



# Validation Report

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Reference Number: PCV: PHI 2008-21  
Project Number: 30087-01/02  
Loan Numbers: 1739/1740  
August 2008

## Philippines: Grains Sector Development Program

Operations Evaluation Department

**Asian Development Bank**

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADTA	–	advisory technical assistance
BAS	–	Bureau of Agriculture Statistics
EA	–	executing agency
GSDP	–	Grains Sector Development Program
IA	–	implementing agency
NFA	–	National Food Authority
OED	–	Operations Evaluation Department
PCR	–	program completion report
PPTA	–	project preparatory technical assistance
RRP	–	report and recommendation of the President
TA	–	technical assistance

## NOTES

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

### Key Words

adb, asian development bank, grains sector development, national food authority, policy, program completion report, program loan, project implementation, validation

<b>Director</b>	R.B. Adhikari, Operations Evaluation Division 1, Operations Evaluation Department (OED)
<b>Team leader</b>	G. Rauniyar, Evaluation Specialist, Operations Evaluation Division 1, OED
<b>Team members</b>	A. Morales, Evaluation Officer, Operations Evaluation Division 1, OED V. Melo, Administrative Assistant, Operations Evaluation Division 1, OED

## OED PCR Validation Report Form

A. Basic Project Data		PCR Validation Date:	July 2008	
<b>Project and Loan Numbers:</b>	30087-01/02; Loan Nos. 1739-PHI and 1740-PHI		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b>	Grains Sector Development Program	<b>Total Project Costs (\$M):</b>		
		Program Loan	100.0	30.0
		Project Loan	136.2	8.2
<b>Country:</b>	Philippines	<b>Loan/Credit (\$M):</b>		
		Program Loan	100.0	30.0
		Project Loan	75.0	5.5
<b>Sector:</b>	Agriculture and Natural resources	<b>Total Cofinancing (\$M):</b>		
<b>ADB Financing (\$M):</b>	<b>ADF:</b> –	<b>Borrower Contribution (\$M):</b>	55.0	2.6
	<b>OCR:</b> 100.0, 75.0	<b>Beneficiaries (\$M):</b>		
<b>Cofinanciers:</b>		<b>Others:</b>		
<b>Approval Date:</b>	24 April 2000	<b>Closing Date:</b>	30 Sep 2003	30 Jan 2006
<b>Project Officers:</b>	<b>Name:</b> Carl Amerling Yuen Loh Yee Mandar Jayawant Christopher Wensley	<b>Location (HQ or RM):</b>	<b>From</b>	<b>To</b>
		HQ	Aug 2000	Dec 2000
		HQ	Jan 2001	Dec 2001
		HQ	Jan 2002	Jan 2003
		HQ	Feb 2003	Dec 2003
<b>Evaluator:</b>	J. Cook	<b>Director:</b>	R. B. Adhikari, OED1	
<b>Quality Control Reviewer/ Peer Reviewer:</b>	G. Rauniyar, Evaluation Specialist, OED1			

ADB = Asian Development Bank, ADF = Asian Development Fund, HQ = headquarters, M = million, OCR = ordinary capital resources, OED = Operations Evaluation Department, OED1 = Operations Evaluation Division 1, PCR = project completion report, PHI = Philippines, RM = resident mission.

### B. Project Description (summarized from RRP)

The Grains Sector Development Program (GSDP) was supported by a \$100 million program loan and linked to a \$75 million investment loan.

- (i) **Rationale.**<sup>1</sup> The development of the grains sector was considered central to attaining the goals of the Government of the Philippines of eradicating poverty and ensuring food security. The majority of the country's rural population depends on rice and corn farming, the subsectors which exhibit the highest incidence of poverty. The grains sector's failure to provide adequate food supply has widespread and significant ramifications for the rest of the economy. Major constraints to high productivity and food security were stated to include (a) an inappropriate policy regime, (b) weak support base and inadequate research and development investments to overcome the physical constraints to higher grains productivity, and (c) relatively low institutional capacity of the Government to alleviate these constraints.

<sup>1</sup> ADB. 1999. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to the Republic of the Philippines for the Grains Sector Development Program*. Manila.

(ii) **Impacts.** The primary goals of the GSDP were to (a) attain sustained growth in grains productivity and grain farming household income; (b) reduce the level of rural poverty; and (c) achieve more cost-effective, resource-efficient food security.

(iii) **Objectives or Expected Outcomes.** The GSDP comprised an integrated package of policy and institutional reforms, sector investments, and advisory technical assistance projects (ADTAs) intended to make the grains sector more productive and internationally competitive, while helping the country to meet its food security objectives. The expected economic internal rate of return for subprojects with quantifiable benefits ranged from 16% to 29%.

