

Development
Effectiveness
Brief

Philippines▶

A New Horizon for One of Asia's Most Promising Nations

Asian Development Bank

An aerial photograph showing a wide, multi-lane highway stretching towards a large mountain in the distance. A toll plaza with several lanes is visible in the middle ground. The surrounding landscape is a mix of green fields and some urban development.



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Note: In this report, “\$” refers to US dollars.

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Philippines

Development Indicators

Non–Millennium Development Goals

Population (million) (2010)	94.0
Annual population growth rate (%) (2008–2010)	1.9
Population in urban areas (%) (2009)	65.7

Millennium Development Goals

Population living on less than \$1.25 a day (%) (2006)	22.6
Population living below the national poverty line (%) (2009)	26.5
Adult literacy rate (%) (2008)	97.8
Population using an improved drinking water source (%) (2008)	84.1

Sources: ADB. 2011. *Basic Statistics 2011*. Manila; ADB. 2011. *Key Indicators for Asia and the Pacific*. 2011. Manila; *Poverty Statistics 2009*. National Statistical Coordination Board. Manila.

The Philippines and ADB: Strong Partners from the Beginning

The Philippines has historically been seen as one of Asia's most promising nations, though it has faced momentous political and economic shocks in recent decades. By all accounts, it has not blossomed into the prosperous nation envisioned by some. But many see the country as entering a new era of economic prosperity and equitable development. The Philippines has had a difficult economic history. Unlike many of its dynamic neighbors in Southeast Asia, the Philippines for years maintained an inward-looking development strategy that emphasized import substitution and capital-intensive industrialization, neglecting its comparative advantage in labor-intensive industries. This, in addition to the many internal and external shocks it has suffered, has culminated in decades of low economic growth and persistent widespread poverty. This situation appears to be changing.

Economic growth has improved since 2000, due in part to an expanded service sector. Average gross domestic product (GDP) growth improved to 5% during 2001–2007 from about 3% during 1990–2000. After a slump in growth during the global downturn, the country saw a strong recovery in 2010 with a GDP expansion of 7.6%, driven in part by private consumption. This was supported by remittances from overseas workers, which grew by 8.2% to \$18.8 billion. Investment was another key driver of economic expansion in 2010, with the fixed capital–GDP ratio rising to 20.5%, the highest in 10 years. Upgrades in the Philippines' sovereign credit ratings support the investment environment. Standard & Poor's raised the Philippines' long-term foreign currency debt rating in November 2010 to BB, or two notches below investment grade. In June 2011, Moody's raised the country's foreign and local currency long-term bond ratings from Ba3 to

Before



After



Pasig River Rehabilitation Commission

Before and after photos of Pineda Linear Park in Pasig City



Rita Festin

Before Panabo had its terminal, it used this old gym as a terminal for 8 years



Rita Festin

Facade of the Panabo Integrated Bus and Jeepney Terminal



Rita Festin

Buses line up at the terminal

Ba2 (two notches below investment grade) and Fitch raised the long-term foreign currency rating from BB to BB+ (one notch below investment grade). The ratings agencies cited the stronger external position, well-managed inflation, and improved prospects of economic reform.

Notwithstanding the strong economic rebound in 2010, development challenges remain. The country suffers from persistent poverty and poor job creation, which have driven nearly one-fourth of the country's labor force overseas. The country has responded to these challenges with a series of national development strategies, the most recent of which was approved in March 2011. The Philippine Development

Plan 2011–2016 focuses on the achievement of inclusive growth—defined as economic expansion that benefits all levels of society—through employment generation and poverty reduction, with a focus on good governance and anticorruption measures. Specifically, the plan seeks to boost competitiveness to generate employment, improve access to financing, invest in physical infrastructure, promote transparent and responsive governance, and develop human resources through improved social services.

The Philippines is a founding member of the Asian Development Bank (ADB) and holds a special place as the home to its headquarters. ADB has been one of the key development partners of the Philippines since its creation in 1966. Since 1986, when a new democratic government took over the Philippines, and into the 1990s, ADB's operational strategy has emphasized social and environmental concerns, balanced regional development, and poverty reduction. The most recent country partnership strategy, 2011–2016 and the

The Philippine Development Plan 2011–2016 focuses on the achievement of inclusive growth—defined as economic expansion that benefits all levels of society—through employment generation and poverty reduction, with a focus on good governance and anticorruption measures.

country operations business plan, 2011–2013 have been carefully crafted to be in line with the development strategies of the Philippines. The key objective of ADB in the coming years will be to support high, inclusive, and sustainable growth in the country. Lending will focus on infrastructure, environment, and education. ADB is expected to 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 Philippines and
ADB: Strong Partners
from the Beginning



