Validation Report

Reference Number: PVR-491
Project Number: 43396-013 and 43396-014
Loan Numbers: 2872 and 3233
December 2016

Philippines: Increasing Competitiveness for Inclusive Growth Program (Subprograms 1 and 2)

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
DOF	–	Department of Finance
DOLE	–	Department of Labor and Employment
DOT	–	Department of Tourism
NEDA	–	National Economic and Development Authority
P3F	–	post-program partnership framework
PCC	–	Philippine Competition Commission
PDMF	–	Project Development and Monitoring Facility
PESO	–	Public Employment Service Office
PPP	–	public–private partnership
RIA	–	regulatory impact assessment
TA	–	technical assistance
TCC	–	tax credit certificate
VAT	–	value-added tax

NOTE

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

Key Words

adb, asian development bank, competitiveness, department of finance, infrastructure, jobstart, philippines, public-private partnership, regulatory efficiency, skills development, tourism, validation

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PROGRAM BASIC DATA

Project Numbers	43396-013 and 43396-014	**PCR Circulation Date**	28 June 2016	
Loan Numbers	2872 and 3233	**PCR Validation Date**	Dec 2016	
Project Name	**Increasing Competitiveness for Inclusive Growth Program (Subprograms 1 and 2)**			
Sector and subsector	Public Sector Management	Economic and public affairs management		
Theme and subtheme	Private sector development	Policy reforms		
Safeguard categories	Environment		C	
	Involuntary Resettlement		C	
	Indigenous Peoples		C	
Country	Philippines		**Approved** ($ million)	**Actual** ($ million)
ADB Financing ($ million)	**ADF:** 0.00	**Total Project Costs**	800.00	800.00
	OCR:	**Loan**		
	350.00 (Loan 2872)	Loan 2872	350.00	350.00
	350.00 (Loan 3233)	Loan 3233	350.00	350.00
		Borrower	0.00	0.00
		Beneficiaries	0.00	0.00
		Others	0.00	0.00
Cofinancier	JICA	**Total Cofinancing**	100.00	100.00
Approval Date		**Effectiveness Date**		
Loan 2872	26 Jun 2012	Loan 2872	2 Oct 2012	16 Aug 2012
Loan 3233	15 Dec 2014	Loan 3233	13 May 2015	12 May 2015
Signing Date		**Closing Date**		
Loan 2872	4 Jul 2012	Loan 2872	31 Oct 2012	7 Dec 2012
Loan 3233	12 Feb 2015	Loan 3233	31 Dec 2015	10 Nov 2015
Project Officer		**Location**	**From**	**To**
	K. Bird	ADB headquarters	Oct 2012	Nov 2014
	A. Haydarov	ADB headquarters	Nov 2014	July 2015
	K. Hattel	ADB headquarters	Aug 2015	Nov 2015
IED Review Director	B. Nguyen, OIC, IED 2			
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ADB = Asian Development Bank, ADF = Asian Development Fund, IED1 = Independent Evaluation Department, Division 1, IED2 = Independent Evaluation Department, Division 2, JICA = Japan International Cooperation Agency; OCR = ordinary capital resources, PCR = program completion report.

I. PROGRAM DESCRIPTION

A. Rationale

1. Since 2010, the Philippine economy has experienced an average annual growth rate of 6.5%, well above its long-term average of 5.0%. Although the sustained growth was necessary to create more jobs, it was not sufficient either to absorb the increasing number of new job seekers or to reduce crowding into the informal sector. The rate for youth “not in employment, education, or training” (NEET) in the Philippines remained high at 25%, the second highest in

Southeast Asia. The rate was twice as high in low-income households as in high-income households, indicating that a large proportion of young people from low-income households were not well-integrated into the labor market despite the recent rapid economic growth. The underlying causes were the inadequate demand for labor and the significant mismatch between the needs of companies and the technical and life skills of the youth.