Policy and institutional reforms focused on (a) liberalized, more cost-effective grains pricing and import policies; (b) improved administration of grain buffer stocks; (c) restructuring of the National Food Authority (NFA) from a grains marketing monopoly into a public regulatory agency and separate private sector marketing corporations; and (d) a more targeted and effective food subsidy program for the poor.

(iv) **Components and Outputs**

**Components.** The program loan of \$100 million, to be disbursed in three tranches, was to be applied to imports with certain (limited) exceptions (Loan Agreement Schedule 3, Attachment 1). The investment loan of \$75 million was wide ranging, with four components supporting (a) improved irrigation infrastructure for grains production, (b) strengthened generation and dissemination of grains technology, (c) capacity building in the Department of Agriculture, and (d) GSDP management.

The Grains Policy and Institutional Reforms ADTA<sup>2</sup> for \$630,000 supported the Department of Agriculture and its agencies in the area of grains policy analysis and advocacy in support of the reforms envisaged under the GSDP.

**Outputs.** Para. 21 of the project completion report (PCR) indicates 11 major reform areas where actions were required before program loan effectiveness (first tranche conditions), 25 second tranche conditions (of which 13 were release conditions), and 18 third tranche conditions (of which seven were release conditions, including two repeated second tranche conditions)—a total of 54 conditions. Appendix 8 of the PCR defines the extent of compliance with 26 release conditions.

Planned investment project outputs included (a) rehabilitating and expanding national and community irrigation schemes covering about 18,000 hectares; (b) expanding hybrid rice research; (c) supporting rice biotechnology research; (d) promoting corn and corn substitutes research; (e) improving and expanding an integrated crop management program for about 450,000 farmers; (f) upgrading 19 soil and water laboratories, and establishing one regional soil and water laboratory; (g) upgrading 25 agricultural training centers; (h) improving the capacity of the Bureau of Agricultural Statistics (BAS); and (i) improving the capacity of the Department of Agriculture's policy and planning group.

## C. Evaluation of Design and Implementation (PCR assessment and validation)

(i) **Relevance of Design and Formulation.** Review of the project preparatory technical assistance (PPTA) suggests sound technical and policy analysis and project and program design, but limited risk analyses.

<sup>2</sup> ADB. 2000. *Technical Assistance to the Republic of the Philippines for the Grains Policy and Institutional Reforms* (TA 3429-PHI). Manila.

The key risk defined related to the potential lack of “adequate counterpart financing not only for the investment project and related difficulties in implementation, but more importantly, for the implementation of the policy analysis and advocacy that must be undertaken to enable the policy reform program” which “touched on a few of the most politically sensitive policy areas in Philippine society” (PPTA report,<sup>3</sup> and report and recommendation of the President [RRP]<sup>4</sup>). The appraisal identified a number of risks in its design monitoring framework including policy inertia (but not the risk of regime change which was intimated in the PPTA report). The Agriculture, Environment and Natural Resources Division of the Southeast Asia Department commented that the change of government prior to the end of the incumbent president's term that precipitated the Government's decision to request cancellation of the program loan, was impossible to predict. The Operations Evaluation Department (OED) agrees with this analysis, but the project design would have benefited from prevailing difficulties experienced with other policy-based loans in the Philippines.

A robust stakeholder analysis (defining who benefits and who loses from project initiatives) may have identified the extent of potential resistance to proposed reforms at an earlier stage. OED considers that such analysis could have contributed significantly to design. It is not clear from available documents if such analysis was conducted and if potential outcomes were fully considered.

The Asian Development Bank's (ADB) appraisal improved the project design by reducing the number of purpose objectives from five, in the PPTA, to two. It reduced the proposed investment loan amount (from \$101.5 million to \$75 million) but increased (from \$49 million to \$55 million) the funding required from the Government. The policy conditions of the program loan were determined to also apply to the investment loan, the key factor ultimately causing the demise of the investment project. Appraisal also added an extra tranche to the program loan, with the second tranche due 9 months after effectiveness (PPTA suggested two tranches with an 18-month gap). While the three tranche approach was justified, three tranches would have been a problem. The Strategy and Policy Department's reviews of program lending available at that time showed multiple tranche program loans to be a problem. The short period to the second tranche release was ambitious, requiring strong and ongoing political support to meet timing objectives. However, this was not of itself a key factor leading to program failure since the time for compliance was substantially extended in practice.

