



Country Partnership Strategy

October 2011

Philippines
2011–2016

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 30 August 2011)

Currency Unit	–	peso (P)
P1.00	=	\$0.02
\$1.00	=	P42.46

ABBREVIATIONS

ADB	–	Asian Development Bank
CAPE	–	country assistance program evaluation
CPS	–	country partnership strategy
GDP	–	gross domestic product
LGU	–	local government unit
MDG	–	Millennium Development Goal
PDP	–	Philippine Development Plan
PPP	–	public–private partnership
TA	–	technical assistance

NOTE

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

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COUNTRY AT A GLANCE

Economic^a	2005	2006	2007	2008	2009	2010
GDP (\$ billion, current)	98.8	117.5	144.1	166.6	161.2	188.7
GDP per capita (\$, current)	1,159.2	1,351.4	1,624.1	1,841.7	1,747.8	2,007.4
GDP growth (% , in constant prices)	5.0	5.3	7.1	3.7	1.1	7.3
Agriculture	2.0	3.8	4.9	3.1	0.0	(0.5)
Industry	3.8	4.5	6.8	4.9	(0.9)	12.1
Services	7.0	6.5	8.1	3.1	2.8	7.1
Gross domestic investment (% of GDP)	14.6	14.5	15.4	15.3	14.6	15.6
Gross national saving (% of GDP)	16.6	19.0	20.3	17.5	20.4	20.1
Consumer price index (annual % change)	7.6	6.2	2.8	9.3	3.2	3.8
Liquidity (M2) (annual % change)	9.8	22.1	10.7	15.4	7.7	10.7
Overall fiscal surplus (deficit) (% of GDP)	(2.7)	(1.1)	(0.2)	(0.9)	(3.9)	(3.7)
Merchandise trade balance (% of GDP)	(7.9)	(5.7)	(5.8)	(7.7)	(5.5)	(5.5)
Current account balance (% of GDP)	2.0	4.5	4.9	2.2	5.8	4.5
External debt service (% of exports of goods and receipts from services and income)	13.5	12.0	10.1	9.7	10.4	8.8
External debt (% of GDP)	55.0	45.9	38.5	32.6	34.0	31.8
Poverty and Social^b	1995	2000	Latest Year			
Population (million)		68.6		76.5		94.0 [2010]
Population growth (annual % change)		2.4		2.2		2.0 [2010]
Maternal mortality ratio (per 100,000 live births)	121-207 [1990]			130-222		95-163 [2010]
Infant mortality rate (below 1 year/per 1,000 live births)		49		16		25 [2008]
Life expectancy at birth (years)						
a. Female		70.1		71.3		73.9 [2007]
b. Male		64.8		67.3		69.4 [2007]
Adult literacy (%)						
a. Female (15-24 years old)		96.9 [1990]		95.7		98.5 [2008]
b. Male (15-24 years old)		96.3 [1990]		94.5		97.0 [2008]
Primary school gross enrollment (%)		114.0		113.4		105.4 [2009]
Child malnutrition (% below 5 years old)		30.8 [1996]		30.6 [2001]		20.6 [2008]
Population below poverty line (%)		33.1 [1991]		24.9 [2003]		26.5 [2009]
Population with access to safe water (%)		73.0 [1990]		79.1		84.1 [2008]
Population with access to sanitation (%)		67.6 [1990]		79.3		89.0 [2008]
Environment^c	1990	1997-2002		Latest Year		
Carbon dioxide emissions (kilotons)		43,909		77,944 [2000]		74,958 [2005]
Carbon dioxide emissions per capita (tons)		1.0		1.0 [2000]		1.0 [2005]
Forest area (million hectares)		6.7		5.8 [2000]		7.2 [2005]
Urban population (% of total population)		48.8		60.1		65.0
ADB Portfolio (sovereign loans, as of 31 December 2010)			OCR	ADF	Total	
Total number of loans			8		8	
Net loan amount (\$ million, cumulative)			878.3		878.3	
Disbursements						
Total funds available for withdrawal (\$ million)			610.2		610.2	
Disbursed amount (\$ million, cumulative)			667.3		667.3	
Percentage disbursed (disbursed amount/total available)			52.2		52.2	

() = negative, [] = year(s) for which data apply, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, M2 = broad money, OCR = ordinary capital resources.

^a National Statistical Coordination Board (1985 base year for national accounts), National Statistics Office (2000 base year for Consumer Price Index), Bangko Sentral ng Pilipinas, Department of Finance, Bureau of Treasury, ADB *Key Indicators, Asian Development Outlook* database (accessed 31 March 2011). Gross national saving rate is calculated as the sum of the investment rate and the current account balance (all as a percent of GDP), which is similar to the approach used for the IMF. 2011. Philippines: Staff Report for the 2010 Article IV Consultation. Washington, D.C. <http://www.imf.org/external/pubs/ft/scr/2011/cr1159.pdf>

^b National Statistical Coordination Board. *Philippine Statistical Yearbook*, various issues. Manila; United Nations Development Programme. *Human Development Report*, various issues. New York; National Statistics Office. Sector Data. <http://www.census.gov.ph/data/sectordata/index.html> (accessed 31 March 2011); National Economic and Development Authority. 2011. *Philippine Development Plan, 2011-2016*. Manila. <http://devplan.neda.gov.ph>; National Economic and Development Authority and United Nations Development Programme. 2010. *Philippines Progress Report on Millennium Development Goals 2010*. Manila. <http://ph.one.un.org/pdf-files/MDG-Report-2010/MDG-National-Report-2010-1-29.pdf>; ADB Poverty and Development Indicators database (accessed 31 August 2011). National figures may differ from global estimates due to differences in methodology and input surveys.

