Validation Report
March 2021

Philippines: Expanding Private Participation in Infrastructure Program

Reference Number: PVR-750
Program Numbers: 48458-001 and 48458-003
Loan Numbers: 3333 and 3691

Independent Evaluation ADB

Raising development impact through evaluation

ABBREVIATIONS

ADB	–	Asian Development Bank
COA	–	Commission on Audit
CPS	–	country partnership strategy
DMF	–	design and monitoring framework
DOF	–	Department of Finance
EPPIP	–	Expanding Private Participation in Infrastructure Program
GDP	–	gross domestic product
LGU	–	local government unit
NEDA	–	National Economic Development Authority
PCR	–	program completion report
PDMF	–	project development and monitoring facility
PDP	–	Philippine Development Plan
PPP	–	public–private partnership
TA	–	technical assistance

NOTE

In this report, "$" refers to United States dollars.

Director General	Marvin Taylor-Dormond, Independent Evaluation Department (IED)
Deputy Director General	Véronique Salze-Lozac'h, IED
Director	Joanne Asquith, Thematic and Country Division (IETC)
Team Leader	Hyun H. Son, Principal Evaluation Specialist, IETC

PROGRAM BASIC DATA

Program number	48458-001 and 48458-003	**PCR circulation date**	11 Sep 2020	
Loan numbers	3333 and 3691	**PCR validation date**	Mar 2021	
Program name	Expanding Private Participation in Infrastructure Program			
Sector and subsector	Public sector management	Public administration Public expenditure and fiscal management		
Strategic agenda	Environmentally sustainable growth Inclusive economic growth Regional integration			
Safeguard categories	Environment		C	
	Involuntary resettlement		C	
	Indigenous peoples		C	
Country	Republic of the Philippines		**Approved** ($ million)	**Actual** ($ million)
ADB financing ($ million)	**ADF:** 0.00	**Total program costs**	600.00	600.00
	OCR: 600.00	**Loan**		
		L3333	300.00	300.00
		L3691	300.00	300.00
		Borrower	0.00	0.00
		Beneficiaries	0.00	0.00
		Others	0.00	0.00
Cofinancier		**Total cofinancing**	0.00	0.00
Approval Date		**Effectiveness date**		
L3333	26 Nov 2015	L3333	6 Mar 2016	18 Jan 2016
L3691	17 Aug 2018	L3691	26 Nov 2018	25 Oct 2018
Signing Date		**Closing date**		
L3333	7 Dec 2015	L3333	31 Dec 2016	31 Aug 2016
L3691	28 Aug 2018	L3691	31 Oct 2019	29 Mar 2019
Program Officers		**Location**	**From**	**To**
L3333	J. Gomez	ADB headquarters	Jan 2016	Mar 2016
	A. Musa	ADB headquarters	Mar 2016	Aug 2016
L3691	C. Lozano	ADB headquarters	Aug 2018	Mar 2019
IED review				
Director	J. Asquith, IETC			
Team Leader	Hyun Son, Principal Evaluation Specialist, IETC*			

ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IETC = Thematic and Country Division, OCR = ordinary capital resources, PCR = program completion report.
*Team members: B. Prakash (Quality reviewer), M.J. Dimayuga (Senior Evaluation Officer), and J. Hawley (Consultant).

I. PROGRAM DESCRIPTION

A. Rationale

1. The Philippine Development Plan (PDP) 2011–2016 aimed to have a 7%–8% annual growth for real gross domestic product (GDP), reach 22% of GDP by 2016 for investments, and decline from 33% in 1991 to 17% by 2016 for extreme poverty. It also noted that the country's

inadequate infrastructure had critically constrained economic growth;[1] and years of infrastructure underinvestment had put the Philippines at a competitive disadvantage against its neighboring countries in the Association of Southeast Asian Nations and in the region.[2] Many economic analysts considered insufficient infrastructure investment to be the most significant constraint to doing business in the Philippines. Without a well-developed infrastructure network, less-developed communities would unable to access economic activities and services, which would restrict income and employment generation.[3] To address these constraints, the government in 2010–2012 successfully revived the national public–private partnership (PPP) program, established a PPP center and a project development and monitoring facility (PDMF), developed a credible project pipeline, and completed and adopted regulations to implement the Build–Operate–Transfer Law.[4]

2. To fully harness the benefits of PPPs, these measures were required: (i) ensuring that adequate financing was available to support a vibrant PPP program and viability gap funding institutionalized so projects could charge affordable tariffs to the public, while producing a competitive financial return; (ii) providing economies of scale with a sufficiently deep pipeline of PPP projects, and continuously developing core institutions providing direction and support for PPPs; and (iii) strengthening the legal and regulatory framework for PPPs.