The RRP mentions that lessons from post-evaluation have been incorporated. However, more detailed and formal drawing of lessons from the post-evaluation information system, from the Strategy and Policy Department's reviews on the number of tranches, would have been beneficial. While the full system was not accessible at the time of design, the database was available from OED and could have been reviewed to identify useful lessons.

Both policy reform and investment in the grains sector were highly desirable. However, as pointed out by the Government PCR, the inclusion as policy conditions of legislative requirements over which the executing agency (EA) has little, if any, control has the

<sup>3</sup> ADB. 1996. *Technical Assistance to the Republic of the Philippines for Preparing the Grains Sector Development Program* (para. 743). Manila.

<sup>4</sup> See footnote 1, para. 172.

potential to cause major difficulties in a time-bound program. The linking of disbursements under the investment loan to the program loan conditions meant that if the program loan failed to meet its policy objectives, the investment loan was also likely to fail. Given the known risks of policy-based lending in the Philippines, it may have been preferable (in retrospect) to have delayed the investment loan effectiveness until necessary policy conditions had been met. It would, in fact, probably have been preferable to delink some of the policy conditionals of the two loans, leaving only the conditions needed by the investment program attached to the investment loan. In this situation, the failure of the program loan would not automatically lead to the closure of the investment loan.<sup>5</sup>

Expenditures under the program loan could be used for a wide range of imports. Their only link to the investment loan was, thus, through the loan's policy conditions. The expectation was that the Government would remain sufficiently keen to receive the budget support that it would make major efforts to ensure that policy conditions were met.

The management review meeting, staff review committee, and the loan and technical assistance coordination committee all raised the difficulty of meeting program loan conditions in the Philippines, particularly in the context of other program loans which were facing difficulties. However, they were reassured by ADB management that the conditions had strong support from the Government, and this indeed appeared to be the case at the time. Comments in management review meeting are of interest, with questioning by the Office of the General Counsel of the number of conditions. The chair also questioned the rather difficult conditions attached to the second and third tranches, as such conditions were normally front-loaded. In retrospect, while it is likely that this would have delayed effectiveness (or resulted in earlier cancellation), it could have been beneficial.

Loan and technical assistance coordination committee minutes<sup>6</sup> state that "the main issue of concern in the policy reforms was the liberalization of grains trading. However, the Philippines had taken important strides in this respect. The core reform under the Program was the privatization of the NFA, and the Mission was confident the necessary legislation would be approved for this reform, as the draft legislation was already in both houses, then Executive Secretary Zamora was confident that 90% of the cabinet would support it. Two studies, on the privatization of NFA and an evaluation of NFA's assets, would be completed by the end of 1999. Privatization of NFA had been part of President Estrada's reform agenda since he took office."

In relation to ADB's country operational strategy,<sup>7</sup> the investment project was relevant in relation to the primary roles of ADB, which were "to expand and upgrade the irrigation facilities, support crop diversification, promote agribusiness, and improve rural infrastructure and natural resource management." The Government PCR criticizes the program design,

<sup>5</sup> The sector development program (SDP) guidelines, as defined in the ADB Operations Manual (OM Section D5/BP), are not entirely clear on the need to fully link the two loans. Paras. 3 and 4 state that "The policies and procedures applicable to each component of an SDP must apply in the context of the whole SDP. ... An SDP is considered when a sector requires both an investment component and a policy reform component, and where the former is unlikely to be accomplished in full and on time without the support of a policy-based lending component." However, in practice it is not believed to be a formal requirement for an SDP to have all conditions linked among all loans and/or subloans. The investment and program components, however, should be mutually reinforcing and exhibit a clear logical link between them.

<sup>6</sup> ADB. 1999. *Minutes of the Loan and Technical Assistance Coordination Meeting on the Grains Sector Development Program* (para. 3). Manila.

<sup>7</sup> ADB. 1996. *Country Operational Strategy Study* (1997–2000). Manila.

stating “activities were thinly spread all over the archipelago, which consequently, will not produce a significant impact. Identifying focus areas and reprogramming the activities had caused a delay in the completion of the national workplan.”

While the planned investment project outputs all appear desirable and potentially attainable, OED considers that the project, as planned, was diverse and ambitious. It attempted to address almost all facets of grain production—irrigation rehabilitation, soils, crop research, extension service upgrading, and farmer training. The Government PCR is quite critical of program design based on the recommendations of section III, which identify several aspects perceived as problematic in both the policy and investment loan designs. OED considers that a more targeted and limited approach to both policy reform and investment may have had more chance of success. The program loan's policy agenda was not covered in the country operational strategy, which did, however, identify the need for policy reform in the infrastructure and power sectors.