^c World Bank. 2011. *World Development Indicators, 2011*. Washington, DC. <http://data.worldbank.org/data-catalog/world-development-indicators>; ADB estimates.

I. DEVELOPMENT TRENDS AND ISSUES

A. Country Background

1. **Political system.** Weak public institutions and inadequate accountability mechanisms are persistent challenges that have reduced the quality of governance and pose risks to effective development management in the Philippines. The decentralization legislation adopted in 1991 has resulted in the devolution of considerable autonomy and sources of finance to local governments, which is an important precondition for adequate service delivery in an archipelagic nation such as the Philippines.¹ The capacity to carry out this mandate varies considerably across local governments and regions, and fragility in some areas—particularly in conflict-affected areas of Mindanao—has affected service delivery.² The present government took office in June 2010 on a “no corruption, no poverty” platform centered on “A Social Contract with the Filipino People,”³ and has carried out a vigorous anticorruption drive and initiated significant governance reforms. The government’s commitment to good governance and sustainable fiscal management has increased investor confidence and trust in the public sector.

2. **Poverty and inequality.** The Philippines is a lower-middle-income country with a gross domestic product (GDP) per capita of \$2,007 in 2010.⁴ The human development index is 0.638, and Philippines ranks 97th out of 169 countries.⁵ Poverty and inequality have been recurrent challenges.⁶ In the late 1980s, poverty rates in the Philippines were about half the levels seen in other Southeast Asian countries. Since then, progress on poverty reduction has been achieved, but at a slower rate than in other countries, resulting in an estimated poverty rate (headcount index) of 26.5% in 2009 (up from 24.9% in 2003), while 45% of the population is vulnerable to falling into poverty.⁷ The Philippines exhibits one of the highest income inequalities in the region due to historically uneven distribution of assets and unequal access to opportunities. Poverty rates vary significantly between localities. While two-thirds of the poor live in rural areas, urban poverty is increasing due to rapid urbanization. Midterm progress on the Millennium Development Goals (MDGs) shows a mixed picture, and it is unlikely that some targets, such as universal primary education and maternal health, will be achieved.⁸ The country has made substantial progress in promoting gender equality, but challenges remain.⁹

¹ The Philippines consists of 7,107 islands; most of these (6,700) have a land area of less than 1 square mile (2.6 square kilometers). The majority of the population resides on the 11 largest islands. National Mapping and Resource Information Authority. Philippine Geography. <http://www.namria.gov.ph/philGeo.aspx>

² Fragility is understood as a situation with weak state capacity and/or weak state legitimacy that leaves citizens vulnerable to a whole range of shocks. The country faces the Moro and communist insurgencies. There are ongoing efforts to end the conflict in Mindanao and foster the economic development of lagging regions.

³ The election platform was publicly released on 28 November 2009. <http://www.gov.ph/the-republic/the-president/benigno-simeon-cojuangco-aquino-iii/platform-of-government/>

⁴ In 2010, the Philippines had a total population of about 94 million. At the current annual growth rate of 2.0%, this is expected to grow to about 105 million by 2016.

⁵ United Nations Development Programme. 2010. *Human Development Report 2010*. New York.

⁶ ADB. 2009. *Poverty in the Philippines: Causes, Constraints, and Opportunities*. Manila.

⁷ The poverty incidence among households increased from 20.0% in 2003 to 20.9% in 2009. The latest poverty data are from the 2009 Family Income and Expenditure Survey of the National Statistics Office and were published in February 2011. The 2009 survey uses a different methodology than earlier surveys. The latest assessment of vulnerability was published in: National Anti-Poverty Commission and National Statistical Coordination Board. 2005. *Assessment of Vulnerability to Poverty in the Philippines*. Manila.

⁸ Poverty Analysis; Country and Portfolio Indicators (accessible from the list of linked documents in Appendix 2).

⁹ Gender Analysis (accessible from the list of linked documents in Appendix 2).

B. Economic Assessment and Outlook¹⁰

3. **Economic growth.** The Philippines was an early leader in industrial and human development in East Asia in the 1950s and 1960s, but the country's long-term growth performance has not met expectations. During 2000–2010, real economic growth averaged 4.8%, which was higher than the 2.8% average of the previous decade, but insufficient to absorb new entrants to the job market; this resulted in high levels of unemployment (average of 7.6% in 2006–2007) and underemployment (average of 21.3% in 2006–2007). About 10% of the total population is located permanently or temporarily overseas as residents or workers.

4. **Fiscal performance.** The Philippines has suffered from recurrent fiscal imbalances, resulting in underprovision of infrastructure and social services. Fiscal consolidation during 2005–2007 was noteworthy, with the budget deficit declining from 2.7% of GDP in 2005 to 0.9% in 2008. The fiscal deficit rose in 2009 and 2010 as the government responded to weakening economic growth in the aftermath of the global financial crisis. Weak tax collection has been the principal cause of constrained fiscal space. Value-added tax reforms in 2005 boosted the tax effort and consequently public expenditure levels, but the economic slowdown and structural tax-reduction measures undertaken since 2008 have eroded most of those gains, with tax effort declining to 12.8% of GDP in 2010. An increase in tax effort through more stringent tax administration is the centerpiece of the government's medium-term fiscal consolidation program.

5. **Investment climate.** The Philippines has a weak investment climate. Total investments fell from 21.2% of GDP in 2000 to 15.6% in 2010 and public infrastructure investment averaged only about 2.1% of GDP in 2000–2010.¹¹ Competitiveness rankings and other investment climate diagnostics show that the major constraints to private sector growth continue to be inadequate infrastructure, corruption, cumbersome business procedures, poor tax and customs administration, barriers to market entry and competition, insufficient access of small and medium-sized enterprises to finance, weak property rights, high energy costs, and lack of equitable and effective regulation and enforcement, as well as skills gaps in certain economic sectors.¹² Despite its significant role in the economy, the private sector is not yet meeting its potential as a driver of higher and sustainable economic growth.

