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MEMORANDUM OF THE PRESIDENT  
OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
AND  
THE INTERNATIONAL FINANCE CORPORATION  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
COUNTRY ASSISTANCE STRATEGY  
OF THE WORLD BANK GROUP  
FOR  
THE REPUBLIC OF THE PHILIPPINES

May 11, 1999

Philippines Country Management Unit  
East Asia and Pacific Region

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**CURRENCY EQUIVALENTS**  
(As of April 9, 1999)

Currency Unit = Peso  
\$1.00 = 38.52  
1.00 peso = \$0.026

**WEIGHTS AND MEASURES**

Metric System

**FISCAL YEAR**

January 1 – December 31

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## ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Conference
APL	Adaptable Program Loan
ARCs	agrarian reform communities
ASEAN	Association of South East Asian Nations
ASEM	Asia-Europe Meeting
BOI	Bureau of Investment
BOO	build-operate-own
BOT	build-operate-transfer
BSP	Bangko Sentral ng Pilipinas
CALA	Cavite-Laguna
CAR	Country Assistance Review
CARP	Comprehensive Agrarian Reform Program
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CEM	Country Economic Memorandum
CG	Consultative Group
CIDA	Canadian Agency for International Development
CMU	Country Management Unit
COA	Commission on Audit
CPPR	Country Portfolio Performance Review
CPSD	consolidated public sector deficit
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DENR	Department of Environment and Natural Resources
DOH	Department of Health
DOTC	Department of Transportation & Communication
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
ECD	Early Childhood Development
ESW	Economic Sector Work
EU	European Union
FAP	foreign-assisted project
FDI	foreign direct investment
FIAS	Foreign Investment Advisory Services
FINCORP	Financial and Corporate Sector Reform Loan
FISFAP	Financial Information System for Foreign Assisted Projects
GDP	gross domestic product
GNP	gross national product
GOP	Government of the Philippines
GSIS	government service insurance system
GVA	gross value-added
HIGC	home insurance and guaranty corporation
HNP	Health and Nutrition Program
IBRD	International Bank for Reconstruction and Development
IDF	Institutional Development Fund
IFC	International Finance Corporation
IMF	International Monetary Fund
IPPs	independent power producers

IRA	Internal Revenue Allotment
JEXIM	Japan Export-Import Bank
JICA	Japan International Cooperation Agency
LGU	local government unit
LIL	Learning and Innovation Loan
LLDA	Laguna Lake Development Authority
LOGOFIND	Local Government Finance and Development Project
LRT	Metro Manila Light Rail Transit system
LGUUWS	Local Government Unit Urban Water Supply Program
MIGA	Multilateral Investment Guarantee Agency
MTPDP	Medium-Term Philippines Development Plan
MTEP	Medium-Term Expenditure Plan
MWSS	Metropolitan Waterworks and Sewerage System
NAPC	National Anti-Poverty Commission
NDP	National Development Plan
NEDA	National Economic and Development Authority
NFA	National Food Authority
NG	National Government
NGO	nongovernmental organization
NHMFC	National Home Mortgage Finance Corporation
NPC	National Power Corporation
NPLs	nonperforming loans
NRM	natural resources management
NUPA	National Urban Policy Agenda
ODA	official development assistance
OECF	Overseas Economic Cooperation Fund
OED	Operations Evaluation Department
PAG-IBIG	home development mutual fund
PCCI	Philippine Chamber of Commerce and Industry
PECSP	Private Enterprise Credit Support Project
PHRD	Policy and Human Resources Development Fund
PNR	Philippine National Railways
PPI	private participation in infrastructure
PSRL	Public Sector Reform Loan
QR	qualitative restriction
RECs	Rural Electric Cooperatives
RMP	Resident Mission Philippines
S&T	science and technology
SEC	Securities and Exchange Commission
SEML	Social Expenditure Management Loan
SME	small and medium enterprise
SSS	social security system
SUCs	state university and colleges
SZOPAD	Southern Mindanao Zone for Peace and Economic Development
TA	technical assistance
TEEP	Third Elementary Education Project
TESDA	Technical Education Skills Development Agency
UHNP	Urban Health & Nutrition Project
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WBI	World Bank Institute
WHSMF	Women's Health and Safe Motherhood Project

## **Acknowledgements**

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**PHILIPPINES  
COUNTRY ASSISTANCE STRATEGY**

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MAP OF THE PHILIPPINES

# **PHILIPPINES**

## **Country Assistance Strategy**

### **Executive Summary**

- i. Progress has been made since the last CAS (1996) in reducing poverty incidence and addressing the long-term development issues for the Philippines. The immediate challenge for the Government has changed from sustaining the growth and poverty reduction momentum of the 1990s to restoring it following a 0.5 percent decline in GDP in 1998 due to bad weather and the crisis.
- ii. The economy is expected to bottom out in 1999 and resume growth. Initial growth is projected to come from a recovery in agriculture and continuation of growth in services and export sectors. Outlook is uncertain in the industrial sector. Average GDP growth during 2000–2002 is projected to recover to between 4 and 5 percent which is required to keep poverty reduction on track.
- iii. So far the Philippines has earned admiration for its resiliency amidst adversity, particularly in the export, corporate and banking sectors, although further stress cannot be ruled out. The authorities' macroeconomic policy responses are appropriately geared to support domestic demand, control inflation, stabilize the peso and strengthen the balance of payments. Structural reforms, supported by IBRD, ADB, IMF and the New Miyazawa Initiative loans are under implementation in banking, corporate, power and tax administration areas. Acceleration of these reforms as well as launching of new reforms is needed in fiscal consolidation, public sector management, trade and investment liberalization, governance, capital market development and contractual savings. Sustaining structural reforms is essential to prevent the economy from settling back into a slower growth path after a brief spurt in response to current fiscal stimulation.
- iv. External downside risks pertain to depressed capital flows, further slowdown in world trade and regional currency fluctuations. Internal risks to recovery pertain to persistence of: a more prolonged industrial recession; shaky investor confidence; and weaknesses in governance.
- v. The CAS supports the country's medium-term plan which is nearing finalization and calls for reducing poverty incidence from 32 percent in 1997 to 25-28 percent by 2004 through a program of policies and investments aimed, in particular, at rural development, human development, improving governance and infrastructure development. The Plan is being finalized in consultation with the civil society. The Plan's targets are ambitious and could come under pressure from resource and implementation capacity constraints. Helping address these constraints will be a key objective of the CAS.



vi. This CAS is a joint venture of IBRD-IFC. It is also a pilot within the World Bank for a “self-evaluation” CAS, in which government and the Bank agree on indicators for measuring success during the CAS implementation period.

vii. This CAS was prepared in consultation with stakeholders in the national and local government, business leaders, nongovernmental organizations, representatives of peoples groups, trade unions, economists, and academicians. Other donors were also consulted in the process. The CAS incorporates the recommendations of the Country Assistance Review undertaken by the World Bank’s Operations Evaluation Department in 1998, and two client surveys.

viii. Drawing on these consultations, the CAS sets new directions towards longer-term poverty reduction, improving governance, structural reforms, a partnership approach, increased transparency, mainstreaming participation, and evaluation. The longer-term view is incorporated by aligning the CAS with the country’s 1999–2004 medium-term plan objectives and selecting a few poverty reduction focused activities for support through adaptable program loans over a 10-12 year period. Through these new directions, the CAS is taking an approach similar to the Comprehensive Development Framework approach.

ix. Within the longer-term vision of the CAS, the government and the Bank have jointly identified about 15 lending operations and 8 to 10 major analytical and advisory services tasks for the three-year (FY00–02) period. This program will be updated annually. The program activities have been carefully selected to allow the Bank to make a critical difference through a combination of applying knowledge and lending resources. The selected activities are described in the CAS and will support the government’s programs for: addressing the effects of the crisis and promoting economic recovery; enhancing human development and social services for the poor; accelerating environmentally sustainable rural development; promoting sustainable urban development and combating urban poverty; developing infrastructure, particularly in the provinces; enabling the expansion of the private sector; and improving governance.

x. The proposed **IBRD** base-case lending program for FY00–02 will range from \$1.0 billion to \$1.5 billion similar to the levels approved for FY96-99 period. Agreement on and implementation of additional structural reforms would be supported by raising the amount to up to \$2 billion. Under low-case scenario (triggered by substantial slippages in policy implementation, implementation performance and governance) the three-year lending would be reduced to about half of the base-case i.e. between \$500 million and \$750 million. **IFC**’s base-case investment program in FY00–02 is between \$350 million and \$500 million for IFC’s own account in 15 to 20 projects.

xi. Board members may wish to discuss the following issues/aspects:

- Downside risks to the economic recovery (paras. 18-21 and 85-87);
- Analytical and participatory process used for CAS formulation (paras. 38-40);
- New strategic directions proposed in the CAS (paras. 41, 42 and 44);
- Program to improve governance (paras. 34, 35, 67 and 70); and
- Proposed Bank Group lending levels (paras. 73-77).

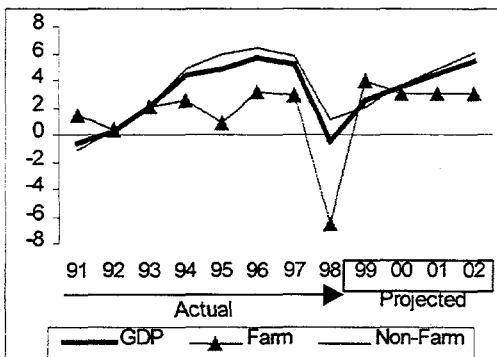
**MEMORANDUM OF THE PRESIDENT OF THE  
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**I. DEVELOPMENT CHALLENGES AND SOCIAL AND POLITICAL CONTEXT**

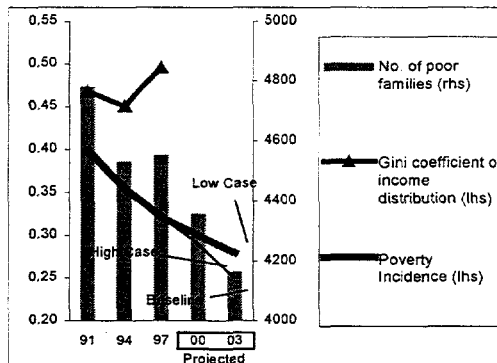
**A. Development Challenges**

1. **The Philippine economy's growth momentum of the 1990s (explored in the previous CAS) was dealt a severe blow by the crisis that hit the region in 1997.**<sup>1, 2</sup> Real GNP growth accelerated steadily from 1.6 percent in 1992 to a peak of 6.9 percent in 1996. In 1997, it slowed down to 5.9 percent before coming to a halt in 1998. The government now projects a steady recovery starting 1999 (Figure 1).

**Figure 1. Growth, 1991–2002**  
(percent, year to year, at constant 1985 prices)



**Figure 2. Poverty Reduction: Recent Trends and Medium-Term Plan Objectives**



2. **Reducing poverty remains a formidable challenge, in view of the slowdown of growth and the high (though reduced) population growth rate (down from 3.1 percent in the 1960s to 2.3 percent in the early 1990s).** The proportion of households living in poverty fell from 40 percent in 1991 to 32 percent in 1997.<sup>3</sup> However, the number of rural poor increased by 2.4 million between 1991 and 1997. During the same period, income inequality is estimated to have increased and rural-urban income differentials have widened (Figure 2 and Annex C).

3. **Rural development has become a top national priority in view of rural poverty and concerns about food security.** Growth in the agricultural sector declined from an annual

<sup>1</sup> *The Philippines: Country Assistance Strategy: Progress Report*, Report No. R98-41, World Bank, March 3, 1998.

<sup>2</sup> *Philippines: The Challenge of Economic Recovery*, Report No. 18895-PH, World Bank Poverty Reduction and Economic Management Sector Unit, East Asia and Pacific Regional Office, February 26, 1999.

<sup>3</sup> The government's poverty measures use a higher income cutoff level than do many other countries, which inflates the Philippines' poverty estimates somewhat in international comparisons.

average of 4 percent in 1970–80 to about 2 percent in 1980–97 (Figure 1). Yet there is untapped potential for realizing higher and more sustained growth in agriculture.<sup>4</sup>

4. **Human development will require renewed efforts to protect past gains and to generate competitive advantage in the future.** The Philippines had achieved almost universal *primary education* enrollment by 1970, and today the female literacy rate is the second highest in the region (94 percent). However, about 30 percent of schoolchildren drop out before reaching sixth grade. Access and cohort-completion rates vary greatly between regions, and the quality of education is widely regarded as having declined. About 11.2 million *out-of-school children and youth* in the Philippines pose a significant social problem.<sup>5</sup> *Health indicators* have improved (Annex B5), but little progress has been made in further reducing infant and maternal mortality, differences in health status among provinces and regions and between urban and rural groups, and communicable diseases. At current growth rates, the *population* will double in the next 30 years, with enormous implications for social services. The *social impact of the crisis* on the Philippines is still unfolding, but its initial impact appears to have been less severe than in neighboring countries.<sup>6</sup>

5. **Safeguarding the environment and providing basic services to a growing urban population remains a key challenge.** Water and forest resource exploitation and conversion of forest lands to commercial uses continues at unsustainable pace and watershed management is poor. By 2020 about 6 out of 10 people will live in urban centers.<sup>7</sup> Already, citydwellers account for nearly two thirds of GDP in manufacturing and services and this share is expected to go up. However, cities are becoming less livable and competitive in production, the environment is deteriorating and social disparities within cities are widening. Urban households' access to basic services such as clean and safe water supply and hygienic waste disposal is inadequate, and there is too little appropriate housing for poor and lower middle-class people.

## B. Social and Political Context

6. **The Philippines confronts these development challenges with a number of strengths.** It has a relatively *stable democracy*, led by a new president elected in mid-1998 for a six-year term. Its *legislative and judicial branches of government* are active, and decentralization has diffused political power. *Civilians participate actively* in political and economic affairs as members of the media, businesses, churches, academe or of the vibrant community of nongovernmental organizations (NGOs). The culture is open, with freedom of expression and broad social consensus on the desirability of an outward-oriented society. Despite the persistent potential for escalation of conflict in Southern Mindanao, *peace and order* hold sway. Over the past 10 years, pro-market policy reforms, substantial privatization, and an impressive record of private participation in infrastructure projects have helped build a *vigorous private sector*. The market recognizes the Philippines' *decade-long structural adjustment effort* as a favorable

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<sup>4</sup> *Philippines: Promoting Equitable Rural Growth*, Report No. 17979-PH, Rural Development and Natural Resources Sector Unit, East Asia and Pacific Region, May 29, 1998.

<sup>5</sup> "Out-of-school" designates young people who do not attend any formal or vocational school, are not employed, or are not tertiary level graduates. This group includes about 5.3 million in the 7 to 14 age group and 5.9 million in the 15 to 24 age group.

<sup>6</sup> *Philippines: Social Expenditure Priorities*, Report No. 18652-PH, World Bank Philippines Country Management Unit, East Asia and Pacific Region, November 13, 1998.

<sup>7</sup> *Philippines: Restoring Stronger Growth with Greater Equity: What the Government Can Do and How the World Bank Can Help*, World Bank, August 1998.

distinguishing factor in the economy's relatively better performance during the crisis, and investors recognize its *skilled labor force as an asset*. The Philippines is also set apart from some of its neighbors by a *steady source of external financial inflows* from its overseas workers and its robust export performance. The Estrada administration has won respect for its promise to intensify *pro-poor and pro-market policies* and to *combat graft and corruption*.

7. **The Philippines' performance has been constrained, however, by widely acknowledged weaknesses in implementation capacity and governance.** Improvements are needed in capacity for: policy formulation and implementation; project management; procurement; controlling corruption; transparency and accountability; local governance, and congressional and judicial processes (see also paras. 34, 35, 67 and 70). Bank projects in the Philippines over the last dozen years and in the current portfolio have performed well relative to the Bank-wide and regional averages (Annex D).<sup>8</sup> Nevertheless, many current projects suffer from poor project management and procurement bottlenecks. Other donor-financed projects also report recurrent implementation delays.

## II. ECONOMIC PERFORMANCE AND OUTLOOK

### A. Recent Economic Performance and Policy Responses

8. **Although the Philippine economy was dealt a severe blow by the crisis, it has performed better than most market economies in East Asia** (Figure 3). The banking and corporate sectors have resisted the type of systemic collapse witnessed elsewhere.

Figure 3. GDP Change, Selected Countries  
(percent, year to year)

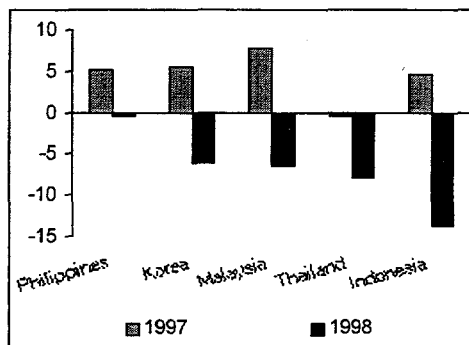
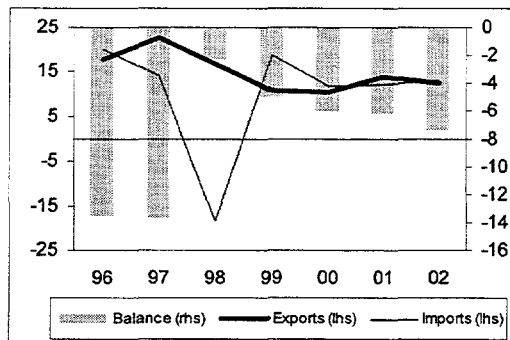


Figure 4. Philippine Trade Balance, 1996–2002  
(US\$ billion and year-to-year percent change)



9. **Several domestic factors account for the Philippines' greater resiliency:** the private sector's shorter period of rapid credit expansion and debt accumulation, major banks' stronger capitalization, lower levels of corporate leverage, the private sector's greater experience with external shocks, and the government's appropriate macroeconomic policy responses.

<sup>8</sup> *Philippines: Country Assistance Review*, 2 vols., Report No.17417, World Bank Operations Evaluation Department, March 2, 1998.

10. **Three external factors also helped: an outstanding export performance,<sup>9</sup> improved terms of trade, and continued growth of remittances from overseas workers.** As a result of a *sustained double digit export performance* (Figure 4), the Philippines has been one of the few crisis-beset countries to adjust externally through export expansion (in addition to import compression).

11. **So far, the authorities have succeeded in stabilizing the economy.** After 18 months of enormous volatility, financial markets have strengthened since September 1998, as equity prices nearly doubled from their six-year low in mid-September. The peso has strengthened (Figure 5), and real interest rates have declined to pre-crisis levels (Figure 6). The government has: adhered to a new standby arrangement with the International Monetary Fund (IMF), approved in March 1998; sought to protect social expenditures in the context of a declining budgetary envelope; influenced employers and workers to promote wage restraint in exchange for job security, thereby moderating increases in unemployment and inflation; and permitted massive rice imports to limit the impact of El Niño on the most socially sensitive price.

Figure 5. Stock Market Index and Nominal Exchange Rate, January 1997–January 1999

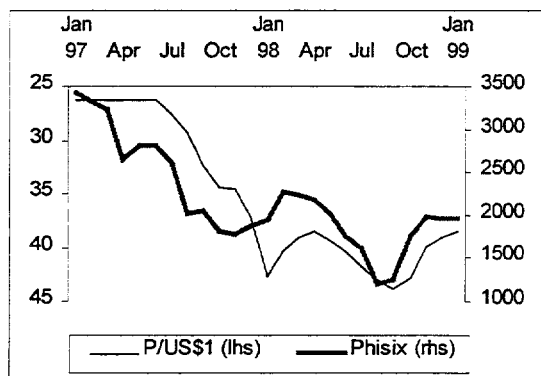
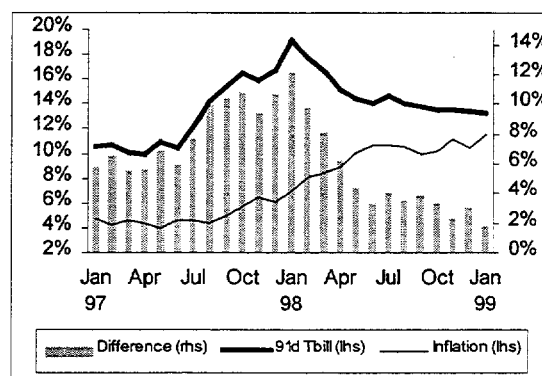


Figure 6. Inflation and 91-Day T-bill Rates, January 1997–January 1999 (year-to-year percent change)



12. **In 1998 the Philippine economy was adversely affected by bad weather and the crisis. Therefore, growth collapsed** (figures 1 and 3). Severe drought *reduced agricultural production* by more than 6 percent in 1998. *Unemployment and inflation both approached 10 percent* (compared with 8 percent and 7 percent, respectively, at the end of 1997). *Private investment fell* sharply in real terms. Banks' *nonperforming loans continued to increase*, rising from 4 percent of their loan portfolio in mid-1997 to 11 percent at end-1998. Reflecting higher levels of financial stress and uncertain demand prospects, *investors remained cautious* about initiating new ventures, and *bankers remained reluctant* to extend credit to new or small borrowers—bank credit to the private sector was flat in nominal terms in 1998 (after expanding by more than 50 percent in 1996). With robust export growth and shrinking domestic demand, the *current account swung from a 5 percent of GNP deficit in 1997 to a 1.5 percent surplus in 1998*.

13. **The authorities' macroeconomic policy responses have so far been appropriate—geared to support domestic demand, control inflation, stabilize the peso, and strengthen the**

<sup>9</sup> Exports continued to grow through the crisis period by 23 percent in 1997 and 17 percent in 1998.

**balance of payments.** In 1998 to provide *modest fiscal stimulus*, the authorities allowed a widening of the national government budget deficit to 1.8 percent of GNP and of the consolidated public sector deficit to over 3 percent; they intend to maintain deficits at approximately these levels until the economy revives. The Bangko Sentral has eased liquidity as pressure on the peso has subsided. *Public foreign borrowing* is being increased to boost reserves and finance the budget deficit without crowding out the private sector. The Republic of the Philippines has raised more than US\$1.5 billion in long-term bonds in Europe and the United States after a hiatus since spring 1998, an indication of improved confidence over the past year, although spreads were higher than before the crisis. The government is aware of the downside risks of fiscal expansion and public borrowing on top of an already high level of public debt (92 percent of GNP in 1997).

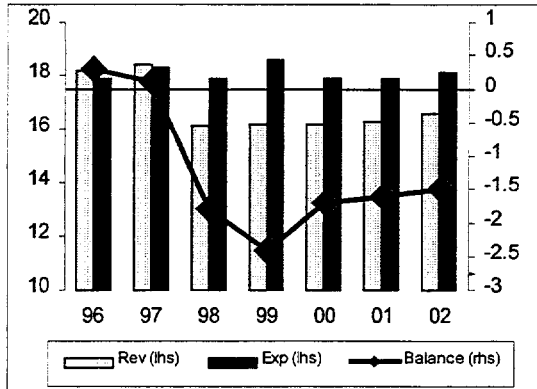
## **B. Economic Scenarios and the External Environment**

14. **The economy is expected to bottom out in 1999 and resume growth.** The initial boost should come from the supply side as agriculture bounces back from the impact of El Niño/La Niña. With the services sector expected to continue growing in 1999 (as in 1998), the authorities' projected 2.5 percent overall GDP growth is feasible. This projection is contingent, however, on the industrial economy's bottoming out in the first half of 1999.

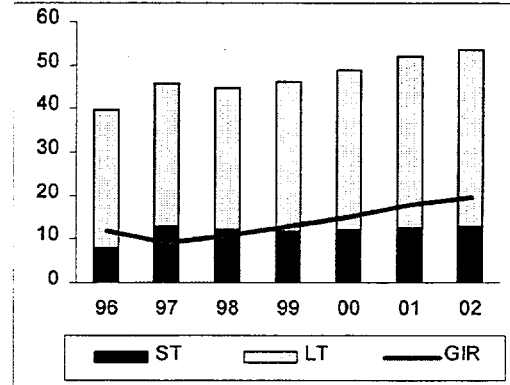
15. **Average GDP growth during 2000–2002 could recover to between 4 percent and 5 percent if the external environment does not deteriorate, the structural reform agenda is implemented, and investment picks up.** The new administration has endorsed its *predecessor's structural reform agenda*, including trade liberalization, competition, privatization, foreign investment promotion, and land reform. Recently, it has also *made a commitment to new structural reform initiatives* in the areas of banking (in the context of a Banking System Reform Loan from the World Bank), power restructuring (under a program loan with the Asian Development Bank), and tax administration (under the standby agreement with the Fund, and a Tax Computerization project funded by the Bank). *Further structural reforms* are needed in the areas of governance and public sector reform, corporate sector reforms, social protection, and capital market development, and continued banking reforms under the BSRL need to be implemented. In this respect, a key policy goal will be to return to *fiscal consolidation* when the need to stimulate demand diminishes. The challenge is all the greater in that the authorities will have to work against the downward trend in revenues caused by the ongoing process of tariff reduction within the context of Association of South East Asian Nations (ASEAN) and the World Trade Organization agreements. The baseline scenario thus assumes only slow improvement in both revenue and deficit performances with a return to fiscal consolidation and a recovery in private investment as the economy stabilizes and aggregate demand revives (Figure 7).

16. On the external side, this **scenario assumes that access to private capital is improving gradually during the CAS period.** After dropping from US\$7.8 billion in 1996 to US\$0.5 billion in 1998, the country's surplus on capital account is expected to recover to US\$3.4 billion by 2002, still far below pre-crisis levels. In view of the uncertain outlook for private capital flows, current account deficits through 2002 are projected to average below 1 percent of GNP. This external scenario would also allow the Philippines to *build up foreign reserves* beyond short-term debt levels (Figure 8).

**Figure 7. National Government Budget, 1996–2002**  
(percent of gross national product)



**Figure 8. External Debt and International Reserves, 1996–2002**  
(US\$ billion)



ST-short-term debt; LT-long-term debt; GIR-Gross International Reserves

17. **Meeting the poverty-reduction challenge.** Growth at the upper end of the target range (para. 15) with actions to roll back the recent rise in inequality (for example, education, land reform, targeted programs for persistently poor groups/areas), would allow the Philippines to reduce the incidence of poverty between 4 and 7 percentage points in 1999–2004 (Figure 2).

### C. Downside Risks

18. **The uncertainties in the global environment pose downside risks to the above recovery scenario for the Philippines.** These risks are:

- New disturbances in international capital markets may *depress private capital flows* below the levels envisaged in the baseline scenario.
- *A slowdown in world trade*, as slower growth or recession spreads across industrial countries and may weaken one of the Philippines' main sources of resiliency—its export performance (Figure 4). The United States is the Philippines' main export market (buying 35 percent of its exports). Despite continued buoyancy in the U.S. economy, exports to the United States slowed toward the end of 1998.
- *Regional currency fluctuations* may resume if one or more regional currencies devalue. A renewed period of regional currency instability could become highly detrimental to growth and investor confidence.

19. The Philippines' positioning within *the rapidly evolving electronic industry* may be *challenged*. At present, growth prospects look promising. The sector is handled almost entirely by leading global companies, ensuring access to technology and markets. Nonetheless, relying so exclusively on a single sector—however dynamic—is risky. The performance of more traditional manufactured exports has been disappointing.

20. **Internal risks.** Through end-1998, increased financial stress and depressed private investment and credit demand hampered industrial recovery, and industrial output appeared not to have bottomed out. The persistence of these adverse factors could result in a more prolonged industrial recession independent of external factors if, for example, financial stress continued to build. Moreover, heavy public debt, a large refinancing burden for peso-denominated debt, and

unsteady access to external finance could all limit the use of fiscal policy to encourage further growth. Policy slippages on banking and corporate reforms, efforts to strengthen tax administration and collection, and (external and domestic) debt management could further prolong the slowdown.

21. **Downside scenarios.** Though many, the risks discussed boil down to two basic, downside scenarios. Under an *externally driven downside scenario*, further deterioration of the external environment would dampen export growth. With a weaker external pull and reduced inflow of foreign savings, growth would be too little to make a difference in the lives of the very poor. Under a *policy-driven downside scenario*, the authorities may be unable to articulate and execute a suitably ambitious and aggressive stabilization and structural policy program that meets market expectations. After a brief spurt in response to fiscal stimulation, the economy would settle back into a lower growth path. Inability to achieve fiscal consolidation after the expansion would lead to an unsustainable debt level. Political difficulties may arise if the government fails to deliver on its campaign platform of poverty reduction. If both downside scenarios materialized at the same time, the economy would stagnate. However, these are risks and not forecasts.

### III. THE PHILIPPINE GOVERNMENT'S DEVELOPMENT AGENDA

#### A. Long-Term Vision to 2025

22. **“Our development vision for the 21<sup>st</sup> century is to create a modern and humane society, raise the quality of life of all Filipino—children, youth, women, and men alike—and bequeath this society in an ecologically healthy state to future generations. This society is politically mature, peaceful, and united as a nation. The families, as the basic units, lead lives of prosperity, dignity, and freedom.”** The Philippine government thus set forth its long-term goals and strategies for attaining this vision by 2025 in *The Philippine National Development Plan: Directions for the 21<sup>st</sup> Century* (PNDP).<sup>10</sup> PNDP emerged after extensive, broad-based consultations with the civil society.

#### B. Medium-Term Priorities and Programs

23. In the Medium-Term, the priorities are **restoring GNP growth** to an average 5 percent in 1999–2004 and **reducing poverty incidence** from 32 percent in 1997 to 25–28 percent by 2004 while also dealing with the **short-term issues arising from the regional currency crisis**. Specific goals and policy actions in key areas are discussed below. Box 1 summarizes how they are reflected in the draft Medium-Term Philippine Development Plan (MTPDP).

24. **Maintain a sound macroeconomic framework.** The key elements of the macroeconomic agenda are to maintain low inflation, which is conducive to balanced and sustainable growth, to pursue a prudent fiscal stance, to strengthen external debt management, and to promote entrepreneurship. The government plans to undertake structural reforms in banking and tax administration; strengthen the supervisory ability of the Bangko Sentral by passing the Revised General Banking Act; and mobilize long-term domestic savings by implementing a Small Investors Program.

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<sup>10</sup> *The Philippine National Development Plan: Directions for the 21<sup>st</sup> Century*, National Economic Development Authority, Manila, March 1998.



**Box 1. Philippine Government's Medium-Term Development Priorities and Targets**

*The overarching objective of the Medium-Term Philippine Development Plan (MTPDP) is to achieve economic growth with social equity.* In pursuing this goal, the government will be guided by the principles of equity, effectiveness, efficiency, environmental sustainability, empowerment, accountability, and transparency. The specific objectives are to:

**Modernize agriculture and ensure environmental sustainability in rural development.** Increase productivity, attain food security, and increase incomes in the countryside where two thirds of the poor reside. Agricultural output is targeted to grow between 2.6 percent and 3.4 percent in 1999–2004, supported by an increase in irrigated areas from the current 42 percent of total irrigable lands to 52 percent in 2004, completion of the Comprehensive Agrarian Reform Program, and a higher budget allocation for agricultural research and development.

**Deliver basic social development services.** Enhance delivery of basic services in health and nutrition, education and training, housing and social welfare, and implement other social safety net and human capital investments. In health, infant mortality is targeted to decline from 35 to 25 per 1,000 live births, and fertility rates to drop from 3.8 to 3 live births per woman of child-bearing age by 2004. Health insurance coverage is slated to increase from the current 38 percent to 70 percent by 2004. In education, the elementary cohort survival rate will improve from 65 percent to 83 percent and elementary achievement level from 51 percent to 65 percent by 2004.

**Accelerate infrastructure development.** Enable private sector to complete and improve infrastructure facilities and services in transport, power, water and communication especially in rural areas. National government will intervene as necessary to extend provision of basic infrastructure to rural areas. Regulatory and supervisory capabilities will be strengthened for transparency in transactions. The electrification ratio is targeted to increase from 76 percent to 88 percent of all households and access to water supply in the urban areas from 59 percent to 79 percent of all households.

**Enhance global competitiveness.** Continue market-oriented policies on privatization, deregulation, and liberalization; and encourage investment in education, science and technology.

**Maintain macroeconomic stability and strengthen the financial system.** The government is targeting a GNP growth of between 5.7 percent and 6.4 percent by 2004, with less than 5 percent inflation a year and a stable exchange rate. These policies are expected to reduce unemployment to between 6.5 percent and 7.9 percent. Poverty is targeted to decline from 32 percent in 1997 to 25–28 percent in 2004.

**Reform governance.** Enhance government efficiency, effectiveness, and accountability; improve economic governance; eliminate graft and corruption; and improve peace and order, law enforcement, and administration of justice and human rights. Government workers' remuneration package will be rationalized, a new National Accounting and Auditing System will be established, and the Philippines will aim to move up in the Global Competitiveness Report rankings from forty-sixth to thirty-seventh place.

Source: Highlights of the Draft Medium-Term Philippine Development Plan, 1999–2004, March 1999, presented at the Consultative Group Meeting for the Philippines, Tokyo, March 24–25, 1999.

25. In the fiscal arena, government will: improve the efficiency of tax collection by further computerizing the Bureau of Internal Revenue and Bureau of Customs; continue privatization efforts; introduce a medium-term expenditure framework; and reduce the share of the budget going to government-owned and controlled corporations. Budgetary transfers to local government units (LGUs) will be improved by enhancing the Internal Revenue Allotment formula, monitoring LGU funds, and rationalizing the LGU grant system. Debt management will seek to maintain a prudent debt-maturity profile. To promote entrepreneurship, the government will fully implement the Magna Carta for Small and Medium Enterprises and improve the Labor Market Information System.

26. **Modernize agriculture and ensure environmentally sustainable rural development.** Specific policies to accelerate agricultural growth from about 2 percent in the 1990s to above 3 percent by 2004 will include: implementing the Comprehensive Agrarian Reform Program; adopting uniform tariffs for all agricultural commodities and continuing to reduce tariffs on agricultural inputs; adopting an equitable taxation policy to promote development of agro-processing industries and rehabilitation/expansion of irrigation areas; promoting private

investments, especially in research and development and rural infrastructure; adopting La Niña/El Niño-mitigating measures, building capacity at LGUs; and increasing access to credit for small farmers, fisherfolk, upland dwellers, and indigenous peoples.

27. **Safeguard the environment.** The government will promote community-based approaches to reforestation, adopt erosion control measures, expand coastal resource management, upgrade water pollution control measures, and develop alternative sources of potable water. To address the more general environmental issues on a cross-sectoral basis, the government created the National Council for Sustainable Development (NCSA) and in 1996 completed the Philippines Agenda 21 outlining policies for sustainable development. The government will further institutionalize this initiative by supporting several legislative acts such as the National Land Use Act, Clean Air Act, Clean Water Act, and the National Solid Waste Policy.

28. **Promote human resource development.** The fiscal difficulties of 1997-98 have added to the backlog in provision of inputs (such as textbooks) and maintenance of facilities (such as hospitals and school buildings) in the social sectors. Key medium-term policies to address these challenges are ensuring that *priority basic social services* are allocated at least 20 percent of the national budget and 20 percent of official development assistance, to give *vulnerable groups preferential access to social services and safety nets*, and to *encourage private sector participation* in social service delivery and financing. Specific programs are envisaged for early childhood development and integrating out-of-school youth in mainstream education and labor systems.

29. In the *health* sector, priorities are: to improve the health, nutrition, and population outcomes for the poor by providing affordable personal health care services under the devolved set-up; to enhance the performance of the health care system by integrating and building up the capacity of local primary health care delivery systems, and reforming hospital management and health care financing; and to strengthen the Department of Health (DOH) through reorganization.

30. In *education*, the government plans to expand *resources for basic education*, stress *teacher development* efforts, and accelerate *decentralization of educational management* by devolution to LGUs and communities. Specific pro-poor interventions include selective expansion of schools in remote barangays, alternate schooling, local adjustments to school calendars, preschool for high-risk families, and demand-side interventions such as scholarships and vouchers.

31. **Develop infrastructure.** The overall objective is to complete and improve infrastructure and services in power, transportation, and telecommunications, with special focus on rural areas and private sector participation. In the *energy sector*, the priorities are to restructure and privatize the National Power Corporation, expand access to electricity in rural areas (currently 65 percent), and promote efficient use of energy. In the *transport sector*, the focus will be on upgrading 2,200 km of national strategic roads to international standards, establishing an autonomous highway management authority for national roads, a dedicated Better Roads Fund for road building and maintenance, and an area-wide development approach integrated by local and regional councils. The program targets transport problems in Metro Manila for special attention. The government intends to privatize the Philippines National Railway (PNR) and expand Metro Manila's commuter rail network through private investments, eventually integrating both systems. In the *communications sector*, government's agenda lists issues related to *cost-base pricing of*

*communications services, privatization, curbing illegal network access, and updating technical and service performance standards.*

32. **Promote sustainable urban development and shelter.** The government's program envisages a National Urban Policy Agenda to set a broad framework for overall urban development, stressing urban development as the primary responsibility of LGUs, the promotion of a *competitive environment for private participation in urban infrastructure* and sustainability as the guiding principle.

33. **Enable expansion of private sector.** Priorities to make the private sector more vibrant and resilient are to *reform the financial and corporate sector, and enhance competition and growth in small and medium enterprises (SMEs)*. Key proposed activities include: evaluating the mandatory credit programs, incorporating microfinance institutions in the formal sector, upgrading and strengthening the prudential and supervisory framework for the financial sector through legislative changes, improving the credit information system, developing new avenues for SME access to financing, and tightening monitoring and enforcement of the Magna Carta for SMEs, specifically on lending.

34. **Strengthening governance and anticorruption efforts.** The MTPDP recognizes that improving governance and developing capabilities of public institutions are essential for achieving MTPDP growth and equity objectives. It acknowledges weaknesses in public sector capabilities in policy and program implementation; poor national and local government accountability; endemic graft and corruption; lags in law enforcement and justice, with rare convictions in high-profile corruption cases; and faulty delivery of services to the poor.

35. The **initiatives** planned to address the acknowledged weaknesses include: *enhancing government efficiency, effectiveness, and accountability* by instituting performance-monitoring and evaluation, reengineering all agency operations, rationalizing civil service pay, investing in information technology to strengthen LGU capabilities, and seeking businesses and civil society as partners with the government; *improving economic governance* by establishing a new national accounting and auditing system and a multiyear expenditure framework, pursuing an expanded privatization program at both national and local levels, and involving private sector and civil society in design, delivery, and monitoring of antipoverty programs; *eliminating graft and corruption* by mounting a multi-pronged strategy encompassing further liberalization, deregulation, and privatization, civil service reform, and institutionalization of a participatory approach to social service delivery and its monitoring; and *improving peace and order*, law enforcement, administration of justice, and human rights by modernizing security forces, establishing small claims courts, developing alternate dispute-settlement mechanisms, strengthening the criminal justice system, and institutionalizing consensus-building mechanisms.

36. **The Philippine government's long- and medium-term development agenda is comprehensive, reflects civil society's broad-based priorities and clearly identifies development challenges and areas for action in almost every sector.** MTPDP was prepared under the direction of a steering committee that included representatives from the Congress, private sector, nongovernmental organizations, and the cabinet. The views of civil society and local government units on the draft MTPDP were sought through regional consultations in 14 different cities in every part of the country. Donors provided feedback on MTPDP, particularly on the governance and rural development agenda during the March 1999 Consultative Group

(CG) Meeting. These consultations confirmed that the development challenges are well defined and the objectives and priorities outlined to address them seem appropriate (Box 1).