(ii) **Project Outputs** (or conditions in the case of program loans)

**Program Loan**

The second tranche of the program loan was due for disbursement in May 2001. By mid-2002 limited progress had been made on four key policy conditions, and an extension to December 2003 was sought by the Government and approved by ADB to allow the conditions to be met. However, differences of opinion continued in relation to the degree of compliance, and in April 2003 the Government requested cancellation of the balance of the program loan.

As perceived by ADB (but disputed by the Government, see for example Appendix D of the Government PCR), the Government was unable to meet four key conditions relating to (a) the procurement price of rice, (b) a policy for public sector participation in importation, (c) the realignment of the NFA into separate regulatory and marketing organizations, and (d) replacement of quantitative restrictions on rice with tariff measures. Out of the \$100 million loan, \$70 million was consequently cancelled. According to a paper<sup>8</sup> prepared for the loan cancellation by ADB, the major problems in relation to the four conditions respectively were (a) continued inclusion in the paddy price calculation of the cooperative development fee, which was considered vulnerable to corruption and fraud; (b) the draft guidelines issued by the NFA for importation of rice in 2002 and 2003 to (1) revoke private sector participation approved in 1999, (2) limit imports in 2002 to the NFA and Philippine International Trading Corporation, and (3) allow farmers to undertake imports in 2003; (c) House Bill No. 3898 relating to reorganization of the NFA did not receive support in the Congress and Senate as anticipated, and was set aside; and (d) similarly House Bill No. 3339, in relation to restructuring the tariff system for rice, lacked certification by the President signifying the support of the Government and the bill received little attention from the 12th Congress. The PCR reports that all eight first-tranche conditions and nine out of 12 second-tranche conditions were met.

**Investment Loan**

**Component 1:** Around 2,700 hectares (15% target) of irrigated land was rehabilitated.

**Component 2:** One of the planned 10 laboratory and/or field facility upgrading programs was undertaken. Degree programs were cancelled after candidate screening. Less than 1% of planned farmer training was undertaken, though around half of the training modules were

<sup>8</sup> ADB. 2003. *Cancellation of the Second and Third Tranches of the Policy Loan (Loan 1739-PHI) of the Grains Sector Development Project to the Republic of the Philippines*. Manila; and ADB. 2003. *Partial Cancellation of the Investment Loan (Loan 1740-PHI) of the Grains Sector Development Project to the Republic of the Philippines*. Manila.

prepared. Equipment for the conduct of genetic improvement was not procured. Eight out of the target of 20 soil and water laboratories for the Bureau of Soils and Water Management were upgraded, and staff were trained. The upgrading of laboratories at the provincial level has significantly improved the speed and accessibility of soil and water analysis. Nine out of 25 agricultural training centers, under the Agricultural Training Institute, were upgraded in the major grain-producing areas. No equipment was procured.

**Component 3:** Consultants were recruited to assist in the BAS's capacity building, but their contract was terminated before they could commence the program. The PCR reports that this has severely affected the BAS's capacity and its ability to collect, process, and disseminate timely agricultural statistics. Support planned for the Department of Agriculture's policy and planning group was limited to needs assessment and preparation of initial recommendations.

**Component 4:** Project management systems were established and are reported by the back-to-office report for the April 2004 ADB review mission (para. 13) to have performed well in the early closing down of the project.

The limited achievement of targets under the investment loan identified by PCR para. 37 relate to (a) the slow start to implementation; (b) the halting of disbursements by ADB during 2002; and (c) ultimately, the cancellation of the loan in 2003.

Technical assistance (TA) loan consultant outputs were limited to the conduct of a capability assessment of Department of Agriculture staff. Planned assistance in policy development was precluded by early loan closure. Total TA utilization was 80% of the allocated amount.

The Grains Policy and Institutional Reforms ADTA (TA 3429-PHI) was implemented between November 2000 and December 2002. The TA was considered to have achieved useful results and was rated *successful* by the TA completion report.

- (iii) **Project Cost, Disbursements, Borrower Contribution, and Conformance to Schedule** (as relevant to project performance). The first tranche (\$30 million) of the \$100 million program loan was disbursed at loan effectiveness. Total disbursement under the \$75 million investment loan was \$4.4 million plus \$1.1 million interest during construction.

The RRP (para. 124) envisaged that the Government would finance \$55 million of the total project cost. This high level (in absolute and percentage terms) of government funding was ambitious, particularly in the light of fiscal constraints prevailing after the impact of the Asian financial crisis of 1997. Actual government expenditure reported by the PCR was \$2.6 million prior to cancellation.

