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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AND

INTERNATIONAL FINANCE CORPORATION

COUNTRY ASSISTANCE STRATEGY

FOR

THE REPUBLIC OF THE PHILIPPINES

April 19, 2005

Philippines Country Management Unit
East Asia and Pacific Region

International Finance Corporation
East Asia and Pacific Region

DATE OF LAST CAS
April 2002

CURRENCY EQUIVALENTS
(As of April 2005)

Currency Unit	=	Peso
US$1.00	=	P 54
P 1.00	=	US$0.019

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

January 1 – December 31

	IBRD	IFC
Vice President:	Jemal-ud-din Kassum, EAP	Assad J. Jabre, CIOVP
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COUNTRY ASSISTANCE STRATEGY (CAS)
THE PHILIPPINES
Fiscal Years 2006 - 2008

Supporting a Stronger Social Contract: Public Institutions that Work for the Common Good

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ACRONYMS AND ABBREVIATIONS

AAA Analytical and advisory activities
ADB Asian Development Bank
APL Adjustable Program Loan
ARCDP Agrarian Reform Communities Development Project
ARMM Autonomous Region in Muslim Mindanao
ASEM Asia-Europe Meeting
BIR Bureau of Internal Revenue
BOC Bureau of Customs
CAS Country Assistance Strategy
CDD Community-Driven Development
CG Consultative Group
CPSD Consolidated Public Sector Deficit
DA Department of Agriculture
DAR Department of Agrarian Reform
DBM Department of Budget and Management
DENR Department of Environment and Natural Resources
DepEd Department of Education
DOF Department of Finance
DOH Department of Health
DPL Development Policy Lending
DPWH Department of Public Works and Highways
DSWD Department of Social Welfare and Development
FSAP Financial Sector Assessment
FY Fiscal year
GDP Gross Domestic Product
GEF Global Environmental Facility
GFI Government Financial Institutions
GNP Gross National Product
GOCC Government-Owned and Controlled Corporation
IBRD International Bank for Reconstruction and Development
IDF Institutional Development Fund
IFC International Finance Corporation
IMF International Monetary Fund
JBIC Japan Bank for International Cooperation
JSDF Japan Social Development Fund
KDC Knowledge for Development Center
LGU Local Government Unit
MDG Millennium Development Goal
MIGA Multilateral Investment Guarantee Agency
MILF Moro Islamic Liberation Front
MNLF Moro National Liberation Front
MRDP Mindanao Rural Development Project
MTPDP Medium-Term Philippine Development Plan
MWCI Manila Water Company Incorporated
MWSS Metropolitan Waterworks and Sewerage Systems
NEDA National Economic and Development Authority
NFPS Non-Financial Public Sector
NGO Non-Governmental Organization
NPC National Power Corporation
ODA Official Development Assistance
OED Operations Evaluation Department
PHRD Policy and Human Resources Development Fund
PSALM Power Sector Assets and Liabilities Management Corporation
QAG Quality Assurance Group
SEMP Social Expenditure Management Project
SME Small and Medium Enterprise
SWAp Sector-wide approach
TA Technical assistance
TEEP Third Elementary Education Project
UNDP United Nations Development Program
VAT Value-added tax
WBI World Bank Institute

Executive Summary

Country Context and Development Challenges

i. The Philippines enjoys a tremendous range of assets to draw upon for its development. Government, business, and academia benefit from world-class talent and the high level of overseas employment reflect international demand for its labor force. It is considered one of the most biologically rich and diverse countries in the world, with substantial mineral, oil, gas, and geothermal potential. Being located in the dynamic East Asia region, the private sector is well-positioned to exploit trade opportunities. And, the country benefits from a very active civil society that can be an important agent for change.

ii. Despite these endowments, however, overall development outcomes in the Philippines over the last decades have fallen short of potential. Per capita growth has lagged significantly behind other East Asian countries. Relatively low domestic and foreign investment flows reflect weaknesses in the investment climate. Firms consider macroeconomic instability, corruption, and poor infrastructure as significant constraints. Macroeconomic instability, in particular, is attributed to weak fiscal performance and a high level of public debt. Closely linked to these challenges is the lack of social inclusion. Income inequality remains high, excluding the poor from their share of the income benefits generated by growth.

iii. The contrast between the country's human and physical assets and its modest development outcomes is perplexing. Ultimately, this can be explained by the limited ability of public institutions to resist capture by special interests and to work effectively for the common good, a sign of a frail social contract between the government and its citizens. Put succinctly, this has created a vicious cycle of weak public services, lack of trust in the government, and an unwillingness to provide adequate resources to it. As a result, the Philippines has been unable to achieve its development potential.

iv. There is widespread consensus concerning the basic institutional and political diagnosis of the development challenges. This creates the opportunity for change. If citizens begin to see that public institutions are improving their governance and delivery of services, they are more likely to vest authority and provide resources to the state. A stronger state will be able to increase social inclusion and cohesiveness. Increased revenues will improve fiscal balances, increase investor confidence, and thus spur a virtuous cycle of more effective public institutions, growth, and poverty reduction.

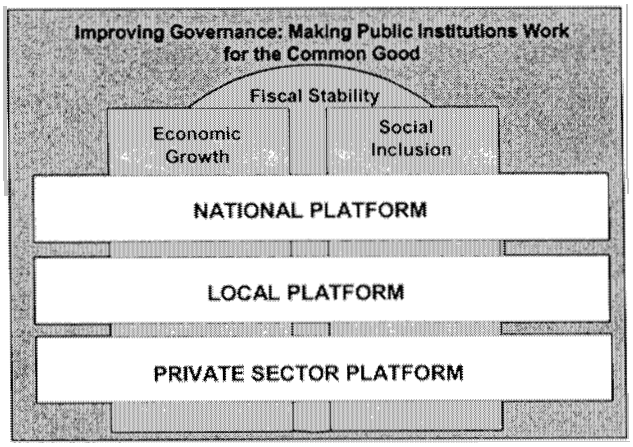
v. The economic and social aspects of the reform agenda supported by this CAS are inseparable. The Philippines poverty reduction strategy, in fact, is integrally embodied in the development strategy of this CAS with its two objectives (economic growth and social inclusion) and two levers (fiscal stability and improved governance). Higher and sustained *growth* would need to be the major driver of poverty reduction through jobs and income creation (despite the lesser effect of growth on poverty reduction under high income inequality). With more *social inclusion* the poor would be empowered and enabled to participate in the opportunities afforded by economic growth, supported by public spending targeted to the poor as well as institutional reforms for market access and participation in decision processes. *Fiscal reforms*, in turn, are essential for growth, for the prevention of crises that inevitably would hurt the poor severely, and for building-up effective social spending that reaches the poor. Finally, *governance improvements* would focus on institutional changes that let the state deliver its core services to all citizens, especially the poor who are often excluded.

The Bank Group and Philippines Partnership

vi. This Country Assistance Strategy (CAS) seeks to help the government improve public institutions and services to deliver on its social contract with its citizens and thus help the country achieve the virtuous cycle noted above. Within this objective, we will aim to support recognized and replicable successes in delivering public services. The strategy applies key lessons that have emerged from our past engagement and from what we have heard through in-depth stakeholder consultations: the need for less complex and more achievable reforms and closer alignment between Bank Group support and national budget priorities. This implies a shift away from financing discrete projects toward more programmatic engagement with selected key agencies and sectors.

vii. The development and poverty reduction strategy that is supported by this CAS builds on the government's Medium-Term Philippines Development Plan (MTPDP), and has two main goals: economic growth and social inclusion. It also identifies two important levers for pursuing these goals: achieving fiscal stability and improving governance. This will occur at three levels of engagement – national, local, and private sector – as illustrated in the accompanying figure and discussed below:

Overview of Engagement Strategy



- At the **national level**, improving governance and financing within the existing budget will require working through and improving in-country systems and processes. Similarly, it will avoid overburdening programs with objectives and excessive innovations. One implication is a move towards more sector-wide operations focused on core functions and services within the budget, away from specific investment projects that are not compatible with the fiscal constraints.
- At the **local level**, this will involve a greater integrated, cross-sectoral focus on the Local Government Unit (LGU) as the direct client in order to increase the likelihood of better outcomes across all services delivered by the LGU. Central to this effort is developing a performance framework and capacity building program for LGUs that is consistent across projects. Linking financing and capacity building to a clear performance framework in a practical way will also facilitate good governance at the local level.
- At the **private sector level**, our strategy will promote private investment by helping to strengthen regulatory agencies, reduce the cost of doing business, improve financial intermediation, and finance investments for public-private projects as well as in sectors with high growth potential. This will involve greater coordination among the Bank, IFC, and MIGA on issues related to the relationship between the public and private sectors.

viii. The assistance strategy will focus on a single unifying approach: working towards examples of recognized and replicable success in delivering public services and improving public institutions. To achieve this, we have outlined a set of results at the country level, the CAS-level, and at the program level. We will use this results framework as a management

tool to monitor progress, evaluate impact, and adjust accordingly. In doing so, we will apply a key lesson: the need for the Bank Group to be realistic in what it can influence over the CAS period in a middle-income country in which Bank Group resources are comparatively small.

Delivering the Bank Group Program

ix. Our strategy seeks to provide the most value through the appropriate level and blend of lending, advice, and knowledge sharing. The Bank Group's effectiveness will depend, to a large degree, on the extent of political appetite for reform and the pace of change. Thus, the CAS is designed to be opportunistic in responding to reform efforts. Under any scenario, the *approach* focuses on the medium-term institutional challenges and addresses the complexity of the country's broader development challenges.

x. The *scale* of IBRD commitments will be determined by progress on fiscal reforms, reflecting the overarching importance of fiscal adjustment in the short-term and the need to mitigate and manage risks. If the opportunity arises, the CAS can aggressively support urgent fiscal reforms. Assuming a scenario of modest fiscal reform, the Bank's *base case* program would fall within a range of US$450-900 million of investment lending for the three-year CAS period. In a *high case* scenario, reflecting substantial and sustained fiscal reforms, the Bank would be prepared to provide total lending, including development policy lending (DPL), of up to US$1.8 billion over three years. Entry into the high case could occur once a track record of policies and associated outcomes have been established, with a reduction of the consolidated public sector deficit of 2 percent of GDP relative to 2004, compatible with a deficit reduction of 3 percent of GDP during the 2005-07 period. Substantial progress toward the high case would be considered in an *enhanced base case*, characterized by steady progress in strengthening public sector revenues and reducing the public sector deficit. IFC operations for the three-year period are anticipated to be about US$350 million.

xi. In the Philippines there has been remarkable receptivity for the Bank Group's analytical and advisory activities (AAA). Given the impact of such activities, AAA support will be essential irrespective of the size of the lending program. Trust funds will continue to play a critical role in supporting AAA. Knowledge sharing will also continue to be an integral business line of the Bank Group. We will leverage both our financial and non-lending support through deeper coordination with development partners.

Suggested Topics for Board Discussion

xii. Board members may wish to discuss, among others, the following aspects of this CAS:

- The suitability of the core design elements of the CAS, intended to maximize the Bank Group's impact.
- The adequacy of the proposed lending scenarios.
- The scope of collaboration between the Bank, IFC, and MIGA.
- The realism of the results framework for a middle-income borrower like the Philippines, where past development achievements have been limited and the Bank Group's financial contribution is a modest one.

I. Country Context and Development Challenges

Country Endowments

1. The Philippines has a tremendous range of assets to draw upon for its development. Perhaps the greatest asset of the Philippines is its people. Government, business, and academia benefit from world-class talent. While there are concerns about the quality of education and thus of the labor force going forward, the Philippines is still reaping the benefits from its past investments in education. The huge proportion of overseas workers (7.8 million in 2003 or 25 percent of the active labor force) may reflect the lack of adequate employment opportunities at home, but it also represents the global demand for the skills, English proficiency, and adaptability of the Filipino work force.

2. In terms of natural resources, the Philippines is considered to be one of the world's most bio-diverse countries. Mineral resources cover about 30 percent of total land area. Oil, gas, and geothermal potential are substantial, as are the opportunities for expanding world-class tourism. And, the Philippines is located in the dynamic East Asia region, which has grown significantly faster than other regions and is now growing at its swiftest pace since before the 1997 financial crisis. Economic growth in the region (excluding Japan) is expected to exceed 7 percent in 2004. Intra-regional trade has expanded sharply, supported particularly by strong demand from China. The Philippines has benefited substantially from this growth. Between 2001 and 2003, China's imports from the Philippines grew by 224 percent, significantly outpacing other East Asian comparators and the regional average (81 percent), albeit from a low base.

3. The Philippines economy has the basis for a vibrant private sector -- outward orientation with a strong export sector, liberal domestic and foreign investment regimes, and good entrepreneurial and managerial talents. And, the country is well-positioned in several dynamic sectors. In particular, electronics account for over 60 percent of total exports. As a location for offshore information technology (IT), the Philippines already compares relatively well in terms of financial competitiveness and human resource skills. Tourism is growing fast worldwide and the Philippines has the comparative advantage to tap this growing market.

4. The country also benefits from a very active civil society. The level of public debate is high. The dense network of non-governmental, civic, and religious organizations, free mass media, and articulate urban class constitute a potential agent for change unlike any found in other East Asian societies.

Development Outcomes and Challenges[1]

5. Despite the Philippines' considerable resources and advantages, overall development outcomes over the last decades have fallen short of potential. Per capita growth has been much lower than in neighboring countries, and the reduction in poverty has been only modest. Because of weak fiscal performance and the accumulation of debt following the 1997 Asian financial crisis, the country has experienced substantial macroeconomic vulnerability. The contrast between the country's human and physical assets and its modest development

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[1] Detailed analysis of the country's economic situation is presented in the *Development Policy Review*, to be distributed to the Executive Directors of the World Bank in tandem with this CAS. For additional analysis covering a broad range of themes and sectors, see the *Discussion Briefs* prepared in 2004 by Bank staff to inform the policy dialogue among various levels and branches of government as well as other development partners (available through the website: www.worldbank.org.ph).

outcomes is perplexing. This CAS is built on the emerging consensus of many within the country that this conundrum is due to the inability of public institutions to resist capture by special interests and thus promote the common good. As the result of a weak state and its limited ability to provide public goods and services, the Philippines has been unable to achieve its development potential.

6. Many scholars assess that relics of traditional governance structures, established during colonial rule, have endured in the form of informal networks of power outside of the state that remained influential, while the state itself remained fractured.[2] Parts of public governance have not kept pace with the modernization of other parts of society and the economy leading to a curious coexistence of modern institutions and a sophisticated economy with elements of a patronage-based political and public sector system. Within the country, there remains a common perception that elements of the state serve fragmented groups and narrow vested interests.

7. The weakness of many public institutions and their difficulties in working for the common good reflect a frail social contract between the state and its citizens. Because citizens perceive that they do not receive the services that they deserve, they are reluctant to vest authority in the government and provide it with sufficient resources. This leads to inadequate public sector finances that further hamper the government's ability to effectively deliver services, particularly social services to the poor, like education and health. Because weak public finances reduce investor confidence, the economy is also deprived of much needed investments that are critical to growth. Together this creates a vicious cycle in which economic growth is less than its potential, thus impeding poverty reduction and social inclusion, in the context of weak public finances.

8. Given broad agreement on the basic diagnosis and the direction of needed reform, the Philippines has the opportunity to turn the vicious into a virtuous cycle. Stronger growth since 2001, the election of a new administration, and early actions to improve revenues and strengthen governance, provide a valuable opportunity to address development challenges. The government's plans for dealing with these challenges are laid out in the 2004-2010 Medium Term Philippine Development Plan (MTPDP), released in November 2004. Developed with close involvement of the President and wide participation of government agencies, the MTPDP is based on a number of pillars that cover sector reforms and cross-cutting issues, including *inter alia*: building a performance-oriented, service-based public sector; enhancing fiscal discipline; enforcing anti-corruption measures; increasing investment in human resources; and improving overall competitiveness and private sector development. Some of the key result targets of the MTPDP are identified under Country Development Goals in Annex B9, as context for the specific goals of this CAS.

9. The economic and social aspects of the reform agenda supported by this CAS are inseparable. The Philippines poverty reduction strategy, in fact, is integrally embodied in the development strategy of this CAS with its two objectives (economic growth and social inclusion) and two levers (fiscal stability and improved governance). Higher and sustained *growth* would need to be the major driver of poverty reduction through jobs and income creation (despite the lesser effect of growth on poverty reduction under high income inequality). With more *social inclusion* the poor would be empowered and enabled to participate in the opportunities afforded by economic growth, supported by public spending targeted to the poor as well as institutional reforms for market access and participation in decision processes. *Fiscal reforms*, in turn, are

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[2] See references in *Corruption's Obstructions: Assessing the Impact of Rents, Corruption, and Clientelism on Capitalist Development in the Philippines*, by Paul D. Hutchcroft, University of Wisconsin-Madison, April 11, 1996.

essential for growth, for the prevention of crises that would inevitably hurt the poor severely, and for building-up effective social spending that reaches the poor. Finally, *governance improvements* would focus on institutional changes that let the state deliver its core services to all citizens, especially the poor who are often excluded. The following sections consider these country development challenges in more detail.