37. **The Plan's growth and equity targets are somewhat higher than achievements in the 1992-98 period. These ambitious targets would come under pressure from a number of factors whose management will be a key determinant of the outcomes.** The critical factors are: improving *implementation capacity*, increasing *overall savings and other resources*, and *restoring investor confidence*. Both the *efficiency of public expenditures* and the *effectiveness of social services delivery* need improvement. The *governance improvement program* has all the right ingredients but needs to be translated into concrete actions, particularly in the areas of *civil service reform* and *anticorruption* effort. Actions to reduce the Philippines' rapid population growth will be crucial to achieve poverty targets. Successful *fiscal consolidation* would be vital. Domestic savings mobilization and deepening of capital markets will require stronger effort. External financing could also be a constraining factor since the financeable current account deficit during the Plan period is expected to be far lower than in the mid-1990s.

#### IV. BANK GROUP ASSISTANCE STRATEGY

##### A. Formulating the Country Assistance Strategy

38. **Seven key events and analyses have shaped the formulation of the FY99 CAS:**

- An evaluation of progress toward FY96 CAS objectives (Box 2) and findings of three annual Country Portfolio Performance Reviews (Annex D).
- The *regional financial crisis* caused reorientation of near-term CAS priorities toward supporting economic recovery and protecting the poor from greater hardship.
- A 1998 *OED Country Assistance Review* that concluded that Bank assistance over the previous 10 years was "satisfactory but below potential" (Box 3).<sup>11</sup>
- A *sector-by-sector assessment of assistance strategies* was undertaken in 1998, taking into account the sector-development challenges and agendas, lessons from the FY96 CAS progress review, and the findings of the OED Country Assistance Review. The results of these sector assistance strategy assessments were consolidated in a Briefing Paper for the government.<sup>12</sup>
- The *Briefing Paper* was discussed with the new Government that took office in mid-1998 (Annex E). It was agreed that the FY99 CAS would be designed for the 1999-2004 period to support the priorities of the Medium-Term Philippine Development Plan (MTPDP).
- *Decentralization of the Country Management Unit to the field* (July 1997) enabled deeper understanding of the development needs and thereby a more client responsive CAS.

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<sup>11</sup> *Philippines Country Assistance Review*, 2 vols., Report 17417, World Bank Operations Evaluation Department, March 2, 1998, and *The Philippines: From Crisis to Opportunity*, No. 167, World Bank Operations Evaluation Department, Autumn 1998.

<sup>12</sup> *Philippines: Restoring Stronger Growth with Greater Equity*.

**Box 2. Progress Toward FY96 CAS Goals**

**Success Criteria Identified in FY96 CAS**

**Portfolio performance.** By mid-FY99, problem projects dropped to 12.9 percent of the Bank's portfolio from 15 percent in 1996. Nonetheless, the crisis has impaired project performance (Annex D). To deal with this situation, the government and the Bank agreed on an action plan at the December 1998 Country Portfolio Performance Review (CPPR).

**Improvements in private participation in infrastructure.** The Philippines has a record of attracting private participation in infrastructure (PPI) in some sectors, but at the cost of large contingent liabilities. The Asian crisis has dimmed new PPI prospects. Some progress has been made in facilitating transactions for solicited and unsolicited proposals under the build-operate-transfer law, but creating an environment to replicate successful PPI initiatives throughout the economy remains a challenge.

**Policy and institutional reforms in the water sector.** The IBRD and the International Finance Corporation (IFC) assisted the Philippine government in the 1997 privatization of the Manila Water Utility (MWSS), one of the world's largest such projects. But no other PPI transactions have been closed because of weaknesses in the sector's regulatory and institutional framework.

**Framework for poverty alleviation, safety nets, and rural development strategy.** A rural development strategy, prepared in 1997/98 with stakeholder participation, is being carried out. A post-crisis social impact assessment and a social expenditure review have identified protective measures to be taken. With grant funding from the Asia-Europe Meeting (ASEM), the Bank is also supporting the government's Annual Poverty Incidence Survey, which will provide timely data for policy and planning purposes. A full poverty assessment is underway.

**Reduced infant mortality and malnutrition rates among preschoolers.** The results of a recent nutrition survey by the Food and Nutrition Research Institute, currently being finalized, are expected to validate a perceived declining trend in malnutrition rates. The Bank's direct intervention is through the Early Childhood Development project, implemented jointly with the Asian Development Bank, to provide an integrated package of services to poor preschoolers.

**Improved quality of elementary education.** The ongoing Third Elementary Education Project is expected to sharpen resource targeting to the neediest provinces and schools and increase the availability of basic inputs to education. These advances should raise achievement and completion rates.

**New Goals Added in Response to Crisis (CAS Progress Report, March 3, 1998)**

**Adjustment lending and technical assistance for financial and public sector reforms.** A quick-disbursing \$300 million Banking System Reform Loan became effective in December 1998. Grant funding from ASEM and the Policy and Human Resources Development Fund support financial infrastructure strengthening. Public and further corporate and financial sector reforms are being discussed. Close coordination with the International Monetary Fund has been maintained.

**Rapid social impact assessment and interventions to protect vulnerable groups.** A social impact assessment and social expenditure review were completed. In response to the findings, a Social Expenditure Management Loan is being prepared.

**Monitoring, and policy dialogue on, the economic, financial, and poverty situation.** Support to the Annual Poverty Incidence Survey and a Poverty Study are ongoing (see above). Financial and economic monitoring have been enhanced.

**Business lines of credit.** The Third Rural Finance and the Private Enterprise Credit Support projects were approved in December 1998.

**Support to development efforts in Mindanao.** Implementation of Social Fund activities in the Southern Mindanao Zone for Peace and Development is accelerating, and the Mindanao Rural Development Project is being prepared.

**Reassessment of Bank portfolio in light of financial crisis.** CPPR focused on crisis response and identified actions to address crisis-imposed constraints on the Philippine government's budget.

**IFC transactions in financial and corporate sectors.** IFC's activities have been stepped up.

**Lessons Learned**

Despite significant progress toward CAS goals, program implementation suffered from three problems: project preparation and implementation in the social sector was extremely slow, leading to high costs for the Bank and delay in progress toward project and development goals in those sectors; capacity was often weak, especially at the local government unit (LGU) level and with regard to procurement and financial management; and ownership and government commitment lagged in some projects leading to cancellation of significant loan amounts. The new strategy therefore focuses on capacity building at all levels of government, especially improving procurement and financial management systems and making projects involving LGUs demand-driven instead of pre-identifying recipients of project support.

- Two *client surveys*, showing relatively high satisfaction with the Bank's services, suggested that further improvements could be made by involving more local experts in design and implementation, strengthening local capacity, and disseminating more information (Annex F).

**Box 3. OED Country Assistance Review (1986–1997)**

The OED Country Assistance Review (CAR), completed in early 1998, found most Bank-financed economic and sector work of good quality and aid coordination effective. The quality and impact of World Bank-financed operations, however, were rated below par in energy, agriculture, and human resources. The report recommended that the unfinished reform agenda must be tackled and that poverty-reduction programs must target the truly needy. It identified five main challenges for the Bank: to help the Philippine government *address known macroeconomic and governance weaknesses* in the banking system, capital markets, public sector management, and judicial system; to mount an integrated Bank/IFC/MIGA *assistance program for private sector and infrastructure development*; to *adjust human development programs*, leaving lending to donors providing concessional funds, while maintaining the Bank's leading analytical and advisory role; to *mobilize efforts for a rural action program* and an improved agriculture policy framework; and to *improve selectivity of Bank assistance and strengthen partnerships* with donors and the NGO community through a joint CAS with all major donors by 1999 and expanded NGO participation.

In response to the CAR, the strategy outlined in this CAS includes: more emphasis on the financial sector, a starting dialogue on the judicial system, an integrated Bank Group strategy, a new rural strategy, and enhanced partnerships with donors and civil society. The Bank's involvement in social sectors will continue to include medium-term lending, provided that sectoral reforms move ahead.

**39. The participatory process used in preparing the CAS was carried out at four levels:**

- *within the World Bank Group Country Team* to prepare a Joint CAS and a World Bank Group Private Sector Strategy (Annex G)
- *with national and local government officials*, to achieve "ownership" by the new administration while formulating its MTPDP and investment program
- *with other in-country stakeholders*, including nongovernmental organizations, people's groups, trade unions, business leaders, economists, and academicians. Four consultation workshops were held in four different regions of the country and were organized and facilitated by an NGO. This NGO also conducted an orientation course for other NGOs on the nature and process of the CAS and summarized the feedback which is included in the left column of Annex H.
- *with other donors* to improve partnerships and enhance complementarities. A survey of other donor programs was undertaken to help select areas for the Bank CAS and opportunities for collaboration (Annex I).

**40. The consultations with civil society** were very valuable in discussing and getting feedback on the proposed CAS objectives and activities. Annex H summarizes the main points emerging from these consultations and explains how the Bank's new strategy reflects them. Some highlights of these recommendations are to: include civil society more continuously in Bank-financed activities from preparation through implementation to ex-post evaluation; give stakeholders throughout the country more information on these activities; and make the CAS a public document.

## B. Key Strategic Directions in the CAS

41. **Drawing on feedback from consultations, the CAS sets new directions toward a longer term view, structural reforms, a partnership approach, increased transparency, and evaluation. It is taking an integrated approach to economic, structural and social discussions, similar to the Comprehensive Development Framework (CDF) approach.**<sup>13</sup> The *longer term view* is incorporated by aligning the CAS with the government's medium-term plan and selecting a few activities for support through adaptable program loans of 10 to 12 years. Activities identified include: provision of safe water and sanitation services at local government levels; national road improvement; rural development in 24 provinces of Mindanao Island; natural resource management, and rural electrification. All these activities have a strong poverty-reduction focus and require long-term intervention for a sustained impact. The CAS will resume support for *structural reforms*, to address weaknesses revealed during the crisis and follow the OED-CAR recommendation that government deepen the structural reform agenda such as in the financial, corporate, and public sectors. Increased *collaboration and dialogue with other donors in the Philippines* will take advantage of the Bank's expanded field presence (Box 5). The participatory process used in formulating the CAS is a key step in this direction. Specific areas for collaboration with donors and proposed activities are discussed below. The Bank will seek to increase *transparency in its operations* by putting more information in the public domain through expanded external affairs activities. It will also put increased emphasis on *monitoring and evaluating* both results on the ground and the Bank's own performance (paras. 88-89).

42. **The FY99 CAS puts more emphasis than the earlier strategies on: poverty reduction** throughout all sector activities, **building capacity in implementing agencies**, especially at the LGU level, **mainstreaming participation** in Bank activities working toward including beneficiaries and civil society in project preparation, implementation, and evaluation, **a Bank Group approach to private sector development** with IBRD, IFC, and MIGA complementing each other, and **monitoring the country's progress toward comprehensive development** by analyzing trends in all important sectors. For the latter purpose, the Bank has compiled a tentative list of performance indicators and targets to be finalized in consultation with government (Annex J).

## C. Proposed CAS Specific Objectives and Activities

43. **Restoring sustainable economic growth with more poverty reduction and greater equity is the overarching objective of the Philippines' MTPDP and the Bank's CAS (Box 4).** Virtually every player on the Philippines development scene—government, multilaterals, bilaterals, civil society organizations, and the private sector—has ongoing programs to alleviate poverty (Annex I). In this context, the Bank's activities for poverty reduction would focus selectively on:

- *joining hands with other players in keeping poverty reduction at the forefront of the national agenda.* Poverty and equity issues were on the agenda in the last three Consultative Group (CG) meetings. Since the 1997 CG meeting, the Bank has fostered a CG Working Group on Poverty Alleviation as a forum for dialogue between donors, nongovernmental organizations, and government. The group met several times during 1997 and 1998. The World Bank and

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<sup>13</sup> James D. Wolfensohn, "A Proposal for a Comprehensive Development Framework," A Discussion Draft, January 21, 1999.

the United Nations Development Programme (UNDP) serve as the group's cochairs. During the CAS period, the Bank will seek a strengthening of the dialogue in the Working Group and is exploring the possibility of sponsoring (in partnership with UNDP and ADB) a major symposium in early 2000, focused on enhancing implementation and monitoring of pro-poor policies and programs embodied in the MTPDP.

- *supporting generation and dissemination of knowledge on policies, performance indicators, and effectiveness of programs for poverty reduction through Bank analytical and advisory services.* The Bank plans to undertake or support: sector studies in poverty reduction, education, and health; annual monitoring of poverty incidence and social indicators; and a Business Partners for Development initiative for integrating out-of-school youth in education and work fields. Bank external affairs activities are also directed at publicizing poverty-reduction and social development challenges and Bank assistance in this area.
- *supporting investments to reduce poverty through the Bank's lending program, for example: Mindanao Rural Development Program, Social Expenditure Management Loan, Water Supply and Sanitation projects in poor municipalities, Rural Electrification and Agrarian Reform Loans (Annex B3).* These loans will also be responsive to gender and indigenous peoples' needs.

44. More specifically, **the Bank Group CAS will focus on seven strategic action areas that closely reflect the Philippines' development challenges (section I) and the government's own priorities (section III).** The seven specific objectives of the CAS are shown in Box 4, summarized individually in the CAS Program Matrix (Annex B9), and discussed in detail below. The consultations revealed that the Bank's involvement should be in all areas of the MTPDP but that the number of interventions should be kept small. These interventions should be concentrated in niches where the Bank's expertise in applying a combination of knowledge and lending resources would make a critical difference through a sustained longer term effort. The Bank was advised to design a CAS that covers at least the six-year MTPDP period (1999–2004). Thus, the CAS is aligned with the MTPDP objectives and programs but for programming purposes, it includes program for three years only comprising about 15 lending operations and 8 to 10 major analytical and advisory services (comparable to the last CAS) in FY00–02. In effect, however, a 10 to 12 year lending program is embedded in the 3 year lending program through the use of adaptable program loans in five areas (para. 41). These activities were selected on the basis of consultation and their strategic impact potential. The list will be refined around its core of longer term programmatic interventions as the situation evolves.

### ***1. Address Crisis Effects and Promote Economic Recovery***

45. Beyond ongoing activities in response to the crisis (Box 2), the Bank proposes to focus its assistance on **supporting the government's structural reform agenda (para. 15) to speed up recovery and on increasing Bank lending temporarily to bolster aggregate demand.** At the authorities' request, discussions are underway on programmatic adjustment lending to support reforms in the public sector, governance, the corporate sector, contractual savings, housing finance, and social protection. The Bank's assistance is being closely coordinated to complement parallel IMF stabilization programs and ADB structural reform programs in power, food distribution, air quality, and capital market development.



**Box 4: Philippines: Country Assistance Strategy at a Glance**

**CAS objective:** Restoring stronger growth with more poverty reduction and greater equity.

**Main CAS Activities:** A combination of lending, policy advice and technical assistance will be undertaken over the medium-term plan period (1999–2004) to help the country:

- address the effects of the crisis and promote economic recovery
- enhance human development and social services for the poor
- accelerate environmentally sustainable rural development
- promote sustainable urban development and combat urban poverty
- develop infrastructure, particularly in the provinces
- enable expansion of the private sector
- improve governance and transparency and fight corruption.

About 15 lending operations (for an aggregate of up to \$1.5 billion in IBRD loans) have been identified jointly with the government for approval during the 1999–2002 period. The list will be updated every year on a 3 year rolling basis and includes adjustment loans to support structural reforms and bolster aggregate demand to help with recovery. For a sustained impact about one third of the lending operations would support long term (10 to 12 year) programs for provision of safe water and sanitation services at local government level, rural development in 24 provinces of Mindanao, national road improvements, water resource management, elementary education and rural electrification. About 8 to 10 major analytical and advisory services tasks would be undertaken to provide policy advice to the government drawing upon global knowledge and to foster public debate on the country's development agenda and progress. IFC's base-case investment program in FY00–02 is expected to be between \$350 million and \$500 million for IFC's own account in 15 to 20 projects. The focus of IFC's activities would be on corporate restructuring, financial sector deepening, and infrastructure development

**CAS approach:** Selectivity and transparency combined with partnerships and participation.

**Performance indicators:** The CAS will help the Philippines achieve the following MTPDP development targets by 2004:

<i>Indicator</i>	<i>Latest available</i>	<i>2004</i>
GNP growth rate (%)	0.1 <sup>a</sup>	5.7-6.4
Unemployment rate (%)	10.1 <sup>a</sup>	6.5-7.9
Poverty Incidence (%)	32.0 <sup>b</sup>	25-28
Population growth rate (%)	2.3 <sup>b</sup>	2.0
Agricultural growth (%)	-6.6 <sup>a</sup>	2.6-3.4 <sup>d</sup>
Fully immunized child (%)	89.0 <sup>c</sup>	95.0
Elementary completion rate (%)	65.0 <sup>c</sup>	83.0
Electrification ratio in (% of potential households)	76.0 <sup>c</sup>	88.0
Water supply access		
Urban (% of total urban population)	58.5 <sup>a</sup>	78.5
Rural (% of total rural population)	84.0 <sup>a</sup>	85.0

Source: Draft Medium Term Philippine Development Plan, 1999–2004.

a. 1998; b. 1996; c. 1997; d. average of low and high targets for the period 1999-2004

46. **The Bank is supporting the authorities' efforts to ensure the longer term robustness of the banking and corporate sectors to withstand macroeconomic shocks.** A Banking System Reform Loan is being implemented.<sup>14</sup> A Financial and Corporate Sector Reform Loan is under processing to support reforms in housing finance, contractual savings (e.g., pension, life insurance) and corporate sectors. Three technical assistance programs (with funds from ASEM)<sup>15</sup>

<sup>14</sup> Approved by the Executive Directors of the World Bank on December 3, 1998.

<sup>15</sup> Asia-Europe Meeting – EU's Asian crisis response fund, created in April 1998, intended to help seven eligible East Asian countries, including the Philippines, to recover from the regional financial crisis. The trust fund supports activities both in the financial/corporate and social sectors.

and the Policy and Human Resources Development Fund [PHRD])<sup>16</sup> are being undertaken to strengthen the audit of government banks, strengthen financial sector monitoring, and build regulatory agencies' capacity to supervise banks and resolve bank failures. A corporate survey funded by ASEM grant is helping the Bank to understand the effects of the Asian crisis and calibrate its own interventions in this sector. IFC assistance will focus on corporate restructuring in general manufacturing, agribusiness, and infrastructure. In the financial sector, IFC's role would be to assist the consolidation process in the banking sector and on improving operating practices and strengthening the capital base of selected financial institutions through technical assistance and provision of long-term funds to correct asset-liability mismatches.

47. **The Bank would help government efforts to put public finance on a sustainable path and increase long-term domestic savings.** The Bank proposes a combination of interventions: adjustment lending including a Public Sector Reform Loan, in support of reforms in public finance, budget process, expenditure management and governance; ASEM and Japan PHRD-funded technical assistance to reform social protection and promote sound housing plans; and an in-depth study of the decentralization process. ASEM funding will also support a World Bank-ILO-Japan initiative to analyze labor market trends in five countries, including the Philippines, and formulate a framework for social protection. It will coordinate its activities with ADB and the U.S. Agency for International Development (USAID), both active in this area of capital markets development. Building upon the success in privatizing Manila Water, IFC on its part, is ready to continue to provide assistance with privatization and post-privatization restructuring of government assets such as the Philippines postal system, selected seaports, airports, and other infrastructure. IFC is also exploring ways to assist the development of the secondary mortgage market in the housing finance area.

48. **Using an approach along the lines of the CDF, the Bank would stay abreast of developments and engage in a continuous policy dialogue with the authorities.** It would continue to use annual Country Economic Memoranda (CEMs) and occasional policy notes to provide the authorities with the best advice emerging internationally on means of promoting recovery and maintaining consistency between macroeconomic and financial policies and the social policy agenda. This would be supplemented by a systematic and regular tallying of economic, financial, social, and environmental development against long-term targets (Annex J). Whenever possible, the Bank will also try to analyze more qualitative data at a disaggregated level to validate quantitative trends. The Bank will continue the traditionally good *coordination with the IMF and ADB*, with joint missions, projects, and reports as well as informal dialogue. The Consultative Group will be kept active at the plenary level and through its working groups, meeting locally on selected topics such as poverty alleviation. Annex I provides an overview of the evolving framework of donor activities in all sectors.

## ***2. Enhance Human Development and Social Services for the Poor***

49. **The Bank will support measures to enhance social services for the poor.** As part of the Bank's crisis response, a Social Impact Assessment of the financial crisis and a Social Expenditure Review identified priority social expenditures that needed protection from budget cuts or urgent additional funding.<sup>17</sup> A Social Expenditure Management Loan (SEML) is being prepared to help the government implement the recommendations, with potential cofinancing

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<sup>16</sup> Japanese grant facility administered by the World Bank.

<sup>17</sup> *Philippines: Social Expenditures Priorities*, Report No. 18652-PH, November 13, 1998.

from the Japanese Overseas Economic Cooperation Fund. These loans would simultaneously address the issue of improving the performance of the social sector departments with regard to procurement and financial management and ensuring financing for critical expenditures relating to textbooks, schools, vaccines, and social protection. If warranted by budget financing needs and adherence to agreed reforms, this type of operation would be repeated in 2000. The planned Financial and Corporate Sector Reform Loan (para. 46) would address social protection through the pension system. The Philippines is one of the East Asian countries to request technical assistance, supported by Japanese grant funding, to analyze the role of informal safety nets as coping mechanisms in the crisis. In addition, an ongoing poverty study should help identify ways to reach the poor better through effective targeting of government programs.

50. **The longer term focus of Bank assistance would be on supporting human development to enhance the Philippines' competitive advantage in the global economy and to reduce poverty in a sustainable way.** This will require policy reforms, improvements in sector management and efficiency of public expenditures, new investments, and enhancement of partnership with the private sector. The Bank would take the lead in organizing major *sector studies* and public dialogue on education and health sectors. Bank assistance will also be extended to *build implementation capacity* in the concerned agencies in the areas of procurement, financial management, monitoring, and participatory approaches. All ongoing Bank activities in the human development area already involve *partnerships* with other donors, which will be continued. Moreover, the Bank would stand ready to complement the support of other donors for population strategies and programs.

51. In the **education sector** depending on the outcome of the current dialogue, lending operations are envisaged to support investments and reforms primarily in elementary education and potentially in science and education at secondary and tertiary levels, building upon the ongoing Third Elementary Education and Science and Engineering projects. A pilot private-public partnership initiative is being developed for *out-of-school youth* to help 7 to 14 year-old likely dropouts stay in school and to develop life skills and employment opportunities for out-of-school 15 to 24 year-olds. IFC is also exploring possibilities of investing in private education.

52. **In the health sector**, the World Bank plans **no new sector lending at this time** but, jointly with other donors, supports the Philippine government's comprehensive health sector review in 1999. Because so many donors are involved in the health sector, the Bank and other donors recognize that they have to make a concerted effort to address the common institutional and policy issues effectively. New sector-specific lending would be considered only after long-standing problem projects have been upgraded to satisfactory status and the government begins the institutional and policy reforms needed to support delivery of primary health and disease prevention services. In the meantime, the SEML (para. 49) will relieve some priority needs related to the crisis and initiate the reform process. IFC will also consider opportunities for private projects in the health sector.

### ***3. Accelerate Environmentally Sustainable Rural Development***

53. **About one third of the ongoing and new projects would support the government's goal of accelerating environmentally sustainable agricultural growth and alleviating poverty in rural areas.** The Bank's assistance to the Philippines' rural sector is directed at alleviating four main constraints: *widening rural-urban income gaps; low volume and impact of private and public investments; deteriorating natural resource use; and weak institutional*.

capacity.<sup>18</sup> *The Bank is refocusing its 11 ongoing agricultural projects, emphasizing: cross-fertilization of relevant experiences in projects involving community-based resource management; key policy issues (irrigation cost recovery, trade liberalization, rural finance); and LGU capacities.*

54. *Nonlending assistance will focus on policy analysis/advice and sector monitoring.* It will include dissemination of the rural development strategy report,<sup>19</sup> a Land Administration and Management Program; a study on tree crops in rural development, focusing on smallholder participation; annual updates on key rural development issues and trends in agriculture, food supply and environment; and regular informal consultations between donors and government.

55. During consultations, several lending priorities were identified as part of a long-term (10 to 15 years) assistance framework, many of them planned as Adaptable Program Loans (APLs) to allow for phased sustained support to key areas. A Mindanao Rural Development project (APL) is being designed as a targeted poverty-reduction program to increase incomes of smallholders including indigenous communities and build up LGU planning and implementation capacities. A River Basin Development and Watershed Management project would be the first phase of an APL program to develop and implement a river basin and watershed plan that could serve as a model for a broader effort. Depending on progress with the ongoing Agrarian Reform Community Development project, the Bank would support a follow-up project. A Learning and Innovation Loan in support of land administration is also under discussions. Also under consideration are possible lending operations to support several development priorities, including smallholder agriculture. Considering the size of the rural sector, there is a proliferation of donor activities. Two aid coordination groups are actively in place: one for Mindanao (with CIDA, UNDP and USAID), the other for agrarian reforms (with the Belgian government and UNDP). IFC has recently provided funds for an export-oriented agribusiness project in Mindanao and expects to continue to make similar investments.

#### ***4. Promote Sustainable Urban Development and Combat Urban Poverty***

56. **Bank strategy entails assistance for policy, regulatory, and institutional reform to address major constraints to effective and efficient urban development and management, to enhance urban productivity and provide basic services to the poor.** The urban package includes: assistance in formulating a national urban development policy and urban environmental regulations; support to enhance local and national government staff capacity through environmental advisory services; and technical assistance in formulating city development strategies. The recently approved Local Government Finance and Development and Urban Water projects, and ongoing technical assistance for the CALA area will be the primary vehicles for Bank assistance in poor communities. A follow-on project to support comprehensive city development would be considered, subject to satisfactory progress in implementing recently approved urban project. Finally, the Bank proposes to assist agencies across different levels of government in strengthening the policy and institutional framework for environmental management of the Lake Laguna area. Building upon its success in privatizing Manila Water, IFC will continue to assist the government's privatization efforts in water and sanitation and will explore opportunities to provide direct financing and technical assistance to private projects in the sector.

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<sup>18</sup> *Philippines: Promoting Equitable Rural Growth.*

<sup>19</sup> *Ibid.*

57. **Nonlending services** will focus on the new evolving themes in the sector, including a National Urban Partnership, which has been discussed with several prospective donors who expressed strong interest (ADB and USAID, in particular). Other nonlending services include environmental advisory services and systematic monitoring of urban development and environmental trends.

#### ***5. Develop Infrastructure, Particularly in the Provinces***

58. **The Bank will continue to assist infrastructure development by supporting public/private sector partnerships and by intervening selectively in areas where the prospect of private financing is limited and overall structural reform is necessary.** Considering the role of other donors and the private sector in this area, the Bank Group's assistance will focus on specific niches in energy, transport, water, and sanitation where it expects to be most effective.

59. **In the energy sector, Bank assistance will focus on the downstream power (distribution) sector including rural electrification.** ADB is taking the lead in providing financial support for restructuring and privatizing the energy sector, focusing on upstream activities through a Power Sector Restructuring Loan. The Bank has collaborated with ADB in selected reviews of the restructuring program. The Japanese Export-Import Bank (JEXIM) and OECF are also supporting upstream activities. In the near term, the Bank will prepare an action plan for the distribution sector in collaboration with the Department of Energy. The plan shall provide recommendations for improving the generally poor performance of rural electric cooperatives (RECs) and for promoting electrification with emphasis on off-grid electrification. The action plan may be followed by a lending operation for rural electrification. IFC's activities will focus on: helping power distribution companies restructure through loan and equity financing; direct financing and technical assistance for private projects in cogeneration, transmission, and non-traditional fuels. IFC also plans to provide technical assistance to establish an intermediary to help finance rural electric cooperatives.

60. **The Bank's transport sector assistance will remain focused on the roads subsector.** To improve road quality and condition, the Bank plans to assist the Philippine government in carrying out major institutional reforms in transport and to finance part of the government's road maintenance budget through a proposed National Roads Improvement and Management Project (APL), with possible cofinancing from other donors. The Bank would also provide technical assistance to establish a framework for better management of local roads (85 percent of entire network), and serve mainly poor towns and rural areas. Investment in the local road network may be included in the Mindanao Rural Development Project (para. 55). A lending operation is being considered to address transportation problems on the fringes of the Metro Manila area. In the transport sector, IFC is looking at possible investments in ports, airports and roads.

61. **In the water supply and sanitation sector, the Bank's strategy is to support provision of clean and safe water supply and hygienic disposal of wastes, particularly in small municipal-run systems.** A Local Government Urban Water and Sanitation project is just being launched. The first APL in the Philippines, it will develop over a six-year period cost-effective methods of water supply and sanitation services in about one quarter of the country's small towns. Among other interventions being considered are environmental management of the Lake Laguna area (possible APL) and integrated solid waste management at city level. Technical

assistance is being focused on water resource planning and increasing private sector participation in delivery of services.

#### ***6. Enable Expansion of the Private Sector***

62. **The Bank group's strategic objective in this area is to help the government further improve the enabling environment for private sector-led growth (Annex G) and to facilitate foreign direct investment, mainly through IFC and the Multilateral Investment and Guarantee Agency (MIGA).** The Bank Group's combined efforts will focus on four areas, in addition to the financial sector reforms (paras. 46-47): assisting corporate restructuring and governance reform; enhancing competition and promoting growth of small and medium enterprises; promoting private participation in infrastructure; and promoting foreign direct investment.

63. **Regarding corporate restructuring and governance reform,** the Bank is conducting a *corporate survey* in 1999 to assess the health of the corporate sector. It will provide *technical assistance for establishing a modern competition law* and for developing medium and long term policies for handling the rehabilitation or liquidation of distressed firms, complementing the assistance by USAID and ADB in this area. It is supporting a regional credit information initiative. IFC will focus on: promoting more *transparent accounting; participating directly* in the governance of some of its equity interests, and assisting *restructuring* of its portfolio companies. IFC will also invest in *restructuring funds* and provide *funding and credit lines to financial intermediaries* for restructuring. IFC will focus on *institution-building in the financial sector* by investing in a credit rating agency to promote transparency and disclosure.

64. **The Bank is supporting development of small and medium enterprises** through a loan for a Private Enterprise Credit Support project.<sup>20</sup> IFC will focus on supporting financial intermediaries that target small and medium enterprises through credit lines and direct equity investment. It also plans to establish a micro-lending institution to address the financing needs of very small entrepreneurs in rural areas. In addition, IFC's investments in venture capital funds will provide much needed equity financing for small and medium enterprises at critical stages of their development, thus contributing to the growth of a dynamic domestic private sector.

65. The Bank is developing a Country Framework Report that will assist the Philippine government in improving its policy and incentive framework for promoting **private participation in infrastructure**. IFC will maintain its focus on private sector infrastructure projects in power, telecommunications, transport, and utilities. The Bank's Foreign Investment Advisory Services (FIAS) has actively supported the central government's efforts to streamline and enhance **foreign direct investment (FDI) promotion** activities. FIAS will focus on providing assistance at provincial and local levels, especially in Mindanao. The objective would be to reach pre-crisis levels of FDI by 2000 and increase it by 5 percent a year thereafter.

66. **MIGA** will continue to encourage the flow of foreign direct investments through guarantees against political risks, including currency transfer, expropriation, breach of contract, war, and civil disturbance. It will also provide technical assistance to enhance government's ability to attract FDI. Moreover, during the June 1999 APEC FDI Mart in Korea, MIGA will help familiarize potential investors with the Philippine business environment. IFC will promote

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<sup>20</sup> Approved on December 3, 1998.

FDI directly through its own investments and resource mobilization and indirectly through the demonstration effect of its project financing, policy recommendations, and advisory work on privatization.

### ***7. Improve Governance and Transparency and Combat Corruption***

**67. Bank goals in this new and important CAS area are: to assist the government with the implementation of jointly selected activities in its anticorruption and governance improvement programs; to maintain regular dialogue with government and other stakeholders on progress being made on the overall governance-improvement agenda; and to ensure that the Bank-assisted activities in the Philippines demonstrate good governance.** Improving governance is a key public policy issue in the Philippines and the MTPDP, appropriately, outlines intended actions (para. 35). No systematic data is available on magnitude, location or trend of corruption. However, in a 1998 survey by Transparency International (prior to the change of government), corruption perceptions in the Philippines ranked 55<sup>th</sup> out of 85 countries surveyed. The Philippines is among a small group of countries which have requested the Bank assistance for its governance improvement program. In consultation with the government and civil society, the following main activities have been selected for Bank assistance during the CAS period.

- *Improving financial, corporate and public sector governance through a number of regulatory and legislative reforms.* Specific measures in this area are or will be included in the adjustment lending program (para. 45) and technical assistance activities (paras. 46-47).
- *Reforming procurement and financial management systems in the Departments of Health, Education and Public Works and Highways.* Appropriate actions will be included under the proposed Social Expenditure Management and National Road Improvement projects, which will extend capacity-building (instead of project) assistance and training to the agency with sustained effort over many years using TA and the Adaptable Program Loans instruments.
- *Strengthening local governments and supporting decentralization.* Improving the quality and delivery of devolved services and LGU financial and project-management capacity are the main focus areas of ongoing and planned loans, the recent rural development study, the proposed country economic report for 2000, and the proposed sector studies on health, education, and poverty-reduction programs.
- *Involving civil society as a partner in design, delivery and monitoring of Bank-assisted policies and programs.* Civil society participation in Bank-assisted activities and public disclosure of Bank documents will be intensified during the CAS period. A proactive dissemination and external affairs activities program is in place. During 1998 alone, 22 meetings were held with civil society groups; NGOs were involved in 14 out of 27 projects and sector studies; and media tours and events were organized to open the Bank's activities to public scrutiny. NGO representatives have participated in CG meetings since 1996, and governance was one of the key discussion topics at the 1999 CG meeting.
- *Helping the government design and implement its anticorruption program.* The Bank is processing the government's request for assistance in formulating an anticorruption action program, particularly for reducing graft and corruption in the Customs and Internal Revenue bureaus and for strengthening the capacity of Commission on Audit (COA) to detect cases of

fraud and corruption. The Bank is also ready to support the government's efforts to improve governance in urban and rural land titling and implement reforms in the judiciary.

- *Improving governance in Bank-financed projects.* In addition to opening up the Bank's activities to public scrutiny, other ongoing and proposed actions to achieve this objective include: implementing, through local private training institutes, a training and technical assistance program for implementing agency staff in financial management and procurement, based on needs assessments; implementing the Financial Information System for Foreign Assisted Projects (FISFAP) program by the COA, assisted by Resident Mission financial management staff, and further training of COA staff in the use of the Bank's Audit Manual; expanding the program of supervision and monitoring of procurement and financial management by Resident Mission-based staff, led by an internationally experienced senior staff member; and mounting capacity-building programs (supported by Japan-PHRD and IDF grants) in the areas of results monitoring, result evaluation, and social and environmental assessments.

## V. BANK GROUP COUNTRY PROGRAM

### A. Vehicles for Bank Group Assistance

#### *Portfolio Management*

68. **Quality and performance of the Bank-financed project portfolio have improved since the last CAS, but the number of projects at risk has recently increased and slow disbursements remain problematic.** The Philippines portfolio comprised 32 projects as of end-March 1999, including two Global Environmental Facility-financed projects and one Ozone Depletion Substance Phase Out project. Commitments totaled US\$2.9 billion. Despite a relatively high disbursement ratio of 24 percent in FY98, around 54 percent of outstanding commitments remain undisbursed. OED data confirm that during the period 1990-97, all projects in the Philippines portfolio were consistent with the Bank's country assistance strategy. As regards quality at entry, 55 percent of the projects were rated "satisfactory" or better during the period 1990-93. This compares with 75 percent in 1994-97, suggesting a continued improvement over time in the quality at entry into the portfolio.<sup>21</sup> However, of the ongoing Bank-financed projects, 25 percent are now considered at risk mainly due to weaknesses in management, delays at the local government level, and crisis effects.

69. **Agreement was reached on portfolio improvement targets and actions to be implemented in 1999 during the country portfolio performance review (CPPR) in December 1998.** These actions include: use of more stringent criteria for project extensions; four project restructurings in FY99 (including the three problem projects); rapid summary assessment of six projects to work out the operational implications of the peso devaluation and constrained counterpart funding; Department of Budget and Management (DBM) initiatives to ensure sufficient funding for foreign-assisted projects (FAPs), particularly in 1999 and 2000, including priority budgetary allocations; reestablishment of a "one-stop-shop" FAPs bureau within DBM; and donor-community participation in determining the size of annual FAPs budgets; and

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<sup>21</sup> Gary J. Wells, "A Review of the Quality at Entry in the Selected Documentation of Thirty-three Philippines Projects," report prepared for the World Bank Operations Evaluation Department, December 23, 1997.



continued Bank support for technical assistance and training to enhance implementing agencies' procurement and financial management capacity (Annex D).

70. **In addition, the Philippines Resident Mission has made arrangements to improve service and fiduciary functions relating to portfolio management.** These include the appointment of a Portfolio Manager, and a Manager for Core Operational Services, including procurement, disbursements, financial management and audits. The Bank's program for enhanced operational core services includes: client capacity building; decentralized decision making for procurement and financial management; and effective conduct of its fiduciary responsibilities, including anticorruption initiatives. CPPRs are held annually, and agreed actions monitored, through quarterly meetings with government. The Club of 29, established in 1996 and comprising project management staff of executing agencies for World Bank-financed projects and Resident Mission staff, continues to serve as an effective forum for sharing experiences and lessons in project implementation.

71. **Overall, IFC's portfolio performance remains solid** although equity values have deteriorated as a result of the regional crisis. As of end-January 1999, *IFC's held portfolio* comprised 19 projects for a total amount of US\$243 million for IFC's account and US\$266 million for the account of participants. Disbursement ratios are relatively high—93 percent for IFC's own account and 83 percent for the account of participants. In addition, 7 projects totaling US\$138 million for IFC account and US\$250 for the account of participants were approved and awaiting commitment in January 1999. IFC's held portfolio is concentrated in infrastructure (53 percent) and financial services (33 percent). *All project companies are current on their payments* except one, which was already in financial difficulty before the crisis. IFC is allocating significant resources to supervise its investments closely in view of the economic environment's continuing fragility.

72. **MIGA's gross exposure in the Philippines is US\$60 million. The economic crisis in Asia has led to considerable interest in MIGA guarantees coverage.** As of January 15, 1999, MIGA had 27 preliminary applications for guarantees in the finance, power, telecommunications, transportation, agriculture, and manufacturing sectors. It has proposed opening a representative office in Manila for two years to provide hands-on technical assistance to Southeast Asian countries to help them design and implement effective programs for targeting and attracting new foreign direct investment. The office, to be supported by Japanese grant funding, would work with public, quasi-public, and private sector intermediaries such as national investment promotion agencies and business chambers. The office would also familiarize potential investors with MIGA's Guarantees Program.

