New Commitment of US$3B in Paris Meet

With a new commitment of $3 billion, the international donor community, led by the World Bank, reaffirmed its strong support for the Philippine government's economic and social development programs during the 21st Consultative Group Meeting in Paris on December 18-19, 1997.

Of the $3 billion, $350 million will be provided as grants to the government and non-government organizations (NGOs) and over $500 million will support the peace and development process in Mindanao. (See related story on page 2)

The donors observed the dramatic change in private market perception towards East Asia and the spillover effects on the Philippines. They commended the Philippines' efforts to curb the effects of the regional currency turmoil, noting that the Philippines had fared better than many of its neighboring countries.

"The donors were quite unanimous in commending the authorities both for the impressive results achieved under President Ramos' administration and the way they handled the impact of the regional currency crisis," said WB Country Director to the Philippines Vinay Bhargava, who also served as chairman of the Consultative Group.

While praising the Philippines' continued commitment to liberalize, the participants highlighted the significant risks inherent in the current environment and emphasized the need to maintain vigilance in macroeconomic management. They urged the government to complement these efforts with deeper structural reforms, particularly in fiscal and financial sectors.

The Philippine delegation, headed by Finance Secretary Roberto de Ocampo, said it would aggressively address the challenges posed by the regional currency turmoil by strengthening economic fundamentals through financial sector reforms and increased incentives for savings mobilization and growth. The passage of the Comprehensive Tax Reform Program was cited as a critical step towards achieving the administration's revenue collection goals.

Mr. de Ocampo said: "We will complete our unfinished economic agenda— we will pursue further liberalization, deregulation and privatization so that when this economic storm has passed, we will be in the forefront of countries that will benefit from the economic growth that will follow."

The government also vowed to enhance agricultural productivity and competitiveness, improve labor market and education policy, prudently regulate the banking sector and implement anti-poverty programs.

During the meeting, Mr. Nur Misuari, Chairman of the Special Zone for Peace and Development (SZOPAD), presented the development strategy for Mindanao and urged the donors to fully participate in the initiative.

CONTINUED SUPPORT. Mr. Vinay Bhargava (right), WB Country Director for the Philippines and Chairman of the Consultative Group (CG) Meeting in Paris, urges the donor community at the CG Meeting to support the Philippines' socio-economic development programs. With him are Mr. Nur Misuari (left), Chairman of the Southern Philippine Council for Peace and Development, and Finance Secretary Roberto de Ocampo.

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FVR Signs EO On SZOPAD Social Fund

President Fidel V. Ramos signed on October 1, 1997 Executive Order (EO) 445 creating a Social Fund for the Special Zone of Peace and Development (SZOPAD).

The World Bank has begun mobilizing grants amounting to $450,000 for the preparation of the Social Fund. It will also extend a $10 million loan to the Fund in early 1998.

EO 445 aims to support and enhance international, national and local government initiatives and promote public and private sector partnership for the development of SZOPAD.

"The funding requirements of SZOPAD are large. That’s why the Philippine government is seeking official development funding and private investments to supplement its resources." - Vinay Bhargava

The Social Fund will coordinate development assistance for social and economic infrastructure projects in SZOPAD, provide a mechanism that will facilitate financing for these projects and help meet the basic needs of people in the area.

The government will use the Social Fund to finance small-scale social and economic infrastructure projects in areas covered by SZOPAD. These projects include rural access roads, rural water supply, small-scale irrigation, communal clinics and schools.

The EO also provides for the creation of a Board of Directors that will draw up and implement the Fund’s financing policies and guidelines.

The Board comprises the Executive Secretary, Secretary of Finance, Secretary of Budget and Management, Director General of the National Economic and Development Authority and Chairman of the Southern Philippine Council for Peace and Development.

Further, the Board will review and approve the Fund’s annual work, financial plan and special budget.

$500M for SZOPAD

Major international donors have committed $500 million for the Philippines’ development program in Mindanao at the recent Consultative Group Meeting for the Philippines in Paris.

During the meeting, the Philippine government presented its vision for Special Zone for Peace and Development (SZOPAD) in Mindanao, as well as the gains of the peace initiative in the zone.

"We received a warm response from donor countries and institutions. The funding requirements for SZOPAD are large, so we need to mobilize donor support," said Vinay Bhargava, WB Country Director for the Philippines.

SZOPAD’s Priority Investment Program from 1997 to 1998 will require at least P30.3 billion. It consists of 85 projects in transport, infrastructure, rural infrastructure, agro-industrial centers, environment, education and capacity building.