Delays were experienced in implementation of the investment project, caused largely by the nonavailability of counterpart budget. This, in part, contributed to the limited implementation that could be completed prior to loan closure. The PCR reports a hiatus of 6 months in implementation during 2002, however it is unclear as to the reason. In para. 49, it indicates that the Department of Agriculture decided to temporarily suspend procurement pending the finalization of a global work plan. Para. 54 states that "ADB temporarily withheld disbursements under the investment loan for about 6 months during the first half of 2002." According to the Government PCR (page 13), this was a unilateral decision on the part of ADB, which resulted in, among other things, a substantial delay in the recruitment of project consultants.

- (iv) **Implementation Arrangements Conditions and Covenants, and related TA Projects.** The PCR (para. 38) indicates that the Department of Agriculture and the Department of Finance were the EAs for the program loan with joint responsibility for the overall supervision of GSDP implementation. The Department of Agriculture was the EA for the investment loan. The National Irrigation Administration was the implementing agency (IA) for part A of the investment loan, and various units within the Department of Agriculture were assigned to implement parts B, C, and D. These arrangements appear to have been appropriate, and had the potential to implement the project components had the loan not closed prematurely. This is supported by the achievements in the closing period.

The Government's PCR indicates (page 12) that the program steering committee, co-chaired by the Department of Agriculture and Department of Finance secretaries, "failed to promptly resolve the major problems of program implementation. It was often difficult to convene the committee as its members, of top management level, (often had) conflicting schedules."

- (v) **Performance of the Borrower and Executing Agency.** The performance of the borrower is not rated by OED due to inadequate information (also unrated in the PCR). The change of government in 2001 and changes in key personnel resulted in a different view of the program loan reform conditions, and a reduced willingness to follow through. Counterpart funds were reported by the PCR (para. 52) not to have been available during the first 2 years of implementation. This constrained investment project activities and is also likely to have limited advocacy work in relation to policy implementation. The PCR (para. 52) reports that there were three changes of director and frequent staff turnover, which was disruptive. The Borrower (represented by the Department of Finance) had no control over the change in administration and, thus, had no effective control over the cancellation of the Program.

The PCR indicates that the overall performance of the project management office and key IAs was generally satisfactory (the BAS and Bureau of Soils and Water Management were both highly satisfactory). However, problems were experienced submitting progress reports for both loans (Government PCR, page 9, though ADB's PCR considers the reporting requirements to have been complied with).

- (vi) **Performance of ADB.** ADB showed flexibility in allowing the extension by 2 years of the time allowed for second tranche conditions to be met. However, more detailed analysis during this period could have also suggested decoupling of the investment loan from some program loan conditions, where these were not critical to the success of the investment project (for example, the reform of the NFA). ADB staff made substantial efforts to assist in resolving the problems. However, ADB support was constrained by changes in project officer. The PCR reports that new staff "could not be expected to have such a profound understanding of all the possible pitfalls" as the appraisal mission leader for example.

In terms of review missions, the mission fielded in May 2001 was timely and did identify that two policy loan conditions were unmet. However, this mission coincided with the planned second tranche release date (9 months after loan effectiveness) and the mission should have raised more alarm. The mission comprised three staff for 10 person-days. A more substantial mission at that time may have been valuable. The next formal review mission occurred in March 2004, nearly 3 years later, coincident with the completion of the agreed (and much reduced) physical investments. The mission could, thus, have little impact apart from confirming loan closure. While other discussions doubtless occurred between ADB and the Government, ADB could have mounted at least one, and perhaps two, additional review missions in 2001 and 2002. This may have assisted in preventing the decision by the Government to terminate the loans in 2003. Although review missions were not mounted over a critical period, the Southeast Asia Department reports that many meetings were held over the full course of program and project implementation between ADB and the various EAs and IAs (being located in Manila) that were not recorded as formal

missions.

OED rates ADB's performance *satisfactory* (the PCR rating is *satisfactory*) although OED notes (a) the onerous design with fully linked policy conditions between the loans, (b) lack of analysis in relation to partially decoupling the investment loan from the program loan conditions, and (c) lack of mounting of well-resourced review missions at critical periods.

#### D. Evaluation of Performance (PCR assessment and Validation)

- (i) **Relevance.** OED rates the GSDP *relevant* (the PCR rates it *highly relevant*); the Government PCR did not rate the program. The PCR considers that the GSDP was highly relevant to the problems facing the grains sector, and to the particular solutions sought for these problems. It also states that the investment component of the GSDP remains relevant as of December 2007, and concludes that overall the GSDP was highly relevant, despite the fact that linkage between the two loans was irrelevant (para. 56).