### ***Lending Services, Guarantees, and Scenarios***

73. **The Bank Group, including IBRD, IFC, MIGA, and the new World Bank Institute (WBI), will work closely together to support the above strategic objectives.**<sup>22</sup> Annex B3 presents the proposed lending program of the Bank resulting from the consultations with the Philippine government. Overall, the Bank's proposed *base-case lending program for FY00-02*

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<sup>22</sup> The proposed World Bank interventions, based on CAS consultations and March 12, 1999 discussion with the Philippine government during the Programming Mission, will be updated through the annual programming mission discussions, which have been a regular feature of the government-Bank dialogue since 1995.

will range from \$1.0 billion to \$1.5 billion. This lending amount is identical to the level approved in the last CAS for FY96–98.<sup>23</sup>

74. We envisage a low-case lending in case one or more of the following events happen: poor portfolio performance in some sectors; substantial noncompliance with already agreed reforms, in particular in the banking sector; lack of protection of social expenditures; significant slippages in governance; government decides to curtail foreign borrowing as part of a fiscal consolidation exercise; or the Bank decides that the Philippines' credit worthiness warrants a lower lending volume. At this lower end, the focus will remain unchanged relative to the base-case on poverty alleviation, provision of basic services, and improving governance.

**Table 1. Program Triggers**

Triggers Leading to High Case	Base Case	Triggers Leading to Low Case
Base case triggers plus: <ul style="list-style-type: none"> <li>▪ Agreement on and implementation of key structural reforms, e.g., in public sector, governance, corporate sector &amp; housing finance</li> <li>▪ Adequate progress in implementing banking sector regulatory framework under the Banking System Reform Loan</li> <li>▪ Macroeconomic framework acceptable to the Bank and IMF</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fiscal consolidation leading to a reduction in public debt/GDP ratio</li> <li>▪ Satisfactory progress with regard to measures to reduce poverty and improve governance</li> <li>▪ Satisfactory compliance with agreed CPPR actions</li> <li>▪ Macroeconomic framework acceptable to the Bank</li> </ul>	<ul style="list-style-type: none"> <li>▪ Failure to address portfolio problems and decline in disbursement performance</li> <li>▪ Substantial noncompliance with already agreed structural reforms</li> <li>▪ Macroeconomic policy slippage, e.g., loss of fiscal discipline and failure to protect social expenditures</li> <li>▪ Significant slippages in governance</li> </ul>

75. Assuming a sound macroeconomic framework is maintained, an agreement with the Philippine administration to **launch significant additional structural reforms would trigger the Philippines into a high-case lending scenario of up to \$2.0 billion. This amount might include adjustment lending during FY2000–02, depending on the range and depth of structural reforms.** Triggers for the high-case are listed in Table 1. Through adjustment loans, the Bank would support the acceleration and deepening of structural reforms, particularly in the financial, corporate, and public sectors and in governance. Discussions are under way with the Philippine authorities on scope and timetable for such reforms. Agreement on a specific program of actions would trigger high case lending. Cofinancing from other major donors, as part of a financial package supporting the reform agenda, is expected to leverage these additional Bank funds substantially. Policy-based guarantees, if approved by the Bank and requested by the government, could be considered a partial substitute for adjustment loans.

76. **The Bank's lending response to downside economic scenarios (para. 21) would depend on the government's policy response.** In the case of *an exogenous shock, a rise in the Bank's lending* to levels indicated in the high case will be considered provided that government policy response in terms of structural reforms and protecting the poor is adequate and a macroeconomic framework satisfactory to the Bank and the IMF is maintained. The triggers for this scenario would be the same as for a high-case scenario (para. 75). In a policy-driven downside scenario (para. 21) government commitment to policy reforms is not sustained and the

<sup>23</sup> Country Assistance Strategy of the World Bank Group for the Republic of the Philippines, Report No.15362-PH, February 15, 1996.

policy slippages are grave enough that there is loss of fiscal discipline and/or the country's overall creditworthiness is called into question. Moreover, in other sectors where the Bank is embarking on a long-term partnership through the planned APLs, failure to achieve specific APL benchmarks would postpone or eliminate currently planned future loans. *In this low-case scenario, the Bank's total three-year lending would be reduced to about half of the base case, i.e. between \$500 million and \$750 million over the 2000–02 period, depending on performance in specific sectors* (see Table 1 for low-case triggers).

77. **IFC's base-case investment program in FY00–02 is for between \$350 million and \$500 million for IFC's own account in 15 to 20 projects.** In terms of high-priority investment areas, restructuring of companies affected by the financial crisis is likely to continue into 2000. Laying the foundation for more sustainable growth by strengthening the financial sector would be stressed. In addition to supporting strengthening and consolidation in the financial sector and continued emphasis on infrastructure, IFC is reaching out to spread the impact of its activities both geographically and sectorally, focusing on the Mindanao and Visayas regions and beginning to engage in the health care and education sectors. For FY99, IFC expects to approve six projects for a total of about \$100 million, almost all of which would be for IFC's own account. This \$100 million does not include IFC's \$250 million investment in the regional \$1 billion Asia Opportunity Fund which would also be investing in the Philippines.

#### *Analytical and Advisory Services (AAS) and World Bank Institute*

78. In addition to its lending services, the Bank will use **grants** where available, especially for the financial and corporate sectors (Special PHRD Grant, ASEM Trust Fund) and for social issues related to the crisis (ASEM Trust Fund). It will also tap small Bank grant instruments such as the Institutional Development Fund (IDF) for upstream capacity building and will continue to provide technical assistance for areas such as procurement, financial management, and prevention of fraud and corruption.

79. The Bank's planned **analytical and advisory services (AAS)** will support the development agenda in areas where future lending is planned (such as on land management or rural electrification) or where detailed sector analysis is required before a decision is made regarding the Bank's comparative advantage in providing financial support (such as in the health sector or private participation in infrastructure). With the recent completion of studies and strategy notes for many sectors and further studies underway (for example, on education), future economic and sector work would focus more narrowly on subsector issues (for example, tree crops) or on crosscutting issues such as decentralization.

80. As part of the Bank's enhanced **social and economic monitoring**, its proposed program of nonlending activities will also include annual informal reports on: trends in the economic, financial, and corporate sectors; poverty incidence and income inequalities; social and environmental indicators; rural development and food supply; institutional development and governance. In partnership with the government and other stakeholders, this program will contribute to developing a framework for monitoring the country's future development, building on the vision and key variables identified in the PNDP. The monitoring will utilize the Comprehensive Development Framework approach (para. 48).

81. Finally, **WBI's** services complement the proposed lending and nonlending activities through planned in-country and regional seminars and workshops. The detailed composition of

the program will be developed year by year in close collaboration with the Bank's country team and government counterparts. Two program areas are expected to receive particular support from the WBI: the proposed poverty symposium (para. 43) and training and dissemination of information on best practice with regard to measures to improve governance.

82. IFC's technical assistance program will support institution-building efforts in the financial sector to establish a credit rating institution and financial intermediaries for microfinance, to help finance rural electric cooperatives, and to strengthen the operations of the Local Government Unit Guarantee Corporation.

#### Box 5. Partnerships and External Relations

**Partnership with business groups.** The Bank Group has an ongoing partnership with the Philippine Chamber of Commerce (PCCI), the largest business organization in the Philippines. This partnership led by IFC, attempts to stimulate private investment in the Philippines by facilitating information exchanges between the Bank Group and PCCI.

**Tripartite partnership with the government and corporate sectors.** The Bank is working with the Children and Youth Foundation of the Philippines and other corporate foundations, the Department of Social Welfare and Development, and the Technical Education and Skills Development Agency (TESDA). This partnership focuses on promoting the welfare and development of out-of-school youth.

**NGO partnership.** Collaboration with the community of nongovernmental organizations extends from project activities to policy dialogue and economic and sector work. Since 1996, an NGO representative has been an active participant in the consultative process, signaling government and donor acceptance of NGOs as significant partners in development. NGOs are involved in 14 out of 27 on-going projects. During 1998 more than 20 meetings were held with NGO groups to discuss projects, sector work, country economic situation, and CAS.

**Partnerships with other donors on aid coordination.** The Country Assistance Review of March 1998 concluded that the Bank's emphasis on donor coordination in the Philippines was "highly relevant and effective because it fostered harmony among the major donors in the policy arena." The Bank co-chairs a working group on Poverty Alleviation with the United Nations Development Programme and actively participates in donor coordination groups on agrarian reform and Mindanao. Partnership through cofinancing between the Asian Development Bank and the World Bank include specific projects like the Early Childhood Development Project and Women's Health and Safe Motherhood Projects. An example of partnership on nonproject activities include cosponsorship of a major international conference (Asia Development Forum) in Manila in March 1998. The Bank's decentralization enabled close and regular links with donors for sharing information and contributing to strategy and program development.

**External relations.** Information dissemination and sharing are critical to effective partnerships. In line with the Bank's public disclosure policy, effective information tools appropriate to the Bank's target users were developed to further increase and widen access to publicly available information. These tools include brochures, videos, a quarterly newsletter, and other multimedia tools. In early 1997, a *Public Information Center* (PIC) was set up in Manila. Since then, the PIC has become a *one-stop-shop* for a wide range of Bank-related reports, publications, and documents. A favorite source of information is the Resident Mission's user-friendly and highly interactive *Public Information Kiosk*, currently available on CD-ROM and soon to be launched on the Internet and Intranet. Another source of information is *INTOUCH*, an eight-page newsletter with straight news and feature articles intended to keep the Bank "in touch" with its partners. Its current circulation of 2,000 is expected to grow as the Bank responds to demand for more information throughout the country. Other external affairs activities include media tours for local and foreign press, public speaking engagements, and news releases and conferences on many Bank activities.

#### Partnerships

83. **The partnership approach is intensifying in the Bank's activities in the Philippines,** and transcends the relationship with the Bank's main partner—government—to other stakeholders such as donors, civil society, and the private sector (Box 5). Through an *outreach program* since June 1995, the Bank has expanded the public's access to information and has strengthened the World Bank's links with all its major partners in development through constant dialogue, participation in public symposia, and mass media and interpersonal communications. These partners include the government, nongovernmental organizations, the business community, media, academe, donors, and other members of civil society. The activities have

taken place in the context of a free and active media and a strong civil society. By linking *external relations* activities closely with daily operations (Box 5), the Bank has gradually made itself known as a development institution whose mission is to make the lives of poor people better.

**84. Enhancing collaboration already in place will be the Bank's future partnership theme.** The Bank will pursue stronger partnerships with government in areas such as governance and anticorruption efforts, while continuing its successful collaboration with donors in specific sectors and on overall aid coordination. Wherever specific sectors offer opportunities for partnerships, the Bank will forge new bonds with stakeholders.

## **B. Country Program Monitoring**

### ***Risk Management and Creditworthiness***

**85. The economy's continued vulnerability to internal and external risks (paras. 18-20) will affect the Bank program.** The Philippines remains vulnerable to both external shocks and domestic policy slippage. Less demand for its exports, together with lower private capital flows due to renewed investor nervousness about emerging markets, could necessitate sharper internal adjustment. The scope for the Bank to mitigate the effects of external shocks would depend on the strength of the authorities' policy response. Domestic policy slippage could undermine economic performance, including fiscal consolidation, and investor confidence. Slower economic recovery would also likely curtail the availability of counterpart funding for investment projects, thus retarding project implementation. The main instruments to meet the risks of internal and external factors will be the program outlined here, including continuous dialogue with government and other stakeholders and close monitoring of portfolio viability and key economic and social indicators. The Bank has tried to strike a balance between medium- and high-risk interventions (Annex B3).

**86. High levels of both domestic and external debt increase the economy's vulnerability.** Total external debt at almost 70 percent of GDP makes the Philippines a highly indebted country, although the openness of the economy and the large portion of concessional debt limit the share of exports needed for debt servicing. The high levels of public external and domestic debt reinforce the need for renewed fiscal consolidation at the earliest opportunity.

**87. Heavy borrowing from international financial institutions, including IBRD, by the Philippines in the 1980s, drove the country slightly above the exposure guideline of IBRD debt service/public debt service and above the threshold of the preferred creditor guideline.** However, the Bank's commitments have declined significantly in relative terms over the decade. Hence, the Philippines' share in IBRD exposure is expected to decline from 4.2 percent in FY97 to 3.1 percent in FY02 in the base-case. Debt service to IBRD as a share of total public debt service (21 percent) is slightly above the 20 percent exposure guideline as of 1998 but is projected to decline to 16 percent by 2002. Debt service to preferred creditors is, however, projected to exceed the guideline of 35 percent of total public debt service, primarily due to sizeable payments to the IMF.

***Performance Indicators and Self-Evaluation***

88. In addition to country performance monitoring (para. 42), the CAS proposes a framework for **evaluating Bank performance** with regard to CAS objectives. *First*, with the help of an IDF grant, government is in the process of establishing a results monitoring framework and capacity for evaluating the effectiveness of Bank-financed projects that are ongoing, recently completed or completed several years ago. Once established, this activity will furnish annual client evaluations of the result of Bank-financed projects on the ground. *Second*, the Bank will carry out independent surveys, similar to the pilot survey in 1998, about every two years. *Third*, the Bank will closely monitor portfolio performance indicators for Bank-financed projects, in particular, indicators of portfolio management such as proactivity and realism indices and disbursement ratios and will continue the practice of annual CPPRs. *Fourth*, a CAS performance scorecard mirroring the Bank-wide Corporate Scorecard (under development) is being prepared and will be used starting FY00.

89. *Fifth*, the Bank will continue with the regular information-sharing and dialogue activities with civil society, and expand these to consider the feedback across major geographical locations in the country, possibly through a series of focus group discussions. These may serve to monitor how well the Bank is addressing perceived priority needs under the CAS. *Sixth*, monitoring will also take place with regard to the number of projects using NGO participation (Annex K). A *seventh* tool to evaluate the Bank's performance will be the compliance ratio with triggers agreed in APLs for subsequent loans. *Finally*, the Bank will evaluate the effect of the partnerships described in Box 5. By fine-tuning Bank strategy based on all of these reviews and feedback mechanisms, the CAS would become a living document.

May 11, 1999

James D. Wolfensohn  
President

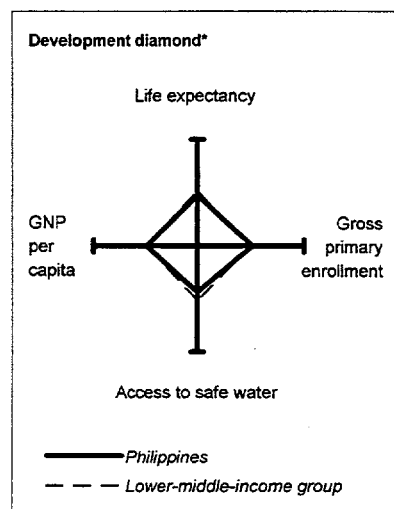
By:  
Sven Sandstrom

Peter L. Woicke

# Philippines at a glance

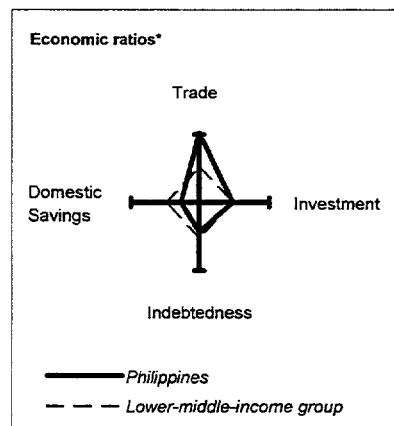
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	Philippines	East Asia & Pacific	Lower-middle-income
<b>POVERTY and SOCIAL</b>			
<b>1997</b>			
Population, mid-year (millions)	73.4	1,753	2,282
GNP per capita (Atlas method, US\$)	1,200	970	1,230
GNP (Atlas method, US\$ billions)	88.1	1,707	2,818
<b>Average annual growth, 1991-97</b>			
Population (%)	2.3	1.3	1.2
Labor force (%)	2.3	1.4	1.3
<b>Most recent estimate (latest year available, 1991-97)</b>			
Poverty (% of population below national poverty line) <sup>1</sup>	38	..	..
Urban population (% of total population)	56	32	42
Life expectancy at birth (years)	66	68	69
Infant mortality (per 1,000 live births) <sup>2</sup>	35	38	36
Child malnutrition (% of children under 5)	*30	16	..
Access to safe water <sup>3</sup> (% of population)	73	84	84
Illiteracy (% of population age 15+)	5	17	19
Gross primary enrollment (% of school-age population)	117	118	114
Male	..	120	116
Female	..	119	113



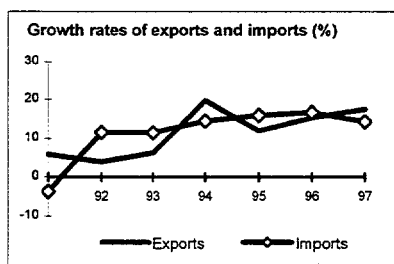
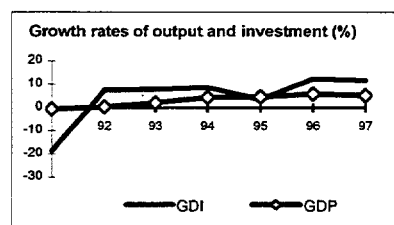
## KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1976	1986	1996	1997	
GDP (US\$ billions)	17.2	29.8	82.9	82.2	
Gross domestic investment/GDP	32.9	16.0	24.0	24.8	
Exports of goods and services/GDP	19.3	26.3	40.5	49.0	
Gross domestic savings/GDP	26.9	19.9	15.2	14.5	
Gross national savings/GDP	27.7	19.3	20.1	20.1	
Current account balance/GDP	-6.4	3.2	-4.8	-5.2	
Interest payments/GDP	1.0	3.8	2.0	2.1	
Total debt/GDP	35.1	94.5	48.4	55.3	
Total debt service/exports	16.9	33.7	13.4	9.2	
Present value of debt/GDP	..	..	..	52.7	
Present value of debt/exports	..	..	..	88.1	
<b>(average annual growth)</b>					
GDP	1.8	3.2	5.8	5.2	4.0
GNP per capita	-0.8	1.4	4.8	3.1	2.1
Exports of goods and services	6.0	9.5	15.4	17.5	7.1



## STRUCTURE of the ECONOMY

	1976	1986	1996	1997
<b>(% of GDP)</b>				
Agriculture	29.3	23.9	20.6	18.7
Industry	35.7	34.6	32.1	32.2
Manufacturing	25.4	24.6	22.8	22.3
Services	35.1	41.5	47.3	49.2
Private consumption	62.3	72.1	72.9	72.6
General government consumption	10.8	8.0	11.9	12.9
Imports of goods and services	25.2	22.4	49.3	59.4
<b>(average annual growth)</b>				
Agriculture	1.4	1.8	3.8	2.9
Industry	0.7	3.3	6.4	6.1
Manufacturing	0.5	3.0	5.6	4.2
Services	3.2	3.8	6.4	5.5
Private consumption	2.4	3.7	6.2	3.0
General government consumption	-0.3	3.9	4.1	1.6
Gross domestic investment	-3.2	6.2	12.5	11.7
Imports of goods and services	2.1	11.3	16.7	14.4
Gross national product	1.5	3.8	7.2	5.3



1/ Official Government numbers based on income. Source: National Household Survey (1997).

2/ 1998 Demographic and Health Survey Preliminary Report, National Statistics Office, Manila

3/ Medium-term Philippine Development Plan, Draft, February 1999

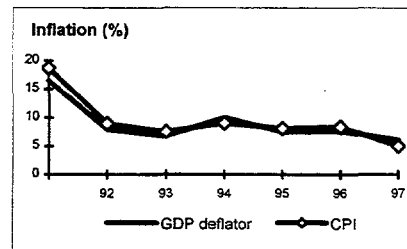
This table was produced from the Development Economics central database.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Philippines

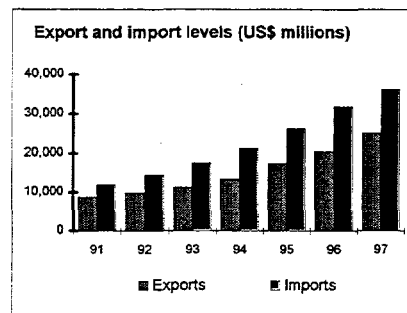
PRICES and GOVERNMENT FINANCE

	1976	1986	1996	1997
<b>Domestic prices</b> (% change)				
Consumer prices	..	0.7	8.4	5.0
Implicit GDP deflator	8.3	3.0	7.7	6.1
<b>Government finance</b> (% of GDP, includes current grants)				
Current revenue	..	13.0	18.9	19.5
Current budget balance	..	1.4	4.2	4.2
Overall surplus/deficit	..	..	..	0.2



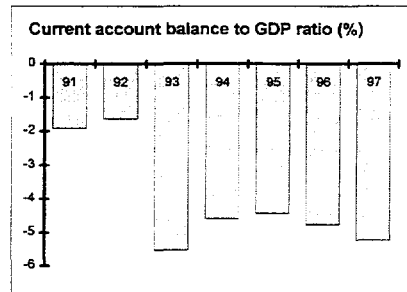
TRADE

	1976	1986	1996	1997
<i>(US\$ millions)</i>				
Total exports (fob)	..	4,842	20,543	25,228
Coconut oil	..	333	..	..
Sugar	..	103	..	..
Manufactures	..	2,672	17,106	21,488
Total imports (cif)	..	5,044	31,885	36,355
Food	..	193	1,624	1,510
Fuel and energy	..	869	3,008	3,074
Capital goods	..	839	10,472	14,369
Export price index (1995=100)	..	76	100	..
Import price index (1995=100)	..	61	101	..
Terms of trade (1995=100)	..	124	99	..



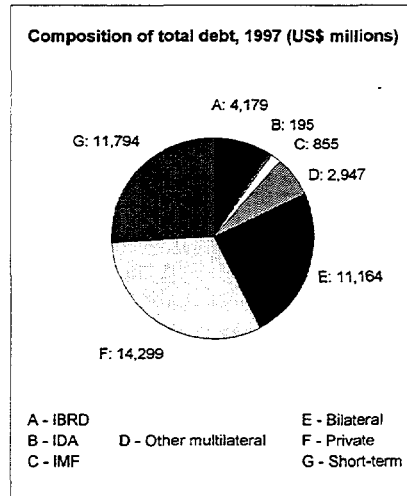
BALANCE of PAYMENTS

	1976	1986	1996	1997
<i>(US\$ millions)</i>				
Exports of goods and services	3,262	7,702	33,490	40,365
Imports of goods and services	4,381	5,868	41,371	50,477
Resource balance	-1,119	1,834	-7,881	-10,112
Net income	-253	-1,321	3,339	4,729
Net current transfers	268	441	589	1,080
Current account balance	-1,105	954	-3,953	-4,303
Financing items (net)	1,051	184	8,060	940
Changes in net reserves	54	-1,138	-4,107	3,363
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	..	11,834	8,918
Conversion rate (DEC, local/US\$)	7.4	20.4	26.2	29.5



EXTERNAL DEBT and RESOURCE FLOWS

	1976	1986	1996	1997
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	6,040	28,204	40,145	45,433
IBRD	316	3,017	4,666	4,179
IDA	27	92	193	195
Total debt service	571	2,961	5,357	4,541
IBRD	35	406	766	709
IDA	0	1	3	3
Composition of net resource flows				
Official grants	61	401	247	188
Official creditors	212	196	-6	107
Private creditors	883	295	2,138	2,869
Foreign direct investment	132	127	1,517	1,253
Portfolio equity	0	0	1,333	73
World Bank program				
Commitments	226	151	528	60
Disbursements	102	197	457	305
Principal repayments	14	170	426	409
Net flows	88	27	31	-104
Interest payments	20	238	343	303
Net transfers	68	-210	-312	-408





## Philippines: Selected Indicators of Bank Portfolio Performance and Management

Indicator	1996	1997	1998	1999 <sup>f</sup>
<i>Portfolio Assessment</i>				
Number of Projects under implementation <sup>a</sup>	30	28	29	28
Average implementation period (years) <sup>b</sup>	4.43	4.11	4.19	3.68
Percent of problem projects <sup>a, c</sup>				
by number	3.33	10.71	13.79	14.29
by amount	3.73	16.25	17.09	14.05
Percent of projects at risk <sup>a, d</sup>				
by number	4.17	16.00	16.67	21.43
by amount	5.01	28.00	18.17	23.69
Disbursement ratio (%) <sup>e</sup>	24.76	21.18	23.52	9.97
<i>Portfolio Management</i>				
CPPR during the year (yes/no)	Yes	Yes	No	Yes
Supervision resources (total US\$)	1,442.23	1,533.19	1,595.64	649.55
Average Supervision (US\$/project)	48.07	54.76	55.02	23.20

Memorandum item	Since FY80	Last five FYs
Projects evaluated by OED		
by number	111	34
by amount (US\$ millions)	7657.05	3623.70
Percent rated U or HU		
by number	27.27	23.53
by amount	31.84	26.82

- a. As shown in the Annual Report on Portfolio Performance (except for current FY)
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: investment projects only.
- f. As of mid-FY99; not full year projections.

## Philippines - Bank Group Program Summary, FY 2000-2002

### Proposed IBRD/IDA Lending Program, FY 2000-2002<sup>a</sup>

<i>FY</i>	<i>Project</i>	<i>US\$(M)</i>	<i>Strategic rewards<sup>b</sup> (H/M/L)</i>	<i>Implementation<sup>b</sup> risks (H/M/L)</i>
2000	PUBLIC SECTOR REFORM LOAN <sup>c</sup>	100.0	H	M
	HOUSING FINANCE TA	8.0	H	H
	MINDANAO RURAL DEVELOPMENT (APL)	30.0	H	M
	NATIONAL ROADS IMPROVEMENT/MGNT (APL)	100.0	H	M
	SOCIAL EXPD. MGMT. LOAN (SEML) - I	100.0	H	H
	<b>Subtotal</b>	<b>338.0</b>		
2001	CALA REGIONAL DEVELOPMENT	80.0	H	H
	FINANCIAL & CORPORATE SECTOR REFORM <sup>c</sup>	100.0	H	M
	SEML - II	100.0	H	M
	2 <sup>ND</sup> LOAN UNDER LGU URBAN & WATER APL <sup>d</sup>	60.0	H	M
	METRO MANILA URBAN TRANSPORT	89.0	H	M
	SOLID WASTE & ECOLOGICAL ENHANCEMENT	40.0	H	M
	<b>Subtotal</b>	<b>469.0</b>		
2002	4 <sup>TH</sup> ELEMENTARY EDUCATION	100.0	H	M
	LAKE LAGUNA ENVIRONMENT MGMT. (APL)	100.0	H	M
	RURAL ELECTRIFICATION/RECs (APL)	200.0	H	H
	AGRARIAN REFORM PROJECT	50.0	H	M
	RIVER BASIN DEVELOPMENT (APL)	50.0	H	M
	<b>Subtotal (APPROX.)<sup>e</sup></b>	<b>500.0</b>		
	<b>Total, FY 2000-2002</b>	<b>1307.0</b>		

In addition, 3-5 LILs are being considered over FY00-02, of which currently under preparation are:

- Youth Development (\$5m)
- Land Administration Management Program (\$5m)

- a. This table presents the jointly (Bank and Government) agreed program for the next three fiscal years on which work is in progress. It will be updated in consultation with government on a 3 year rolling basis.
- b. For each project, indicates whether the strategic rewards and implementation risks are expected to be high (H), moderate (M), or low (L).
- c. Conditional on a macroeconomic framework satisfactory to the Bank and the IMF being in place, and on agreement on deepening of structural reforms (see para 75). Both operations may be processed in FY 2000 if agreement is reached on a timely basis.
- d. Conditional on triggers being reached.
- e. Provisional lending amounts subject to discussion with the government.

### Philippines: IFC and MIGA Program, FY96-99

Category	Past			
	1996	1997	1998	1999
IFC approvals (US\$m) <sup>a</sup>	4.05	111.00	95.50	.07
Sector (%)				
	0.00	0.00	0.00	0.00
Chemicals & Petrochems	0.00	36.00	0.00	0.00
Financial Services	100.00	23.00	71.00	100.00
Food & Agro-Business	0.00	0.00	16.00	0.00
Indust & Consumer Svcs	0.00	0.00	14.00	0.00
Infrastructure	0.00	41.00	0.00	0.00
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Investment instrument (%)				
Loans	0.00	84.00	73.00	0.00
Equity	100.00	7.00	24.00	100.00
Quasi-Equity <sup>b</sup>	0.00	9.00	3.00	0.00
Other	0.00	0.00	0.00	0.00
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
MIGA guarantees (US\$m)	60.00	60.00	37.50	0.00
MIGA commitments (US\$m)	0.00	0.00	0.00	0.00

<sup>a</sup>Excludes AEF projects.

<sup>b</sup>Includes quasi-equity types of both loan and equity instruments.

## Philippines: Summary of Non-Lending Services

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000) /1</i>	<i>Audience<sup>a</sup></i>	<i>Objective<sup>b</sup></i>
<b>Recent completions</b>				
<b>SO1: CEM</b>	1999	137	B, G, D, P	KG, PS, PD
Housing Study	1997	32	G, B	KG, PS
Housing Finance and Contractual Savings Study	1999	72	B, G	KG, PS
<b>SO2: Health Sector Assistance Strategy</b>	1998	70	B, G	PS
Education Sector Assistance Strategy	1998	43	B, G	PS
Social Impact Assessment	1998	87	B, G	KG, PD
Social Expenditure Review	1999	60	B, G, D	KG, PS
<b>SO3: Environment Sector Assistance Strategy</b>	1999	21	B, G	PS
Promoting Equitable Rural Growth	1997	389	B, G, D,P	KG, PS, PD
Rural Development Sector Assistance Strategy	1998	25	B, G	PS
<b>SO4: Water Supply, Sanitation, and Solid Waste Management Sector Assistance Strategy</b>	1999	21	B, G	PS
Urban Sector Assistance Strategy	1999	26	B, G	PS
<b>SO5: Energy Sector Assistance Strategy</b>	1999	84	B, G	PS
Transport Sector Assistance Strategy	1999	N/A	G	PS
<b>SO6: TA for Training Needs Assessment for Financial Management</b>	1998	N/A	G	PS
TA for Financial Management Systems for Foreign Assisted Projects	1999	N/A	G	PS
<b>SO7: TA for Audit Manual for Bank-financed Projects</b>	1999	N/A	G	PS
<b>Underway</b>				
<b>SO1: Public Expenditure Management Impr. (IDF)</b>	2000	N/A	G	PS
TA on Upgrading Financial System (PHRD grant)		N/A	G	PS
TA on Strengthening Financial Sector Infrastructure (ASEM grant)	2000	N/A	G	PS
Regional Study on Policy Options to Alleviate Credit Crunch (ASEM grant)	2000	N/A	G	KG, PS, PD
TA for Financial Sector Monitoring and Reform (ASEM grant)	2001	N/A	G	PS
TA for Social Protection and Social Housing Reform (ASEM grant)	2001	N/A	G	PS
<b>SO2: Education Sector Study</b>	1999	174	B, G, D, P	KG, PS, PD
Poverty Study	2000	191	B, G, D, P	KG, PS, PD
TA for Enhanced Poverty Monitoring (ASEM grant)	2000	N/A	B, G, D,P	KG
<b>SO3: Tree Crops in Rural Development</b>	1999	50	B, G, D	KG, PS
<b>SO4: Laguna Lake Environment TA</b>	1999	N/A	G	PS
Land Titling	1999		B, G	KG, PS
<b>SO6: Country Framework Report on PPI</b>	1999	30	B, G, D, P	PS, PD
Regional Survey on Asian Corporate Recovery (ASEM grant)	1999	N/A	B, G, D,P	KG, PD
<b>SO7: TA for Procurement Training</b>	1999	N/A	G	PS
TA for Financial Management Training	1999	N/A	G	PS
<b>Planned</b>				
Ad-hoc Policy Notes	Upon request	N/A	G	PS
<b>SO1: Decentralization Study</b>	2000	N/A	B,G	KG, PS
Recent Developments in Economy, Financial Sector and Poverty Indicators	Annual	N/A	B,G, D	KG
WBI Seminars on Lessons of Structural Adjustment, Inter-governmental Relations, Budget Process and Public Expenditure Management		N/A	G	PS, PD
<b>SO2: Health Services under Devolution Study</b>	2000	121	B, G, D,P	KG, PS, PD

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000) /1</i>	<i>Audience<sup>a</sup></i>	<i>Objective<sup>b</sup></i>
<b>SO2:</b> Recent Trends in Social Developments	Annual	N/A	B,G	KG
WBI Courses on Education Policies, Health Sector Reforms, Conference on Social Policy Options for Crisis		N/A	G	PS, PD
<b>SO3:</b> Recent Trends in Agriculture, Food Supply and Environmental Indicators	Annual	N/A	B,G	KG
<b>SO4:</b> National Urban Partnership	2000	N/A	B,G	PS, PD
TA for Environment Advisory Services		N/A	G	PS
<b>SO4:</b> WBI Courses on Institutional Reform, Conference on Municipal Management And Governance		N/A	G	PS, PD
<b>SO5:</b> Provincial Roads Study	2001	N/A	B,G,D	KG, PS
Rural Power Sector Action Plan	2000	N/A	B,G,D	PS
<b>SO6:</b> Recent Trends in Corporate Sector	Annual	N/A	B,G	KG
Investor Conference to Promote PPI		50	B, G, D,P	PD
WBI Course on PPI		N/A	G	PS, PD
<b>SO7:</b> TA for Workshop on Prevention of Fraud and Corruption	2000		G	PS
WBI Course on Financial Markets and Corporate Governance		N/A	G	PS
TA for strengthening inter-agency anti-graft Cooperation	2000	N/A	B, G	PS
TA on judicial reforms	1999	N/A	B, G, D	PS, PD

/1 Actual costs for completed tasks; projected costs for tasks underway or planned.

a. G= Government, D= Donors, B= Bank, P= Public Dissemination.

b. KG= Knowledge generation, PD= public debate, PS= problem-solving.

# Philippines Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1990-97	East Asia & Pacific	Lower-middle-income
<b>POPULATION</b>					
Total population, mid-year (millions)	43.1	54.7	73.4	1,732.5	1,125.4
Growth rate (% annual average)	2.8	2.5	2.3	1.3	1.4
Urban population (% of population)	35.6	43.0	56.0	32.2	56.2
Total fertility rate (births per woman) <sup>1</sup>	6.1	4.4	3.7	2.2	2.6
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index <sup>2</sup>	..	49.3	37.5	..	..
Urban headcount index	..	37.9	22.5	..	..
Rural headcount index	..	56.4	51.2	..	..
<b>INCOME</b>					
GNP per capita (US\$)	370	520	1,200	890	1,740
Consumer price index (1987=100)	21	96	248	205	341
Food price index (1987=100)	..	98	240	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
<i>(% of income or consumption)</i>					
Lowest quintile	5.0	..	5.9	..	..
Highest quintile	56.0	..	49.6	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure<sup>3</sup></b>					
Health (% of GDP) <sup>4</sup>	..	..	0.6	1.7	2.4
Education (% of GNP)	..	1.4	3.9	2.6	5.2
Social security and welfare (% of GDP)	..	..	0.8	..	..
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	95	96	100	99	94
Male	..	97	..	99	..
Female	..	96	..	98	..
<b>Access to safe water<sup>3</sup></b>					
<i>(% of population)</i>					
Total	50	65	73	84	75
Urban	..	..	59	89	..
Rural	..	..	84	82	..
<b>Immunization rate</b>					
<i>(% under 12 months)</i>					
Measles	..	49	83	88	86
DPT	..	59	83	91	86
Child malnutrition (% under 5 years)	..	33	30	..	..
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	58	59	66	68	67
Male	56	58	64	67	64
Female	59	61	68	70	70
<b>Mortality</b>					
Infant (per thousand live births) <sup>1</sup>	64	47	35	39	40
Under 5 (per thousand live births) <sup>1</sup>	82	69	49	47	49
<b>Adult (15-59)</b>					
Male (per 1,000 population)	376	323	200	180	260
Female (per 1,000 population)	314	259	153	145	155
Maternal (per 100,000 live births)	..	..	210	..	..

1/ 1998 Demographic and Health Survey Preliminary Report, National Statistics Office, Manila

2/ Official Government numbers based on income. Source: National Household Surveys (1985, 1997).

3/ Medium-term Philippine Development Plan, Draft, February 1999

4/ Only includes National Government expenditures as health services have been devolved to Local Government Units.