3. To address the country's development constraints due to an inadequate supply of quality infrastructure, the Asian Development Bank (ADB) approved a $300 million policy-based loan in October 2015 for Expanding Private Participation in Infrastructure Program's (EPPIP) Subprogram 1 to assist the government in meeting its targeted infrastructure rate, including public and private spending.[5] In July 2018, ADB approved another $300 million for Subprogram 2 to consolidate the PPP reforms and ensure that the earlier reforms were successfully implemented.[6] The program completion report (PCR) cited that a technical assistance (TA) project was supplemented to implement more technically tough reforms.

4. Structural reforms, as EPPIP envisaged, have a long gestation period. Hence, a programmatic approach would help leverage government and stakeholder support to implement policy reforms and budget allocations over the medium-term. Subprogram 1's loan proceeds would be used to support the program's related development expenditure in the 2015 and 2016 national budgets, and the Subprogram 2 loan would be used to fund government operations and priority reforms including investment climate improvement and infrastructure development.

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[1] Government of the Philippines, National Economic Development Authority. 2011. *Philippine Development Plan 2011–2016*. Manila.

[2] The World Economic Forum's *Global Competitiveness Report 2014–2015* ranked the Philippines 95th out of 144 countries on the quality of its infrastructure.

[3] ADB. 2020. *Completion Report: Expanding Private Participation in Infrastructure Program in the Philippines*. Manila.

[4] Based on the program completion report (PCR), nine PPP projects were awarded during 2011–2015 (compared with six in 1992–2010) and the project pipeline increased from 11 projects in November 2010 to 45 projects in March 2015.

[5] ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Republic of the Philippines for the Expanding Private Participation in Infrastructure Program.* Manila.

[6] ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to the Republic of the Philippines for the Expanding Private Participation in Infrastructure Program.* Manila.

B. Expected Impacts, Outcomes, and Outputs

5. Subprogram 1's impact was aligned with PDP 2011–2016 in meeting the government's targeted investment rate including public and private spending on infrastructure. Subprogram 2's impact was increased public spending on infrastructure to 7.4% of GDP by 2022 (PDP 2017–2022). The outcome for both subprograms was improved private participation in infrastructure.[7]

6. Both subprograms had the same three outputs: (i) strengthened government financial support to PPPs; (ii) expanded and efficiently implemented pipeline of PPP projects; and (iii) strengthened legal and regulatory frameworks for PPPs.[8]

C. Provision of Inputs

7. Subprogram 1's loan was approved on 26 November 2015 and earlier declared effective on 18 January 2016 than the planned date of 6 March 2016. It was also earlier closed on 31 August 2016 than the planned 31 December 2016. Subprogram 2's loan was approved on 17 August 2018 and was earlier made effective on 25 October 2018 than the planned 26 November 2018. It was earlier closed on 29 March 2019 than planned 31 October 2019. At appraisal, the total estimated program cost was $600 million, all ADB-financed, where each subprogram would cost $300 million. According to the PCR, the actual program cost was $600 million.

8. The program was classified C for environment, involuntary settlement, and indigenous peoples. As there were no gender elements, there was no gender action plan. A separate stand-alone $17.7 million TA project was to support the program aimed to improve government capacity to promote, develop, and implement PPP projects. Governments of Canada and Australia co-funded the TA project with ADB to administer the funds.[9]

D. Implementation Arrangements

9. As designed, the Department of Finance (DOF) was Subprogram 1's executing agency, and the Department of Budget Management, the Department of Public Works and Highways, the Department of Transport and Communications, the National Economic Development Authority (NEDA), and the PPP Center were the implementing agencies. Subprogram 2 had the same arrangements but added the Bureau of Treasury as an implementing agency.