6. **Human capital.** Low public spending for social services, including education, health, and social protection, has resulted in insufficient and unequal access to opportunities as well as in skills deficiencies, with a negative impact on the inclusiveness of growth and the investment climate.¹³ The Philippines experienced stable economic growth during 2003–2009, but poverty incidence increased, bucking the worldwide trend of a close connection between economic

¹⁰ This section draws on the Economic Analysis (accessible from the list of linked documents in Appendix 2). The national income accounts have been revised as of 12 May 2011. A background note on the details and implications of the shift in base year is accessible from the list of linked documents in Appendix 2. The figures in this report are based on the unrevised figures (for constant prices).

¹¹ Investments grew by only 2% per annum in real terms from 2000 to 2005. Investment increased in 2006, and accelerated to reach a real growth rate of 12.4% in 2007. This growth continued until July 2008 (before the global financial crisis) and the subsequent slowdown in the economy in 2009. As investment is highly procyclical, it fell by 5.7% in 2009 and rebounded strongly in 2010, expanding by 17.0%.

¹² Private Sector Assessment; Country and Portfolio Indicators; Public Sector Management Subsector Assessment: Investment Climate (accessible from the list of linked documents in Appendix 2).

¹³ National government real capital expenditure for education declined continuously from 2000 to 2005, but recovered from 2006 onwards as a result of the improved fiscal situation. Public health spending, which is financed largely by local governments due to the devolution of the sector, declined since 1997.

growth and poverty reduction. The increase in poverty in the Philippines can be explained by growing disparities in the distribution of income and consumption during this period.¹⁴

7. **Environment, and vulnerability to climate change and disasters.**¹⁵ Poor governance and management, and inadequate livelihood opportunities for natural resource-dependent communities, have led to serious environmental degradation. Environmental degradation is aggravating the threat from climate change, which is already high due to the country's long coastlines, high concentration of population and economic activity in coastal areas, and heavy reliance on agriculture and natural resources.¹⁶ The Philippines ranks 3rd worldwide in terms of combined disaster risk exposure and vulnerability.¹⁷ From 1990 to 2008, the annual cost of direct damage from natural disasters was estimated to be between 0.7% and 1.0 % of GDP.¹⁸

8. **Public sector management and judiciary.** Weak public institutions and systems and insufficient budget resources have severely affected the quality and efficiency of public service delivery and economic regulation at all levels of government.¹⁹ Reforms in public procurement, public financial management, and results-based management are underway and progress in legislation and implementation was made, such as a move to zero-based budgeting to force departments to improve budget efficiency and targeting. But, many challenges remain to improve budget execution and reporting to realize results in public service delivery. For example, the legal basis for anticorruption is in place, but enforcement has been weak, undermining the credibility of the public sector. A vibrant civil society has played an important role in holding government accountable, but the capacity of the civil society is insufficient in some areas, particularly at the local level. Limited fiscal resources, weak institutional integrity, and low functional efficiency have limited access to the justice system, particularly by the poor, and more broadly have limited the effectiveness of the justice system. Greater trust in the justice system is critical to improving the country's investment climate.

C. Highlights of Previous ADB Country Strategy

9. **Strategic focus.** ADB's country strategy originally covered 2005–2007 but was extended by three years (until 2010) to align the ADB country programming cycle with the government's national planning cycle. The focus of the strategy was on fiscal consolidation, the

¹⁴ Poverty Analysis (accessible from the list of linked documents in Appendix 2); World Bank. 2011. Challenges and Options for 2010 and Beyond. *Philippines Discussion Notes*. Report No. 55655 PH. Washington, D.C. Other reasons may include weaknesses in GDP statistics, especially since a discontinuity after 2000 may have resulted in the "amazing growth statistics". See also: F. M. Medalla and K. R. L. Janoc. 2008. Philippine GDP Growth After the Asian Crisis: Resilient Economy or Weak Statistical System? *University of the Philippines School of Economics Discussion Paper*. No. 0802. Manila.

¹⁵ Environment Assessment; Sector Assessment: Agriculture and Natural Resources; Sector Assessment: Energy; Thematic Assessment: Climate Change and Disaster Risk Reduction (accessible from the list of linked documents in Appendix 2).

¹⁶ The Philippines coastline is 36,289 kilometers long, and is the world's fifth longest. Wikipedia, the free encyclopedia. Philippines. <http://en.wikipedia.org/wiki/Philippines>

¹⁷ Thematic Assessment: Climate Change and Disaster Risk Reduction (accessible from the list of linked documents in Appendix 2): Footnote 1.

¹⁸ Government of the Philippines, National Disaster Coordination Council. ADB. UN. 2008. *National Assessment on the State of Disaster Risk Management in the Philippines*. Final Report. October. Manila.

¹⁹ The perceived quality of governance has deteriorated significantly since 1998, ranking the country among the last in the region on many key governance indicators. Thematic Assessment: Good Governance and Political Economy (accessible from the list of linked documents in Appendix 2).

investment climate, governance, and the MDGs. ADB's strategic approach was to address binding policy and institutional constraints to development in these focal areas.²⁰

10. **Improved portfolio performance.** A significant cleanup of the poorly performing portfolio in the early 2000s and the adoption of quality-at-entry measures helped reduce the share of at-risk projects. However, there was mixed progress in addressing systemic obstacles to implementing projects in the Philippines—such as startup delays, ineffective flows of funds to local government units (LGUs) through intermediaries, and insufficient implementing agency capacity (especially at the LGU level).