World Development Indicators 1998 CD-ROM, World Bank

## Philippines - Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>National accounts</b>									
<b>(as % GDP at current market prices)</b>									
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	22.0	21.6	20.6	18.7	16.9	17.1	17.1	16.8	16.4
Industry	32.5	32.1	32.1	32.2	31.6	31.1	31.6	32.4	32.8
Services	45.5	46.3	47.3	49.2	51.5	51.7	51.3	50.8	50.8
Total Consumption	84.9	86.3	85.5	87.5	87.2	88.7	89.7	88.6	88.5
Gross domestic fixed investment	24.1	22.5	24.0	24.8	20.2	19.3	19.6	20.8	21.9
Government investment	2.0	2.8	2.6	3.3	2.4	2.7	2.6	2.8	3.0
Private investment (includes increase in stocks)	22.1	19.7	21.4	21.6	17.7	16.6	17.0	18.0	18.8
Exports (GNFS) <sup>a</sup>	31.6	36.2	40.4	49.1	57.2	59.4	59.4	61.8	62.7
Imports (GNFS)	40.6	45.0	49.9	61.4	64.6	67.5	68.7	71.2	73.1
Gross domestic savings	15.1	13.7	14.5	12.5	12.8	11.3	10.3	11.4	11.5
Gross national savings <sup>b</sup>	19.5	18.0	19.2	19.6	21.7	19.9	19.0	20.3	20.7
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	64,085	74,121	82,847	82,238	65,107	72,190	77,799	82,799	89,396
Gross national product per capita (US\$, Atlas method)	910	1,010	1,160	1,200	..	..	..	..	..
Real annual growth rates (%, calculated from 1985 prices)									
Gross domestic product at market prices	4.4	4.7	5.8	5.2	-0.5	2.5	3.5	4.5	5.5
Gross Domestic Income	5.3	5.4	5.0	5.6	5.1	2.9	4.0	5.4	6.2
Real annual per capita growth rates (%, calculated from 1985 prices)									
Gross domestic product at market prices	2.0	2.2	3.4	2.9	-2.5	0.5	1.7	2.6	3.6
Total consumption	-0.1	3.1	1.3	4.3	1.3	2.0	3.2	2.4	4.3
Private consumption	-0.5	3.5	1.4	4.6	0.8	2.0	3.7	2.2	4.2

(Continued)

**Philippines - Key Economic Indicators**  
(Continued)

Indicator	Actual			Estimate			Projected		
	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Balance of Payments</b>									
<b>(US\$m)</b>									
Exports (GNFS) <sup>b</sup>	20,251	26,805	33,490	40,365	37,273	42,914	46,204	51,175	56,060
Merchandise FOB	13,483	17,447	20,543	25,228	29,496	32,749	36,204	41,171	46,260
Imports (GNFS) <sup>a</sup>	26,000	33,328	41,370	50,476	42,075	48,695	53,441	58,957	65,370
Merchandise FOB	21,333	26,390	31,884	36,354	29,658	35,521	39,725	44,647	50,508
Resource balance	-5,749	-6,523	-7,880	-10,111	-4,802	-5,781	-7,237	-7,782	-9,310
Net current transfers (including official current transfers)	936	882	589	1,080	857	699	699	697	699
Current account balance (after official capital grants)	-2,950	-3,296	-3,952	-4,302	1,003	444	-441	-399	-1,081
Net private foreign direct investment	1,558	1,609	3,517	766	1,351	1,179	1,347	1,425	2,006
Long-term loans (net)	1,057	115	2,133	2,975	-134	1,326	2,603	2,698	1,041
Official	187	-755	-5	107	688	899	725	792	739
Private	869	870	2,138	2,870	-822	427	1,878	1,906	303
Other capital (net, including errors and omissions)	2,137	2,203	2,409	-2,802	-964	-1,844	-1,699	-1,272	230
Change in reserves <sup>c</sup>	1,802	631	4,107	-3,363	1,256	1,105	1,810	2,451	2,196
<i>Memorandum items</i>									
Resource balance (% of GDP at current market prices)	-9.0	-8.8	-9.5	-12.3	-7.4	-8.0	-9.3	-9.4	-10.4
Real annual growth rates (1985 prices)									
Merchandise exports (FOB)	13.1	16.4	9.5	14.8	4.7	9.4	6.8	10.1	9.2
Primary	-16.5	0.0	0.5	..	..	..	..	..	..
Manufactures	17.6	16.5	13.1	15.5	4.0	8.5	8.2	10.7	9.5
Merchandise imports (CIF)	18.7	14.6	11.0	14.0	-12.2	16.6	7.7	8.7	9.7
<b>Public finance</b>									
<b>(as % of GDP at current market prices)<sup>d</sup></b>									
Current revenues	19.9	19.0	18.9	19.5	17.4	17.5	17.5	17.6	18.0
Current expenditures	15.8	14.5	14.7	15.3	16.1	16.3	15.9	15.7	15.7

(Continued)



Philippines - Key Economic Indicators  
(Continued)

Indicator	Actual			Estimate			Projected		
	1994	1995	1996	1997	1998	1999	2000	2001	2002
Current account surplus (+) or deficit (-)	4.0	4.4	4.2	4.2	1.3	1.1	1.6	2.0	2.3
Capital expenditure	3.1	3.8	3.9	4.1	3.2	3.6	3.5	3.7	3.9
Foreign financing	-0.5	-0.9	-0.1	-0.3	0.3	2.0	1.6	1.7	0.9
<b>Monetary indicators</b>									
M2/GDP (at current market prices)	35.9	40.0	40.6	44.0	45.5	47.0	47.5	50.1	51.2
Growth of M2 (%)	26.5	25.3	15.8	20.9	13.5	15.0	10.9	15.8	13.0
Private sector credit growth / total credit growth (%)	81.6	86.5	90.1	78.1	72.0	84.7	95.7	103.3	80.8
<b>Price indices( 1985 =100)</b>									
Merchandise export price index	124.3	138.2	148.7	159.0	177.6	180.3	186.6	192.8	198.4
Merchandise import price index	117.3	128.2	139.2	139.2	129.4	131.8	136.7	141.3	145.7
Merchandise terms of trade index	106.0	107.9	106.8	114.3	137.3	136.8	136.5	136.4	136.2
Real exchange rate (US\$/LCU) <sup>f</sup>									
Real interest rates (discount rate, e.o.p.)	3.3	3.5	4.4	6.6					
Consumer price index (% growth rate)	9.0	8.1	8.4	5.0					
GDP deflator (% growth rate)	10.0	7.6	7.7	6.1	10.4	8.5	6.0	5.0	5.0

- a. "GNFS" denotes "goods and nonfactor services."  
b. Includes net unrequited transfers excluding official capital grants.  
c. Includes use of IMF resources.  
d. National Government.  
e. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

## Philippines - Key Exposure Indicators

Indicator	Actual			Estimate			Projected		
	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	39,412	37,829	40,143	46,660	46,308	48,322	51,517	54,571	55,518
Net disbursements (US\$m) <sup>a</sup>	839	-248	1,832	3,451	619	2,028	2,888	2,726	584
Total debt service (TDS) (US\$m) <sup>a</sup>	4,632	5,348	5,356	5,319	5,132	4,856	5,725	6,011	7,563
Debt and debt service indicators (%)									
TDO/XGS <sup>b</sup>	161.0	117.3	100.1	95.0	100.3	91.9	90.4	86.4	79.9
TDO/GDP	61.5	51.0	48.5	56.7	71.1	66.9	66.2	65.9	62.1
TDS/XGS	18.9	16.6	13.4	10.8	11.1	9.2	10	9.5	10.9
Concessional/TDO	27.3	29.3	25.8	21.4	23.8	24.3	23.6	23.2	23.8
IBRD exposure indicators (%)									
IBRD DS/public DS	18.2	16.8	17.6	20.2	21.2	21.7	18.9	17.5	15.5
Preferred creditor DS/public DS (%) <sup>c</sup>	35.9	35.6	33.8	37.6	32.7	37.4	33.8	33.2	41.3
IBRD DS/XGS	2.9	2.4	1.9	1.4	1.7	1.4	1.3	1.1	1.0
IBRD TDO (US\$m) <sup>d,e</sup>	4,910	5,534	4,832	4,455	4,014	4,191	4,449	4,516	4,554
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%) <sup>e</sup>	4.5	4.5	4.4	4.2	3.7	3.4	3.2	3.1	3.1
IDA TDO (US\$m) <sup>d</sup>	174	183	193	195	215	232	243	248	246
IFC (US\$m)									
Loans <sup>e</sup>	183	223	151	161	164				
Equity and quasi-equity <sup>e,f</sup>	35	34	40	38	36				
MIGA									
MIGA guarantees (US\$m) <sup>e</sup>		55	60	60	38				

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Presented as Bank fiscal year (July-June)

f. Includes equity and quasi-equity types of both loan and equity instruments.

**Status of Bank Group Operations in Philippines  
Operations Portfolio**

Project ID	Fiscal Year	Borrower	Purpose	Original Amount in US\$ Millions				Difference Between expected and actual disbursements a/		Last PSR Supervision Rating b/	
				IBRD	IDA	Cancel.	Undisb.	Orig	Erm Rev'd	Dev Obj	Imp Prog
Number of Closed Projects: 126											
<u>Active Projects</u>											
PH-PE-4552	1990	R.P.	COCONUT FARMS DEVT.	121.80	0.00	.85	30.60	31.46	20.06	S	S
PH-PE-4572	1991	ROP	COMMUNAL IRRIG. II	46.20	0.00	3.34	13.25	16.61	2.75	S	S
PH-PE-4558	1991	GOVT. OF PHILS.	ENV. & NAT. RES. MGT	158.00	66.00	0.00	15.83	12.54	0.00	S	S
PH-PE-4597	1992	GOP	HIGHWAY MANAGEMENT P	150.00	0.00	0.00	40.41	39.28	4.62	S	S
PH-PE-4592	1992	GOP	MUNICIPAL DEV III	68.00	0.00	0.00	27.84	26.24	15.84	S	S
PH-PE-4538	1992	GOP	SECOND VOCATIONAL TR	0.00	36.00	0.00	9.32	8.23	0.00	S	S
PH-PE-4599	1993	GOVT. OF PHILIPPINES	TAX COMPUTERIZATION	63.00	0.00	0.00	19.50	19.53	0.00	S	S
PH-PE-4589	1993	GOP	IRRIG OPER SUPP II	51.30	0.00	0.00	19.02	18.41	0.00	S	S
PH-PE-4568	1993	GOP	URB HEALTH & NUTRITI	0.00	70.00	0.00	49.46	35.56	0.00	U	U
PH-PE-4609	1994	SBMA	SUBIC BAY FREEPORT	40.00	0.00	0.00	2.91	2.38	0.00	S	S
PH-PE-4607	1994	GOV OF PHILIPPINES	LEYTE LUZON GEOTHERM	227.00	0.00	0.00	81.70	81.67	0.00	S	S
PH-PE-4584	1994	NPC AND PNOC	LEYTE CEBU GEOTHERMA	211.00	0.00	10.97	15.14	26.09	0.00	S	S
PH-PE-4567	1995	GOVT OF THE PHILS	WOMENS HEALTH & SAFE	18.00	0.00	0.00	15.54	5.14	0.00	U	U
PH-PE-4614	1996	LBP	RURAL FINANCE II	150.00	0.00	0.00	27.65	-24.35	0.00	S	S
PH-PE-4611	1996	GOP	MNLA 2ND SEWERAGE PR	57.00	0.00	9.00	48.00	38.34	0.00	S	S
PH-PE-4571	1996	GOP	TRANS GRID REINFORCE	250.00	0.00	0.00	155.15	-16.66	0.00	U	U
PH-PE-40981	1997	SUBIC BAY METRO. AUTH.	SECOND SUBIC BAY	60.00	0.00	0.00	58.01	43.01	0.00	S	S
PH-PE-37079	1997	GOP	AGRARIAN REFORM COMM	50.00	0.00	0.00	44.60	4.47	0.00	S	S
PH-PE-4613	1997	GOP	WATER RESOURCES DEVE	58.00	0.00	0.00	53.50	23.17	0.00	S	S
PH-PE-4602	1997	REP OF PHILS.	THIRD ELEM EDUCATION	113.40	0.00	0.00	110.35	45.71	0.00	S	S
PH-PE-51386	1998	GOP	SZOPAD SOCIAL FUND	10.00	0.00	0.00	9.38	2.38	0.00	S	S
PH-PE-4595	1998	GOP	COMMUNITY BASED RESO	50.00	0.00	0.00	48.50	3.56	0.00	S	S
PH-PE-4576	1998	GOP	WATER DISTRICT DEV.	56.80	0.00	0.00	56.80	9.17	0.00	U	U
PH-PE-4566	1998	REP OF PHILS	EARLY CHILD DEV.	19.00	0.00	0.00	18.10	1.10	0.00	S	S
PH-PE-57624	1999	DEVELOPMENT BANK OF THE P	PRIVATE ENT CREDIT	150.00	0.00	0.00	150.00	3.00	0.00	S	S
PH-PE-57598	1999	LBP	RURAL FINANCE III	150.00	0.00	0.00	150.00	6.67	0.00	S	S
PH-PE-56524	1999		BANK'G SYS REF (FSAL	300.00	0.00	0.00	200.00	0.00	0.00	S	S
PH-PE-48588	1999	REPUBLIC OF THE PHILIPPIN	LGU FINANCE AND DEV	100.00	0.00	0.00	100.00	0.00	0.00		
PH-PE-39022	1999	PHILIPPINES	LGU URB&WATER SANITA	23.30	0.00	0.00	23.30	0.00	0.00	S	S
<b>Total</b>				<b>2,751.80</b>	<b>172.00</b>	<b>24.16</b>	<b>1,593.86</b>	<b>462.71</b>	<b>43.27</b>		
<u>Active Projects</u>				<u>Closed Projects</u>				<u>Total</u>			
Total Disbursed (IBRD and IDA):				1,319.30	6,823.47			8,142.77			
of which has been repaid:				53.28	3,777.63			3,830.91			
Total now held by IBRD and IDA:				2,846.36	3,045.87			5,892.23			
Amount sold :				0.00	31.35			31.35			
Of which repaid :				0.00	31.35			31.35			
Total Undisbursed :				1,593.86	0.00			1,593.86			

- a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.  
b. Following the FY94 Annual Review of Portfolio performance (ARPP), a letter based system was introduced (HS = highly Satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory): see proposed Improvements in Project and Portfolio Performance Rating Methodology (SecM94-901), August 23, 1994.

Note:  
Disbursement data is updated at the end of the first week of the month.

**Philippines**  
**STATEMENT OF IFC's**  
**Committed and Disbursed Portfolio**  
As of 28-Feb-99  
(In US Dollar Millions)

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1967/88	MERALCO	8.24	0.00	0.00	0.00	8.24	0.00	0.00	0.00
1970/86/88/89	PLDT	12.21	0.00	0.00	9.89	12.21	0.00	0.00	9.89
1974/79	Maria Cristina	0.00	.44	0.00	0.00	0.00	.44	0.00	0.00
1979/90	General Milling	0.00	1.73	0.00	0.00	0.00	1.73	0.00	0.00
1980/82/89/90/94/95	AACT	20.36	2.73	0.00	0.00	20.36	2.73	0.00	0.00
1989	H&QPV-I	0.00	.61	0.00	0.00	0.00	.61	0.00	0.00
1990	Avantex Mill	5.63	1.98	0.00	0.00	5.63	1.98	0.00	0.00
1992	Bacnotan	3.50	5.63	0.00	2.50	3.50	5.63	0.00	2.50
1992	Pilipinas Shell	0.00	0.00	10.57	0.00	0.00	0.00	10.57	0.00
1993	H&QPV-II	0.00	2.50	0.00	0.00	0.00	2.40	0.00	0.00
1993	Pagbilao	48.00	10.00	0.00	7.80	48.00	10.00	0.00	7.80
1993/94	Mindanao Power	0.00	4.26	0.00	0.00	0.00	4.26	0.00	0.00
1994	Walden Mgmt	0.00	.05	0.00	0.00	0.00	.05	0.00	0.00
1994	Walden Ventures	0.00	3.75	0.00	0.00	0.00	3.75	0.00	0.00
1995	Sual Power	30.00	17.50	0.00	196.00	21.30	17.50	0.00	151.20
1996	All Asia Growth	0.00	4.00	0.00	0.00	0.00	4.00	0.00	0.00
1996	All Asia Manager	0.00	.04	0.00	0.00	0.00	.04	0.00	0.00
1996	All Asia Venture	0.00	.01	0.00	0.00	0.00	.01	0.00	0.00
1997/98	Far East Bank	25.00	15.00	0.00	50.00	25.00	15.00	0.00	50.00
1998	Drysdale Food	15.00	0.00	0.00	0.00	8.00	0.00	0.00	0.00
1998	H&Q PV III	0.00	7.50	0.00	0.00	0.00	1.35	0.00	0.00
Total Portfolio:		167.94	77.73	10.57	266.19	152.24	71.48	10.57	221.39
		<u>Approvals Pending Commitment</u>							
		<u>Loan</u>	<u>Equity</u>	<u>Quasi</u>	<u>Partic</u>				
1997	BATAAN P/E	30.00	0.00	10.00	163.00				
1997	MAGSAYSAY LINES	8.00	3.00	0.00	26.50				
1967	MANILA ELECTRIC	0.00	0.00	0.00	.36				
1998	PRYCE GASES	10.00	0.00	3.00	5.00				
1997	PT&T	30.00	5.00	0.00	30.00				
1999	TRP	0.00	.08	0.00	0.00				
1998	2/2/99	45.00	0.00	0.00	15.00				
Total Pending Commitment:		123.00	8.08	13.00	239.86				

## Philippines - CAS Program (1999-2002) Matrix

*Poverty Reduction is the overarching goal of the Medium-Term Philippine Development Plan (MTPDP)<sup>1</sup>, 1999-2004, and shall also be the goal of the World Bank's Country Assistance Strategy (CAS). To help the country achieve its poverty reduction goal, the CAS policies and programs would be directed towards the following: (a) economic recovery following the Asian Crisis and El Nino; (b) enhancing human development and social services for the poor; (c) accelerating environmentally sustainable rural development; (d) promoting sustainable urban development and combating urban poverty; (e) developing infrastructure, in particular in the provinces to support stronger growth; (f) enabling an expansion of the private sector to generate jobs for the growing labor force; and (g) improving governance of the development agenda and combating corruption. These areas correspond closely to the priority agenda of the MTPDP. Specific strategies and proposed assistance activities in each of these areas are summarized in this Matrix<sup>2</sup>.*

<sup>1</sup> The MTPDP formulation is ongoing and completion is expected by June 1999.

<sup>2</sup> The total number of activities in the Matrix exceeds that could be carried out in a "base case." Additional activities will be considered provided there is sufficient progress on reforms and project implementation and WB funding is available.

### 1. Address Crisis Effects and Promote Economic Recovery

*To promote economic recovery, the Philippines Government needs to maintain macroeconomic stability and enhance economic and financial monitoring, accelerate measures to strengthen the banking system and corporate sector, place public finance on a sustainable path and mobilize long-term domestic savings.*

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
The regional crisis is weakening the financial system and affecting the allocation of credit. It is also leading to corporate failures, although not yet at systemic proportion.	Stabilize and strengthen the bank corporation nexus ensuring its longer term robustness and resilience to macro shocks.	<ul style="list-style-type: none"> <li>Strengthen the prudential framework</li> <li>Refine intervention &amp; resolution strategy</li> <li>Enhance supervisory powers</li> <li>Strengthen GOP-owned/controlled banks</li> <li>Enhance protection of secured creditors' rights in cases of insolvency</li> </ul>	<ul style="list-style-type: none"> <li>Reduced share of NPLs; open loan exposures/capital from 80% to 50% by 2002</li> <li>Strengthened profitability of banking system</li> <li>Limited number of corporate failures are quickly resolved</li> <li>Passage of new banking legislation and regulations that improve supervision</li> <li>Transfer of PNB management to strategic private investor by 2000</li> </ul>	<ul style="list-style-type: none"> <li>Banking System Reform Loan (BSRL)</li> <li>Financial and Corporate Sector Reform Loan (FINCORP)</li> <li>TA to upgrade financial system framework, streamline insolvency process (upgrade claims settlements and receivership)</li> <li>TA for enhanced audits of public banks and financial sector strengthening</li> <li>Enhanced monitoring and possible TA for early warning system and contingency planning</li> <li>Corporate survey</li> <li>IFC: corporate restructuring and TA in financial sector</li> <li>WBI: Regional course on managing capital flows</li> </ul>	<ul style="list-style-type: none"> <li>Conditions regarding bank supervision and disclosure in BSRL met, including intensified monitoring of institutions at risk through on-site examination by BSP and bank supervision on a consolidated basis</li> <li>Strengthened regulatory institutions</li> <li>Satisfactory implementation of BSRL and FINCORP</li> <li>Plan for implementation of recommendations from corporate survey</li> </ul>	<ul style="list-style-type: none"> <li>IMF Stand-by arrangement</li> <li>European and Japanese grant funding; Miyazawa Initiative</li> <li>ADB grant assistance to strengthen PDIC</li> <li>USAID policy advice in response to crisis.</li> </ul>

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p>Current trend of <b>public finances</b> appears unsustainable: either public debt will rise from an already high level, and/or resources will remain inadequate for public infrastructure and social expenditure</p>	<p>Place public finances on a sustainable debt path with increased public and/or private resources for essential physical and social investment</p>	<ul style="list-style-type: none"> <li>• Improve tax administration</li> <li>• Reduce fiscal cost of tax incentives</li> <li>• Contain personnel costs</li> <li>• Rationalize revenue sharing with local governments</li> <li>• Improve efficiency of National Government expenditure</li> </ul>	<ul style="list-style-type: none"> <li>• Increased BIR/ customs revenue</li> <li>• Increased corporate tax revenues</li> <li>• “Streamlining Bureaucracy” Bill implemented</li> <li>• IRA adjusted to improve equity and efficiency in LGU revenue sharing</li> <li>• Medium-term expenditure framework adopted</li> </ul>	<ul style="list-style-type: none"> <li>• Public Sector Reform Loan (PSRL)</li> <li>• Assessment of decentralization</li> <li>• Selected TA and demand driven policy notes</li> <li>• <b>WBI:</b> Courses on inter-governmental relations and budget process and public expenditure management</li> <li>• <b>IFC:</b> Assistance in privatization of government assets</li> </ul>	<ul style="list-style-type: none"> <li>• Satisfactory implementation of PSRL</li> <li>• Integrated computer-linked tax administration system operational nationwide by 2000</li> <li>• Preparation of assessment of decentralization with practical advice on areas for improvement</li> <li>• Timely provision of advice and response to technical assistance needs</li> </ul>	<p><b>IMF TA</b> on improving tax administration; and analysis of fiscal sustainability</p> <p><b>Germany:</b> advise on tax administration</p>
<p>One reason for heavy dependence on foreign capital has been insufficient <b>mobilization of long term domestic savings</b> together with inefficient allocation of these resources in the key area of <b>housing finance</b></p>	<p>Increase long term domestic savings mobilization and their allocation for housing finance</p>	<ul style="list-style-type: none"> <li>• Strengthen pension systems</li> <li>• Develop the market for (life) insurance</li> <li>• Redefine public/ private sector roles</li> <li>• Reform provision of subsidies</li> <li>• Develop primary and secondary mortgage markets</li> <li>• Rationalize public housing finance agencies</li> </ul>	<ul style="list-style-type: none"> <li>• Savings/GNP increased by 1% by 2002</li> <li>• Membership of public pension system up by 1m by 2002</li> <li>• Public share of funding for low/middle income housing loans below 30% by 2002</li> <li>• Lower delinquency on mortgage loans by 2002 (&lt;5% for banks, &lt;20% for PAG-IBIG)</li> <li>• Increased prevalence of securitization (1% by 2002)</li> </ul>	<ul style="list-style-type: none"> <li>• FINCORP</li> <li>• TA for strengthening supervision of pension and life insurance agencies</li> <li>• Housing Finance TA Loan</li> <li>• <b>IFC:</b> Secondary Mortgage Finance Institution</li> </ul>	<ul style="list-style-type: none"> <li>• Higher collections, financial soundness of SSS/GSIS/PAG-IBIG</li> <li>• Developed stronger framework for retirement income</li> <li>• Prudential regulation of pension/insurance</li> <li>• Developed framework for mortgage origination, underwriting, securitization</li> <li>• New housing assistance fund in operation by 2002</li> <li>• 20% of non-performing assets at NHMFC restructured, foreclosed or sold by 2002</li> <li>• Better asset-liability management at HIGC/PAG-IBIG by 2002</li> </ul>	<p><b>ADB:</b> grant to Insurance Commission; ongoing and planned capital market development loans</p> <p><b>European (ASEM)</b> grant funding.</p>

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Unprecedented regional (global) crisis calls for timely <b>advice, monitoring and coordination</b> of donor programs	Minimize adverse impact of crisis on economy; promote strong, sustainable recovery; maintain consistency between macro policies and banking/ corporate reforms	<ul style="list-style-type: none"> <li>• Use best policy advice emerging internationally</li> <li>• Coordinate for consistency with IMF and other donors</li> <li>• Enhance monitoring of economic, financial, corporate and social indicators</li> </ul>	<ul style="list-style-type: none"> <li>• Depth /duration of economic stagnation/decline and vigor of recovery</li> <li>• Regular coordination meetings and information sharing</li> <li>• GNP growth p.a. of 5.2-5.8% for 1999-04</li> <li>• Inflation &lt;5% by 2004</li> <li>• NG surplus of 0.5% of GNP in 2004 (from 2.2% deficit in 1999)</li> <li>• Foreign currency reserves increased to 3.6 months of imports</li> </ul>	<ul style="list-style-type: none"> <li>• Regular economic, financial and corporate sector monitoring</li> <li>• TA for annual poverty survey</li> <li>• Coordinate advice within and outside Bank if needed</li> <li>• <b>WBI</b>: Senior policy seminar on lessons of structural adjustment</li> </ul>	<ul style="list-style-type: none"> <li>• Ex-post evaluation of policy response to crisis and quality of Bank sponsored advice</li> <li>• Putting in place regular monitoring systems</li> <li>• Support donor coordination</li> </ul>	<p><b>IMF and ADB</b> providing ongoing advice</p> <p><b>European (ASEM)</b> grant funding</p> <p><b>USAID</b>: Policy advice through AGILE Project</p>

## 2. Enhance Human Development and Social Services for the Poor

*To build a caring and prosperous society, the Economic Recovery Program should be accompanied by measures to strengthen social services for the poor and monitor social indicators. In parallel, to lay a foundation for future prosperity, investments in education and health and efficiency of such investments need to be increased through policy reforms directed at improving access to and quality of basic education, improving education sector financing and management and enhancing the skills of the labor force. In the health sector, the reforms should focus on strengthening primary health services in the context of devolution.*

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p>Crisis related pressure on fiscal accounts risks <b>weakening government capacity to maintain social services</b></p> <p><b>Deficient poverty targeting</b></p>	<p>Minimize adverse effects of crisis on government capacity to maintain social services</p>	<ul style="list-style-type: none"> <li>• Protect social programs from budget cuts</li> <li>• Assess need for new social programs</li> <li>• Secure external financing for effective social programs</li> <li>• Accelerate implementation of high priority donor-financed projects</li> <li>• Coordinate/streamline anti-poverty initiatives</li> <li>• Improve social monitoring</li> <li>• Improve capacity for social assessment and analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Trend of unemployment, poverty, other social indicators resulting from crisis minimized</li> <li>• Poverty incidence from 32% in 1997 to 25-28% in 2004</li> </ul>	<ul style="list-style-type: none"> <li>• Social Expenditure Management Loan (SEML)</li> <li>• TA to improve effectiveness of social programs and advice on priority expenditures</li> <li>• Study on "Accelerating Poverty Reduction"</li> <li>• TA: to support Annual Poverty Incidence Survey for enhanced monitoring</li> <li>• WBI: Regional Forum on Poverty</li> </ul>	<ul style="list-style-type: none"> <li>• Satisfactory implementation of SEML</li> <li>• Relative protection of social expenditures in government budget</li> </ul>	<p>Potential cofinancing of SIL with concessional bilateral or multilateral finance</p> <p><b>European (ASEM) grant funding</b></p> <p><b>Most bilateral and multilateral donors</b> actively involved in human development and poverty alleviation efforts including health, education, welfare, women, children, indigenous peoples and victims of disasters.</p> <p><b>ILO, UNDP, Germany:</b> activities related to social safety nets.</p>
<p><b>Performance of HD portfolio</b> has been unsatisfactory with limited impact on the lives of the poor.</p>	<p>Improve results of social sector projects on the ground</p>	<ul style="list-style-type: none"> <li>• Build capacity for project management in social sectors, particularly procurement and financial management</li> </ul>	<ul style="list-style-type: none"> <li>• Performance of social sector projects</li> </ul>	<ul style="list-style-type: none"> <li>• Restructuring of problem projects</li> <li>• Capacity building initiative for social sector in procurement and financial management</li> </ul>	<ul style="list-style-type: none"> <li>• Improved performance rating for Bank-financed projects with problem projects restructured or cancelled</li> </ul>	



Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p>The average <b>quality of education</b> across the system is low, particularly in math, science, language, as evidenced by low scores in achievement tests. Regional disparities in performance are significant</p>	<p>Improve student learning in the education system by identifying and implementing strategies that raise average test scores on achievement tests in key subject areas. Reduce regional disparities</p>	<ul style="list-style-type: none"> <li>• Simplify curriculum with focus on math languages and science</li> <li>• Improve teacher performance through pre/in-service training</li> <li>• Increase textbooks and instructional materials per student</li> <li>• Expand pre-school education</li> </ul>	<ul style="list-style-type: none"> <li>• Student achievement test scores at the elementary and secondary levels (national and regional), achievement level increased from 50% to 65% by 2002</li> </ul>	<ul style="list-style-type: none"> <li>• SEML</li> <li>• Fourth Elementary Education Project</li> </ul>	<ul style="list-style-type: none"> <li>• Performance of the Third Elementary Education Project (TEEP), in particular increased pupils' scores in English, Math and Science in 26 poorest provinces</li> <li>• Increased textbook to pupil ratio in remote schools in 26 poorest provinces</li> <li>• Preparation of Fourth Elementary Education Project</li> </ul>	<p><b>OECF:</b> Third Elementary Education Project (1997-2004) <b>AusAid:</b> Project on Basic Education (Probe, 1996-2001) <b>JICA:</b> Education Facilities Improvement Project</p>
<p><b>Access to Education:</b> Nearly 1 million children do not enroll in school, and 30% of children drop out before reaching Grade VI</p>	<p>Improve access to basic education</p>	<ul style="list-style-type: none"> <li>• Selective expansion of schools</li> <li>• Target out-of-school youth through alternate school models for delivering education services</li> <li>• Demand-side interventions</li> </ul>	<ul style="list-style-type: none"> <li>• Elementary participation rate increased from 95 in 1997 to 96 in 2002 and 97 in 2004</li> <li>• 75% completion rate for primary education by 2002</li> <li>• Reduction in regional disparity for enrollment and dropout</li> </ul>	<ul style="list-style-type: none"> <li>• Youth Development LIL</li> <li>• Trend monitoring</li> <li>• Tripartite partnership with government and corporate sector on out-of-school youth</li> </ul>	<ul style="list-style-type: none"> <li>• Strong partnership with corporate sector</li> <li>• In 26 poorest provinces, increased share of children living less than 1 hour's walk from school, and higher completion rates through Grade VI</li> <li>• Annual trend analysis</li> </ul>	<p><b>JICA:</b> Science and Mathematics Education Manpower Development Project <b>ADB:</b> Non-Formal Education Project; proposed Secondary Education Improvement Project</p>

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
Trends in <b>education financing</b> are not encouraging: lower share of elementary education budget, rapid expansion of SUCs and free public 2ndary education may have begun to “crowd out” private education. Lack of <b>coordination</b> across “trifocalized” sector	<p>Improve efficiency and equity in the financing of the education system</p> <p>Streamline sector management</p>	<ul style="list-style-type: none"> <li>• Rationalize SUCs, and institute cost-recovery</li> <li>• Retarget public resources to low income families</li> <li>• Improve budget monitoring</li> <li>• Increase local govt. contribution towards school building</li> </ul>	Trends in public financing of education: <ul style="list-style-type: none"> <li>• Share of the education budget towards basic education increased</li> <li>• Share for tertiary reduced</li> <li>• Share of MOE expenditures increased</li> </ul>	<ul style="list-style-type: none"> <li>• SEML</li> <li>• <b>WBI:</b> course on education policies, conference on social policy options for Asian crisis</li> </ul>	<ul style="list-style-type: none"> <li>• Targets developed under SEML</li> <li>• Extent to which Central/Local Government cost-sharing operates as targeting mechanism for 26 provinces under TEEP</li> </ul>	
<b>Maintaining int'l competitiveness</b> requires ability to address emerging skill shortages & training needs	Streamline curriculum, improve teacher performance, and raise learning outcomes	<ul style="list-style-type: none"> <li>• Improve information and collaborate with private sector for technical education and science and technology</li> </ul>		<ul style="list-style-type: none"> <li>• Possible future operation depending on policy dialogue</li> </ul>		
<p><b>Health Status</b></p> <ul style="list-style-type: none"> <li>• health outcomes behind comparators</li> <li>• wide differentials</li> <li>• resurgence of some diseases</li> <li>• rising environmental and occupational hazards</li> </ul> <p><b>Service Delivery</b></p> <ul style="list-style-type: none"> <li>• inadequate preparation for devolution</li> <li>• poor technical quality of central programs</li> <li>• problems with financing &amp; management of hospitals</li> </ul>	<p>Improve HNP outcomes, particularly for poor and remote populations</p> <p>Enhance performance (accessibility, quality) of devolved health service system</p> <p>Strengthen DOH through reorganization</p>	<ul style="list-style-type: none"> <li>• Reduce differentials through better targeting of resources</li> <li>• Allocate needed funding for critical programs, using appropriate strategies (e.g. TB)</li> <li>• Improve capacity of local health networks for primary care</li> <li>• Rationalize hospitals</li> <li>• Re-engineer DOH to meet new role in devolved system</li> <li>• Reallocate public funds toward public health</li> </ul>	<ul style="list-style-type: none"> <li>• Infant mortality rate reduced from 35 in 1997 to 25 in 2002</li> <li>• Total fertility rate reduced from 3.7 in 1998 to 3.0 in 2004</li> <li>• % of fully immunized children aged 12-23 months increased from 73% in 1998 to 85% in 2004</li> <li>• % of children under six with Grade 2 or 3 wasting reduced from 30% in 1998 to 18% in 2004</li> </ul>	<ul style="list-style-type: none"> <li>• Health services under devolution study</li> <li>• Study on Environmental Health</li> <li>• Monitoring of trends</li> <li>• SEML</li> </ul> <p><b>WBI:</b></p> <ul style="list-style-type: none"> <li>• Course on health sector reforms</li> </ul> <p><b>IFC:</b></p> <ul style="list-style-type: none"> <li>• Study of private sector opportunities in health and education</li> <li>• financing for private projects in health and education</li> </ul>	<ul style="list-style-type: none"> <li>• Performance of on-going Bank projects in particular, improvements in share of women with access to prenatal care, access to family planning, and basic health indicators in communities participating in Bank-financed projects</li> <li>• Facilitate greater involvement of LGUs in planning, and implementation of health sector activities</li> <li>• Regular trend analyses</li> </ul>	<p><b>ADB:</b> co-financier of ECD and Women's Health and Safe Motherhood Project; Integrated Community Health Services Project</p> <p><b>AusAID:</b> co-financier of WHSMP and UHNP; also support to HIV, family planning, drug policy</p>

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<p><b>Health Financing</b></p> <ul style="list-style-type: none"> <li>• low public health spending</li> <li>• Uneven spending across LGUs</li> <li>• private sector not used optimally</li> <li>• Low coverage of poor by social insurance</li> </ul>	<p>Secure sustainable health care financing</p>	<ul style="list-style-type: none"> <li>• Target public investments in personal health to the poor</li> <li>• Expand coverage of indigents by national health insurance program</li> <li>• Use public/private partnerships to fund personal health care</li> <li>• Rationalize</li> </ul>	<ul style="list-style-type: none"> <li>• Inequities in key indicators reduced across regions and socio-economic groups</li> </ul>			<p><b>USAID:</b> support through Integrated Family Planning/ Maternal Health; Social Marketing of Contraceptives  <b>JICA:</b> funding for family planning and MCH, HIV and STDs, and TB  <b>UNFPA:</b> active in family planning and reproductive health  <b>UNICEF:</b> support to women and child health and nutrition  <b>EU:</b> support to HIV/AIDS, development of community partnerships</p>

### 3. Accelerate Environmentally Sustainable Rural Development

*Government should accelerate environmentally sustainable growth of agriculture by making it more competitive internationally, assuring essential rural infrastructure investments, targeting investments to least developed areas and groups and improving natural resource management. This is necessary to increase the incomes of the rural sector where the majority of poor reside.*

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p><b>Poor Rural Sector Performance:</b></p> <ul style="list-style-type: none"> <li>• Growth below population growth due to policy distortions, institutional weaknesses, and associated low private and public investments</li> <li>• Slow growth in non-farm employment</li> <li>• High and rising unemployment (7%) and under-employment (+20%) in rural areas</li> <li>• Largely unchanged rural poverty (51% in 1985 vs. 47% in 1994), worsening regional trends, and widening rural-urban income gaps</li> </ul>	<p>Ensure sustained, higher and broad-based growth of agriculture, by removing distortions and making the sector internationally more competitive</p>	<p><b>Policy Reforms:</b></p> <p><b>Rice:</b></p> <ul style="list-style-type: none"> <li>• Replace QRs</li> <li>• Restructure NFA, separating proprietary and regulatory roles.</li> </ul> <p><b>Corn/ Livestock:</b></p> <ul style="list-style-type: none"> <li>• Reduce protection &amp; adopt uniform tariff; evolve support programs for marginal corn farmers</li> </ul> <p><b>Sugar:</b></p> <ul style="list-style-type: none"> <li>• Reduce protection &amp; reform industry</li> </ul> <p><b>Land:</b></p> <ul style="list-style-type: none"> <li>• Develop tenure instruments for uplands</li> <li>• Develop &amp; implement comprehensive land use policy</li> </ul> <p><b>CARP:</b></p> <ul style="list-style-type: none"> <li>• Expedite funding &amp; implementation</li> <li>• Adopt new approaches to land reform</li> </ul>	<ul style="list-style-type: none"> <li>• Sustain increase in agricultural sector growth (target of GVA growth of 2.8-3.7% per year in 1999-04)</li> <li>• Implement policy reforms for rice, corn, sugar, and agro-processing</li> <li>• Enact land use legislation by 2001; begin implementation of improved land administration and management program by 2000.</li> <li>• Complete CARP implementation by 2004 (redistribute 3.5m has benefiting 200 families, enhance support services for existing ARCs.</li> <li>• Achieve CARP targets for holdings &gt;25 ha by 2000; pilot new approaches for holdings &lt;24 ha by 2001 and distributed by 2004</li> </ul>	<ul style="list-style-type: none"> <li>• Disseminate Rural Development Strategy Paper and monitor implementation</li> <li>• Disseminate paper on "Improved Land Management and Administration" and prepare joint action plan; support policy dialogue with stakeholders</li> <li>• Prepare and disseminate study on "Tree Crops in Rural Development"</li> <li>• Enhanced monitoring of trends in agriculture, food supply and environment</li> <li>• Demand-driven policy notes</li> </ul>	<ul style="list-style-type: none"> <li>• Inclusion of reforms outlined in column 3 in the next Medium Term Development Program</li> <li>• Regular trend analyses on agriculture, food supply and environment</li> </ul>	<p><b>ADB:</b> recently completed TA project to prepare "comprehensive policy and institutional reform matrix" and feasibility study for investments under a proposed Grains Sector Development Program</p> <p><b>AusAid:</b> recently completed its strategy assistance program, and includes support for supporting preparation of Land Admin. and Mgt. Program.</p> <p><b>Other Donors:</b> Most of the bilateral and multilateral organizations provide some level of support to rural development</p>

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p>Shortfall in <b>public and private investments</b> in rural areas:</p> <ul style="list-style-type: none"> <li>• decline in rural infrastructure expenditures</li> <li>• decline in formal lending to agriculture.;</li> <li>• lagging investments in perennial crops, particularly coconuts</li> <li>• inadequate extension and research services</li> </ul>	<p>Facilitate increased public/private sector expenditures in rural areas</p> <p>Improve smallholder productivity</p> <p>Promote agro-based diversification toward higher value crops and value-added processing</p> <p>Improve rural poverty targeting</p>	<ul style="list-style-type: none"> <li>• Investment program in support of broad based rural development, and strengthened LGU capacity;</li> <li>• Reform and increase funding of priority rural infrastructure and small-holder services;</li> <li>• Facilitate LGU access to financing facilities;</li> <li>• Strengthen rural financial inter-mediation;</li> <li>• Develop and implement effective rural poverty targeted programs;</li> <li>• Develop tenure instruments for uplands and indigenous communities.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased public funding for rural development, (from P 14B in 1998 to P 20B p.a. in real terms)</li> <li>• Increase budget allocation for R&amp;D to 1% of agricultural GVA by 2004</li> <li>• Increased resource flows to LGUs</li> <li>• Irrigated areas increased from 42% to 52% of irrigable lands by 2004</li> <li>• 30% of existing farm-to-market roads paved, 5000 km new ones constructed by 2004; average road density increased to 0.6 km per square km of land area</li> <li>• Consolidate directed credit program by 2001; expand access to rural finance based on market interest rates and commercial viability; expand savings-led approach to microfinance.</li> <li>• Establishment of a mechanism (by 2000) to monitor resource flows to the poorest municipalities to facilitate better poverty targeting</li> </ul>	<ul style="list-style-type: none"> <li>• Mindanao Rural Development Project (APL)</li> <li>• Agrarian Reform Community Development Project II</li> <li>• Rural Development Project</li> </ul>	<p>In areas targeted by projects:</p> <ul style="list-style-type: none"> <li>• Increased smallholder agricultural productivity</li> <li>• More LGU and community involvement in agricultural program design and implementation</li> <li>• Improved rural credit access</li> <li>• Diversification of rural economic activities</li> <li>• Increased funding to LGUs</li> </ul>	<p><b>ADB:</b> Integrated Area Development., Rural Infrastructure. Development Microcredit, Small Farmers Credit, Rural Microenterprise Finance; Southern Phil. Irrigation and Grains Sector Projects</p> <p><b>OECF:</b> Rural Infrastructure. projects; institutional development. for cooperatives</p> <p><b>USAID:</b> Mindanao projects for improving micro-enterprises access to marketing and banking services, accelerated enterprise development. in SZOPAD</p> <p><b>EU:</b> S. Mindanao Agricultural, Rural Institutional Strengthening, W. Samar Agriculture. and Small Islands Agriculture</p> <p><b>AusAid:</b> FMD control, land info.</p> <p><b>FAO:</b> Support to CARP implementation</p>