10. ***Growth*** Over the past several decades, the Philippines has not been able to enjoy the overall high levels of growth of other East Asian countries. With a high average annual population growth rate of 2.6 percent (compared to 1.7 percent in the region) over the 1961-2003 period, the Philippines has had a correspondingly modest 1.4 percent average annual per capita GDP growth rate. This compares to an average increase of 5.4 percent in per capita GDP for seven East Asian comparator countries over the same period.

11. Economic growth in the Philippines has been on a rising path since 2001, however, averaging 4.5 percent in 2002-03 and accelerating to its fastest pace in 15 years of 6.1 percent in 2004 (reflected particularly by growth in the service sector of over 7 percent). The stronger growth performance since 2001 represents the confluence of several factors. The economy has benefited from reforms instituted in the late-1980s. These measures have restructured the economy to a considerable extent, helping it to integrate more closely to regional and global trade and investment patterns. The Philippines has also benefited from a favorable external environment including: robust growth in global IT/electronics markets which comprise over two-thirds of exports; stronger demand in its major markets (Japan and the US); rapid export growth to China; ample liquidity in government debt markets in both foreign currency and peso financing; and agricultural growth of about 5 percent in 2004, well above its historical norm.

12. Questions remain about the sustainability of higher growth, as growth in the Philippines has been driven largely by consumption rather than by investment. The contribution of consumption to growth has been among the highest in the region, accounting for over 85 percent of average growth in the Philippines since 1990, fueled by a high level of remittances from overseas Filipino workers. Remittances increased from US$1.2 billion in 1990 to US$8.3 billion in 2004. Savings and investment as a share of GDP remain lower than other East Asian countries.

Table 1:
Accounting for Growth

	Growth in Output per Worker	Contribution to Growth of:		
		Physical Capital	Human Capital	Total Factor Productivity
Philippines (1961-2003)	**1.0**	**0.8**	**0.4**	**-0.2**
OECD (1961-2000*)	2.4	1.0	0.4	1.0
Developing Economies (1961-2000*)	1.4	0.8	0.3	0.3
East Asia (7 countries) (1961-2000*)	4.4	2.4	0.5	1.4

* Simple averages for comparator groups

Source: Bosworth and Collins (2003) and Bank estimates.

13. Real GDP per worker, a broad measure of labor productivity, increased by only 1 percent a year on average compared to 1.4 percent in all developing countries, and 4.4 percent in other major East Asian economies.[3] (See Table 1) Similarly, growth in both physical capital and total factor productivity has been much lower in the Philippines. Total factor productivity growth was slightly negative on average over the whole period, compared to increases averaging 1.4 percent a year in other East Asian economies, underscoring private sector inefficiencies in the Philippines.

14. Another key determinant of growth is private investment. Both volume and productivity of domestic investments and foreign direct investment inflows have been lower than other East Asian countries and investment horizons of private firms in Philippines tend to be short term. Between 2000 and 2004, the Philippine competitiveness ranking deteriorated, while that for Malaysia and Thailand improved (China and Singapore did not change). (See Table 2)

Table 2: Competitiveness Ranking of East Asian Countries

	2000	2001	2002	2003	2004
China	24	26	28	29	24
Indonesia	43	46	47	57	58
Malaysia	26	28	24	21	16
Philippines	**35**	**39**	**40**	**49**	**52**
Singapore	2	3	8	4	2
Thailand	31	34	31	30	29

Note: These rankings are amongst all countries worldwide; the lower the number, the more competitive the country.
Source: World Economic Forum (2004)

15. The lackluster investment climate in the Philippines can be attributed to: a fragile fiscal and debt position; perceived corruption; infrastructure weaknesses; uncertainty and inconsistency in the application of regulations, especially in the infrastructure sector; concerns about law and order; the high costs of doing business; and a sluggish financial system. This assessment was reflected in a recent Investment Climate Survey of more than 700 firms conducted jointly by the Asian Development Bank (ADB) and the Bank Group in which firms rated macroeconomic instability and corruption as the two main constraints. Other constraints commonly cited included tax administration and regulatory policy uncertainty. (See Figure 3).

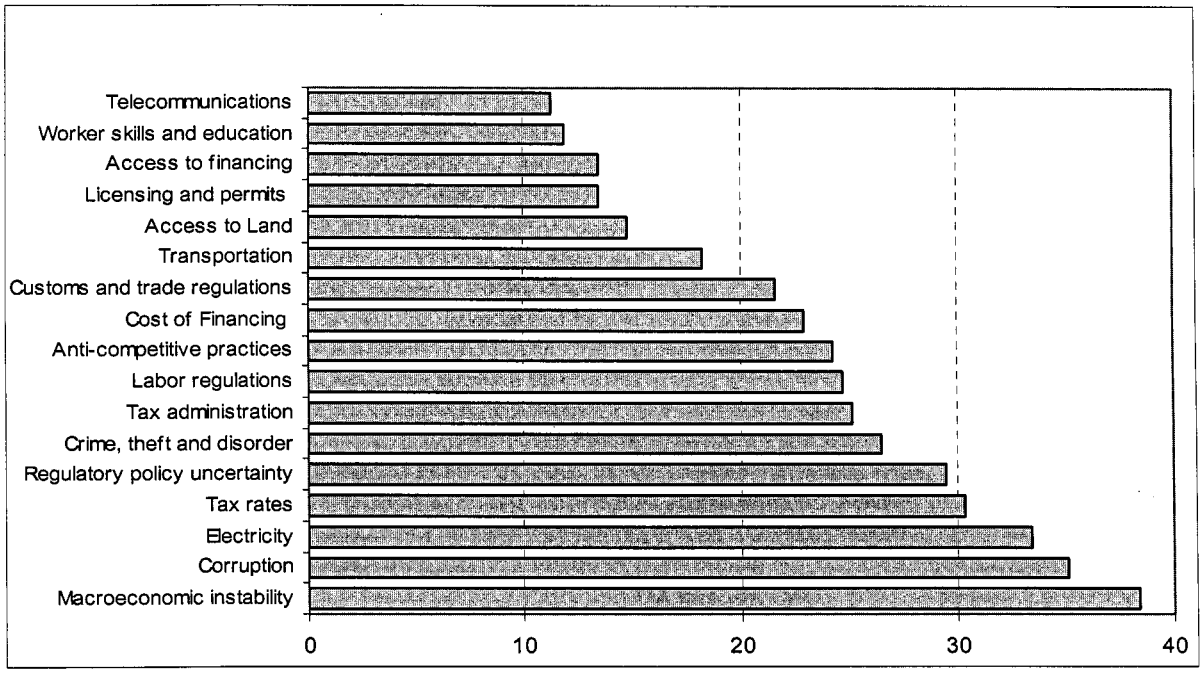
16. The banking system is constrained by a high level of non-performing assets, insufficient provisioning, and a low capital base. The Central Bank is progressively taking steps to improve compliance with international supervisory and regulatory practices and adopt a consolidated risk-based supervisory framework. Progress, however, is impeded by weak legal protection for examiners which limits their ability to intervene and resolve distressed banks. Moreover, bank secrecy laws limit supervisors' access to deposit information. A positive development is the recent confirmation by the international Financial Action Task Force that the Philippines is effectively implementing anti-money laundering measures.

17. Credit to the private sector is increasing, but only very slowly. Credit growth is muted because of high public sector credit demand, which offers banks relatively attractive rates and lower perceived risks. Thus for robust and sustainable growth, which will induce greater credit flows, the government will need to curb its demand for funds from the domestic financial system. This underscores the importance of tax and other fiscal reforms to rein in the fiscal deficit. Encouragingly, lending to micro and small and medium enterprises is improving. A new and more inclusive credit information system which is under development will help increase access

[3] Calculations of growth and contributions to growth in this section draw on the database in Bosworth and Collins (2003), which covers 22 developed and 62 developing economies over the period 1960-2000. Data for the Philippines was updated through 2003 by the Bank. The seven other East Asian economies referred to in this discussion are China, Indonesia, South Korea, Malaysia, Singapore, Taiwan (China), and Thailand.

to credit to small borrowers (especially to the poor in urban and rural areas), lower credit transaction and borrowing costs, and improve management of credit risk in general.

Figure 3:
Firms' Perceptions of Constraints
Percent of Philippine Firms Indicating "Major" or "Very Severe"



Source: Asian Development Bank and World Bank (2004); 716 Philippine firms surveyed.

18. Two other segments of the financial market that raise concerns are the pensions and pre-needs sectors, the latter providing pre-funded funeral, education, and pension/saving plans. The slow pace of pension reforms is disquieting and the financial condition and long-term sustainability of the contractual saving institutions remains tenuous.

19. Inadequate infrastructure is considered a serious constraint to investment. The percentage of roads paved in the Philippines at around 21 percent is lower than in Indonesia (46 percent) or Thailand (97 percent). (See Table 4) The cause for the weakening state of infrastructure in the Philippines can be attributed to many of the same factors affecting the business environment. In particular, inadequate public resources and inefficient use of existing ones, result in few available resources for infrastructure. Maintenance of infrastructure has been neglected; funds allocated to road maintenance, for example, have been typically less

Table 4:
Comparison of East Asian Countries' Infrastructure

	Roads Paved (% of total roads)	Power Losses (% of output)	Telephone Subscribers (per 100 inhabitants)	Internet Users (per 100 inhabitants)
Indonesia	46	11	12.7	3.8
Malaysia	76	8	62.4	32.0
Philippines	**21**	**14**	**31.1**	**5.3**
South Korea	75	5	123.9	55.2
Thailand	97	8	49.9	7.8

Source: World Development Indicators Database; source for telephone and internet data is ITU, Asia-Pacific Telecommunications Indicators (2004).

than 30 percent of estimated needs over the past five years, and half of the paved roads are in poor condition. Also, there has been weak long-term infrastructure planning by the public sector; major efforts have tended to be more reactive to crisis situations rather than proactive. And, despite their expanded mandate, local governments have not increased their expenditures on infrastructure.

20. Experience in particular sectors, however, has demonstrated the Philippines' ability to achieve striking advances under the right circumstances. The rapid growth of the electronics industry during the 1990s is the prime example of this. Looking forward, Philippine firms have tremendous opportunities to benefit from high growth in China and other East Asian countries if they are able to specialize in specific niche markets. In electronics hardware, for instance, the Philippines could become a specialized supplier to the Chinese electronics industry. In fact, this is already happening, with China's imports of machinery and transport equipment from the Philippines (principally electronic components) surging by over 250 percent between 2001 and 2003.

21. Another promising area is the IT Enabled Services sector, which includes segments like call centers, business process outsourcing, transcription and translation services, content development (e.g., animation), and other services such as software development, and research and development. Growth in this sector has been high. The number of "seats" (the key performance indicator in the call center segment) increased from less than 4,000 in 2001, to around 35,000 in 2004, and by end-2005 estimated to be 60,000. Prospects going forward are good for this sector, thanks to the supply of an English-speaking educated workforce, relatively low cost of commercial space, and access to a decent telecommunication infrastructure.

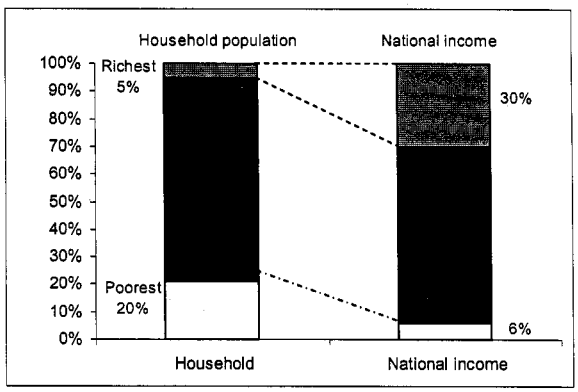
22. The mining sector also offers considerable potential. Mining exports declined from around 20 percent of exports in the mid-1970s to only a 1.6 percent average in 2000-02. A recent Supreme Court decision has reduced regulatory uncertainty in this sector and initial investor response has been very positive, with over US$3 billion of new investments identified. Successful development will depend very much on improving environmental and social practices which caused substantial problems in the past. There is also considerable potential for development of agribusiness, in particular for tropical fruits. In the agro industry sector banana production and exports increased by 83 and 53 percent, respectively, between 1997 and 2003; fresh pineapple exports went up by 40 percent. The tourism sector also holds great promise given the increasing number of East Asian tourists looking for new destinations. International tourist arrivals in 2004 increased by more than 30 percent over 2003 and tourism receipts increased by more than 40 percent, but there is still tremendous growth potential given the country's attractive destinations and relatively small share of tourists visiting the region. Good environmental management would be a key factor for exploiting the growth potential in this sector.

23. The extent to which the Philippines will be able to exploit its considerable assets and achieve growth in high potential sectors will rest on its ability to improve the investment climate. This, in turn, requires strong public administration and governance, essential to achieving macroeconomic stability, enforcement of the rule of law and anticorruption measures, and consistent application of regulations. As part of this growth agenda, the MTPDP recognizes that over the medium term the private sector will play an increasing role in financing of infrastructure projects. Hence, the plan's emphasis on improving public-private partnerships in infrastructure provision is appropriate (e.g., review the Build-Operations-Transfer law and its implementing rules and regulations). Improving the investment climate will also be linked to strengthening the regulatory capacity and effective protection against non-competitive practices. Stronger public sector management and regulatory capacity will also be critical for protecting the environment to

foster sustainable growth in tourism and mining, and for city planning to ease traffic and make urban centers more attractive.

24. ***Social Inclusion*** Lack of social inclusion is a serious obstacle to development, one that is closely linked to the country's economic and social challenges (as discussed in paragraph 9 on the framework for poverty reduction in the Philippines). Inequality remains high in the Philippines. Coupled with low growth over the longer term, this has translated into slow progress on poverty reduction. The richest 5 percent of households account for nearly one third of national income, while the poorest 20 percent accounts for only 6 percent. (See Figure 5) Maybe as a result of unequal distribution of incomes and opportunities, many Filipinos, especially the poor, are skeptical of economic reforms since they are unable to reap the benefits of growth. Moreover, they are often not involved in the decision-making process. Thus the ability of the state to take collective decisions and provide public goods and services is impaired.

Figure 5: Distribution of Income



Source: Philippines Statistical Yearbook 2003

25. The incidence of poverty, based on household consumption, has declined marginally from 27.6 percent in 2000 to 26.1 percent in 2003, after an increase of 2 percentage points between 1997 and 2000.[4] Poverty severity remained about the same between 2000 and 2003 (living standards of those who remained poor have not improved). Between 2000 and 2003, poverty incidence fell in most (11 out of 16) regions, with the exception of the Mindanao and CARAGA regions. The highest poverty incidences in 2003 were found in the Autonomous Region in Muslim Mindanao (ARMM) at 61 percent and Western Mindanao at 49 percent, followed closely by Bicol and Eastern Visayas at around 45 percent.

26. Poverty is highest in the agriculture sector and the sector also experienced the slowest poverty reduction. Agriculture-dependent households account for over two-thirds of the poor while they represent only 40 percent of the population. The self-employed and the wage earners in the sector are equally likely to be poor. The incidence of poverty declined twice as rapidly among households dependent on industry and services than on agriculture. Educational attainment is a key determinant of poverty. Over three quarters of the poor lived in households where the head had no more than an elementary education.

27. Notwithstanding small progress on the poverty front, persistent high income inequality implies that the poor do not share many of the income benefits generated by growth. In addition to the lack of growth-related employment opportunities (unemployment rate was about 12 percent in 2004), the poor are often unable to access quality public services. For example, less than 10 percent of the lowest 20 percent has access to adequate infrastructure services. This implies that the poor are receiving little or no service, and therefore likely to be benefiting less from national government programs and subsidies. Moreover, wide income disparities among regions can be attributed, in part, to regional differences in the level of infrastructure

[4] The poverty estimates are based on household consumption. The consumption-based poverty line of US$0.72/person/day is constructed to reflect a consumption basket of basic-needs, consisting of a food basket that provides 2,000 calories per person per day valued at consumer prices in each province, plus a basket of non-food spending.

development. The country's poorest region, the ARMM, has the country's lowest level of access to safe water, electricity and sanitation, as well as the lowest road density level in the country.[5]

28. Environmental degradation is a significant contributor to poverty, inequality, and loss of livelihood. The Philippines is one of the most hazard prone countries in the world, and natural disasters have been aggravated by environmental degradation. The impact of environmental degradation is acutely felt by the rural population, the majority of whom live either in the uplands or the coastal fringe and substantially relies on their habitat's natural resources for their sustenance. Pressures on these resources, however, mean that only about 7.2 million hectares remain forested, compared with 21 million in the early 1900s. Similarly, fish stock has declined and nearly all of the coral reefs are under medium to high threat by environmental pressures.[6] In urban areas, air and water pollution continue to escalate due to weak enforcement of industrial regulatory policies, exacerbated by overcrowding and an increase in slum areas. Related to these social costs, the deterioration of the environment also constrains productivity and economic growth, particularly in such high potential growth sectors as agriculture and tourism.