2. The fixed investment rate in the Philippines recovered after the Asian financial crisis of 1997 from 13.5% of gross domestic product (GDP) in 2005 to 16.8% in 2008 and 19.4% in 2012. This is still much lower than in Indonesia (33.2%), Malaysia (25.7%), and Thailand (28.5%), and has continued to linger at 20% (2013), 20.5% (2014) and 20.6% (2015).[1] The underinvestment in the economy, particularly in infrastructure, is due to limited budget resources and a weak regulatory framework for infrastructure projects under the 1990 Build-Operate-Transfer (BOT) Law. This has negatively affected the potential for growth and means that a much higher level of investment is needed to sustain the current high average GDP growth rate.

3. Since 2010, the Philippines has significantly improved its competitiveness and the international image of its investment climate as a result of the government's reform efforts. The World Economic Forum's Global Competitiveness Index (GCI) ranked the Philippines 107 out of 179 countries in 2012, up eight places from the previous year. In 2014, the GCI ranked Philippines 59 out of 148 countries, a jump of six places from 2013. However, further reforms in the labor market, the investment regime, business regulations and the finance sector are needed to attract investment and create jobs.

4. The Increasing Competitiveness for Inclusive Growth Program was formulated to support the government's efforts to generate employment by increasing competitiveness in the economy, and by promoting regulatory efficiency, competitive logistics and private sector participation in infrastructure with the help of public–private partnership (PPP). As a policy-based loan, the program consisted of two subprograms (SP1 and SP2). SP1 supported the government's structural policy reforms to promote competitiveness, create an efficient market for infrastructure projects through PPPs, and promote competitive labor markets.[2] SP2 built on the reforms under SP1, with the main focus on implementing policy reforms through pilot projects to demonstrate reform impact.[3] These pilot projects sought to provide job placement assistance to young people, and the PPP tourism skills development program to upgrade the skills and services of workers in the tourism industry.

B. Expected Impact, Outcomes, and Outputs

5. The impact, outcome and output statements in the design and monitoring framework (DMF) were the same for both SP1 and SP2.[4] The envisaged impact was an improved investment climate. The expected outcome was improved competitiveness of selected sectors. The expected outputs were: (i) implementation of structural economic policy reforms; and

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1 IMF Article IV Staff Report, 2016

2 ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Policy-Based Loan to the Philippines for Subprogram 1: Increasing Competitiveness for Inclusive Growth Program.* Manila.

3 ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Policy-Based Loan to the Philippines for Subprogram 2: Increasing Competitiveness for Inclusive Growth Program.* Manila.

4 Each subprogram should have had its own DMF. The impact and outcome statements could be the same for both subprograms but their indicators should have been different given the time lag between SP1 and SP2. Likewise, the DMF output statements and their indicators should have been different for SP1 and SP2 as there are different policy matrixes for each subprogram.

(ii) strengthening of market for infrastructure projects through PPPs; and (iii) promotion of competitive labor markets.

C. Provision of Inputs

6. ADB approved a $350 million loan for SP1 on 26 June 2012. It became effective on 16 August 2012 and was fully disbursed on 29 November 2012. The SP2 loan for $350 million was approved on 15 December 2014 and became effective on 12 May 2015. It was fully disbursed on 30 October 2015. Both subprograms were funded from ADB's ordinary capital resources, which were released as a single tranche for each subprogram. The Japan International Cooperation Agency (JICA) provided cofinancing of $100 million equivalent for SP1.

7. The pilot projects under the program were supported by two ADB technical assistance (TA) grants financed by the Government of Canada. The first TA was a $5.6 million grant to support employment facilitation for inclusive growth.[5] The second was a $7.1 million grant to help improve competitiveness in tourism.[6] Both TA projects are ongoing and are expected to be completed by February 2017.[7]

8. The program was classified C for all safeguard categories (environment, involuntary resettlement, and indigenous peoples).

D. Implementation Arrangements

9. The Department of Finance (DOF) was the executing agency for the program and was responsible for the overall implementation, post-program partnership framework (P3F), the medium-term results framework, monitoring, and coordinating implementing agencies. The implementing agencies were the Department of Justice, Department of Labor and Employment (DOLE), Department of Tourism (DOT), Department of Trade and Industry (DTI), Department of Transportation and Communications, National Economic and Development Authority (NEDA), Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC). The National Competitiveness Council in consultation with representatives of key chambers of commerce provided feedback to DOF on program implementation and other competitiveness issues.[8] The implementation arrangements were adequate in achieving the agreed policy actions and delivering the expected outputs.