Relevance of design and formulation were discussed in section C (i). OED agrees that the GSDP objectives were highly relevant to the problems of the sector at the time of design. However, the full linkage of policy conditions between the two loans, the perhaps overambitious nature of the program, and the magnitude of required government expenditure lead to a *relevant* rating at design.

The policy-linked program loan was highly relevant to the Government at the time of PPTA (June 1997 to November 1998) due to the Asian financial crisis and budgetary pressures facing the Government in 1998. Although the impact of the crisis was less severe than in Thailand or Indonesia, the Philippines economy stagnated in 1998. However, by the time of Loan Agreement (July 2000) the country's budgetary pressures, though still significant due mainly to poor tax collection, were starting to ease, reducing the relevance of the program loan from the perspective of the Government of the Philippines.

By the early 2000s, growth had picked up, and moreover, the Government had changed, with the apparent result that the remaining \$70 million of the program loan no longer seemed such a worthwhile incentive to reform. This is highlighted by the Government PCR comment (page 5) that the magnitude of the ongoing commitment charge (0.75% per year) was a significant factor behind President Arroyo's decision to cancel the policy loan. This does not imply strong demand.

By the time the loans were terminated in April 2003 (Program Loan) and June 2004 (Project Loan), investment project objectives remained relevant under ADB's country strategy and program update 2003–2005.<sup>9</sup> This included focus on (a) rural and urban infrastructure (water supply and housing, power, roads, and airports), and (b) agriculture and rural development (improvement of irrigation facilities and restructuring of the National Irrigation Administration), improvement of rural livelihood, agrarian reforms, fisheries, and microfinance. The country strategy and program update continued the focus on Mindanao.

The early termination of the policy-linked program loan and consequent closure of the linked investment loan suggest limited relevance during implementation and at termination.

In relation to the program loan, the PCR indicates that (a) there had been a significant change of opinion within the Government in relation to several second-tranche conditions

<sup>9</sup> ADB. 2002. *Country Strategy and Program Update (2003–2005)*. Manila.

(PCR paras. 39–46), and (b) legislative needs were a key constraint in relation to two of the conditions that were not complied with. Nonetheless, several policy conditions were met (section D [iii]) suggesting that some significant benefits were realized.

Counterpart funding requirements were substantial (\$55 million, out of a total project cost of \$136 million). This level was high in the context of the Philippines budgetary constraints following the Asian financial crisis, and in part led to slow implementation in the early years of the loans.

Overall, the GSDP is rated *relevant* (the PCR rates it *highly relevant*) blending a highly relevant rating ex ante with a partly relevant rating ex post. The ex-post assessment is based on a low demand by the Government for the program loan funds and in the context of expenditure totaling 6% of budget.

- (ii) **Effectiveness in Achieving Outcome.** As mentioned in section C (ii), the program loan did not meet several of its key policy objectives, leading to cancellation of the second and third tranches. Although the Government met all first-tranche conditions and several second-tranche conditions, the loan is considered to have been *less effective*. While the reform package had the support of the Government at the time of design, during implementation it faced opposition from the NFA (PCR para. 17) and trade liberalization was opposed by farm groups (PCR para. 15). However, considerable progress was made in some areas such as the corn subsector, where a modified tariff regime was established.

The investment loan had the potential to achieve an *effective* rating had it been fully implemented. However, in view of the cancellation of 93%, overall efficacy has been low. Some outputs (section C [iii]) were achieved, but in most cases outputs were less than 10% of target area or number. As reported by the PCR (Appendix 10), the grains sector has developed quite rapidly in the period since termination of the GSDP, and several key policy changes have been implemented including partial privatization of rice imports. However, the fiscal performance of the NFA has been weak, with accelerating losses, reflecting the need for continuing imports and lack of a cost recovery policy.

Information is not available on the performance of the irrigation schemes partly rehabilitated under the investment loan. However, the noncompletion of headworks will limit the economic gains that could potentially have been gained in terms of dry season cropping intensity on the national schemes (PCR para. 71). The upgrading of eight out of 20 regional soil and water laboratories should have beneficial outcomes. However, most other activities were either not undertaken or achieved little. Both the investment loan and overall GSDP are classed *less effective*, the same rating as in the PCR (not rated by the Government PCR).