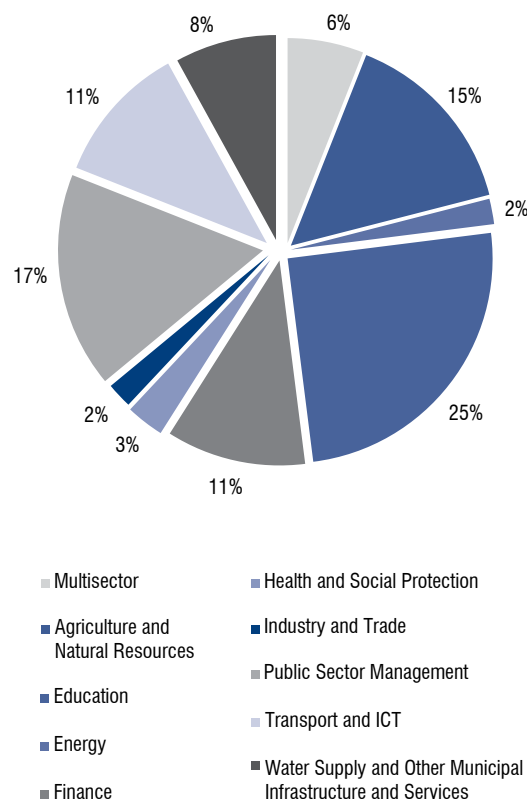
Richard Bolt

Agusan river basin in Mindanao

The key objective of ADB in the coming years will be to support high, inclusive, and sustainable growth in the country. Lending will focus on infrastructure, environment, and education. ADB is expected to 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.

A cornerstone of the Philippines' development strategy, which ADB's programs support, is the promotion of inclusive growth. An example of this is the Microfinance Development Program, a \$150 million ADB-supported project in the Philippines that ran from November 2005 to December 2007. The program was designed to make microfinance services more accessible, improve household incomes, and reduce the vulnerability of the poor. The program, which was rated *successful* by ADB's Independent Evaluation Department (IED), helped more than double the number of active microfinance clients, from 2.4 million in December 2006 to 5.5 million in December 2008. It is also credited with promoting employment, with 2.6 million jobs created during the same period.

Sector Distribution of Cumulative ADB Lending to the Philippines
(as of 31 December 2010)



ICT = information and communication technology.
Source: ADB.

Table 1 Loan Approvals and Disbursements in the Philippines (\$ million)

Loan Approvals							
	1969–2004	2005	2006	2007	2008	2009	2010
OCR	7,310.3	180.0	650.0	583.8	820.0	1,176.1	600.0
ADF	1,108.7	–	–	–	–	–	–
Total	8,419.0	180.0	650.0	583.8	820.0	1,176.1	600.0
Loan Disbursements							
OCR	5,061.8	276.1	835.9	419.4	853.2	1,317.5	114.1
ADF	938.5	3.7	0.8	–	–	–	–
Total	6,000.3	279.8	836.7	419.4	853.2	1,317.5	114.1

– = nil, ADF = Asian Development Fund, OCR = ordinary capital resources.

Note: Loan approvals and disbursements include both sovereign and nonsovereign lending.

Source: ADB.

Achieving Development Goals and Poverty Reduction

ADB's portfolio in the Philippines has evolved in recent years from supporting budget operations that encourage structural reforms in the country's financial system and government to direct project lending. From 2005 to 2010, ADB lent \$3,685 million in government-backed loans, about 83% of which were program loans. Currently, the active portfolio consists of

eight loans totaling \$881.6 million, including a program loan for \$200 million and seven project loans for \$681.6 million. About 53% (by amount) of the portfolio is in the health and social protection sector, followed by the finance (23%), agriculture and natural resources (20%), and energy (4%) sectors.

Table 2 Development Outputs from ADB-Supported Projects in the Philippines

Sector/Indicator	Outputs Achieved 2004–2011
Education	
Classrooms built or upgraded (number)	4,359
Associated facilities built or upgraded (number)	1,784
Learning institutions built or upgraded (number)	36
Teachers trained (number)	25,537
Students benefiting (number)	1,309,314
Energy	
Installed energy generation capacity (megawatt equivalent)	450
Transmission lines installed or upgraded (km)	78
Finance	
Microfinance accounts opened/end borrowers reached (number)	8,034
Microfinance loans provided (amount in \$ million)	222
SME loan accounts opened/end borrowers reached (number)	11,030
Transport	
Expressways built or upgraded (km)	84
National highways and provincial, district, and rural roads built or upgraded (km)	4,709
Beneficiaries from road projects (number)	26,894,020
Water	
Water supply pipes installed or upgraded/length of network (km)	6,587
New households served with water supply (number)	906,957
Households served with new sanitation (number)	64,375
Land improved through irrigation services, drainage, and flood management (hectare)	43,330

km = kilometer, SME = small and medium-sized enterprises.

Note: Outputs exclude probable outputs of ADB budget support through program loans, as these are not easily identified or attributed.

Source: ADB staff estimates.