10. SP1 had eight policy triggers, all of which were achieved. The policy actions included: implementing a series of measures to lay the foundation for improved domestic competition, regulatory transparency and efficiency, lowering the cost of domestic trade logistics and facilitation, strengthening the PPP governance framework and capacity, sustainably financing PPP projects, implementing measures to address the job and skills mismatch, raising industry service standards in the tourism sector, and improving labor and employment policies and programs.

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5 ADB. 2013. *Technical Assistance to the Republic of the Philippines for Employment Facilitation for Inclusive Growth*. Manila.

6 ADB. 2013. *Technical Assistance to the Republic of the Philippines for Improving Competitiveness in Tourism*. Manila.

7 Given the significance of the role of these TA projects and their magnitude, the PCR for the ICIG should have been done after the TA projects were completed, so the full accomplishments of the ICIP can be reported fully.

8 The council was created to improve the Philippines' competitiveness through public–private sector collaboration (as stipulated in Presidential Executive Order No. 571 issued in October 2006 and amended in June 2011 by Executive Order No. 44). The council is chaired by the DTI Secretary and co-chaired by a representative from the private sector.

11. SP2 had 14 policy triggers, most of which were achieved. The policy actions included: starting implementation of reforms to competition policy, regulatory transparency and efficiency; beginning implementation of reforms aimed at lowering the transactions costs of doing business and trade; continuing to strengthen the PPP policy and regulatory framework; continuing to adopt measures to provide sustainable financing and risk guarantee mechanisms for PPP projects; carrying out capacity development to strengthen delivery of labor market services to local communities; implementing measures to raise industry-led skills and service industry standards; and continuing the development of policy and programs for employment facilitation.

12. During implementation of SP2, ADB and the government agreed to move two original policy triggers to the P3F and to add one policy trigger. The first policy trigger moved to the P3F was the approval of the port utilization plan to decongest the Port of Manila and enhance port sales in the Subic Bay and Batangas ports. It was replaced by the government's interim measures to decongest the Port of Manila as the new policy trigger. The second policy trigger moved to the P3F was the requirement for the government to provide budgetary financing for the tourism skills development program upon completion of the tourism skill pilot project funded under the ADB TA, which will be completed by February 2017. The PCR notes that these changes did not significantly affect the outcome of the program, although the related TA projects supported the broad range of reforms aimed at employment generation for more sustainable and inclusive growth.

13. The loan covenants under the program were all complied with, except for the second covenant on policy actions and dialogue. Other covenants were related to the administration of the program; conformity with sound applicable technical, financial, business, and good governance practices; program coordination and consultations; and monitoring and review.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

14. The PCR assessed the program *highly relevant*. It was aligned with the Philippine Development Plan, 2011–2016 which emphasized job creation, investment in education, infrastructure, and a better investment climate for the private sector.[9] The program was also in line with ADB's Country Partnership Strategy, 2011–2016, which identified expansion in investment as an outcome indicator.[10]

15. The reforms supported by the program address the structural weaknesses of the country's economy. Reforms to improve competitiveness and employment generation are crucial to ensuring the inclusiveness of the Philippines' growth process, which in recent years has suffered from jobless growth. Most of the reforms are being implemented at the national level, engaging various line ministries in the process. How they will be implemented at the local level is not clear. The PCR could have noted that the International Finance Corporation has been supporting business licensing simplification among local government units and could have discussed how the program complements relevant activities by other development partners at the local level.[11]

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[9] National Economic and Development Authority. 2011. *Philippine Development Plan 2011–2016: In Pursuit of Inclusive Growth*. Manila.

[10] ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila.

[11] ADB. 2011. *Technical Assistance Completion Report: Strengthening Institutions for an Improved Investment Climate in the Philippines.* Manila

16. In terms of the indicators, the validation notes that SP1 and SP2 have only one DMF, in line with ADB's practice for assessing the performance of policy-based loans. Different subprograms could have the same impact and outcome indicators. Given the time sensitivity of policy changes supported by the program, it would have been useful to have identified separate output indicators and targets for SP1 and SP2 as the two subprograms have different policy matrixes with their own trigger conditions. Nevertheless, given the transformational nature of the program in terms of inclusive growth potential, the validation assesses the project as *highly relevant.*

B. Effectiveness in Achieving Program Outcomes and Outputs

17. The PCR rated the program *highly effective*. The envisaged outcome of the program was the improved competitiveness of selected sectors. The DMF had identified four outcome indicators. The PCR claimed that the targets for three indicators were exceeded and the target for the fourth indicator was not achieved.