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p><b>Deficient natural resources management:</b></p> <ul style="list-style-type: none"> <li>• unsuitable technologies</li> <li>• weak community participation and fragile partnerships among NG/LGUs/NGOs/communities in resource management</li> <li>• fragmented approaches to resource management</li> </ul>	<p>Improve natural resources management and environmental protection</p>	<ul style="list-style-type: none"> <li>• Number of NRM technologies</li> <li>• Number of NGO-LGU partnerships</li> </ul>	<ul style="list-style-type: none"> <li>• Number of NRM technologies disseminated</li> <li>• Number of NGO-LGU partnerships</li> </ul>	<ul style="list-style-type: none"> <li>• Annual monitoring of progress in environmental issues and indicators;</li> <li>• Land Administration &amp; Mgt. Program (LIL);</li> <li>• River Basin Development and Watershed Management Program (APL)</li> </ul> <p><b>WBI:</b> Strategic Environmental Assessment; Seminar on institutional options for river basin management</p>	<p>In targeted areas and communities:</p> <ul style="list-style-type: none"> <li>• Adopt appropriate land use plans</li> <li>• Increase vegetative cover</li> <li>• Increase coastal and forestry areas under community-based management</li> <li>• Increase incomes in upland areas</li> <li>• Progress in adoption by GOP of an integrated water resources and watershed management strategy</li> </ul>	<p><b>ADB:</b> On-going activity in Highlands and Forestry Sector Pipeline includes: Fisheries Resource Management, Sustainable Forestry Resource Management Projects</p> <p><b>USAID:</b> Programs for community-based approaches for the management of coastal and forestry resources</p> <p><b>Other Donors:</b> Majority have programs in support of sector</p>
<p><b>Weak institutional capacity for promoting sustainable rural development,</b> and weak capacity for environmental impact assessment (EIA) at LGU level</p>	<p>Strengthen institutional framework and capacity (especially at LGU level) for rural development program implementation</p>	<ul style="list-style-type: none"> <li>• Strengthen convergence approach of DA, DAR, DENR, LGUs, NGOs and local communities to rural development</li> </ul>	<ul style="list-style-type: none"> <li>• Completion of study to rationalize roles of DA, DAR, DENR &amp; LGUs</li> <li>• Number of LGUs trained in EIA</li> </ul>	<ul style="list-style-type: none"> <li>• Support for institutional capacity building in Bank projects; give special emphasis to LGUs;</li> <li>• Dialogue with NGOs and other qualified stakeholders</li> <li>• <b>WBI:</b> regular course on institutional reform</li> </ul>	<ul style="list-style-type: none"> <li>• Stronger focus in Bank projects on participation and stronger GOP/NGO/community partnerships</li> <li>• Increased number of LGUs participating in Bank supported projects and capacity building programs</li> </ul>	<p><b>ADB:</b> Capacity Building TA for Agricultural Policy/Planning</p> <p><b>USAID:</b> Governance &amp; Local Democracy</p> <p><b>CIDA:</b> Local Government Support Project</p> <p><b>EU:</b> Philippine Rural Institutional Strengthening Project</p>

#### 4. Promote Sustainable Urban Development and Combat Urban Poverty

*The Philippines is one of the fastest urbanizing countries in the world but the quality of urban life and services keeps falling. There is a need to develop and implement a national urban development agenda to address the challenges of enabling higher urban productivity, providing urban services, in particular to the poor, and responding to the threats to environmental health in urban areas.*

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p><b>In urban sector, with Local Government Code (1991) on decentralization, capacities of LGUs for urban services provision and environmental management remain weak</b></p> <p>Weak inter-jurisdictional coordination in delivery of urban services</p> <p>Low private sector participation in provision of urban services</p>	<p>Combat urban poverty</p> <p>Increase affordable housing</p> <p>Assure safe and reliable water supply and improve sanitation</p> <p>Improve urban governance</p> <p>Promote competitive environment for private participation in urban infrastructure</p>	<ul style="list-style-type: none"> <li>• Improve coverage and efficiency of urban service delivery, especially water supply and sanitation</li> <li>• Housing (see 1 above)</li> <li>• Policy regulations and institutional reforms to improve urban management</li> <li>• Establish framework for regulation of water utilities</li> <li>• Implement framework for private sector participation in service delivery</li> <li>• Train urban officials and develop LGUs' capacity</li> <li>• Strengthen urban planning</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in affordable housing</li> <li>• 90% of LGU residents receive safe drinking water, at least 16 hrs per day by 2020</li> <li>• 90% of urban population has access to safe drinking water by 2020</li> <li>• 80% of waste water collected and treated in 20 largest cities outside Manila by 2020</li> <li>• Enhanced private sector participation in 20 water utilities by 2002</li> <li>• Prepare 20 city development strategies for cities by year 2003</li> </ul>	<ul style="list-style-type: none"> <li>• LGU Urban Water Supply Program (APL)</li> <li>• Local Government Finance and Development Project (LOGOFIND)</li> <li>• Solid Waste Ecological Enhancement Project (SWEEP) - APL</li> <li>• Cavite-Laguna Urban Development and Environmental Management (CALA)</li> <li>• City Development Program</li> <li>• National Urban Partnership</li> <li>• City Development Strategy Initiative</li> <li>• LWUA Restructuring</li> </ul> <p><b>IFC:</b> Loan/equity financing/resource mobilization for private projects in urban infrastructure</p> <p><b>WBI:</b> Conference on Municipal Management &amp; Governance</p>	<p>Targets for Water Supply/Sanitation (by 2007):</p> <ul style="list-style-type: none"> <li>• LGUUWS Program replicated through ODA funding</li> <li>• &gt;25% of sector inv. from private sector</li> <li>• Subsidies eliminated for level 3 (housing connection) systems</li> <li>• 50% of water utilities participating in WB project have private sector participation</li> </ul> <p>• Implementation of sanitation/solid waste management programs in 4 urban centers by 2002</p> <p>• Launch city development initiative</p>	<p><b>ADB:</b> TA to NEDA to develop a 5-year plan for the water sector</p> <p><b>USAID:</b> GOLD program of training and capacity building to 10 LGUs; BOT program to expand private participation in LGU infrastructure and services</p> <p><b>Other donors:</b> Complimentary activities financed by other donors including Japan/OECF, Belgium, KFW, AusAID, UNFPA, UNIDO, EU</p>

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p><b>Environmental damage in cities</b> and towns caused by inappropriate urban infrastructure development; continuing environmental neglect of specific geographic areas of concern</p> <p>Government has limited ability to mobilize financial and human resources for <b>environmental protection</b></p>	<ul style="list-style-type: none"> <li>• Integrate environmental objectives into urban and transport sector</li> <li>• Improve environmental compliance</li> <li>• Support efforts to decentralize environmental management to LGUs</li> <li>• Increase private sector participation in environmental restoration and clean-up</li> </ul>	<ul style="list-style-type: none"> <li>• Complement ADB project on vehicular air pollution</li> <li>• Pilot testing of model remediation program for Laguna Lake, including clean up monitoring, and compliance enforcement.</li> <li>• Strengthen environmental management capacity of LGUs and key national agencies</li> <li>• Scale up successful community/NGO pilot initiatives in design, operation and maintenance of facilities</li> <li>• Private sector initiatives in self-regulation and monitoring, including adopting ISO 14000 standards and participation in EcoWatch</li> </ul>	<ul style="list-style-type: none"> <li>• LLDA upgraded to watershed authority</li> <li>• Completion of study</li> <li>• Number of NGO-LGU partnership</li> <li>• 50% more firms comply with pollution control norms by 2002</li> </ul>	<ul style="list-style-type: none"> <li>• Components of SWEEP; MSSP; LGUWSP; and LOGOFIND projects</li> <li>• Metro Manila Urban Transport Integration Project</li> <li>• City Development Program</li> <li>• Annual monitoring of environmental trends</li> <li>• Lake Laguna Environmental Management Project</li> <li>• TA for environmental Advisory Services</li> <li>• Components of ongoing and planned projects</li> <li>• <b>WBI:</b> Workshops, dissemination services</li> </ul>	<ul style="list-style-type: none"> <li>• As per project performance indicators (being developed)</li> </ul>	<p><b>ADB Project on Air Pollution</b></p> <p><b>USAID:</b> works with industry associations to address management of land-based industrial pollution through self-regulation and monitoring</p> <p>Activities of many <b>other donors</b> on urban and rural environmental issues</p>



## 5. Develop Infrastructure, Particularly in the Provinces

*Development of infrastructure is essential to support stronger growth. In the power sector, priority actions include restructuring, privatization and policy reforms and rural electrification. In the transport sector, the reform agenda includes increased commercialization and private sector participation; policy and institutional improvements and investments in national and provincial roads.*

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<b>National Power Corporation (NPC)</b> in precarious financial position, responsible for significant share of country's foreign debt; assumes high risk and huge commitments in BOT projects	Strengthen NPC's finances and reduce the Government's financial and risk exposure to the power sector	<ul style="list-style-type: none"> <li>Restructure NPC, strengthen regulation and privatize the unbundled companies within a competitive and transparent framework</li> </ul>	<ul style="list-style-type: none"> <li>Tariff adjustment for NPC to achieve financial targets</li> <li>Establishment of transmission company and generation companies and subsequent privatization</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing Transmission Grid Reinforcement Project (1996-2000)</li> <li>Ongoing Leyte-Cebu and Leyte-Luzon Geothermal Projects and Leyte-Luzon GEF Grant (1994/95-99)</li> <li>IFC: Equity/debt financing of private power projects</li> </ul>	<ul style="list-style-type: none"> <li>Project performance indicators and rating, including compliance with covenants on NPC restructuring and NPC's finances (e.g. debt service coverage &gt; 1.0)</li> <li>Operation of National Load Dispatch Center</li> </ul>	<p><b>ADB/JEXIM:</b> Power Sector Restructuring Program Loan (PSRP)</p> <p><b>ADB:</b> Second Leyte-Cebu transmission link and proposed Leyte-Mindanao link</p>
Performance of most <b>rural electric cooperatives (RECs)</b> unsatisfactory; tariffs among the highest in the region  <b>Electrification in rural areas</b> less than 65%.	Make RECs more efficient  Increase electrification in rural areas to 90% by 2004	<ul style="list-style-type: none"> <li>Rationalize and strengthen the distribution sector</li> <li>Encourage public/private initiatives for off-grid electrification</li> </ul>	<ul style="list-style-type: none"> <li>Institutional reforms and consolidation of RECs</li> <li>Divestment of NPC's sub-transmission assets to RECs</li> <li>Higher rural electrification ratio</li> </ul>	<ul style="list-style-type: none"> <li>Possible lending for rural electrification</li> <li>Non-lending assistance with emphasis on the promotion of renewable energy technologies</li> <li>IFC: Help power distribution companies restructure through equity and loan financing, resource mobilization, TA</li> </ul>	<ul style="list-style-type: none"> <li>Electrification status of about 5,000 barangays which are foreseen for off-grid electrification</li> </ul>	<p><b>ADB:</b> Proposed Remote Area Electrification, and Distribution Sector Consolidation</p> <p><b>OECD:</b> Ongoing Rehabilitation Project of RECs (1994-2001)</p> <p><b>USAID/NREL:</b> Identification of renewable energy applications. Various pilot projects by other bilateral donors</p>
<b>Policy-related deficiencies</b>	Introduce competition, unbundle & rationalize tariffs and promote a public-private partnership sector	<ul style="list-style-type: none"> <li>Set the overall legislative and regulatory framework</li> </ul>	<ul style="list-style-type: none"> <li>Enactment of Omnibus Power Bill or similar enabling legislation</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing policy dialogue</li> <li>Possible support after enactment of legislation</li> </ul>	<ul style="list-style-type: none"> <li>Development of legislation and implementation rules and regulations</li> </ul>	<p><b>ADB/JEXIM:</b> PSRP promotes reform policy</p> <p><b>USAID:</b> TA for formulation of implementing rules and regulations</p>

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p>Transport bottlenecks persist, despite government support during 93-98 MTDP</p> <p>Road network, adequate in size, is of poor quality and inadequately maintained.</p> <p>Marine transport suffers from lack of commercialization.</p> <p>Modest rail network in Luzon is bankrupt and deteriorating</p> <p>Inadequate capacity to plan &amp; monitor sector at multi-modal level and technically weak line ministries</p> <p>Lack of framework for decentralization of non-federal roads</p> <p>Metro Manila suffers from severe traffic congestion and related environmental problems</p>	<p>Create integrated multimodal transport system that is safe, convenient, fast, reliable, energy efficient, ecologically sound and competitively priced:</p> <ul style="list-style-type: none"> <li>• Reduced Government intervention</li> <li>• Increased commercialization and private sector participation</li> <li>• Clear distinction between policy making, regulation and operations</li> <li>• Develop policy framework to support decentralization of responsibility for non-federal roads</li> </ul> <p><b>Manila:</b></p> <ul style="list-style-type: none"> <li>• Strengthen metropolitan governance</li> <li>• Improve effectiveness of public transport systems</li> <li>• Promote sustainable strategy for future commuter rail</li> </ul>	<p><u>Long term:</u> re-evaluate organizational structure of sector to improve intermodal integration and achieve stated strategic objectives</p> <p><u>Medium term:</u> (2002)</p> <ul style="list-style-type: none"> <li>• Institutional reforms, process re-engineering of DPWH</li> <li>• Completion of national road network to all weather standards, greater maintenance</li> <li>• Commercialization/ decentralization of ports/shipping network</li> <li>• Privatize PNR to revitalize rail network &amp; integrate PNR and Light Rail Transit operations</li> </ul> <p><b>Manila:</b></p> <ul style="list-style-type: none"> <li>• Strengthen management functions in MMDA</li> <li>• Introduce TSM</li> <li>• Improve secondary road network, access to growing outer areas</li> </ul>	<ul style="list-style-type: none"> <li>• Adoption and implementation of RIMSS on DPWH Institutional reforms</li> <li>• Completion of BRP study and adoption of recommendation on road sector institutional set-up and funding mechanism</li> <li>• Provision of adequate budget to sustain road network improvements/ maintenance</li> <li>• 65% of national secondary roads paved by 2004 (45% in 1998)</li> <li>• Undertaking analysis to commercialize/ privatize water and rail networks</li> <li>• Improve transit capacity and modal integration in Manila</li> <li>• Improved traffic signal systems installed in 400 Metro Manila intersections by 2004</li> <li>• 4 BOT expressway projects undertaken in Metro Manila by 2004</li> </ul>	<ul style="list-style-type: none"> <li>• National Roads Improvement and Management Project (APL) to improve effectiveness and management of national road system</li> <li>• Urban Land Management and Transport Project in Cavite-Laguna to promote integration of land and transport development</li> <li>• Local roads study</li> <li>• Advisory services to develop framework for decentralization of responsibility for non-federal roads</li> <li>• Metro Manila Urban Transport Integration Project to improve integration and management of Metro-Manila transport system</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable framework for national road maintenance established</li> <li>• Improved transport management practices for modal integration in Metro Manila</li> <li>• 20% reduction in vehicle operating costs on national road system by 2004</li> <li>• 124 kms of national roads upgraded by 2004</li> </ul>	<p><b>ADB:</b> major actor in Philippines Transport through financing of investment projects, and TA activities</p> <p><b>OECF:</b> major donor for infrastructure projects</p> <p><b>Other bilaterals:</b> involved in providing TA. (e.g. US Trade Office for PNR restructuring) and project finance</p> <p>Enhanced donor coordination at start of the next MTDP highly recommended</p>

## 6. Enable Expansion of the Private Sector

*Enabling an expansion of the private sector will be crucial to generating stronger growth and jobs for the growing labor force.*

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p><b>Need for Corporate Restructuring &amp; Governance Reform</b></p> <p>Ineffective competition policy has heightened barriers to entry and limits competition</p>	<p>Promote competition and entry of new firms.</p> <p>Ensure financial health of corporate sector.</p> <p>Promote transparency through improved financial reporting.</p>	<ul style="list-style-type: none"> <li>Assess health of corporate sector</li> <li>Establish modern competition law and central competition agency</li> <li>Promote corporate debt restructuring of weak enterprises</li> <li>Rehabilitate or liquidate distressed firms</li> <li>Improve accounting standards and financial reporting practices</li> <li>Revise bankruptcy law</li> </ul>	<ul style="list-style-type: none"> <li>New Competition Law</li> <li>New entrants in stock exchange</li> <li>Reliable financial reporting system for listed enterprises</li> <li>Better bankruptcy legislation and functioning of SEC</li> <li>Increased domestic competition</li> </ul>	<ul style="list-style-type: none"> <li>Corporate survey</li> <li>TA for modern competition law</li> <li>TA to strengthen SEC</li> <li>TA for corporate restructuring</li> <li>Financial accountability assessments</li> <li><b>WBI:</b> Conference on financial markets and corporate governance</li> </ul> <p><b>IFC:</b> Corporate restructuring of portfolio companies, restructuring funds, lines of credit</p>	<ul style="list-style-type: none"> <li>Implementation of technical assistance program</li> <li>Preparation of new bankruptcy laws</li> </ul> <p><b>IFC:</b> Successful restructuring of the corporate portfolio</p>	<p>Technical assistance support through <b>European and Japanese</b> grant funding</p> <p><b>ADB, USAID, UNDP, Australia, Canada:</b> Programs for effective governance.</p>
<p>SMEs face particular hurdle in accessing finance</p>	<p>Alleviate credit constraints in sectors most affected by credit crunch (SMEs and rural areas), to allow them to play an effective role in balanced socio-economic development</p>	<ul style="list-style-type: none"> <li>Provide credit to viable rural and microenterprises, and promote stronger financial intermediation</li> <li>Provide credit to viable small and medium scale enterprises</li> </ul>	<ul style="list-style-type: none"> <li>Restore formal SME credit to pre-crisis level by the year 2000 and 5% increase thereafter</li> </ul>	<ul style="list-style-type: none"> <li>Third Rural Finance Project</li> <li>Private Enterprise Credit Support Project</li> <li><b>IFC:</b> Focusing on rural areas and agribusiness activities through direct lending, credit lines and equity investments to SMEs, and establishing a microfinance institution.</li> </ul>	<ul style="list-style-type: none"> <li>Credit lines disbursed as scheduled.</li> <li>Credit-worthy SMEs can borrow at market terms</li> <li>Strengthened capacity of LBP to finance private sector investments</li> </ul>	<p><b>USAID:</b> support for microfinance regulatory framework</p> <p><b>ADB/IFAD:</b> Joint microfinance project</p> <p>Activities by <b>ILO, Australia, Canada, Germany</b></p>

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p><b>PPI:</b> Significant need for private investment, but scarcity of foreign investors in wake of financial crisis. Key issue is how to finance costs of infrastructure, especially public utilities, in an environment where costs have risen dramatically and pressure on government to keep tariff levels down; and <b>private financing sources</b> have virtually dried-up</p>	<p>Improve physical and productive infrastructure</p> <p>Expand private sector participation beyond the power sector</p> <p>Develop the capacity of local governments for transparent private sector transactions</p> <p>Accelerate appropriate sharing and partnerships between LGUs, private sector and government</p>	<ul style="list-style-type: none"> <li>• Structure transactions that are more responsive to the real opportunities and fiscal constraints of GOP</li> <li>• Build capacity to evaluate and price guarantees and manage assumption of contingent liabilities</li> <li>• Strengthen capacity of line agencies to identify/promote/negotiate PPI projects, and local govt. units to manage PPI process</li> <li>• Focus on privatization of existing assets versus greenfield investments</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in number and amount of PPI transactions</li> <li>• Sectoral diversification and geographical dispersion of PPI initiatives</li> <li>• Clear framework for soliciting PPI, utilizing guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Country framework study for strengthening a PPI agenda for the near-term</li> <li>• Use partial risk and credit guarantees to assist in financing specific projects</li> <li>• TA for privatization of infrastructure assets</li> <li>• <b>WBI:</b> Course on private financing of infrastructure</li> <li>• <b>IFC:</b> Loans, equity, and resource mobilization, for private projects; guarantees</li> <li>• <b>MIGA:</b> Guarantees for foreign investors/lenders for private projects</li> </ul>	<ul style="list-style-type: none"> <li>• New PPI strategy</li> <li>• Pipeline of new infrastructure investments which could utilize Bank's partial risk and credit guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• <b>USAID:</b> Ongoing BOT program to expand private participation in infrastructure at the LGU level</li> <li>• <b>Japan PHRD</b> grant assistance</li> <li>• Various TA programs through <b>bilateral and multilateral</b> sources</li> </ul>
<p><b>Investor confidence</b> damaged by regional crisis:</p> <p>Continuing <b>institutional and regulatory weakness</b> for <b>FDI</b> promotion and ecozone development</p>	<p>Clarify entry points, streamline FDI incentive systems, and to strengthen BOI promotion capacity.</p>	<ul style="list-style-type: none"> <li>• Strengthen policy and institutional framework for FDI: strengthen BOI, consolidate investment promotion schemes and institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Restore FDI to pre-crisis level by 2000; achieve 5% increase p.a. thereafter</li> <li>• Increase in factor productivity in industrial sector</li> <li>• Investment incentive regime streamlined</li> </ul>	<ul style="list-style-type: none"> <li>• <b>MIGA:</b> Guarantees for foreign financial institutions entering the local market or expanding existing activities</li> <li>• <b>FIAS:</b> FDI promotion activities</li> </ul>		

## 7. Improve Governance and Combat Corruption

*The MTPDP calls for improving the system for economic and political governance to create a more effective partnership between the national and local governments, restore transparency in government and business transactions and enhance the peace and order situation. The CAS will support the agenda for improving economic governance through the activities discussed below.*

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
<p>Philippines business community has ranked <b>graft and corruption</b> as the second highest problem facing the new administration</p> <p>Poor suffer most from inefficiencies/ corruption in provision of public services</p> <p>Triggered by the financial crisis, <b>corporate governance</b> and restructuring has become a high priority issue</p>	<p>Eliminate graft and corruption in collaboration with civil society stakeholders and international initiatives through four-pronged approach:</p> <ul style="list-style-type: none"> <li>• Prevent fraud and corruption in Bank-financed projects</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen financial mgmt systems, including at LGU level</li> <li>• Simplify and accelerate payment procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Transparency International ratings on perception of corruption show improvement</li> <li>• Allegations of fraud and corruption in Bank-financed projects are rigorously pursued</li> </ul>	<ul style="list-style-type: none"> <li>• Bank-financed projects implemented in accordance with procurement guidelines</li> <li>• TA to strengthen procurement, financial management and internal controls of agencies implementing WB-financed projects</li> <li>• Rigorous review of works and goods financed</li> <li>• Public Disclosure and information dissemination through PIC and website</li> </ul>	<ul style="list-style-type: none"> <li>• Low tolerance for misprocurement in Bank-financed projects</li> <li>• Timely submission and satisfactory audits for Bank projects prepared in accordance with the Bank's Audit Manual</li> </ul>	<p><b>USAID:</b> Active in governance issues through strengthening of LGUs and civil society organizations for broadened participation in the formulation and implementation of public policies in selected areas</p> <p>Other activities related to governance and capacity building by <b>ADB, UNDP, Australia, Canada, UNIDO, ILO, FAO</b></p>

Diagnostic	Strategic Objectives	Strategies	Country Performance Indicators	World Bank Group Instruments	World Bank Group Self-Evaluation Indicators	Major Related Activities of Other Donors
	<ul style="list-style-type: none"> <li>• Undertake structural reforms to increase transparency and competition;</li> <li>• Eliminate graft and corruption in specific public sector institutions; and</li> <li>• Collaborate with donors and civil society.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue policy reforms for greater competition and transparency</li> <li>• Accelerate civil service reform</li> <li>• Reform budget process</li> <li>• Simplify tax and customs policies/ procedures</li> <li>• Reforms in financial and corporate sector (see above)</li> <li>• Strengthen agencies responsible for prevention, detection, investigation, prosecution of graft/corruption</li> <li>• Implement anti-corruption programs in specific agencies, including BIR &amp; Customs Bureau</li> <li>• Undertake judicial reforms</li> <li>• Coordinate donors' anti-graft &amp; corruption &amp; good governance programs</li> <li>• Involve civil society in monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• New competition law</li> <li>• Reliable financial reporting system</li> <li>• Streamlining bureaucracy bill implemented</li> <li>• Improve transparency in land titling</li> <li>• Action program for specific agencies and implemented according to schedule</li> </ul>	<ul style="list-style-type: none"> <li>• TA on corporate governance</li> <li>• PSRL</li> <li>• Workshops with policy makers</li> <li>• Land Administration &amp; Management LIL</li> <li>• IFC: Advice on privatization of postal service, land registry agency, ports and airports</li> <li>• TA for anti-graft and corruption efforts</li> <li>• PSRL</li> <li>• Development of training and TA program to prevent/detect fraud and corruption</li> <li>• Potential support for judicial reforms</li> <li>• Consultation with NGO/Donor/Business and Civil Society on governance and transparency of project implementation</li> <li>• Client feedback survey program</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of TA</li> <li>• Implementation of agreed reform in financial corporate and public sector</li> <li>• CG working group set-up on governance</li> </ul>	

## Philippines: CAS Summary of Development Priorities

<i>Network area</i>	<i>Country performance<sup>a</sup></i>	<i>Major issue<sup>b</sup></i>	<i>Country priority<sup>c</sup></i>	<i>Bank priority<sup>c</sup></i>	<i>Reconciliation of country and Bank priorities<sup>d</sup></i>
<b>Poverty Reduction &amp; Economic Management</b>					
• Poverty reduction	Good	Rural poverty, increasing inequality	High	High	-
• Economic policy	Good	Structural reforms, sustainability of public finance	High	High	-
• Public sector	Fair	Governance, decentralization	High	High	-
• Gender	Good	High maternal Mortality	Moderate	Moderate	-
<b>Human Development Department</b>					
• Education	Good	Dropout rates, quality, regional disparities	High	High	-
• Health, nutrition & population	Poor	Disparities in health status, poor services	Moderate	Low	Discussion ongoing to improve performance
• Social protection	Fair	Lack of adequate safety nets	Moderate	Moderate	-
<b>Environmentally &amp; Socially Sustainable Development</b>					
• Rural development	Poor	Poor performance, high poverty	High	High	-
• Environment	Poor	Natural resource degradation, water pollution	Moderate	High	Ongoing dialogue
• Social development	Fair	Participation	Moderate	Moderate	-
<b>Finance, Private Sector &amp; Infrastructure</b>					
• Financial sector	Fair	Strengthen banking system, mobilize savings	High	High	-
• Private sector	Good	Corporate governance and competitiveness	Moderate	Moderate	-
• Energy & mining	Poor	NPC's precarious finances, low electrification ratio, inefficient power distribution	High	Low	ADB taking lead in sectoral reforms
• Infrastructure	Fair	Poor quality and condition of road network	High	High	-

a. Use "excellent," "good," "fair," or "poor."

b. Indicate principal country-specific problems (e.g., for poverty reduction, "rural poverty;" for education, "female secondary completion;" for environment, "urban air pollution").

c. To indicate priority, use "low," "moderate," or "high."

d. Give explanation, if priorities do not agree; for example, another MDB may have the lead on the issue, or there may be ongoing dialogue.

## Philippines: Poverty Update<sup>1</sup>

1. The Philippines was less successful than its faster growing neighbors in reducing poverty during the decades prior to the current crisis, but the initial impact on the poor of the current slowdown appears to have been less adverse than in neighboring countries. This chapter reviews trends in poverty and inequality prior to the slowdown, assesses the impact of the slowdown on the poor (to the extent possible with available information), and outlines the priorities for social protection to deal with the possibility of greater hardship to come. A more extensive assessment of the impact of the crisis on the poor is planned once the results of the just completed 1998 household survey become available.

### A. PROGRESS TILL 1997: DECLINING POVERTY BUT URBAN BIASED

2. The proportion of households living below the poverty line declined during the 1990s. This ratio fell from 40% in 1991 to 32% in 1997 (Table C-1). A similar trend is evident in the proportion of the population below the poverty line.

**Table C-1. Indicators of Poverty Incidence**

Indicator	<i>Total</i>			<i>Urban</i>			<i>Rural</i>		
	1991	1994	1997	1991	1994	1997	1991	1994	1997
% of Families	39.9	35.5	32.1	31.1	24.0	18.5	48.6	47.0	44.4
% of population	45.3	40.6	37.5	35.6	28.0	22.5	55.1	53.1	51.2

*Source:* Family Income and Expenditure Surveys, 1991, 1994, 1997. Data for 1997 are preliminary.

3. Most of this decline was in the urban areas, where the ratio of poor people in the population declined sharply from 35.6% in 1991 to 22.5%. In rural areas, there was only a small decline. Indeed, while there was an absolute decline in the number of people living in poverty in urban areas, particularly outside Manila—from 11 million in 1991 to 7.8 million in 1997, the number of poor people in rural areas increased (Table C-2).

**Table C-2. Number of Poor People (million)**

Region	<i>Total</i>			<i>Urban</i>			<i>Rural</i>		
	1991	1994	1997	1991	1994	1997	1991	1994	1997
Philippines	28.1	27.3	27.3	11.0	9.4	7.8	17.1	17.9	19.5
NCR	1.4	1.0	1.0	1.4	1.0	1.0			
AONCR	26.7	26.3	26.3	9.6	8.4	6.8	17.1	17.9	19.5

*Source:* As in Table C-1.

<sup>1</sup> *Philippines: The Challenge of Economic Recovery*, Report No. 18895-PH, World Bank, February 1999



4. How does this pattern of poverty reduction compare with that of other countries in the region? Table C-3 provides an international comparison for the decade 1985-95. In order to eliminate differences in measurement that occur because countries define poverty lines differently, a uniform poverty line of \$1 per capita per day has been applied to expenditure data for all the countries listed in this table. As can be seen, poverty reduction in Philippines has been impressive, but less so than many of the other countries in the region, primarily reflecting lower growth in the Philippines. This is particularly evident in the first two columns: every country in the region except the Philippines managed to reduce the absolute number of people living in poverty. The data in Table C-3 suggest that the number of poor began to decline in the 1990s, but this reduction was limited to the urban areas.

**Table C-3. Poverty in East Asia, Summary Statistics: 1975-95**

	Number of people in poverty (million)			Head-count index (percent)			Poverty gap (percent)		
	1975	1985	1995	1975	1985	1995	1975	1985	1995
East Asia <sup>a</sup>	716.8	524.2	345.7	57.6	37.3	21.2	n.a.	10.9	6.4
East Asia (exc. China)	147.9	125.9	76.4	51.4	35.6	18.2	n.a.	11.1	4.6
Malaysia	2.1	1.7	0.9	17.4	10.8	4.3	5.4	2.5	<1.0
Thailand	3.4	5.1	<0.5	8.1	10.0	<1.0	1.2	1.5	<1.0
Indonesia	87.2	52.8	21.9	64.3	32.2	11.4	23.7	8.5	1.7
China	568.9 <sup>b</sup>	398.3	269.3	59.5 <sup>b</sup>	37.9	22.2	n.a.	10.9	7.0
Philippines	15.4	17.7	17.6	35.7	32.4	25.5	10.6	9.2	6.5
Papua New Guinea	n.a.	0.5	1.0 <sup>c</sup>	n.a.	15.7	21.7 <sup>c</sup>	n.a.	3.7	5.6 <sup>c</sup>
Lao PDR <sup>d</sup>	n.a.	2.2	2.0	n.a.	61.1	41.4	n.a.	18.0	9.5
Vietnam	n.a.	44.3 <sup>e</sup>	31.3	n.a.	74.0 <sup>e</sup>	42.2	n.a.	28.0	11.9
Mongolia	n.a.	1.6	1.9	n.a.	85.0	81.4	n.a.	42.5	38.6

n.a.: not available.

Notes: All numbers in this table (except for Lao's People's Democratic Republic) are based on the international poverty line of US\$1-a day per person at 1985 prices.

a. Includes only those countries presented in the table.

b. Data relates to 1978 and applies to rural China only (World Bank 1996d).

c. Data relates to 1996.

d. Available data on PPP exchange rates and a various price deflators for Lao People's Democratic Republic (LAO PDR) are not very reliable and lead to anomalous results. The poverty numbers for Lao PDR in this table are based on a national poverty line which is based on the level of food consumption that yields an energy level of 2,100 calories per person per day and a non-food component equivalent to the value of non-food spending by households which are just capable of meeting their food requirements. The US\$1-a-day poverty line is based on characteristic poverty lines in low income countries that have comparable basis in food and non-food consumption needs; the poverty numbers for Lao PDR are, therefore not strictly comparable to those for other countries.

e. The figures refer to 1984. "Household Welfare in Vietnam's transition" in Macroeconomic Reform and Poverty Reduction, edited by D. Dollar, J. Litvack, and P. Glewwe. World Bank Regional and Sectoral Study, 1998.

Source: Everyone's Miracle?, World Bank, 1997.

### Increased Income Inequality

5. The mid-1990s witnessed a significant increase in income inequality with the gini coefficient increasing from 0.45 to 0.5 in three years (Table C-5). There are several factors underlying this increase. First, the data indicate that only the top decile increased its share of total income and the first to ninth deciles lost income shares. In other words, the incomes of the richest ten percent of the population grew faster than the incomes of the rest of the population. Second, "core" poverty in rural areas appear to have been largely untouched. Six rural regions of

the country accounted for about 60% of rural poverty in 1991, and had poverty incidence ratios well above the national average, i.e., in the range of 50% to 60%. Except for S. Tagalog (which has developed strong links to Manila), these regions have seen little or no improvement in the incidence of poverty (Table C-4). In one case, there has been a reversal of the improvement achieved during 1991-94.

**Table C-4. Persistent Poverty in Certain Rural Regions**

<i>Region</i>	Percentage of Poor		
	<i>1991</i>	<i>1994</i>	<i>1997</i>
S. Tagalog	52.5	46.9	42.1
Bicol	60.0	66.9	63.0
W. Visayas	60.3	58.8	57.4
C. Visayas	58.3	43.9	53.6
N. Mindanao	64.3	62.0	61.9
S. Mindanao	55.9	57.0	52.1

*Source* : As in Table C-1

6. Third, urban-rural differences in standard of living have widened (Table C-5). In the past, location, i.e. whether a person was living in urban or rural areas, did not contribute significantly to overall inequality (Balisacan 1997)—this factor accounted for about 20% of total inequality. A more important factor was the level of educational attainment, which accounted for about a third of inequality. But the sharp increase in the ratio of average family income in urban areas to that of rural areas suggests that at least between 1994-97, the increase in the gini coefficient may be attributable to the increase in rural/urban income inequality, although this needs to be verified with further analysis. Thus while industrialization and urbanization may well have contributed to a decline in poverty, they may also have contributed to increased inequality.

**Table C-5. Indicators of Income Inequality**

<i>Indicator</i>	<i>1988</i>	<i>1991</i>	<i>1994</i>	<i>1997</i>
Ratio of Average Urban to Rural Income	2.1	2.2	2.1	2.44
Gini coefficient of income	0.44	0.47	0.45	0.50

*Source* : As in Table C-1

### **Social Indicators: Some Progress**

7. The Philippines achieved near universal primary education enrollment by 1970 and by 1995, the net secondary enrollment rate had increased to 62.3% from less than 50% in 1980. Infant mortality is currently about 35 per 1,000 live births; the under-5 mortality rate in 1995 was 67. Educational achievements at the secondary and tertiary level are second only to Korea, although there is evidence that the quality of education has declined—only two thirds of Filipino children who enter first grade complete the entire elementary cycle, compared to 97% of Korean children. The national average, furthermore, masks wide variations between urban and rural

areas: completion rates range from nearly 87% in Manila (in 1995) to barely 30% in the poorest provinces. Child health indicators are ahead of Indonesia, but behind those achieved in Thailand and Malaysia. In particular, there are large provincial differences in health status, and a resurgence of some serious diseases, notably tuberculosis.

### **B. THE ECONOMIC CRISIS: RELATIVELY LITTLE IMPACT SO FAR**

8. The recent slowdown in economic activity and uncertain prospects for robust recovery indicate that the relatively favorable poverty trends in the nineties could be adversely affected. However, several factors have combined to limit the initial damage. First, private consumption held up strongly through much of 1998, with per capita consumption growing by 1.3%. In the absence of household expenditure survey data, it is impossible to say whether the growth in consumption reflects on the welfare of the poor or the better-off. But households tended to protect expenditure on basic necessities and forego spending on durable and luxury related expenditures. This would suggest that expenditure cuts were proportionately larger among the middle-class and wealthy, whereas the poor and near-poor were better able to maintain basic expenditure. Continued growth of worker remittances may have helped to maintain such consumption. Finally, while the sharp fall in agricultural output in the first half of 1998 and typhoon related damage in the fourth quarter have hurt the rural poor, agricultural recovery to a more normal year in 1999 would be ameliorative.

#### **But Signs of Hard Times Ahead?**

9. Nevertheless, the crisis may have a stronger impact over time. While the rains have come in abundance now, a prolonged rainy season could adversely impact crops in parts of the country. And a sustained recovery in non-agricultural GDP is not assured: data through end-1998 point to continued weakness in the industrial sector including manufacturing and construction. As manufacturing output declined in the second quarter, the expansion of non-farm employment came to a stop; in the third quarter it actually declined. And the rate of open unemployment increased to 10.1% in 1998, from 8.7% a year earlier. The annual round of wage adjustment implemented in February 1998 remained moderate, and, as it turned out, below inflation. The real minimum wage therefore adjusted to the deteriorating labor market situation, and labor absorbed downward adjustments in real income. Informal sector real wages are therefore also likely to have declined. (These adjustments however followed significant real wage increases in 1997.)

10. While one cannot be precise about the intensity with which these factors will play out, it would be prudent to prepare for the contingency of further deterioration in their impact on the poor. In the Philippines, as in other countries of the region, a large number of people are living just above the poverty line—the so-called near-poor. It would take a relatively small decline in their income to push them into poverty.

### **C. A STRATEGY FOR SOCIAL PROTECTION**

11. How best to prepare for the possibility of greater hardship in the coming year? Perhaps the most distressing part of the experience of other countries in the region, which have by now experienced a year or more of severe recession, is that they were caught off-guard, both in terms

of not knowing who was affected most, and in terms of not having suitable safety net programs on the shelf. In the event, Thailand, Indonesia and Korea hurriedly put in place programs of social protection and safety nets which included existing programs extended to cover the vulnerable population, and, a few new programs. The Philippines can take advantage of the experience of these countries by identifying those policies and programs that are likely to be most effective from its existing portfolio, and plan to expand them as needed.

