

Increasing Strategic Focus for Better Results in the Philippines

- ADB's assistance program to the Philippines over the past 5 years (2003–2007) has been successful in meeting its more selective objectives, but improvements are needed.
- The context for the next country strategy remains daunting. The Philippines needs to (i) continue to exercise fiscal discipline and further expand its fiscal space; (ii) institute good governance more widely; (iii) accelerate infrastructure, education, and other social service development; (iv) support expansion and diversification of the economic base; and (v) make access to development opportunities more equitable.

Background

The growth record of the **Philippines** has been erratic since independence in 1948. In the 1950s, state policies encouraged import substitution. The 1960s saw a weak export promotion strategy, while the 1970s emphasized growth that relied on foreign-sourced funds. Results were mixed and the costs were periodic balance of payments crises and sharp exchange rate devaluations that, repeatedly, set back economic progress. However, during 2002–2007, the Philippines achieved 6 consecutive years of annual gross domestic product above 2% and averaging 5.6%. Driven largely by an expanded service sector as well as rising remittances, growth was accompanied by low to moderate inflation, low interest rates since 2001, and unprecedented current account surpluses that boosted the balance of payments position.

The Asian Development Bank (ADB) and the **Philippines** partnered in 1966. By end-2007, ADB had approved \$9.8 billion in public sector loans and \$148.8 million in technical assistance. Through its private sector operations, it had also approved \$275 million in loans and \$37 million in equity investments.

ADB's Operations Evaluation Department completed the first **Country Assistance Program Evaluation** for the Philippines in 2003. The evaluation covered ADB's assistance program since 1966, with a focus on the 1980s and 1990s, and rated it "partly successful." The 2008 **Country Assistance Program Evaluation**¹ assessed the performance of ADB

assistance since 2003 as an input to the next **country partnership strategy**.

In 2003 the ADB–Philippines partnership was faced with three key challenges: (i) an excessively broad country strategy and program with weak implementation performance; (ii) a large fiscal deficit resulting in low government spending on essential public goods; and (iii) a weak investment climate, and wide regional disparities resulting in persistent unemployment, inequality, and poverty, particularly in the southern and eastern areas of the country.

Summary of Findings

The study assessed that in the course of ADB's operations from 2003 the program became strategically focused, portfolio performance improved, and program selectivity was guided by country-specific constraints. Achievements were brought about by (i) public finance management and reform, (ii) further developing capital markets and energy supplies to enhance the private sector enabling environment, (iii) continued focus on development of the southern Philippines, (iv) support for regional cooperation initiatives, (v) portfolio cleanup, and (vi) timely use of **program lending**. Private sector operations in energy generation were initiated. A feature of support for fiscal, energy and financial reforms was the degree to which political economy factors were aligned in the program. ADB's strategic positioning, institutional performance, and contributions to development results was rated "successful."

ADB's sector assistance was deemed "successful," with need for improvement. Its performance was founded on (i) support for macroeconomic stability and fiscal consolidation, (ii) assistance for improved budget allocations and efficiency, (iii) progress on energy sector restructuring and capital market development to support the private sector enabling environment, (iv) programmatic assistance to health and a project in education that provided models and lessons for advancing decentralization, and (v) varied performance in the infrastructure, urban, rural, and water sectors.

The key findings and lessons of the study were that (i) selectivity based on country-specific constraints, government commitment, stakeholder involvement, and a medium-term policy reform engagement was a more effective approach, (ii) regional focus on the southern Philippines presents some positive results but improvements are needed, (iii) contributions to improving the private sector enabling environment were limited to specific sectors, (iv) addressing good governance and corruption has moved beyond project boundaries to a sector focus, and (v) support for local service delivery was relevant and would benefit from systematic support through decentralization.

The study concluded that ADB's assistance program over the past 5 years (2003–2007) has been successful in meeting more selective objectives. However, the larger context for the next country strategy continues to be daunting. Poverty is high. Progress toward the **Millennium Development Goals** is slow and lagging in key areas, and government expenditures for related social and economic services are still low relative to needs. Private capital formation is low compared to neighbors. The export base is narrow and its value added low. The private sector perceives control of corruption, infrastructure, and education as needs to improving competitiveness. Infrastructure and social expenditure increases are needed, financed by a strengthened revenue effort. Expenditures must be more efficient and have greater impact. The reforming energy sector has yet to achieve wider competition and lower electricity rates. Investment rates are low and governance concerns continue to influence investor confidence. Global factors such as slowing growth, a credit squeeze, high oil and food prices, and rising inflation add to these constraints.

Recommendations

The study recommended that the next country strategy (i) follow through on fiscal reforms and further

improvement in sector budget allocations and institutional reforms, (ii) extend systematic support for institutional strengthening and capacity development, (iii) bring a wide perspective to improvements in the private sector enabling environment but a focused ADB response, (iv) explore alternative ways to address infrastructure development, (v) support agriculture and rural development to address rural poverty and efficient and sustainable agricultural production, (vi) continue the focus on the southern Philippines and include other poor provinces, and expand the linkage between rural development and regional cooperation initiatives, and (vii) combine program, programmatic, and investment lending. The study submitted strategic recommendations to ADB's Management:

- Maintain the strategic focus on improving national public finance governance and management.
- Deepen support for local governance and decentralized service delivery to improve public expenditure efficiency and governance.
- Continue to support private sector enabling environment improvements.
- Focus on poor provinces to address poverty reduction and build on synergies between local development and regional cooperation initiatives, in particular the Brunei, Indonesia, Malaysia, Philippines-East ASEAN (Association of Southeast Asian Nations) Growth Area.
- Enhance services to the client through expanded policy dialogue, further harmonization with development partners, greater use of programmatic approaches, balance staff resource allocation, and clarify the country office role.

Feedback

ADB's Management **responded** to the findings and recommendations of this study. When these *Learning Curves* were prepared, the **Chair's Summary of the Development Effectiveness Committee Discussions** was not available for disclosure to the public. The study was completed in June 2008.

¹ ADB. 2008. *Country Assistance Program Evaluation for the Philippines: Increasing Strategic Focus for Better Results*. Manila. Available: <http://www.adb.org/Documents/CAPES/PHI/CAP-PHI-2008-20/CAP-PHI-2008-20.pdf>