11. **Assessment of past operations.** ADB's assistance was assessed *successful* overall in the country assistance program evaluation (CAPE), although sector performance varied.²¹ ADB provided effective support for fiscal reforms contributing to critically needed fiscal adjustments to stabilize the economy. This was achieved by supporting the introduction of the expanded value-added tax and by reducing the pressure on the budget resulting from large fiscal subsidies to the energy sector. These reforms enabled increased public spending on infrastructure and social services during 2006–2009.²² However, progress could not be sustained, as initial gains in tax collections were eroded by slowing economic growth in 2008–2009, with more effort needed to fill the expenditure gap and reach revenue mobilization potential. With ADB support, the government undertook far-reaching reforms in the power sector, but these have not yet translated into lower electricity rates for end users, impeding the investment climate.²³ The CAPE found that combining loans, technical assistance (TA), and advocacy was relevant, and effective steps have been taken to promote policy reforms and capacity development, especially for local government finance and budget reforms. The CAPE noted that to achieve critical development outcomes, the successful policy-based approach should be effectively mainstreamed and translated into a more holistic programmatic assistance in selected sectors.

12. **Lessons.** Key lessons can be summarized as follows: (i) invest in policy, institutional, and organizational reforms and address investment needs by sector; (ii) continue the successful approach of combining policy-based lending and capacity development support in critical national policy reform areas; and (iii) more vigorously implement the quality-at-entry system and address systemic obstacles in processing and implementing investment projects.²⁴

²⁰ During 2005–2010, ADB provided \$3,684.9 million in loans and \$35.3 million in technical assistance. From a sector classification perspective, more than half of new lending went to public sector management, followed by finance (15%), energy (13%), and health and social protection (12%). New lending for private sector operations was \$344 million in 2005–2010 (\$320 million for energy and \$24 million for the financial sector).

²¹ ADB. 2008. *Philippines Country Assistance Program Evaluation: Increasing Strategic Focus for Better Results*. Manila (accessible from the list of linked documents in Appendix 2). Results are summarized in Appendix 2 of the CAPE and in the country strategy 2005–2007 final review (accessible from the list of linked documents in Appendix 2). The CAPE rated ADB strategic positioning *satisfactory*, performance *satisfactory*, and contributions to development results *modest to substantial* in the top-down assessment; five areas of sector support were rated *successful*, and four sectors *partly successful*.

²² World Bank. 2011. *Philippines: Public Expenditure Review—Strengthening Public Finance for More Inclusive Growth*. Washington D.C., Manila (June). The study provides a detailed analysis of government spending on education, health, and infrastructure.

²³ Para. 2 of Sector Assessment: Energy (accessible from the list of linked documents in Appendix 2).

²⁴ A more detailed overview of how lessons have been incorporated into the country partnership strategy is available in the Country Strategy 2005–2007 Final Review (accessible from the list of linked documents in Appendix 2).

II. THE COUNTRY STRATEGY

A. Government's National Strategy

13. The Philippine Development Plan (PDP), 2011–2016 translates the “Social Contract with the Filipino People” (footnote 3) into strategies and programs.²⁵ Three broad strategies will be employed to achieve inclusive growth: (i) attaining high, sustained economic growth through a stable macroeconomic environment, rapid growth of industry, investments in infrastructure, and curbing corruption and enforcing the rule of law; (ii) providing equal access to development opportunities by investing in human capital, especially in education, health, and other basic social services; and by leveling the playing field through improving access to infrastructure, credit, land, technology, and other productive inputs; and (iii) formulating effective social safety nets to ensure both the protection and the promotion of extremely vulnerable groups. Managing climate change adaptation and disaster risks and food security are key PDP priorities. The PDP is results-based, and national targets have been identified.²⁶

B. ADB Country Strategy

14. **Main challenges.** Reducing poverty and eliminating the vulnerabilities of large sections of the population remain the principal challenges. Sustained high economic growth will be the overarching response to these challenges. Given that the relationship between economic growth and poverty reduction has been weak, the quality of growth deserves greater attention in addressing inequalities between regions and individuals. Weak governance has been a critical constraint holding the country back from achieving inclusive and rapid economic growth. Increasing the efficiency and effectiveness of the public sector will help address other binding constraints. Elevating the quality and rigor of public financial management and strengthening tax administration will enable greater public spending on infrastructure and social services.²⁷ In view of limited fiscal space, the government has launched a program to attract private infrastructure investment, drawing on the progress made in the early 1990s in promoting public–private partnerships (PPPs). Success of the PPP program is contingent on government policy and institutional reforms and improvements in the broader investment climate. There is an urgent need to increase the resilience of the Philippines to climate change and natural disasters. The government has already initiated significant policy and institutional responses, but a more determined and cohesive effort is needed.

15. **Strategy statement.** ADB's partnership with the Philippines is based on the intersection of PDP priorities with Strategy 2020²⁸ and is defined to be relevant and responsive to the needs of a lower-middle-income country. The key objective of ADB support is to help the Philippines achieve high, inclusive, and sustainable growth. Of the five core operational areas of Strategy 2020, the proposed lending program will focus on infrastructure, environment, and education. Regional advisory TA will support regional cooperation and integration.²⁹ ADB will continue the approach of combining policy-based lending with capacity development to support broader governance reforms while gradually expanding sector-level policy and investment lending. The

²⁵ Government of the Philippines, National Economic and Development Authority. 2011. *Philippine Development Plan, 2011–2016*. Manila (publicly released on 27 May). <http://www.neda.gov.ph/PDP/2011-2016/default.asp>

²⁶ Key country development goals are listed in the results framework provided in Appendix 1.

²⁷ ADB. 2011. *Asian Development Outlook 2011*. Manila. p. 201.

²⁸ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2010*. Manila.

