Statement by Satoru Miyamura  
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Philippines: Country Assistance Strategy

First of all, we welcome the success of the Philippine government in minimizing the damage of the Asian crisis and stabilizing its economy. We very much appreciate the success of the long-term bond issue in the amount of US $ 1.5 billion which demonstrates the investor’s confidence in this economy.

As I mentioned, the Philippines is one of the most successful stories among the Asian countries to maintain the soundness of its economy; but this does not mean its success of economic growth and poverty reduction. The poverty situation especially in the rural areas has not yet improved in the 1990s and the income inequality is estimated to have increased. It is regrettable for us to point out that there remain many agenda which we have tackled even before the crisis but yet resolved.

We find this development framework proposed in the CAS to be comprehensive and appropriate for the present conditions in the Philippines. We support the seven strategic actions which are in line with the medium-term development plan of the Philippine government. We also commend Management for its efforts for the consultations with NGOs, civil society, trade unions, business leaders, academicians in the preparation process of the CAS. We think this CAS is appropriately based on past experiences such as the evaluation of the last CAS, OED Country Assistance Review and the client surveys.

One possible risk of this CAS is that in attempting to be comprehensive, the Bank’s effort may be too diffuse to achieve maximum impact, particularly considering the relatively high ratio of undisbursed commitments. To address this risk, a more concentrated approach with closer cooperation and dialogue...
with other donors might be appropriate and Management could elaborate further mechanisms for the project by project base partnership with other donors in the process of the Bank’s portfolio management.

Let us make comments on some specific areas which we believe would be appropriate for the Bank to focus on in the implementation of the CAS.

Financial Sector

The first comment is on the financial sector reform. The Philippine financial sector remains sounder than other Asian countries affected by the currency crises. We welcome the efforts of the Government and the Bank for the banking sector reform.

On the other hand, the financial sector reform should go well beyond major banks’ stronger capitalization.

First of all, we encourage further efforts of the Bank and IFC for the reform of many small and medium size rural banks. There remains a lot of agenda such as operational efficiency, transparency and openness of management and appropriate risk management for these institutions.

We would also like to note public financial institutions such as DBP (Development Bank of the Philippines) and LBP (the Land Bank of the Philippine) are important institutions for donor communities to implement their operations in the field of such as support for SMEs, reform of agricultural sector and rural development. Therefore, we can not ignore the importance of reform of operation and financial management of these institutions.

While non-performing loans are increasing in the Philippines, there are concerns that this may lead to credit crunch among financial institutions. It is important for us to carefully monitor this situation especially of SMEs.

Decentralization

As we have repeatedly stressed, the improvement of capacity building is essential part of the
Decentralization program. Since the local government Code of 1991 and the New Vision of 1996, there has been a lot of challenges regarding the capacity of local government such as for implementing and monitoring programs, transparent accounting system, budget management and collaboration with the central government. These problems have had negative impact on the reform of basic social service such as education, health and caused unequal rural development. While the Decentralization program itself is not our final goal but a tool for more efficient and effective operation of the Philippine government, careful review of sequencing and speed of this program is necessary. We also stress the Bank can contribute more through its technical assistance to the effort of local government for the capacity building.

**Governance**

While our authorities pay much attention to the transparency and accountability of our operation, we welcome Management’s strong commitment in the field of governance, appropriate procurement and anti-corruption. We also encourage the Bank’s efforts for partnership with other donors and welcome the development of the Financial Information System for Foreign Assisted Projects program.

**Private Participation in Infrastructure**

The fourth point is on private participation in infrastructure. Except in the electric power, we find slow progress of private sector participation in the Philippines.

We have repeatedly stressed that it is essential to consider a comprehensive country framework with sufficient consultation with private sector to attract the long-term private investment in this field. We welcome the Bank’s efforts for this framework.

Strengthening implementation capacity of local government including for coordination with private sector, establishing more transparent accounting system as well as making longer-term budget and implementation plan are also important for the success of PPI.

**Social Safety Net**
We welcome Management’s proposal for the technical assistance to analyze the role of informal safety net and would like to support this activities through PHRD. As our governor stressed at the Development Committee, when we discuss appropriate strategy to support the poor, it is important to recognize the complex and diverse structures of the societies of each recipient country.

**Saving Rate**

Finally, we would like to make comments on domestic saving which we have not yet succeeded to boost. As Annex A2 indicates, the domestic saving ration has been declining over time. This situation may increase the volatility of the Philippine economy and cause its weakness with little foreign reserve to respond to an external shock. The Government should continue, in consultation with the Fund, sound macroeconomic management and construct a suitable fiscal structure in the medium to long term. At the same time, we encourage its further effort toward structural reform (to address the micro dimension of this low level saving) with the Bank such as improving financial intermediate service and enhancing the competitive advantage of the Philippine economy.