18. First, the target for the number of people who found jobs through Public Employment Service Offices (PESOs) was exceeded.[12] The target was a 10% increase per annum, but 3,844 people per PESO were employed during 2010–2015, an increase from 1,936 people per PESO during 2005–2010. Second, a 15% reduction in the cost of rules and regulations for key licenses was targeted by 15%. The data on achievement for this indicator should have been based on an ADB red-tape survey in 2012 and 2014. However, the PCR did not base its assessment on this survey. It observed that the "available baseline for business licensing survey is in 2015 and the follow-up will be in 2018." As substitute, the PCR used the World Bank *Doing Business* report ranking. The ranking of the Philippines on the ease of doing business was substantially improved by 13 places from 108 in 2014 to 95 in 2015. Using this as a proxy indicator, the target in the reduction of the cost of rules and regulations for key licenses was deemed to have been exceeded by the PCR. However, it is not clear if the two surveys are in fact compatible in terms of their substance, coverage and methodology, or if the PCR was simply using the next best available information. Third, the target was to improve the Philippines' ranking in the global travel and tourism competitive index by 15 places. This was exceeded as the Philippines' ranking improved by 20 places to 74 in 2015 from 94 in 2011.

19. The outcome indicator whose target was not achieved was an improvement in the Philippines' ranking for global logistics performance by at least 10 places. In fact the Philippines dropped to 57 in 2014 from 44 in 2010, missing the target by a long way. However, performance against sub-indicators in infrastructure and customs, which were the focus of the program, improved. The logistics sector had been "identified by government and the private sectors for development based on its economy-wide linkages" (RRP, para. 8). The program support to reforms in aviation, ports management and customs procedures could help reverse this trend in the coming years.[13]

[12] The PESOs provide employment facilitation services that include career guidance and employment coaching, livelihood and entrepreneurship, and job placement and referral.

[13] The program provided support to jumpstart implementation of reforms through the (i) issuance of a Presidential Order for an "open skies" policy, granting additional freedom rights to airports other than the Ninoy Aquino International Airport without restrictions on the frequency, capacity, and type of aircraft; (ii) incorporation of measures to improve trade facilitation in the Bureau of Customs' five-year strategic plan such as the development of the clearance-related electronic-to-mobile system and simplification and harmonization of customs procedures based on the ratified Revised Kyoto Convention; and (iii) a review of the strategic actions to improve ports utilization in Manila, Subic and Batangas, and issuance of a Philippine Economic Zone Authority circular providing incentives for improving port utilization in Batangas.

20. In terms of outputs, most of the targets were achieved as per the PCR. Of the seven indicators for structural reforms to the economy (output 1), six were achieved and one was partly achieved. First, the target of at least three complaints of anticompetitive practices investigated exceeded (21 complaints were received, of which seven were resolved and 14 were under investigation as of mid-2014). Second, the target of piloting the regulatory impact assessment (RIA) in five national departments and agencies exceeded (it was targeted in seven). The target of at least 50% of local staff in these agencies to be women was also surpassed (53% were women). Third, the target of at least 15 RIAs to be completed by all pilots was exceeded (24 RIAs were completed). Fourth, the target of at least 50% of the stakeholders consulted through the RIA process to be women was exceeded (55% were women). Fifth, as part of reforms to improve competitive trade logistics, the target that at least 90% of eligible value-added tax (VAT) refunds would be made within the 120/60 day rule (processing time for the refunds) and encashment of all outstanding tax credit certificates (TCC) completed was partly achieved (90% of eligible VAT refunds were processed and 49% of outstanding TCCs were encashed). The PCR noted that most taxpayers were yet to apply for the VAT refund. Sixth, the target of a 10% per annum increase for the number of foreign tourist arrivals was met (the average growth rate was 10.2% from 2010 to 2015). Seventh, the targets for the indicator on container traffic at the Subic and Batangas ports were achieved. Container traffic at Subic port increased to 77,177 twenty-foot equivalent units (TEU) in 2014, and at Batangas port to 100,000 TEU in October 2015.[14]