Transport—Moving toward Modernity

Transport systems have a crucial role in supporting the economic development of the widely dispersed regions of the Philippines. The lack of modern infrastructure and reliable, safe, and efficient transport services has, over the years, significantly hampered the movement of passengers and cargo throughout the country. This has limited direct internal and external trade links and has served as a major constraint to increased regional economic growth. This is particularly true in many poor rural areas of the Philippines, where adequate accessibility could lower marketing costs for local agricultural products, improve access of the local population to social services and economic opportunities, and be the catalyst for investments to develop local resources.

Roads are a key aspect of the transport infrastructure backbone of the country. Roads are the dominant form of transport in the Philippines, accounting for 53% of freight ton-kilometers and 89% of passenger ton-kilometers. The Philippines has a total road

network of about 200,000 kilometers (km), including about 30,000 km of national roads. About 79% of the national arterial roads are paved, and 48% of these require rehabilitation. The Government of the Philippines has recognized the importance of road transport for economic development and has, since the 1970s, implemented road construction and improvement programs. ADB has been a key partner in this effort, providing 29 loans totaling more than \$1.4 billion, or about 11% of its loan portfolio to the transport sector.

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Achieving Development Goals
and Poverty Reduction



Eric Sales

ADB has been a key partner in the development of roads in the Philippines, providing more than \$1 billion worth of funding



Richard Bolt

Road construction in New Corrella, Davao del Norte supported by ADB

On the picturesque coast of the southern Philippine island of Palawan, this impact is directly felt by those who fish the waters of Honda Bay. By the late 1990s, the bay had been overfished, and fishers in the area were struggling to feed their family with what little they could pull out of the ocean. To address the situation, the city government organized a program to reorient the fishing boats to tour boats that would bring visitors on island-hopping tours around the bay. A cooperative was formed in 1997 with 27 members and 40 boats, which served about 11,000 tourists that year.

The new income stream generated by providing tourist services was welcomed by fishing families, says Annaliza Magolino, vice-president of the Honda Bay Boat Owners Association. But business really took off when the road was improved several years ago from Palawan's capital city, Puerto Princesa, where the airport and most hotels are located, to Honda Bay.

"Before the road was fixed, it was a difficult task for tourists to get to Honda Bay," said



Richard Bolt

A farm-to-market road completed by the Infrastructure for Rural Productivity Enhancement Sector Project in Agusan del Norte



Rita Festin

The Palawan North Road under the Sixth Road Project starts from Puerto Princesa City to northern Palawan. Part of it leads to the Sabang port, which is the jump-off point to the famous Underground River.

Magolino. “Visitors really had to want to come here to endure the several hours each way of rough road.”

With the upgrade of the road to a smooth asphalt surface, tourists can get to the bay in a comfortable 45 minutes. As a result, the cooperative has seen its membership increase to 46 members and 66 boats. The number of tourists served has quadrupled to 40,000 per year, she said.

The road was upgraded as part of the \$576.9 million Sixth Road Project that included an ADB loan for \$148.6 million, as well as financing from other partners, including the Export-Import Bank of Japan, the OPEC Fund for International Development (OFID), the Kuwait Fund for Arab Economic Development, and the Overseas Development Administration of the United Kingdom. The project, which was approved in 1996 and closed in 2007, included road improvement, replacement and repair of bridges, design and construction supervision,

Another ADB-supported project where the impact of roads was felt was the Cordillera Highland Agricultural Resource Management Project. It offered a broad range of support to farmers in the area, including the building and renovating of farm-to-market roads. The new roads reduced transportation costs and made it easier for people to bring their goods to the market. The project also resulted in the adoption of improved farming practices and cultivation of idle land, better prices of produce, lower postharvest losses, and increased agricultural production.



Eric Sales

Annaliza Magolino, head of the tourism cooperative that has provided new opportunities for Palawan fishers, checks her records

as well as other forms of support for key roads around the Philippines, particularly in less-developed and hard-to-reach areas.

The project completion report, which assessed the project, gave it a rating of *successful* and noted that it was responsible for the improvement of about 687 km of national roads on the islands of Luzon, Masbate, Mindanao, Palawan, and Panay. The project also supported the rehabilitation and structural overlay of about 959 km of national roads in Cebu, Luzon, Masbate, Mindanao, Negros, and Panay. In addition, replacement, repair, and retrofitting works were completed on about 128 bridges in the national road network in Luzon, Mindanao, and Panay.

Another ADB-supported project where the impact of roads was felt was the Cordillera Highland Agricultural Resource Management Project, which sought to increase the income of poor farming families in 13 towns in Abra, Benguet, and Mountain Province. The \$31.9 million project, of which ADB contributed

\$15 million and the International Fund for Agricultural Development provided \$5.3 million, was approved in 1996 and ran until 2005. It offered a broad range of support to farmers in the area, including the building and renovating of farm-to-market roads.

An analysis by ADB's Independent Evaluation Department, titled *Special Evaluation Study on Asian Development Bank's Contribution to Inclusive Development through Assistance for Rural Roads*, found that the project reduced poverty in the Cordillera Administrative Region by increasing average household income by 66%, according to a survey of 300 households in the project area. The new roads reduced transportation costs and made it easier for people to bring their goods to the market. The project also resulted in the adoption of improved farming practices and cultivation of idle land, better prices of produce, lower postharvest losses, and increased agricultural production. Those surveyed also reported experiencing greater food security and larger quantities of marketable surplus commodities.