²⁹ Financial inclusion and efficiency of intermediation remain of concern and may be addressed through TA and private sector operations.

objective is to enhance the direct contribution of the ADB–Philippines partnership in the PDP results areas while also addressing selective longer-term governance reforms. ADB is increasingly testing innovative and knowledge solutions, drawing on its position to identify and influence trends in the Asia and Pacific region, its capacity for interdisciplinary and integrated approaches, its ability to blend knowledge with development finance, and its capacity to facilitate knowledge exchange and cooperation among developing countries in the region. ADB will remain responsive to the needs of the country in the case of exogenous shocks, such as disasters, and the effects of global or regional economic crises. During the country partnership strategy (CPS) implementation, ADB will strengthen partnerships through (i) intensified engagement in the Philippine Development Forum and its working groups; (ii) stakeholder consultations; and (iii) establishment of an advisory board of eminent people, including academics and representatives of civil society organization, to advise on ADB’s country program and operations and on ways to strengthen development effectiveness in the context of country developments.

16. Improved investment climate and private sector development. The investment climate will be improved and private sector development expanded through the scaling up of transport and energy infrastructure investments and through support for policy reforms that (i) improve the quality of competition and regulation, (ii) enhance fiscal policy and expenditure management, and (iii) strengthen legal and judiciary reforms.³⁰

17. More efficient, effective, and equitable social services delivery. ADB will increase support for the efficient, effective, and equitable delivery of social services. Drawing on CAPE lessons, experience with the application of policy-based approaches in the health sector would guide ADB support for policy, institutional, organizational, and investment needs in other social sectors at national, sector, and local levels. Supply-side interventions in social sectors will be complemented by demand-side interventions via ADB’s medium-term support for social protection. The support will be aligned with the government’s new social protection reform agenda, in particular the development and implementation of an improved social protection framework and a targeting system for the poor. Policy reforms will address decentralization and local governance, with special emphasis on intergovernmental fiscal relations, local government budgets, and performance at the LGU and sector-agency levels.³¹ ADB will also focus on strengthening capacity in lagging regions.

18. Reduced environmental degradation and vulnerability to climate change and disasters. ADB support in the area of environment, climate change, and disaster risk management will prioritize (i) strengthening ecosystem functions and the preservation of natural resources; (ii) enhancing climate change adaptation and disaster risk management, and in particular (a) undertaking cross-sector pilot activities on adaptation to build resilience to a changed climate; (b) supporting the government in gaining access to concessionary resources being made available for greenhouse gas mitigation in the energy, transport, and land use sectors at the global level (e.g., the Clean Technology Fund); and (c) working with the private sector and the government on possible PPP solutions; and (iii) improving sustainable environmental infrastructure in urban areas.

³⁰ Public Sector Management Subsector Assessment: Investment Climate; Legal and Judiciary Reforms; Fiscal Policy (accessible from the list of linked documents in Appendix 2).

³¹ Public Sector Management Subsector Assessment: Decentralization and Local Governance (accessible from the list of linked documents in Appendix 2).

19. **Strengthened governance and reduced corruption.** ADB will continue and deepen its efforts to strengthen governance and reduce corruption at the country, sector, and project levels. The main priorities for reform include (i) legal and regulatory reforms in budget execution and reporting; (ii) strengthening national and LGU capacity for revenue generation, planning, budgeting, public financial management, and procurement; (iii) further institutionalizing results-based management reforms in key sector and oversight agencies; (iv) strengthening the capacity of accountability institutions, including the judiciary; and (v) capacity development for social accountability measures with an emphasis on procurement, budget transparency, accountability, and performance monitoring. ADB will support constructive engagement between civil society organizations and sector agencies as well as local governments.

III. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

20. **Lending, cofinancing, and technical assistance.** The Philippines is an ordinary capital resources-only developing member country. Lending during 2011–2016 will amount to about \$3.8 billion. A lending program of \$1,860 million or \$620 million annually is proposed for 2012–2014.³² The government is aware that processing will be subject to financing availability. The annual allocation can be leveraged through the use of official and commercial cofinancing.³³ The use of credit enhancement products—including guarantees, guarantee syndication and loan syndication products—can mobilize private sector capital and should also be explored when considering commercial cofinancing options. ADB TA will help the government prepare projects, support project implementation, implement reforms, and strengthen institutional capacity in line with the CPS sector and thematic priorities. While TA programming is based on an indicative planning figure of \$5 million per year, ADB will actively seek TA cofinancing. The staffing needs to support the program are described in the Country Operations Business Plan (footnote 32).

21. **Cost-sharing arrangements.** Cost-sharing limits of 99% for both loans and TA were approved for application until 2012;³⁴ the rationale for the cost-sharing arrangements remains valid, and the cost-sharing limits will therefore be extended until 2016.

B. Program Overview

22. **Sector selection.** The support will be extended through five priority sectors: (i) transport; (ii) energy; (iii) education; (iv) agriculture and natural resources (with operations limited to the Strategy 2020 core area of environment); and (v) water supply, and other municipal infrastructure and services. Support to public sector management will be cross-cutting in nature.³⁵

23. **Infrastructure provision.** Through its private and public sector operations, ADB will primarily enhance environmentally sustainable transport and energy infrastructure. By improving

³² Country Operations Business Plan, 2012–2014 (accessible from the list of linked documents in Appendix 2).

³³ If applicable, cofinancing will be explored with ADB's Office of Cofinancing Operations at the preconcept paper stage. If not applicable, the concept paper will explain why cofinancing is not included in the financing structure of the project.

³⁴ Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters (accessible from the list of linked documents in Appendix 2).

