

**ASIAN DEVELOPMENT BANK
Post-Evaluation Office**

COUNTRY SYNTHESIS OF POSTEVALUATION FINDINGS

IN THE

PHILIPPINES

November 1996

ABBREVIATIONS

APMP	-	Agro-Processing and Marketing Project
ADF	-	Asian Development Fund
ADP	-	Aquaculture Development Project
BME	-	Benefit Monitoring and Evaluation
CDP	-	Cotton Development Project
CSPF	-	Country Synthesis of Postevaluation Findings
DBP	-	Development Bank of the Philippines
DFI	-	Development Finance Institution
DPWH	-	Department of Public Works and Highways
IES	-	Impact Evaluation Study
LBFPD	-	Laguna de Bay Fish Pen Development Project
NGO	-	Nongovernment Organization
OCR	-	Ordinary Capital Resources
O&M	-	Operation & Maintenance
PDB	-	Planters Development Bank
PDCP	-	Private Development Corporation of the Philippines
PEO	-	Post-Evaluation Office
PISO	-	Philippine Investment Systems Organization
PNR	-	Philippine National Railway
PPAR	-	Project/Program Performance Audit Report
RES	-	Reevaluation Study
SME	-	Small and Medium Enterprise
TA	-	Technical Assistance
TPAR	-	Technical Assistance Performance Audit Report

NOTES

In this Report, "\$" refers to US dollars.

EXECUTIVE SUMMARY

1. The Post-Evaluation Office occasionally prepares a synthesis of postevaluation findings at both the country and sectoral levels to further distill the lessons learned from experience of Bank-assisted projects which should be taken into account in planning for future country operational programs and in developing sectoral strategies. This Country Synthesis of Postevaluation Findings for the Philippines updates a previous study prepared in September 1993 to include postevaluation findings of projects that were postevaluated up to October 1996.
2. Bank assistance to the Philippines as of 31 October 1996 comprised 155 loans amounting to \$6.1 billion to finance a total of 143 projects, technical assistance grants totalling \$88 million for 225 projects, and equity investments of \$34 million in 13 private sector entities. This places the total amount of Bank support to \$6.2 billion, making the Philippines the third largest recipient of Bank financing after Indonesia and Pakistan. The sectoral composition of Bank assistance is as follows: energy (27 percent); agriculture and agro-industry (25 percent); social infrastructure (16 percent); transport and communications (15 percent); finance (10 percent); multisector (5 percent); and private sector (2 percent).
3. The postevaluation findings from a total of 54 projects and 2 technical assistance grants that were postevaluated shortly after project completion and 3 projects that were reevaluated towards the end of project life were analyzed in terms of (i) implementation delays; (ii) cost variances; (iii) performance ratings; and (iv) major issues and lessons learned. An overall assessment of these postevaluation results follows with recommendations for improvement identified in the concluding section.
4. Implementation delays with an average of three years occurred in 47 (87 percent) out of 54 postevaluated projects. Twenty-six out of 46 projects (excluding DFI loans), or 57 percent, experienced cost overruns for a combined amount of \$400 million. The major factors causing time and cost overruns were identified as (i) poor quality of project preparation and project design by the Bank and executing agencies; (ii) constrained capabilities of executing agencies and the Bank in implementing projects; (iii) untimely Government funding, ineffective legal system and enforcement, and unsuitable policies; and (iv) unfavorable external developments, natural calamities, and non-supportive or harmful political processes.
5. Based on the assessment of overall performance, 27 postevaluated projects (50 percent) were considered as generally successful, 14 projects (26 percent) as partly successful, and 13 projects (24 percent) as unsuccessful. That only half of the postevaluated projects are fully successful and a quarter are failures for a country that is the third largest borrower is not only cause for concern for the Philippine government but for the Bank as well, considering that the Philippines as host country to the Bank's headquarters should be benefiting from greater vigilance in supervision and administration of Bank-assisted projects. Common factors affecting project performance were (i) inadequate assessments of sector-related institutional and policy issues and macroeconomic conditions in project preparation and appraisal; (ii) poor analysis of risks and uncertainties arising from external forces, domestic policy disruptions, natural calamities, and political turmoil; (iii) lack of availability of counterpart funding from the Government; and (iv) weak supervision and monitoring feedback mechanisms. Sector-wise, agricultural projects incurred greater incidence of failures given the complexity of scope and multiplicity of components of projects under this sector.

6. In conclusion, the study offers recommendations relating to new focuses in project preparation, financial sustainability, macroeconomic and policy environment, reforms and political will, supervision and monitoring feedback mechanisms, and the use of technical assistance to build institutional capacity for managing the development process. In project preparation, the Bank must not solely focus on technical aspects of creating new facilities but must also consider relevant elements to ensure sustainability of operations and continued maintenance of facilities created, and the efficient management of natural resources. Timely availability of counterpart funding must be realistically assessed in country programming exercises and if the problems are concerned largely with fiscal management, policy dialogue relating to fiscal policy reforms should be pursued with Government. More critical assessments of macroeconomic and market conditions, demand forecasts, input availability and external risk factors ought to be undertaken and linked with project performance indicators and targets. Beneficiary participation and preferences should also be sought in designing and implementing projects to improve their quality and sustainability. The Government and the Bank should also consider a systematic approach to monitor projects during implementation and after completion to sustain their developmental impacts. Finally, the Bank has to improve the effectiveness of technical assistance for institutional strengthening in the Philippines with emphasis on improving the organizational structures of executing agencies, streamlining of procedures, reforming incentive systems, and training staff.

I. INTRODUCTION

1. The main objective of the Country Synthesis of Postevaluation Findings (CSPF) is to examine and analyze the implementation and operational experience of Bank-financed projects so that lessons learned can be distilled to improve future operations. The CSPF is based on a review of the findings of postevaluation reports prepared by the Post-Evaluation Office (PEO) for Bank-financed projects/programs in a developing member country (DMC). The postevaluation reports include: Project or Program Performance Audit Reports (PPARs), Impact Evaluation Studies (IESs), Country Special Studies, Reevaluation Studies (RESs) and Technical Assistance Performance Audit Reports (TPARs).

II. BANK OPERATIONS IN THE PHILIPPINES

A. Lending Operations and Technical Assistance

2. Bank operations in the Philippines started in 1968 when an advisory and operational technical assistance (TA) was provided for Water Management. In March 1969, the Philippines received its first loan of \$5 million for the Private Development Corporation of the Philippines (PDCP). As of end October 1996, the Bank had approved 155 loans valued at \$6.1 billion to finance a total of 139 projects and 4 programs.¹ The Bank also infused equity investments worth \$34 million in 13 private sector investment facilities. By source of funds, 117 loans (75 percent) were funded from ordinary capital resources (OCR) and 38 loans (25 percent) from the Asian Development Fund (ADF).

