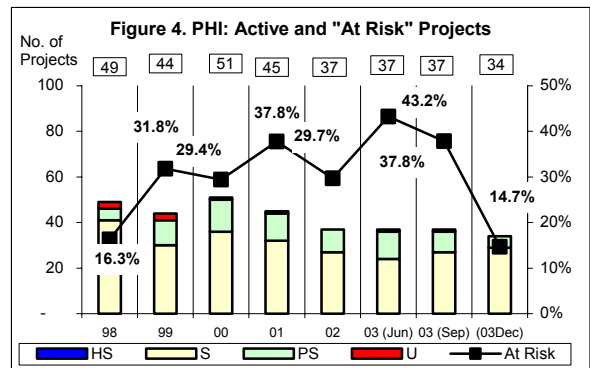
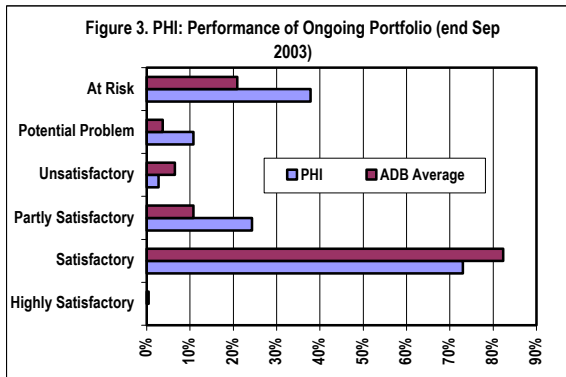
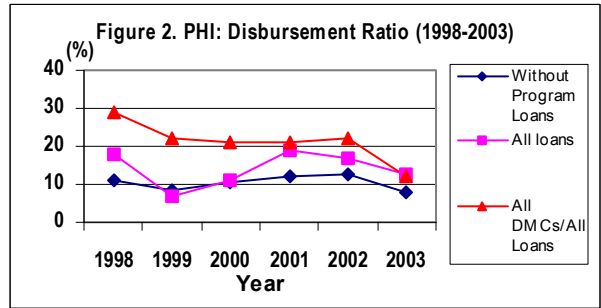
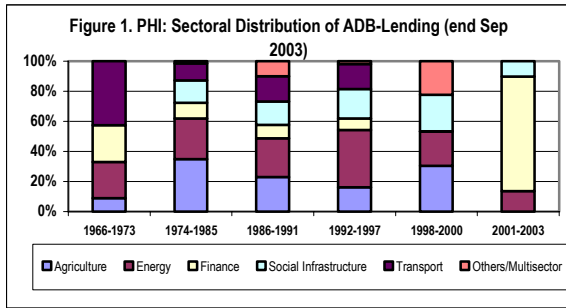


### III. PORTFOLIO MANAGEMENT ISSUES

#### A. Portfolio Performance

23. The Philippines is ADB's fifth largest borrower (8% of ADB's cumulative lending). The active portfolio of 37 public sector loans (\$1.6 billion) is the seventh largest under administration. Appendix 1, Tables A1.6 to A1.9 present data as of end December 2002 for the annual comparison. Figures 1 to 4 provide a snapshot of ADB's lending operations as of end of third quarter 2003.

24. Enhanced portfolio quality through improved project implementation has been the "watchword" for the Philippine portfolio over the past three years. With the level of "at risk" projects hovering at about one-third (Figure 4), processing new projects has been severely curtailed with emphasis placed on project administration (including redesign, restructuring and cancellation) of existing project and program loans; thus, bringing the portfolio down from 51 projects with mediocre performance and a backlog of undisbursed funds (\$1.8 billion) in 2000 to a more manageable 34 projects with improved performance in 2003. The smaller portfolio allows the Government and ADB to isolate and address remaining implementation issues. The cancellations (about \$450 million since 2000) have been the most visible result, but other portfolio performance measures are beginning to improve as implementation of the reworked projects gains momentum and all delayed program loan tranches are either released or cancelled in 2003. The cumulative effect should bring the "at risk" projects to below 15% by year-end, while saving the Government substantial commitment fees.



25. Over the past 12 months, the Government and ADB continued intensive efforts to reduce the number (and components) of loans that have persistently underperformed, with little chance of meeting their development objectives. As well as some cancellations (including the final tranches of the *Grain Sector Development Program*), some unprecedented steps were taken (e.g., suspension of disbursements for the *Sixth Roads Project*). The actions, although drastic, were warranted by the need to address long-standing issues that were politically difficult to rectify. As a result, the level of undisbursed loans should decline by almost one-third, and the expected tranche release for ongoing programs will substantially improve the disbursement ratio. Improved performance on both projects and the policy reform agenda provides the platform for a more robust level of future assistance.

## **B. Performance Monitoring and Evaluation**

26. Both ADB and the Government have implemented actions agreed upon during the semi-annual Country Portfolio Review Missions to improve portfolio performance. Seminars and training on disbursement procedures for executing agency (EA) staff, and closer monitoring of EA performance by oversight agencies (OAs), have yielded positive results (e.g., increase in imprest account utilization rate). The efforts improved disbursement ratios for project loans from 12.1% in 2001 to 12.7% in 2002. The ongoing rationalization of Project Management Offices will strengthen overall project performance monitoring and accountability, and strengthen in-house agency capability in the operation and management of projects.

27. The *Philippines' Country Assistance Program Evaluation (CAPE)*<sup>19</sup> highlights that of 36 projects completed and postevaluated since 1986, only 31% were generally successful compared with the ADB-wide average of 51%. There were some signs of improvement in the 1990s. Reasons for the high rate of project failures in the Philippines include (i) frequent internal and external shocks, (ii) poor project design, (iii) project implementation bottlenecks, (iv) absorptive capacity constraints; (v) excessive time needed, particularly for actions requiring legislation; (vi) complicated land acquisition and procurement policies and procedures; (vii) inadequate project personnel in both number and capability; and (viii) lack of institutional and financial capacity especially of the LGUs to undertake projects. The CAPE recommended that ADB's support focus on a steady, relatively modest and selective lending program. Areas to be considered include microcredit to support income generating activities for the poor, as well as education and health facilities, potable water supplies, road transport in rural areas, and development of lagging regions, particularly the Southern Philippines. It also emphasized continuing involvement in policy reform, capacity building, and institutional strengthening through nonlending activities; and deepening ADB's relationships with the broader society including NGOs, women's groups, and ethnic societies. In its review of the CAPE, ADB's Development Effectiveness Committee<sup>20</sup> endorsed the approach to prepare the new CSP.

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<sup>19</sup> ADB. 2003. *Country Assistance Program Evaluation in the Philippines*. Manila.

<sup>20</sup> ADB. 2003. Development Effectiveness Committee Meeting. Summary Record of Discussions. April