10. A DOF-chaired steering committee oversaw both subprograms with implementing agencies as members. The committee's role was to monitor progress and provide guidance and direction to DOF and the implementing agencies in executing policy actions under the programmatic approach and the medium-term directions. The committee was to meet semiannually or on *adhoc* basis if required. With committee membership confined to implementing agencies, representation from other stakeholders, such as local government units (LGUs), private sector, or civil society organization was lacking. For example, a narrowly based steering committee would hinder efforts to accommodate issues particular to the client,

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[7] Although worded slightly differently in Subprogram 2's report and recommendation of the President (RRP2) to Subprogram 1's RRP (RRP1).

[8] Although worded slightly differently in the two RRPs; the PCR used the wording of RRP1.

[9] ADB. 2011. *Technical Assistance to the Republic of the Philippines for Strengthening Public–Private Partnerships in the Philippines*. Manila.

i.e., LGUs. Similarly, civil society participation in the steering committee would have helped encourage government accountability.

11. The TA project supported EPPIP to improve government capacity to promote, develop, and implement PPP projects, through capacity building for the PPP Center and funding for the PDMF's preparation, competitive bidding, negotiation, and monitoring of environment-friendly PPP projects.[10] As the TA is still in progress and will not be closed until December 2022, it is not yet subject to its completion report. According to the PCR, the program's design and implementation benefited from significant cofinancing from the governments of Australia and Canada in the TA project, the Japan International Cooperation Agency that helped build the capacity of PPP project implementing agencies, and the World Bank that provided capacity building support in water and sanitation.

12. Subprogram 1 contained 16 policy actions, 7 of which were policy triggers; and an indicative reform agenda for Subprogram 2 that had 16 policy actions, 10 of which were policy triggers. Reformulating Subprogram 2's one policy trigger was required to restructure the Department of Transport and Communications to strengthen its project development and implementation function. At the government's request, ADB agreed to refine some policy milestones to streamline the policy matrix. Despite these changes, the PCR indicated that Subprogram 2's number of policy actions and triggers did not change.

13. There were 20 covenants in Subprogram 1 and 11 in Subprogram 2. All covenants were indicated as complied, but certain functions provided for the borrower or functions for ADB to perform were not undertaken. The program included a number of affirmative covenants for which the degree of compliance could not always be determined. For example, ADB's PCR mission team could not assess if the borrower made all books and records available for audit unless an audit had been requested.

14. Subprogram 1's risk assessment and management indicated some governance risks remain despite progress made in governance reforms since 2010. With mitigation measures in place, there were nine medium and one high risks of awarding contracts and notices to proceed to winning bidders possibly being delayed by untimely or baseless complaints from losing bidders. Subprogram 2's risk assessment and management plan identified seven risks, of which two were low, two were medium, and three were substantial. The substantial risks included that (i) public financial management may weaken through weak budget execution, and a lack of transparency that makes it difficult for civil society to hold government accountable; (ii) political interference, inefficient mechanism, and lack of enforcement capacity may undermine efforts to reduce and eliminate corruption; and (iii) PPP procurement poses various issues that require sequenced corrective actions over time to address. Mitigation measures included (i) strengthening of the budget review process, (ii) implementing a comprehensive and results-based anticorruption action plan and initiatives being supported by development partners, and (iii) appointing probity advisors in PPP project procurement.

[10] The additional $15.5 million to the TA in March 2012 was to provide more comprehensive support to sustain the positive momentum in PPP reforms, and the Canadian International Development Agency confirmed a $3.0 million additional amount in December 2012 for the TA's capacity building component. ADB. 2012. *Major Change in Technical Assistance: Strengthening Public–Private Partnerships in the Philippines.* Manila. March; and ADB. 2012. *Major Change in Technical Assistance: Strengthening Public–Private Partnerships in the Philippines*. Manila. December.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

15. The PCR rated EPPIP relevant. The program helped to mobilize both public and private resources through support for PPPs to meet the country's infrastructure gap. The use of a programmatic policy-based loan helped strengthen the government's capacity to meet financial requirements to implement PPPs and supported reforms to provide an enabling environment for PPPs. Inadequate government budgetary allocation for expenditures relating to right-of-way acquisition and resettlement, as well as for contingent liabilities assigned to implementing agencies under PPP contracts, often delayed PPP implementation. Although the budget deficit was estimated at 2% per year over 2015–2017, the Philippine government needed to balance fiscal prudence and its spending priorities so that expenditure on basic services like infrastructure was often constrained.