3. Appendix 1 shows the sectoral breakdown of the lending portfolio. The top four sectors assisted by the Bank in the Philippines with their respective number of projects and loan amounts were as follows: (i) energy - 21 projects for \$1.7 billion, (ii) agriculture - 45 projects for \$1.5 billion, (iii) social infrastructure - 24 projects for \$1.0 billion, and (iv) transport and communications - 19 projects for \$0.9 billion. These four sectors altogether accounted for a combined share of 76 percent of the total number of projects and 83 percent of the total value of loans. Trailing them were the finance sector with 13 projects for \$0.6 billion (8 percent in number and 10 percent in value) and multi- and other sectors with 5 projects for \$0.3 billion. There were no loans given to the industrial sector. The remainder of the portfolio were nine private sector loans for eight projects for \$0.15 billion and 13 equity investments worth \$0.034 billion.

4. Technical assistance totalling about \$88 million was granted to 225 projects, of which \$51 million (58 percent) were advisory and operational for 118 projects, and \$36.5 million (42 percent) were for project preparation of 107 projects. By source of financing, 39 percent (\$34 million) came from the Bank's Technical Assistance Special Fund, 38 percent (\$33 million) from the Japan Special Fund while the remaining 23 percent or \$21 million from other donors.² About 47 percent (\$41.2 million) of the total TA amount went to 89 projects in agriculture, mostly for agricultural support services, irrigation and rural development, and forestry. Social infrastructure received 22 percent (\$19.0 million) for 44 projects, mostly in water supply and sanitation, and education; while transport and communications garnered 14 percent (\$12.1 million) for 30 projects, mainly for road construction. Technical assistance provided to the remaining sectors were as follows: 8 percent (\$6.8 million) to 24 energy projects (mostly for

¹ Some projects were provided two or more loans (blend of OCR and ADF financing or supplementary loans).

² These include the United Nations Development Program, the European Economic Community, the International Fund for Agricultural Development, and the governments of Switzerland, Finland, Norway, France and the Netherlands.

electric power); 4 percent (\$4.0 million) to 17 projects in multi- and other sectors; 3 percent (\$3.0 million) for 15 finance projects (mostly for capital market development); and 2 percent (\$1.4 million) to 6 projects in industry and non-fuel minerals.

B. Project Completion and Postevaluation

5. Out of 143 projects financed by the Bank with loans and equity, 102 projects (71 percent) have been completed and 52 projects and 2 programs have been postevaluated, of which 3 projects have been reevaluated. Two TAs (for transport) were postevaluated. As shown in Appendix 2, the PPARs by sector covered 17 projects in agriculture; 8 in energy; 10 in finance; 5 in social infrastructure; 11 in transport and communications; 1 in multisector and 2 in private sector. Involving total loan approvals of \$1,555 million, the postevaluated projects comprised \$429 million for agriculture (28 percent); \$326 million for energy (21 percent); \$300 million for finance (19 percent); \$298 million for transport and communications (19 percent); \$157 million for social infrastructure (10 percent); \$20 million for multisector (1 percent), and \$25 million for private sector operations (2 percent). The projects/programs that were postevaluated were approved between 1969 and 1990 with 2 approved in the 1960s (4 percent), 33 in the 1970s (61 percent), 18 in the 1980s (33 percent) and 1 in the 1990s (2 percent). These projects/programs, in turn, were completed between 1973 and 1993, with 7 projects/programs completed in the 1970s (13 percent); 34 in the 1980s (64 percent) and 12 in the 1990s (23 percent).³

III. MAJOR FINDINGS AND LESSONS LEARNED

6. This section details the major findings and lessons learned from 54 postevaluated projects in the Philippines by sector and by subsector. The lessons reamed from 2 TPARs⁴ as well as from 3 reevaluated projects are also incorporated.⁵ Postevaluation results are tabulated in Appendix 3 and summarized findings by sector and subsectors are provided in Appendix 4.

A. Agriculture and Agro-Industry

7. Out of 17 agricultural projects that were postevaluated with loan approvals totaling \$429 million, 9 projects were for irrigation and rural development with loans of \$171 million; 2 projects for industrial crops and agro-industry with \$63 million; 3 projects for fisheries with \$49 million, one project with \$8 million each for livestock and for agricultural support, particularly microcredit, and one program loan to the fertilizer subsector for \$130 million. With aggregate actual costs of \$621 million, of which about half was Bank-financed, these projects incurred total cost underruns of 19 percent and average implementation delays of more than two years.

1. Irrigation and Rural Development

8. The nine postevaluated irrigation and rural development projects were aimed at raising agricultural output and rural incomes, improving social conditions of the rural population and providing rural employment. With a combined cost of \$350 million, of which \$147 million was contributed by the Bank, the program components mostly comprised constructing new or rehabilitating existing irrigation and drainage systems; providing credit, farm machinery, equipment

³ One program was not completed by the time of postevaluation.

⁴ Discussions of the results of the two TPARs were included in the road transport subsector, para. 38.

⁵ Discussion of the three reevaluations are included under the respective subsectors.

and agricultural support services; introducing intensified farming systems, establishing pilot demonstration farms and developing land schemes; and organizing farmer groups. One Project (Laguna de Bay) was reevaluated.

9. Overall project performance varied: two projects were rated generally successful, five projects partly successful and another two projects unsuccessful in meeting their intended objectives. Implementation of these projects was delayed on average by 3.5 years. The common causes of delays were: (i) lack of government counterpart funds; (ii) difficulties in acquiring rights-of-way; (iii) unstable peace and order situation; (iv) inclement weather conditions such as typhoons and resultant flooding; (v) slow procurement and late delivery of construction equipment and materials; (vi) contractual problems in major civil works including inexperienced contractors and improper prequalification procedures; and (vii) poor project design that necessitated revisions in project scope and prolonged preconstruction activities. Meanwhile, the projects incurred a total cost overrun of 6 percent due mainly to inflation, and modifications in scope and additional works to remedy defective and incomplete designs.

10. PPAR and RES findings of irrigation and rural development projects provide the following lessons. First, technical parameters in the design must be rigorously assessed at project preparation, especially for long-gestating investments where opportunities for correcting deficiencies are limited once physical construction takes place. A phased approach may be required, with designs being progressively revised based on knowledge acquired during implementation to help reduce costs and delays. Conservative estimates should be used for such parameters as irrigable area, water carrying capacity, cropping intensity, expected yields and time required for physical completion of development works.⁶ Second, potential beneficiaries and representatives of provincial and municipal authorities should be consulted to avoid delays in acquiring rights-of-way, especially in densely populated areas. Involving and consulting with farmers in designing, constructing and managing irrigation structures will increase their participation and ownership and foster the sharing of experience and knowledge of local conditions crucial to project success. The capability of executing agencies for establishing beneficiary groups should also be properly assessed. Third, in formulating agricultural development projects near growth centers, the opportunity costs of land and water resources should be determined to achieve allocative efficiency goals. Fourth, the government's overall budgetary situation must also be assessed at project preparation and monitored during project implementation to ensure counterpart fund availability. Finally, viable implementing agencies such as irrigator associations provide a long-term solution for ensuring project sustainability through collecting irrigation fees for operation and maintenance (O&M) of facilities and for disseminating technology.