SZOPAD comprises 14 provinces and five cities in Mindanao: Basilan, Davao del Sur, Tawi-tawi, Sulu, Zamboanga del Sur, Lanao del Sur, Maguindanao, Sarangani, Palawan, General Santos City, Cotabato City, Dapitan City, Iligan City and Puerto Princesa.

WB-assisted projects with activities in Mindanao

- Third Elementary Education
- Agrarian Reform Communities Dev’t
- Water Resources Development
- Small Coconut Farms Development
- Urban Health and Nutrition
- Rural Electrification & Revitalization
- Communal Irrigation II
- First Water Supply, Sanitation and Sewerage System
- Second Vocational Training
- Environment & Natural Resources-SECAL
- Engineering & Science Education
- Women’s Health & Safe Motherhood
- Highway Management
- Tax Computerization
- Urban Health & Nutrition

Mr. Misuari said the development of Mindanao “will be consistent with its economic potential and in accord with the economic temperament of Southeast Asia, the Far East, the Middle East and the rest of the world.”

The donors also stressed the need to protect the poor from bearing a disproportionate burden of the costs of adjusting to the current economic difficulties. The recent passage of the Anti-Poverty Bill in Congress was lauded by the donors as a significant development in furthering the government’s poverty alleviation agenda.

Ms. Teresita Quintos-Deles, who represented the Philippine NGOs, emphasized the need to focus on a comprehensive strategy to improve the plight of the poor and vulnerable, including asset reforms. She said the government’s medium-term plan should prioritize government programs that will reduce poverty incidence in the country.

The 21st Consultative Group Meeting was attended by delegates from Australia, Belgium, Brunei, Canada, France, Germany, Indonesia, Japan, Malaysia, Netherlands, New Zealand, Spain, Sweden, Switzerland, United Kingdom and United States. It was also attended by representatives from Asian Development Bank, European Commission, International Finance Corporation, International Fund for Agricultural Development, International Monetary Fund, Kuwait Fund, Organization for Economic Cooperation and Development, Saudi Fund for Development and UN Development Programme. The Islamic Development Bank attended as observer.

The Consultative Group Meeting is a regular meeting of major donors to the Philippines chaired by the World Bank. It serves as a forum for policy dialogue between the government and the donor community and provides a mechanism for mobilizing official development assistance to support the public investment program. The last meeting for the Philippines was held on December 10-11, 1996 in Tokyo, Japan.
WB, PCCI Forge Alliance

The World Bank Group recently entered into a partnership with the Philippine Chamber of Commerce and Industry (PCCI), the largest business organization in the country. The partnership aims to stimulate private sector investment in the Philippines by facilitating the exchange of information between the WB Group and PCCI. It also signals the start of the tie-up between the WB Group’s Business Partnership Center (BPC) and PCCI.

Under the Memorandum of Understanding (MOU), the World Bank Group and the PCCI agreed on the following:

- PCCI will establish an SME/Regional Affairs Division that will be based in Manila.
- The Group will host training programs on its operations, products and services for PCCI liaison office representatives.
- All activities under the MOU will be subject to the Group’s prevailing policies and procedures on disclosure of information.
- All information obtained by the PCCI will be made available to the business sector.

The MOU was signed by WB Country Director for the Philippines Vinay Bhargava and PCCI President Federico Pascual.

“We recognize that we cannot fully meet the challenge of poverty reduction without the support of the government, businesses, non-government organizations and other critical players,” Bhargava said.

He considered the alliance with PCCI “an opportunity to work in partnership with others, specifically the business groups, to improve equitable growth and the quality of life for many Filipinos.”

The BPC

BPC was created by WB President James D. Wolfensohn in October 1996. It serves as a single window of information about the products and services offered by the Group to the business community.

It aims to develop partnerships between the Group and leading business organizations worldwide by improving the dissemination of information on business opportunities, explore ways to promote mutual interests and work on joint initiatives, and learn from the business community to better reflect their inputs and feedback on the Bank’s development assistance.

Around $2.1 billion of businesses through procurement contracts and other activities have been generated by more than 1,200 companies in the Philippines. These companies have been involved in about 1,600 projects.

Through the International Finance Corporation, businesses amounting to $2.7 billion have been generated by 240 companies in more than 400 projects.

As a first step to strengthen WB-PCCI partnership, the BPC will host a liaison officer from PCCI for an orientation program of the World Bank at its headquarters in Washington D.C.

SPECIAL GUEST. President Ramos receives from WB Country Director for the Philippines Vinay Bhargava (left) a copy of the WB-PCCI agreement. Looking on are PCCI officials led by President Federico Pascual (second from right).