29. Low incomes among the poor are aggravated by low outcomes for other social indicators. Infant and under-five mortality rates are 2.3 and 2.7 times higher, respectively, for households in the poorest 20 percent compared to those in the richest 20 percent. School enrollment rates are 28 percent lower in the poorest group compared to the richest; similarly, female literacy rates (age 15-49) are 9 percent lower for the poorest group compared to the richest. Geographic disparities in health and education outcomes also remain high. The average life expectancy of adults in the ARMM region in 2000, for example, is 10 years lower that the national level and is at the comparable national level reached in 1970. Elementary school enrollment rates in the ARMM are around 10 percentage points lower than rates in the rest of the country; female literacy (age 15-49) is 15 percentage points lower.

30. Education outcomes in the Philippines are low compared to the rest of the East Asia region. The Philippines ranked nearly last in student performance on mathematics and science tests (See Table 6). In addition, about one third of those who enter grade one and about one quarter of those who enter first year high school do not reach the last grade in the cycle. High population growth rates and a tight fiscal situation contribute to these outcomes.

Table 6: Student Performance on Mathematics and Science Tests

Country	Mathematics score & rank	Science score & rank
Singapore	604 (1)	568 (2)
Korea	587 (2)	549 (5)
Taiwan	585 (3)	569 (1)
Hong Kong	*Not available*	530 (15)
Japan	579 (5)	550 (4)
Malaysia	519 (16)	492 (22)
Thailand	467 (27)	482 (24)
Indonesia	403 (34)	435 (32)
Philippines	**348 (36)**	**345 (36)**

Source: *Trends in International Mathematics and Science Study (from 1999);* Institute of Education Statistics, US Department of Statistics (2003)

31. The Philippines is likely to reach several of the Millennium Development Goals (MDGs), including reducing the number of families below the subsistence threshold, access to safe water supply, reduction in child mortality, and combating some major diseases. Given present trends, however, the Philippines will need additional effort to realize MDGs in some other important areas by 2015, including reductions in child malnutrition, universal primary education,

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5 See the World Bank report *Meeting the Infrastructure Challenge in the Philippines* (2005 forthcoming).

6 *Philippines Environment Monitor 2004*, World Bank.

maternal mortality, contraceptive prevalence, and other policies to address very high population growth. (See Box 1) Progress on addressing child malnutrition has been particularly weak, declining only from about 34 percent of children (0-5 years) underweight in 1990 to 28 percent in 2003, far above the MDG target of around 17 percent for 2015. Placing the Philippines back on track to realize these MDGs will require better growth and employment opportunities, as well as concerted efforts to improve the delivery of basic public services to the poor.

32. Finally, social exclusion is manifest in, and reinforced by social conflicts in Mindanao and in other parts of the country, as well as a sense of a lack of personal security.[7] (See Box 2) While public decision-making is formally open to all members of society, the effective participation of the poor and other marginalized groups is often limited. Their diminished social inclusion and sense of disenfranchisement make policy making, especially the implementation of hard reforms, all the more difficult because many groups of the population may not expect to share in the benefits of public services and reforms.

33. Allowing the poor and vulnerable groups to benefit more from the gains of economic growth requires significant investments in human development. The MTPDP's focus on key anti-poverty areas will be important, namely: acceleration of asset reform; provision of human development and social services (health and education); livelihood and employment; social protection and security from violence; and participation of the poor in decision-making.

34. ***Fiscal Stability*** A weak fiscal position is the main cause of concern regarding public finances and macroeconomic stability. Non-Financial Public Sector (NFPS) debt has grown at an unsustainable pace in recent years, exceeding 101 percent of GDP in 2003. Debt of the national government was nearly five times its revenue, significantly higher than average ratios for emerging markets. Interest payments of the national government reached 5.4 percent of GDP in 2004, and total public sector interest payments are estimated at about 7 percent of GDP. While the debt profile has been carefully managed and pushed out to longer maturities, the public sector's borrowing requirement remains high. Until debt levels and financing requirements are brought down, the Philippines will remain vulnerable to shifts in investor sentiment and market conditions.

35. The rapid increase in NFPS debt has been driven by large deficits due primarily to declining tax collection, and rising power sector losses through 2004. Tax revenue dropped from 17 percent of GDP in 1997 to 12.3 percent in 2004. Several measures to strengthen tax administration were taken during the past two years, which slowed but did not stop the decline in tax effort. Poor tax collection reflects both policy and administrative weaknesses. VAT exemptions, for example, remain significant, with dispensation for select groups (e.g., independent power producers, lawyers, doctors). Despite the perception of widespread tax evasion, successful prosecution has, up to now, been rare.

36. Public debt figures reflect not only past deficits, but also the calling of numerous contingent claims on government and bailouts of government-owned corporations. But NFPS debt does not include existing contingent liabilities of the government arising from such commitments as: guarantees on risks from build-operate-transfer contracts; currency risks associated with foreign loans intermediated by government financial institutions; liquidity support to troubled banks; and future obligations of the government-run contractual savings system. Of particular concern are the finances of the social security system, which given the present package of benefits and contributions is expected to suffer increasing losses and eventually deplete its assets in about ten years.

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[7] Crime, theft, and disorder were considered to be a major constraint to business by over 25 percent of firms surveyed in the 2004 Investment Climate Survey.

Box 1
Millennium Development Goals:
Summary of the Philippines' Progress

Indicator	Baseline (1990)[a]	Current Level (2002-2004)	MTPDP 2010 Target[b]	MDGs	
				2015 Target[a]	Probability of Achieving MDG
Eradicate extreme poverty and hunger					
Proportion of families below subsistence threshold	20.4	10.4	8.98-10.23	10.2	High
Proportion of families below poverty threshold	39.9	24.7	na	19.95	High
Prevalence of underweight preschool children aged 0-5 years old (in %)	34.5	27.6	21.6	17.25	Medium
Provide basic amenities					
Access to Safe Water Supply (in %)	73.7	80	92-96	86.8	High
Achieve universal primary education					
Elementary schools (net enrollment rate)	85.1	90	93	100	Medium
Reduce child mortality					
Infant Mortality Rate (per 1,000 live births)	57	29	17	19	High
Under-five Mortality Rate (per 1,000 live births)	80	40	32.24	26.7	High
Improve maternal health					
Maternal Mortality Rate (per 100,000 live births)	209	172	90	52.2	Medium
Prevalence of men/women/couples practicing responsible parenthood (using natural, modern or artificial methods; in %)	40	48.9	60	70	Medium
Combat major diseases					
TB case detection rate and cure rate (in%)	na	61[c] 78[c] (as of 2003)	70 85	-- --	High
Malaria morbidity rate (per 100,000 population)	na	48[c] (as of 2002)	24	--	High
HIV prevalence		<1%	<1%	--	High

na: not available

Source: Data is from the government's presentation on the Millennium Development Goals at the 2005 Philippines Development Forum on March 7-8, 2005.

[a] Baseline year is 1990 or year closest to 1990.

[b] Data is from the MTPDP 2004-2010, Table 12-9, page 161 .

[c] Data is from the Philippines Department of Health.

37. The country's tenuous fiscal and debt situation is ultimately the result of deeper causes related to weak public institutions and a frail social contract, discussed earlier. The difficulties faced by the state in improving its revenues not only undermines macroeconomic stability, but it also has profound implications for human development and growth prospects. Spending on essential services has suffered from expenditure compression. Public sector investments declined from 3.3 to 2.8 percent of GDP during 2000-03. Since 1997 real per capita spending by the national government on education and health has fallen by 19 and 43 percent, respectively, causing deterioration in these services. Public investment as a share of GDP

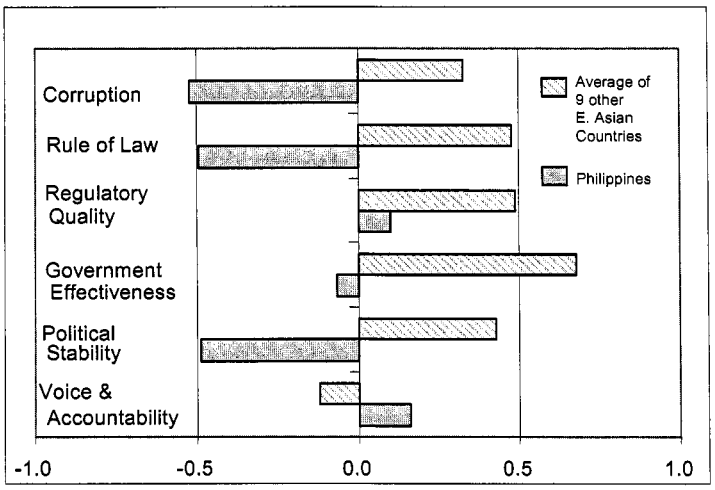
remains among the lowest in the region. High domestic and external public financing requirements have driven spreads upwards and increased risk premia for the country. Emerging Market Bond Index spreads for the Philippines stand at about 500 basis points (as of early 2005). The high interest income from government bonds, coupled with their zero risk weighting for bank capital requirements, have created a corresponding disincentive for banks to lend to the private sector.

38. Overall, a considerable upfront fiscal adjustment will be essential to send a strong and credible signal to the domestic and international financial markets that the government -- both the executive and legislative branches -- is committed to serious reform. This would improve policy credibility and lower perceived risks by investors, yielding direct benefits of lower interest rates, a stronger peso, and higher investment and growth. The subsequent savings in financing costs alone would be large enough to support funding for several of the improvements in services and infrastructure identified in the MTPDP.

39. Recent progress is encouraging -- actions to increase excise taxes and adjust power tariffs, as well as progress in Congress on revenue bills have sent a positive signal about the ability to enact policy. In addition to reducing public spending in response to revenue constraints, the government has also implemented a process to review budget proposals against core agency mandates and performance indicators Of course not all necessary actions can be initiated simultaneously and many will require further consensus building and Congressional action.

40. The MTPDP outlines several legislative and administrative measures to improve the fiscal situation. Beyond the VAT reform, these measures include raising petroleum excise taxes and rationalizing the present configuration of fiscal incentives. Equally important, tax administration needs to be strengthened, specifically actions to reduce corruption, improve discipline, and recognize and reward integrity in the revenue agencies. In addition to revenue enhancement, the government aims at imposing greater discipline in Government-Owned and Controlled Corporations (GOCC) financing; addressing contingent liabilities, particularly related to the power sector and pension obligations; and making adjustments in inter-governmental finances. The MTPDP also includes measures to rationalize government spending, improve budget allocation, and streamline the bureaucracy.

Figure 7:
Governance Indicators Among East Asian Countries



Note: The six indicators aggregate several hundred survey-based variables on perceptions of governance for almost 200 countries and territories. The indicators are normally distributed with a mean of 0 and a standard deviation of 1. The nine other East Asian economies are China, Hong Kong (China), Indonesia, Korea, Malaysia, Singapore, Taiwan (China), Thailand, and Vietnam.

Source: Kaufmann, Kraay, and Mastruzzi (2004), WBI Governance Indicators.

41. ***Effectiveness of Public Institutions*** The issue of governance in the Philippines presents another paradox. The country enjoys an active and vocal civil society, open media, and vibrant public debate. In addition, the public administration benefits from many highly competent individuals, especially at the top levels of the bureaucracy. Despite these attributes, there remains a strong perception of "capture of the state" that biases public decision-making towards favoring narrow interests.

Indeed, governance indicators from a cross-country database indicate that, despite democratic processes, rule of law, political stability, and control of corruption are lower in the Philippines than in other East Asian comparator economies. (See Figure 7)

42. Like other countries, the Philippines is in a transition from traditional, clientilistic governance towards a modern state in which citizens provide resources to, and vest powers in their government in return for accountability for the delivery of public goods and services. The country is seeking to build a stronger state, not necessarily a bigger one, which can raise adequate public finance and deliver public goods and services efficiently. As the experience of many of its East Asian neighbors illustrate, a stronger state is a precondition for robust private-sector-driven growth and greater social inclusion.

> *"A consensus has also emerged in the past decade among scholars that, first, the Philippines has had a weak state; and, second, that the weakness of the Philippine state has been the country's overarching problem that explains its inability to develop the economy and alleviate poverty. There are two essential attributes of a strong state. First, it is autonomous of dominant classes and sectors, so that it represents the people's interest, both minority and powerful groups. Second, it has the capacity, represented mainly through a strong bureaucracy, to implement its policies."*
>
> Source: Quote from Rigoberto Tiglao, Adviser to President Macapagal-Arroyo, *Newsbreak* magazine, January 6, 2003

43. Progress is slowly being made to improve the effectiveness of the state. Innovative approaches are being taken to strengthen public institutions and constrain graft and corruption. The "Lifestyle Checks" of public servants which has been adopted formally by the National Office of the Ombudsman and the consequent dismissal of several senior level bureaucrats have sent a clear message that ill-gotten wealth will be prosecuted. (See Box 3) The implementation of landmark procurement legislation is helping improve transparency and accountability in government contracting.

44. Various home-grown efforts at reshaping public sector agencies have been initiated including most prominently the recent promulgation of Executive Order 366 authorizing the rationalization of the bureaucracy in order to reduce the fiscal burden and improve the delivery of public services. At the local level, the passage of the Local Government Code in 1991 has led to the emergence of a significant number of well-performing local governments. There have in fact already been several instances in which well-governed LGUs have radiated their success by influencing other LGUs. Similarly, community-driven development programs like Kalahi-CIDDs which promote transparency and community involvement in decision-making, have become powerful motivators for changing "business as usual" at the local level. The agenda going forward will need to build on such initiatives to improve governance, reduce corruption, and ultimately reenergize the social contract.

45. It will be important to encourage and support positive domestic experiences -- "islands of good governance"-- that demonstrate how progress can be made within the context of the Philippines and can potentially create spillover effects. When citizens see concrete benefits, they will be more willing to vest authority and provide resources for their public institutions. Moreover, when public institutions (e.g., regulatory bodies) become more effective, the private sector will make productive investments and devote increasingly less resources to unproductive rent-seeking activities. The result: a virtuous cycle.

Box 2
Supporting Reconstruction and Development in Mindanao

The Mindanao conflict is one of the world's oldest, going back more than 400 years. Like most conflicts, its roots are cultural and religious and relate to the ownership of land and access to other natural resources.

In the early-1970s, a full-scale rebellion was launched by the Moro National Liberation Front (MNLF). Eventually an autonomous region for the Muslims in Mindanao was established in 1989 and a formal peace agreement was signed in 1996. During that period, however, a breakaway faction of the MNLF was formed, the Moro Islamic Liberation Front (MILF), which did not merely seek the creation of a separate state but rather the establishment of a "separate Islamic state". Because the MILF was not a party to the 1996 agreement, armed conflict in Mindanao persisted.

By 2000, the military launched a major offensive against MILF controlled areas, resulting in the displacement of almost one million people. This was followed by another military offensive round in early 2003, displacing close to 400,000 individuals. In July 2003 a ceasefire agreement was signed with the MILF, which continues to hold. Through the mediation of the Malaysian government, exploratory talks are paving the way for a formal peace agreement, anticipated in 2005.

In support of the peace process in Mindanao, bilateral and multilateral agencies conducted an assessment of reconstruction and development needs in conflict-affected communities in 2004. The findings of this joint assessment will be used in designing and establishing a Mindanao Trust Fund, administered by the Bank Group, to support reconstruction and development of conflict-affected areas. The assessment showed that priorities revolve around basic human needs, such as the provision of water, shelter, farm equipment, planting materials, schools, drugs, and immunization for infants and children. Putting conflict reduction and peace building goal at center stage of its assistance program, the trust fund will address these needs as well as provide support to communities to rebuild social relationships among communities.

The challenge is great. All of Mindanao has experienced persistent poverty attributed to the recurrent armed conflict; poverty rates in all regions of the island continue to be higher than the national average. In the ARMM, poverty actually increased from 56 percent in 1991 to 71 percent in 2000.

Country Directions

46. The Philippines is at a critical juncture, facing a window of opportunity to address its development challenges. The beginning of a six year term for the new government could become a turning point toward creating a **favorable policy environment**. Implementing reforms will, of course, be politically challenging. Indeed, since the beginning of the current administration the reform agenda has already generated a much welcome and lively discussion and an emerging sense of an impending crisis if actions are not taken. Widespread acceptance of the reform program will depend upon how well the benefits of reform, as well as the downside risks of no reform, are communicated to the public. Citizens will need to know that the initial burdens of reform are shared across all sectors and classes of society. Most importantly, the public will need to have confidence that the reforms will strengthen governance and that government will be held to account. In this regard, the success of the administration's anti-corruption drive and efforts to prosecute tax evaders will be critical. (See Box 3)

47. An effective reform effort – specifically a more aggressive reduction in the public sector deficit – would help sustain the strong pace of growth attained in 2004. Reducing the public sector deficit by about 3 percent of GDP during 2005-07 would lead to significantly improved

perceptions of stability, as measured, for example, by debt sustainability indicators and bond spreads. Private investment would likely increase because concerns about macroeconomic vulnerability would ease. With improved investor sentiment, higher private investment could fuel economic growth to an average of at least 6 percent per year. Under this scenario in which a virtuous cycle is achieved, the NFPS debt would fall significantly by about 25 percentage points of GDP, from its current level (2003) of 101 percent of GDP. The ability to take a more aggressive fiscal adjustment would likely reflect greater political consensus and thus be accompanied by faster improvements in tax administration, expenditure management, and civil service reform.