11. In 1986, an IES reviewed the effectiveness of water control and management in four Bank-assisted irrigation systems in the Philippines and concluded that Bank-financed irrigation projects have had a positive impact on paddy production when compared to rainfed farming. The major lessons drawn from the study include: (i) assessing more intensively river hydrology particularly where water availability is limited relative to the size of the proposed irrigated area; (ii) incorporating explicit measures of watershed management to prevent siltation; (iii) developing irrigation rehabilitation and betterment technologies including the design of intensive on-farm structures acceptable to farmers; (iv) adopting a developmental or phased approach to irrigation schemes that reflects achievable performance levels; (v) establishing a network of well-functioning user organizations at the farm level where responsibility can be relegated for the operation and maintenance of national systems; and (vi) creating an effective coordinating mechanism between various government agencies supporting irrigated agriculture for more effective water distribution strategy based on cropping calendars and rotational patterns.

⁶ In many projects, design parameters assumed overly optimistic performance levels and lacked internal consistency.

2. Industrial Crops and Agro-Industry

12. Both Bank-assisted projects to the industrial crops and agro-industry subsector, namely the Cotton Development Project (CDP) and the Agro-Processing and Marketing Project (APMP), have been postevaluated. The first project was intended to expand cotton production and augment incomes of smallholder farmers by crop diversification; the second to reduce post-harvest losses and maintain price stability of food crops. The combined actual costs of the projects of \$33 million, 53 percent of which was Bank-financed, were about two-thirds lower than appraised, mainly because of the cancellation of components and drastic reduction in scope. In the case of CDP, the design of facilities were predicated on an assumed increase in area planted with cotton, which proved optimistic and led to a major reduction in scope and design. For the APMP, revisions in the roles and functions of the executing agency (National Food Authority) led to drastic modifications in project design during implementation. With most of the facilities/equipment provided under their major components unutilized, both projects were rated unsuccessful.

13. The CDP demonstrated the importance of making detailed and realistic assessments of the project's suitability to local conditions as cotton growing was not attractive to Filipino farmers given the prevailing technology, market conditions, resource endowments and profitability of alternative crops. The importance of detailed preparation and realism in project design was also exemplified by the APMP, considering the project's complexity relative to the institutional capability to implement and its compatibility with the sectoral policy environment. Relevant sectoral policy issues and their implications for project implementation and performance need to be well studied under a Bank technical assistance, if necessary, and the results of the study incorporated in project design. Experience also suggests that chances for project success could have been greater had the project involved the direct participation of private sector enterprises in producing and marketing given conducive sectoral policies rather than allowing a single public sector enterprise to interfere in these activities. The failure of the APMP was largely attributed to insufficient preparation and appraisal by the Bank, inefficient implementation by the executing agency, and inadequate supervision by the Bank during implementation.

3. Fisheries

14. Out of four fisheries projects financed by the Bank, three were postevaluated with a combined cost of \$29 million, including the Bank's share of \$17 million. The Laguna de Bay Fish Pen Development (LBFPD), Northern Palawan Fisheries Development Project and the Aquaculture Development Project (ADP) were all designed to improve the socioeconomic conditions of small scale fishermen by providing credit and modernizing fishing and fish marketing practices. The first two projects were rated unsuccessful as their implementation was set back by design deficiencies and inadequate environmental assessments, leading to drastic changes in project design and scope, implementation delays, and consequent shortfalls in targeted outputs. Most of the loans made under the credit component of the LBFPD were in arrears. In contrast, the ADP succeeded in making loans for improving aquaculture farms, establishing hatcheries and training extension workers and fish farmers, contributing to increased inland fisheries production. In spite of an average implementation delay of 2.5 years on account of natural calamities, late deliveries, protracted construction work and slow release of counterpart funds, all the three projects had cost underruns because of reductions in project scope, and exemption from customs duties on imported fishpen materials.

15. The key lessons drawn from experience with the three projects were (i) the need to incorporate adequate environmental concerns into technical design proposals and to conduct environmental assessments on an ongoing basis; (ii) the importance of adequate risk analysis

at project design and of balancing risks with appropriate safeguards; (iii) the need to provide institutional mechanisms to train, organize and motivate fishermen and to provide prompt assistance to them, especially in the aftermath of typhoons and calamities; and (iv) the urgency of institutionalizing the Bank's midterm review of complex projects. As a whole, fisheries projects should be supported by reliable resource surveys.

4. Livestock

16. Aimed at developing the dairy industry to improve incomes of smallholder farmers and save foreign exchange by reducing imports of dairy products, a Bank loan for \$8 million was approved in 1981 for the Smallholder Livestock Development Project to defray the foreign exchange component of the total costs of \$22 million. While the importation of cattle was the only major component that was implemented as programmed, the allocation of cattle lacked specific criteria and ended up in the hands of larger operators rather than smallholder farmers. About two thirds of the loan was canceled following a government review of the operations of the Philippine Dairy Corporation, the principal executing agency. The project was unsuccessful in meeting its objectives due mainly to the government's inability to provide funding during the early stages, the high turnover of senior management in the executing agency, and political interference. Project experience underscored the necessity of: (i) undertaking detailed assessments of comparative advantage based on analyses of market conditions and relative government assistance to the sector; and (ii) closer Bank supervision especially on changes in project scope that are made on the basis of political whim.

5. Agricultural Support Services

17. The NGO Microcredit Project was intended to reduce poverty in rural areas in six selected regions of the Philippines by providing credit to small enterprises and cottage industries that require modest capital, employ labor intensively and use indigenous raw materials. The Bank loan of \$8 million was fully disbursed upon completion of the project 15 months ahead of schedule. The microcredit project was rated generally successful after granting about 63,000 loans to more than 300 nongovernment organizations (NGOs) and setting up nearly 9,000 new subprojects, expanding about 11,000 existing ones and generating 46,000 jobs at a cost of P4,400 each. Experience highlighted the need for microcredit projects to (i) target specific groups of subborrowers such as those without access to bank credits; (ii) formulate clear guidelines on the formation of self-help groups; and (iii) strengthen NGOs by allowing them to charge market-based interest rates, enabling them to recover their operating costs. Microcredit projects have also proven to be effective conduits in the rural financial system. Finally, the project showed that a comprehensive rural credit policy supported by institutional infrastructure for financial intermediation is essential for poverty alleviation.

6. Fertilizer Production

18. The main objective of the Agricultural Inputs Program was to sustain food production, primarily rice and corn, by ensuring an adequate supply of fertilizers and pesticides. The Program components included importing and distributing fertilizers and pesticides; and institutional support through providing equipment and engaging consultants for a comprehensive fertilizer sector study. The actual cost of the Program of about \$191 million was 11 percent less than appraised as a result of reduced quantities of agricultural inputs to be imported and the decline in prices. The Program was also delayed by 13 months because of procurement problems caused by financial difficulties of importers and lengthy bidding procedures. The Program was generally successful in meeting its intended objective as shown by the increase in the country's consumption of import-based fertilizer during the foreign exchange crisis. The Program therefore contributed in sustaining food production even though the direct impact of increased fertilizer use on food production could not be quantitatively

determined. The lessons from experience in this Program include: (i) the desirability of developing a rigorous framework for economic analysis of program loan operations; (ii) introducing flexibility in procurement procedures to improve effectiveness of quick-disbursing program loans for which international competitive bidding procedures may not be suitable due to price volatility, and (iii) promoting effective donor coordination in policy dialogues with government to ensure consistency of agreements.