³⁵ Information on the CPS preparation process is provided in: Country Partnership Strategy Formulation (accessible from the list of linked documents in Appendix 2).

the condition of the road network, strengthening multimodal transport systems, and promoting sustainable urban transport, ADB will enable movements of goods and people, thereby facilitating trade, investment, and employment.³⁶ The interventions will support strengthening of relevant sector institutions to improve regulation (e.g., for improved road safety) and tighten internal controls and financial management. In line with CAPE recommendations, ADB foresees significantly increasing assistance for policy reforms and investments for renewable energy, energy use efficiency improvement, and diversification of energy sources, which will ultimately contribute to climate change mitigation.³⁷

24. Competition, quality of regulation, and public–private partnerships. Building on ongoing policy dialogue, ADB support for policy reforms will complement infrastructure investments to improve the investment climate. ADB will assist the government in designing and implementing a comprehensive competition policy. To strengthen regulatory efficiency and reduce the cost of regulation, ADB will help to strengthen government capacity to conduct systematic regulatory reviews and impact assessments. ADB will also help strengthen the overall environment for PPPs through support to the legal and regulatory framework, capacity development for PPP-related institutions, and development of bankable projects.³⁸ The program will include strengthening skills development to better reflect labor market needs.

25. Fiscal policy, public expenditure management, and judiciary. ADB will support fiscal policy and public expenditure management, in particular tax administration reforms; reforms aimed at addressing fiscal risks; and performance-based budget allocation, execution, and control at the sector level.³⁹ ADB will also continue to support governance reforms in justice sector agencies. The focus will remain on increasing fiscal allocations to the justice sector combined with more transparent and tighter management of those resources for agreed-upon priorities, and strengthening the integrity and efficiency of justice sector agencies.⁴⁰ This will help reduce red tape and strengthen the rule of law, thereby contributing to the overall objective of high, inclusive economic growth.

26. Education and social services. In the education sector, emphasis will be placed on basic education, including supporting the implementation of the extension of the basic education cycle from 10 to 12 years. The interventions will aim to reverse recent declines in key education indicators and will emphasize regional and income-based inequalities in MDG achievement. ADB will assist in the development of innovative approaches (such as PPPs), and development and implementation of reforms in higher education. ADB support for the government's expanding social protection program will help channel development finance to the most vulnerable sections of the population, which have not directly benefited from economic growth. It will also help in increasing the demand for and use of education and health services by the poor.⁴¹

27. Sustainable environment, climate change adaptation, and disaster risk management. ADB will support improved integrated natural resource management in critical

³⁶ Sector Assessment: Transport (accessible from the list of linked documents in Appendix 2).

³⁷ Sector Assessment: Energy (accessible from the list of linked documents in Appendix 2).

³⁸ Public Sector Management Subsector Assessment: Investment Climate (accessible from the list of linked documents in Appendix 2).

³⁹ Public Sector Management Subsector Assessment: Fiscal Policy (accessible from the list of linked documents in Appendix 2). Political economy issues will be analyzed to avoid problems related to the sustainability of reforms.

⁴⁰ Public Sector Management Subsector Assessment: Legal and Judiciary Reforms (accessible from the list of linked documents in Appendix 2).

⁴¹ Sector Assessment: Health and Social Protection; Sector Assessment: Education (accessible from the list of linked documents in Appendix 2).

watersheds and other habitats. ADB will support the government in assessing options for setting up viable disaster-risk financing strategies to proactively manage, reduce, and transfer disaster risks. ADB's approach will be to mainstream disaster-risk management and climate change adaptation into relevant ADB-financed investment projects.⁴² In the area of urban environmental infrastructure, ADB will support policy and institutional reforms and investment needs to ensure sustainable financing of infrastructure and foster development of sustainable communities. The objective of ADB assistance will be to strengthen water and sanitation, waste management, and flood control systems.

28. Private sector operations. Private sector operations (including advisory services under TAs to private sponsors) will continue to be responsive to the needs of the private sector and oriented to government priorities, with a focus on catalytic initiatives, thereby stimulating private sector development. The Private Sector Operations Department and the Southeast Asia Department will collaborate and, if needed, suitably augment the other department's operations to amplify the development impact of their support to the private and public sectors, respectively.⁴³ Infrastructure operations will emphasize the development of critical national and local infrastructure projects in (i) energy, (ii) water and sanitation, (iii) transport (including toll roads, ports, and mass transit systems), and (iv) education. In the financial sector, ADB's private sector operations will focus on (i) infrastructure and housing finance; and (ii) well-targeted, innovatively designed, and market-driven financing for micro, small, and medium-sized enterprises.⁴⁴ Private sector operations will also support renewable energy and energy efficiency projects either through direct assistance or through investments in private equity funds operating in the Philippines. Support for PPP opportunities across all operations will be emphasized.

29. Managing development effectiveness. ADB values and supports government leadership of the country's development agenda and will ensure alignment of ADB assistance with the government's development priorities. Under the government's leadership, ADB continues to coordinate its assistance with other development partners through regular direct consultations, and active engagement in the Philippine Development Forum and other relevant development partner coordination bodies at sector and thematic level. Consistent with the Paris Declaration and the Accra Agenda for Action, country systems for planning, implementation, public financial management, procurement, monitoring, safeguards, and accountability for development results are continuously assessed and strengthened throughout ADB operations.⁴⁵

30. Attention to portfolio management. To improve portfolio quality, ADB will (i) further align its portfolio reviews with the government's official development assistance portfolio review process, and continue to analyze systemic bottlenecks in cooperation with other development partners with a view to their rapid resolution; (ii) apply project readiness filters to improve quality-at-entry; and (iii) systematically address difficulties in channeling of ADB funds to LGUs.

⁴² Assessment methodologies and screening tools on disaster risk management and climate change are available to project processing teams, and are continuously reviewed for alignment with country systems.