The study found that the effective cropped area per household increased threefold, from 0.41 hectare to 1.23 hectares. In addition, 69% of households surveyed in the project area noted an increase in the volume of crop sales after road improvement. As a result, one in every six households reported they were able to convert their residences from temporary to permanent structures, while 22% increased the number of rooms in their homes. The survey also found that 15% of people surveyed in the project area had improved water supply, 17% installed flush toilets, and 31% shifted from kerosene or wood to electricity or liquefied petroleum gas (LPG) as their primary energy source. Anecdotally, the report also noted in one community where a new road was provided, residents reported: “Children feel safe in walking to and from school without worrying about snakebites and muddy trails.”

Education— Learning to Succeed

The Philippines has recognized in its planning documents over the years the importance of education in the country’s development. Specifically, it has been noted that economic growth and modernization can accelerate much faster when there is sufficient access to the world’s markets, resources, and know-how. To be competitive in world markets, the country needs to continuously improve the skills and productivity of its workforce. ADB has been a key partner in this effort, providing eight loans totaling more than \$252 million, or about 2% of its loan portfolio, to the education sector.

A strong secondary education system is one essential aspect of the development of a trainable human resource base in the country, particularly in poverty-affected rural areas. ADB has supported the Philippines’ efforts to expand and improve its secondary education system

ADB has supported the Philippines’ efforts to expand and improve its secondary education system with several projects over the years, most notably the Secondary Education Development and Improvement Project. As a result of the project, dropout rates were reduced by 2 percentage points, and graduates exhibited higher levels of competency.

with several projects over the years, most notably the Secondary Education Development and Improvement Project, a \$136.9 million project funded in part by a \$35.6 million loan from ADB, as well as cofinancing support from the Japan Bank for International Cooperation. The project, which was approved in 1998 and closed in 2008, was designed to improve access to quality secondary education in 27 poverty-affected provinces.

An assessment of the project after it was completed rated it *successful*, noting in part that it contributed to the training of more than 800 secondary school heads, against an original target of 650. Under the project, 1,377 teachers (who were teaching but not qualified in science and mathematics) completed the certificate course, against a target of 1,300. In addition, an estimated 5.9 million textbooks were distributed, which exceeded the original target of 4.1 million books. The project also facilitated the supply of 146,300 teachers’ manuals and 302,215 basic library collections, both in excess of original targets. As a result of the project, dropout rates were reduced by 2 percentage points, and graduates exhibited higher levels of competency.

Another important element in making the country more competitive in global labor markets is the development of relevant skills. The comparative advantage of the Philippines in the future lies in low-end “high-tech” areas such as electronics manufacturing and software



Rita Festin

Students, faculty, and school officials of Rizal National High School in Southern Leyte. Said high school topped the 2006 National Achievement Test through intensive review, commitment from students and parents, and assistance from the ADB-funded Secondary Education Development and Improvement Project.

development. Data show high growth rates in exports of products requiring skilled labor and a very low growth or stagnation of those based on unskilled labor. There has been a dramatic increase in science-based goods, including those that are technologically complex. For example, the Philippines is now the second-largest exporter of software in Asia after India. The world market for software exports is vast and growing. The Philippines is competitive in skill-intensive products because of a relatively large educated and trainable workforce. The country has considerable headroom for further growth in value-added manufactured products owing to the strong world demand for such products, the current small market share, and lack of vulnerability to easy entry by low-wage producers.

ADB has assisted the Philippines in developing these technical skills through the Technical Education and Skills Development Project and Fund for Technical Education and Skills Development, a \$47.6 million project supported

by a \$19 million loan from ADB and cofinancing support from the Nordic Development Fund and OFID. The project, which was approved

ADB has assisted the Philippines in developing technical skills through the Technical Education and Skills Development Project and Fund for Technical Education and Skills Development. By the end of the project, 114,726 graduates were assessed, with 67% gaining national certification. In addition, 185,677 trainees (27% of whom were women) had graduated from various technical education and skills development programs in project technology institutions.



Vik Quintanar

Students at an ADB-supported education project in Cebu City receive hands-on training through an ADB-supported technical skills program

in 2000 and closed in 2009, was designed to enhance the competitiveness of the Philippine economy through the support of middle-level skills training. In addition, the project sought to reduce poverty by increasing access to skills training and the capacity to generate income.

The project, which was rated *successful* in an assessment done after completion, is credited with establishing a jobs-directed scholarship program that benefited 3,305 poor students, of which 3,200 graduated, exceeding the target of 1,600. The success of the scholarship program has encouraged the Philippines to continue with other scholarship programs. The project also sought to assist the government in increasing the number of students that pass national certification competency tests in technological areas. By the end of the project, 114,726 graduates were assessed, with 77,372 (67%) gaining national certification. Almost 23% of the graduates assessed and 24% of those certified were women. In addition, 185,677 trainees (27% of whom were women)



Vik Quintanar

Charles Douglas Quimada, a 25-year old computer-aided design operator, was trained at an ADB-supported technical school and now has a variety of additional career options

had graduated from various technical education and skills development programs in project technology institutions.

