Philippines - Country Assistance Strategy - Progress Report

This Country Assistance Strategy Progress Report for the Philippines comes at an important moment and is welcome not only for its comprehensive information but also because it contributes to understanding some ramifications of the East Asia financial crisis.

We are also near the end of the cycle for the 1996 CAS and looking forward to a full CAS in FY 1999, following the important elections in May 1998. Thus, this Progress Report really permits us to consider the impact of these financial events in a Philippine context, learn from them and make appropriate modifications in preparation for the next full CAS.

It seems to us that, overall, this Progress Report presents a comprehensive description of the improvements achieved since then and, moreover, that its contents are clearly integrated with the recently considered Country Assistance Review during the CODE meeting.

We also believe that this report correctly calls our attention to two significant political developments; the elections scheduled for May 1998 and the peace agreement in Mindanao. Too often electoral issues have been viewed as an unfortunate interference in strictly economic deliberations. Yet, separation is difficult and as we have seen increasingly, political progress also unleashes creative energies and encourages broader constituency participation and support. We welcome recognition of the positive value of this, as well as the progress made in ending the long Mindanao conflict.

It would appear that the impact of the East Asia economic crisis has been somewhat more moderate in the Philippines -- although serious enough -- because of more than a decade of structural adjustment efforts. Some of the risks of highly leveraged and uncertain investments were seemingly less in the Philippines because of more transparent rules and more distanced government-financial sector relations. In particular, we believe it important that the reform efforts made by the Philippine authorities, and supported by broad sectors of society and which were noted in the CAS, have continued. We applaud the efforts of the Philippine authorities in this regard. International assistance policies, including those of the Bank, can also be seen to have had a positive effect.
Nevertheless, there are a number of risks that are of concern. Economic growth has declined, although not as severely as in other countries. Net foreign capital inflows have also suffered. We are pleased to note, however, and agree with the assessment that overall the Philippine authorities responded in an effective manner. We welcome progress made in portfolio quality, investment infrastructure, water sector reform and social projects (health, education and rural poverty reduction). Further reforms are needed, and we are pleased to see that the process will continue to pursue development and poverty alleviation through the proposed Community-Based Resources Management project and projects in Early Childhood Development and the Special Zone for Peace and Development (SZPOPAD) Social Fund.

The fundamental problems that are identified as needing to be addressed are well-described. The primary objective of the Bank’s assistance is to enable the Government to maintain macroeconomic stability, in particular focusing on adjustment lending related to financial and public sector reforms in a period of political transition. We look forward to further considering the up-to-date information that is to be offered at the Board meeting.

In this regard, the progress report indicates three important risk areas for the near future: macroeconomic stability; political and social developments; and potentially adverse weather conditions. I believe the Bank has a unique opportunity to ameliorate these risks through continuation of its financial support. Quick disbursing loans are an important component which, along with the support of IFC and MIGA, will contribute to this effort.

We are therefore inclined to agree with the request for quick disbursing loans this year, noting that because of previously strong private capital inflows, loan commitments during FY1996-1998 have been less than expected. However, we are also concerned that the adjustments proposed for the FY98-99 program, pending the full CAS, and the three proposed projects might be affected by the problems that implementation of other Bank projects have already seen. These include a lack of counterpart funds and risks related to the government’s decentralization of financial resources to Local Government Units.

We would appreciate staff providing additional information in the following two areas:

(a) The 1996 CAS stated that “with over two thirds of National Government expenditures accounted for by personnel, interest payments and allotments to LGUs, the budget remains fairly inflexible, exacerbating the output costs of forced fiscal adjustment.” Yet the Progress Report makes little mention of changes achieved, as well as the necessary fiscal adjustments, especially after the regional financial crisis. What changes have been made or will be made to address this situation?

(b) On the other hand, the 1996 CAS also mentioned that a separate area for concern was the excessive government use of guarantees for commercial risks that could result in an untenable build-up of contingent liabilities. Did the government adhere to appropriate criteria for granting and pricing guarantees in order to minimize such risks?
In closing, we would particularly note and are encouraged that the Resident Mission is playing an important role in contributing to the policy dialogue with Philippine authorities, intensifying the monitoring of the economic and social situation of the country, and assisting LGUs with project preparation.

Overall, we concur with the adjustments proposed for the FY98-99 program as well as the three projects under consideration today and appreciate that Management and staff have provided us with comprehensive information in a well prepared document. We also extend our best wishes to the Philippines for the continued successful implementation of its development programs.