⁴³ Where appropriate, the Private Sector Operations Department may provide TA to the private sector (including clients and those directly involved in actual transactions) to facilitate infrastructure project development, address entry barriers, improve governance, and assist with capacity development. These funds would be subject to reimbursement should the project be implemented by the recipient of the TA.

⁴⁴ Housing finance may include financing for low- or moderate-income housing developments, and the provision of long-term lending or guarantees to commercial banks to facilitate mortgage onlending, drawing on an in-depth analysis of institutional constraints and using innovative designs.

⁴⁵ An overview of the country safeguard system is provided in the Assessment of Country Safeguards Systems Summary (accessible from the list of linked documents in Appendix 2).

In view of the weak capacities of LGUs, ADB will intensify supervision of projects implemented through them.

31. **Operationalizing thematic priorities and improving quality-at-entry.** Mainstreaming private sector development, gender and development, governance, capacity development, and regional cooperation throughout operations is an essential aspect of quality-at-entry. To catalyze private investments, all investment loans will be routinely analyzed for PPP potential. ADB will promote gender equality by adopting gender mainstreaming across all sectors. Project-specific gender action plans with gender design features, targets, and indicators will support women's participation and access to benefits in pre-identified projects. Governance risk assessments and mitigation plans at the country and sector levels will continuously be expanded. All projects in high-risk sectors will be based on an in-depth governance risk assessment and mitigation plan. Systematic assessments will be conducted of capacity to achieve agreed-upon results, particular at the sector and LGU levels.⁴⁶ To promote regional cooperation and integration ADB will continue to support the Philippines' engagement in the Association of South East Asian Nations (ASEAN), the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), and the Coral Triangle Initiative. In particular, ADB will seek to support infrastructure connectivity, promote trade and investment, and enhance regional management of marine resources.⁴⁷

IV. RESULTS MANAGEMENT

A. Monitoring

32. ADB will monitor the implementation of the CPS using the country and sector results frameworks, which will be updated annually during country portfolio review missions and country programming missions and reported in related documentation.⁴⁸ The sector outcome data will be compiled by sector specialists in collaboration with the sector agencies. ADB will monitor the continued alignment of the CPS with the government's objectives. The updated results framework will be used to confirm and modify the CPS and the country program.

B. Risks

33. Shortfalls in revenue collections may necessitate cutbacks in public spending, threatening the achievement of PDP objectives. To help mitigate the risks, ADB will continue to support the government in strengthening revenue collection and improving expenditure efficiency. Governance risks are severe and include financial management, procurement, and corruption risks. A more detailed analysis of risks and mitigation measures is provided in the risk assessment and risk management plan.⁴⁹ Project implementation continues to face significant systemic hurdles as outlined in para. 10. Mitigation measures have been outlined in para. 30. Despite recent improvements in the investment climate, private sector operations continue to be subject to risks related to the investment climate as outlined in para. 5. Risk mitigation measures are provided in para. 16.

⁴⁶ In subnational situations of fragility, a conflict-sensitive approach to development activities will be used to prevent potential risks linked to social conflicts. Specifically, a "peace filter" will be used to identify risks and mitigating measures, and capacity development plans will be included in project designs, where appropriate.

⁴⁷ Regional Cooperation and Integration Assessment Summary (accessible from the list of linked documents in Appendix 2).

⁴⁸ Country Partnership Strategy Results Framework (Appendix 1). Sector results frameworks are provided in the sector assessments (accessible from the list of linked documents in Appendix 2).

⁴⁹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

Country Development Goals^a			
1. GDP growth accelerating to an annual average of 7%–8% for 2011–2016 2. Annual job creation of 1 million jobs (2007–2010 baseline: 0.853 million annual average increase) or 2.75% annual labor force growth and women's share of nonagricultural wage employment equals 50% 3. Poverty incidence reduced from 33.1% in 1991 and 26.5% in 2009 to 16.6% by 2015 4. Improvement in human development index from 0.638 in 2010 to 0.670 in 2016 5. National government fiscal deficit reaches 2% of GDP by 2013 and maintains this level until 2016 6. Consolidated public sector deficit reaches 1.5% of GDP by 2013			
Sectors Supported for ADB Support			
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities
1. Transport (Strategy 2020 Core Area 1: Infrastructure)			
Increased and more efficient movement of goods and people, including interisland connectivity	Improved accessibility of transport infrastructure and services <ul style="list-style-type: none"> – Average road user cost reduced to P17/km in 2017 (2008 baseline: P21.17/km) – % of roads in good and fair condition increased to 80% in 2017 (2008 baseline: 55%) 	National roads, road safety, road maintenance, road transport policies and reforms; urban public transport; environmental concerns in the transport sector; multimodal transport facilities; sector-wide management and reforms (governance), PPPs	\$262 million, 10% of total envelope ^b of which: GRO: 100% GOV: 100% CAD: 100%
2. Energy (Strategy 2020 Core Area 1: Infrastructure; Core Area 2: Environment)			
Reduced energy consumption from environmentally unsustainable energy sources and improved energy efficiency	Improved energy efficiency <ul style="list-style-type: none"> – Transport sector emissions reduced by 230,000 tons in 2015 (2010 baseline: 1,870,000 tons) 	Renewable energy; energy efficiency and conservation; energy sector development; rural electrification	\$200 million, 8%, of total envelope, ^b of which: GRO: 100% ENV: 100% CAD: 100%
3. Education (Strategy 2020 Core Area 5: Education)			
Improved access, efficiency, and quality of basic and post-basic education	Improved access and quality of basic education <ul style="list-style-type: none"> – Net enrollment rate for grades 7–10 up to 93.3% in school year 2015/16 (2009/10 baseline: 59.5%) – Completion rate for grades 7–10 up to 75.5% in school year 2015/16 (2009/10 baseline: 73.7%) – Mean national achievement test scores for secondary students increased to 75.0% in school year 2015/16 (2009/2010 baseline: 45.6%) 	School rehabilitation and building; equipment and education materials; scholarships; support to disadvantaged groups; system reforms and policies in secondary education; sector-wide reforms and policies for basic and post-basic education;	\$300 million 12% of total envelope ^b of which: SOC: 100% GEN+EGM: 100% GOV: 100% PSD: 100%
4. Agriculture and Natural Resources (Strategy 2020 Core Area 2: Environment)			
Ensured management of natural resources	Improved conservation, protection, rehabilitation, and management of natural resources <ul style="list-style-type: none"> – 63 million hectares land degradation hot spots with developed sustainable land management practices in 2016 (2010 baseline: 53 million hectares) 	Land-based natural resource management; water-based natural resource management	\$275 million, 11% of total envelope ^b of which: GRO: 33% SOC: 33% GEN+EGM: 67% GOV: 33% ENV: 100% CAD: 67%