Charles Douglas Quimada, a 25-year-old computer-aided design operator who works at a power plant in the central Philippine province of Cebu, benefited from the program. He was trained under the ADB-supported project, studying mechanical electronics, which gave him a variety of career options associated with industrial and residential construction.

"I have two brothers and a younger sister, and we didn't have very much financial stability at home," said Quimada. "Without a scholarship, my family couldn't have afforded for me to have this kind of training. I could probably have found a job without this training, but not a job with a good salary and a chance for advancement, like I have now."

Agriculture— Planting the Seeds of Prosperity

The Philippines suffers from higher levels of economic inequality than other parts of Southeast Asia. Poverty in the country has decreased in recent years, but it remains high and concentrated in rural areas. Nearly half of rural families rate themselves as poor. The hardest hit are landless and marginal farm families, and this has been exacerbated by a lack of land ownership among people in rural areas. Before land reform was initiated, land was primarily owned by the rural elite. Nearly half the people in the countryside were landless. ADB has supported the Philippines in its efforts to support rural families and protect



Buffaloes provided under ADB's Agrarian Reform Communities Project are milked to produce milk, cheese, and ice cream under the brand name NEFEDCCO or Nueva Ecija Federation of Dairy Carabao Cooperatives. This is in the Unlad Buhay Agrarian Reform Community in Barangay San Ricardo, Nueva Ecija.

its agricultural and natural resources. This has included the provision of 59 loans totaling more than \$1.9 billion, or about 15% of its loan portfolio to the agriculture and natural resources sector.

Rachel Agunos, a resident of the province of Nueva Ecija in the northern Philippines, understands the need for development in the Philippine countryside. The dairy plant, where she has been employed for just less than 1 year, was established by a cooperative that was formed to help rural landowners increase their income. Farmers in the area sell the milk of carabao, a Philippine water buffalo, to the dairy plant which, in turn, processes it into school milk, chocolate milk, cheese, and ice cream. Agunos used to operate a small store, but her income was low and inconsistent.

"This is steady, reliable income and I am learning valuable skills," she said. "I can use these skills to work in a larger dairy processing factory in Manila or work overseas. My income supports my family, but I am also using it for savings."

Agunos has benefited from the Agrarian Reform Communities Project, a \$139 million ADB-supported project that was approved in 1998 and closed in 2007. The project was designed to support land reform programs in the Philippines. Rather than simply distribute land, the project provided a comprehensive package of agricultural reforms, basic infrastructure, and support services. For example, under the irrigation component of the project, the timely supply of water increased the average yield of irrigated farms from 2,000 kilograms (kg) per hectare to 4,000 kg per hectare. The project also provided assistance to almost 300 cooperatives in forming other business ventures such as the dairy plant where Agunos works.

The project, which was rated *successful* in an assessment done after completion, was credited with supporting the construction or renovation of 1,201 km of roads, irrigation for 6,791 hectares of farmland, and the construction of 98 potable water supply systems. In addition, the project introduced

organic farming systems and trained 712 extension workers and 4,022 farmer leaders. About 500 demonstration plots were established, or 266% of the appraisal target. The project also trained 16,183 farmers and helped about 18,000 farmers to adopt improved technologies in high-value and commercial crop, livestock, and aquaculture production. An important component of the project was the establishment of 396 credit unions that resulted in 24,000 poor farmers gaining access to credit.

The ability to borrow from a local credit union has been a lifesaver for the family of Gertrude delos Ama, who helps her husband tend their 3-hectare rice and tomato farm. "Before the credit cooperative, we had to pay compounded interest to borrow to get us through the off-season. After harvest, we would sometimes end up owing money to the brokers. We were just trying to keep up. We were never getting ahead." She said that now, with the local credit union lending at low rates, they have increased their income and have invested in the education of their 5 children and 3 grandchildren.

Private Sector— Harnessing Corporate Power

The country faces a variety of significant challenges in developing its private sector and harnessing those resources for use in development. The Philippine capital markets are not yet able to support growth and alleviate poverty. Capital market development has been constrained by the predominance of family-owned conglomerates, connected lending, a perception of heightened market instability, low investor confidence, and the lack of an enabling environment. Infrastructure investment, an important aspect of economic growth, has not kept pace with increasing urbanization and population growth. Between 1980 and 2009, infrastructure investment



Rita Festin

Children of vegetable farmers in the highlands of Atok, Benguet play by the farm-to-market road rehabilitated under the Cordillera Highland Agricultural Resource Management Project funded by ADB

averaged 2.1% of GDP—a figure significantly below the recommended benchmark of 5%. Weak governance has also resulted in low private investment in infrastructure. Private infrastructure commitments declined to an average of 2.1% of GDP in 2000–2009, from a peak of 15.5% in 1997.