21. Output 2 was strengthening of the market for infrastructure projects through PPPs. The two indicators under this output were achieved. First, the target of six competitively tendered PPP projects implemented was exceeded. Nine competitively tendered projects were awarded, of which two were completed and operational, one was withdrawn, and the remaining projects were either under construction or undergoing preconstruction activities. Thus, the completion of some of these outputs has yet to be confirmed. Of these awarded projects, four were gender-responsive, which exceeded the target of two gender-responsive projects in the DMF. Second, the target of 100 staff to be trained in PPP was met. From December 2015 to March 2016, 108 staff members from line agencies were trained. Of these, 49% were female, exceeding the target of at least 30%.

22. Output 3 was promotion of competitive labor markets. Of the four indicators, two were achieved and two were partly achieved. First, the number of PESOs with standard labor market information and employment systems in place increased to 413 in 2015, substantially higher than the targeted 100. Second, the program targeted at least 1,600 youths placed in internships through the pilot JobStart Philippines, of which 56% were to be female school leavers.[15] This indicator was partly achieved, with 1,471 internships and job placements right after training completion, of which 51% were female. Third, 7,545 job-seekers were trained through the PPP Tourism Industry Skills Development program pilot, exceeding the target of 5,000. However, the percentage of women trained was 50%, less than the targeted 55%. Hence, the indicator was not fully achieved. Fourth, DOT assessed 700 establishments under the new quality assurance system, which was substantially higher than the 100 hotels targeted.

23. On the whole, the policy actions under SP1 and SP2 to implement structural policy reforms, strengthen the market for infrastructure projects through PPPs, and promote

[14] 2010 baseline: Subic 34,318 TEU and Batangas 6,194 TEU.

[15] The RRP referred to the MyFirstJob pilot whereas the PCR referred to the pilot JobStart Philippines. It is not clear if these are equivalent pilot activities in terms of their substance and procedures. The PCR did not explain the substitution.

competitive labor markets were achieved. The envisaged outcome of improved competitiveness was only partly met and the Philippines' ranking for global logistics performance actually fell rather than increased. Of the 13 indicators across the three outputs, 10 (77%) were delivered. Nevertheless, the program registered achievements in structural reforms to promote competitiveness, establish efficient markets for infrastructure, and set up competitive labor markets, although it is still too early to see the achievements on enhancing investments in the economy as mentioned above (para. 2). The validation assesses the program *effective*.

C. Efficiency of Resource Use in Achieving Outcomes and Outputs

24. The PCR rated the program *highly efficient*. The PCR highlighted that the program achieved most of the performance indicators. The RRP had projected the program's ex-ante benefit–cost ratio at 2.0 from 2011 to 2016. Economic benefits were to come from "a reduction in business costs of compliance and licensing, lower costs of trade logistics, an improved competition policy, and increased investment in infrastructure" (RRP, para. 31). The methodology of the benefit–cost analysis was presented in a linked document of the RRP.

25. To assess the efficiency of this policy-based loan, the validation focuses on the preparation and implementation processes, and fiduciary arrangements in implementing the program. The dates of the effectiveness of both subprograms were earlier than planned. All policy triggers were accomplished within the original timeframes. Two policy triggers were moved to the post-program partnership framework and one was added to Subprogram 2, but these changes were not deemed to have materially affected the program's impact and outcome. The targets for most of the outcome and output performance indicators were achieved or exceeded. The executing agency used existing government mechanisms to coordinate and carry out consultations on program implementation as indicated in the covenant on program coordination and consultations in Appendix 5 of the PCR. This reduced the coordination costs and enhanced policy development. Subprogram 2 closed ahead of schedule, implying sound fiduciary arrangements, while Subprogram 1 was extended for 2 months to allow disbursement.