16. The program was also well grounded in the PDP, 2011–2016, that emphasized inclusive growth by creating jobs to reduce poverty, recognized the lack of adequate infrastructure as a major development constraint, called for an increase in public infrastructure investments to 5.0% of GDP by 2016, and entailed an increase private participation infrastructure to 1.1% of GDP by institutionalizing the PPP plan. The program remained relevant under the incoming government and the PDP, 2017–2022, that called for increasing public infrastructure spending to as high as 7.4% of GDP by 2022 and encouraging greater private sector participation in infrastructure. The program was also consistent with ADB's country partnership strategy (CPS) for the Philippines, 2011–2015, as it supported ADB's commitment to strengthen the environment for PPPs by improving the regulatory framework, providing capacity development for PPP-related institutions, and developing bankable projects. The program was aligned with ADB's Strategy 2020 as infrastructure was one of ADB's five core operational areas. The PCR noted that the program's performance targets were appropriately selected and required only minor changes during implementation.[11]

17. This validation acknowledges that the program was aligned with the two PDPs (2011–2016 and 2017–2022), ADB's Strategy 2020, and ADB's CPS 2011–2015 that provided support to its five priority sectors.[12] The program called for ADB to support the PPP Center in expanding the pipeline of viable PPP projects and developing the capacity of LGUs to prepare and deliver local PPP projects. The programmatic approach to the policy-based loan was appropriate as it provided support for structural reforms and financed two subprograms over a period of time. The TA was designed to support the program by reforming and strengthening PPP policies and procedures, reviewing PPP-related legal and regulatory frameworks, and helping the government streamline and optimize the PPP institutional set-up for an efficient and effective PPP system. This validation considers that there were weaknesses in the design and monitoring framework (DMF) as the program outcome's indicators of improved private participation in infrastructure were not clearly stated and would make it difficult to determine whether the program had been successful. The first outcome indicator focused on the increase in public infrastructure investment rather than improved private sector participation, and the second outcome indicator for private sector investment commitment in infrastructure through PPPs averaging $3 billion per year were unable to be measured as the data source was unable

[11] Subprogram 2's output 2 performance targets changes were modified and increased from five to six to reflect actual progress during implementation.
[12] The priority sectors were transport, energy, education, agriculture and natural resources, and water supply and other services.

to differentiate between private sector investment as a whole and private sector investment in PPPs. However, despite these weaknesses, this validation assesses the program design and formulation relevant.

B. Effectiveness in Achieving Program Outcomes and Outputs

18. The PCR rated the program effective. The program had two outcome targets to be achieved by 2018 that were retained throughout the program period. The first performance target on public infrastructure averaging 5.0% of GDP during 2016–2017 (2014 baseline: 3.5%) was achieved with an annual average of 5.5% in public infrastructure spending over the target period. The second target on private sector investment in infrastructure through PPPs (excluding telecommunications) averaging $3.0 billion per year during 2015–2017 (2014 baseline: $1.2 billion) was likely achieved. However, there was no documentation that represented private investment via PPPs. Total private investment in infrastructure averaged $4.3 billion a year during 2015–2017. However, World Bank's database—listed as the data source for the second outcome indicator in the DMF—separated private investments by type. Hence, PPP investments could not be distinguished from other methods of private investment. Disbursements into PPP projects averaged only $367.0 million per year, but this significantly underrepresents total commitments. All of the program's 14 output performance targets were achieved.[13]

19. Apart from the results in the DMF, the effectiveness of policy-based loans also hinges on the quality and scope of policy actions. Besides strengthening the PPP Center, the program's set of policy actions also included (i) formulating legal and regulatory reforms for PPPs—by developing proposed amendments to the Build–Operate–Transfer Law, and implementing rules and regulations of the Executive Order 78 on the Alternative Dispute Resolution in PPP projects; and (ii) enabling the government to demonstrate certainty of funding for securing right-of-way and for viability gap funding should projects need a credit enhancement—for example, by developing the methodology for valuation of PPP projects' contingent liabilities and institutionalizing viability gap funding scheme.