ADB has supported the Philippines in its efforts to support rural families and protect its agricultural and natural resources. This has included the provision of 59 loans totaling more than \$1.9 billion, or about 15% of its loan portfolio to the agriculture and natural resources sector.

These problems were compounded by the global financial crisis which, along with the country's struggles to restore fiscal discipline, adversely affected private sector confidence and growth. This has resulted in a dearth of large projects and reduced interest in public–private partnership (PPP) schemes in infrastructure. Annual foreign direct investment inflows have been significantly below amounts received by the other large crisis-affected economies in the region. Constraints to investments range from poor infrastructure facilities to weak governance and institutional capacity, many of which have proved difficult to resolve in the context of the political economy.

ADB has worked with the Government of the Philippines to address issues that constrain the private sector. ADB's 2001–2003 country assistance plan for the Philippines called for assisting the government in its privatization program and developing the private sector enabling environment. This included support for private sector financing of infrastructure projects that address critical constraints; financial intermediation, including capital market development and financial infrastructure; and deregulation of industry, trade, and investment.

In 2005–2010, ADB's policy lending to the Philippines focused primarily on deepening structural reforms in tax administration, managing fiscal risks, developing the power sector, improving financial intermediation and regulation, strengthening governance in the legal and judicial systems, and enhancing fiscal sustainability at the local government level. These reforms have critically supported fiscal consolidation, strengthening transparency and predictability of intergovernmental fiscal transfers, and initiating and consolidating reforms in the judicial and finance sectors. Since 2005, ADB has provided increased support to the government's PPP agenda by strengthening institutional frameworks; providing advice on innovative approaches and solutions in project development, financing, and implementation; and mainstreaming PPPs in country programming and project processing.

One successful example of a PPP undertaking in the Philippines is the North Luzon Expressway Rehabilitation and Expansion Project, which was approved in October 2000 and completed in February 2005. The \$384.5 million ADB-supported project included a loan of \$45 million without government guarantee and a loan of \$25 million under ADB's complementary financing scheme. The project helped renovate an 83.7-kilometer section of the road and build or rehabilitate 14 interchanges, 24 bridges, and 31 overpasses from Manila to the Clark Freeport Zone in Pampanga Province.

For users of the highway, the impact has been dramatic. The road used to be a heavily pothole-ridden two-lane thoroughfare where overloaded trucks, speeding buses, and private vehicles dangerously competed for space. Today, it is a safe, smooth tollway with good lighting and modern signage. An ADB review of the highway renovation project found that

Since 2005, ADB has provided increased support to the government's PPP agenda. One successful example of a PPP undertaking in the Philippines is the North Luzon Expressway Rehabilitation and Expansion Project, which helped renovate an 83.7-kilometer section of the road and build or rehabilitate 14 interchanges, 24 bridges, and 31 overpasses from Manila to the Clark Freeport Zone in Pampanga Province. Today, it is a safe, smooth tollway with good lighting and modern signage.



The North Luzon Expressway, an ADB-supported private sector project, is one of the most modern highways in the Philippines

the average daily traffic from January to March 2009 was at 149,430 vehicle entries, the highest first-quarter traffic since commercial operations started in 2005, and 2.9% higher than the highest previously recorded: 145,258 vehicles in 2007.

In the Clark Freeport Zone, private sector development has increased substantially in the years since the project was completed. Employment in the zone in 2004—a year before completion of the highway renovation—was 33,504. In 2008—3 years after project completion—that figure nearly doubled to 57,790 despite the impact of the global financial downturn. Yokohama Tire Philippines, a wholly owned subsidiary of a Japan-based tire manufacturer, is one of Clark's top investors. It announced, in May 2011, the expansion of its manufacturing plant. The plant currently makes about 7 million tires a year, but plans to increase that to 17 million tires a year by 2017. The company expects to hire as many as 5,000 employees to support this growth, the Clark Development Corporation reported.

Regional Cooperation— Banding Together

The Philippines is an active member of regional cooperation initiatives, including the Brunei Darussalam–Indonesia–Malaysia–The Philippines East ASEAN Growth Area (BIMP-EAGA) and the Coral Triangle Initiative on Coral Reefs, Fisheries, and Food Security (CTI). The BIMP-EAGA subregional cooperation program focuses on connecting outlying regions of neighboring countries, providing the opportunity to develop growth centers away from their respective capitals. These outlying regions are characterized by high levels of poverty relative to national averages and are scattered over many islands, making transport and communications relatively expensive.

The Philippines is an active member of regional cooperation initiatives, including the Brunei Darussalam–Indonesia–Malaysia–The Philippines East ASEAN Growth Area and the Coral Triangle Initiative on Coral Reefs, Fisheries, and Food Security.