12. Needless to say, the Department of Social Welfare and Development (DSWD) including the Comprehensive and Integrated Delivery of Social Services (CIDSS) should form the front-line to shield the most vulnerable groups from social hardship. The most disadvantaged groups such as poor women, the elderly without support, abandoned children and adults who are unable to work are DSWD's primary targets and will continue to need assistance. But there would be a new group of poor as a result of an intensified crisis, i.e. people who have become newly disadvantaged. Further, there are other instruments as well such as food policies and human capital spending that need to be considered as indicated below. In terms of monitoring the situation, the just-completed Annual Poverty Indicators Survey (APIS) should provide the Government with critical information.

13. What are the broad principles which might guide the selection of social protection programs and policies? Before discussing these issues, it may be useful to address the extent to which private transfers can provide an adequate safety net in the Philippines. Foreign and domestic transfers together account for about 10% of household income. However, international transfers tend to accrue to the upper income deciles, and to the urban and more developed areas (with the exception of Ilocos, a poor region).<sup>2</sup> If the economic crisis results in higher unemployment and lower real wages of the better-off, then international remittances can indeed be expected to provide a cushion, as they already have. Domestic transfers on the other hand, are more biased towards the poor. Research conducted on data from other countries however indicates that in times of widespread economic slowdown, private domestic transfers tend to shrink as all segments of the population, including the providers, are affected.

### **Improving Food Price Affordability for the Poor**

14. A participatory study on the socioeconomic impact of the financial crisis as of February 1998 found that in many localities people were facing much higher prices for food long before this could be detected in official statistics (reflecting the early impact of El Niño). It is therefore important to monitor the food situation carefully, in view of the of La Niña's potential impact. The poor spend a larger portion of their income on food than do the non-poor. The bottom 25% of the population spends, for example, 21% of its income on rice and another 8% on corn and other cereals. The top 25% of the population spends only 5% of its income on rice and 3% on corn and other cereals. In relative terms, therefore, a given increase in the price of basic foods, particularly rice, would reduce the real income of the poor more in percentage terms. The groups that are likely to be most affected by sharp increases in the price of food are the urban poor and near-poor, and, the asset-less poor in rural areas, i.e. landless laborers, fishermen and forestry workers in rural areas.

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<sup>2</sup> Based on 1991 data. See World Bank (1996), Philippines: A Strategy to Fight Poverty.

15. In the long-term, the interests of the poor would be best served through a system of liberalized rice imports—i.e., replacement of the quantitative restriction on rice with a moderate tariff, coupled with adequate government stockpiling and effective targeting towards the poor. This is the case since domestic rice prices have historically been significantly higher than international prices.

16. It is however recognized that shifting to such a policy may not be feasible immediately—more work may be needed on alleviating transition costs. In the short term, therefore, the primary food policy instrument in the Philippines remains the price stabilization carried out by the National Food Authority (NFA). By selling rice at lower-than-market price, the NFA is expected to moderate domestic price increases. During 1998, the NFA succeeded in moderating the increase in rice prices caused by El Niño through the distribution of large imports (1.6 million tons). If the financial crisis intensifies, and concurrently, the impact of La Niña is severe, it may become necessary not only to import and distribute more rice than normal, but also to target the rice to the poor, including those who have newly become poor. Geographical targeting, income-based targeting of food coupons, as well as targeting by subsidizing the lower qualities of rice, are all options to be considered. Administering a more targeted food distribution system to replace the current costly and poorly targeted system, however, requires an enhanced ability to identify the poor and their location.

#### **Maintaining Purchasing Power of Poor Households**

17. Labor intensive public works programs can create productive assets and transfer income to the poor if designed well. Many of the countries in crisis today are implementing employment programs as a safety net measure. The Philippines has more than two decades of experience with labor-based works programs, including the Community Employment and Development Program which operated during 1986-87, the Kabuhayan 2000, and more recently, several employment programs of the DSWD. But there is little evaluation of this experience in terms of cost effectiveness and whether they actually reach the poor. For employment programs to work as a safety net, the wage rate should be set below the market rate so that workers are not attracted out of other productive activities. They should have a high labor content and be situated in areas experiencing stress. The last issue, i.e. location of the programs will be quite critical. If the crisis intensifies in the non-agricultural sectors, the immediate and the largest impact on incomes will be mainly in urban areas, as appears to be the case in Indonesia and in Thailand. The latest LFS data seems to indicate that this might be the case in Philippines as well—the NCR registered an unemployment rate of 15.1% in October 1998. If on the other hand, the effects of La Niña are significant, then there would be need for locating such programs in affected rural areas as well.

#### **Maintaining Public Expenditures for Health and Education**

18. A sharp fall in income not only affects current consumption but also future income earning capacity by impeding the education and harming the health of those affected. Since the decision to drop out of school is nearly always permanent, a new generation of under-educated adults may well result. Much the same applies to basic health—if primary care, including public health interventions are underfunded, there is a long-lasting effect on the quality of human capital.

19. There seems to be full awareness of this in the Government. Despite the initial cut of 25% of the 1998 appropriation, the social sectors were comparatively protected: the share of social services in National Government expenditure is expected to rise to 42% in 1998 from 39% in 1997 and 32% earlier in the decade. This trend should continue in the 1999 budget, with particular emphasis on protecting certain programs. In education, there has been a delay in placing textbook orders, which should be immediately remedied, and the textbook appropriation in the 1999 budget should be increased. The school construction program should be put back on track. In the health sector, the decrease in the coverage of public health programs (malaria control, schistosomiasis, and TB control), and immunization programs should be reversed. At the same time, it is equally important to restrain expenditures in certain areas. Any new hiring of teachers should be put off until all possibilities for teacher redeployment are exhausted. All new funding for state universities should be vetoed, and an immediate review of policies regarding State Universities and Colleges and the poorly targeted scholarship program Government Assistance to Students and Teachers in Private Education (GASTPE) should be reviewed. The re-nationalization of two devolved hospitals and upgrading of five others should be cancelled and the resources reallocated to primary health programs.

#### **Livelihood/Microfinance Programs**

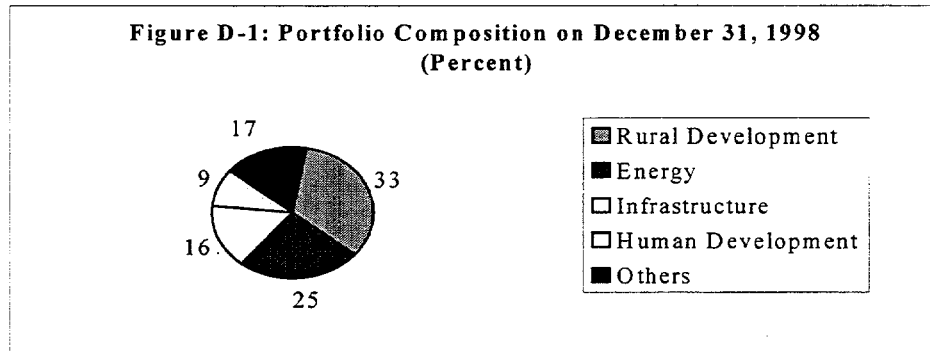
20. Public resources being scarce, other instruments will also need to be relied upon to reach out to the poor. Microfinance can be one of them. Microfinance programs that have the greatest outreach and that reach the poorest segments of the population tend to be those that are neither administered by, capitalized by, nor otherwise controlled by governments. But in the Philippines, there are over 100 credit programs (livelihood programs) run by the Government, providing credit at extremely low interest rates so that recipients consider them one-time grants, resulting in a high default rate. Only a few are known to reach the poor and the ultra-poor, the DSWD's Self-Employment Assistance Program, and the Grameen Bank replication program run by the Department of Agriculture. Even these have problems: in the former, loan size is too small, and loans are often viewed as grants; in the latter, costs are very high. At the same time, a few NGOs have successfully run micro-credit programs, although their outreach is quite small. The Government therefore needs to evaluate which programs are most efficient at reaching the poor, and how they may be expanded.

#### **Monitoring the Crisis**

21. The Philippines is ahead of the other countries in the region in that it has already fielded a national survey—the APIS—to capture the impact of the crisis on households. The need for quickly analyzing the APIS and FIES 97 data, as soon as they become available in January 1999, cannot be overemphasized. Such analysis will provide the Government and the donor community with the first really sound evidence on the extent of the impact, the characteristics of the households affected, their location and other characteristics, and even some data on the coping mechanisms they are using (special questions were built into the APIS questionnaire for this purpose). Complementary data will also be available from the regular labor force surveys. If the analysis of these two sources reveals the need for more detailed investigation into certain groups or areas, further work will need to be undertaken, including participatory assessments.

## **Philippines: Portfolio Performance and Management**

1. **Introduction.** A joint Government of the Philippines–World Bank Country Portfolio Performance Review (CPPR) was completed in December 1998. It was the third review designed to identify problems constraining implementation of Bank-financed projects, to agree on a program of actions to improve portfolio performance, and to respond to the Asian financial crisis. The actions agreed in the 1997 CPPR brought about significant improvements, as reflected in the relatively high disbursement ratio of 24 percent in FY98. Benefits achieved during the year from the comprehensive capacity-building initiatives and improved project supervision were overshadowed, however, by government budgetary constraints and by declines in regional economic activity, in the value of the peso, and in the operational status of a number of key and problematic projects.



*Others: Includes the Banking System Reform Loan (BSRL)*

2. **Size and composition.** The Philippines portfolio comprised 32 projects as of March 31, 1999. Commitments totaled US\$2.9 billion, \$1.5 billion (54 percent) of them undisbursed. The 32 projects include two Global Environmental Facility–financed projects (Conservation of Priority Protected Areas and the Leyte-Luzon project), with total commitments of US\$48 million, and one Ozone Depletion Substance Phase Out project of US\$15 million. Rural development projects constituted 33 percent of the portfolio, consistent with the Bank’s strategy to promote broad-based economic growth and poverty reduction (Figure D-1). The average age of projects in the portfolio was 3.8 years; 14 percent of them were more than 7 years old.

3. **Disbursement and procurement.** Disbursements as of February 28, 1999 amounted to US\$210<sup>1</sup> million (44 percent of the target), compared with US\$190 million (59 percent of target) as at December 31, 1997. This represents a disbursement ratio of 12.6 percent and 14.5 percent, respectively, and about half of the projects more than five-years old have large undisbursed balances. Factors slowing down disbursements include lack of realistic

<sup>1</sup> Includes \$100 million BSRL disbursement.

procurement plans and actions; rights-of-way problems in a number of infrastructure projects; the recent devaluation of the peso which caused rebidding of most of the procurements following national competitive bidding procedures; late release of counterpart funding allocations; low utilization of released funds; inefficient operation of special accounts in some projects; and weaknesses in project management, particularly in the health sector. These procurement bottlenecks are being addressed through focused training and through strategic partnership-building with the Asian Institute of Management. The institute, in conjunction with the Bank, will develop an appropriate curriculum and run a training and technical assistance program. As part of the decentralization of responsibilities to the field, the Resident Mission of the Philippines has deployed procurement and financial management specialists and has designated a manager for operations core services with responsibilities for fiduciary and services functions.

4. **Quality at entry.** A recent analysis by the Bank's Operations Evaluation Department (OED) assessed the Philippines portfolio for 1990-97 from the point of view of quality at entry. The analysis showed that all the projects were consistent with the Bank's assistance strategy for the Philippines, and 63 percent of the projects were rated "satisfactory" or better. The "unsatisfactory" projects were mostly in the energy sector, reflecting the adverse impact of past government policies on the National Power Corporation, and in the human development sector, reflecting institutional weaknesses of the sector agencies. Other projects were hampered by a lack of counterpart funding and consequent implementation delays. The analysis also disclosed an improving trend in project quality at entry into the portfolio. Seventy-five percent of the 1994-97 projects were rated satisfactory or better, compared to 55 percent of the 1990-93 projects. This positive trend is expected to continue during the CAS period under internal arrangements established by the Philippine Country Unit to enhance program and portfolio quality. These arrangements include: *systematic review* of all project concept and appraisal documents, based on a checklist drawn from the Bank's Quality Assurance Group's methodology for quality-at-entry assessment; *designation of a portfolio manager* to ensure sufficient management attention to portfolio performance and quality and to lead the restructuring effort in response to the crisis; *designation of a manager* for operations core services, with responsibilities for the fiduciary and services functions (procurement, disbursement, audit, and financial management); *appointment of team leaders* for key sectors, with greater responsibility for field supervision; *systematic management review* of project status reports; closer *monitoring* of extensions of closing dates and trust funds; and establishment of a *monthly management reports system*.

5. **Projects at risk.** As of February 28, 1999, seven projects (25 percent) were at risk, compared with five projects (17 percent) in FY98. Thus, both the proactivity and realism indices deteriorated to 75 percent and 57 percent, respectively, from 100 percent and 80 percent in FY98. Of the seven at-risk projects, four were actual problem projects (Women's Health and Safe Motherhood, Urban Health and Nutrition, Transmission Grid and Water Districts Development). The three potential problem projects were Subic II, Leyte-Cebu Geothermal and Community-Based Resource Management. The main reasons for downgrading these projects included: weak procurement and project management



capacity at the Department of Health (Women's Health and Urban Health and Nutrition), problems with rights of way and noncompliance with financial covenants by the National Power Corporation and Philippine National Oil Company (Transmission Grid and Leyte-Cebu Geothermal), delays by local government units in signing the subloan agreement with the borrower (Water Districts Development); severe staffing problems and traumatic leadership transition at Subic Bay Metropolitan Authority (Second Subic Bay Freeport); and staffing problems and delays in project start of activities (Community-Based Resource Management).

6. **Portfolio management actions and indicators.** Five key agreements were reached with the Philippine government on the portfolio improvement targets and actions to be implemented in 1999.<sup>2</sup> These actions and their status as of end February 1999 are as follows:

Action	Status as of end Feb. 1999
Extend 5 of the 11 projects closing in 1999	<ul style="list-style-type: none"> <li>• 2 extended (SVTP, SCFDP); NEDA and DOF to endorse extension requests for remaining 3 (IOSP-II, HMP and TCP)</li> </ul>
Restructure 4 projects by end March 1999	<ul style="list-style-type: none"> <li>• SVTP restructuring plan submitted to ICC ; UHNP, WHSMP, TGRP are finalizing restructuring plans for submission to ICC by end March 1999</li> </ul>
Rapid assessment of 6 projects re impact of devaluation	<ul style="list-style-type: none"> <li>• In progress –WRDP, TEEP, CBRM, Subic II; Not yet done -- ARCDP, ECD</li> </ul>
DBM will undertake the following initiatives to ensure sufficient funding for foreign-assisted projects (FAPs), particularly in 1999 and 2000: <ul style="list-style-type: none"> <li>• Priority budgetary allocation and a waiver of reserve implication on FAPs;</li> <li>• Recreation of a “one stop-shop” FAPs bureau within DBM;</li> </ul> Donor-community participation in determining FAPs annual budgets.	<ul style="list-style-type: none"> <li>• Done</li> <li>• Expected be in place by mid-March 1999</li> <li>• Scheduled on April 26-28, 1999 for WB, ADB and OECF.</li> </ul>
Bank will continue to support TA and training to enhance IA's procurement and financial management capacities	Ongoing.

Other portfolio management actions for 1999 include:

- full implementation of an operational core services enhancement program involving: client capacity building; decentralized decision making in the field for procurement and financial management; and effective conduct of the Bank's fiduciary responsibilities in operational core services areas, including anticorruption initiatives

<sup>2</sup> *Philippines Country Portfolio Performance Review, December 1998*

- attainment of a realism index of 75 percent and proactivity index of 100 percent (both the same as in FY98)
- disbursement ratio of at least 20 percent. The FY99 target is lower because the financial crisis has caused lower counterpart funding allocations
- an increase in portfolio management service standard to 100 percent (90 percent in FY98)
- tightened monitoring of project status report updates and supervision of trust funds.

7. ***Benefits and risks of proposed actions.*** The benefits of the proposed actions include: substantial improvements in project implementation; reduced commitment fees on undisbursed balances; relief to a government faced with a tight fiscal position; improved results on the ground and enhanced prospects for attaining project development objectives; and more focused approach to current development issues.

## **Philippines: The Participatory Approach to CAS Formulation**

1. **To prepare the CAS, a four-level consultation was done during the period July-Nov.'98:** 1) within the WB group, including Resident Mission and IFC staff and MIGA, i.e. the International Finance Corporation and the Multilateral Investment Guarantee Agency; 2) with the Government, i.e. local government officials and high-ranking officials from the national government; and 3) with a host of other major stakeholders, like the NGOs, peoples' groups, trade unions and other members of civil society; business leaders; economists and academicians, and 4) with other donors. Eleven meetings/workshops were conducted to get the views of the stakeholders outside of Government. (Please refer to Annex H for details on comments received during these meetings.)

2. **First, within the Bank Group, sectoral briefing notes were prepared for the new administration and put together in a paper entitled "Philippines: Restoring Stronger Growth with Greater Equity: What the Government Can Do and How the World Bank Can Help."**<sup>1</sup> This provided the basis for discussions with the country team and regional management of our future strategic focus. After consultations with civil society representatives, a country team retreat further narrowed our priorities.

3. **Second, to develop ownership of the Government of the Philippines (GOP) in the CAS formulation, the distribution of the Restoring Stronger Growth and Greater Equity paper was followed by** (i) individual discussions between sectoral government offices and Bank staff and management; (ii) a half-day retreat in Washington with senior GOP officials, where we shared the draft CAS matrix; and (iii) a two-day retreat with high GOP officials and the country team in the Philippines. Thus, priorities were set and agreed before the CAS document was drafted. Important in gaining government ownership was the timing of the CAS preparation, parallel to the new administration's preparation of its Medium Term Philippines Development Plan (MTPDP).

4. **The third level of consultation was done in recognition of the strong presence and significant role that civil society (CS) plays in the Philippines and to respond to the keen interest expressed by these groups in past dialogues regularly held by the Bank.** With the government's "no-objection response" to the Bank's proposal for consultation with civil society, the Bank proceeded to undertake its plan. The main objective of the consultations was to obtain and consider a wide range of perspectives and recommendations to the proposed CAS from various sectors of civil society. Other features and details of the consultation activities were:

- ***Planning and preparation.*** Planning was done in consultation with some key representatives of the NGO community. These NGO representatives provided valuable advice in the formulation of the consultation plan and in the selection of people who were invited to participate in the CAS consultation. An orientation

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<sup>1</sup> This was prepared in August 1998 as a briefing paper for senior Government officials who had recently assumed office.

meeting was held to prepare those who would participate in the consultation with heads of major NGO coalitions in the National Capital Region on the planned design, process and criteria for the selection of participants, and to arrive at a common understanding of the scope and nature of the consultation.

- ***Professional and Neutral Facilitator.*** The series of consultations were done in partnership with an NGO called CO-TRAIN Multiversity, an institution respected by government and civil society organizations which regularly conducts multistakeholders policy dialogues. Co-Train helped organize and facilitate the workshops, and summarized/documented the feedback from civil society.
  - ***Sharing of information.*** Upon agreement with Government, a draft of the briefing background paper, entitled, “Philippines – Restoring Growth with Greater Equity: What the Government Can Do and How the World Bank Can Help,” was distributed to all who have been invited to the consultation meetings. An information set cast in a simple *Question and Answer* format, on the nature of the Bank and its work, the CAS and the objectives and parameters of the consultations was also sent. On the day of the consultations, the draft of the CAS Program Matrix was also distributed, and became the focus of discussions among the participants.
  - ***From Luzon to Mindanao.*** To ensure that a wide range of perspectives from civil society would be reflected, the consultations were done in four geographical areas, namely, Manila, and the three major groups of islands: Luzon, Visayas, and Mindanao.
  - ***Results and Feedback.*** All workshop proceedings and results were summarized and consolidated in a report. The general feedback gathered from all the consultation meetings was presented to the Government during the CAS Retreat attended by WB Country Team and key government officials. The demand of civil society to make the CAS available to the public was also explained at this meeting. The more specific recommendations were studied by sector teams as they considered these in the formulation of the new CAS. Feedback to those who have participated in the consultation activities was given through letters attaching the comments that were gathered. We now plan an additional communication effort to inform the participants how their feedback have been considered in the new CAS.
5. Fourth, the draft CAS program matrix was shared with all major donors who generally agreed with it during two discussion meetings. This was followed by systematic collection of information from the donors on the focus of this activity and areas for current and potential collaboration which was compiled in a matrix (see Annex I). This has provided the basis for sharpening our strategy further and enhancing complementarities.

## Philippines: Client Surveys

1. Two client surveys were undertaken over the past year. First, as part of a Bankwide pilot, a client survey was carried out to determine the Bank's impact in the country and the clients' perceptions of the Bank's performance. Clients included individuals representing government, business and private sector, academic community, and NGOs. While some of the survey results were inconclusive, due to the small sample and pilot nature of the exercise, the survey overall showed a relatively high satisfaction rate of around 90 percent. Moreover, the information gathered shows that the client was most satisfied in the area of aid coordination, and points to other areas where further improvements could be made beyond past outreach efforts, including in project design and policy dialogue. Additional evidence comes from impressions reported by the pilot survey team, which were largely positive regarding the Bank's lending and non-lending services, including policy dialogue and assistance strategy, while the team reported a request for more information and publications from the Bank, and for further increase in local Filipino participation in project preparation (see Box F-1 for details).

### Box F-1. Client Survey Results

The following table shows some of the results of the pilot survey, listing those Bank services to which the Philippines government attaches the greatest value, in order of priority (1 to 6 with 1 indicating that respondents placed the greatest level of importance to activities associated with this section); how important it finds these services on a scale of 1 to 4 (with 4 representing an essential service and 1 a service of little importance); and how satisfied it is with the Bank's work in each of these areas.

<u>Value Rank</u>	<u>Services in Order of Value</u>	<u>Importance Attached</u>	<u>Satisfaction Rate</u>
1.	Strategy & Assistance Program	NA	90%
2.	Portfolio Implementation	3.3	94%
3.	Project Design	3.1	89%
4.	Policy Dialogue	NA	89%
5.	Analytical Work	3.1	91%
6.	Donor Coordination	2.8	98%

N.A. – Not measured

2. Second, a survey was carried out on two Bank-financed urban projects in the Philippines, as part of the Bank's Global Urban Strategy Exercise, jointly by the Netherlands Economic Institute and Institute of Housing and Urban studies in Rotterdam. The survey reflected a positive assessment of the Bank's performance in terms of relevance of project objectives, institutional impact, project sustainability and client satisfaction with outcomes. But it also found that the projects' efficiency and effectiveness could have been better through involvement of local agencies and better preparation and strengthening of local capacities. Our participation and outreach strategy responds to the suggestions for improvements coming out of these surveys.

## Philippines: Private Sector Strategy

### 1. BACKGROUND

The Philippines has achieved one of the most impressive records in East Asia for promoting policies for private sector-led growth. Fiscal and monetary reforms were introduced and, policies undertaken, in recent years to liberalize trade, promote foreign direct investment (FDI) and competitiveness, privatize most state enterprises and introduce private sector participation in providing infrastructure. Other reforms were begun in the banking sector to tighten bank supervision. Investors reacted favorably, and private investment and capital inflows increased significantly. Export growth has been among the highest in the region. Now these reforms are being given credit for helping the Philippine economy to withstand the shocks of financial crisis better than other East Asian countries.

Despite remarkable efforts, however, the reform agenda is not yet complete. Much work is still needed to create a vibrant, resilient financial sector and to correct structural weaknesses in the corporate sector. Another priority is developing and strengthening the regulatory frameworks to enhance internal competition in infrastructure, manufacturing, and services. Much work is also needed to expand the private enterprise base by promoting small and medium enterprise growth. Private participation in infrastructure provision should be expanded beyond its foothold in power to other sectors, and local government capacity should be developed to negotiate transparent transactions with the private sector. Although foreign direct investment has responded favorably to promotion incentives, the growing variety of enticements need to be consolidated into an integrated and homogenous FDI promotion program.

### 2. FINANCIAL SECTOR REFORM

The policy and institutional reforms of the past decade have strengthened the financial system, particularly for mobilizing resources to meet the growing economy's requirements. *Commercial banking*, which is well developed and reasonably sophisticated, remains the dominant source of debt financing. *Nonbank financial intermediaries* have grown considerably since 1992, but their market share has declined. Restrictions on investment allocations and on the types of admitted assets for these institutions limit their use of funds for long-term lending or investment in debt securities issued by private companies. The *equities market* grew rapidly during the mid-1990s. In 1992–96, market capitalization multiplied nearly sixfold to US\$80.6 billion (83 percent of GNP) and turnover rose eightfold to US\$25.5 billion. Despite the increase in capitalization, turnover, and investor interest, the market still remains accessible mainly to a few large corporate issuers. Only 216 companies are listed, compared to 170 four years earlier, and the 10 largest index stocks account for a relatively high 35 percent of market capitalization. The market for *securitized term debt* is, in comparison, undeveloped, due to a lack of liquidity, a variety of taxes that undermine yields and liquidity, and a history of volatile interest rates.

The regional crisis poses potentially severe problems for the financial system and underscores the systemic risks associated with over-reliance on banks and short-term foreign capital flows. The crisis has focused banks on asset preservation and made them unwilling to assume additional credit or liquidity risk. As a result, the flow of credit, especially term credit, has dried up. The government has recognized the need to strengthen the banking system through a comprehensive reform program to enable the system to better withstand current difficulties,

strengthen its resiliency to future shocks, and confront with confidence the challenges ahead. An essential complement to this agenda is the parallel development of the broader financial system to encourage equity finance and longer term debt instruments and avoid over-reliance on the banking system and external finance. In this regard, plans have been developed and efforts are underway to develop the bond market, expand the pool of contractual savings, and reform the housing finance system to make them more efficient vehicles for capital market development and domestic long-term savings mobilization.

The government has developed a comprehensive *banking sector* reform program, supported by the World Bank Group and the Japanese Government. This program addresses five key areas: (1) strengthening prudential and supervisory systems, reshaping bank owners' incentives to encourage prudent banking practices and exposing bankers to greater market discipline; (2) gearing bank resolution strategy to the twin objectives of dealing expeditiously with problem banks while safeguarding the soundness of the banking system; (3) enhancing governance and efficiency and strengthening the financial performance of government-controlled banks on a sustainable basis through the privatization of management and control to a strategic private investor; (4) reducing peso intermediation costs and disparities between intermediation in different currencies and regulatory treatment across different institutions; (5) sending legislation to Congress to improve the legal and regulatory framework for banking by allowing bank supervisors and regulators to perform their duties in a less constrained manner than is currently feasible and by strengthening government's ability to address further shocks. The International Bank for Reconstruction and Development (IBRD) is supporting this program through a Banking Sector Restructuring Loan and technical assistance in the areas of bank auditing and monitoring. The International Finance Corporation (IFC) will work with selected banks to strengthen their capital base, correct asset-liability mismatches and improve operational practices.

Regarding capital market development, the government plans to level the playing field in terms of taxation across financing instruments and encourage the development of credible credit rating agencies. In addition, the government is examining the scope for reforms within the contractual savings system and housing finance to promote long-term savings by strengthening private and public pension plans, life insurance agencies and pre-need plans; to develop a more equitable, efficient and affordable retirement income system; to reform housing finance policies to promote a more market-oriented and self-sustaining housing finance system; and to reduce government's contingent liabilities associated with housing finance and contractual savings institutions.

To support this reform process, IBRD will provide technical assistance and funding through a Financial and Corporate Sector Reform Loan and a Housing Finance Technical Assistance Project. IFC has already provided technical assistance by doing an extensive regional study on housing markets in seven East Asian countries including the Philippines<sup>1</sup>. As a next step, IFC is exploring opportunities to create a mortgage company to originate, service, and securitize residential mortgage loans. IFC will also provide additional technical assistance in this area to enhance the capabilities of mortgage lenders, services, and investors. Such activities would have a strong demonstration effect in facilitating the development of securitization and the domestic bond market. To further support the development of the peso bond market, IFC is also helping establish a credit rating agency and will offer a full range of rating services to the

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<sup>1</sup> Watanabe, M., ed., *New Directions in Asian Housing Finance: Linking Capital Markets and Housing Finance*. IFC, 1998.

Philippine domestic market, using internationally accepted methodology and standards. The project aims to promote greater transparency and increased disclosure to enable investors to obtain more information on the creditworthiness of local issuers. It is also expected to promote interest rate differentiation, based on risk and maturity, thereby assisting in the efficient allocation of resources. To promote the development of the equity market, IFC will continue to support the establishment of venture capital funds, which will provide long-term capital for Philippine companies at early developmental stages. The focus will be on medium-sized companies that need mezzanine and equity finance to grow and subsequently become listed on the Philippine Stock Exchange. The funds would also promote investment in companies with operations outside Metro Manila, including some of the less developed islands, particularly Mindanao.

The World Bank Group is in continuing dialogue with the Asian Development Bank, which, as part of its Capital Market Development Program Loan, has proposed a comprehensive set of reform measures to further develop equity and debt markets.

### **3. CORPORATE RESTRUCTURING AND GOVERNANCE REFORM**

The concept of corporate governance still has limited acceptance in the region. Business activities have been conducted mostly by closed enterprises such as family- or clan-owned or partnerships. Triggered by the region's financial crisis, however, corporate governance reform has become a most urgent issue. The financial crisis also has made clear that banks cannot be cleaned up adequately and become viable without addressing corporate debt restructuring requirements. If corporate failures caused by the crisis continue, the Philippines can suffer severe economic and social consequences. A series of measures for corporate restructuring should thus be undertaken in the near term. Particularly, complementary reforms are needed to enhance the capacity to resolve corporate financial difficulties and improve corporate governance.

IBRD's assistance in this area will include: conducting a corporate survey to assess the health of the corporate sector; assisting in improving legislation and regulation related to issues such as registration, information disclosure, insider trading, antifraud provision, and bankruptcy; strengthening the institutional capacity of the Securities Exchange Commission to promote corporate debt restructuring and develop new policies and procedures for rehabilitating or liquidating distressed firms; providing finance and technical assistance for corporate restructuring drawing from lessons learned from Structural Adjustment Loans in Korea and Indonesia. A competitive market environment is a necessary component of sound corporate governance. In this area, IBRD will provide technical assistance for establishing a modern competition law and a central competition agency to enforce it.

IFC will support these efforts in the area of corporate governance and corporate restructuring through a variety of means. In the area of *external mechanisms of corporate governance*, IFC will focus on: institution-building in the financial sector, in particular investment in a credit rating agency to promote greater transparency and increased disclosure and enable investors to obtain more information on the creditworthiness of markets, thereby strengthening the disciplinary role of markets on companies' performances. With respect to the *internal mechanisms of corporate governance*, IFC's role is in promoting more transparent accounting as conditions in shareholder agreements or loan covenants to protect outside investors; and in direct participation in the governance of some of its equity investees by appointing directors to their boards. In the area of *corporate restructuring*, IFC will give high



priority to corporate restructuring of its portfolio companies and other companies in general manufacturing, agribusiness, and infrastructure that have strong fundamentals but liquidity problems. In addition to its direct involvement with individual companies, IFC will invest in restructuring funds and will provide funding and credit lines to financial intermediaries to help corporate restructuring.

#### **4. ENHANCING COMPETITION AND SME GROWTH**

The Philippines' industrial sector has undergone structural reforms over the past decade. As a result, the country is one of the more deregulated economies in the region. However, its industrial structure remains highly segmented and concentrated, not very conducive to competition. While policies are being reformed, there are still gaps in the competition regime and in its enforcement. Small and medium enterprises (SMEs), in particular, face significant hurdles in accessing finance, information, technology, and skills and in competing with large and powerful family conglomerates that dominate in the economy. In addition, there are significant regional disparities in private sector growth and dynamism. SME development holds strong promise for growth and poverty alleviation in poor and rural areas such as Mindanao and the Visayas.

The current financial crisis is exacerbating the situation. Clearly, the reversal of foreign capital flows, concerns about credit risks of their corporate customers and their own liquidity problems will continue to negatively affect the manufacturing sector, particularly SMEs. The volume of new bank lending is limited, and banks are lending mostly short term and to prime-quality customers. As a result of the crisis, manufacturers sector face major difficulties securing medium- and long-term financing and raising equity to lower the proportion of debt in their capital structure.

Mismanaged enterprises—those that cannot compete in the new environment, or have taken uncontrollably large, unhedged foreign currency exposures, or have invested heavily in real estate—are caught in the liquidity crunch. However, many otherwise creditworthy enterprises also face the problem of finding adequate financing. SMEs are among the most impaired, facing reduced bank funding, increasing working capital requirements due to the depreciation of the peso, and pressures from suppliers on payment terms. This is also true of exporting firms, which could take advantage of the weakening local currency to increase exports. All of these factors have led to deceleration of the pace of productivity improvements in the Philippine industrial sector.

IBRD's support to SME development will be mainly through lines of credit to financial institutions for onlending to such enterprises, the Private Enterprise Sector Credit Support and Rural Finance II projects. The latter includes a microfinance component. IFC's activities in the area of SME development will focus on supporting financial intermediaries that target the SME sector, through credit lines and direct investment. IFC also plans to establish a microlending institution to address the financing needs of small entrepreneurs in rural areas such as Mindanao. In addition, IFC's investments in venture capital funds will provide much needed equity financing for SMEs at critical stages of their development, thus contributing to the development of a more dynamic domestic private sector.

## 5. PRIVATE PARTICIPATION IN INFRASTRUCTURE: PAST TRENDS AND PRIORITY ISSUES

Since the early 1990s, the government of the Philippines has embraced the need for involving the private sector in developing and financing major infrastructure projects and, in 1993 approved the build-operate-transfer (BOT) law. Through the BOT law, the power sector's immediate needs were addressed, but at a significant cost to the government which assumed heavy contingent liabilities to offset certain risks for independent power producers (IPPs).

The BOT law was also intended to promote private sector participation in the other sectors. But, besides major investments in BOT power projects, significant developments in other sectors did not materialize, except for the privatization of Metropolitan Waterworks and Sewerage System (MWSS). In addition, a BLT operation is underway for the light rail transit (LRT) line No. 3 in Manila. Part of the problem can be attributed to the decentralization process which began in 1991 and which gave local governments much authority to initiate such transactions, but without arming them with the requisite capacity to negotiate them. Other constraints stem from weak or inadequate regulatory systems and institutions and government's own justifiable cautiousness about taking on additional liabilities related to such transactions.

With massive infrastructure requirements and tight fiscal constraints, the need for private sector participation is ever increasing. According to the latest Bank estimates, the Philippines' need for infrastructure ranges between \$36 billion and \$45 billion for the next 10 years, about an average of 7 percent of its annual GDP. In addition, the cost of infrastructure in the Philippines is relatively high by regional standards (Table G-1).

**Table G-1. Relative Infrastructure Costs to Industry (1996)**

	<i>Electricity rate for industry (\$/kWh)</i>	<i>Water rate for industry (\$/m<sup>3</sup>)</i>	<i>Telephone rate for call to United States ((\$/minute)<sup>a</sup></i>	<i>Air freight to East Coast, United States (\$/kg)<sup>b</sup></i>	<i>Sea freight to New York (\$)<sup>c</sup></i>
Indonesia	0.044–0.076	0.92–1.21	2.25	7.92	2,800
Malaysia	0.027–0.062	0.46–0.69	1.92	6.7	2,475
Philippines	0.049–0.103	0.52–0.68	2.25	7.00–8.00	2,500
Taiwan (China)	0.037–0.080	0.0006–0.24	1.96	10.91	1,870
Thailand	0.053–0.070	0.20–0.44	1.79	6.38	3,180
Vietnam	0.059–0.066	0.35	3.45	5.86–11.23	2,200

*Source:* Philippines—Managing Global Integration, Report No.17024-PH, November 17, 1997.

a. Telephone rate is for a three-minute call.

b. Air freight is for packages less than 45 kg.

c. Sea freight rate is standard 20-foot container.

Today, there are many potential PPI projects in various stages of development, but few are closing. Moreover, the East Asian financial crisis has limited the development of a pipeline. This gives the Philippine government an opportune window to investigate and correct the fundamental weaknesses still present in the country's PPI system by taking stock of what has and has not been achieved, and by laying out the framework for the future. The following are some of the key issues that hinder PPI from being expanded and that need to be addressed in the short-term:

- *Private participation in several infrastructure sectors remains very limited.* The PPI strategy has consisted of reforms in a few sectors, particularly for BOT schemes in bulk power generation. Successes in other sectors have been more limited.
- *The regulatory and policy framework will need to be clarified* to maintain progress with PPI.
- *Eligibility, terms, and pricing rules for government guarantees are not clearly specified.* The government should undertake substantive work to build capacity for evaluating and pricing guarantees and managing the assumption of contingent liabilities.
- *The project-selection process should be more transparent.* The process for soliciting, evaluating, and awarding projects could be simplified and standardized.
- *Difficulties in delineating agency responsibilities—both within central government and between central and local government—persist.*
- *Local agencies lack the institutional capacity to identify, promote, and negotiate PPI projects.* The central government lacks the institutional capacity to manage the process of turning the pipeline of projects into specific transactions.

## **6. STRENGTHENING THE PPI INITIATIVE**

The Bank has suggested that a useful way to tackle these issues in comprehensive manner is to undertake a Country Framework Report (CFR) for infrastructure. The CFR, which would be funded by the Bank and related Trust Funds, is intended to clarify the government's policy and regulatory framework for infrastructure, indicate its sectoral plans, and identify barriers to private involvement and possible actions to reduce them. The report will draw on country data, information on best practices in other parts of the world, and on discussions with country representatives, the private sector, and others. The report will also give the Bank Group and the government an opportunity to indicate where, and in what form it is willing to provide further tailored assistance to develop the infrastructure in the Philippines.

Besides, IBRD will assist the Philippine government in advancing PPI by advising on policy and regulatory framework, streamlining project preparation, managing the government's contingent liabilities, enhancing its capacity, and promoting the use of Bank guarantees.

Specifically, IBRD will focus on:

- *Advising on policy and regulatory frameworks.* The Bank Group, and IBRD in particular, can help the government strengthen the regulatory environment and build regulatory capacity to facilitate the broadened use of PPI. Strengthening the regulatory environment would assure that the private sector functioned effectively and efficiently. Under the Philippines' decentralization, the Bank can continue to assist the government in promoting sectoral policies and institutional development at the local government level.
- *Enhancing project preparation and privatization of infrastructure assets.* IBRD can assist the government in developing a clear and transparent project-selection process and in streamlining the process by soliciting, evaluating, and approving project proposals. IBRD would propose to establish a technical assistance fund for assisting the government in executing a privatization program of existing infrastructure assets and enterprises.
- *Managing the government's liabilities.* The Bank Group can assist the government in setting up a mechanism for assessing, valuing, and pricing guarantees and for better allocating risks among central and local government and private sectors. In this regard, appropriate risk

templates, which have already been devised for some sectors, should continue to be developed for other sectors as well. Also, the Bank Group's thrust is to establish the government's capacity to manage contingent liabilities.