B. Energy

19. Of the 21 energy projects financed by the Bank in the Philippines, 15 have been completed and 8 postevaluated, of which 7 involved electric power generation and 1, the development of fuel minerals. Costing \$552 million, of which \$256 million were actually financed by the Bank, the postevaluated energy projects underspent by 6 percent and extended implementation by an average of 3.5 years. Four energy projects were rated as generally successful while the other four were partly successful.

1. Electric Power

20. Bank assistance to the energy sector in the Philippines has been concentrated in electric power generation with the objectives of providing adequate, reliable and cheap electricity to support industrial growth, and of reducing reliance on imported oil as an energy source by developing alternative and indigenous sources. There are eight projects covered in seven PPARs in this subsector with combined costs of \$522 million, of which \$242 million was financed by the Bank. Cost savings were pronounced for some projects mainly due to downscaling in project scope or cancellation of some project components, and lower bid prices due to intense competition among contractors. By contrast, some projects exceeded cost estimates on account of the impact of the first oil crisis and additional works following the discovery of a geological fault in the project area. Power projects sustained average implementation delays of about 4 years because of non-availability of counterpart funding, political problems including insurgency, procurement problems including local shortages of materials, difficulties in acquisition of land and rights-of-way, typhoon flooding, and changes in project scope and design involving rerouting of cables.

21. The objectives of improving power supply reliability, upgrading transmission capacity and increasing electricity generation from hydropower and geothermal sources were successfully attained. On the other hand, institutional problems of cooperatives and low economic internal rates of return of installed generating capacity resulted in partial successes for four projects. Bank experience in financing power projects signified the importance of (i) undertaking critical assessments of power demand and load forecasts to avoid overcapacity problems; (ii) preparing detailed geological investigations, preferably on completed design; (iii) formulating an appropriate electricity tariff level and structure for the country in line with long-run marginal costs of generation and transmission; (iv) requiring price escalation clauses for large material supply contracts; and (v) improving the management capacity and financial viability of both the executing agencies and rural electricity cooperatives.

2. Fuel Minerals

22. The Malangas Coal Development Project was the Bank's first assistance to the coal mining industry in the Philippines, with a loan of \$14 million to help finance the foreign exchange component of the Project's cost of \$30.6 million. The Project was designed to develop facilities for mining clean coal from Malangas in Zamboanga del Sur where higher quality coal could be found. During implementation, modifications in project design were made relating to the use of a more expeditious but less optimal mining technique following a government decree converting cement plants from oil to coal firing. This resulted in a cost

overrun of about 33 percent while geological problems and a miners' strike slowed down implementation by 1.5 years. Based on the low rate of return on investment of the Project and shortfalls in mining output brought about by declining prices, the Project was rated partly successful. The major lessons reamed from this Project are (i) the need for substantial preparatory work such as thorough review of geological conditions and realistic assessment of prices and market conditions; (ii) the importance of confirming economic and commercial justifications for changes in mining techniques; and (iii) the necessity of reviewing the compatibility and adaptability of project design with any changes in government policy.

C. Finance

23. All loans granted to the financial sector in the Philippines were for supporting development finance institutions (DFIs). Out of 12 DFI projects, 10 were postevaluated with loan approvals amounting to \$300 million. The main objectives of these projects were to (i) augment long-term foreign exchange funds to DFIs for relending to small- and medium-sized private enterprises for industrial development; (ii) strengthen DFI's institutional capability to select viable subprojects, supervise project implementation, monitor project operation and promote new enterprises; and (iii) breed strong and effective domestic financial institutions that could mobilize local and external resources, provide long-term capital to private investments, extend managerial and technical knowhow to private enterprises and develop the domestic capital market. On average, implementation of postevaluated DFI projects was eight months longer than envisioned.⁷

24. All five projects financed by the Bank for the PDCP were generally successful. The projects were supported by Bank loans of \$100 million, of which \$90 million was disbursed. Loan closing was delayed by an average of eight months for the five PDCP projects due to delays in delivering machinery and equipment, devastating natural calamities, peace and order problems, government restrictions in importing required raw materials, and managerial and operational inefficiencies on the part of subborrowers. The other DFI projects - two each for the Development Bank of the Philippines (DBP) and the Philippine Investment Systems Organization (PISO), were, however, failures considering the slow utilization of credit lines; unsatisfactory subproject performance characterized by cost and time overruns; and non-achievement of desired sectoral distribution of subloans, poor repayment record and weak financial operations of both institutions that led to the rehabilitation of the DBP and liquidation of the PISO. The prevailing economic crisis and political instability when the loans were made and institutional weaknesses in project appraisal, supervision and monitoring were the major causes of poor project performance. Postevaluation results indicate the importance of strengthening the DFIs' policy-making capabilities, and loan appraisal, supervision and collection mechanisms, including the use of performance indicators to establish early warning signals that would help detect potential problems and streamline supervision activities. The Bank should thoroughly examine the institutional, operational and financial capability of DFIs before allowing them to expand operations. Moreover, DFIs should be granted adequate autonomy in their operations.

25. Meanwhile, the Small and Medium Industry Project achieved its objective of providing investment finance to small and medium enterprises. However, it was rated partly successful as funds were utilized to provide working capital rather than finance fixed asset investments to expand productive capacity as originally intended, thus contributing to less-than-expected developmental impacts. This Project highlighted (i) the difficulty for credit projects to achieve commercial and developmental objectives simultaneously; (ii) the use of DFIs with sound financial and managerial capabilities as conduit of Bank funds helps ensure rapid and full utilization of funds and good repayment performance of subprojects; (iii) the requirement for financial institutions to bear the risk of loan defaults makes them more prudent

⁷ DFI projects have no physical completion. Loan closing date is considered as completion date

in selecting subprojects for financing; (iv) the ineffectiveness of using interest rate incentives to encourage financial institutions in lending to high-risk activities in less-developed regions; and (v) the need to monitor and enforce compliance with loan covenants regarding the use of Bank funds under credit line projects.

D. Social Infrastructure

26. Out of 24 social infrastructure projects financed by the Bank in the Philippines, 5 projects have so far been postevaluated with total costs of \$285 million and total Bank loans of \$157 million. The postevaluated projects in this sector comprised four water supply projects costing \$259 million, of which the Bank financed \$141 million; and one education project costing \$26 million, of which the Bank shared \$16 million.

1. Water Supply and Sanitation

27. All four postevaluated water supply projects intended to provide facilities that would increase water supply within Metro Manila or the rural areas. Three projects were generally successful and one was partly successful in providing improved water supply in their respective project areas. These water supply projects incurred a total cost underrun of 3.2 percent and experienced an average implementation delay of 3.8 years. Implementation delays occurred on account of design shortcomings, right-of-way problems, procurement difficulties and inadequate contractor performance, which led to cost overruns.