20. Compliance with the loan covenants also represents an important facet of the effectiveness of policy-based loans. The program, however, included a few affirmative loan covenants, for which ADB scrutiny or verification was not required,[14] and whether these affirmative loan covenants were achieved in practice was not verified. For example, the borrower is required to maintain accounts and records in accordance with accounting principles and retain all records relating to the loan proceeds, which ADB's representatives will examine. Requiring these records to be provided to ADB implies that an audit will be undertaken. Despite this and the inability to determine whether one of the two outcome targets had been achieved since data was not available, this validation assesses the program effective with one of the two outcomes achieved, all outputs for both subprograms being substantially achieved, and the output indicators being appropriately adjusted in subprogram 2's design to reflect the progress made with program activities.[15]

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[13] The PCR's DMF showed 15 performance indicators.

[14] Described as affirmative covenants in the PCR.

[15] Subprogram 1 had one output 1 performance target to be achieved by 2015 and one to be achieved by 2017, which, under Subprogram 2, was dropped and replaced with two targets. Two output 2 performance targets to be achieved by 2015 and five to be achieved by 2017, which were modified and increased to six under Subprogram 2; and two output 3 performance indicators to be achieved by 2015, and one to be achieved by 2017, which was increased to two under Subprogram 2.

21. The TA helped strengthen the PPP Center and develop a robust PPP pipeline. The lessons from the TA were incorporated into the program to address other development constraints, including NEDA's lack of capacity and concerns on a potential build-up of contingent liabilities. There is no completion report to evaluate the TA's performance since it is due to be completed in 2022. The TA has been operational since 2011 and has been increased to (i) finance major changes in the program's scope due to the progress in government's PPP program and provide more comprehensive TA support to sustain the positive momentum in PPP reforms; and (ii) ensure that the number of well-structured PPP projects developed annually through the PDMF would increase to five. The program was appropriately classified category C as it did not involve construction or civil works, and activities were limited to developing policies, strategy, and regulations to facilitate private sector participation. Involuntary resettlement would not be required, indigenous peoples would not be impacted, and the environment would not be threatened. PDMF-supported projects require that feasibility studies include a gender and social safeguards plan, as part of the policy actions. No specific gender elements were identified during the subprograms' appraisals and no gender action plan was developed.

C. Efficiency of Resource Use

22. The PCR rated the program efficient. It achieved its outcome within the planned implementation period. Subprogram 1 was declared effective on 18 January 2016, earlier than the projected target date of 6 March 2016. Disbursement followed quickly, with a single draw of $300 million completed on 21 January 2016. Subprogram 2 was declared effective on 25 October 2018, also earlier than its projected target date of 26 November 2018. However, disbursements were made to coincide with refunding dates in line with the government's funding plan. The single disbursement of Subprogram 2's $300 million was on 7 January 2019, nearly 2 months after effectiveness.

23. This validation assesses the project efficient.

D. Preliminary Assessment of Sustainability

24. The PCR rated the program likely sustainable as (i) the underlying infrastructure for PPPs has been significantly and permanently strengthened, with the PPP Center recognized as technically competent;[16] (ii) the environment has become more conducive to infrastructure investment; (iii) the PPP Center, supported by ADB TA, provided substantial help to LGUs and national implementing agencies to administer PPP projects and in 31 December 2019, was supporting 65 LGU PPP projects at various stages of preparation; and (iv) the government recognizes PPP modality as an approach to bridge the infrastructure financing gap in the country.

25. The perception of corruption in the Philippines worsened in 2019.[17] The risk of perceived corruption severely restricts the efficiency of businesses operating in the Philippines and the

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[16] Based on the PCR, among the 135 economies surveyed in the World Bank's *Procuring Infrastructure Public–Private Partnerships 2018*, the Philippines is 1 of only 11 economies that provided specific methodologies for all seven assessment criteria measured by the report. In the four major areas that the study evaluated, the Philippines ranked first in east Asia and the Pacific on preparation of PPPs, contract management, and unsolicited proposals.