- (iii) **Efficiency in Achieving Outcome and Outputs.** Lack of progress towards meeting key second tranche conditions suggests the program loan was inefficient in terms of both process and potential economic impact, even though some policy conditions were met. Process efficiency was relatively low, with delays resulting from both lack of counterpart funding in the early project period and the hiatus imposed by ADB, as mentioned in section C (iii). The limited activities undertaken under the investment loan, combined with implementation delays, also warrant an *inefficient* rating (the same rating as in the PCR).
- (iv) **Preliminary Assessment of Sustainability.** A number of policy reforms under the program loan were implemented and remain in place. Since these reforms essentially reflected the Government's existing policy agenda, the extent to which their adoption can be credited to the GSDP is debatable. Nonetheless, the program and its ADTA have made a positive contribution to the policy environment in the grains sector. Some project outputs are considered by the PCR to be sustainable (para. 61), while the participation stimulated by the program assisted in developing awareness among stakeholders of the desirability of policy

reform. Nonetheless, the premature closing of the program leads to the conclusion that sustainability should be rated *unlikely* (the same as in the PCR).

- (v) **Impact** (both intended and unintended). Although direct impact has been limited, policy changes in the years following loan closure suggest that there have been positive impacts. These are the result of improved understanding of policy issues in the grains sector, due in part to work undertaken by the program and its TA projects. The PCR reports (para. 62) that the Department of Finance may recommend the restructuring of the NFA, partly based on the analysis undertaken by the program's ADTA.

PAI 6.07<sup>10</sup> (para. 26) requires discussion of a number of aspects under the Impact section. While curtailment of the project makes most of these less relevant, it is considered that brief mention should have been made of the environmental impacts of the irrigation systems upgraded and the effectiveness of the environmental assessments undertaken.

Overall, the early curtailment of the program suggests that impact in relation to program objectives was limited. The PCR (para. 63) indicates that the failure to complete the investment loan may have resulted in negative impact, due to the ensuing delay in implementing needed development of the Department of Agriculture.

#### E. Overall Assessment, Lessons, and Recommendations (Validation of PCR assessment)

- (i) **Overall Assessment.** Overall assessment of the GSDP is *unsuccessful*, compared to *partly successful* reported by ADB's PCR (it was not rated by the Government PCR).
- (ii) **Lessons.** OED considers that the lessons identified by the PCR are valuable, and merit detailed consideration by ADB.

A further lesson which can be drawn is that program loans providing budget support may become less of an incentive if fiscal conditions in a country improve after program design or loan effectiveness. In this context, particular care may be required in promoting program loans during periods of fiscal constraint, in case demand for the funds declines as conditions improve. Additional effort to promote policy objectives may also be necessary if the Government, in a recipient country, changes prior to program loan completion.

OED considers that in the case of the GSDP, the local funding commitment of \$55 million was likely to have been well beyond the capacity of the Government in a fiscally constrained period. Consideration could be given in such circumstances to increasing local cost financing of the investment loan, particularly in the first 2 years, and, if necessary, reducing the amount of the policy loan. OED also considers that ADB needs to be fully cognizant of external factors (such as a change of government), and needs to take necessary steps to counteract resulting issues; in the case of the GSDP, for example, by considering the post-facto decoupling of some of the policy conditions.

GSDP experience reinforces the statement in the ADB Operations Manual<sup>11</sup> that "strong commitment to sector reform by the government is essential for the success of the sector development program (SDP) modality of lending" (para. 5). A sector development program is unlikely to be effective in an adverse policy environment.

- (iii) **Recommendations.** The PCR suggests that (a) where the scope of required sector reforms is very large (as was the case with the GSDP), consideration should be given to financing them by separate loan (and TA) packages that address subsets of the total reform program; and (b) the number of release conditions should be limited, which is sensible in light of ADB's

<sup>10</sup> ADB. 2006. *Project Administration Instructions. PAI 6.07: Project Completion Report*. Manila.

<sup>11</sup> ADB. 2000. *Operations Manual*. Manila.

experience with program lending. The PCR also suggests that “size of the loans should be commensurately large enough to sustain the Government's motivation” (para. 72). This seems more contentious, with the implication that the GSDP could have succeeded had the program loan been large enough. OED is not convinced that increasing program loan size, of itself, will persuade a government to accept reforms it has decided to oppose.

NFA reform should have been a first tranche condition. OED agrees with other PCR recommendations, and would further suggest that policy initiatives should be linked with specific investment activities only if their success is dependant on the policy changes. In such a case, the conditions should be specified in the investment loan with other conditions delinked. This could be addressed in future through possible modification of the ADB Operations Manual.