28. Lessons from Bank experience in financing water supply projects in the Philippines indicate the importance of (i) reflecting design criteria in subproject selection and appraisal; (ii) making the process of site selection more demand-driven; (iii) strengthening consultations with local government units and communities to examine options; (iv) thoroughly investigating and testing water quality, especially in hydrogeologically problematic areas; (v) protecting the investment and quality of water through proper O&M by creating institutions responsible for collecting water charges; (vi) requiring formation of water user groups and commitment of their members to pay necessary fees as precondition for subproject approval; (vii) delineating responsibilities of concerned agencies at the central and provincial levels with adequate personnel and system of accountability; (viii) analyzing more carefully institutional capacity in selecting and appraising subprojects and enhancing such capacity where found lacking through TA; (ix) balancing social, financial and economic objectives through the careful design of a demand-based water tariff structure; and (x) examining watershed protection issues.

2. Education

29. The Engineering Education Project was the only postevaluated project in the education subsector. The Project, which cost \$27.5 million and for which a Bank loan of \$16 million was completely disbursed, aimed at raising the quality of engineering education and social returns on investments in education; and correcting regional imbalances in availability of high quality engineering education, which was heavily concentrated in Metro Manila. The Project was completed with a delay of 1.5 years due to redesign and expansion in scope of areas built, site access difficulties, shortage of materials, poor contractor performance and late delivery of equipment and library materials. Because of output shortfalls and the uncertainty surrounding the sustainability of project benefits borne by the precarious financial positions of project engineering schools, the Project was rated as partly successful. Experience with the Project provides the following major lessons: (i) the need for adequate preparatory studies where Bank staff are inexperienced; (ii) developing an integrated program of financial and deregulatory incentives rather than compulsory reforms in an educational system dominated by the private sector and relegating the Government's role to actively promoting tuition fees that

reflect the quality of education and to ensuring that professional or bar examinations remain technologically and professionally relevant; (iii) stipulating measures to encourage adequate cost recovery from student beneficiaries; and (iv) incorporating provisions on post-project funding of resource based activities such as faculty training, curriculum development and production/distribution of instructional materials.

30. A RES of the Project undertaken five years after postevaluation indicated the continuing financial difficulties arising from increased costs and a decline in student enrollment rates faced by the project engineering schools. The Project was still rated as partly successful at reevaluation based on the decline in board pass rates, inoperable and defective equipment, difficulty in faculty retention and inability of the labor market to absorb graduates. The experience demonstrated the importance of (i) designing technical education projects on the basis of detailed demand-supply analysis of manpower in the country to determine the viability of investments; and (ii) considering equity issues in education interventions by offering scholarship programs through accredited schools targeted directly to the poor.

E. Transport and Communications

31. Of 11 projects in the transport sector that were postevaluated, 5 projects and one program involved roads and road transport, 3 projects were in ports and shipping, and 1 project each was in railways, and airport and civil aviation. The transport projects that were postevaluated incurred total costs of \$671 million which exceeded appraisal estimates by 90 percent, received Bank loans of \$298 million, and incurred implementation delays averaging five years. One road project was also reevaluated.

1. Roads and Road Transport

32. The common objectives of the five postevaluated road projects were (i) to construct and upgrade existing rural road network for the social and economic advancement of project areas; (ii) to reduce travel time and high costs of moving goods and people; and (iii) to increase transport capacity. The combined cost of the projects of \$285 million exceeded appraisal estimates by about 68 percent due mostly to price escalation of construction materials following the oil crisis, and additional works and emergency repairs for flood damages. The average implementation delay of four years was due to cement shortages; right-of-way acquisition problems; inclement weather conditions; communication difficulties attributed to scattered location of project roads; and poor contractor performance. Of the five projects, four were generally successful in achieving their intended objectives while one was unsuccessful given shortfalls in expected incremental agricultural benefits and traffic growth and given the inadequate maintenance of feeder roads. An RES of the Road Improvement Project showed that the Project's developmental impact was minimal and actual savings to the economy and specific beneficiaries was less than expected, thus meriting only a partly successful rating.

33. Meanwhile, the Bank's first road program was designed to provide quick-disbursing assistance during the economic crisis; and to adjust the regulatory framework by proposing a series of policy initiatives in road infrastructure management, transport and safety, import policy and vehicle emission control. The program loan of \$100 million was fully disbursed. While some modest road user benefits have accrued from improved road maintenance, the program was rated partly successful as momentum of some program components have slowed down and sustainability of policy reforms remained uncertain.

34. Bank experience with road projects signifies the importance of maintenance issues in the formulation of future road projects and the need to control vehicle overloading, to review road standards and specifications for avoiding excessive maintenance costs, and to

delineate maintenance responsibilities of national and provincial administrations. Another lesson is the need to develop a road masterplan to reduce the danger of unforeseen network changes that may divert traffic from project roads and necessitate corresponding road links. Relatedly, complementarity and consistency between various sectoral policies must be ensured as between agriculture and the transport sectors and economic stimulants provided. For instance, the construction of rural and feeder roads for transporting agricultural produce could best be justified by ensuring complementary investments that would stimulate agricultural output and by securing markets that could absorb increased production. The road program showed the urgency of instituting a BME system for enhancing performance monitoring and accountability, and of instituting safeguards against risk of discontinuance or slowdown in implementation of road policy reform measures.

35. Two advisory and operational TAs were postevaluated. The first one for road maintenance was approved in 1986 to assist the Department of Public Works and Highways (DPWH) in setting up a pilot program to test the suitability and viability of carrying out road maintenance by contract. The TA was rated generally successful with contract maintenance proving to be a suitable method for improving and maintaining the national road network in the two pilot provinces of Batangas and Bohol where it was tested. The following lessons were learned from the TA: (i) the need to reduce maintenance staff in government service; (ii) the practicality of avoiding contract maintenance where only a few contractors show interest to preclude monopolies by well-connected contractors; (iii) the importance of equipping the DPWH's test laboratories to enable it to perform material tests for effective supervision and quality control; and (iv) the timely provision of funds for contract maintenance for more pronounced impact on project success. The second postevaluated TA was for vehicular emission control planning to improve air quality in Metro Manila. It was rated partly successful because while it stimulated national policy discussions, equipment and accessories provided under the TA were not adequately maintained and were no longer in place during the postevaluation. Experience with this TA imparted the importance of thoroughly analyzing the capability of executing agencies to utilize facilities or equipment to be provided, and ensuring government commitment to allocate adequate budgetary resources for maintaining these facilities or equipment.

2. Ports and Shipping

36. Three port projects with a combined cost of \$151 million, of which the Bank financed \$29 million were postevaluated. The purposes of these projects were to (i) provide port facilities for interisland and overseas shipping services to promote regional economic development; (ii) improve handling of containerized cargo, reduce port congestion for international ships, and develop a new international container terminal to replace feeder services; and (iii) improve the efficiency of the fish landing and marketing system. Two projects were generally successful in meeting their objectives while the third was only partly successful because of shortfalls in actual traffic volumes from appraisal forecasts, large increase in capital costs and low levels of cargo throughput.

