) reviewing policies and regulatory issues that adversely affect transport services; (ii) supporting increased PSP and public-private partnership (PPP); and (iii) strengthening intermodal transport planning. In the road subsector, policy dialogue will focus on: (i) establishing and implementing a sound rural road development policy framework;¹⁶ (ii) improving the management of right-of-way and land acquisition by the Department of Public Works and Highways and LGUs; (iii) improving funding and provision of maintenance of national and local roads, including through increased PSP; (iv) addressing road safety issues, including axle overloading; and (v) attracting PSP for expressway and urban rail development in Luzon. For air and maritime transport subsectors, critical issues include improving (i) infrastructure and services on interisland links, particularly on non-commercial routes, through sustainable funding mechanisms; (ii) intermodal connections, and (iii) transport safety. Priority interventions will be identified by TA for *Intermodal Transport Development*, to assist the Government develop an integrated transport development plan for the Southern Philippines.

5. Gender and Development

18. The UN's Human Development Report ranks the Philippines 77 out of 173 countries in terms of human development in 2002. On the gender-related development index, the Philippines inched forward to 63 out of 146 countries in 2002. ADB's long-term goal is to reduce gender gaps by

¹⁵ Power generation plants are not considered as public utilities; therefore, no franchise is needed for their privatization.

¹⁶ Prepared under ADB. 2003. *Technical Assistance for Rural Road Development Policy Framework*. Manila (TA: 3805-PHI, approved on 18 December 2001 for \$720,000).

ensuring that (i) women are treated equally by the legal and judicial system, (ii) gender inequality in access to social services is reduced in regions where this is an issue, and (iii) the economic and social status of marginalized women is improved. An ongoing gender assessment will help define the focal areas for ADB intervention. To ensure gender equity and access, ADB will set targets for women's participation access to benefits, and ensure that women are involved in project planning and implementation. For example, the JFPR-funded *Social Safety Nets for Poor Women Vendors in Mindanao Cities Project*¹⁷ will benefit about 1,600 poor women and their households at training centers established in eight public markets in Mindanao which will train women vendors on business planning, microenterprise and microfinance, maternal and reproductive health care, gender sensitivity, women empowerment, prenatal and post-natal care, family planning, sexually transmitted diseases and reproductive rights among others. Lessons learned from the project will be used to carry forward ADB's agenda in this sector.

6. Social Protection

19. Economic growth may contribute to social protection but evidence suggests that it does not lead to a linear increase in welfare. The majority of the population remains vulnerable to shocks due to an inadequate social protection system characterized by a lack of continuity in poverty reduction programs and inappropriate targeting. Existing formal social security schemes largely exclude workers in the informal economy, who accounts for 50% of total employment. ADB's Social Protection Strategy was adopted to enhance ADB's poverty reduction efforts. It will be vital to identify sources for funding for social protection measures and to analyze current schemes to optimize the use of scarce funds. The social protection study to be undertaken in 2004 will provide a comprehensive analysis of the sector with its findings integrated into the new CSP.

7. Regional Cooperation

20. The regional economic activity in the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) is being revived and supported by ADB as Regional Cooperation Adviser. So far, investment flows in the region have been weak due to inadequate infrastructure and sluggish economic activity resulting from an anemic post-1997 economic recovery and unstable peace and order situation. Once peace is firmly established, ADB's role in BIMP-EAGA will strengthen, focusing on enhancing the business environment, particularly—as regards the Philippines—in Mindanao and Palawan.

8. Private Sector Development

21. Early findings from ADB's Private Sector Assessment Study and Investment Climate Study (both supporting preparation of the new CSP) highlight several main obstacles facing the private sector, namely, inconsistency of policies and laws, limited capacity and lack of coordination among regulatory agencies, underdeveloped financial markets, Government involvement in commercial activities, inefficient competition policy, deteriorating quality of human resources, flawed privatization models including sub-optimal bidding processes, and an inefficient infrastructure system. Key thrusts of ADB's Private Sector Development Strategy are to: (i) create enabling conditions for business including institution-building within key government Departments; (ii) generate business opportunities in ADB-financed public sector projects; (iii) catalyze private investments through direct financing, credit enhancements, and risk mitigation instruments; and (iv) help address the overhang of non-performing loans in both the public and private financial institutions. Supporting growth of small and medium enterprises (SMEs), facilitating overseas worker remittances, enhancing LGU access to bond markets, and increasing PPP in basic infrastructure, including roads, energy, and housing, are among ADB's priorities for private sector development.

¹⁷ JFPR No. 9018 for \$1 million, approved on 7 August 2002.

C. Highlights in Coordination of External Funding and Partnership Arrangements

22. ADB works closely with the World Bank and Japan Bank for International Cooperation (JBIC) to improve the official development assistance portfolio through annual joint portfolio reviews, and regular technical working group meetings. Cofinancing partners for TAs and loans are being sourced to reduce the burden of project financing on the Government budget. ADB's program has been developed with attention to the activities of other donors, while it is implemented in close coordination with those of other development partners, bilateral and multilateral agencies, NGOs, and the private sector. The guiding principle in both programming and implementation has been to move beyond *coordination* to actual *cooperation* to optimize delivery of existing programs and achieve a multiplier effect by combining resources.¹⁸ ADB leads in power sector and capital market reforms, while the World Bank leads in areas such as public sector management reforms and rural electrification. JBIC cofinancing is being explored in power, education, urban development, and environment projects, and with other development partners for specific projects. ADB has co-led, with JBIC and the World Bank, harmonization of procurement and financial management policies and procedures in the Philippines, which has been selected as a pilot for country-level harmonization under the global effort to harmonize procedures. A proposed TA on *Harmonization in the Philippines* will help focus on financial management, audit, gender, environment assessment, resettlement, and procurement. ADB also leads and participates in development partner working groups, including those under the Consultative Group Framework and of UN agencies, covering Mindanao, governance, SMEs, anticorruption, decentralization, LGU benchmarking, microfinance, and health. ADB, in association with other development partners, has joined the World Bank to support the latter's Development Innovative Marketplace for the Philippines, a vehicle for encouraging innovative solutions to poverty reduction developed by civil society. ADB is holding dialogue with the Government and other development partners to position all stakeholders to support a peace agreement with the Moro Islamic Liberation Front (MILF), including a proposed joint needs assessment to identify priority activities for the postconflict era (Appendix 1, Table A1.5 presents a matrix of development partner cooperation.)

¹⁸ For example: innovative agreements with Germany's Gesellschaft für Technische Zusammenarbeit and UN Habitat for the proposed *Development of Poor Urban Communities Project* (2003); development partner collaboration to help implement the Supreme Court's Action Plan for Judicial Reform.