“World Bank... Good Morning!”

Did you know that the warm voice and the pretty face which welcomed you everyday to the Bank for almost two years belonged to a lady named Cheryl Picson-Ip? Cheryl, receptionist, left the World Bank Philippines Office last November to join her husband Jose in Macau.

After working with the Bank for four years, Cheryl now devotes her time to her husband and 16-month old son, Charles. But she has no regrets becoming a full-time wife and mother. “I’m lucky to have been part of the Bank,” she said.

Cheryl joined the Bank in September 1993 with a two-year secretarial course after short stints in a fastfood chain and a travel agency. She started as a clerk. “I assisted all staff. I typed, photocopied and ran errands,” she said. Then she did for two and a half years when there were only about 10 staff housed at the Central Bank and before she became the Bank’s receptionist.

“I became an all-around support staff, and I learned how to deal with all kinds of people, how to talk and listen and how to be more adept with the computer,” she said. “What I really learned was how to be pleasant, friendly and courteous at all times.”

Cheryl practically grew up with the World Bank family. She joined the Bank in 1993, got married in 1995 and became a mother a year later. When she left the Bank she was on the family way with her second child.

But the demands of her family did not affect her work at all. She was at her post before 8:30 a.m., when calls would begin, and until 5 p.m. Will she miss it? Not for now, because she’s happy being with her family in the not-so-far-away Macau.
Ensuring Efficient Use of Public Funds

On May 15, 1996, the Club of 29 met for its annual review of performance of all projects that are being assisted by the World Bank. One of the major agreements made on that day was to conduct a study that would help ensure transparency and internal control in all WB-assisted projects. The Club designated one of the oversight agencies, the Commission on Audit (COA), and a member of the Club to spearhead the study which was named Transparency and Internal Control Study.

COA recently completed a transparency and internal control study, which covered seven projects being implemented by five agencies and partly financed by the World Bank.

Emma Espina, director of COA's public debt office, said the study was done with the cooperation of implementing government agencies and the World Bank. The implementing agencies themselves volunteered to fund the study.

The Government and the Bank agreed on the study's terms of reference, which was drafted by the Bank, reviewed and accepted by COA and other oversight agencies.

"The study itself was a significant initiative of the Government with the help of the Bank. The findings, which cover five areas, point to the need to increase the capability of some agencies in implementing projects and to improve the agencies' financial management system," she stressed.

Findings

Procurement. Most of the projects were not able to comply with the Bank's procurement guidelines and the Government's Administrative Order (AO) 129.

AO 129 sets the maximum number of days required for bidding and awarding of government infrastructure, construction and consulting services contracts costing P10 million and above. For example, it sets 22 working days for the completion of evaluation of contractor's prequalification statements.

Project Execution. Most projects had weak organizational controls, project recording and reporting systems and control procedures. This pointed to the need to familiarize agencies and project managers with the accepted principles and practices on internal controls, monitoring and supervision.

Asset Management. The projects showed weaknesses in asset recording and monitoring and in establishing accountability and physical existence of assets.

Loan Availment and Disbursement. Five projects incurred commitment fees, standby charges and penalties due to delays in compliance with loan requirements and project execution.

Financial Reporting. Most of the projects did not properly maintain accounting documents and reports such as nonrecording of direct payment expenses. This affected the integrity and reliability of financial reports, causing delay in the submission of reports.

Action Plans

These findings prodded the study team, which included WB's procurement officer Cecille Vales, to draw up plans on how to strengthen the capabilities of COA in monitoring agencies and the implementing agencies in using public funds.

The action plans for the implementing agencies were prepared and adopted by the Club of 29.

Vales said for the implementing agencies, the study recommended a five-point action plan:

1. Procurement
2. Project Execution
3. Financial Reporting
4. Asset Management
5. Loan Availment and Disbursement

DISCUSSIONS. The Club of 29 members discuss issues affecting the implementation of Bank-assisted projects during one of their regular meetings.
Continued from page 4

- Conduct a capacity building training and seminars for project managers on principles and practices in transparency and internal controls;
- Establish a financial management system that will enable project managers to monitor expenditures and compare them with actual accomplishments;
- Conduct training for project managers on financial management;
- Conduct training on the Bank's procurement and disbursement guidelines for the implementing agencies’ personnel; and
- Require implementing agencies to properly screen personnel to ensure that the ones hired are honest and responsible.

For COA, the study recommended the strengthening of the Commission's capability to evaluate the internal control systems of audited agencies, which are members of the Club of 29.