37. The three projects were implemented with an average delay of more than five years due to modifications in project scope and design resulting from late hiring of consultants and equipment procurement, land reclamation problems because of the presence of squatters, material shortages, heavy rains during construction, and financial difficulties faced by government. Experience with port projects imparted the lessons of (i) incorporating appropriate cost recovery policies through more active collection of berthing/port user fees to overcome congestion and ensure adequate cash flow or loan amortization and expansion; (ii) carrying out required detailed site investigations for new port sites for which hydrographic and geotechnical data are not available; (iii) refining methods for forecasting cargo throughput and port traffic

potential; (iv) providing sufficient incentives such as long-term leases to private operators to enhance their participation in the operation of public service facilities; (v) imputing costs for key resettlement components such as squatter relocation to minimize adverse impacts and funding difficulties; and (vi) paying greater attention to environmental issues in port projects such as waste disposal and land use.

3. Railways

38. The Philippine National Railways (PNR) Project was the only Bank-financed project in the railway subsector. Directed at improving efficiency of PNR by rehabilitating critical facilities in the southern line, the project involved rehabilitating and providing maintenance equipment, including consultancy services. At postevaluation, the project was not yet fully completed due to an eight-year lag in physical construction, unsatisfactory workmanship and procurement of substandard materials, and noncompliance with certain covenants. Consequently, actual costs more than doubled relative to appraisal estimates. Given the failure in completing its physical outputs, the Project was considered unsuccessful. The Project highlighted the lessons of (i) providing TA to address institutional weaknesses of the executing agency, especially if it is operating under an unfavorable policy environment; (ii) analyzing carefully the railway's potential and economic usefulness under a comprehensive review of transport systems that government should undertake; and (iii) reducing reliance on loan covenants for ensuring effective project implementation given institutional constraints.

4. Airports and Civil Aviation

39. Out of two Bank-financed projects for airports and civil aviation, the Manila International Airport Development Project was the only one postevaluated. It was intended to expand the airport's capacity to accommodate the expected growth in air traffic, passenger and freight volumes, and to develop managerial efficiency that would render airport operations financially self-supporting. Despite repeated changes in scope and design during its extended implementation period of four years that led to cost overruns of 258 percent, the Project remained economically viable and was found to be generally successful. While the Project succeeded in creating new physical capacities for aircraft, passenger and cargo processing, the objective of strengthening efficiency of airport operations and making it financially sustainable was not fully achieved. Project experience highlights the importance of conducting preparatory studies and preliminary designs for complex projects that have not elicited firm government commitment before entering into project financing agreements. Moreover, the creation of a new institution under a Bank-assisted project should be well designed with its operations fully scrutinized and with its legal and practical implications assessed.

F. Multisector

40. In 1988, the Bank introduced a new policy of lending for rehabilitation after disasters. The Infrastructure Restoration Project was the Bank's first such loan intended to help the Philippines cope with the aftereffects of a series of adverse typhoons. The aim of the Project was to promptly restore damaged schools, flood control structures, ports, and roads under an emergency sector loan approach. The Bank loan of \$20 million was fully disbursed and funded a range of small-scale rehabilitation of civil works. At postevaluation, the Project was found to have achieved its objective of restoring essential physical facilities damaged by typhoons, thereby enabling affected communities to maintain normal levels of economic and social activities during the post-calamity period. Feedback from this Project indicated that unplanned interagency coordination could disrupt the implementation of rehabilitation projects where speed is crucial. Emergency projects require the agreement of all lead implementing agencies to the implementation schedule, and where possible, the creation of an interagency steering committee to ensure adherence to commitments. Moreover, the monitoring and

intervention rights of the Bank during implementation as in determining requisite skills, selecting advisors, and supervising subproject design, should be emphasized in loan agreements.

G. Private Sector Operations

41. Postevaluation was completed for a private sector loan to the Philippine Long Distance Telephone Company (PLDT). The loan of \$24 million was to help finance in part PLDT's investment program costing \$100 million. The loan was rated generally successful, notwithstanding a 44-month delay in implementation, as it was able to achieve its objectives of assisting the PLDT in its program of expanding telephone service throughout the country, improving the quality of its service, and reestablishing investor confidence which dissipated in light of the economic and political turmoil during the early 1980s. Important feedback from this project are that (i) privatization in itself is not a sufficient condition for dynamic corporate behavior and that such factors as favorable ownership structure and a competitive environment are other prerequisites of growth; (ii) a framework of policies and regulations for the communications sector ought to be in place before privatization and liberalization to avoid conflicts, loss of investor confidence, litigations, and wasteful competition; (iii) policy dialogue should also have a place in lending to private sector entities to bring about reforms towards more efficient use of resources and effective discharge of developmental responsibilities.

42. Among 13 equity investments made by the Bank in the Philippines amounting to \$34 million, the Planters Development Bank (PDB) equity project was the only one postevaluated. A direct equity investment of about \$0.85 million was made by the Bank to PDB in the form of preferred shares for providing PDB with additional capital base and for promoting small and medium enterprise (SME) lending. While divestment was agreed upon seven years after the equity infusion, divestment proceedings have not commenced during postevaluation. The Project is considered generally successful in enlarging PDB's equity base, enabling it to increase SME lending, and to facilitate its privatization. Lessons reamed for the design of future equity projects include the stipulation of realistic covenants and ensuring effective means of compliance, the need to strengthen the Bank's implementation monitoring and review process, and clear definition of the functions and responsibilities of Board membership of Bank representatives.

IV. CONCLUSIONS

A. Overall Assessment

43. Out of 102 completed projects and programs, 54 had been postevaluated as of October 1996.⁸ These projects were approved between 1969 and 1990, and involved a total of \$1.6 billion in Bank loans to help finance total investment costs of \$4.4 billion.

44. Based on the assessment of overall project performance, 27 projects (50 percent) were rated generally successful, 14 projects (26 percent) partly successful, and 13 projects (24 percent) unsuccessful.⁹ This means that only half of all postevaluated projects turned out to be unqualified successes at the time of postevaluation. The allocation of Bank's financing among postevaluated projects follows a similar pattern, i.e., \$0.64 billion (49 percent) were disbursed to successful projects, \$0.46 billion (35 percent), and \$0.21 billion (16 percent) were disbursed to partly successful and unsuccessful projects, respectively (Appendix 5). This performance picture compares unfavorably with many of the other Bank's DMCs.¹⁰

45. Project performance varies greatly by sector, which reflects both the complexities of projects and the capabilities of executing agencies. The agricultural sector, with 41 percent (7 out of 17 projects), accounts for the largest share of unsuccessful projects because it comprises the most complex and difficult subsectors, such as irrigation, rural development, fisheries, livestock, and forestry. The projects supporting DFIs had unsuccessful ratings for 40 percent of their total number. The transport sector had mixed ratings for its diverse subsector projects such as roads and ports, airport and railway. Energy projects had no unsuccessful rating. Likewise, social infrastructure projects, mainly water supply projects, had mostly successful ratings, but unfortunately, the only education project postevaluated fared only partly successful while one water rehabilitation project was unsuccessful (Appendix 6 shows the distribution of ratings in each sector).