26. The government rated the program highly efficient, based on the completion review survey carried out by ADB. While the survey was administered to senior policy makers from DOF, DOLE, DOT, and NEDA, the number of respondents was not mentioned so it is not clear how representative the survey sample is.

27. The validation also notes that the expected encashment of outstanding TCCs was not completed because about two-fifths of taxpayers had not yet finalized their applications for encashment. The implementing agency put in place a more convenient process for claiming VAT cash refunds and conversions consistent with the National Revenue Code. A counterfactual (absence of the process for claiming VAT cash refunds) would imply a lower achievement than what was actually delivered. The PCR also reported that the executing agency addressed certain issues associated with the implementation of the open skies policy, but did not provide any detail on this. The RRP for Subprogram 1 also mentioned (RRP, para. 26) that the Community-Based Employment Program would be evaluated under SP2. However, it is not clear which subprogram it belongs to and whether it was indeed evaluated under SP2.

28. Most of the program's outputs were achieved and 75% of intended outcomes were realized largely within the planned timeframes of the subprograms' implementation. A nominal extension of Subprogram 1 was allowed to facilitate the disbursement of funds. Prompt recognition of implementation bottlenecks and capacity to address them, as well as the use of

existing government coordination mechanism for inter-agency collaboration for the program's implementation, were demonstrated. This validation assesses the program *highly efficient*.

D. Preliminary Assessment of Sustainability

29. The PCR assessed the program *highly likely sustainable*. Many of the reforms carried out under the program formed part of legal, regulatory and institutional frameworks that will promote competitiveness, regulatory efficiency, PPPs in infrastructure and competitive labor markets. The addition of the P3F will ensure the continuation and sustainability of the reforms. More importantly, the policy actions undertaken in the program are still being implemented and have been integrated into the post-program, long-term government strategy. In addition, the coordination mechanisms needed for inter-agency collaboration to sustain the support for the reforms undertaken under the program are well established within the government system.

30. In enhancing competition policy and regulatory efficiency, the Philippine Competition Commission was established with the mandate to enforce and implement the Philippine Competition Act. The RIA was institutionalized at NEDA to champion the practice in government and build capacity in line agencies.

31. In strengthening the market for infrastructure projects, the capacity and functions of the Public–Private Partnership Center (PPPC), Project Development and Monitoring Facility (PDMF),[16] and the PPP governing board were strengthened to improve service delivery. The measures taken to strengthen these institutions contributed significantly to the institutionalization of the PPP framework and to securing funding from the national budget to support long-term financing and risk guarantee mechanisms for the expansion of PPP infrastructure projects. To continue its support for PPPs in infrastructure projects, in 2015 ADB approved the Expanding Private Participation in Infrastructure Program.[17]

32. In the labor market, the successful implementation of the JobStart pilot program led DOLE to submit a bill to Congress to institutionalize the nationwide implementation of the program. The bill has passed its third reading in both houses of Congress and is with the President for endorsement. The legislation for JobStart will sustain the outcomes of the program and improve equality in employment opportunities, leading to more inclusive growth. The DOT completed the first tourism human resource strategy and action plan for 2015–2020, and funding from the national budget was secured for the skills development program. A preliminary impact assessment of selected employment programs has supported proposed improvements to reduce structural rigidities in the labor market to stimulate job growth.

33. The reforms under the program were entrenched in the policy, legal and regulatory and institutional frameworks of competitiveness, PPPs in infrastructure, and the labor market. The capacity and functions of institutions were strengthened, which will help sustain the continuing reforms. Further, government funding has been committed to support financing and risk guarantee mechanisms for infrastructure PPPs and implementation of the tourism skills development program. The validation assesses the program *most likely sustainable*.

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[16] Technical facility providing transaction advisory services.

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

E. Impact

34. The PCR assessed the development impact of the program *substantial* given the country's improved investment climate. The program strengthened the competition policy and PPP frameworks, and enhanced the competitiveness of selected sectors. The reforms undertaken to improve competitiveness will contribute to a more sustainable and inclusive growth toward poverty reduction.