ADB has supported BIMP-EAGA since its inception in 1994 through various technical assistance projects. It has also been the Regional Development Advisor since 2001. ADB's assistance to the subregion has included development of the BIMP-EAGA Roadmap to Development (2006–2010), as well as the formulation of the BIMP-EAGA Development Strategy in 1996. ADB has also assisted in preparing studies on transport; trade; energy; environment; tourism; and customs, immigration, quarantine, and security. It has facilitated the process of identifying and implementing priority infrastructure projects to promote connectivity in BIMP-EAGA. Currently, ADB is helping with the formulation of an implementation blueprint that will assist BIMP-EAGA members in carrying out successful projects over the period of 2012–2016. This initiative is aligned with the Master Plan on ASEAN Connectivity.

The Coral Triangle Initiative on Coral Reefs, Fisheries, and Food Security (CTI) was launched in 2007 as a six-country program of regional cooperation to protect economic and environmental assets. The Coral Triangle covers 5.7 million square kilometers of ocean waters in Indonesia, Malaysia, Papua New Guinea, the Philippines, Solomon Islands, and Timor-Leste. Known as the “Amazon of the Sea,” the Coral Triangle is the epicenter of the world's coral reef diversity, holding more than 75% of the known coral species and about 3,000 species of reef fish. Its resources are critical to the economic and food security of an estimated 120 million people. These resources are at immediate risk from a range of factors, including the impacts of climate change and unsustainable fishing methods.

Rita Festin



Mangrove saplings are starting to take root in a coastal town in Agusan del Norte, part of the mangrove rehabilitation project under ADB's Fisheries Resource Management Project which reversed the decline in marine resources to benefit future generations

In support of the CTI Program, ADB and the Global Environment Facility (GEF) are working with partners to organize a program of technical and financial support for the implementation of regional and national subprojects, including in the Philippines.

ADB serves as the executing agency of the GEF in the region. For the CTI Program, it has mobilized loans, grants, and technical assistance worth \$242.5 million. ADB, with cofinancing from GEF, is implementing three regional technical assistance projects as its core support to the CTI, to strengthen the management of coastal and marine resources. The Philippines is participating in two of these projects: The Regional Cooperation on Knowledge Management, Policy and Institutional Support to the CTI; and Coastal and marine Resources Management in the Coral Triangle—Southeast Asia. The project for Indonesia and the Philippines on Developing Sustainable Alternative Livelihoods in Coastal Fishing Communities in the Coral Triangle, which was approved in November 2011 with funding from Japan fund for Poverty Reduction, further strengthens support to the CTI Program. In the Philippines, families in poor coastal

Ariel Javellana



ADB projects support coastal communities in the Philippines. Fishers in Cantilan, Surigao del Sur, Mindanao bring in their nets

Under the Developing Sustainable Alternative Livelihoods in Coastal Fishing Communities in the Coral Triangle Project, families in poor coastal communities in Balabac, Palawan will benefit from the project by enabling them to have alternative means of livelihood.

communities in Balabac, Palawan will benefit from the project by enabling them to have alternative means of livelihood.

The Philippines is further responding to the CTI plans of action through the ongoing Integrated Coastal Resources Management Project (approved in 2007 and funded by ADB and GEF grants), and another project in the pipeline, the Philippine Integrated Natural Resources Management. Total financing for the Philippines under the CTI Program is about \$153.4 million.

Improving Operational Effectiveness and Services

The development impact of ADB's assistance program since 1986 has been mixed. According to ADB's IED 2003 Country Assistance Program Evaluation (CAPE), which independently reviewed the performance of ADB's assistance program during 1986–2001, audit reports rated 43% of public sector projects *successful*, 36% *partly successful*, and the remaining 21% *unsuccessful*. This performance record placed the Philippines below the performance average of all ADB's developing member countries. Analysis of project ratings over time indicated steady deterioration. From 36 projects completed and independently evaluated since 1986, only 31% had been rated *generally successful* compared with the ADB-wide average of 51%. While the Philippine portfolio accounted for about 10% of all independently

evaluated projects in that period, it contained 24% of all *unsuccessful* projects, mostly in the agriculture and natural resources sector. There were signs of improvement in the 1990s and significant improvements in the 2000s.

The CAPE report noted that ADB's attempts to reduce fiscal drag and improve portfolio performance were largely successful, and that policy lending and technical support helped address important sector policy constraints.



Richard Bolt

Meeting with stakeholders to evaluate the Infrastructure for Rural Productivity Enhancement Sector Project in Agusan del Norte

A June 2008 CAPE review of ADB's operations in the Philippines during 2003–2007, also conducted by IED, showed significant improvement in performance and gave a *successful* rating, but noted significant challenges to the portfolio. The CAPE report, subtitled Increasing Strategic Focus for Better Results, noted that ADB's operations in the Philippines have experienced problems, such as project implementation delays; problems with land acquisition and resettlement; shifting political support for urban, agriculture, and education reforms; and a dearth of counterpart finance in 2002–2003 when the fiscal crisis was at its worst. The CAPE recommended that ADB maintain the strategic focus on improving public finance governance and management and support local governance and decentralized service delivery, among others.