[17] Corruption worsened in the Philippine government in 2019 as it ranked 113th of 180 countries with a score of 34 (where zero is highly corrupt and 100 is very clean) down from 36 in 2018, and the lowest score since 2012. CNN Philippines. 2020. *Corruption in the Philippines worsens in 2019 global index. 23 January.* https://cnnphilippines.com/news/2020/1/23/Philippines-corruption-worsens.html

public procurement sector could impact the sustainability of the PPP sector.[18] The absence of requirements to publish PPP contracts and an independent dispute resolution body specific to PPPs may also pose issues to the sector.[19] Despite this, the validation assesses the program likely sustainable for the same reasons given in the PCR and for the reason that the Philippines was a high performer, in terms of annual real GDP growth forecasts (6.6% for year 2018), and strategies in the country's PDP 2017–2022 included increasing spending on public infrastructure, targeting to reach $180 billion between 2017 and 2022. In addition, it appears that the government is now more open to PPPs as it encourages the private sector to engage in PPP schemes.[20] The government is seeking private-funded projects in health, information and communications technology, and water infrastructure pipeline to help reverse the pandemic-induced recession.[21] Despite shelving 8 major infrastructure projects following health and mobility constraints imposed by the COVID-19 crisis, the government has added 13 new projects deemed crucial for post pandemic recovery, and retained 29 PPP-funded projects.[22]

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impact

26. The PCR rated program's development impact satisfactory. For Subprogram 1, the program's gross benefits were estimated at $2.5 billion and the net benefits were estimated at $1.3 billion. The program impact assessment also noted that there was likely to be an increase in the economy's level of value added associated with a program-induced increase in the level of infrastructure spending in the Philippines. However, this increase in value added was not quantified in Subprogram 1's assessment. Under Subprogram 2, the program was expected to produce additional quantifiable net benefits estimated at $1.5 billion primarily from the increased value of infrastructure investment attributable to the enhanced PPP program. The total value of PPP projects under the Subprogram totalled $5.6 billion in aggregate. Given that almost 30% of these would not have occurred without delivery via a PPP channel, this component of the benefits totalled around $1.7 billion.

27. Subprogram 1 impact was aligned with the PDP 2011–2016 and would contribute to the government's targeted investment rate, including public and private infrastructure spending. The investment rate was 5% in 2016, but was not shown as such in Subprogram's 1 DMF impact statement.[23] In Subprogram 2, the country's overarching development objective was public infrastructure spending increased to 7.4% of GDP by 2022. The results as of September 2020 showed that public infrastructure spending between 2016 and 2017 was 5.0% a year over the target period. This validation acknowledges the quantifiable benefits from Subprogram 2 and

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[18] Gann Integrity. 2020. *The Philippines Corruption Report. https://www.ganintegrity.com/portal/country-profiles/the-philippines/*

[19] The Economist Intelligence Unit. 2020. *The 2018 Infrascope: Evaluating the environment for public–private partnerships in Asia. https://infrascope.eiu.com/wp-content/uploads/2019/02/EIU_Asia-Infrascope-2018_final-report.pdf*

[20] Rivas. 2018. Duterte's team changes tune on PPPs as infra push gets reality check. *Rappler.* 7 November. https://www.rappler.com/business/duterte-team-changes-tune-public-private-partnerships-infrastructure-push-reality-check; and Government of the Philippines. 2017. *Philippines Development Plan, 2017–2022*. Manila.

[21] B. de Vera. 2020. More PPPs eyed to expand Duterte's infra pipeline. *Philippine Daily Inquirer.* 6 October. https://business.inquirer.net/310452/more-ppps-eyed-to-expand-dutertes-infra-pipeline

[22] B. Laforga. 2020. Eight flagship infrastructure projects worth P370 billion shelved. *Business World.* 7 August. https://www.bworldonline.com/eight-flagship-infrastructure-projects-worth-p370-billion-shelved/

[23] A background document on indicative ideas on policies for the program in February 2015 showed that the objective was to support the PDP's objectives including expanding PPP investments to augment the rising public infrastructure spending, which was intended to go up from 2.2% of GDP in 2012 to 5% of GDP in 2016. Attachment to Program papers. Indicative Ideas on Policies Proposed to be Covered under EPPIP.

the amount of public infrastructure spending in 2016–2027 and assesses the development impact satisfactory.