- *Enhancing government's capacity.* The line agencies lack the institutional capacity to identify, promote, and negotiate PPI projects. IBRD would help the government manage PPI process at the stage of turning the PPI project pipeline into specific transactions. Developing replicable models for each sector would also be helpful. The models would encompass transaction structure, certain aspects of technical design, boilerplate bidding documents and legal agreements, and the government evaluation process for offers under active consideration. Moreover, the roles of the government and the BOT center in the PPI process should be clarified. Finally, institutional capacity should be built at the local levels so that city mayors and administrators can competently engage in PPI discussions and transactions with private sponsors and financiers in their respective communities. Part of this local institutional capacity requires improvements in developing investment priorities and being able to responsibly access credit for core functions that should remain in the public sector.
- *Promoting bank guarantees.* To work most effectively with the private sector in East Asia, Bank guarantees can be an option when they can bring existing projects to closure. In the Philippines, providing partial risk guarantees could be explored to attract private sector financing for current and future projects.

IFC activities will include: helping power distribution companies restructure through equity and loan financing; assisting the government's privatization efforts in areas such as the Philippine postal system, seaports, and water and sanitation; resource mobilization, direct financing and technical assistance for private projects in cogeneration, transmission, nontraditional fuels, ports, roads, water, and other infrastructure subsectors; support to projects in rural areas, especially the Visayas and Mindanao; credit lines and investment in financial intermediaries providing finance to infrastructure projects, for example, a rural electric cooperatives finance agency.

## 7. PROMOTING FOREIGN DIRECT INVESTMENT

The environment for FDI has improved greatly, but the economy is still performing below its potential. The Philippines may lag behind the other countries in the region in attracting FDI for three main reasons:

- *Uncompetitive investment incentives.* Investment incentives offered by the Board of Investment (BOI) to attract foreign investors are less attractive than those offered by the most successful countries of the region. Examples include: allowances for accelerated depreciation and loss carryovers; general fiscal packages available to foreign investors; and promotional devices for attracting the regional headquarters of multinational companies.
- *Institutional capacity of BOI.* Among BOI's institutional weaknesses are: an over-reliance on "narrow" promotional tools; low financial and staffing resources earmarked for investment promotion; and low effectiveness in terms of targeting investors, quality of services, and private sector commitment.

- *Multiplicity of investment promotion plans and institutions.* Since the early 1990s, a number of different plans and institutions have proliferated, and now a number of institutions besides BOI deal with FDI issues and investment promotion. The Department of Trade and Industry has launched several measures in attempt to correct these deficiencies. However, these measures have yet to be implemented and would require government ability to evaluate, monitor, and follow-up on specific options.

The FDI promotion system lags behind regional best practices. The Bank Group can help rationalize and consolidate the promotion and incentive systems, establish clear responsibility for FDI promotion for the entire country, and remove duplication. Especially, the Bank could help strengthen BOI so that it would devote sufficient resources to promotion, focus its organizational strategy, and acquire the capabilities needed to attract targeted FDI. The Foreign Investment Advisory Service (FIAS) has actively supported the central government's efforts to streamline and enhance its FDI promotion activities. FIAS strategy in this area will be to provide assistance at provincial and local level, especially in Mindanao. The Multilateral Investment and Guarantee Agency, on the other hand, will support increased foreign direct investments through guarantee instruments, particularly in areas such as oil, gas, power, mining, telecommunications, and financial services. IFC's activities will also promote FDI, directly through IFC's own investments and resource mobilization, and indirectly through the demonstration effect of its project financing, policy recommendations, and advice derived from its own experience as an international investor, and advisory work in the area of privatization (particularly in infrastructure), which paves the way for increased private sector participation, including through FDI.

## Philippines: Civil Society Inputs in CAS<sup>1</sup>

The following provides a summary of the major comments received from civil society during workshops held throughout the country as part of the CAS preparation and the World Bank's responses to issues and questions posed. The comments are organized around the seven objectives of the CAS and by groups consulted.

<b>A: Address Crisis Effects &amp; Promote Economic Recovery</b>	
<b>Comments/Recommendations by Stakeholder</b>	<b>WB Staff Comments/Response</b>
<p><b>NGO/Civil Society:</b></p> <ol style="list-style-type: none"> <li>1. Re-think the current Bank's development framework. (Being questioned in the light of the Asian crisis &amp; its impact in the region). The Bank should consider different frameworks that are being used in the NGO community, particularly Philippine Agenda 21.</li>   <li>2. Go slow on privatization – consider full implications and other possible alternatives.</li>   <li>3. Adapt a more modest goal such as <i>surviving the crisis and laying down the foundation for sustainable development</i>. In this approach, "hard" targets such as GDP growth and poverty reduction do not have to be defined. Rather, list "must-do activities" in order to survive, stabilize the situation and lay the foundation for sustainable development.</li>   <li>4. Intensify generation of employment opportunities – ensure job- matched training (both white and blue-collar jobs).</li>   <li>5. Increase domestic demand by pursuing socialized housing projects which will start economic activity at the local level.</li> </ol>	<ol style="list-style-type: none"> <li>1. In the wake of the Asia Crisis, the World Bank (WB) is increasingly emphasizing a more holistic and participatory approach to development, which would encompass the totality of social and human development. This Comprehensive Development Framework, first presented by Mr. Wolfensohn at the recent Annual Meetings, is currently being fleshed out.  In the Philippines, Bank strategies aim at the success of Philippines Agenda 21, the country's long term development plan.</li>   <li>2. The Bank's view of the state's role in a changing world is that the latter should leave to the private sector those functions in which it would displace or compete with private initiative in order to focus on better assuming those functions in which it is irreplaceable. The pace at which that transition can take place is a matter of practical consideration: It depends on such things as capital market situation, competitiveness of product markets, and development of regulatory frameworks.</li>   <li>3. The CAS matrix uses performance indicators as benchmarks for evaluation, not as hard targets. The emphasis of the CAS is on making sure that the means put in place suit the objectives pursued and receive adequate support from the donors, the World Bank and others.</li>   <li>4. The Social Expenditure Management Loan under preparation is proposing to fund those programs of the Technical Education and Skills Development Authority (TESDA) that effectively meet the need to ensure mobility across activities in the current environment of high unemployment and the acquisition of skills needed to face both national and international labor markets.</li>   <li>5. The Government is currently attempting to do this.</li> </ol>

<sup>1</sup> This includes comments received from civil society as well as local government representatives.

Comments/Recommendations by Stakeholder	WB Staff Comments/Response
6. Increase government spending.	6. The WB has been encouraging the government to adopt a more expansionary fiscal policy. However, contrary to what we had advised, the latter is resulting from revenue losses, more than expenditure increases, limiting the scope for active spending policies.
7. Develop a comprehensive strategy to mobilize savings. With such measures as: big banks to assist rural depositors by lowering the amount required for opening an account.	7. The WB recommends that savings mobilization efforts focus on five key areas. <i>First</i> , accelerating the capital market development through reforms in housing finance, contractual savings and government securities. <i>Second</i> , maintaining the Philippines investment climate friendly towards foreign direct investment. <i>Third</i> , increasing incentives and pressures on the LGUs to mobilize an increasing proportion of their financing needs from local financial markets. <i>Fourth</i> , removing the remaining constraints that may hinder private participation in infrastructure development. <i>Fifth</i> , presenting to the donors a medium-term investment program which assigns an enhanced role to the private sector in the economy and relies on a stronger public-private partnership for economy's development.
8. Strengthen the deposit guarantee system among POs, Co-ops, and savings clubs.	8. The Bank sees two main priorities in this area: (i) financial, managerial consolidation of cooperatives sector; and (ii) development of viable microfinancing schemes.
9. Reduce debt servicing by 20%.	9. This is actually happening. Thanks in part to the debt restructuring which the WB supported in the early 1990, the country's debt service ratio (to exports) has dropped from 19 percent in 1994 to 11 percent in 1998.
10. Develop measures other than profitability for the banking system such as better access to loans/credit by the poor in both rural and urban areas. Strengthen Rural Banking system, also look at alternative channels of rural credit.	10. The Bank is supporting the development of micro-finance and is allocating a sizable portion of its Third Rural Finance Loan to this. WB experience shows that the poor are better served when they have access to credit on commercial terms, and that other impediments to credit are removed (e.g., collaterals).
11. Review Land Bank policies to ensure better access of the poor to credit (high interest rates & other policies that are not pro-poor).	11. Land Bank practices will be reviewed in the context of the supervision of the above and other loans, which the Bank has made to it. At present, however, the rule that agrarian lending should be at below market interest rate is constraining Land Bank from reaching the poor better.
12. Government "pump-priming" should take the form of social safety nets.	12. We are indeed urging that priority be given to social and rural development programs, and are preparing a Social Investment Loan to help make sure that it actually happens.
13. Prioritize low-income housing and review how contributions are invested (e.g. RSBS, GSIS), and financing for affordable housing.	13. Directed lending to housing has failed to target the poor and develop financial viability. The Bank has been urging the government to put housing on a commercial footing and create targeted housing subsidies for the poor. The proposed Housing Finance TA Loan would include a review of the finances of housing finance institutions.
14. Assist LGUs in developing participatory approaches to settlement development.	14. The Bank is sponsoring the development of City Development Strategies, which emphasize stakeholder participation.

<b>Comments/Recommendations by Stakeholder</b>	<b>WB Staff Comments/Response</b>
<p>15. Review taxation system in the light of the need for more sustainable public resources; address poor tax collection – focus on more progressive taxation, effective tax collection (e.g. incentives for tax collectors who have achieved their targets). Bank needs to give more stress to tax reforms. Does this include tax amnesty declared by GOP?</p> <p>16. Address lack of social safety nets, especially during crisis through programs that help households manage insecurity, social security reforms.</p> <p>17. Develop comprehensive strategy to regulate the pension system which will include such measures as increasing/updating pension/ retirement policies to current cost of living and eliminate unnecessary bureaucracy in claim process.</p>	<p>15. The Bank has been supporting the successive efforts undertaken over the decade to put the country's taxation on a sustainable footing, through Comprehensive Tax Reform Programs (CTRP) 1 to 3. The Bank is now advocating completing this process with a rationalization of tax incentives for investment. The Bank is also helping to strengthen collection and enforcement under a Tax Computerization project.</p> <p>16. An adjustment loan under preparation would seek to strengthen the largest form of social security, namely the pension system. In addition, the Social Expenditure Management Loan under preparation should help protect social expenditure in a context of fiscal stringency.</p> <p>17. One of the features of the proposed adjustment loan would be to harmonize the various pension regimes, improve portability, and encourage voluntary compliance.</p>
<p><b>Private Sector/Business:</b></p> <p>1. There is a need for better forecasting/surveillance on the economy to make future, if any, economic crisis less traumatic.</p> <p>2. There should be a move toward establishing the accountability of lending institutions so that liabilities of loans guaranteed by Government and other financial intermediaries are not passed on to them.</p> <p>3. What is the Bank's stand on chronic budget deficit of the Government?</p> <p>4. Suggest that support to the banking system be in terms of adequate and prudent provisions such as the calibration of required percentage, exposure to be based on net not gross and other provisions that make lending economical.</p>	<p>1. At the regional level, the Bank is supporting the efforts of ASEAN countries to establish surveillance mechanisms under the Manila Framework, and is cooperating with ADB in the latter's secretariat role. At the national level, the Bank has been encouraging better surveillance of the banking sector, and is helping set up mechanisms to monitor social impacts.</p> <p>2. On various occasions, and most recently in the context of the Country Framework Report on Private Investment in Infrastructure, the Bank has urged the government to streamline its use of sovereign guarantees and reinforce the monitoring of contingent liabilities.</p> <p>3. The Bank has been supporting longstanding efforts towards fiscal consolidation (see 15 above). In the present circumstances, the Bank has been encouraging to tolerate a temporary, countercyclical deficit. It has also impressed on the government that fiscal expansion should be best accompanied by credible plans to put the budget back on a consolidation path over the medium term.</p> <p>4. Bank policy is that onlending of WB resources channeled through financial intermediaries should be priced on commercial terms.</p>
<p><b>Academe:</b></p> <p>1. While the financial crisis is a real problem, it also provides opportunities (e.g., Build-Operate-Transfer project expansions). This is an area where the Bank can provide good advice, i.e., pointing out best practices globally, enhancing efficiencies in systems, among others.</p>	<p>1. The kind of short-term assistance provided by the Bank is related to and consistent with its overriding long-term objectives. Some of the short-term assistance programs which have long-term implications are: the Banking Sector Reform Loan (BSRL), the Social Expenditure Management Loan, and the Housing Finance &amp; Contractual Savings Program. The long-term projects are in the areas of Water Supply Management, LGU development, Mindanao Rural Development Programs, among others.</p>



<b>Comments/Recommendations by Stakeholder</b>	<b>WB Staff Comments/Response</b>
<p>2. Casual observation indicates that the much needed policy reforms may not be happening at this time. Government is sometimes perceived as backtracking in some reform measures, e.g., tariff, power, oil deregulation initiatives. The Bank may need to push the needed reforms in these areas.</p> <p>3. The Bank should provide a more condensed version to the present draft CAS programs. A shorter “shopping list” that can be perceived as “do-able” by policy makers and easier to understand. An example would be improved tax collection efficiencies.</p> <p>4. The Bank may be able to help in providing a more detailed database at the provincial level. This may help policy makers to react accurately and swiftly in this time of crisis. In addition, increasing the database on the nature of businesses and industries may also aid in enhancing the tax collection efforts of government. Through this database, the Bureau of Internal Revenue may be able to establish norms or standards to monitor industries and easily identify exemptions to the norm.</p>	<p>2. The Bank has recently resumed policy-based lending to press for reforms in the area of banking. Contractual savings and housing finance, governance and public sector reforms are being discussed for the potential next adjustment operations.</p> <p>3. The CAS matrix emerging from the consultation process seeks to prioritize the development agenda.</p> <p>4. WB initiatives to increase the amount of information on the provincial and city levels are the Annual Poverty Incidence Survey and the Family Income and Expenditure Survey.</p>
<p><b>Local Government:</b></p> <p>1. The LGUs suggested that WB provide a capability-building assistance on entrepreneurship for NGOs and cooperatives.</p> <p>2. Simplify the bond flotation procedure in order to maximize the revenue generating powers of the LGUs.</p>	<p>1. This type of assistance is already available from a number of bilateral donors.</p> <p>2. The Bank has helped the Government formulate a policy framework for LGUs which outlines the respective roles of various participants in LGU financing and promotes local self-reliance by reducing LGU’s dependence on the national government and concurrently expanding LGU access to private credit by: (a) enforcing a “graduation policy” whereby the more creditworthy LGUs access private sources of capital through commercial-bank loans, bonds, and BOT-type arrangements, and (b) limiting national government grant funds to the social and environmental aspects of local investments. GFIs and the MDF would play a complementary and subsidiary role to these private sources, and would refrain from lending to more creditworthy LGUs. The MDF is a key instrument for implementing the policy framework for LGU financing. The Local Government Finance and Development project is designed to operationalize the GOP’s policy framework by reorienting and strengthening the MDF.</p>
<b>B: Enhance Human Development, Poverty Alleviation and Social Services</b>	
<p><b>NGO/Civil Society:</b></p> <p>1. Lack of access to basic services like water, sanitary facilities, &amp; health can be addressed by increasing allocation of resources for social services. Monitoring indicators and systems should be set up with participation by civil society; Increase budget for primary health care; Provide technical assistance to LGUs to effectively assume responsibility for financing the implementation of devolved health services; Recognize women’s reproductive health should be one of the Bank’s priorities; Create a body to monitor government performance in basic services especially for children, elderly, disabled and women.</p>	<p>1. The Bank is discussing with GOP a proposed Social Expenditure Management Loan (SEML) which would aim at safeguarding priority social expenditures in the government budget. Ongoing and planned Bank-financed projects aim at improving safe water supply, sanitation and solid waste management. The WB’s Urban Health and Nutrition Project (UHNP) and ADB’s Integrated Community Health Services Project (ICHSP) are designed to test LGU support in Primary Health Care in urban and rural areas respectively. The Bank is also funding Women’s Health and Safe Motherhood activities which rank high in Bank’s priorities for health care in the Philippines. Enhanced monitoring across sectors is an integral part of the country assistance strategy.</p>

Comments/Recommendations by Stakeholder	WB Staff Comments/Response
<p>2. Increase support programs for the disadvantaged groups (special education for children with disabilities &amp; support to the elderly).</p> <p>3. Improve quality of education &amp; address high drop out rates at early age by increasing feeding programs in schools (not just day care, infant feeding but also elementary and high schools); Simplify curriculum with focus on mathematics, languages, sciences and social sciences and incorporate values in the overall system (values include principles of sustainability and being people-centered); Upgrade the Madrasa (Muslim curriculum) as a way to integrate Muslims into the mainstream of society; Enhance practicum programs &amp; include gender sensitivity training in the educational system.</p> <p>4. Inaccessibility of post secondary education: Increase budget for education. Provide sustained capability building for teachers. Upgrade curricula to make them more market based &amp; more functional. Promote labor retraining and retooling for disadvantaged groups.</p> <p>5. WB should encourage gender sensitivity training for all government personnel, especially LGUs to raise awareness of gender-specific issues and support programs to address them, particularly to prevent violence against women; Implement monitoring indicators for gender development compliance – this would include civil society participation in the monitoring. Address family violence (wife and child abuse) by sensitizing LGU, civil society (CS) in existence of the issue of family violence and develop a community response.</p> <p>6. WB should provide specific fund/loan allocations for regions/provinces/sectors so that there won't be any geographic imbalance of projects to be assisted by the WB.</p> <p>7. Lack of LGUs capability to effectively manage local programs, low capacity to respond to social needs, raise funds in addition to their Internal Revenue Allocation: Provide support for the capacity building of LGUs on local fund sourcing; on working with NGOs/POs and other groups &amp; on other innovative strategies to address key issues.</p> <p>8. Lack of civil society skills in meaningfully engaging government at the local level. Extend financial assistance not only through government or LGUs but also to NGOs and Pos.</p>	<p>2. This would also be addressed in the proposed SEML.</p> <p>3. School health and nutrition program are to be studied and reformed under the SEML. The Third Elementary Education Project (TEEP) has provision for the suggested interventions. A fourth elementary education project is proposed to extend the TEEP to other provinces.</p> <p>4. The Bank would support the improvement of technical/vocational education under SEML.</p> <p>5. The Bank is supporting a multi country gender study in East Asia. Under the SEML, the Bank will support programs in the Department of Social Welfare and Development that address issues such as family violence.</p> <p>6. The Bank is beginning to apply this principle in the human development sector, e.g. through TEEP</p> <p>7. The interventions described in No. 1 all have components for capacity strengthening.</p> <p>8. Bank rules do not permit direct lending to NGOs. However, increased civil society participation is a goal of the Philippines country program. Several ongoing projects include this component and future projects will increasingly involve civil society from project design through implementation to evaluation.</p>
<b>Private Sector/Business:</b>	
<p>1. What kind of intervention is the Bank thinking of regarding education?</p> <p>2. What is the Bank's view on the control of the government over the private sector in the control of the educational system?</p>	<p>1. The Bank's main focus is on two areas: elementary education and sector reform through the SEML. It is also supporting engineering and science education through an ongoing project (ESEP).</p> <p>2. The private sector has contributed greatly to education in the Philippines and there is a risk that it is being "crowded out" by the public sector. A major education sector study is being prepared and recommendations will be made for the regulation of the private sector education.</p>

<b>Comments/Recommendations by Stakeholder</b>	<b>WB Staff Comments/Response</b>
<p>3. What then can be done on the lower quality schools?</p> <p>4. Application of information on telecommunications technology to education should probably be looked into by the Bank, since DECS lack the capacity to handle it.</p> <p>5. A concern was raised on the prioritization of the housing sector due to the large housing backlog; suggested the establishment of a secondary mortgage institution (SMI).</p> <p>6. Suggested that WB come out with a scheme to assist socialized housing beneficiaries who are displaced due to the financial crisis and are having difficulty servicing their housing loans.</p>	<p>3. The government should provide information to parents about the quality of private schools so as to enable "informed choices".</p> <p>4. This has to be done in partnership with DECS because ultimately it will be in their schools. However, over the CAS period, the Bank's and DEC's priority will be on quality basic education.</p> <p>5. Establishment of an SMI is being addressed through the proposed Housing Finance TA Loan.</p> <p>6. Could be considered under the proposed TA for the housing sector.</p>
<p><b>Academe:</b></p> <p>1. A good regional and provincial database could enhance the response time of government on measures that concern poverty alleviation, human development, and social services.</p> <p>2. The Third Elementary Education Project (TEEP) provides tremendous amount of data on the profile of the poorest communities in the country, i.e., on poverty, nutrition, health, etc. The Bank and the government may be able to utilize this data.</p>	<p>1. Agreed. The Bank will pursue this idea with government and other donors.</p> <p>2. The Bank will discuss the sharing of data with DECS.</p>
<p><b>Local Government:</b></p> <p>1. Several LGUs complained that the devolved responsibilities especially in the health sector do not carry the corresponding resources.</p> <p>2. These LGUs are requesting WB to evaluate the imbalance of devolution to LGUs in terms of resources and to recommend appropriate devolution reforms.</p>	<p>1. The Bank is recommending a review of resource allocation under the LG Code as part of the health sector review.</p> <p>2. See point 1 above (NGO/Civil Society comments).</p>
<b>C: Accelerate Environmentally Sustainable Rural Development</b>	
<p><b>NGO/Civil Society:</b></p> <p>1. Address lack of food security by promoting speedy implementation of the Comprehensive Agrarian Reform Program, and providing access to productive resources; also by supporting research and development in agriculture, specifically in the modernization of agricultural practices but within an environmentally friendly and appropriate technology and in capacity building programs for alternative uses of excess agricultural produce and direct marketing schemes.</p>	<p>1. WB is supporting an Agrarian Reform Community Development Project (ARCDP), which aims to deliver critical support services for Agrarian Reform Beneficiaries (ARBs); WB is also providing non-lending technical assistance to the Department of Agrarian Reform (DAR) in sharing relevant developing country experiences which could accelerate implementation of Comprehensive Agrarian Reform Program (CARP) (e.g, through appropriate market-based instruments); WB is arranging a study tour of senior GOP officials to several countries.</p>

Comments/Recommendations by Stakeholder	WB Staff Comments/Response
<p>2. Provide support services for Agrarian Reform Beneficiaries. Finance replication of effective agrarian reform and rural development models (e.g. linking Agrarian Reform Communities with business sector) Provide infrastructure support – communications systems, post-harvest facilities, transportation and farm-to-market roads.</p>	<p>2. (a) The Bank addresses this through support of Bank-financed ARCDP; (b) the proposed Mindanao RD Project, which is also targeting ARCs through a block grant mechanism between the National and local governments as well as the communities; Small-scale rural infrastructure (such as farm-to-market roads, communal irrigation projects, first level water supply systems, etc.) will be established/maintained; (c) the Tree Crops study which is expected to be supported through the proposed S/H Commercial Crops &amp; Diversification. Program; and (d) non-lending assistance through promoting appropriate market-based instruments.</p>
<p>3. Lack of farm-to-market roads in the upland and remote lowlands. Target road construction to those and allocate resources for these remote areas. Infrastructure projects should be supportive of rural development (e.g. farm-to-market roads, storage facilities) with alternative marketing schemes.</p>	<p>3. The proposed Mindanao Rural Development Project is expected to include such investments.</p>
<p>4. Address lack of access to credit. Address lack of agricultural facilities and marketing assistance by supporting credit programs for post-harvest facilities and marketing schemes. WB and GOP should assess lending programs of the Land Bank and related institutions to determine access/accessibility of loans; Agree on/level-off on a common understanding of “poor” who could avail of the loans (NGOs, POs, Local Government Units (LGUs), national government agencies and WB have varying definitions of the intended beneficiaries of credit from the Land Bank. Broaden and strengthen partnership arrangements in rural finance which would include cooperatives and community-based financial intermediaries. (Some of the concerns: lack of farmers’ access to credit; financing criteria not considerate of farmers’ actual needs; GOP financing institutions monopolize WB rural financing programs; Land Bank policies dictate the crop and inputs into farmer’s field); Credit should be integrated with other services.</p>	<p>4. (a) short discussion note on rural finance issues and strategies is being prepared (including micro-finance issues which, if not sound, will jeopardize the sustainability of expanding smallholder access to rural finance); (b) several on-going Bank-financed projects are actively addressing relevant rural finance needs and partnership arrangements, and greater efforts are being placed to ensure cross-fertilization of approaches &amp; experiences, including: Rural Finance III (through support to Peoples Finance Credit Corporation which will work with/through cooperatives and rural banks, ensuring Land Bank lending procedures are sustainable and responsive to smallholder/enterprise needs); Comm.-Based Res. Mgt.(CBRM) Project and), Agr. Reform Comm. Development Project (ARCDP). In Cons. Priority Protected Areas (CPPAP), cooperatives and other community-based financial intermediaries are included as rural financial intermediaries for its livelihood component. The proposed MRDP will include a component to help strengthen capacities of community-based financial intermediaries for delivering credit facilities to communities; (c) Tree Crops in Rural Development Study (in process) is giving special focus to working out viable partnership arrangements between smallholders/investors and which integrate expanded access to finance and other key services; study findings will provide inputs to design of proposed Smallholder Commercial Crops Development/Diversification Program.</p>
<p>5. Alternative sources of livelihood for farmers and other peoples’ groups could be addressed by increasing their access to credit for microenterprises through alternative financing mechanisms. Provide capacity-building for financial management of enterprises and entrepreneurship.</p>	<p>5. (a) Above activities will also address these closely related concerns (especially support to the Peoples Finance and Credit Corporation which includes channeling funds through Peoples Organizations/ NGOs and capacity building);</p> <p>(b) CPPAP has a livelihood component (with grants, loans, and grants+loans) which aims to provide opportunities for communities to augment their sources of incomes within the protected areas and the buffer zones by engaging in non-destructive livelihood activities;</p> <p>(c) CBRM, through its rural financing windows for natural resource management projects, can also provide grants and loans for subprojects of LGUs in order to assist communities in managing their own resources, as well as in providing funds for alternative livelihood opportunities. Technical assistance for capacity building are also provided to LGUs and communities as part of the subprojects.</p>

Comments/Recommendations by Stakeholder	WB Staff Comments/Response
6. Watch out for massive usage and promotion of chemical farm inputs contributing to environmental damage and low farm production by supporting upscaled sustainable agricultural practices as an alternative technology.	6. CBRM Project is promoting use of enhanced and environmentally sustainable technologies.
7. Provide technical assistance for land use planning capacity building and implementation at the municipal and barangay levels (island-wide land use plan if appropriate); should include water use planning.	7. (a) CBRM Project is providing capacity building to participating LGUs in promoting more sustainable land use planning, practices and investments; (b) proposed Land Administration and Management Program is also addressing relevant land use policies and strategies.
8. Provide support for appropriate upland farming technology development, training and implementation.	8. CPPAP is promoting sustainable upland farming technologies among peoples organizations and communities.
9. Issues of conflicting DENR laws and policies; continued logging of prime hardwood species and lack of political will to stop logging. Arrest environmental degradation by improving monitoring systems and including civil society participation, particularly at the local levels. Strengthen practice of impartial Environmental Impact Assessments and institutionalize environmental accounting systems.	9. (a) On-going projects addressing these issues include: CBRM and CPPAP, which promote active PO/civil society participation in the management of forestry resources, and strengthening of local-based Protected Areas Management Boards;  (b) On-going non-lending assistance to GOP to develop a Land Administration and Management Program is addressing these issues; proposed lending assistance will provide opportunity to support implementation of the needed policy, institutional and capacity reforms.
10. Review trade liberalization of the agricultural sector as an accepted strategy for growth ; Consider the impact on the marginalized sectors including agriculture; Review strategies that pertain to the liberalization of rice, corn, sugar and livestock industries and look into programs that would give benefit/priority to Filipino farmers.	10. (a) Bank plans to prepare a short discussion note on these issues to promote enhanced understanding of issues and strategy options, and need for enhancing GOP's capacity to address these issues and tradeoffs; (b) WB is collaborating in the proposed ADB-supported Grain Reform Program; (c) proposed annual WB updates on the agricultural food supply and RD sector will also address relevant issues arising from trade liberalization and food security/poverty needs.
11. Ensure strict implementation of government resettlement plan for displaced communities. Resettlement plans should be made in direct consultation with affected communities. Consider displaced farmers, indigenous peoples when implementing WB-assisted infrastructure projects.	11. (a) Bank will ensure that policies on social safeguards, resettlement and indigenous peoples (especially in cases of resettlement) are strictly adhered to (with close monitoring and follow up actions) when designing and implementing Bank-financed projects; (b) Bank organized a forum with NGOs/POs to discuss and seek feedback on the Bank's draft Operational Directive on Indigenous Peoples.
12. Strengthen capacity building programs at the grassroots (farmers/indigenous communities) as a foundation to alleviate poverty.	12. Various Bank-supported on-going and proposed rural development projects are actively building capacity of rural communities to plan and manage their natural resources (e.g., CBRM, ENR-SECAL, CIP II, CPPAP, ARCDP, and proposed MRDP).
13. Undertake effective social monitoring with civil society participation.	13. Several projects are including beneficiary assessments to ensure that they are responding to priority beneficiary needs (e.g., CPPAP, SZOPAD Social Fund, CBRM Project, and proposed MRDP).

<b>Comments/Recommendations by Stakeholder</b>	<b>WB Staff Comments/Response</b>
<p><b>Private Sector/Business:</b></p> <ol style="list-style-type: none"> <li>1. Difficulty of the rural community to have access to credit/finance.</li> <li>2. The Bank should assist in organizing the farmers affected by the land reform into cooperatives so they can deal directly with banks.</li> <li>3. Problem with the Land Bank in directly financing the farmers. The farmers cannot get credit from the banks.</li> <li>4. What is the Bank doing on the effects of agrarian reform?</li> <li>5. Possibility of the private sector providing funding and technical expertise to the farmers in exchange for their produce being purchased directly by the private sector who provided the funds and technical expertise.</li> <li>6. Noted the poor sector performance of the agriculture sector. WB intervention was suggested to put some sense or cohesiveness to this sector to make it more bankable.</li> </ol>	<ol style="list-style-type: none"> <li>1. See point 4 above. The discussion note under preparation will provide a guide to Bank interventions in expanding rural finance. In addition, the Bank is helping to form a GOP/private sector/donor consultation group on rural finance, with the aim of promoting consistent and sound strategies and interventions.</li> <li>2. On-going support to ARCDP is addressing these issues through capacity building and agricultural enterprise development components.</li> <li>3. (a) Refer to point 4 above, especially through the Rural Finance III which aims to further strengthen and streamline the Land Bank's operational procedures and practices; (b) such an arrangement will definitely entail more costs for Land Bank, thereby further driving up their costs in delivering credit. What is more important is to build up the capacities of farmers and farmer groups in being able to directly deal with the Land Bank for their credit needs. ARCDP, MRDP, RFIII are giving special emphasis to enhancing capacities of farmers and farmer organizations to reduce the credit risks involved in lending to them.</li> <li>4. WB is collaborating with DAR and other donors in supporting a study which will assess the effects of the CARP, and derive strategy and operational implications to further guide the CARP design and implementation.</li> <li>5. The Tree Crops Study currently underway is addressing these issues and working out appropriate strategies and implementation options.</li> <li>6. (a) Dissemination of the Bank's Rural Strategy Report (Philippines: Promoting Equitable Rural Growth with Greater Equity); (b) preparation of selected discussion notes which address RD sector issues (e.g., rural finance, trade liberalization) and to be used to promote enhanced understanding of key issues and options) (c) key lending and non-lending activities also are aimed at enhancing the viability of investing in rural areas (e.g., land administration and management program; market-based instruments in accelerating CARP; (d) active support of GOP/donor RD consultation group, recently formed.</li> </ol>
<p><b>Academe:</b></p> <ol style="list-style-type: none"> <li>1. The Bank may want to highlight the role of capital investment in the environment as a poverty alleviation measure, aside from the usual notion of its contribution to overall growth.</li> <li>2. The Bank may want to emphasize the importance of upland areas as the start of efforts to rehabilitate natural resources.</li> </ol>	<ol style="list-style-type: none"> <li>1. (a) Bank's Rural Strategy Report highlights the importance of integrating environmental concerns in agricultural growth strategies; (b) Bank's environmental strategies also highlight these linkages; (c) support through several projects (e.g., ENR-SECAL, CBRM, CPPAP).</li> <li>2. This is clearly reflected in the importance that the Bank puts to upland areas ( in on-going projects such as ENR-SECAL, CBRM, CPPAP, and in proposed projects such as MRDP and River Basin Development.</li> </ol>

<b>Comments/Recommendations by Stakeholder</b>	<b>WB Staff Comments/Response</b>
<p>3. The Bank may want to provide advice on how to increase the absorptive capacity of the Department of Agriculture in implementing the programs of government and making efficient use of resources in its disposal.</p>	<p>3. The proposed MRDP will utilize a block grant mechanism which will facilitate the efficient use of resources by the national and local governments in implementing agricultural projects in the communities.</p>
<b>D: Promote Sustainable Urban Development and Combat Urban Poverty</b>	
<p><b>NGO/Civill Society:</b></p> <p>1. Re-orient public/government thinking about urban poor as positive contributors. Develop an effective urban poverty reduction program in consultations with all stakeholders including the urban poor themselves. Components would include socialized housing, micro-finance and health and sanitation (solid waste disposal). Should include effective monitoring with civil society participation.</p> <p>2. Strengthen urban governance and capacity-building of GO/LGU-NGO-POs, especially for urban local planning and service provision.</p> <p>3. Address environmental damage in cities and towns caused by inappropriate urban infrastructure development resulting from environmental and social considerations not integrated into overall sector planning and compliance monitoring; develop new resettlement communities in city relocation sites; look to on-site housing development as a viable alternative; support environmental protection/management practices (e.g. Reserve "green" areas); integrate environmental issues in budgetary processes.</p> <p>4. Lack of funds for socialized housing; prioritize low income housing; fund a new housing mortgage program. Assist LGUs in developing participatory approaches to settlement development facilities for low income families</p>	<p>1. During the CAS period, the Bank will focus on urban poverty issue more intensively. A city development program is under preparation. The Bank is discussing with the Government slum upgrading initiatives in the City of Manila as a pilot exercise. The proposed Solid Waste Ecological Enhancement Project (SWEEP) would have a component on community based waste collection. In the next Municipal Development Fund (MDF) based lending, on-lending to LGUs for poverty-target operation could be explored.</p> <p>2. The Bank is initiating a City Development Strategy exercise for LGU capacity building.</p> <p>3. The Bank will address these issues under the new operations such as LOGOFIND, LGU Water APL, and SWEEP. The City Development Strategy exercise will enhance LGUs' capacity to integrate environmental concern into their medium-term plan and investment formulations. A planned project for Lake Laguna would aim at strengthening the institutional framework for environmental planning. The Bank will also continue TA for environmental advisory services.</p> <p>4. Proposed Housing Finance TA loan will address the issue of mobilizing housing finance for the low-income segment of the society. One of the focus of the City Development Strategy is to upgrade the quality of life for the citizens. A capacity building exercise will be undertaken under this initiative.</p>
<p><b>Private Sector/Business:</b></p> <p>1. Observed that there is quite a number of lending programs for the LGUs but that there is also a need to review these in terms of consolidating the approach to lending to LGUs.</p>	<p>1. Under the LOGOFIND, the role of MDF will be reviewed.</p>
<p><b>Local Government:</b></p> <p>1. There was a suggestion to shift the City Development Strategy to the provinces.</p>	<p>1. To the extent these urban strategies impinge on RD strategies, efforts will be made to promote close collaboration.</p>

**E. Develop Infrastructure, Particularly in the Provinces**

Comments/Recommendations by Stakeholder	WB Staff Comments/Response
<p><b>NGO/Civil Society:</b></p> <ol style="list-style-type: none"> <li>1. Lack of telecommunication system in the north (Cordilleras, Mountain Province, etc.)</li> <li>2. Social and economic dimensions in privatization need to be balanced. What are other alternatives to privatization? How does government ensure the quality of services after privatizing? Do not rush into privatization but proceed carefully. Assess the impact on affordability, access, environment, sustainability (conservation protection and waste management), employment and study the different options.</li> <li>3. Strengthen and develop/upgrade rural electric cooperatives to become true cooperatives in the context of energy sectoral reform and locally managed energy distribution systems.</li> <li>4. Rehabilitation/extension of PNR (from Manila to Aparri) to address absence of efficient mass transport system (e.g. mass railway) in northern Luzon.</li> <li>5. To decongest major urban centers and achieve balance with agricultural productivity in growth corridor areas, develop cheaper rail, land, air, water transport/ inter-modal forms of transport, and consider safety and pollution safeguards.</li> <li>6. To decongest traffic, regulate transport licenses &amp; observe proper zoning. Strengthen traffic-related law enforcement practices, improve drivers' education system and licensing procedures.</li> <li>7. To improve seaports, encourage participation in the development and decentralization of port facilities. Encourage participation of private sector in implementation and monitoring.</li> <li>8. Inadequate funding for LGUs to undertake infrastructure projects, lack of capacity to manage. Need to fund land use planning and capacity building for LGUs.</li> <li>9. Ensure implementation of international covenants addressing displacement, labor, Indigenous Peoples rights when constructing infrastructure projects. Infrastructure projects tend to ignore social and environmental impact assessment mitigation requirements. Implement effective monitoring with civil society participation. Provide funding support to NGOs/POs for periodic monitoring.</li> </ol>	<ol style="list-style-type: none"> <li>1. The Bank will not be involved in the telecommunication system directly. It intends to help mobilize private sector investment in infrastructure through technical assistance and this may facilitate the investment in telecommunication. Proposed country framework for private sector participation in infrastructure will address the regulatory functions of the public sector.</li> <li>2. The Bank will try to mobilize grant funding to finance TA for the government to help with the analysis and decision process regarding privatization.</li> <li>3. Bank program includes the preparation of an action plan for the rural power sector which will address these issues. It may be followed by a rural electrification operation.</li> <li>4. Other donors are presently providing assistance on railroad restructuring. WB group would be ready to provide upstream advise on privatization/commercialization in the transport sector.</li> <li>5. Integration of different mode of transport and land use planning is a key focus area of CALA Regional Development Project.</li> <li>6. The proposed Metro Manila Urban Transport Integration Project would address most of these issues for Manila.</li> <li>7. The Bank is preparing a Country Framework Report to assist GOP in framing a new strategy for the private provision of infrastructure and promote opportunities for private sector investment.</li> <li>8. CALA Regional Development Project and City Development Strategy will address this issue. All planned LGU based projects will include capacity building components.</li> <li>9. The Bank will discuss with the Government of the Philippines whether the Bank should provide assistance in this area in the context of the proposed country framework study for private sector participation in infrastructure. All these covenants are already respected in Bank-financed projects.</li> </ol>



<b>Comments/Recommendations by Stakeholder</b>	<b>WB Staff Comments/Response</b>
10. Poor quality roads due to lack of funds, corruption, need for concreting/ upgrading of poorly constructed roads.	10. The National Roads Improvement and Management Project (NRIMP) will focus on maintenance of highways with DPWH and assist in institutional reforms to bring about more efficient and effective use of funds in the roads sector.
<b>Private Sector/Business:</b>	
1. Telecommunications does not seem to be a priority area of WB.	1. See point 1 above.
2. Noted several infrastructure projects but observed that the problem is on the maintenance/sustainability of these projects.	2. The Bank will focus on maintenance of highways under NRIMP.
3. Suggested to review the bidding process of infrastructure projects to encourage participation of "real experts" as well as a bonding system for long-term projects.	3. The Bank will work with the GOP to enhance transparency of infrastructure projects.
4. The need for prioritization of infrastructure projects and WB's role in this prioritization was also suggested.	4. See point 2 above.
5. WB to support PNR privatization and rural rail transport. Need for adequate and properly equipped airports in the country was likewise expressed.	5. See point 4 above.
6. Many infrastructure projects tend to be concentrated in certain areas; there is a need for these projects to be planned in a more comprehensive and integrated manner.	6. Some of the Bank's planned activities, e.g. the proposed CALA development project, would aim at more integrated area development.
7. Recognize the need to provide local budget/funding for roads right of way acquisitions; this is a major bottleneck in project implementation.	7. One focus of NRIMP is the right of way acquisition and related resettlement issue.
<b>Academe:</b>	
1. As a form of short-term "doable measure", the Bank may provide advice on the policies pertinent to Napocor, i.e., the issue of pricing power, whether there is a scope for government subsidy or not.	1. ADB is taking lead on this issue. The Bank will participate in the discussion with ADB.
2. Irrigation facilities and farm-to-market roads particularly for coconut and sugar farms seem to have been neglected in favor of rice and corn crops. The Bank may want to correct this imbalance.	2. This issue will be taken up in the proposed Mindanao Rural Development Project.
3. Irrigation projects in general may need to be refocused as proper water utilization management. The direction should be to view the irrigation program as part of the overall program to provide potable water, flood control, reservoir management, etc.	3. The Bank is proposing to undertake Adaptable Program Loans for water-basin management to address water resource management in a more comprehensive manner, both in rural and urban settings.
4. Infrastructure should be rationalized. Proper coordination should be emphasized in the construction of national and local roads.	4. The Bank is proposing to undertake such analysis especially focusing on the demarcation between national and local roads.

