

MANAGEMENT RESPONSE TO THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR THE PHILIPPINES: INCREASING STRATEGIC FOCUS FOR BETTER RESULTS

On 24 July 2008, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate OED's comprehensive and well-analyzed Country Assistance Program Evaluation (CAPE) for the Philippines. CAPE provides a good overview of the strategic shift in ADB approaches to the Philippines since 2005 with an overarching focus on selectivity and portfolio quality. This has proven to be an effective approach. The CAPE has appropriately summarized that the larger context for the next country strategy continues to be daunting. We agree with the CAPE findings that to address significant development challenges, the Philippines would need to (i) continue to exercise fiscal discipline; (ii) more widely institute good governance; (iii) increase spending for infrastructure, education, and social development; (iv) expand and diversify the economic base; and (v) make access to development opportunities more equitable.

2. Overall, the CAPE has rated ADB's assistance to the Philippines as "successful" with need for further improvement in several areas of the country partnership and strategy. We concur with this assessment and overall conclusions of the CAPE. CAPE findings would guide the next Country Partnership Strategy for the Philippines.

3. The CAPE has correctly identified significant challenges in project implementation and the risks to portfolio quality as ADB shifts from program lending focus back to an investment portfolio. These risks would be mitigated by adherence to readiness filters for improving the quality-at-entry of projects and programs, devoting ADB staff and financial resources for strengthening the project implementation capacity of executing agencies, and tackling systemic issues through country and sector portfolio review exercises.

II. Comments on Specific Recommendations

Recommendation 1. To Maintain the Strategic Focus on Improving National Public Finance Governance and Management

4. We agree with CAPE recommendations 1 (i) and 1 (ii). These recommendations relate quite closely to the Development Policy Support Program (DPSP) of ADB and link up to specific paragraphs in the CAPE, which acknowledge the contribution that has been made by ADB to reforms in public finance governance and management. This strategic focus is especially relevant today given the emerging impacts on the Philippines' economy of the increased uncertainties in the global

economy (turbulent financial markets, surging oil and food prices, slowdown in the US economy).

Recommendation 2. To Deepen Support for Local Governance and Decentralized Service Delivery

5. We agree with CAPE recommendations 2 (i)–2 (iii). In the medium term, ADB plans to intensify support for strengthening (i) intergovernmental fiscal relations; (ii) fiscal management, planning, and public expenditure management at the Local Government Unit (LGU) level; (iii) LGU performance measurement and service delivery; and (iv) improving LGU access to public and private sources of capital. ADB will work in close cooperation with the oversight agencies and the Philippine Development Forum (PDF) working group on decentralization and local governance.

Recommendation 3. To Continue to Support Private Sector Enabling Environment

6. We agree with CAPE recommendations 3 (i)–3 (iv). We continue to build on microfinance reforms but staff resources constrain a major new effort. We believe that the credit information bureau bill should go a long way to widening SME access to formal finance. Our broader approach has a number of elements to supporting the enabling environment for the private sector. Specifically, our advisory TA work has focused on the following two elements. First, to build a stronger ability to evaluate the regulatory impediment prior to finalization of draft decrees and laws and to examine distribution networks and other aspects of the domestic economy from the perspective of competition policy; second, to strengthen backward linkages in agriculture with a view to eliminating existing distortions that impede agricultural trade and exports and to promoting off-farm rural employment. Both of these topics have been discussed with the National Economic and Development Authority (NEDA). The first has made some progress, while the second is still under preparation. We agree that ADB needs to systematically assess and identify where and how it can best contribute to infrastructure development. Last but not the least, we agree with the recommendation to support strengthening of the judiciary.

Recommendation 4. To Focus on Poor Provinces and Build on Synergies between Local Development and Regional Cooperation Initiatives, in particular BIMP-EAGA

7. We concur with recommendations 4 (i)–4 (iii). The recommendation in 4 (iv) on pooled financing merit greater consideration. Recent experiments, such as the Multi-Donor Mindanao Trust Fund, have not been effective as envisioned. We do agree that engaging and supporting the Mindanao Economic Development Council (MEDCO) is crucial and must be maintained to provide strategic foothold on policies affecting the Autonomous Region in Muslim Mindanao (ARMM). We also agree that increased development partner coordination is needed, and that the primary mechanism for such engagement is through the PDF

Working Group for Mindanao, in which MEDCO and the national government agencies are represented.

Recommendation 5. To Enhance Services to the Client

8. We concur with recommendations 5 (i)–5 (v). Medium-term policy reform engagement and selectivity based on critical constraints have proven to be the correct strategic approach for ADB-Philippines partnership. This approach would continue to guide ADB engagement in the Philippines. ADB has been assisting the country-based development partner harmonization in key areas of procurement and financial management through the PDF working group on governance. This assistance would continue. We agree with the recommendation on upfront capacity development. This approach is being successfully implemented in the Mindanao Basic Urban Services Project. One issue that constrains wider application of this approach is the reluctance of executing agencies to borrow for capacity development. Application of Multi-Tranche Financing Facility (MFF) modality to the road and social housing sectors would help expand the programmatic approaches. The quality of the Philippines' portfolio has significantly improved, as noted in the CAPE. The CAPE has correctly highlighted the risks to portfolio quality with growing investment lending. Adequate resources would be provided for project implementation.

9. We do not agree with recommendation 5 (vi). The roles of the country office and sector divisions are quite clear and distinct. PHCO is responsible for standard RM functions including country programming, country economic work, overall policy dialogue, and portfolio management. By contrast, sector divisions are responsible for project design, project administration, and policy dialogue at the sector level. Organizational arrangements are broadly in line with other resident missions.