46. When all project performance ratings are tabulated over time, i.e., by year of loan approval, it emerges that the ratings were comparatively more favorable for the earliest projects (approved between 1969 to 1972). Thereafter, the percentage of successful ratings stagnated in the low range of 25-75 percent of the postevaluated projects. Signs of overall improvement in project performance emerged during the late 1980s. The sector-wise project performance rating shows a similar picture over time for projects in agriculture, DFIs, and transport. The exceptions are the social infrastructure and energy projects which appear to have weathered the crises more successfully (Appendix 5). Among the possible explanations for the bunching of the less successful projects are the effects of the oil shocks, balance of payments crisis, and political instability.

47. The long-term sustainability of projects are usually assessed at the time of postevaluation based on operational performance during initial years after completion and projections of future performance. To help confirm the postevaluation findings and analyses, reevaluation studies are undertaken. So far, only three such reevaluation studies have been made. Reevaluation results showed that the performance rating at about the half-time of the

⁸ Until 1988, all completed projects were postevaluated. Since 1988, projects were selected for postevaluation based on stratified random sampling, taking into account the relevance to the Bank's future operations.

⁹ A number of criteria are used in determining the performance rating: among them and most important are the internal rates of return, social and societal benefits, demonstration effects, and others.

¹⁰ By comparison, the respective percentages of generally successful-partly successful-unsuccessful projects are: 56-35-8 for Indonesia; 63-31-6 for Malaysia; and 86-14-0 for Thailand. The Country Synthesis of Postevaluation Findings of these countries were prepared last in 1993.

projects' life had to be downgraded in all three cases: in two cases from partly successful to unsuccessful.

48. The findings raise questions about the major and most frequent causes of difficulties during project implementation and operations. It is not possible to generalize for all projects the causes and effects nor can we clearly distinguish between Bank's shortcomings and those of executing agencies or between difficulties which arose during implementation and those that occurred during operations. In most instances, these factors are mutually reinforcing. For relevant, more specific observations and analyses by sector and by project, refer to paras. 7-42 and Appendix 4.

B. Causality of Impeding Factors to Project Success

49. The impeding factors mentioned in various postevaluation reports could be organized into a thematic causality chain. At the one end are the objectively measurable manifestations such as *time and cost overruns*. At the other end are the less tractable *sociological, cultural, institutional, behavioral and attitudinal root causes*.

50. Implementation delays ranging up to seven years and averaging three years and/or cost overruns accumulating to approximately \$400 million, or about \$7.0 million per project, affected 26 of the 44 postevaluated projects.¹¹ Any delay in reaping benefits from projects and cost overruns would reduce the rates of return on investment. Time and cost overruns usually reinforce each other. In fact, a vicious circle is observed in which prolonged implementation results in higher costs, which in turn, lead to more delays because of unexpected need for funding. This cycle also plays in the reverse when cost overruns or funding problems, or both, cause implementation delays which then cause more cost overruns. These hindrances to efficient project implementation then continue to undermine long-term sustainability. (See Appendixes 7 and 8 for an analyses of implementation delays and of cost variations, respectively).

51. Cost and time overruns are caused by factors which are less readily quantifiable but objectively observable such as: (i) *quality of project preparation and design by Bank and executing agencies*; (ii) *constrained capabilities of executing agencies, other concerned agencies, and the Bank in implementing projects*; (iii) *Government's inability of timely funding; ineffective legal system and enforcement and unsuitable policies*; and (iv) *unfavorable external developments, natural calamities, non-supportive or harmful political processes* (Table 1, column 1).

52. A number of preceding causes are often identified in postevaluation. These causes can be described but are even less amenable to quantification because they are mainly *managerial, administrative, political* process variables. These include, among other things, *unclear and shifting delineation of responsibilities, shortcomings of the legal system, politicized prioritization, and insufficient forward planning* (Table 1, column 2).

53. Farther in the causality chain are underlying root causes which are found in the *sociological, cultural, behavioral, and attitudinal* contexts (Table 1, column 3). Such root causes are mostly circumscribed in postevaluation and must sometimes be inferred. Most of the root causes are beyond the Bank's ability to scrutinize and can rarely be affected by project lending - except in those cases in which training efforts and long-term capacity building are integrated with the Bank's loan.

¹¹ Finance projects were excluded from the total projects in Appendix 8 (see footnote). Meanwhile, the incidences of cost underruns were mostly connected to reduction in the scope of the project.

V. RECOMMENDATIONS

54. From the project-specific lessons, detailed in paras. 7-42 and summarized in Appendix 4, and based on the overall conclusions in paras. 43-53, the major areas for improvements at various stages of the project cycle are identified as follows:

A. New Focuses in Project Preparation

55. Of overall importance is the need to carefully formulate the operational program for assistance which ought to dovetail with the development strategy of the country's agencies. A prerequisite is that the country has formulated realistic approaches and targets. A thorough and honest assessment of the absorptive capacity of executing agencies must precede any lending decision. This presupposes analyses of organizational-managerial capacity and the efforts and potential for improving such capabilities. The time frame and the scope and complexity, or simplification, of projects and programs should be designed in accordance with such capability assessments. For more ambitious and complex projects that promise higher benefits but carry higher risks such as those in the agriculture and social sectors, a more flexible, creative and learning by doing approach to project design and implementation may be required through which project design can respond to changing situations and new information as these become available. The process and phased approach would entail (i) piloting activities; (ii) undertaking design concurrently with implementation; (iii) introducing flexible targets, time frames, and funding mechanisms; and (iv) encouraging modifications in operating procedures during the project cycle.

Table 1: Causes of Cost and Time Overruns

Objectively Observable, but Not Easily Quantifiable Factors	Preceding Process Variables often Mentioned in PPARs	Underlying Root Causes
Quality of project preparation and project design by the Bank and the executing agency	<ul style="list-style-type: none"> - unsystematic prioritization of investment - politicized prioritization - unrealistic assumptions and predictions - participation and sense of ownership are neglected in the planning process - Bank's practices result in superficial project preparation 	<ul style="list-style-type: none"> - top-down political tradition prevails in the identification and prioritization of projects - broad-based participation is impeded by social stratification - meaningful/constructive participation is hampered by lack of educational preparation - centralized decision-making - independent advice (technical assistance) is not easily accepted or is bypassed - Bank's approval-orientation and incentive system
Constrained capabilities of EAs, other Concerned agencies, and the Bank in implementing projects	<ul style="list-style-type: none"> - technical and managerial capabilities are in short supply or are not optimally allocated - insufficient accountability in government, and by contractors and suppliers - unclear and shifting delineation of responsibilities in EAs and other government agencies - difficulties in coordinating the actions of several agencies - commitment and motivation are weak in many EAs - archaic management procedures - Bank's constrained capabilities to get more directly and intensively involved in implementation 	<ul style="list-style-type: none"> - cultural background mitigates against sense of urgency in completing tasks for the benefit of society - incentive system is not result-oriented - weak task-orientation in work habits - planning suffers from lack of foresight and continuous updating - social responsibility vis-à-vis the larger community is weak - Bank's incentive system underrates involvement in implementation
Government's problem with timely funding, ineffective legal system and enforcement, unsuitable policies	<ul style="list-style-type: none"> - government procedures are burdened with excessive bureaucracy - financial planning is ad hoc - property rights are not reliably documented and protected - legal system is not focused on conflict resolution - land acquisition and fair compensation are impaired - Bank's systematic longer-term policy dialogue was absent until recently 	<ul style="list-style-type: none"> - strong litigation-mindedness pervades government and general public - mistrust in legal system and law enforcement - mistrust is widespread and necessitates complex safeguards in all transactions - civil service ethics are not well developed and not adhered to - widespread loss of confidence in Government's capabilities - government's resource mobilization targets cannot be met - tax avoidance/evasion is widespread - unsystematic, piecemeal Bank involvement in sectors
Disadvantageous external developments, natural calamities, non-supportive or harmful political processes	<ul style="list-style-type: none"> - prices of imported materials, equipment develop unfavorably - natural calamities impeded agricultural as well as industrial production - shortages caused by insufficient forward planning - conflicts between entrenched interest groups 	<ul style="list-style-type: none"> - foresight and preparedness do not have strong tradition - political system is still in transition towards more democratization - mobilizing communal efforts in the face of adversity are not well developed - consensus and political will are difficult to achieve