Ms. Vales added that the Government and the Bank also agreed that COA and oversight agencies ensure that the action plans are carried out through quarterly reports to the Club of 29 and that COA extend the transparency study to all other ongoing projects.

Further, she said the Government and the Bank agreed to source funding for the training of COA auditors on fraud audit and other auditing techniques.

If a government is unwilling to take action despite the fact that the country's development objectives are undermined by corruption, then the Bank Group must curtail its levels of support to that country. Corruption by definition, is exclusive: It promotes the interests of the few over the many. We must fight it wherever we find it.

-WB President James D. Wolfensohn
The Challenge of Inclusion
Address to the Board of Governors
Hong Kong, China, September 23, 1997

GET-TOGETHER. Who says working together can never be fun?

WB Takes Active Role vs Corruption

The World Bank has taken an active and supportive role in helping countries combat corruption. The Bank has offered assistance to governments implementing national programs to discourage corrupt practices.

In the Philippines, for instance, the Bank has been cooperating with the government in ensuring transparency and internal control in Bank-assisted projects. (See related story on page 4)

"The Bank has long been concerned with controlling fraud and corruption in its projects, and its procurement and disbursement procedures have been progressively refined to minimize the risks for both lenders and borrowers," WB President James D. Wolfensohn said in a foreword to the Bank's report, Helping Countries Combat Corruption: The Role of the World Bank.

The report, published in September 1997, was prepared by the Bank's Poverty Reduction and Economic Management (PREM) Network. Copies of the report had been given to the Club of 29 members.

Wolfensohn stressed that corruption undermines development as it hampers the effectiveness of mobilizing domestic savings and external aid in developing countries, which in turn threatens to undermine grassroots support for foreign assistance.

In some countries, he said, the Bank had expressed concern on corruption at high-level meetings with government leaders. He added that the Bank had also curtailed lending to countries where poor governance and systemic corruption had affected Bank projects.

The PREM report provides a framework that aims to guide Bank activities at four levels: preventing fraud and corruption within Bank-financed projects; helping countries that request Bank support to reduce corruption; taking corruption more explicitly into account in country assistance strategies, country lending considerations, the policy dialogue, analytical work, and the choice and design of projects; and adding voice and support to international efforts to reduce corruption.

Further, the report suggests a number of measures that the Bank can take to help countries combat corruption:

- Help countries design and implement anti-corruption strategies. With its experience in helping countries reform economic policies and strengthen institutions, the Bank is well-paced to support efforts to fight corruption.
- Pay more attention to corruption when designing and assessing economic reforms. The Bank should focus on the capacity of governments to implement policy reforms in such areas as taxation, expenditure reductions, infrastructure privatization and environmental regulation. If such capacity is lacking, policy change may increase the risk of corruption.
- Put greater focus on strengthening public sector management and governance. Well-performing public sectors are characterized by a professional civil service, strong financial management, accountable organizations and a capacity for effective policymaking.
The World Development Report: The State in the Changing World shows that the determining factor behind contrasting developments of countries all over the world is the effectiveness of the state.

An effective state is vital for the provision of goods and services—and the rules and institutions—that allow markets to flourish and people to lead healthier, happier lives.

Without it, sustainable development, both economic and social, is impossible. The state is central to economic and social development, not as a direct provider of growth but a partner, catalyst and facilitator.

Getting societies to accept a redefinition of the state's responsibilities will be one part of the solution. This will include strategic selection of the collective actions that states will try to promote, coupled with greater efforts to take the burden off the state, by involving citizens in the delivery of core collective goods.

Meeting a broad range of collective needs more effectively will mean making the state's central institutions work better. For human welfare to be advanced, the state's capability, defined as the ability to undertake and promote collective actions efficiently, must be increased.

The report suggests a two-part strategy to make every state a more credible, effective partner in a country's development, thus:

First, matching the state's role to its capability. Where state capability is weak, how the state intervenes and where, should be carefully assessed. Many states try to do much with few resources and little capability, and often do more harm than good.

Second, raising state capability by reinvigorating public institutions. This means designing effective rules and restraints to check arbitrary state actions and combat entrenched corruption; subjecting state institutions to greater competition to increase their efficiency; increasing the performance of state institutions, improving pay and incentives; and making the state more responsive to people's needs.
New Investment Instruments: WB’s Response to Changing Needs

The World Bank now offers two Adaptable Lending (AL) instruments to borrowers—Learning and Innovation Loans (LILs) and Adaptable Program Lending (APL)—as a response to the changing needs of its clients.

**LILs for Small Programs**

Eligible borrowers of LILs are small, time-sensitive programs that will build capacity, pilot promising initiatives and develop locally-based models before large-scale interventions.