48. With more public resources and greater effectiveness of social expenditures, the higher growth, thanks to a favorable policy direction, would have a significant impact on poverty reduction. If the Philippines can sustain growth of 6 percent per year with rapid employment generation, the proportion of the population living on less than US$2 per day could be reduced from 47 percent in 2000 to around 30 percent by 2010, and some 15 million more Filipinos would rise above the poverty line of US$2 per day, with associated improvements in social outcomes.

49. The country has taken important steps toward the virtuous cycle described above, underlying the high growth path. However, implementation of the needed reforms will face many challenges. **Gradual progress in the policy environment** would imply reducing the public sector deficit over the next three years and continued efforts to enhance public sector management, including improved tax administration, civil service reform, broadening implementation of the procurement law, and strengthening judicial functioning.

50. But in this situation the gradual pace of reforms is not enough to create the necessary momentum to make increased tax efforts and improvements in government spending sufficient and sustainable and thus attain a virtuous cycle. These factors, together with the expectation that the external environment will be less favorable and that agricultural growth will return to historical patterns, could lead to a moderate growth path of about 3 to 4 percent per year during the 2006-08 CAS period.

51. **Negative policy circumstances**, by contrast, would likely reflect gridlock in government and lack of political consensus, undermining progress on fiscal and public sector reforms. Without a concerted effort to contain public deficits, the public debt/GDP ratio could continue upward. This could also create pressure to rollback progress made in other areas such as trade, financial sector, and regulatory policies, further undermining growth. Ultimately public resources for infrastructure and human development would become even more constrained. A reversal of progress on the policy agenda and fiscal adjustment could trigger a cycle of higher deficits and debt, reduced access to external finance, and thus add to financial market volatility.

52. Such a negative situation is unlikely to be sustainable as the country would continue to remain vulnerable to shifting investor attitudes and the external environment. In particular, the Philippines remains susceptible to deterioration in investor sentiment given high public sector amortization requirements, a relatively open capital account, and the concerns expressed by a number of international banks and credit rating agencies about the slow pace of fiscal adjustment. A damaging shift in sentiment could possibly be triggered by external shocks such as higher oil prices or a decline in the export market to China; social or political disruptions that would distract from the policy agenda or merely perceptions of growing policy drift; and with local banks' growing exposure to the government, a fiscal crisis could envelope the banking system as well. Protracted conflict in Mindanao or a deterioration of the general social and security situation could interact with economic vulnerabilities and further undermine investor

confidence. Clearly, this is a direction that the Philippines will have to avoid if it is to achieve its development potential.

Box 3
Strengthening the Anticorruption Arsenal

"With the victory of President Macapagal-Arroyo within sight, a ranking Ombudsman official yesterday said that it was full speed ahead for the government's lifestyle check program, one of the President's centerpiece projects. Since the start of the lifestyle check program early last year, several officials from the Department of Public Works and Highways, the Bureau of Customs and the Bureau of Internal Revenue have been suspended or dismissed on graft charges. About 80 more officials are under various stages of investigation and prosecution for various irregularities."
Philippine Daily Inquirer, May, 13, 2004

"Ombudsman Simeon V. Marcelo has approved the dismissal from service of a Bureau of Internal Revenue (BIR) Assistant Commissioner after finding the official guilty of the administrative offense of dishonesty. The penalty of dismissal from government service included accessory penalties of forfeiture of retirement benefits, perpetual disqualification from reentering government service and cancellation of government eligibility."
BusinessWorld, February 1, 2005

"'The charges filed ....are the DOF's response to widespread tax evasion,' said Secretary Purisima. 'I reiterate my commitment to bringing to the public's knowledge affluent personalities who purposely and maliciously evade their tax obligations. Tax evasion is a serious crime that calls for serious action.' DOF data show that salaried employees carry the brunt of the national tax burden by paying an average of 15.25% of their gross income, while self-employed individuals or professionals pay only 1.25% of their gross income. In 2004 salaried employees paid a total of P84 billion, while self-employed individuals and professionals paid only P12.3 billion."
News Release, Department of Finance, March 17, 2005

II. The Bank Group and Philippines Partnership

Lessons Learned and Messages from Stakeholders

53. The Country Assistance Strategy (CAS) for FY2006-08 builds on the lessons of the past and the messages heard during a series of consultations and client survey with a wide range of stakeholders. The CAS Completion Report reviews the Bank Group's[8] effectiveness over the past five years and indicates that the Bank Group supported several key country development objectives, including: expansion of basic infrastructure in rural areas; reconstruction efforts in Mindanao; and improving procurement and financial processes in several key agencies. (See Annex 1) Extensive CAS stakeholder consultations and a client survey revealed that the institution's knowledge resources, technical assistance, and information sharing are particularly valued. The Bank Group's outreach efforts to involve civil society and beneficiaries in project preparation and implementation are considered especially successful. (See Annex 2)

54. The CAS preparation also drew extensively from a series of formal and informal meetings with a broad range of stakeholders. Small meetings were held with key opinion leaders from various sectors and with government officials from oversight and implementing agencies. Separate meetings were held with bilateral and multilateral development agencies. Large workshops involved national and local governments; civil society; the business community/private sector; academia; labor groups; and other development partners. The Bank Group also held workshops around the country with youth representatives. Through these small and large gatherings, the Bank Group heard the views of its various stakeholders. In many of these fora, the imperative to make public institutions work for the common good was emphasized, raising the question of whether our assistance can be more strategically focused towards this objective.

55. While the feedback suggests that the Bank Group's contributions have been valuable and much appreciated, it also indicates that international development partners, including the Bank Group, may have fallen short of their potential impact. This perception mirrors, and is likely related to, the perception of the country's own development shortfall. The lessons learned include the following:

- Both the government and the Bank Group have, at times, been tempted to pursue an overly-ambitious policy reform agenda. Complex plans have been developed by highly capable counterparts only to fall short during implementation, often after responsibility had passed on to other individuals. This applies to overall economic reform as well as to sector reforms, for example in health and energy. A key lesson calls for less complex designs and greater focus on implementation of future reform efforts, supported in particular by development policy lending or reform-oriented investment lending.
- The Bank's proposed support for fiscal reform was not achieved, due to lack of progress on reducing the public deficit, thus preventing adjustment lending. Further, Bank investment lending (still often perceived as financing outside the government's core program) was severely constrained by the tight fiscal situation even though it could have substantially benefited the country through low-cost financing as well as technical contributions by the Bank. The key lesson is the need to align Bank lending more closely to the priorities expressed in the government's own investment program and finance priority expenditures *within* the existing national budget in support of a well-

[8] References in this document to the "Bank Group" encompass the World Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). References to the "Bank", "IFC", or "MIGA" generally relate to the specific agency.

defined program of reforms. This requires a shift away from financing discrete projects toward more programmatic engagement with selected key agencies.

- Many sectoral projects and programs supported by the Bank and other international development partners directly or indirectly work with or through LGUs. A number of these programs have led to fragmentation of financing and procedures that do not necessarily strengthen the ability of LGUs to determine and pursue their own development priorities. Moreover, the national government is reviewing its approach toward the financing of local government activities through on-lending and on-granting. These factors have led to a slowdown in implementation and approval of support for locally implemented projects while the demand for support from LGUs and their relevance to the development agenda have in fact increased. The key lesson is the need for an approach that encourages LGUs to pursue and finance their own development priorities, but at the same time allows the national government to use separate instruments to pursue national development objectives and priorities requiring strong local implementation and partnership between national and local governments.
- While there have been examples of good collaboration across the organizations of the Bank Group, there is a perception of unexploited synergies in creating successful models of public-private partnership, particularly in infrastructure. The key lesson is the need for closer integration of operational approaches of the Bank Group members.
- The previous CAS attempted to identify results based on broad and multiple strategic objectives. With hindsight, such a wide-ranging approach proved to be a difficult framework for assessing the effectiveness of Bank Group contributions. The key lessons are to: further strengthen the results focus of the CAS and make it a more effective management tool; focus on less ambitious yet more monitorable result indicators; and distinguish between country-level results, CAS-level results, and program level results.

56. Throughout the development of this CAS, the Bank Group team has struggled to directly address the identified obstacles and integrate these lessons in order to make a relevant contribution toward the two primary objectives of the Bank's mission -- economic growth and social inclusion. The strategy described below seeks to respond, a challenge that will no doubt continue beyond this CAS period.

Overview of Engagement Strategy

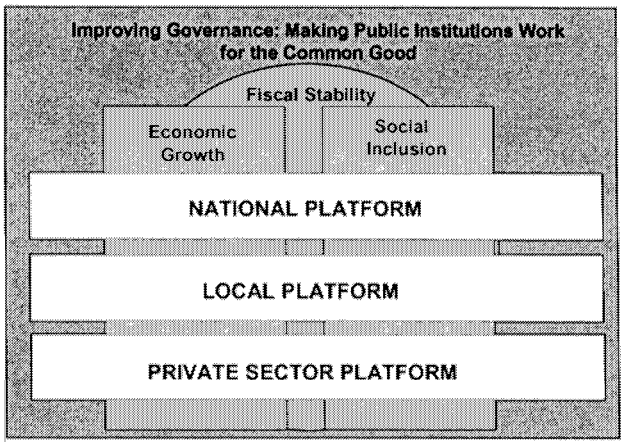
57. The Philippines could attain substantially better development outcomes given the available ingredients for more rapid development, as outlined in Chapter 1. These better outcomes, however, will require strong and sustained policy implementation. Discouraged by slow progress on policy reforms, the Bank, as well as other development partners, has scaled back its program over the years. There is no question that the impact of the Bank and other development partners' support has been disappointing in some areas. We are, nonetheless, confident that we can contribute toward country development outcomes substantially more than our relatively small financial role would suggest. To this end, we intend to be proactive and help address critical underlying institutional problems. The country is receptive to Bank Group support and, encouragingly, many of those stakeholders consulted expressed confidence and high expectations for the Bank Group's role. Meeting these expectations will require a continuing strong presence and program in the Philippines.

58. To achieve the desired outcomes on growth and social inclusion, this assistance program will need to be more strategically focused on addressing two key levers: fiscal reforms as the essential short-term challenge; and more effective public institutions as the critical

medium to long-term challenge. Put simply, the country's progress on fiscal reforms will define the *scale of financial support* under this CAS while the agenda for building public institutions that serve the common good defines the *nature and focus* of the Bank Group's engagement. While rapid fiscal reforms will create an environment conducive to scaled-up Bank Group financial assistance, strong engagement (albeit at reduced levels of financial commitments) is justified even in the absence of such strong fiscal adjustment by the critical importance of the medium to long-term institutional agenda. In that scenario, institutional reforms will lay the foundation for better fiscal performance in the future.

59. Our strategy to support development and poverty reduction will pursue the two CAS goals (economic growth and social inclusion) through the two CAS levers (fiscal stability and improved governance). We will focus on supporting recognized and replicable successes in delivering public services and improving public institutions at three levels of engagement --- national, local, and private sector -- as illustrated in Figure 8 and discussed below:

Figure 8:Overview of Engagement Strategy



- At the **national level**, improving **governance and financing within the existing budget will require an** increasing reliance on working through and improving in-country systems and processes. Similarly, it will avoid overburdening programs with objectives and excessive innovations. One implication is a move towards more budget support and sector-wide approach (SWAp) type operations focused on core mandates, functions, and service delivery improvements within the budget, away from specific investment projects that are not compatible with the fiscal constraints. (See Box 4) Focus will also be on making decentralization more operational, representing a critical link to the local government agenda.
- At the **local level**, this will involve greater integrated cross-sectoral focus on the LGU as the direct client in order to increase the likelihood of better outcomes across all services delivered by the LGU. Central to this effort is developing a performance framework and capacity building program for LGUs that is consistent across projects. Linking financing and capacity building to a clear performance framework in a practical way will also facilitate good governance at the local level.
- At the **private sector level**, this will involve greater coordination between the Bank and IFC to promote private investment by strengthening regulatory agencies, reducing the cost of doing business, improving financial intermediation, and financing investments for public-private projects as well as investments in sectors with high growth potential. The availability of MIGA's risk guarantees can also support this.

60. This strategy reflects the government's strong preference for lending to support programs rather than projects. It also responds to the government's program to rationalize the dependence of LGUs on grant financing from the national government within a transparent and sustainable framework reflecting national development objectives and priorities. Similarly, local governments have expressed a willingness to borrow in return for greater autonomy in decision-making.

61. To achieve greater impact in the Philippines -- especially helping to improve the governance of public institutions -- the full range of our instruments need to be better integrated, leveraged, and used more flexibly. This requires that we exploit our comparative advantage to work at both the macro and sector levels; use our analytical work to inform our lending and policy dialogue; combine international best practice with in-depth local knowledge (thanks to a substantial in-country presence); offer a range of financial and guarantee products at more attractive terms than commercial sources; and continue to play an honest broker role. Our engagement must also be consistent with the severe fiscal constraints and realities faced by the government.

62. The assistance strategy implies a "back to basics" approach: on the margin, focusing more on the ability of agencies to deliver services on the ground and make real implementation progress, rather than on sophisticated reform design. We will be realistic about the relatively modest role of the Bank Group in building good governance. Our success will depend upon how we are able to help replicate and scale-up experiences in which the public sector effectively delivers on its social contract. The strategy will require that we be more selective in approach but opportunistic in specific engagements within the chosen approach. Moreover, selectivity under this CAS is functional and not sectoral. We will focus on "islands of good governance" -- national agencies, local governments, or economic sectors for which the basic governance arrangements are sufficiently sound to provide a reasonable chance of success.

Box 4
Using Sector-Wide Approaches (SWAps) in National Program Support Operations

The Bank Group's national platform will include a number of national program support operations to finance activities *within* the existing budget of sector line agencies. This Sector Wide Approach (SWAp) helps the borrower develop the institutional capacity to plan, implement, and monitor an expenditure program and policy development. To this end, SWAp's provide budget support to strengthen country systems for procurement, fiduciary control, fund allocation, and accountability, aligned with an agency's core mandate.

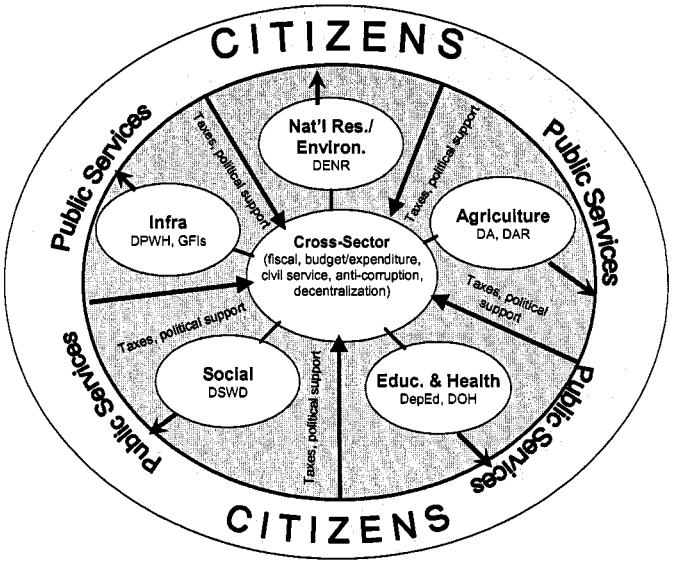
SWAp's involve investment loans that finance specific expenditures within the agency budget. Implementation is typically over four years and is linked to satisfactory implementation of the agreed core agency reform program. SWAp's to date in the Philippines have involved alignment between the Bank and government systems. We envisage, however, greater collaboration with other development partners to coordinate assistance to a particular sector.

National Platform

63. The national platform reflects a transition from a project-based approach towards a program-based one which offers greater flexibility with lower transactions costs. Our program will move us closer to supporting the government's own priority needs and away from disaggregated project-oriented financing which the government cannot afford given the fiscal constraints. By offering *within* budget financing, the Bank Group will be better placed to support improvements in the capacity of national government agencies to deliver their core mandates.

64. The Bank Group's national platform will provide financing to agencies which show promise for becoming examples of fiscal responsibility and good governance. This should lead to improved service delivery. Our program comprises a combination of cross-sector and sector-specific investment operations and non-lending activities, illustrated in Figure 9.

Figure 9: National Platform



65. ***Cross-Sector Engagement*** The government has been undertaking a number of efforts to strengthen finances and service delivery, often with support from the Bank Group. In this CAS, Bank Group support for cross-sector activities could address the following government priorities:

- *fiscal reforms*: implement measures to improve tax policy and administration and address contingent liabilities (in the social security system and the GOCCs, including the power sector);
- *budget and expenditure reforms:* focus on core mandates and functions, service delivery improvements, and performance-based budgeting, using sector efficiency reviews and identifying measures of Major Final Outputs for key departments. An important performance measure is citizen satisfaction with government services;
- *civil service reforms*: establish merit-based performance processes, financing incentives for departing employees, and modernization of the compensation regime;
- *streamlining of agency staffing*: permit more targeting of staff and expenditures to core functions and services delivery;
- *procurement reform:* enhance capacity of new Procurement Policy Board to provide oversight and monitoring, support the civil society monitoring of bid and award committees, strengthen the internal procurement audit function of government agencies and establish a framework to assess the progress and effectiveness of the public procurement reforms, and continue to build capacity for the use of the recently harmonized bidding documents;
- *anti-corruption measures:* increase capacity of government agencies to more effectively respond to corrupt practices (e.g., National Office of the Ombudsman, Supreme Court).