35. The impact indicators were partly achieved. The country's improved ranking in the competitive index from 85 in 2010 to 47 in 2015 substantially exceeded the target of an improvement of at least 15 places. However, the targeted 5% per annum increase in the number of youth in full-time employment was not met. The increase was only 1.29% per annum during 2010–2015. The validation assesses the impact of the program *satisfactory.*[18]

F. Institutional Development

36. The PCR did not rate the institutional development impact of the program. Institutions were developed and strengthened in order to improve the investment climate in the country. The PPP framework was institutionalized and the PPP governing board was established as the overall policy-making body on PPPs of the PDMF. The service delivery capacity and functions of PPPC, PDMF and the PPP governing board were strengthened. A more "open skies" policy was adopted. Measures to decongest the Port of Manila were undertaken to promote competitive trade logistics. DOLE submitted a proposed bill to Congress to institutionalize the nationwide implementation of JobStart. DOT has formulated a medium-term tourism human resource strategy and action plan, which includes the development of tourism skills nationwide. This validation assesses the institutional development impact of the program *highly significant*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

37. The PCR assessed the performance of the government and the DOF as the executing agency *highly satisfactory*. They coordinated effectively with concerned agencies in implementing the program and in ensuring that the agreed policy measures were met within the expected timeline. DOF demonstrated strong ownership of the program, exerted significant efforts in implementing the reforms and collaborated well with ADB and other development partners engaged in relevant policy areas. DOF's efforts under SP1 contributed significantly to the design and implementation of JobStart during SP2. DOF also effectively managed challenging and complex issues related to major reforms such as the "open skies" policy and VAT cash refunds benefiting exporters. Government agencies involved in the reforms also showed a high level of support for the program. The executing agency is considered to have fully complied with ADB reporting requirements stipulated in the loan agreement.[19] Thus, the validation assesses the performance of the DOF *highly satisfactory*.

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[18] Since May 2016, IED has adopted the ratings terminology of the April 2016 Guidelines for the Evaluation of Public Sector Operations on development impacts. A *satisfactory* rating coincides with the previous *significant* rating.

[19] The Status of Compliance with Loan Covenants for Subprogram 1 in Appendix 5 of the PCR shows that the EA has complied with Covenant 7 (item #7 in the matrix in Appendix 5), which covers the entire scope of reporting requirement in Covenant 8 relating to the implementation of Subprogram 1 including accomplishments of targets and actions set in the Policy Letter and Policy Matrix.

B. Performance of the Asian Development Bank

38. Based on feedback from executing and implementing agencies, the PCR assessed the performance of ADB *highly satisfactory*. The subprogram loans were released within the original timeframe and were adequately monitored by ADB. ADB's support for the government's agenda led to the formulation of two new programs, the Expanding Private Participation Infrastructure Program[20] and the Facilitating Youth School-to-Work Transition Program.[21] The continuous dialogue between the government and ADB contributed to the effective implementation of the program. This validation adds that ADB formulated a generally well-sequenced policy reform program. The validation assesses the performance of ADB *highly satisfactory*.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

39. The PCR rated the program *highly successful*. This validation rates the program *highly relevant* despite the weakness in program design in identifying separate output indicators and targets for each subprogram. It rates the program *effective* since the policy actions were achieved and most of the outcome and output targets were met. It rates the program *highly efficient* because the loans were fully disbursed on time, there were no substantial delays in meeting the agreed policy triggers, and significant achievements were made with the resources made available by the policy-based loan. The program is assessed *most likely sustainable* since most of the reforms were entrenched in the legal and regulatory frameworks, institutions were strengthened, and the P3F will sustain the reforms, including use of a well-established coordination system available to DOF and implementing agencies to continuously support reforms started in the program. Overall, this validation assesses the program *highly successful*.

Overall Ratings

Criteria	**PCR**	**IED Review**	**Reason for Disagreement and/or Comments**
Relevance	Highly relevant	Highly relevant	
Effectiveness in achieving outcome	Highly effective	Effective	The envisaged outcome was partly exceeded and partly not achieved (paras. 17–23).
Efficiency in achieving outcome and outputs	Highly efficient	Highly efficient	
Preliminary assessment of sustainability	Highly likely to be sustainable	Most likely sustainable	
Impact	Substantial	Satisfactory	Impact indicators were partly met (paras. 34–35).
Institutional development	Not rated	Highly significant	
Overall assessment	**Highly successful**	**Highly successful**	

[20] See footnote 12.
[21] ADB. 2016. *Concept Paper: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Republic of the Philippines for Facilitating Youth School-to-Work Transition Program.* Manila.

