

## **MANAGEMENT RESPONSE ON THE SECTOR ASSISTANCE PROGRAM EVALUATION OF ASIAN DEVELOPMENT BANK ASSISTANCE TO PHILIPPINES POWER SECTOR**

On 4 November 2005, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management finds the OED report well prepared, with comprehensive analysis of all key aspects of ADB's assistance to the power sector in the Philippines since early 1970s. The lessons learned and recommendations of the report provide valuable guidance for designing future programs and projects in the power sector. Since detailed comments have been provided during the course of the report preparation, Management response focuses on the overall assessment, lessons learned, and recommendations.

### **A. Overall Assessment**

2. It is noted that the report considers the power sector assistance program during 1971 and late 1980s as successful, the program from late 1980s to present as partly successful, and overall the program as partly successful. Management appreciates the distinction of these two periods of time during which ADB's operations have different operational focus. During 1971 to late 1980s, ADB's operations were concentrated in project investment—including power generation and transmission—while during the 1980s to present, the focus has been power sector reform and restructuring to promote competition and private participation to address the problems in the sector.

3. Management agrees that the performance of the first period was successful, but also considers that the rating for the second period should be qualified as the power sector restructuring is still ongoing. Performance of the sector itself could have been better differentiated from ADB's performance in assisting the sector. Since early 1990s, the power sector's financial position deteriorated and became clearly unsustainable. To address these problems, ADB actively supported the Government's power sector restructuring since it is the only viable long-term option. The power sector restructuring involves unprecedented fundamental and complex structural changes that requires more time than the Government initially expected. However, ADB was successful, through its Power Sector Restructuring Program, in helping the Government set-up a new legal framework and unbundled generation and transmission that would promote competition and private sector participation.

### **B. Lessons Learned**

4. Management agrees with lessons learned with regard to strengthening independence of power sector, need for a more realistic power demand forecasts, strengthening ADB's financial review of the sector's performance, controlling project costs by improving governance and reducing corruption, avoiding currency mismatches in project design and delays in project

implementation, and obtaining greater executing agency ownership for policy-related advisory technical assistance.

5. ADB has already strengthened its due diligence on the power sector in order to support power sector reforms and improve the design and quality of entry in the power sector lending. In particular, with assistance from ADB and other donor agencies, Department of Energy has adopted a hybrid approach for power demand forecasting that combines the traditional econometric approach (GDP elasticity) and end-use approach (data from distribution utilities). ADB recently availed the services of a staff consultant to critically assess the demand forecast in the latest Power Development Plan, which will form the basis of the power sector investment requirements.

### **C. Recommendations**

6. Management appreciates the report's recommendation that ADB should continue to provide assistance to the Philippines power sector. Resolving power sector issues has a significance reaching far beyond the viability of directly-involved institutions since they impact greatly on economy-wide concerns of fiscal imbalance and a weak investment climate. The latter two are identified in the Country Strategy and Program (July 2005) as the areas of primary focus for ADB support.

7. The SAPE provides valuable guidance on designing future programs and projects in the power sector. ADB, in collaboration with other development partners, is discussing with the Government needed reforms and potential assistance to address the critical challenges to restructure and privatize the Philippines power sector. In this context, ADB initiated a high-level policy dialog and identified five major areas where action is needed to achieve the desired outcomes: (i) financial viability of the power sector, (ii) regulatory framework and performance, (iii) market restructuring toward competition, (iv) private participation in power generation and transmission, and (v) consumer protection.

8. On this basis, ADB is designing a comprehensive and integrated Power Sector Development Program (PSDP) as a holistic solution with a phased multi-pronged approach that recognizes the complexity of the restructuring process. The PSDP would provide critical financial support to the Government in the form of policy-based lending as well as required investment and credit enhancement to the extent required.