66. The basic thrust of our support will be in line with our ongoing policy dialogue in these areas, consistent with the key reform goals of the new administration for which many building blocks are already in place (e.g., new procurement procedures, the development of Major Final Outputs, and a new national government accounting system).[9] In this regard, the criterion for Bank Group assistance would be tied to the quality and implementation of reforms, as well as

[9] See *Development Policy Review* (2005) and the *Discussion Briefs* (2004).

for groups that show the most promise of becoming islands of good governance. Our support will encompass a range of ongoing and new analytical and advisory activities. In particular, Bank budget and trust fund grants will support continued technical assistance on such subjects as: public sector expenditure and debt management; banking supervision; pension reform; civil service reform; procurement reform; and strengthening the Office of the Ombudsman.

67. An important element of our cross-sectoral approach is a possible investment operation to support civil service reform in several agencies, with emphasis on performance-based objectives and outcomes. The proposed National Program Support for Public Expenditure Rationalization would provide financial support for Executive Order 366 which outlines a plan to induce voluntary departures from national agencies through voluntary separation packages. Its success depends on development of restructuring plans for each agency which identify rationalization opportunities with clear benefits in improved service delivery.

68. If conditions are appropriate, the Bank could provide development policy lending, which offer quicker disbursing funds. (See Chapter 3) This could support cross-sectoral reform efforts in the areas of tax policy and administration, public sector expenditure management including civil service reform, banking and pension systems, the power sector, investment climate, and capital markets, among other possibilities.

69. We will also support another critical cross-sectoral objective of the government – improving devolution of national government functions to LGUs. By freeing-up resources now being spent by national agencies on devolved functions, the agencies would be better able to focus their support on helping LGUs increase their own capacity to take on those functions (discussed below in the section on the local platform).

70. ***Sector-Specific Engagement*** In addition to addressing the cross-sectoral issues, our national platform will provide national program support to specific sector agencies, based on the following principles:

- use programmatic support, *within* the existing budget, for the agency's most effective programs, focusing on core mandates and functions;
- assist well-articulated plans for strengthening agency effectiveness and service delivery;
- support efforts, where possible, to strengthen country systems for environment and social safeguards, procurement, fiduciary control, fund allocation, and accountability across the agency, rather than limited to project transactions;
- up-scale successful earlier project experiences (e.g., in education); and
- connect with cross-cutting programs (e.g., EO366 and the proposed National Program Support for Public Expenditure Rationalization project).

71. Depending upon the readiness of sector agencies for reform and rationalization, these national program support operations would take a sector-wide approach (SWAp) to well-performing or reforming entities over a period of years. (See Box 4) Applying the principles noted above, such national program support operations would clearly specify development objectives and would focus on resource prioritization and management -- improving service delivery through better policy, planning, budgeting, and monitoring & evaluation systems. In addition, national program support operations would address such agency-specific issues as expenditure prioritization, staffing mix, incentives/ compensation, accountability, and performance management. Possible candidates for national program support projects include: the Department of Education (DepEd), the Department of Agriculture (DA), the Department of Public Works and Highways (DPWH), the Department of Social Welfare and Development

(DSWD), and the Department of Environment and Natural Resources (DENR), building on and broadening in many cases ongoing operations in support of these agencies. Where appropriate, a sector project could be linked to restructuring efforts under the proposed National Program Support for Public Expenditure Rationalization project.

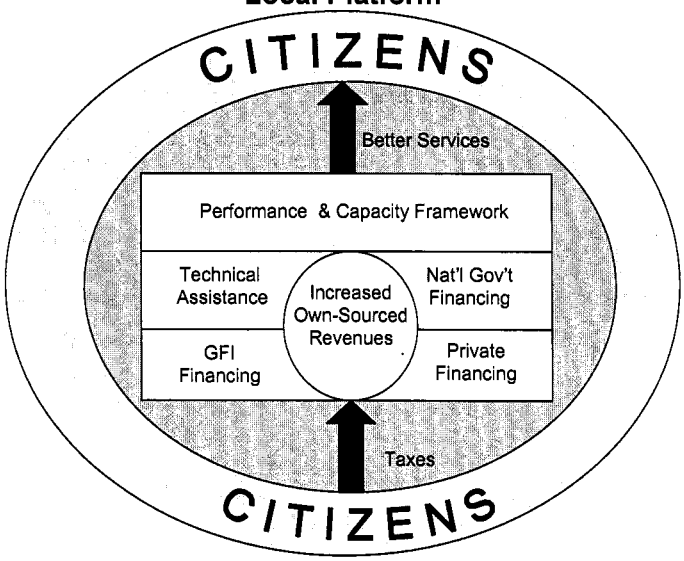
72. Progress is already being made for the preparation of a multi-financier SWAp with the Department of Health (DOH). The proposed National Program Support for Health project would assist the DOH and selected provinces to implement the government's health sector reform agenda. This SWAp operation would be undertaken in coordination with several development partners and would provide budgetary support for the department's financial management and procurement reforms, performance-based budgeting, and re-engineering of DOH regional offices to promote effective decentralization of the health system.

Local Platform

73. The Local Government Code of 1991 devolved service responsibilities and revenue authority to LGUs, placing them at the forefront of development and poverty alleviation. A remarkable outcome of the new code has been the emergence of good models of LGU performance and service delivery under dynamic local leadership, as recognized by programs such as the Galing Pook Award and the Asian Institute of Management's Competitiveness Ranking. Successful and well-managed LGUs have become a visible example of islands of good governance. These LGUs not only inspire neighboring LGUs, but in a few cases they have achieved a track-record of performance across several administrations, thus showing some signs of institutionalization of good governance. Some analysts consider these successful LGUs as the most promising seed for the modernization of public institutions and the adoption of good governance practices in the Philippines.

74. This CAS intends to support a strand of LGUs committed to performance improvement by helping them to achieve a cycle of improved service provision which in turn generates citizens' trust and increased resources to the public sector. These LGUs will serve as replicable models for an emerging culture of service delivery and a stronger social contract. At the same time, Bank Group support will help streamline and structure the government's broader policy approach towards all LGUs, including relatively weaker ones, in order to create conditions for them to join the ranks of the stronger and well-managed LGUs. Overall, our assistance will support decentralization by empowering LGU decision-making and supporting LGU-led programs. This emphasis reflects a shift to dealing with LGUs as clients, rather than implementers of national projects.

Figure 10: Local Platform



75. Our local strategy is outlined in Figure 10. It will be based on a clear performance and capacity framework, to be developed jointly with the national agencies, LGUs, various other stakeholders, and development partners. The performance and capacity framework will guide the technical assistance program and the selection of financing instruments offered to LGUs – national government, government financial institutions, and/or private financing

(discussed below). Each element of the framework embodies incentives to increase the LGUs' own-sourced revenue; this is fundamental for achieving sustainability and ultimately the CAS goals.

76. ***Performance and Capacity Framework*** Benchmarking LGUs through a credible, commonly-accepted performance framework will be key to strengthening LGU accountability, thereby reinforcing the decentralization process. Correspondingly, LGUs need to increase their capacity, particularly in the areas of governance, local service delivery, and investment planning and preparation. LGU capacity building programs will be more effective if closely associated with a performance framework.

77. The key elements of the performance and capacity building framework would include: revenue mobilization, planning and budgeting, fiduciary control systems, and local service delivery. In all these areas, participatory approaches would be encouraged to promote greater transparency and accountability in local government decision making. During CAS consultations, stakeholders strongly endorsed such a framework, but also voiced quite strong preference for it to be implemented independently outside the government system.

78. ***Technical Assistance*** To help build LGU performance and capacity, the Bank Group will provide technical assistance to support core governance capacity building, sector-specific competencies, and LGU capacity in preparing and implementing investment projects. The core governance capacity building program will be closely linked to the performance framework, aiming to assist LGUs in attaining governance improvements measurable according to the framework. Our technical assistance in this area will draw on our close partnerships with the leagues of local governments that have been nurtured through the Bank and Cities Alliance-supported City Development Strategies program. The World Bank Institute (WBI), local training institutions, and international development partners are expected to play an active role in the program and should coordinate their respective programs. For LGU investment projects, the Bank will help LGUs develop the ability to prepare feasibility studies, designs, and procurement packages suitable for financing.

79. It is envisaged that the national agencies will offer better and a greater range of technical assistance to LGUs. This reflects the transition of national agencies from implementing services that have been devolved to LGUs to instead, providing technical assistance to LGUs to execute their own sector programs and investments. This represents the link between the CAS' local and national platforms -- by helping to develop sector-specific competencies of national agencies, LGUs will benefit from improved support.

80. While technical assistance and other support to LGUs from the Bank Group, bilateral and multilateral development agencies, and the national government has been good, it has been fragmented. Some of these programs are supply-driven, often overlapping, tied to specific program needs, and inconsistent with each other. This fragmentation undermines planning and capacity at the local level. To address this, a Development Partners Working Group on Decentralization and Local Government, which has been created to work with the Department of Interior and Local Governments and other government agencies, will help promote consistency among technical assistance activities provided through a range of loan, grant, government, and development partner programs. To reflect core concerns and ensure ownership, this work will involve extensive consultations with LGUs, national government agencies, NGOs, academic institutions, and development partners.

81. ***National Government Financing*** The Local Platform will support the government's efforts in rationalizing inter-government transfer arrangements to LGUs. This is a complex

process and the Bank Group is helping the national government sketch the options for doing this.

82. The evolving financing framework for LGUs could eventually include a significant role for conditional transfers. Conditional grant financing would support national priorities and public goods (e.g., environment, public health). Sector based grants, channeled through sectoral departments of the national government, can be used to provide incentives for LGUs to achieve performance improvements in priority sectors. The grant programs in this area (such as the National Program Support for Mindanao Rural Development 2 project and the National Program Support for Health project) would be on a matching basis, requiring counterpart LGU funding, either from borrowing or from own-source revenue. Grants could also be targeted to LGUs with the poorest communities and would thus receive minimum support for poverty alleviation. The government is also considering the possibility of a performance-based, cross-sectoral, conditional grant program, for which LGUs would receive funding linked to pre-determined performance criteria based on governance.

83. For the poorest municipalities, the national government provides matching grants using a community driven-development (CDD) approach, which promotes local-level collective action for empowerment and poverty reduction. In the Bank-supported Kalahi-CIDSS program, for example, the DSWD directly transfers grants to local communities in the poorest municipalities. Communities then follow a planning and implementation process that is managed by DSWD in cooperation with LGUs. As LGUs develop greater commitment and capacity to implement the key principles of the Kalahi-CIDSS program – participation, accountability, transparency, and shared responsibility for costs – LGUs (rather than the national DSWD) are meant to take increasing responsibility for managing the interaction with communities and adopting the CDD approach as a way to allocate resources and make decisions at the local level.

84. According to a Bank evaluation, the CDD approach is an important feature in almost half of the Bank's current portfolio. While the basic objectives of such projects are the same, the mechanisms used to achieve the objectives differ significantly. While there may be legitimate reasons why approaches are different, too many different approaches are likely to lead to confusion, duplication, and inefficiency, especially when several Bank-financed projects overlap in the same LGU. Conflicting advice and capacity building programs in different projects with varying standards for preparing and implementing community activities can also place an undue burden on local capacities. Where possible, many aspects of CDD projects would benefit from tighter exchanges of experience and harmonization, including: common procedures for selecting and engaging communities; optimal cost-sharing techniques; the provision of quality technical assistance; mechanisms for effective operation and maintenance; and the measurement and evaluation of outcomes.

85. Because so many CDD approaches are being carried out in the country -- through LGUs, bypassing LGUs, through a social fund, through a municipal fund, through a line agency, through the private sector -- the Philippines provides a unique environment for comparing approaches. To this end, a cross sectoral CDD working group was established to exchange experiences and a multi-sector supervision of several CDD projects was conducted. Among other things, this has resulted in a CDD harmonization exercise in Mindanao with the goal of identifying common standards and best practices for conflict affected areas. Going forward, we will continue to support and consolidate CDD approaches in close partnership with client agencies and other donors. The Spanish government has set a good example in donor harmonization for CDD by expanding Kalahi-CIDSS in areas not already covered through a Euro 1.2 million grant to the DSWD, rather than introduce yet another approach to support the poorest communities.

86. ***Government Financial Institutions Financing*** Distinct from grants to LGUs which serve the broader policy goals of the national government, loan financing to LGUs through government financial institutions (GFIs) would increase based on sound banking principles. Bank financing may be on-lent to LGUs through the Land Bank of the Philippines, Development Bank of the Philippines, and the newly-created Municipal Finance Corporation, which together provide the majority of credit financing to LGUs. Possible Bank operations implemented by the GFIs include the Local Government Support for City Development (through Land Bank), and the Local Government Support for Municipal Finance (through the Municipal Finance Corporation). (A list of possible projects is presented in Annex B3).

87. Past experience with lines of credit through GFIs indicate problems with low demand and slow disbursements. This is attributed to low LGU revenue base; presence of alternative financing sources (including political "pork barrel" funds); lack of capacity at LGUs to develop "bankable" projects; complicated procedures of funding windows; and the bureaucracies of the Bank Group and GFIs. New credit lines, therefore, will offer a broad menu of eligible subprojects, rather than limit financing to specific sectors. This will empower LGUs to finance activities which they deem to be their development priorities. In addition, financing will be expedited due to simplified procedures for subproject appraisal, approval, and supervision.

88. Bank financing through GFIs would proceed prudently, with particular attention to improving GFI service quality.[10] GFIs would conduct thorough creditworthiness assessments and move toward taking-up real LGU credit risk (currently all GFI loans are fully secured by LGU deposits or intercepts of inter-government transfers). For LGUs which meet governance performance criteria, consideration may be given to GFI loans financing a share of the LGUs' overall expenditure needs in selected sectors, instead of specific investment projects, thereby reducing project-level transactions. The Bank's local currency loan product will be explored in supporting such on-lending arrangements.

89. ***Private Financing*** In addition to lending to LGUs through GFIs, the Bank Group will also support the development of the private financial market for LGUs (consistent with the CAS' private sector platform). Private financing to LGUs has been limited. Causes range from lack of interest to lack of access to secured collateral (i.e., LGU deposit accounts). The Bank will provide policy advice in this area. Through its financial products, IFC will explore ways to enhance private financial institutions' to access to long-term funds that would be retailed directly to LGUs for purely commercial projects. In addition, IFC may support the development of specialized private firms necessary for the smooth functioning of a municipal bond market. The Bank may also use its guarantee instruments to enable GFIs to mobilize resources for LGU financing via debt issuance in the domestic capital markets.

Private Sector Platform

90. The private sector platform aims to support successful experiences of private-public collaboration that can be replicated and lead to dynamic private-sector led growth. These visible successes would include private investment in infrastructure and dynamic private sector activity in high growth potential sectors or geographic areas. To help improve the enabling environment for such successes and to support the government's MTPDP reform agenda, the Bank Group assistance will focus on:

- lowering the costs of doing business;

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[10] Both Land Bank and the Development Bank of the Philippines have recently improved their profitability, strengthened their capital base, and mobilized more domestic resources. Moreover, since late 2004, they have made efforts to dispose of non-performing assets to private asset management companies.

- improving financial intermediation;
- strengthening regulatory agencies; and
- financing public-private infrastructure investments and investments in sectors with high growth potential.

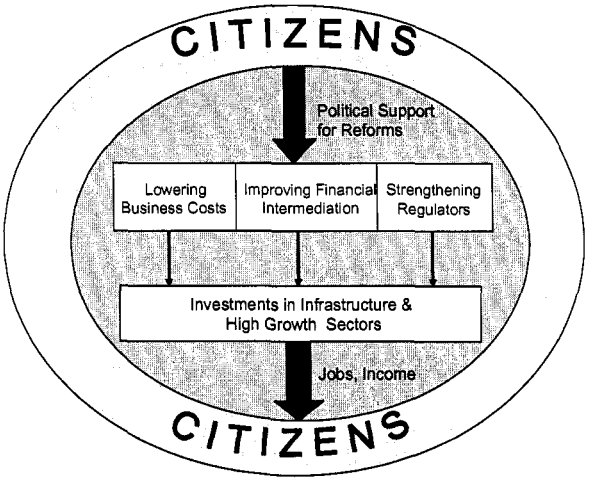
91. By creating jobs, generating incomes, and improving infrastructure, the visible successes will stimulate political support for the reform agenda, as embodied in the first three focus areas outlined above. This symbiotic relationship is illustrated in Figure 11.

92. The private sector platform strategy is designed to complement the national and local platforms. In particular, the national platform strategy seeks to help the government establish fiscal stability and build the governance structures to address serious macroeconomic, policy, and institutional constraints to private investment. For the local platform, private financing is an important option for LGUs and the CAS seeks to help develop the performance and capacity of LGUs to attract such financing.