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Borrower and executing agency	Highly satisfactory	Highly satisfactory	
Performance of ADB	Highly satisfactory	Highly satisfactory	
Quality of PCR		Satisfactory	Please refer to para. 44.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = program completion report, TCC = tax credit certificate.
Note: This report uses the ratings terminology of the April 2016 Guidelines for the Evaluation of Public Sector Operations. Further, the overall rating of the PVR is based on the four core criteria of relevance, effectiveness, efficiency and sustainability.
Source: ADB Independent Evaluation Department

B. Lessons

40. The lessons identified by the PCR are appropriate. First, constant policy dialogue is critical for moving forward and sustaining reforms. Second, better outcomes can be achieved in policy-based programs through well sequenced, high-impact crosscutting structural reforms, accompanied by a set of deeper sector-specific structural policy reforms. Third, an in-depth understanding of institutional capacities, together with proper timing and sequencing, are factors for success. Fourth, the use of pilot projects for new strategies are crucial to understand their strengths and weaknesses and for building stakeholder support for prospective policy reforms. Fifth, undertaking a rigorous impact evaluation of JobStart before rolling out the program nationally was useful. Sixth, greater use of the P3F will contribute significantly to the sustainability of the reforms carried out under the program. The validation concurs with most of these lessons.

C. Recommendations for Follow-Up

41. The recommendations presented in the PCR are sound. In terms of future monitoring, the momentum in institutionalizing the RIA should be sustained. NEDA, DOLE, DOT, and any additional pilot agency need to promote enhanced collaboration and mutual learning. To realistically and successfully institutionalize RIA practice across agencies, a pilot agency approach for a longer period would be appropriate. In view of the underinvestment in infrastructure, further efforts are needed to enhance competitiveness and boost PPPs in infrastructure. These include financing the government’s share of PPP projects, improving access to finance through capital markets and international commercial banks, putting in place an infrastructure master plan and an institutional framework to develop the PPP pipeline. In order to promote employment, a closer look of the government programs that facilitate employment can be considered to avoid duplication and ensure wider range of services.

42. Additional support will be needed to advance and sustain competition policy reforms, facilitate the legal and administrative mandate of NEDA as the central overseer in the institutionalization of the RIA, and to develop JobStart’s potential to create jobs for young people from low-income households. Finally, future programs should consider greater use of randomized impact evaluation, which can be useful in evaluating performance and enabling better-informed, evidence-based design of interventions.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

43. DOF monitored the program and ensured that all policy measures were carried out. Monitoring of the program was based on the policy matrix and the DMF. The indicators specified in the DMF were verifiable using data from official sources except for the business licensing baseline survey, which was available only for 2015. Hence, it was not possible to measure the outcome indicator on the cost of rules and regulations for key licenses (para. 18). The design should have specified a more verifiable and easily available indicator.

B. Comments on Project Completion Report Quality

44. The PCR was well written and followed the ADB Project Administration Manual.[22] The main text was consistent with the appendixes except for the reported growth in the main text on the number of jobseekers who found employment through PESOs, which did not match the reported actual growth in the DMF (Appendix 1).[23] The discussion on the implementation of the program and the outputs delivered was comprehensive. Consistency between the reported compliance with each loan covenant against the achievements and issues highlighted in the PCR should always be ensured. The survey results in Appendix 6 could have been better presented as per the normal statistical conventions. Overall, the quality of the PCR is *satisfactory.*

C. Data Sources for Validation

45. The sources for this validation were the RRPs and linked documents, the PCR, loan review mission reports, TA reports and minutes of management review meetings.

D. Recommendation for Independent Evaluation Department Follow-Up

46. None is recommended.

[22] ADB. 2009. *Project Completion Report for Sovereign Operations: Project Administration Instructions (PAI).* 6.07a. Manila.

[23] The PCR in para. 39 stated that growth was 18% per annum while the DMF outcome indicator (i) in Appendix 1 stated that the actual growth was 15%.