In particular, LILs will be used to test new approaches and sectors, often in startup situations and with new borrowers. Such loans are likely to involve small, discrete investments and capacity-building efforts that can be implemented in one to three years.

Thus, LILs are simpler than traditional loan programs and smaller, generally less than $5 million. They can also set the stage for traditional loans or the new adaptable program lending.

**APL provides funding for a long-term development program, starting with the activities under the first APL loan and based on agreed milestones and benchmarks.**

The loan amount has no fixed ceiling and may vary depending on the size of the country and the program, as well as on the program’s phasing requirements.

The Bank’s Board of Executive Directors will approve the first APL loan and the long-term program agreement under which a package of subsequent APL loans is prepared. Management will approve the subsequent loans, subject to oversight and review by the Board.

Borrowers can avail themselves of APL to support development processes such as capacity building prior to program implementation.

Capacity building or behavioral change is crucial in programs involving the social sector such as health, population, education, nutrition and social infrastructure.

APL will also be useful in public sector management, pension reform, tax modernization and civil service programs.

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**The Asia Development Forum**

**East Asia: The Unfinished Agenda**

*March 9-13, 1998, Manila, Philippines*

To sustain their remarkable development in the past decades, East Asian countries should find ways to transcend the current economic turbulence, redress underlying structural problems and seize opportunities unleashed by globalization.

Although much has been achieved in East Asia, much still remains to be done. The Asia Development Forum is designed to provide an opportunity to the region’s development community to discuss the unfinished agenda and evaluate development priorities for the next quarter century.

The forum is organized by the Economic Development Institute of the World Bank and the Asian Development Bank, with the support of the Philippine government’s National Economic and Development Authority.

**Workshops**

The Forum consists of workshops on issues of emerging social and economic importance for East Asia. These issues were determined from a series of informal consultations with members of the development community in the region.

- Coping with Capital Flow Volatility
- Trade and Investment Policy: The Challenge of Integration
- Private Investment in Infrastructure: Coping with Financial Risks
- Private Sector Participation in Environmental Infrastructure Services
- Economic Growth and the Environment: Greening Asia’s Tigers
- Decentralization and Development: Issues for East Asia
- Mayor’s Dilemmas: Municipal Governance and Local Services
- Social Policy: Combining Competitiveness with Caring
- Economic Journalism in a Changing World

The Forum will also feature lectures by prominent thinkers on development issues, keynote speeches by senior government officials, roundtable sessions on special topics and networking opportunities for participants. The roundtable topics:

- Meet the Think Tanks, Knowledge and Development
- Economic Prospects of East Asia

**Participants**

The Asia Development Forum is processing applications from the development community in the East Asia and Pacific region—government officials, academics, practitioners, the private sector and NGOs. At least 350 persons are expected to attend the forum.
WB Helps NEDA in Monitoring Results

The World Bank has extended a capacity building grant of $375,000 under its Institutional Development Fund (IDF) to the National Economic and Development Authority (NEDA).

The grant aims to strengthen the capacity of NEDA to monitor and evaluate the outcome and impact of WB-assisted projects in the Philippines.

The project, called Capacity Building for Development Assistance Results Monitoring (CBDARM), is designed to begin the institutionalization of an evaluation culture in the Philippines, particularly the monitoring of results.

The grant will build a capacity to prepare an annual report on the "results" initially of WB-supported projects of the government, subsequently of other donors, and finally of all government-financed programs.

Capacity building will be done through "twinning" with an international partner agency with similar responsibilities through visits, workshops and training, both through classroom and "learning by doing" or methodologies.

Jayshree Balachander, Human Resources Development Officer and Task Manager, said the objective is for the departments and oversight committees to eventually internalize the process of monitoring and evaluating the effectiveness of their investments.

As a result of the experience gained, NEDA would be able to apply a similar process to all ODA-financed projects. "Participants in training workshop would be exposed to cross-country experiences and best practices in results monitoring," she added.

Ana Nolasco, senior economic development specialist at NEDA's Project Monitoring Staff, said that by year's end, the project would have conducted classroom trainings for 30 participants. She said the field work is set in January 1998.

The project is expected to be completed by August 1998 when it should have come up with the first annual results monitoring report, a manual on guidelines and procedures in results monitoring and an action plan to ensure the capacity of various agencies on results monitoring and evaluation.

We must think results—how to get the biggest development returns from scarce resources. We must think sustainability—how to have enduring development impact within an environmentally sustainable framework. We must think equity—how to include the disadvantaged.

-WB President James D. Wolfensohn
The Challenge of Inclusion

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