Statement by Pieter Stek  
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Philippines Country Assistance Strategy

To begin with, I would like to compliment staff with this CAS, which is the product of a sincere effort to engage all parties that will be involved in its implementation. Continuation of this participatory approach, including an outreach to local authorities and less developed regions should enhance the effective implementation of projects and programs over the CAS period.

I agree with the analysis of the socio-economic situation in the CAS. On the structural side, a relatively stable political situation and market-oriented policies are combined with major challenges with regard to poverty reduction and rural development. To meet these challenges, a major effort to upgrade the skills of local Government is required. In the short term, the Philippine economy remains highly vulnerable to external shocks. The vulnerability is compounded by high external debt and inflexible debt. This points to the need for a safety margin in macro-economic and monetary policies.

If one looks at the Bank's assistance to the Philippines so far, it is quite obvious that implementation of projects and programs has not proceeded as well as expected. Hopefully restructuring some projects, training for the authorities involved and enhanced portfolio management by the Resident Mission will improve things (Annex D). At the same time I wonder if the Bank should not have cancelled projects. Given that the ADB now has the lead in the energy sector, I would like to know why the Bank should invest scarce resources in the rehabilitation of projects like the Transmission Grid and Leythe-Cebu Geothermal.

With regard to the Bank's priorities (Annex B10), I fully agree that the Bank gives high priority to poverty reduction, education, the financial sector and public sector reform. The latter seems particularly urgent at the local level in order for local authorities to manage development projects. I was initially surprised by the fact that the Bank is doing little in health, nutrition and population. Staff explained to us that other donors are better placed to assist the Government in these sectors. Therefore, I think it is a good thing for the Bank to stay out of these areas. A better
focus of the program will enable the Bank to assume a role in devising a clear strategy for the sectors it focuses on. A truly programmatic approach is sometimes lacking in the Philippines. In this respect, I wonder why the Bank is giving high priority to the infrastructure sector. The ADB and OECF are very active in this sector as well. Regarding IFC’s priorities, the financial sector is an appropriate target. In addition, I look forward to learning about IFC’s future progress with regard to investments in urban infrastructure as well as health and education.

As usual the CAS shows three lending scenarios. I agree with the content of and conditions for the base case scenario, but I was somewhat puzzled by the triggers for the high case (table 1). Apparently, the Bank and the IMF apply different standards to determine what an “acceptable macro-economic framework” is. Could staff explain this? Furthermore, I felt that "agreement on and implementation of key structural reforms" is somewhat vague as a trigger. I take it that staff and management will be able to show us substantial progress on policies in the sectors that are mentioned, if the high case materialises and adjustment loans come to the Board. In addition, I assume that adjustment operations only come to the Board if the authorities comply with the high case triggers on macro-economic policies and progress under the banking Sector Reform loan.

On the possibility to extend a policy-based guarantee (paragraph 75), I would like to note that such a guarantee should replace an adjustment loan (i.e. not be additional) and that policy conditionality should be in accordance with the established guidelines.

With regard to Bank lending after an exogenous shock (paragraph 76), I assume that any additional lending, if it is extended at all, would be on SSAL terms. In fact, I would prefer the Bank not to provide additional lending in such circumstances. I still think that the institution across the street is equipped to provide urgent Balance of Payments financing and the Bank is not.

Finally, I found the remarks on performance and evaluation very interesting. Self-evaluation seems to be a logical step when working with a Government that - at least at the central level - has a reasonable sense of ownership. It could also enhance partnerships with civil society and other institutions. In Box 4 the document says that the CAS will help to achieve a number of targets of the Philippines’ MTPDP. Would this imply that we can hold the country team accountable for (some of) these targets? I wonder which Bank-wide Corporate Scorecard (paragraph 88) will be mirrored in the Philippines, but maybe the country team is not the right team to address this question to. In any case I would like to be informed of your experience with the framework for evaluation and monitoring in the Philippines.