B. Performance of the Borrower and Executing Agency

28. The PCR rated the performance of the borrower and implementing agencies satisfactory. The DOF-chaired steering committee, with the implementing agencies as members, oversaw the program's implementation. On the whole, the executing agency and implementing agencies were highly engaged and responsive. Staff requested and effectively utilized associated TA and provided invaluable support to the project team to meet requests of TA cofinanciers.

29. This validation assesses the performance of the borrower and executing agencies satisfactory. All of the program's policy measures were accomplished, a number of meetings were held with ADB that allowed for program progress to be reviewed, policy clarified, and changes to be agreed. For example, changes to the Subprogram 2's policy matrix were made after a series of meetings with ADB in May and June 2017.[24] However, the focus on PPP requires regular auditing of all performance indicators and financial statements. This underscores the need for improving the capacity of the Commission on Audit (COA).

C. Performance of the Asian Development Bank and Cofinanciers

30. The PCR rated the performance of ADB satisfactory. ADB leveraged its long history and knowledge of PPPs to provide a foundation for the program and to address key constraints that in turn produced measurable outcomes. An early TA grant was instrumental in strengthening the PPP Center, and developing a robust PPP pipeline. The lessons were then incorporated into the program, along with donor inputs, to address the next set of critical development constraints. In addition, ADB provided TA to proactively address emerging development constraints, including a lack of capacity at oversight agencies (e.g., NEDA) and concerns over a potential build-up of contingent liabilities. ADB staff also collaborated across the bank in a One ADB Approach that saw the Office of Public–Private Partnerships provide advice and support to the PPP Center. Finally, ADB provided close liaison and assistance to the TA cofinanciers to ensure continuing support for the PPP reform agenda. Planned program cofinancing did not eventuate.[25]

31. The use of more than a few affirmative loan covenants does not always allow ADB to determine the level of compliance with these covenants. Despite this, this validation assesses the performance of ADB satisfactory.

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[24] ADB (Southeast Asia Department). 2017. Review Mission to the Philippines: Expanding Private Participation in Infrastructure Program, Subprogram 2. Back-to-office report. 6 June (internal).

[25] Based on the PCR, the Japan International Cooperation Agency had initially agreed to cofinance Subprogram 1 for $200 million. However, at the government's request, the cofinancing envelope was shifted to direct support for the build–build–build initiative, which resulted in the withdrawal of cofinancing for this program. Subprogram 2 had received a commitment for parallel cofinancing of €150 million from Agence Française de Développement. However, negotiations over the terms of the loan could not be resolved within the program period and the cofinancing was not funded.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

32. The PCR rated the program overall as successful. It was relevant being well-grounded in the PDP 2011–2016, consistent with the CPS 2011–2015, and aligned with ADB's Strategy 2020. The program was effective as both outcome indicators and output performance targets were achieved or likely to be achieved. The program was efficient as it achieved its outputs and other milestones within the planned implementation period. The program was rated likely sustainable as the underlying infrastructure for PPPs have been significantly and permanently strengthened, the enabling environment has become more conducive, and the need for PPPs to finance infrastructure has only increased over time.

33. This validation assesses the program: relevant given its alignment with the two applicable PDPs, ADB's Strategy 2020, ADB's CPS 2011–2015, and the loan's medium-term's programmatic approach, although there were weaknesses in the program design with poorly chosen outcome indicators that either did not address the outcome or could not be measured. The program is assessed effective with one of the two outcomes achieved or likely to be achieved, and efficient as all outputs were achieved or likely to be achieved and the subprograms' loan effectiveness was realized ahead of the planned date as were the subprogram's loan closing dates. While noting that the high corruption levels might impact sustainability, the program was assessed likely sustainable as strategies in the country's PDP 2017–2022 included increasing public infrastructure spending and it appears that the government is now more open to PPPs and is encouraging the private sector to engage in PPP schemes. This validation assesses the project overall successful.

Overall Ratings

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Relevant	
Effectiveness	Effective	Effective	
Efficiency	Efficient	Efficient	
Sustainability	Likely sustainable	Likely sustainable	
Overall Assessment	**Successful**	**Successful**	
Preliminary Assessment of Impact	Satisfactory	Satisfactory	
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Quality of PCR		Satisfactory	Para. 38.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = program completion report.
Source: ADB (IED).