<b>Comments/Recommendations by Stakeholder</b>	<b>WB Staff Comments/Response</b>
<b>Local Government:</b>	
1. Several requests were made for WB to provide TA in terms of project preparation especially for infrastructure projects, enhancing revenue generation and organization of coops and other entrepreneurial activities.	1. The City Development Strategy exercise will take a close look into these areas in several fast-growing cities.
<b>F. Enable Expansion of the Private Sector</b>	
<b>NGO/Civil Society:</b>	
1. Lower GOP/WB's required capital and loan ceiling for SMEs and review relevant policies so that micro-enterprises can have access to credit from GFIs and other banks. Credit is usually not given to micro-entrepreneurs without collateral, or with low collateral. Channel funds to accredited, capable co-ops/private sector.	1. These concerns are being addressed through the Private Enterprise Credit Support Project (PECSP) and Rural Finance III which are designed to support SMEs and micro-enterprises; and the IFC's loan and equity in support of a micro-finance institution.
2. Pressure government to get private sector involvement in project identification and implementation. Lack of collaboration among government officials and private sector at the local level often results in competition.	2. The on-going Country Framework Report (PPI Study) includes measures to enhance greater private sector involvement in project implementation
3. Encourage NGO/PO exemption from taxes (similar to co-ops) and allow them to solicit savings legally. Right now, NGOs providing credit to rural and micro-enterprises are subject to 10% tax on gross income.	3. Tax exemptions at a period of severe budget difficulties may be hard.
4. Lack of participation of private sector in the implementation of capacity-building projects. Contract private sector for capacity building (of LGUs, POs, NGOs).	4. On-going capacity building initiatives in Bank-financed projects to improve procurement and financial management capabilities have been contracted to the private sector.
<b>Private Sector/Business:</b>	
1. The Bank should focus on ways to reduce cost of doing business.	1. Accepted; measures to enhance transparency and competition and assistance to GOP for its anti-graft and corruption program aim at this.
2. On the topic of analytical and advisory services, the possibility of the private sector doing a performance rating of GFIs and GOCCs should be pursued.	2. Accepted, IFC is providing support for the establishment of a second rating agency (Thomson Rating Philippines).
3. Restructuring banks through help in debt reduction and injecting of equity is necessary in order to resolve their problems.	3. Being done through the Banking System Reform Loan (BSRL) which is designed to support reforms to strengthen the banking system; and the IFC's equity participation in Asian Bank and Metro Bank.
4. Difficulty of SMEs to do relending with the DBP or any of the GFIs because of the conditionalities imposed on the SMEs. Problem with equity, either of the SMEs or the rural communities (give equity instead of loans). Difficulty of the rural community to have access to credit/finance. The Bank or IFC to jointly set up with private sector a venture capital corporation to provide equity to SMEs so these companies will become bankable.	4. PECSP and RF III are designed to ease the credit constraints of SMEs. RF III provides support to enterprises in the rural areas, and IFC is providing equity to set up a micro-finance institution to assist enterprises in rural areas under the 5 <sup>th</sup> venture capital.
5. Is the Bank imposing any limitations as to how much DBP could charge for its spread?	5. DBP's onlending to participating PFIs under PECSP is based on market rate.

<b>Comments/Recommendations by Stakeholder</b>	<b>WB Staff Comments/Response</b>
<p>6. Strengthening of the guarantee mechanisms. Afraid that funds may just stay with the intermediary banks and not be filtered down to the beneficiaries.</p> <p>7. A mechanism against the traders (who advance money) from controlling the millers/farmers.</p> <p>8. No mention of irrigation in the presentation on Provincial infrastructure.</p>	<p>6. The effectiveness of the participating financial institutions under the PECSP and RF III will be closely monitored as part of the supervision of these projects.</p> <p>7. RF III's micro-finance component and IFC's support for micro-finance institution will provide financing options for millers/farmers.</p> <p>8. Being done under Rural Development projects, including Communal Irrigation Development Project II and Irrigation Support Project II.</p>
<p><b>Academe:</b></p> <p>1. The Bank should take a closer look at building direct relationships with NGOs rather than with the traditional government conduits of programs. There are now a lot of NGOs that do programs directly in line with Bank priorities.</p>	<p>1. Being done through Conservation of Priority Protected Areas project, SZOPAD Social Fund, Urban Health and Nutrition Project and the possible Youth Development LIL.</p>
<b>G. Improve Governance and Combat Corruption</b>	
<p><b>NGO/Civil Society:</b></p> <p>1. Complex/tedious process of procurement and financial transactions; very open to corruption. Review internal GOP systems and streamline system, simplify procurement and payment internal control policies and procedures. Lessen paperwork to avoid red tape and different bureaucratic levels. Simplify terminology.</p> <p>2. Lack of transparency and public participation in government projects. Strengthen civil society participation. Engage civil society in planning, monitoring and evaluation of government projects. Consider civil society as direct project Implementers. Deputize and accredit support and monitoring groups at different levels (national and local).</p> <p>3. Poor financial management. Should assist/monitor beneficiaries at the start of the project to enhance financial capabilities and ensure fiscal accountability.</p> <p>4. Culture of fear/indifference of government employees re: graft and corruption. Provide incentive systems for honesty. Support massive anti-corruption campaign (media, Department of Education, church, etc.)</p> <p>5. Prevalence of patronage politics  - WB should support NGO activities in responsible political education and values formation  - WB should support mass education for continuing political education/responsible citizenry.</p>	<p>1. The Bank agrees with the comments, and recommendations. In the preparation of Bank-financed projects, it will require that overly bureaucratic procedures be streamlined.</p> <p>2. The Bank will strengthen civil society's participation in the preparation of Bank-financed projects and include civil society to the extent feasible in the monitoring and evaluation. Where civil society has a comparative advantage it will be used for project implementation.</p> <p>3. Agreed. This aspect of project implementation will be strengthened in line with the recommendation.</p> <p>4. The Bank will, upon request by GOP, provide assistance on anti-graft and corruption measures in specific agencies. It is also actively supporting anti-corruption efforts through education/training and strengthening supervision to ensure that goods and works are to specification.</p> <p>5. On a project by project basis, these recommendations are presently carried out. If the GOP requests the WB's assistance in a mass education campaign for the public the Bank would be ready to assist.</p>

<b>Comments/Recommendations by Stakeholder</b>	<b>WB Staff Comments/Response</b>
<p>6. Lack of information on government/WB projects. Disseminate information to barangay/community level.</p> <ul style="list-style-type: none"> <li>- regular financial reports and accomplishments, budget allocation and expenditures</li> <li>- publish financial reports and accomplishments</li> <li>- public awards and recognition of government agencies</li> </ul> <p>7. Lack of updated technology (computerization) to streamline and make systems more efficient. Upgrade computer technology and skills across government agencies.</p> <p>8. Delayed, overly bureaucratic, inefficient delivery of basic services. Pressure GOP to conduct job rationalization program at all levels. Government re-organization should be done carefully because of impact on employees during these times of crisis.</p> <p>9. Lack of penalties/sanctions for violation of the Local Government Code,</p> <ul style="list-style-type: none"> <li>- inclusion of NGOs/POs in Local Development Councils;</li> <li>- community consultations on major projects for the area.</li> </ul> <p>Before project approval, validate the plans of LGUs with communities at all levels, strengthen Local Development Councils.</p>	<p>6. The WB is working with the GOP to provide more information on WB projects to make them as transparent as possible, consistent with efficient implementation.</p> <p>7. Agreed. WB always reviews this aspect of specific GOP agencies as part of the project appraisal process and provides the necessary financing to strengthen the concerned agency's performance.</p> <p>8. Comments agreed. If the GOP asks the WB to assist in job rationalization, it will do so. Comments on the impact of employees noted.</p> <p>9. The WB's standard operating procedures for the preparation and subsequent implementation of WB-financed projects is to include the participation of the potential beneficiaries in the design and implementation and to strengthen LGUs.</p>
<p><b>Private Sector/Business:</b></p> <p>1. Strengthening governance at the barangay level which is considered by some as training ground for graft and corruption.</p> <p>2. Bank grant to improve bureaucracy at the local level.</p> <p>3. The judicial system must be strengthened to reduce graft and corruption.</p> <p>4. Study on the improvement of the bureaucracy at the Bureau of Customs.</p>	<p>1. Comment noted, will be taken into account in WB-financed projects involving barangays.</p> <p>2. Proposal expected for Bank to follow up.</p> <p>3. The WB has assisted several countries to improve their judicial system and is evaluating a request by the GOP for similar assistance in the Philippines.</p> <p>4. Under a WB financed project, the performance of the Bureau of Customs has improved considerably. Further assistance may be provided.</p>

<b>Comments/Recommendations by Stakeholder</b>	<b>WB Staff Comments/Response</b>
<p>5. The Bank to be more rigorous in evaluating/monitoring projects to provide higher transparency.</p>	<p>5. Agreed. The WB is always seeking ways to make its projects more transparent.</p>
<p><b>Academe:</b></p> <p>1. Issues in education, health, nutrition are within the realm of the local government units. The Bank may want to study on how to strengthen the division of labor between the national government and LGUs. A revisit on the IRA should be priority study (e.g., there are cities that have adequate revenue inflow but are still given huge amounts of IRA, while some poor cities may take a disproportionately smaller allocation).</p> <p>2. The Bank may want to study the initiatives of LGUs themselves, such as the Inter-LGU cooperation; and see where improvements can be made.</p> <p>3. The Bank may want to study how to improve the Oversight Function of Congress. This may help in strengthening anti-corruption measures of government. One may need to focus on how transparency and accountability can be enhanced in the system.</p>	<p>1/2 Comments noted and the recommendations will be taken into account in the WB's dialogue with the GOP on LGU issues and on specific investment projects. A study on decentralization is proposed as part of the Bank's assistance program.</p> <p>3. If requested by the GOP, the WB would study this oversight function with a view to enhancing transparency.</p>
<b>Other Issues/Concerns</b>	
<p><b>NGO/Civil Society:</b></p> <p>1. Increase the level of participation &amp; involvement of civil society in all stages of project development—from planning to implementation and monitoring and evaluation.</p> <p>2. When planning programs, continue to focus on the poor, address root causes, protect the rights of the poor and vulnerable groups.</p>	<p>1. The WB, as an institution, is supportive of participatory approaches in projects &amp; policies. In the last decade, there has been a trend for increasing participation in Bank-assisted projects. In the Philippines, about half of the ongoing projects have NGO/PO participation in specific components/activities at various stages of project development. However, certain obstacles and issues have to be addressed before participation can be fully mainstreamed.</p> <p>2. The overarching objective of the WB is to work with member countries to make people's lives better, especially those of the poor. But development is a complex issue which involves many players. Hence, in some cases, it takes a longer time for projects to bear a positive impact on the poor.</p>

Comments/Recommendations by Stakeholder	WB Staff Comments/Response
<p>3. Keep civil society informed about the Bank and the projects it supports, especially at the local level.</p> <p>4. Make the CAS a public document to demonstrate the Bank's and Government's seriousness in promoting transparency.</p>	<p>3. The Bank's public disclosure policy has broadened the amount and kinds of information that is made publicly available. Since the Bank believes that broader dissemination of information will help to increase local participation and strengthen the effectiveness of projects, various tools and mechanisms for information sharing have been developed. Examples are the Public Information Center at the Resident Mission Office, the quarterly newsletter (INTOUCH), an information kiosk on CD-ROM, and the Bank's website on the Internet. At the regional/provincial level, the Bank acknowledges the need for more information, so the next phase of the work will be to look more closely on how to improve the outreach in these places.</p> <p>4. A new policy on public disclosure of the CAS states that the CAS document and an information document on the CAS (Country Public Information Notice or CPIN) can be made available to the public upon request of the government and after presentation to the Bank's Board of Executive Directors. The Bank as a multinational development institution is mandated under its Articles of Agreement that the Government is its principal client. Any involvement of other stakeholders in any Bank-supported program should have the full knowledge and consent of the Government. We have informed the Government of the feedback taken from civil society consultations that the CAS should become a public document.</p>
<p><b>Local Government:</b></p> <p>1. Need to support the capability-building requirements of LGUS in terms of preparing technical and feasibility study requirements of foreign-assisted projects; cooperatives and entrepreneur formations; raising alternative revenue generation such as simplification of bond flotation procedures.</p> <p>2. WB to evaluate the imbalance of devolution to LGUs due to the mismatch between responsibilities and resources and recommend reforms for devolution especially in the health and agriculture sectors.</p> <p>3. Shift the City Development Strategy to the provinces. The Governors League is willing to work with WB on this initiative.</p>	<p>1. The City Development Strategy would focus on these needs. The Bank also intends to undertake a TA and mobilize bi-lateral grant resources from donors who have undertaken TA activities in this area.</p> <p>2. Proposed sector work on decentralization will take a close look at this issue.</p> <p>3. The Bank intends to invite provincial governments to take part in the City Development Strategy exercise.</p>

### **Philippines - Programs of Other Donors**

1. The following provides an overview of other donors' major activities and emphasis of their strategies in the Philippines organized by the seven objectives of the World Bank Group's strategy. It also points to areas of current and potentially stronger future collaboration.

#### **Address Crisis Effects and Promote Economic Recovery**

2. An analysis of the data collected from the donor community indicate that **ADB** and **IMF** are the major multilaterals with activities that relate directly to addressing the Asian financial crisis and promoting economic recovery. Among the bilaterals, **Japan**, **European Union**<sup>1</sup> and **USA** have major programs in this area.

3. Against the backdrop of the Asian financial crisis, **IMF** acted to 1) review further its surveillance operations, including in the areas of banking soundness, data dissemination and good governance; 2) adapt its financial instruments and procedures; and 3) examine the adequacy of its quota resources. Specific activities of the **IMF** include the provision of Technical Assistance on improving tax administration and an analysis of fiscal sustainability, as well as the Stand-by arrangement. **ADB's** response to the crisis related to strengthening the equity market through capital market development and long term peso resource mobilization (peso bond market) and a grant to the Insurance Commission, as well as program loans in response to Government request. The **European Union** is the largest single donor to the ASEM Trust Fund, with the **U.K.**, **France**, **Italy**, **Netherlands**, **Finland**, **Sweden**, and **Luxembourg** as the other initial contributors to the Fund.

4. Among the bilaterals, **Japan**, **USA** and **Germany** have activities that relate to this particular objective. The Japanese government has put in place the new **Miyazawa Initiative** under which they have already committed about \$1.4 billion. Japan's assistance to the Philippines is broadly divided into two categories: short-term assistance in response to immediate problems caused by the currency crisis, and medium- to long-term assistance to promote recovery and to return to the process of sustained growth. **USA** is specifically concentrated on capital market development and an improved national system for trade and investment through its Philippine Assistance Program Support. **USAID** also provides policy advice in response to the crisis through a broad technical assistance project called **AGILE** (Accelerating Growth, Investment and Liberalization with Equity). **Germany's** specific activities include advisory services to the Philippine Tax Administration Project and linking banks and self-help groups.

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<sup>1</sup> A Trust Fund to be managed by the World Bank was established through the Asia-Europe Meeting (ASEM) of April 1998 to provide Asian countries with technical assistance and advice on restructuring their financial and social sectors to deal with the problems caused by the crisis.

### **Enhance Human Development and Social Services for the Poor**

5. Almost all multilateral and bilateral donors are extensively and intensively involved in human development and poverty alleviation efforts. Substantive investments are channeled to the health, education and welfare sectors, especially for marginalized women, children, rural and urban poor, indigenous peoples and victims of disasters. Specific activities include support to formal and nonformal education, integrated community health services, nutrition, family planning and reproductive health, as well as policy reforms directed at improving access to and quality of basic education, improving education sector financing and enhancing the skills of the labor force. Parallel to these activities are measures designed to improve poverty targeting and action plans to reduce poverty and income inequalities.

6. In terms of providing social safety nets, **ILO, UNDP, UNFPA, UNICEF, Belgium, Canada, Germany, Netherlands, Norway, and USA** are undertaking various activities including the provision of an efficient, effective and equitable health insurance system, development of social security protection in government service, entrepreneurial development support to migrant workers and their families, and other forms of targeted support. The **ASEM Trust Fund** also provides assistance to Asian countries affected by the crisis in terms of dealing with the social problems caused by the crisis.

### **Accelerate Environmentally Sustainable Rural Development**

7. Activities of other donors relating to this objective are prolific especially in the rural development sector. Most programs and projects focus on community-based approaches for the management of upland, coastal and forestry resources as well as support irrigation works and give comprehensive assistance to agrarian reform including the development of farmer organizations, enhancement of infrastructure, provision of credit and rural microenterprise finance. The assistance also supports development of fisheries and improvement of livelihood of impoverished fishermen. Complementary activities include capacity-building initiatives and policy advice on rural development planning and management.

8. Deficient natural resources and environment management have led several donors to invest in several activities involving the improvement of natural resources management and environmental protection such as air and water pollution control, land erosion control, reforestation, waste management, disaster countermeasures and comprehensive watershed management. These donors are likewise concentrating on the strengthening of the institutional framework and capacity, especially at the Local Government Units' level to implement and monitor natural resources and environmental management. Donors in the environment and natural resources sector include **ADB, UNDP, UNIDO, Australia, EU, Germany, Japan, Netherlands, Spain, Sweden, and USA**.



### **Promote Sustainable Urban Development and Combat Urban Poverty**

9. Under urban development, the **ADB** and **Japan** are the main active donors. Activities include support to poor urban communities, infrastructure support to targeted urban centers, and support to an urban policy framework. Other donors support land use utilization and housing activities, as well as regional development to reduce the concentration of population in major cities.

### **Develop Infrastructure, Particularly in the Provinces**

10. In the development of the Infrastructure sector, substantial investments are poured in the development of mass rail transit, construction of roads, port facilities and airports, modernization of the shipping sector, and supporting the development of non-fossil fuel energy sources such as geothermal power generation as well as the improvement of power grids and electrification of rural areas. A large bulk of the donors' resources are also utilized in supporting irrigations works, water supply in Metro Manila and regional cities, flood control for major rivers and river basins in regional cities.

11. Policy-related activities are also undertaken by the donors in terms of addressing regulatory and institutional issues confronting the infrastructure sector. **ADB, and Japan** are major donors across the main sub-sectors of transport, water and energy, with **UNDP, Australia, Austria, Belgium, EU, France, Germany, Italy, Netherlands, Norway, Spain** and **USA** also providing significant assistance in terms actual investment, policy and/or institutional support through specific projects relating to some of the sub-sectors.

### **Enable Expansion of the Private Sector**

12. To stimulate private sector participation, some donors support the development of infrastructure related to private sector projects in terms of undertaking components with low profitability that would be difficult for private corporations to perform, such as construction of transmission lines for power generation projects. Other donors support microfinance for enterprise development or support the provision of infrastructure in special economic zones to help the Philippines meet the growing infrastructure support requirements of domestic and foreign investors.

13. **USA** is particularly active in the area of private sector participation through its "Build-Operate-Transfer" program which expands private participation in infrastructure at the Local Government levels and helps the strengthening of Local Government Units and Civil Society for broadened participation in the formulation and implementation of public policies in selected areas. Other forms of assistance to private sector development, including microfinance activities, are provided by numerous other donors including **ADB, IFAD, ILO, UNDP, UNIDO, Australia, EU, Germany, Italy, Japan, Spain** and **USA**.

### **Improve Governance and Combat Corruption**

14. In supporting good governance, donors want to ensure that the Philippines manages its social and economic resources in an effective manner and according to the criteria of transparency, equity and accountability.

15. Based on these objectives, **ADB, ILO, UNDP, Australia, Canada, Norway, and USA**, are particularly active in this area. Their activities include components which encourage and assist good governance and which contribute specifically to the strengthening of institutions and accountability mechanisms. While most of these activities target the public sector, support is also given to institution-building outside government, such as NGOs and other community groups and specific efforts to educate and empower civil society. Among the donors, **UNDP and USA** have major activities relating specifically to the judicial system.

16. The following matrix consolidates the activities of the major donors in each sector. It should be noted that due to space limitations, only the major donors and/or activities were captured under each sector, although there are many other ODA projects and donors active in each sector. [NOTE: We are currently compiling a database of all ODA projects which we plan to post at a website.]

**PHILIPPINES: PROGRAMS OF MULTILATERAL AND BILATERAL DONORS (March 1999)**

Address Crisis Effects and promote Economic Recovery		Enhance Human Devt., Poverty Alleviation and Social Safety Nets			Accelerate Environmentally Sustainable Rural Development	Promote Sustainable Urban Dev't. & Combat Urban Poverty	Develop Infrastructure, Particularly in the Provinces			Enable Expansion of the Private Sector	Improve Governance and Combat Corruption		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Financial and Corporate System	Macro-Economic Stabilization	Health	Education	Social Safety Net and Social Programs	Rural Dev't.	Environment /Natural Resources	Urban Dev't.	Water and Sewerage	Energy	Roads, Transport and Telecom	Private Sector Strategy	Good and Clean Governance	Judicial System
<p>IMF: Stand-by Arrangement</p> <p>ADB and USA: Cap. market dev't.</p> <p>Japan: Miyazawa Initiative</p> <p>Germany and USA: Tax adm. and policy advice</p> <p>ASEM: Response to crisis: assistance to the financial sector</p>	<p>IMF: Ongoing advice</p> <p>ADB: TA and program loans</p> <p>Japan: Miyazawa Initiative</p> <p>USA: Policy advice</p>	<p>ADB UNFPA UNICEF WHO</p> <p>Australia Austria Belgium EU</p> <p>Japan Netherlands</p> <p>USA: Various interventions</p>	<p>ADB UNESCO UNICEF WHO</p> <p>Australia Belgium Japan</p> <p>UK: Various interventions</p>	<p>ILO UNDP UNFPA UNICEF</p> <p>Belgium Canada Germany Netherlands Norway:</p> <p>USA: Various interventions</p> <p>ASEM Trust Fund: Response to Crisis – assistance to the social sector</p>	<p>ADB IFAD UNDP</p> <p>Australia Belgium Canada EU</p> <p>France Germany Japan Netherlands Sweden</p> <p>USA: Various interventions*</p>	<p>ADB UNDP UNIDO</p> <p>Australia EU Germany Japan Netherlands, Spain Sweden</p> <p>USA: Various interventions</p>	<p>ADB Japan: Various interventions</p>	<p>ADB UNDP Australia EU</p> <p>Germany Japan: Various interventions</p>	<p>ADB Belgium Germany Japan Netherlands Norway</p> <p>USA: Various interventions</p>	<p>ADB Australia Austria Belgium France Italy Japan Spain</p> <p>USA: Various interventions in any one sub-sector</p>	<p>IFAD ILO UNDP UNIDO</p> <p>Australia Canada EU Germany Japan Italy Spain</p> <p>USA: Various interventions, including microfinance</p>	<p>ADB ILO UNDP</p> <p>Australia Canada Norway</p> <p>USA: Various interventions, including institutional capacity-building</p>	<p>UNDP USA</p>

**Philippines: Tentative List of Country Performance Indicators and Targets<sup>1</sup>**  
(under discussion with the government)

<b>MACROECONOMIC/FINANCIAL FRAMEWORK</b>		
	Actual	2004 Target
Poverty incidence	32.0%	25 - 28 %
Unemployment rate	10.1%	6.5 - 7.9 %
GNP growth	0.1%	5.7 - 6.4 %
Inflation rate	10.0%	4 - 5 %
Fiscal policy (e)	3.5	3.5 - 4
Financial Stability & Depth (e)	3	3.5-4
Banking index (c)	3.5	2 - 2.5
Moody's LT fgn. currency debt rating	Ba1	at least Baa
Foreign invt. Index (c)	3	2.5 - 3

<b>PRIVATE SECTOR FRAMEWORK</b>		
	Actual	2004 Target
Competitive environ. for pvt. sector (e)	4	4 - 4.5
Govt. intervention index (c)	1	maintain 1
Regulation index (c)	3	2.5 - 3
Wage & price control index (c)	2	1.5 - 2

<b>INFRASTRUCTURE</b>		
	Actual	2004 Target
Paved Roads		
- national arterial	75%	100%
- national secondary	65%	45%
Road Density (per sq.km. of land area)	0.57 km	0.59 km
Telephone Density (working lines per 100 people)	8	13

<b>HUMAN DEVELOPMENT</b>		
	Actual	2004 Target
Infant mortality rate	35	25
Total fertility rate	3.8	3
Health insurance coverage (% pop.)	38%	70%
Elementary completion rate	65%	83%
Elementary cohort survival rate	69%	85%
Pro-poor targeting of programs (e)	4	4 - 4.5
Safety nets (e)	3.5	4 - 4.5
Human Dev. Index	0.68	0.71

<b>GOVERNANCE AND ANTI-CORRUPTION</b>
2004 Targets
Privatization proceedings to average P30 B per year
Incidence of graft and corruption reduced by 80%
Ratio of civil servants to total population to stay below 2%
Annual crime solution efficiency index improved from 91% to 95%
Property rights and governance rating to improve from 4 to 4.5 (e)
TI corruption index to improve from 3.3 (rank = 56) to 3.6

<sup>1</sup> See notes at the end for sources and rating methods. Many of the targets are staff suggestions which will be refined after discussions with the government and further data analysis.

<b>SUSTAINABLE URBAN DEVELOPMENT</b>		
	Actual	2004 Target
Electrification ratio		
Barangay	76%	92%
Household	76%	88%
Metro Manila access to sewerage & sanitation	6%	11%
Water supply access (% of urban pop.)	59%	79%
Improved traffic signal system installed in 400 Metro Manila intersections		
Reduce incidence of pollution related health diseases by 30% by 2002		
50% more firms complying with pollution control norms by 2002		

<b>SUSTAINABLE RURAL DEVELOPMENT</b>		
	Actual	2004 Target
Electrification ratio	65%	90%
Water supply access (% of rural pop.)	84%	85%
Public funding for rural dev. (in real terms)	P 14B	P 20 B
Irrigated areas (% of irrigable land)	42%	52%
30% of farm-to-market roads will be paved		
Rehabilitation programs for freshwater started in 5 major rivers		
18,000 ha. of mangrove areas rehabilitated; another 15,000 ha. Protected		

*Sources:* a) Draft MTPDP (NEDA, February 1999); b) 1998 Demographic and Health Survey Preliminary Report; c) The Heritage Foundation (Oct. 1997); d) Transparency International (1998); e) 1998 Country Policy and Institutional Assessments (CPIA), World Bank; f) Human Development Report (UNDP, 1998); g) Moody's (1998). Unless otherwise mentioned, targets are either from (a) or World Bank staff estimates.

*Notes:*

The ratings were selected based on the ease of availability, relevance to the country priorities, and the frequency of construction. Almost all of the indicators are available on an annual basis which will make the monitoring easy.

- \* CPIA ratings are based on score of 1 - 6 (4.01-6 = highly satisfactory, 3.01-4 = satisfactory, 1 - 3 = unsatisfactory)
- \* Heritage ratings are based on a score of 1 - 5; with 1 being outstanding and 5 being highly unsatisfactory.
- \* For most of the targets based on c) and e), the assumption is that the score will improve on average between 10 - 30%, except for government intervention index, where the assumption is that the current superior performance should be maintained. The improvement will differ between sectors, eg. Financial sector rating is expected to improve more compared to the rating on fiscal policy.
- \* For TI corruption index, assumption is of 10% improvement.
- \* For Human Development Index, the assumption is 5% improvement.
- \* For Moody's rating, obligations rated Ba and below are termed "speculative grade" and the numbers indicate further gradations of credit risk. The target here is to improve the rating to at least Baa, which is considered "investment grade".

## **Philippines: Participation and Dialogue with NGOs**

1. **The NGO and Peoples Organizations (POs) community** comprises more than 35,000 cooperatives and around 60,000 NGO/POs. Over the years, the NGO community has not only grown in size but has also become increasingly professional, thus playing a very important role in influencing development and impacting both on policy issues and project implementation. Recognizing this, the Resident Mission in the Philippines (RMP) has forged partnership and cooperation with NGO networks, individual NGOs and POs, in both policy dialogue and project concerns.

2. **The tradition of NGO involvement in Bank-supported project activities dates** back more than ten years. As of July 1998, out of the 27 ongoing projects, 14 have significant NGO/PO participation in implementation. These projects are mostly in the rural development, environment, health and water sectors. The RMP's objective is to mainstream their participation in all new projects unless a case is made otherwise. This is actively being worked out in the projects in the pipeline.

3. **Collaboration with the NGO community also extends to activities related to policy dialogue and ESW.** Recently, extensive consultation was done on a Rural Development Strategy Report, the Socio-Economic Impact of the Financial Crisis, Negotiated/Market-Based Land Reform and Draft Approach Paper for the revision of the Bank's Directive 4.20 (Policy on Indigenous Peoples).

4. For the formulation of the **Country Assistance Strategy (CAS)**, a series of consultation-workshops were undertaken in Manila and key regional centers to gather feedback and suggestions from the NGOs/POs as well as academe, think tanks, trade unions and business groups. RMP engaged the services of one of the key NGOs in the country, to assist the Bank in the CAS consultation process.

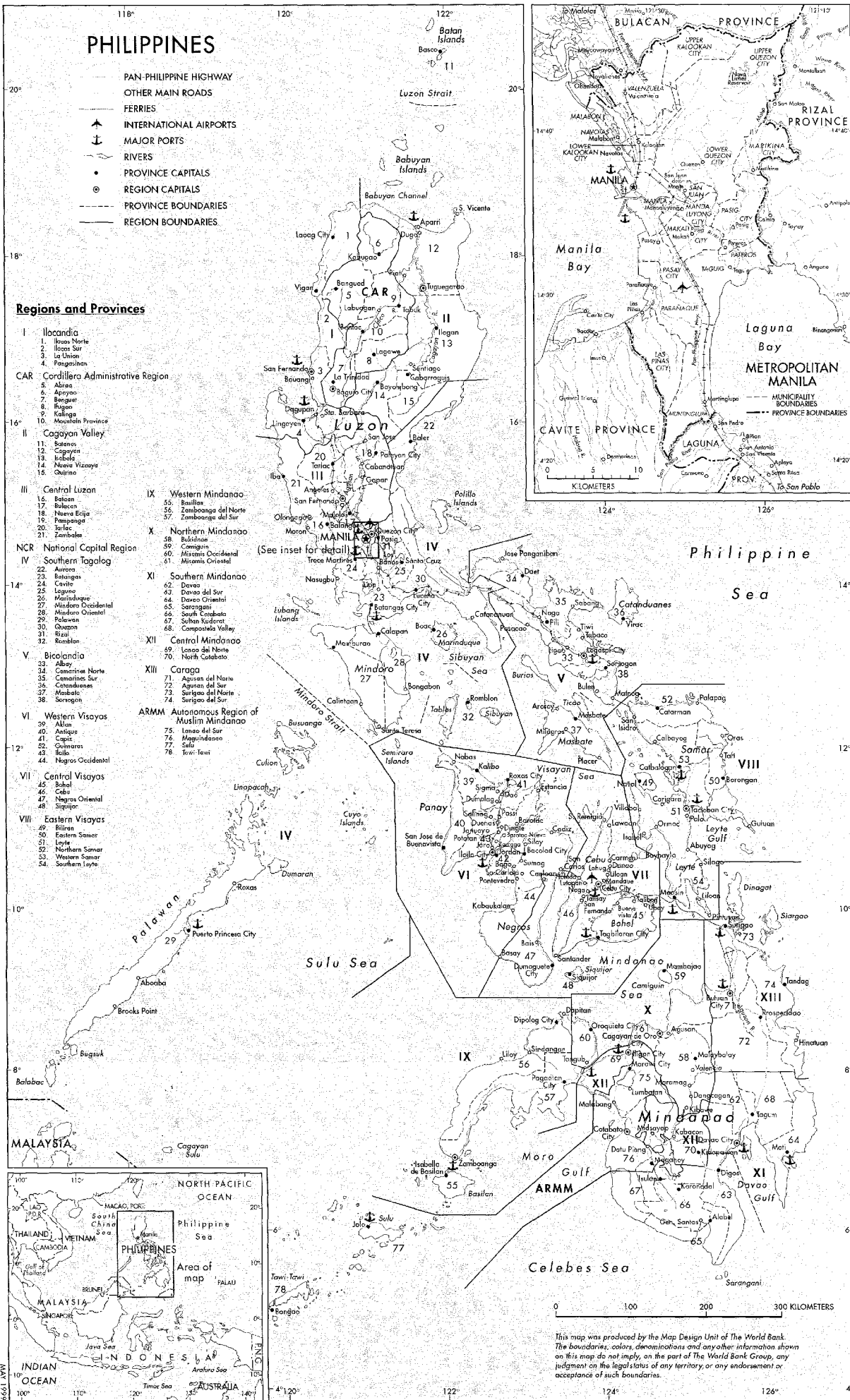
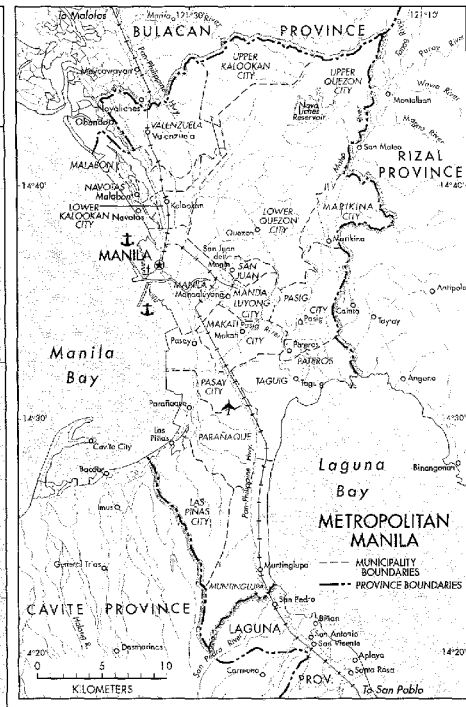
5. **The RMP's experience in involving NGOs/POs in Bank-supported activities** has generally been productive and enriching. The NGOs/POs have made important contributions to the socio-economic processes as a means to innovation, targeting marginalized people, organizing them into purposive groups and facilitating the participation of these groups in their own development. On the other hand, there were also weaknesses on the part of the NGOs/POs, such as limited managerial and technical expertise, which affect their participation and delivery of services. These factors are carefully assessed to balance and maximize the NGOs'/POs' comparative advantage and the generation of results on time.

# PHILIPPINES

- PAN-PHILIPPINE HIGHWAY
- OTHER MAIN ROADS
- FERRIES
- ✈ INTERNATIONAL AIRPORTS
- ⚓ MAJOR PORTS
- RIVERS
- PROVINCE CAPITALS
- REGION CAPITALS
- - - PROVINCE BOUNDARIES
- REGION BOUNDARIES

## Regions and Provinces

- I Ilocandia
  - 1. Ilocos Norte
  - 2. Ilocos Sur
  - 3. La Union
  - 4. Pangasinan
- CAR Cordillera Administrative Region
  - 5. Abra
  - 6. Apayao
  - 7. Benguet
  - 8. Baguio
  - 9. Kalinga
  - 10. Mountain Province
- II Cagayan Valley
  - 11. Sisonog
  - 12. Cagayan
  - 13. Isabela
  - 14. Nueva Vizcaya
  - 15. Quirino
- III Central Luzon
  - 16. Bulacan
  - 17. Bulacan
  - 18. Nueva Ecija
  - 19. Pangasinan
  - 20. Tarlac
  - 21. Zambales
- NCR National Capital Region
  - 22. Manila
- IV Southern Tagalog
  - 23. Batangas
  - 24. Cavite
  - 25. Laguna
  - 26. Marikina
  - 27. Mindoro Occidental
  - 28. Mindoro Oriental
  - 29. Palawan
  - 30. Quezon
  - 31. Rizal
  - 32. Romblon
- V Bicolandia
  - 33. Albay
  - 34. Camarines Norte
  - 35. Camarines Sur
  - 36. Catanduanes
  - 37. Masbate
  - 38. Sorsogon
- VI Western Visayas
  - 39. Aklan
  - 40. Antique
  - 41. Capiz
  - 42. Guimaras
  - 43. Iloilo
  - 44. Negros Occidental
- VII Central Visayas
  - 45. Bohol
  - 46. Cebu
  - 47. Negros Oriental
  - 48. Siquijor
- VIII Eastern Visayas
  - 49. Biliran
  - 50. Eastern Samar
  - 51. Leyte
  - 52. Northern Samar
  - 53. Western Samar
  - 54. Southern Leyte
- IX Western Mindanao
  - 55. Basilan
  - 56. Zamboanga del Norte
  - 57. Zamboanga del Sur
- X Northern Mindanao
  - 58. Bukidnon
  - 59. Compostela
  - 60. Misamis Occidental
  - 61. Misamis Oriental
- XI Southern Mindanao
  - 62. Davao
  - 63. Davao del Sur
  - 64. Davao Oriental
  - 65. Sarangani
  - 66. South Cotabato
  - 67. Sultan Kudarat
  - 68. Compostela Valley
- XII Central Mindanao
  - 69. Lanao del Norte
  - 70. North Cotabato
- XIII Caraga
  - 71. Agusan del Norte
  - 72. Agusan del Sur
  - 73. Surigao del Norte
  - 74. Surigao del Sur
- ARMM Autonomous Region of Muslim Mindanao
  - 75. Lanao del Sur
  - 76. Maguindanao
  - 77. Sulu
  - 78. Tawi-Tawi



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