ADB reacted to these challenges by changing its country focus to address fiscal policy weaknesses, public sector governance, energy sector restructuring, and local government financing in formulating its new country partnership strategy for 2011–2016. These were addressed through a combination of program lending, project lending, and technical assistance support.

The CAPE report noted that ADB's attempts to reduce fiscal drag and improve portfolio performance were largely successful, and that policy lending and technical support helped address important sector policy constraints. ADB's country strategy was also found to be better aligned with the government's

development strategy yet retained enough flexibility to adjust to economic realities. Greater selectivity in project was also successful, with ADB focusing on areas that constrained development, such as fiscal consolidation.

ADB's operational adjustments have brought results in portfolio performance. In 2009, 7 out of 12 projects, or 58%, were rated *generally successful*. In 2010, 11 out of 15, or 73%, of completed sovereign operations were rated *successful*, while 16 out of 19, or 84%, of completed technical assistance projects were rated *successful*. But significant challenges remain. The average age of an ADB project in the Philippines is 3.3 years, and is expected to further decrease to 1.8 in 2012. With the declining average age of the portfolio, the disbursement ratio (without program loans) continues to decrease, falling from 14.3 in 2009 to 13.2 in 2010. The percentage of projects with implementation delays increased from 25% in 2009 to 43% in 2010.

The portfolio is challenged by the weak capacity of local government units. Projects implemented by local government units make up about 70% of the active portfolio. These projects face additional complexities due to weaker capacity of local government units than national government agencies and complexities with local government financing mechanisms. ADB is responding to these challenges with a country operations business plan that maintains the emphasis on alignment around government priorities, selectivity, and quality at entry.

Future Challenges and Goals

The Philippines is at a critical juncture in its economic and development history. Despite a strong economic rebound in 2010, progress has remained slow in reducing poverty and generating jobs, though the country is taking these issues seriously and implementing long-needed reforms. The forecast is for sustained economic growth of 4.7% in 2011 and 5.1% in 2012, based on the Asian Development Outlook 2011 Update. Sustained increases in investment now appear achievable, provided that the government pushes through with policy and governance reforms to address key development constraints. Underlying this challenge is the government's need to sustain fiscal prudence and credibility in the medium term. National government debt as a ratio of GDP has been declining in recent years as a result of sound debt management. While this has reduced liabilities, lowered dependence on commercial borrowing, and increased access to official development assistance, debt as a ratio of GDP remains high at 52% and debt servicing remains significant at about a fifth of budget spending.

Attracting greater investment and increasing employment are key challenges to reducing persistent poverty. Recognizing this, the government has made poverty reduction a top priority.

In line with increased fiscal prudence, the government recognizes the need to also improve the business climate. Largely due to concerns about corruption, inefficient government bureaucracy, poor infrastructure, and policy instability, the Philippines' rank, based on the World Economic Forum's *The Global Competitiveness Report 2011–2012*, remained low at 75 out of 142 countries. Overall, the country's rank still lagged Malaysia (21st), Thailand (39th), Indonesia (46th), and Viet Nam (65th). The World Bank's Doing Business 2012 report also ranked the country low at 136 out of 183 economies, also behind most of its neighbors. Transparency International's 2011 Corruption Perceptions Index had the Philippines scoring just 2.6 out of 10, with zero representing a high level of corruption. The government recognizes that it needs to aggressively move forward on policy and governance reforms to address these concerns and attract much-needed foreign investment.

The need to increase investments is in line with the country's goal of increasing employment. High levels of unemployment and underemployment have plagued the Philippines for years. Unemployment rate remains at more than 7% and the underemployment rate, at about 20%. The proportion of workers classified as vulnerable—unpaid family members and the self-employed, most of whom are in the informal sector—has declined since 2006, but remains high at nearly 42% of the workforce.

This low level of employment has driven many Filipinos to work overseas, which has resulted in negative social consequences.

Attracting greater investment and increasing employment are key challenges to reducing persistent poverty. Recognizing this, the government has made poverty reduction a top priority.

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Front cover photo by Kevin Hamdorf.

The cover shows the North Luzon Expressway, one of the most modern highways in the Philippines. It was built under an ADB-supported private sector project.

For more information, please visit www.adb.org/countries/philippines/main or contact Rita Festin, Senior External Relations Officer, Philippines Country Office, Southeast Asia Department (rfestin@adb.org)
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Development Effectiveness Brief

Philippines

Since its creation in 1966, the Asian Development Bank (ADB) has been one of the key development partners of the Philippines. From 1969 to 2010, ADB approved loans amounting to \$12.4 billion for the Philippines, of which almost 80% financed projects in agriculture and natural resources, energy, finance, public sector management, and transport and information and communication technology. ADB's operational strategy has emphasized social and environmental concerns, balanced regional development, and poverty reduction. In the coming years, its key objective will be to support high, inclusive, and sustainable growth in the country, with assistance focusing on infrastructure, environment, and education.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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