93. The strategy envisages a close collaboration between the Bank, IFC, and MIGA. The Bank's analytical and lending support will aim to maximize IFC investment opportunities in sectors with high growth potential or where IFC investments can have strong demonstration effects (e.g., housing finance, infrastructure, capital markets, small and medium sized enterprises).

94. ***Lowering the Costs of Doing Business*** Despite an overall private-sector friendly environment, the Philippines is a costly place to do business. Our private sector platform will focus on helping to bring down those transaction costs by improving the application of the rule of law. The Bank is already providing assistance to reform the judiciary[11], which could be deepened in order to improve the efficiency of judicial processes relating to dispute resolution, corporate restructuring, and loan recoveries. The Bank will also continue to support improvements for land management and titling so that security of tenure encourages investments.[12] The IFC is supporting Land Registration Systems, a private entity engaged to provide services for the Land Registration Authority on a public-private partnership basis.

Figure 11: Private Sector Platform



95. The Bank Group could respond positively to opportunities to help the government identify and eliminate constraints to market competition as well as to increase deregulation, particularly vital for sectors with high growth potential as well as for growth of small and medium enterprises (SMEs). Through SWAps, investment projects, and advisory services -- especially in the agriculture, mining, and transport sectors -- the Bank can assist national agencies in the simplification and harmonization of procedural regulations and liberalization of rules governing private investments. This can be supported by technical assistance programs directed at

[11] Judicial Reform Support Project, FY04
[12] Land Administration and Management Project 2, FY05

improving the competitiveness of SMEs especially in rural areas. IFC is working on establishing with other development partners a program for SMEs based in Mindanao. Through its analytical and advisory work, the Bank can help the government establish a competition policy regime and reduce the multiplicity of regulations and special investment incentives that give larger firms an unfair advantage.

96. ***Improving Financial Intermediation*** The Bank Group could support financial deepening by offering technical assistance to key regulatory agencies to improve the prudential and supervisory framework for banks, insurance companies, pension funds, the pre-needs sector, and capital markets. The Bank Group would also provide financial support to intermediaries that serve the needs of micro enterprises, rural households, and SMEs.

97. IFC's focus in the financial sector is: developing housing finance, deepening the capital market, and strengthening the banking sector. IFC is investing in a mortgage servicing institution and helping in the restructuring of the National Home Mortgage Finance Corporation. IFC's work on deepening the capital markets also includes technical assistance to the Philippines Stock Exchange and support to the Fixed Income Exchange. IFC is looking to support the resolution of non-performing loans of the banking sector through asset managed companies. IFC is also keen on providing acquisition financing to strong banks to assist in the consolidation of the banking sector. For support to LGUs, IFC is considering entering into a financial relationship with the LGU Guarantee Corporation to establish a municipal funds market as well as providing direct financing to selected municipalities. And, as noted above, IFC is considering a program to help develop investment opportunities for SMEs in Mindanao and improve their access to financing. Concerning MIGA's role in the financial sector, it can offer guarantees by supporting banks whose foreign partners require them to strengthen their capital base. Based on demand, MIGA can also offer capital market guarantees in order to increase tenors and decrease rates for local lending.

98. ***Strengthening Regulatory Agencies*** To increase private investments in infrastructure, the private sector platform will support improvements in the governance framework of key regulatory agencies. In the water sector, the Bank Group will continue to help strengthen the regulatory capacity and independence of the Metropolitan Waterworks and Sewerage Systems (MWSS), including the implementation of tariff structures and adjustments and cost recovery mechanisms, as well as strengthening enforcement of anti-pollution measures. To support the goals of fiscal stability and attracting private investments in the power sector, we will assist in enhancing the capacity of the Energy Regulation Committee, the privatization of PSALM assets, and the functioning of the Wholesale Electric Spot Market. This support will be provided by the Bank through technical assistance and by IFC through its advisory services and direct financing for the privatization. To facilitate private investment cross-sectorally, and linked to a SWAp for DENR (part of the national platform), the Bank could support streamlined environmental permitting and clarification of environmental requirements, programs for improved environmental information disclosure, and enhanced environmental management systems.

99. ***Financing Infrastructure and Investments in High Growth Potential Sectors*** IFC seeks to invest in infrastructure projects since they reflect urgent and medium-term structural constraints to development. IFC is providing advice to the government on attracting private sector investment for the Light Rail Project (LRT-1 extension), to the Department of Energy's Small Power Utilities Group for its privatization, and to the Build Operate Transfer Center related to projects for bulk water supply for water districts. It also has investments in toll-roads, water, and power utilities. In its future program IFC will focus on power, particularly renewable energy, rural electrification, and transportation. It is anticipated that IFC operations for the three-year CAS period will be about US$350 million under a base case scenario.

100. One investment area in which Bank and IFC collaboration is already noteworthy is the Manila Water Company Incorporated (MWCI), the privately-owned water distribution concession operating Metro Manila's eastern zone. Previously, IFC had invested US$60 million in loans and US$15 million in equity in MWCI. In addition, the Bank had also invested US$20 million in MWCI, through MWSS, for sewerage and sanitation investments. A new FY05 project will provide additional financing for capital expenditures in sewerage and sanitation. Without the Bank's support and the more favorable terms of its loans, the sewerage and sanitation improvement projects would not have taken place since such investments are generally not commercially attractive. These investments are reinforced by the Bank's ongoing dialogue to strengthen MWSS' regulatory capacity, as noted above.

101. More broadly, the Bank can assist in the development of the government's newly-formed investment vehicle, the Philippine Infrastructure Corporation, by providing advice on its design and financing. Through this new entity, the government intends to incubate, jump-start, and later privatize a number of key infrastructure projects such as the South Luzon Expressway. Complementing initial assistance by the Bank, the IFC could later provide direct financing to the new projects on a commercial basis.

102. The Bank can also provide funding and partial risk guarantees where requested to support public infrastructure investments and catalyze private co-financing. This includes a possible partial risk guarantee for power sector reform, lending for MWSS financial rehabilitation, rural power development, logistics development, toll roads, and other infrastructure where the private sector's interest can be magnified with public support. In addition, through innovative approaches such as output-based financing, the Bank's lending would help leverage private sector investment to achieve greater impact.

103. MIGA's offerings, coordinated with Bank and IFC efforts, would also support public-private partnerships for infrastructure development. MIGA's political risk guarantees can complement the Bank and IFC programs, including guarantees for privatizations (acquisitions of existing assets, restructuring of existing assets, etc.) in the infrastructure sector. MIGA's technical assistance to the Philippines has included a needs assessment of the Bureau of Investment, accompanied by capacity building workshops. MIGA has also provided capacity building support to sub-national investment promotion agencies in conjunction with a Canadian-funded initiative.

III. Delivering the Bank Group Program

104. The Bank Group's FY 2006-08 assistance strategy for the Philippines offers a significant and timely opportunity to support the government's reform efforts by focusing on the strengthening of public institutions.

105. Under the platform approach, the Bank Group's assistance will be opportunistic in terms of sectors and areas of engagement, but selective in adjusting the range and level of our Bank Group products to respond to the pace of the public reform effort. If fiscal reforms should slow, for instance, there would still be considerable scope to provide non-lending support and to finance selected projects with strong sectoral reform. We will leverage both our financial and non-lending support through coordination with development partners. We will also place greater emphasis on managing the portfolio and managing for results.

Managing the Portfolio

106. The Bank's ongoing portfolio in the Philippines includes 21 active loans with net commitments at US$1.14 billion, along with about 79 grant projects with total value of US$46 million and other analytical and advisory activities financed from the Bank's administrative budget. The size of the loan portfolio has declined steadily in recent years, from US$2.9 billion in 1999 to US$1.14 billion currently. This has been the result of a conscious decision to limit commitments given little fiscal space in the national budget and limited absorptive capacity of implementing agencies. More than half of the ongoing projects support programs at the local level.

107. Portfolio performance has improved in recent years, but still faces considerable challenges. Disbursements declined from 1996 to 2001, but have since improved and are currently about 20 percent of undisbursed balances. Older projects with implementation problems were restructured and non-performing components and activities were dropped to respond to budget constraints. The riskiness of the portfolio has been fairly stable since 2001, with the number of problem projects remaining steady at three to four and commitments at risk now at about 10 percent. The realism and proactivity indices remain above Bank targets. Assessments of quality at entry and quality of supervision have registered overall satisfactory-and-above ratings. Project outcome ratings have also been improving and there has been considerable progress in harmonizing procurement and other procedures with those of the government. These changes can be attributed to improved portfolio management by both the government and the Bank, with regular joint portfolio reviews and increased focus on results.

108. The existing portfolio is, in many ways, in line with the strategic focus of the new CAS and the government's development priorities, particularly in the areas of increasing access to basic services for the poor and disadvantaged groups and in strengthening systems and institutions to improve service delivery both at the national and local levels. For newly-approved projects the shift towards a programmatic approach is already being taken, for example in the FY04 SWAp-type Diversified Farm Income and Market Development project. FY05 projects will also incorporate the new CAS emphasis on simplified procedures, harmonized rules, and capacity building (e.g., second Women's Health & Safe Motherhood project). A few existing projects, however, may require restructuring to improve their implementation and ensure consistency with the new country assistance strategy (e.g., LGU Finance and Development project).

109. While portfolio improvements are noteworthy and provide a foundation to build upon, there are a number of cross-cutting implementation challenges that limit the program's effectiveness and constrain the achievement of planned outcomes. These challenges include: adequacy of budget resources and timely cash releases; improving project implementation readiness, including the pace and quality of project preparation and startup; strengthening government implementation systems particularly at the local level; and better monitoring and evaluation.

110. Going forward, we will continue to undertake joint portfolio reviews with the government, the Asian Development Bank (ADB), and the Japan Bank for International Cooperation (JBIC). Efforts will also continue with the government to improve project readiness and to mainstream project activities within implementing agencies. In addition, we will strengthen our results-based approach to portfolio monitoring which was piloted during the August 2004 project level review conducted jointly with the government. Outputs and outcomes of all projects under implementation were summarized using a common results framework that helped identify shortfalls in expected achievements and weaknesses in project monitoring. A preliminary assessment was also made of results achieved under technical assistance provided through grants. This process will be extended to include analytical and advisory activities in future project-level reviews. And, of course, the results framework developed for this CAS will be the basis for regularly assessing the outputs and outcomes of the ongoing portfolio each year. We will use this ongoing monitoring and evaluation process to draw lessons to continuously inform all of our program interventions.

111. Important steps to improve project implementation are the harmonization of Bank procedures with those of the government, which help to strengthen the government's fiduciary functions. Considerable progress has been made in improving government procurement systems and harmonizing the procedures of the Bank, ADB, and JBIC with those of the government for national competitive bidding. Focus is now on dissemination and monitoring of the new procedures, including requirements for increased transparency and the new role of civil society observers. Financial management improvements are also becoming harmonized around the effective use of the New Government Accounting System, which is being adopted consistently across all levels of government. The Bank is also leading the Development Partners Working Group on Decentralization and Local Government to promote consistency in the LGU engagement strategy.

112. The government has welcomed the Bank's new approach to expenditure eligibility, reflected in the new country financing parameters approved in February 2005. This provides for increased flexibility in the treatment of cost sharing, taxes, recurrent costs, and local costs. (See Annex 3) The Bank's overall financing share is not expected to change significantly at the aggregate level, with expected increase in sector-wide assistance (in which the Bank's financing share is typically low). One-hundred percent Bank financing could be provided for some projects and activities with strong evidence of ownership and commitment. Recurrent cost financing will be considered where consistent with project objectives, subject to strong demonstration of arrangements to ensure sustainability after Bank financing ceases. Integration of Bank financing in the budget process ensures that increased recurrent cost financing would not jeopardize overall debt and fiscal sustainability.

113. The Bank is working with the government to strengthen capacity to implement and monitor procedures to safeguard important social and environment policies. In particular, procedures related to land acquisition, the rights of indigenous people, and resettlement

have been identified as problem areas. Joint discussions have led to preparation of a draft law to address some of the land and resettlement issues. Similarly, while many government policies and procedures on the environment are appropriate, their implementation faces a number of challenges, including streamlining the DENR and prioritizing monitoring efforts within limited budgets. There is also a need to strengthen environmental management capacity at the local government level.

114. In line with the Bank's effort to gradually move to greater reliance on country systems, the Bank is also undertaking a diagnostic review to help the government identify social and environmental policy and institutional needs based on gaps between the Philippines' and international good practices. The review will also identify concrete actions that can be taken in the areas of environmental assessment, involuntary resettlement, and institutional capacity. The longer-term goal -- supported by the platform approach -- is to help build capacity for planning, implementing, and supervising social and environment safeguards. In line with our local platform, discussions have begun among the various development partners on harmonizing procedures related to these safeguards, with consistent approaches designed to enhance local government capacity. Further efforts on harmonization in the social and environmental areas will be carried out as part of portfolio management during the CAS period, and will pave the way for greater reliance on country systems in these areas.

115. The Bank Group is actively supporting government anti-corruption efforts with the Office of the Ombudsman, Presidential Anti-Graft Commission, Supreme Court, Government Procurement Policy Board, and civil society organizations. At the project level, the Bank Group has supported improved fiduciary procedures in health, education, and social welfare, including large reduction in textbook costs and civil society monitoring of book deliveries. Innovative contracting approaches, for example in roads and solid waste disposal, allow payment on performance rather than inputs. Fiduciary reviews check procurement and financial management processes, and growing use of community-driven development provides greater local involvement in planning and monitoring local expenditures.

Lending

116. The new assistance strategy proposes a graduated response to policy scenarios for the Bank Group to achieve systemic impact. Our financing is moving towards more mainstreamed support for the government's own programs. Significantly, it will not create a substantial additional fiscal burden on the government. Moreover, the government has indicated its preference to rely more on official development assistance (ODA) over commercial borrowing, because of its potential to promote key reforms and lower costs. Finally, the new assistance strategy will offer flexibility to respond quickly to opportunities and scale-up lending if warranted. (See Table 12)

117. The *scale* of IBRD commitments will be determined by progress on fiscal reforms reflecting the overarching importance of fiscal adjustment in the short term and the need to mitigate and manage risks. Assuming a scenario of gradual policy reform, the Bank's ***base case*** program would fall within a range US$450 - 900 million of investment lending only, for the three-year CAS period. This level is less than the base case scenarios of about US$1.1 - 1.3 billion for the two previous CAS periods, but more than the actual level of lending over

the previous periods.[13] Lower than anticipated lending levels were due to fiscal constraints for regular investment operations and limited progress on fiscal reforms that held back development policy lending.[14]

118. The base case represents a scenario in which there are no major policy reversals and no widening of the fiscal deficit, but progress on implementing key reforms is uneven. Under this scenario, Bank lending of up to US$900 million would not include development policy lending (DPL). The actual amount would be driven by country demand and would depend on the number of agencies and LGUs willing and able to take on reforms. At the national level, this would imply the continuation of efforts to: reduce the public sector deficit, strengthen public expenditure management, service delivery, and tax administration. For Bank financial support at the sub-national level, greater clarity in the financing framework would be expected. At both levels, lending would also be linked to the national government and LGUs' ability to prepare high quality operations in a timely manner. Good performance of the existing portfolio would also need to be maintained to increase lending within the base case. If progress on reforms and capacity is weak and if the portfolio deteriorates, Bank lending would fall commensurately.

119. In a ***high case***, the Bank would be prepared to provide total lending, including development policy lending, of up to US$1.8 billion in response to an accelerated reform scenario. Entry into the high case could occur once a track record of policies and associated outcomes have been established, with a reduction of the consolidated public sector deficit (CPSD) of 2 percent of GDP relative to 2004, as part of a sustained adjustment effort compatible with a deficit reduction of 3 percent of GDP during 2005-07.[15] A significant portion of the fiscal adjustment would be expected to derive from increases in the tax revenue to GDP ratio, reflecting progress on both tax administration and tax policy improvements. This fiscal adjustment would likely generate improvements in financial market indicators and a significant reduction in the cost of borrowing. With improving confidence in the macroeconomic policy framework, the share of private investment in the economy would also grow. Lower public deficits and growth from stronger financial markets and higher investments would combine to significantly reduce public debt/GDP. Substantial progress toward the high case would be considered in an ***enhanced base case***, characterized by steady progress in strengthening public sector revenues and reducing the public sector deficit (see footnote in Table 12).

120. In addition to fiscal adjustment, development policy lending, whether in a high case or an enhanced base case, would support structural reforms in areas such as tax policy and administration, public expenditure management including civil service reform, banking and pension systems, the power sector, investment climate and capital markets, among other possibilities. The pace and quality of the reforms implemented would influence the size and timing of DPL. Each of a series of annual DPLs could cover fiscal reforms plus other key reforms from the list above.

121. A ***low case*** scenario would be characterized by inadequate fiscal adjustment contributing to heightened concerns regarding fiscal and debt sustainability, limited progress

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[13] The actual lending was US$472 million for the FY2000-02 CAS period and US$379 million (projected) for the FY2003-05 CAS period.