Sectors Supported for ADB Support			
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities
5. Water Supply and Other Municipal Infrastructure and Services (Strategy 2020 Core Area 2: Environment)			
Improved access of population to water, sanitation, and waste management facilities	<p>Enhanced access of population to water, sanitation, and waste management facilities and services</p> <ul style="list-style-type: none"> – 86.6% percentage of population with access to potable water in 2016 (2007 baseline: 82.9%) – 83.3% percentage of population with access to basic sanitation in 2016 (2008 baseline: 76%) <p>Improved access of urban population to adequate solid waste disposal</p> <ul style="list-style-type: none"> – Share of local government units served by sanitary landfills increased to 7.8% in 2016 (from 2.7% in 2010) 	Improved access of population to water, sanitation, and waste management facilities	\$190 million, 8% of total envelope, ^b of which: GRO: 37% SOC: 63% GEN+EGM: 100% ENV: 100% CAD: 37%
6. Public Sector Management (Strategy 2020 Driver of Change)			
Improved availability and more efficient use of public finances	<p>Improved investment climate and private sector development</p> <ul style="list-style-type: none"> – 20% investment–GDP ratio by 2016 (2010 baseline: 15.6%) – At least five major PPPs reach contractual closure by 2016 (2010 baseline: 0) <p>Improved decentralization and local governance</p> <ul style="list-style-type: none"> – Increase in real property tax collections by 20% in 2015 (2010 baseline: P29.61 billion) <p>Improved fiscal policy</p> <ul style="list-style-type: none"> – Tax–GDP ratio of 16% in 2016 (2009 baseline: 12.8%) <p>Improved stakeholder participation</p> <ul style="list-style-type: none"> – 22 departments or agencies conduct budget consultations with CSOs, private sector, and other stakeholders by 2016 (2011 baseline: 6 national government agencies and 3 government-owned and/or government-controlled organizations) 	Policy and strategy formulation, reforms and restructuring, macroeconomic management, public expenditure and fiscal management, revenue mobilization; accounting and auditing; civil society participation in national affairs; decentralization and devolution; legal and judiciary reforms; aid effectiveness and aid coordination	\$1.2 billion, 48% of total CPS envelope ^b of which: GRO: 75% GEN+EGM: 83% GOV: 42% PSD: 58% CAD: 100%

ADB = Asian Development Bank, CAD = capacity development, CPS = country partnership strategy, CSO = civil society organization, EGM = effective gender mainstreaming, ENV = environmental sustainability, GDP = gross domestic product, GEN = gender equity, GOV = governance, GRO = economic growth, km = kilometer, LGU = local government unit, PPP = public–private partnership, PSD = private sector development, SOC = social development.

^a These goals are specified in the Philippine Development Plan. In some areas, ADB would consider achieving lower targets—such as 5%–6% annual economic growth or 18% poverty incidence by 2015—to be a significant achievement.

^b The resource envelope reflected in the results framework accounts for 97% of the 2011–2014 resource envelope. The remainder is a disaster risk finance loan, which contributes to Strategy 2020 core area 2 (environment).

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=PHI-2011>

1. Economic Analysis (Summary)
2. Poverty Analysis (Summary)
3. Gender Analysis (Summary)
4. Environment Assessment (Summary)
5. Private Sector Assessment (Summary)
6. Sector Assessment (Summary): Transport
7. Sector Assessment (Summary): Energy
8. Sector Assessment (Summary): Education
9. Sector Assessment (Summary): Agriculture and Natural Resources
10. Risk Assessment and Risk Management Plan (Summary)
11. Country and Portfolio Indicators
12. Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters
13. Country Partnership Strategy Formulation
14. Country Strategy Final Review
15. Country Operations Business Plan
16. Country Assistance Program Evaluation

Supplementary Documents

17. Public Sector Management Subsector Assessment (Summary): Investment Climate
18. Public Sector Management Subsector Assessment (Summary): Fiscal Policy
19. Public Sector Management Subsector Assessment (Summary): Legal and Judiciary Reforms
20. Public Sector Management Subsector Assessment (Summary): Decentralization and Local Governance
21. Sector Assessment (Summary): Health and Social Protection
22. Sector Assessment (Summary): Water Supply and Other Municipal Infrastructure and Services
23. Sector Assessment (Summary): Finance
24. Thematic Assessment (Summary): Good Governance and Political Economy
25. Thematic Assessment (Summary): Climate Change and Disaster Risk Reduction
26. Strategy 2020 Core Operational Area Assessment (Summary): Regional Cooperation and Integration
27. Philippines: Critical Development Constraints
28. Information Note on Revisions of National Accounts in 2011 and Implications for the Country Partnership Strategy
29. Assessment of Country Safeguards Systems (Summary)