56. Bank's project formulation must not solely focus on the technical aspects of creating new facilities but must also address the aspects of efficient operation and adequate maintenance. Furthermore, the management of the natural resource endowment and beneficiary participation have become indispensable elements in project design, implementation, and operation. The maintenance, upkeep, and repairs of facilities and management of resource endowments are usually accorded low priority in attention and funding. Moreover, functions related to O&M and even natural resource management are not clearly delineated. Managerial capabilities for O&M and resource management are also in short supply and staff turnover is high, hampering institutional memory. These orientations, in turn, could be traced to disregard for public and natural properties, inadequate public service incentive systems, and preference by governments for short-term gains.

B. Financial Sustainability

57. Unreliable flows of Government counterfunding have delayed completion and hampered operation of project entities. Therefore, the timely availability of committed funding has to be realistically assessed during the country programming exercise - preferably in conjunction with other aid agencies. If a real shortage of funds is likely, priorities ought to be applied and fewer projects undertaken. If procedures obstruct the funding, mechanisms should be introduced to facilitate timely flows. If the difficulties originate from underlying fiscal management problems, the Bank should persistently pursue policy dialogue to affect fiscal policy reform, resource mobilization, and accountability.¹² A recent study¹³ presented evidence that lack of actual funding support for Bank-assisted projects arose from (i) crowding-out effects of mandatory expenditures (e.g., wages, salaries, interest payments, and transfers to local governments), (ii) political propensity to substitute one project for another (usually a pet project); and (iii) delaying tactics of the Department of Budget and Management¹⁴ in releasing allotments. In line with these findings, the study recommended that the level of non-mandatory expenditures where budget cover for Bank-assisted projects are positively correlated be increased; that Congress be involved at the start of the investment planning/programming exercise; that budgetary procedures be streamlined and made transparent; and that revenue projections be realistically prepared to include only those that are sure to be collected.

58. Cost recovery mechanisms and supportive fiscal and economic reforms have to be included in project formulations and loan agreements with the borrower. In the case of reforms, it would be desirable to introduce these as early as the country programming stage to enhance overall sector efficiency. Adherence will have to be more closely monitored and the respective observations fed back to be incorporated in Bank's continued programming.

C. Macroeconomic and Policy Environment

59. More attention ought to be paid during project formulation to critical assessments of macroeconomic conditions, in general, and market conditions, demand forecasts, input availability, and external risk factors, in particular. This, however, should not be a mere exercise in data-collection. Rather the macroeconomic indicators should be tied up with project performance indicators and targets used as yardsticks in assessing and rating the project from

¹² During the ongoing Country Programming Mission for the Philippines, the Government is examining the Bank's suggestion that up to 50 percent of the budget allocated for the project for a given year be released upfront instead of the current 25 percent allocation. The Bank has also raised the issue of responsibility sharing for projects administered and financed by local governments.

¹³ Philippines Study on the Availability of Counterpart Funds for ADB Projects by Rosario G. Manasan (Philippine Institute of Development Studies), April 1996.

¹⁴ The DBM may delay the release and/or fail to release full appropriation cover for Bank-assisted projects by under releasing spending authority or allotment advices (General Allotment Release Orders/Special Allotment Release Orders) or under-releasing or delaying the release of Notice of Cash Allocations (NCAs).

implementation to completion to postevaluation stages. The impact of the existing and envisioned policy environment on planned projects ought to be simulated to assure consistency. During the Country Programming Mission in April 1996, the Bank agreed with the Government to review on a case-by-case basis the "first phase" impact of earlier Bank-assisted projects before follow-up investments are made. Selected PPTAs could be built, reviewing the impact of an earlier project which could be used as basis by the Government and the Bank in deciding on the need for and scope of planned or further investments.

D. Reforms and Political Will

60. Bank's country operational programming has to be based on the borrowers' and executing agencies' willingness to reform in cases in which the existing policy environment and administrative processes do not support the envisioned impact of a project or program. Related aspects that ought to be taken into account in the country programming are the ability to achieve societal consensus, mobilize communal support, and rally political will. While full community mobilization may not be possible at the country programming stage, beneficiary participation and preferences should be sought in designing, much more in implementing projects. Participatory planning will improve the quality and sustainability of development projects. If stakeholders are involved upstream in designing development interventions, they are likely to own, contribute to, and sustain them.

E. Supervision and Monitoring Feedback Mechanisms

61. A key lesson that emerged from Bank operations in the Philippines is the need to closely supervise and monitor projects, and particularly strengthen the feedback mechanisms. The performance of many projects could have improved had remedial measures been taken to resolve problems identified during the project cycle. Moreover, follow-on projects could have benefited from recommendations resulting from the postevaluation of preceding projects. Thus, Government and the Bank should consider adopting a systematic approach to monitor projects during implementation and after their completion to sustain their socio-economic impacts and prevent them from becoming financial burdens for the country.¹⁵

F. Technical Assistance

62. Technical assistance can play a useful role only if readily accepted and the potential for the transfer of knowledge, skills, and technology is fully utilized by the intended recipient institutions. Because the impact of the mainly project-related short-term assistance has been uncertain, the emphasis of TA, specifically the advisory type, has to change to longer-term and systematic institutional capacity building. Such assistance involves restructuring of institutions, streamlining of procedures, reforming incentive systems, and training. Recent debate in the Philippines about restrictions in the use of foreign consultants are ominous signals that the country may not be inclined to follow the example of some rapidly developing neighboring countries which seem to have effectively utilized technical assistance.

¹⁵ During the last Country Programming Review Mission in September 1996, the Bank and the Government agreed to intensify project monitoring. To improve coordination, the Bank would provide the National Economic Development Authority and the Department of Finance copies of the Loan and TA processing schedules on a semi-monthly basis. The Government, in turn, will alert the executing agencies and monitor the processing of the projects according to the schedules indicated by the Bank.