[14] Development policy lending was included in the base case in the FY2003-05 CAS but was not actually committed.

[15] The CPSD in 2004 is reported at 5.0 percent of GDP. Adjustments to the CPSD would be measured net of privatization receipts.

in other key policy areas, and deterioration in the quality of the Bank's portfolio. Under such circumstances, Bank lending would fall below US$450 million and lending instruments would focus more narrowly on a selected number of investment projects to support direct poverty reduction and delivery of critical public services (e.g., National Program Support for Health, Basic Education, Social Protection, and Kalahi 2 (CDD) projects).

Table 12: CAS Trigger Matrix FY06-08

	Low case	Base Case	High Case [a/]
Lending envelope (for three-year CAS period)	Up to US$450 million	Up to US$900 million	Up to US$1.8 billion
Development Policy Lending	No	No	Yes
Triggers	Inadequate fiscal adjustment Widening fiscal deficit Limited progress in other key policy outcome areas	Appropriate reform agenda No major policy reversals, but progress on implementing key reforms is uneven No widening of the fiscal deficit	Entry into the high case with track record of policies and associated outcomes established with CPSD reduction of 2 percent of GDP relative to 2004 Compatible with CPSD reduction of 3 percent of GDP during 2005-07 Significant portion of adjustment due to increases in ratio of tax revenue to GDP

a/ An ***enhanced base case*** would also be considered. In this case, DPL up to US$450 million could be included, with the proviso that total Bank lending would not rise above US$1.2 billion. Entry into the enhanced base case could occur once a track record of policies and associated outcomes have been established, with a reduction of the CPSD of about 1.0 – 1.25 percent of GDP relative to 2004, as part of a sustained adjustment effort compatible with a deficit reduction of 2 percent of GDP during 2005-07. A *significant portion of the fiscal adjustment would again be expected to derive from increases in the tax* revenue to GDP ratio.

122. To allow for flexibility to respond to emerging needs, a menu of potential projects and estimated lending amounts, aligned to the platforms, has been prepared. (See Annex B3) This indicative list of possible projects will be updated periodically. Some projects would drop out depending upon evolving needs, and new projects may be added that are consistent with the CAS framework.

123. Bank exposure to the Philippines is estimated at US$3.3 billion at the end of fiscal year 2005, versus a peak of US$5.5 billion in FY95, reflecting negative net disbursements from the Bank in each of the past ten years. Negative net transfers (including interest payments) averaged nearly US$400 million per annum in the past decade. Consequently, exposure ratios fall well within Bank guidelines and debt to the Bank accounts for about 5 percent of the country's external debt. Given projected principal repayments during FY2006-08 averaging about US$400 million per annum, Bank exposure would continue to decline during the next three years under the base case. Indeed, even with an enhanced

base case (up to US$1.2 billion), exposure would not increase. Exposure would only increase with an aggressive expansion in development policy lending predicated by an improved policy environment under the high lending case. The number of investment loans that could be relatively faster disbursing (SWAp operations, for example, typically disburse over a fewer number of years than do other investment operations) would be limited to remain within these broad categories of exposure.

124. For IFC, the Philippines is among the Corporation's top ten country exposures with a committed portfolio of US$430 million in 31 projects mainly in the infrastructure and financial sectors. (See Annex B8) MIGA's current exposure in the Philippines stands at US$103 million of gross exposure in the infrastructure and finance sectors. (See Annex B8) This is well below the country limit (US$420 million net), giving significant room for additional guarantees.

Providing Analytical and Advisory Activities (AAA) and Sharing Knowledge

125. In the Philippines there has been remarkable receptivity for the Bank Group's analytical and advisory activities (AAA), drawn from its global knowledge and international experience. These activities are particularly important for achieving impact, in view of possibly limited lending volumes. The Bank Group will continue to invest in high-quality, demand-driven AAA. This work will encompass: economic & sector work, which will underpin our policy dialogue with the client as well as provide the foundation for effective lending; and technical assistance which can be flexibly used to help the client implement reforms.

126. Given the premium placed in this CAS on seizing opportunities when they arise and being able to adjust to the evolving client priorities, a definitive list of new AAA tasks is not provided as it will evolve over the CAS period. AAA will focus on several important broad areas in which an ongoing dialogue will take place, in particular:

- *Fiscal reforms:* AAA will build on recently completed work such as the *Development Policy Review*. Our policy dialogue will focus on the direction of tax policy as the main vehicle for managing macroeconomic stability and achieving sustainable growth. This could also involve debt sustainability analysis and assessment of the impact of fiscal stimulus on growth and poverty reduction. To complement such fiscal analysis, AAA could also be conducted on contingent liabilities and pension reform. The medium to long-term AAA agenda could include technical assistance to improve the quality, effectiveness, and efficiency of public institutions, processes, and systems (e.g., medium-term budget plans, budget systems, monitoring, oversight, and possibly the formulation of a fiscal responsibility act).
- *Growth and the investment climate:* AAA will support the development of policies to enhance productivity and competitiveness. Work will aim to improve the development of new policy approaches and to build capacity that will help the Philippines derive greater domestic productivity growth benefits from reforms. This could include analysis on improving supply chain logistics, the regulatory framework for private investment, and related financial sector issues. In addition to national issues on growth and competitiveness, AAA could help identify targeted measures to support productivity improvements and employment among the rural poor and to strengthen alliances between public and private stakeholders at regional and local

levels. This could include support for better agricultural trade policy and infrastructure development.

- *Social development and inclusion, social protection, and poverty:* The AAA program will encompass advice on how to improve the coverage and quality of basic social services and social assistance and how to reduce vulnerabilities (e.g., mitigate the impact of shocks on the poor). The work will build on updated poverty analysis using the recently completed national poverty map to improve budget allocations. This could involve assistance to design a social protection framework, including a strategy to scale-up effective programs, achieve synergies between social services, and empower the poor. Other AAA activities could include developing different poverty targeting mechanisms and interventions to support more objective, equitable, and less political allocation of resources. These activities would be closely linked to work on fiscal and decentralization issues. Additional AAA work may include policy notes on human resource reform in the health sector, building knowledge on public-private partnerships in the social sector, as well as developing a deeper understanding of regional poverty by continuing work on poverty mapping.
- *Governance, political economy of reform, and anti-corruption*: AAA work in this area will focus on developing rigorous stakeholder models to analyze the impact of policy reform proposals on different stakeholder groups and improve the understanding of the political economy of reform in the Philippines. Building on ongoing work with the judiciary and other oversight agencies, support is likely to focus on increasing transparency and accountability within government agencies and within private corporations, strengthening institutions of government, and increasing involvement of civil society and elected officials in the oversight of government activities. Specific areas of attention could be on improvements in financial management practices, public administration management, and judicial effectiveness.
- *LGUs, municipal finance, and fiscal decentralization*: Potential AAA for this topic would focus on three areas: rationalizing the existing inter-governmental transfer system; introducing a performance orientation to it; and improving the ability of local governments to enter into sustainable public-private partnerships which support growth and employment.
- *Meeting infrastructure needs*: Building on the *Meeting Infrastructure Needs* report (to be completed by end-FY2005), forthcoming AAA will address specific infrastructure reform topics that are of particular interest to the government, such as the power and water sectors and preparing policy notes on wastewater and solid waste management issues. In addition, advice could be offered to the Philippines Infrastructure Corporation and the BOT Center on logistics development.

127. Another important aspect of our AAA program will be to discuss, disseminate, and draw on several ongoing multi-year initiatives. In particular, the policy recommendations of the *Meeting Infrastructure Needs* report will be discussed extensively with the government, and will provide the groundwork for future lending as part of both the national and local platforms. Similarly, the *Investment Climate Assessment*, once published, will aim to inform a broad range of stakeholders about critical private investment related issues, and thereby promote agreement on the reform agenda.

128. Trust funds will continue to play a prominent role in our entire program. Besides support to specific lending operations or recipients' programs, trust funds allow us to undertake a range of AAA that would be difficult to finance otherwise, in such areas as

poverty monitoring and analysis; governance and anti-corruption; corporate social responsibility in the mining sector; strengthening LGU accountability; and managing water resources. In addition, a multi-partner trust fund that supports reconstruction and development efforts in Mindanao is being established, to be administered by the Bank. (See Box 2)

129. Overall, we will also put greater emphasis on just-in-time AAA, to respond to immediate client needs. Through the use of videoconferences, written materials, and dialogue, the Bank Group can offer its clients quick advice on a range of topics, based on our in-house experts, global knowledge network, and technology systems. A prime example of this was a videoconference held in late-2004 which gave four government secretaries a chance to discuss social protection policies and options, with a panel of Bank Group experts who had wide-ranging global experience.

130. Knowledge sharing of our AAA is an integral business line of the Bank Group. We intend to package our research and international experience with local knowledge and innovatively disseminate it to achieve maximum impact on target stakeholders. To support the government's reform program, the Bank Group could promote Knowledge for Development Networks at the national and local levels. These would be co-organized and mobilized in partnership with government and civil society institutions, and associations that support knowledge sharing and networking through communities of practice. The networks could serve as channels for information dissemination, advocacy of policy agenda, and promoting islands of good governance and replication of best practices.

131. Distance/e-learning will be part of our knowledge sharing strategy. Through our partnership with Asian Institute of Management and the Bank Group's network of Knowledge for Development Centers (KDCs), virtual courses will be offered on project and procurement management and disaster risk management for national and local agencies. (See Box 5) Such activities will be supported by the WBI and the Bank Group's Global Distance Learning Network. In addition, we will continue to co-organize with Asian Institute of Management, the KDCs, and other national and international partners, real-time fora and policy dialogue on relevant development themes.

132. As one of its focus countries, WBI's program for the Philippines will be closely aligned to the new CAS. A multi-year program of customized WBI activities will be linked to AAA, as well as to operational work. The National Disaster Coordinating Council, in partnership with WBI and three Philippine KDC universities, launched in 2005 an online course on disaster risk management. The course was the first of its kind in the Philippines as well as for the Bank Group at the country level and in collaboration with local country partners. A broader program of capacity building targeted to strengthen the core competencies of LGUs is also being developed. Topics will include strategy formulation and development planning process; budgeting, financial management, and creditworthiness; and revenue mobilization. In addition, Philippine government officials will participate in a WBI-sponsored course to build capacity to combat money laundering and terrorism financing.

Partnering to Achieve Greater Impact

133. A network of strong partnerships is critical to knowledge sharing, and to delivering our lending and AAA programs. Over the past decade the Bank Group has had a proactive outreach program in the Philippines. We have established robust partnerships not only with our main client, government, but with a range of stakeholders such as international

development partners, civil society, the business sector, academia, and the media. We will sustain and build on our long-established relationships and actively explore new ones.

134. The Bank Group's partnership with ADB and JBIC is especially critical. ADB, in particular, is facing similar program challenges as the Bank Group and it is responding by also adjusting its engagement strategy. With its strategic focus on fiscal consolidation, improved investment climate, and support for faster achievement of the MDGs, there is strong complementarity between ADB's 2005-2006 Country Strategy and Program and the Bank Group's new CAS. Looking ahead there is scope for closer collaboration and synchronized efforts in several areas including assessment of and support for the government's fiscal program, planning processes, governance and anti-corruption agenda, and decentralization and LGU engagement strategy, and the results framework. Together, ADB, JBIC, and the Bank Group programs comprise approximately 90 percent of the country's total ODA resources. With the government, the three institutions will continue harmonization efforts. In addition, we will continue to coordinate closely with the IMF, particularly in the areas of fiscal and banking, and the assessment of macroeconomic policies. We will also continue our collaboration with the United Nations country team on addressing the MDGs and other common activities.

135. At the project and sectoral level, partnerships will continue to be pursued. SWAp-type operations, in particular, offer excellent opportunities for coordination with development partners where there is a common agenda with the government and strong commitment from the line agency. A good example is our ongoing coordination with the European Commission and ADB during the preparation of the National Program Support for Health project (FY06) given their active support of the government's agenda in this area. Overall, we will seek to develop a more harmonized, less fragmented framework for assistance among partner programs, especially for local governments. We especially intend to create better synergies with bilateral agencies, which have a range of programs targeted to the local level. Extensive coordination with both bilateral and multilateral development agencies on the creation of the Mindanao Trust Fund is a good example of how the Bank Group will leverage its programs with development partners.

136. Global partnerships on the environment are an emerging and important business line for the Philippines program. One of the region's first agreements under the global Carbon Fund Emission Reductions Purchase Program was recently signed for the Philippines. As the first wind farm in the Philippines, the project will have a significant demonstration effect in accelerating the commercialization of wind power in the country, consistent with the CAS private sector platform. The Multilateral Fund for the Montreal Protocol is also supporting a number of on-going projects in the Philippines to reduce ozone-depleting substances. In addition, the Global Environmental Facility (GEF) is supporting global research for Coral Reef Management which has significant focus on the Philippines. Going forward and in line with the programmatic approach of this CAS, the GEF will also support a cross-sectoral and integrated environment and natural resources management project.

Box 5
Reaching Out:
Knowledge for Development Centers

Knowledge for Development Centers (KDCs) are partnerships between the Bank Group and leading learning institutions nationwide to promote the creation, sharing, and application of knowledge for development. Eight KDCs have been established around the country and provide library, online, and multimedia resources on various development topics. The usage of these centers is strong. For the January-September 2004 period, for instance, the KDCs received some 16,000 research visits, double the number of visits over the same period in 2003.

Visitors from academia were the most frequent users of the KDCs, but there is a concentration of particular groups of users in specific KDCs. For example, more users from the government sector use the KDCs in Mindanao, while civil society representatives are the main KDC visitors in the Visayas region. This trend can be attributed to the types of groups targeted for the specific knowledge sharing activities.

Knowledge sharing activities sponsored by the KDCs have included:

- seminar on knowledge management for municipal government employees of North Cotabato in Mindanao;
- distance e-learning course on natural disaster risk management, in partnership with the National Disaster Coordinating Council and the World Bank Institute;
- forum on Development Marketplace 2005 for NGOs and other stakeholders;
- workshop on empowering women towards poverty alleviation in Negros Oriental in the Visayas;
- forum on poverty alleviation in the Visayas with focus on two Bank-assisted projects (Community-Based Resource Management Project and KALAHI-CIDSS) in partnership with the Department of Finance and DSWD;
- forum on Filipino sign language, in partnership with the Philippine Deaf Resource Center;
- seminar for local governments on setting up barangay information centers; and
- courses on project and procurement management for project management staff (forthcoming).

137. We will also enhance our strategic coordination with other external partnership programs such as the Water and Sanitation Program, which supports capacity building and knowledge sharing. The Public-Private Infrastructure Advisory Facility (PPIAF) will be counted on to provide continued support to the Philippines to strengthen the investment environment for infrastructure.

138. The Cities Alliance will also continue to support City Development Strategies and other urban development assistance especially with the reported successes of the early CDS program. This program has planted the seed for implementing and institutionalizing participatory urban governance processes in urban development decision making (e.g.,

economic development planning, addressing poverty issues, project prioritization and capital investment planning). Instead of the originally planned strategies for ten cities, the program has generated city development strategies in 31 new cities due to a strong response from city mayors. These will be further supported through the Local Government Support for Cities Development (FY06). The approach will deepen the Bank Group's assistance and policy dialogue under the local platform of this CAS.

139. In playing an honest-broker role, our dialogue with civil society leaders and opinion makers will be vital, especially in expanding relationships with congressional leaders. We will support the government's efforts to build coalitions for reform and help promote public discussion and healthy debate, particularly related to the CAS themes of governance and fiscal stability.

140. The *Panibagong Paraan* ("New Ways") Development Marketplace program will also serve as a venue for building partnerships with and between the branches of government, development partners, civil society, and the private sector. This event, programmed every 18 to 24 months, promotes innovative ideas in poverty reduction and encourages the replication and scaling-up of successful projects.

141. The Bank will continue its coordinating role among external development partners through our organization and co-chairing, under the government's leadership, of the Consultative Group (CG) meetings. Under the CG umbrella, activities of other development partners are already in line with the four CAS themes and are being coordinated through various existing and new working groups. For instance, CG working groups on the MDGs, health sector reforms, and education reforms are underway and support multi-agency dialogue and coordination in the social sector, including social inclusion issues. New CG working groups on decentralization and local governments, governance and anti-corruption, economic and fiscal reforms, and growth and investment climate, are expected to continue beyond the formal CG meetings, and will undoubtedly further the CAS' goals in each of these areas.

142. In March 2005, for the first time the CG meeting involved a broad range of stakeholders from civil society, Congress, the business community, academia, as well as government and development partner representatives, and to reflect its changed approach was renamed the Philippines Development Forum. The interactive discussion provided an opportunity for all groups to develop a better understanding and perspective on the reform agenda, and hence fostered consensus. This Forum will continue and will focus on key development issues and encompass broader participation and deeper development dialogue.

Managing Risks

143. This entire CAS is focused on support for the Philippines to grasp opportunities and manage substantial risks. A serious risk would be fading political support for key reforms. The CAS is driven by the desire to minimize this risk by urging front-loaded reforms and helping the country accelerate the benefits that are expected from fiscal and other reforms.