B. Lessons

34. The PCR identified the following four lessons: (i) the PPP efforts would have had more far-reaching success if it had been supported by an enabling legal framework; (ii) to ensure continuing confidence in the PPP Center and its decisions, it is imperative that it maintains its independence from the political process; (iii) to address the limiting factor of LGUs facing especially acute planning horizons due to the elections, project cycles in LGUs must be

shortened so that projects achieve physical and financial closing within local election cycles; and (iv) the program confirmed the value of a programmatic approach to address deep and technically challenging structural reforms.

35. This validation supports the above lessons and adds two lessons:

(i) **Program level.** To ensure the formulation of a well-grounded design, a thorough preparatory assessment could be undertaken by including the political environment and the risk of corruption in a country. In cases where corruption is perceived as being high, support for better performance and greater accountability in public financial management systems plays a crucial role.

(ii) **Results framework and methodology level.** Greater effort early on to define targeted outcomes and using a well-structured framework can yield a better tool to assess program results. The results framework presenting clarity in project design, well-defined outcomes, and outputs with appropriate targets and indicators, is imperative in monitoring project achievements. This is necessary to help provide clear assessment and guidance on how to systematically track progress especially on how success will be assessed.

C. Recommendations for Follow-Up

36. The PCR's five recommendations were (i) ADB support for the PPP process should continue as although the government is prioritizing official development assistance and government-funded projects, the resources are not limitless; (ii) ADB should field an appropriately scoped monitoring program including periodic onsite missions to increase ADB's response time should this particular financing modality begin to take a larger role in supporting the infrastructure agenda; (iii) no changes to the covenants were required; (iv) COA needs to be strengthened as the increasing focus on PPP at the local level has highlighted weaknesses in the audit oversight; and (v) the project performance evaluation reports should be scheduled and completed toward the end of the post-program partnership which covers 2018–2022. This validation supports these recommendations, but also adds that elements of the value for money and/or performance audit function of the COA be expanded to include the PPP program to ensure that donor funds are being used appropriately.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Reporting

37. ADB conducted fact-finding and review missions during both subprograms. These missions helped establish the program and verified progress during the program, allowed for consultation with the government, and considered changes required to the policy matrix. All the program's 31 covenants were either complied or, where certain functions that provided for the borrower and/or ADB to perform specific functions (as in the case of 12 covenants), were not undertaken. The borrower's level of compliance with affirmative covenants, however, cannot be always determined.

B. Comments on Program Completion Report Quality

38. The PCR clearly described the need for the program and how, although the government was addressing the constraints of an inadequate supply of quality infrastructure through a PPP

program, additional measures including adequate financing were required to fully harness the benefits of PPPs. The PCR provided a good explanation of why one of the outcome indicators was not assessable and how some of the subprogram outputs were changed when designing Subprogram 2. The evidence to substantiate the ratings was not sufficient in some cases. For example, the PCR did not discuss the reasons behind the lack of uptake of the viability gap funding the program institutionalized, as well as the agenda for the post-program partnership framework. Meanwhile, the PCR's lessons and recommendations were valuable. However, the PCR could have been more critical of ADB's non-exercise of some of its covenant rights, such as the conducts audits and verification of accounts and records. This validation considers that the PCR would have been improved with the DMF clearly indicating in the program achievements' column whether the performance targets had been achieved with a description of the reason, rather than its own description, and dollar equivalents being shown with peso amounts to provide the reader more clarity what had been spent in currency common to ADB's funding allocation. This validation assesses the PCR quality satisfactory.

C. Data Sources for Validation

39. The data sources for the validation were the two RRP program documents, ADB's completion report, the World Economic Forum's *Global Competitiveness Report 2014–2015*, the PDP, ADB's CPS, the Transparency International Corruption Perceptions Index, The Economist Intelligence Unit *2018 Infrascope* report, and recent media articles.

D. Recommendation for Independent Evaluation Department Follow-Up

40. ADB could consider a project performance evaluation report in 2022 to determine whether PPPs have played a bigger a role in expanding private participation in infrastructure projects or whether the national government or donor assistance still finance the majority of the country's infrastructure projects.