The lack of a detailed risk analysis in both the PPTA and the RRP suggests a possible general recommendation—that ADB considers introducing formal political economy analysis to project design, as currently practiced by some bilateral donors (such as AusAID). This could ensure that overarching risks (which threaten project outcomes) are fully analyzed, and, where necessary, project activities are included to overcome them (or objectives suitably modified). The Government PCR (page 14) also recommended improved assessment of EA and IA capability and the policy environment at the time of appraisal. OED agrees that stakeholder analysis and improved institutional assessment may have identified potential implementation issues.

Irrespective of the performance of the GSDP, OED recommends that ADB remains engaged with the Government in the agriculture sector. The Philippines is rich in agricultural potential because farmland comprises more than 40% of the total land area and the agriculture sector employs more than one third of the labor force, but it accounts for less than one fifth of gross domestic product. The sector is constrained by inadequate infrastructure and the lack of financing and pro-growth Government policies.

**F. Monitoring and Evaluation Design, Implementation, and Utilization** (PCR assessment and Validation)

Local consultants were recruited under the investment loan to develop monitoring and evaluation, and management information systems. However, their services were curtailed due to project closure. The Government PCR reports that their outputs up to that time were adequate.

**G. Other** (Safeguards, including governance and anticorruption; Fiduciary aspects) (PCR assessment and Validation)

No major issues relating to safeguards, governance, or corruption have been identified. The PCR indicates that loan conditions relating to preparation of initial environmental examinations or summary initial environmental examinations, under Loan Agreement 6.14, were complied with.

<b>H. Ratings</b>	<b>PCR</b>	<b>OED Review</b>	<b>Reason for Disagreement/Comments</b>
<b>Relevance:</b>	Highly relevant	Relevant	OED assesses the relevance of the loans at design implementation and at completion, as required by the evaluation guidelines. The PCR focuses primarily on relevance at design.
<b>Effectiveness in Achieving Outcome:</b>	Less effective	Less effective	
<b>Efficiency in Achieving Outcome and Outputs:</b>	Inefficient	Inefficient	
<b>Preliminary Assessment of Sustainability:</b>	Unlikely	Unlikely	
<b>Borrower and EA:</b>	Unrated	Unrated	2-year delay in counterpart budget release, staff changes, failure to meet policy conditions, untimely quarterly reports, inadequate information for rating.
<b>Performance of ADB:</b>	Satisfactory	Satisfactory	
<b>Impact: Program loan Investment loan</b>	Positive Negative	Marginally Positive	The few items completed under the investment loan appear to have had positive impacts. Failures in other areas (e.g., lack of support to the BAS) however are negative.
<b>Overall Assessment:</b>	Partly successful	Unsuccessful	Lower rating given to "relevance."
<b>Quality of PCR:</b>		Satisfactory	

### **I. Comments on PCR Quality**

OED assesses the PCR quality as satisfactory.

While there is a significant difference of opinion in relation to relevance, in other regards the evidence and analysis of the PCR are sound. The discussion of the policy conditions and the reasons for noncompliance is excellent.

The PCR adequately follows PAI 6.07.<sup>12</sup>

Lessons and recommendations in the PCR are considered to be sound and derived from the analysis of the document.

It would be useful for Annex 2 to report progress at the time of the PCR against the indicators defined at appraisal.

However, it is recognized that the value of such an exercise is constrained by the limited extent of program completion.

It is noted that the Government PCR does not follow normal guidelines for the preparation of government PCRs. This suggests inadequate support by ADB to the EA during government PCR preparation. However, the analysis in the PCR is generally sound, and provides a useful perspective on the implementation issues facing the projects. Given the early termination of both projects, the lack of assessment of evaluation criteria is not a serious omission.

<sup>12</sup> See footnote 10.

The ADB PCR appears not to have fully considered the analysis and recommendations of the Government PCR. In particular, it would have been useful to address the implicit criticisms of design.

**J. Recommendations for OED follow up**

No follow-up action required.

**K. Data Sources for Validation**

Back-to-office reports, PCRs (ADB and Government), RRP, PPTA reports, and consultations with Southeast Asia Department staff.

## **REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT**

On 10 April 2008, the Operations Evaluation Department (OED) circulated the draft project completion validation report for interdepartmental comments. OED received comments from the Agriculture, Environment and Natural Resources Division (SEAE) of the Southeast Asia Department on 25 May 2008.

A meeting between OED's quality control reviewer and SEAE's project officer was held on 2 July 2008 to discuss SEAE comments. All relevant comments have been duly incorporated by OED into the final report. The project officer has cleared the revisions and supported its circulation.