144. More specifically, the Bank Group's program over the next three years will face risks related to its effectiveness and ability to attain outcomes. The Bank Group's effectiveness will depend, to a large degree, on the extent of political will for reform and the pace of change. In particular, failure to rein in fiscal deficits would create greater economic

vulnerability and require further expenditure contraction. This would negatively impact the Bank portfolio and investment lending. Possible external shocks could also weaken the economy with the same impact.

145. Social and political events can pose unpredictable, yet serious risks to our program and to overall development outcomes. Significant constitutional reforms are contemplated and could change the political landscape significantly and in ways that are difficult to predict at this time.

146. The failure to achieve a sustained peace arrangement in Mindanao poses one particular risk. Without a peace agreement between the government and the MILF, the Mindanao Trust Fund for reconstruction and development (for which the Bank Group is playing an active role in coordinating among development partners) would be limited to modest capacity-building activities. Security concerns in Mindanao and elsewhere could also hamper private investment and the preparation and supervision of Bank-financed projects. To mitigate the possible impact of such risks on the Bank Group's program, we will maintain our broad and deep partnerships with development partners and country stakeholders. While this can help reduce the impact on our program, such risks may nonetheless have serious implications for the country itself.

147. Overall, the CAS is designed to not only capture opportunities for reform, but also to mitigate and manage the risks to the Bank Group's finances and reputation. This is achieved through a strategy that scales Bank lending to the Philippines' progress on policy reforms and implementation, as outlined above. The platform approach itself is fundamental to risk management since it strives to improve effectiveness of public institutions and the ability to sustain reform measures.

148. Risks will also be reduced as we rely more actively on the results framework as a management tool. As noted, monitoring and evaluation of CAS outcomes will be integral to our annual programming and portfolio reviews. This will allow us to identify potential problems early on. And, the SWAp lending approach provides enough flexibility to adjust lending levels quickly depending upon the circumstances.

149. Our strong relationship with multiple stakeholders within the country as well as with external development partners is another important way for the Bank Group to minimize its risks and ensure its effectiveness under changing country circumstances.

Managing for Results

150. The CAS results framework (Annex B9) will be used to manage the assistance program on an ongoing basis. It identifies result targets at three levels:

- **Country development goals**, extracted from the 2004-10 MTPDP, and some of the more challenging MDGs for the Philippines. (See Box 1) These are shown in the far left-hand column in Annex B9, and represent the country's development objectives to which the Bank Group can contribute but for which we do not control the outcome. They provide the medium-term context for monitoring of the Bank Group's assistance.
- **CAS outcomes**, expressed as "top-down" measures of visible successes that can be replicated and thus achieve greater impact. These are based on the four CAS themes (e.g., governance) and the three implementation platforms (e.g., national

platform) and are noted in the center column of the results framework. These CAS outcomes (summarized by theme and platform in Table 13) link program-level milestones to country development goals. The results outlined seek to identify higher-level changes leveraged by Bank assistance. These are intentionally less project-specific than in traditional CAS approaches (e.g., number of roads built, drinking water systems established, etc.). This is to ensure relevance and impact of Bank assistance in a middle-income country where the Bank's financial resources account for a very small share (recently about 0.2 percent of GDP).

- **Program-level milestones**, or a "bottoms-up" approach, reflecting the outcomes of the Bank Group assistance program of loans and AAA, including the existing portfolio. These are summarized in the fourth column in Annex B9. The indicators here are at a more aggregate level than the indicators provided from individual projects, allowing for broader assessment of the overall impact of current and proposed Bank Group activities. Annex Table B10 provides more detail by mapping the ongoing and new lending and non-lending activities (including relevant programs of partners) against the CAS themes and platforms.

151. Taking account of past experience, the targets for program-level milestones of the Bank Group program are modest and selective, providing a broad framework for assistance without over-promising on outcomes or over-prescribing the approach which may be adopted to achieve these goals. In some cases, the identified targets are new and further work will be required to identify baselines and measurement techniques. The approach to finalizing these will be documented as part of the forthcoming portfolio review. We will explore with the government the possibilities for sharing these reviews with external stakeholders, so that CAS consultation can become a more continuous process.

152. The government is also working on results-based management of its expenditure programs. With assistance from the Bank, the government has identified Major Final Outputs for each of 13 national government agencies, highlighting key results associated with their core functional mandates and key indicators for their achievement. These will be used during 2005 to review and improve targeting of budget allocations for 2006. At this stage the indicators being developed for this purpose are not necessarily good indicators of achievement of Bank assistance targets. We plan to monitor and compare both approaches and expect the CAS results monitoring process to gradually converge with government's performance management indicators.

153. A potential list of projects has been developed and will help in formulating annual work programs as needs evolve. (See Annex B3) While these goals provide clear targets, the framework is intended to be sufficiently flexible to respond to evolving priorities over the CAS period. Hence, projects and programs may change.

154. This a three-year CAS covering fiscal years 2006-08. The decision was made to cover a three-year period, instead of the now more common four-year Bank Group strategies, to align better with the government's six-year electoral cycle and six-year period for the MTPDP, both which commenced in mid-2004. This timeframe, therefore, will allow the next three-year CAS to assess the Bank Group's impact in tandem with the current administration's mid-term review of its MTPDP, and to respond accordingly. In addition, the Bank Group will undertake a focused progress report about half-way into the CAS period to ensure that the strategy continues to be relevant and the implementation is broadly on track.

Table 13:
CAS-Level Goals

CAS Goal: Helping to build public institutions that work for the common good			
	National Platform *examples of recognized and replicable successes of national government service provision*	**Local Platform** *examples of recognized and replicable successes of local government service provision*	**Private Platform** *examples of recognized and replicable successes in regulatory capacity and investments*
Governance	Systems and processes for allocating and executing budgetary resources are more transparent and efficient	Systems and processes of LGUs for planning, budgeting, delivering services, and investments are transparent and efficient	Improved governance of corporate sector and infrastructure regulatory agencies
Fiscal Stability	Improved public revenue mobilization, public expenditure management, and management of state owned enterprises	Expanded local LGU revenue base and increased revenues from local sources in at least 20 LGUs	Reduced fiscal burden through financial strengthening of government corporations and financial institutions
Growth	Competitiveness of the economy improved by increasing investment, upgrading infrastructure, and adopting reforms aimed at improving productivity of firms	Productivity increased through local provision of infrastructure and services	Catalyze private investment in key sectors including infrastructure
Social Inclusion	Improved performance of national institutions and increased access for the poor and disadvantaged groups to basic services	Greater voice and improved access for the poor and disadvantaged in the planning and delivery of education, health, and other basic services at the local level	Increased access to financing of micro enterprises, cooperatives, and small & medium enterprises and increased private delivery of basic social services

Organizing Ourselves to Deliver

155. To deliver the CAS, the Bank activities will be organized in clusters based around key client relationships. These are also more closely aligned with the result areas described earlier, allowing more clear accountability for results and promoting greater room for prioritization of efforts within the platform teams. This implies a significant shift away from the management of individual (sometimes fragmented) tasks toward the management of client relationships and related clusters of work.

156. At the national level, the work program will be organized into clusters aligned with key client institutions, such as the line departments responsible for rural development, environment, health, and education. The CAS' national platform will provide a coordinated approach for cross-cutting support of government efforts to improve public sector performance, efficiency, governance, and service delivery. Key analytic work on sector-specific and cross-sectoral issues will also be included in these clusters.

157. Activities at the local level will be clustered to ensure consistent and effective assistance to local institutions. The CAS' local platform will provide a common framework for local performance assessment, capacity building, implementing procedures, financing, and community-driven development. This cluster will include loans and technical assistance provided directly to local governments and institutions in support of local development plans. Since some national programs also include support for priority programs implemented at the local level, the local platform will need a strong cross-sectoral approach to ensure compatibility between national assistance and local financing, needs, and capacity. The local platform will also work with government on identifying options for rationalizing national grant programs to improve performance incentives and targeting of national priorities. WBI assistance is also expected to be targeted on local performance and capacity building efforts.

158. The private sector platform will include work clusters dealing with the key infrastructure areas (power, water, transport), IFC investments, financial sector, and other Bank Group efforts to improve the investment climate and support increased private investments in the Philippines. We envisage increased coordination between Bank and IFC teams, and increased attention to support government efforts for private participation in infrastructure.

159. Each work cluster is expected to include a number of tasks grouped under a team with clear accountability for client relationships. The CAS results framework also identifies clear result areas for each platform. The country team will ensure smooth coordination of work program clusters with the Bank's sector teams and other Bank Group units contributing to the assistance strategy.

Annex 1
Philippines Country Assistance Strategy FY03-05 Completion Report

I. Introduction

1. The objective of the Philippines Country Assistance Strategy (CAS) Completion Report is to evaluate the effectiveness of the Bank's assistance program to the Philippines and draw lessons for preparation of a new assistance strategy for the FY06-08 period. While the focus is on the most recent CAS which covers FY03-05, the review also looked at the 2000-2004 period to take a medium-term view of the program. This CAS Completion Report:

- reviewed the Bank's previous CAS[1] to determine the Bank's strategic objectives and their link to government goals in the Medium-Term Philippines Development Plan (MTPDP);
- reviewed portfolio performance and selected Bank documents and assessments carried out to date;
- interviewed Bank staff and managers (both in Washington and Manila), government counterparts, and selected individuals outside the government who are knowledgeable of Bank operations[2];
- assessed to what extent the Bank was successful in meeting CAS objectives; and
- drew lessons for future Bank assistance.

2. The report draws heavily on the work done to date in Manila on assessing the results of the Bank's portfolio and the technical assistance program. This work is being conducted as part of the move towards results based management of the portfolio with the government.

II. Government's Strategic Goals

3. The government's strategic objectives for the CAS period are presented in the MTPDP (2001-04). The plan consisted of four key strategic areas:

- macroeconomic stability with equitable growth based on free enterprise;
- agriculture and fisheries modernization with social equity;
- comprehensive human development and protecting the vulnerable; and
- good governance and the rule of law.

4. The plan laid out a comprehensive and ambitious agenda[3]. Among others, it aimed to: promote macroeconomic stability; generate employment; enhance competitiveness of industry and services; accelerate infrastructure development; modernize agriculture and fisheries; further

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1 The World Bank Group's Country Assistance Strategy for the Philippines 2003-2005: Improving the Lives of the Poor through Growth and Empowerment., April 30, 2002; The Philippines Country Assistance Strategy, May 11, 1999.

2 A total of 43 people were interviewed: 23 Bank staff, 14 senior government officials (primarily at the undersecretary, and assistant secretary level); 3 senior officials of government corporations (including the Development Bank of the Philippines; and 3 people outside the government.

3 The main text of the MTPDP was 289 pages.

agrarian reform; promote sustainable use of natural resources; strengthen education and training; enhance health care; expand access to shelter; protect vulnerable groups; pursue balanced regional development; secure peace in Mindanao; improve law enforcement and administration of justice; and promote good governance.

III. Bank Strategic Objectives and CAS Outcomes

5. The Bank's FY03-05 CAS was also broad and aligned with the government's strategy. The Bank's strategy was defined in terms of two broad objectives: to help achieve more rapid sustained growth, and support national efforts to empower the poor to increase their participation in development. To facilitate effective partnership with government, the Bank aligned its strategy with the four-part framework of the MTPDP, and the CAS described in detail how the Bank program supported the MTPDP[4]. The CAS was presented to and endorsed by the President and the Cabinet. This formality confirmed government ownership and allowed the Bank to stand by the lending scenarios laid out in the CAS.

6. The CAS's comprehensiveness reflects the breadth of the MTPDP and the scope of the Bank's engagement in the Philippines. The FY03-05 CAS presented an overview of the Bank's program, but it did not include a concise statement of strategic objectives nor provide sufficient basis to assess whether the Bank was successful in meeting its objectives. The main text of the CAS (Table 3-1) listed 22 objectives subdivided by the two CAS objectives and the four MTPDP themes, but it did not articulate what outcomes the Bank was attempting to achieve. The CAS Program Matrix (Annex B9) outlined 38 strategic objectives (which were in line with, but not necessarily identical to, the 22 in the main text), presented country and Bank performance indicators, and specified Bank instruments for each objective by the four MTPDP themes. While the Program Matrix was designed to be an experimental results framework at that time, it did not fully develop a picture of what the Bank was hoping to achieve by the end of the CAS period. This was because: (i) it did not help establish priorities; (ii) base lines were generally not given for performance indicators; and (iii) targets were set mostly as directions ("increase"/"decrease") with no specific outcome against which to measure progress. Public finance was an exception in which the Bank set clear targets for increase in tax revenues and decrease in national government deficit, using it as a trigger for adjustment lending in the Base Case scenario[5]. The Program Matrix was not kept up-to-date nor apparently used during program implementation[6].

IV. Results Assessment

7. The following sections summarize country progress and Bank actions by Bank strategic objective. A simple assessment is made on the Bank's success in meeting its objectives. These objectives were derived by summarizing the stated strategic objectives in the main text and the Program Matrix. They are clustered along the four strategic themes in the FY03-05

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4 The contribution of the Bank's assistance program to the four strategic areas of MTPDP are described in detail in pages 35-44 of the FY03-05 CAS.

5 The Base Case triggers included improvements in fiscal performance: tax/GNP ratio to increase by 0.4 percent per year in 2002-2005; national government deficit/GNP ratio to decline by 0.5 percent per year through 2005.

6 Having a limited number of strategic objectives, baselines, and targets does not ensure that they would be used. The FY00-02 CAS included seven strategic objectives and a similar program matrix (Annex B9), outlining strategic objectives and performance indicators. The matrix did include some performance measures with base lines and targets, but was comprehensive, covering 18 pages. The FY03-05 CAS did not refer to these indicators in its review of previous experience and it does not appear that this matrix was used for Bank program management.

CAS. A detailed discussion of the objectives and country and Bank performance is included in Attachment 1.

A. Macroeconomic Stability and Equitable Growth Based on Free Enterprise

8. ***Strengthen fiscal policy by improving tax effort and containing contingent liabilities:*** The government's fiscal situation continued to worsen with the ratio of national government fiscal deficit to GDP increasing from 4.0 percent in 2000 and to 4.6 percent in 2003 and non-financial public debt increasing from 88 percent of GDP in 2000 to about 101 percent in 2003. The government's inability to increase revenues is a key factor in this decline. While the government was able to control budget expenditures, with expenditures remaining around 19 percent of GDP, tax revenue to GDP dropped from 13.7 percent in 2000 to 12.5 percent in 2003. The government is taking measures to strengthen tax administration, but a key constraint has been the unwillingness of the legislature to enact policy measures needed to increase revenues, especially tax increases. Similarly, regulators had not approved revision to power and water tariffs, a key factor for the deficits in Government Owned and Controlled Corporations (GOCCs). Following the election in May 2004, the government is beginning to turn the deficit situation around with the CY2004 deficit below target, substantial progress being made on three tax bills, and power tariffs increased. While the fiscal situation is improving, it is unlikely that this objective will be met by the end of the FY03-05 CAS period.

9. The Bank refrained from planned adjustment lending since the government did not meet the fiscal triggers.[7] The Bank prepared development policy reviews and policy briefs which helped focus public attention on key development challenges, including the fiscal deficit. The Bank helped the government to meet essential education, health, and social service expenditures, such as textbooks, desks, and vaccines, through two Social Expenditure Management Projects (SEMP I and II). In addition, these projects promoted reform in procurement and financial management in the implementing agencies. The Bank supported improved public sector management through resources provided by various Asia Europe Meeting (ASEM) Trust Funds and Institutional Development Fund (IDF) grants: improving tax administration in the Bureau of Internal Revenue; promoting procurement reform and supporting implementation of a Procurement Reform Act; and piloting of results based budgeting. A Public Expenditure Procurement and Financial Management Review, conducted jointly with the government and the Asian Development Bank (ADB), paved the way for the systemic implementation of, and capacity building called for, by the Procurement Reform Act and thereby contributed to substantial procurement reform, including the harmonization of procurement between the government, ADB, the Japan Bank for International Cooperation (JBIC), and the Bank.

10. ***Address banking sector problems and deepen capital markets:*** Banking sector reform, which gained momentum following the 1997 East Asia crisis, proceeded very slowly. The Banking System Reform Loan, an adjustment operation, was cancelled in 2001 because conditionality for the second and third tranches was not likely to be met within a reasonable

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[7] The base case lending program included a proposed Public Finance Strengthening Loan (FY03) and a Public Sector Reform Loan (FY04). Base case triggers included improvements in fiscal performance: tax/GNP ratio to increase by 0.4 percent per year in 2002-2005; national government deficit/GNP ratio to decline by 0.5 percent per year through 2005. These were not met. The government itself had more ambitious targets for deficit reduction. The MTPDP targeted the consolidated public sector deficit to decline from 4.3 percent of GNP in 2001 to 0.6 percent by 2004 and become a surplus of 0.4 percent by 2006.

timeframe. While some progress is being made[8], many of the issues remain; high level of non-performing assets, insufficient provisioning, and weak legal and regulatory environment. Debt markets have grown, but government debt is crowding out private borrowings. The Bank and the IMF conducted a Financial Sector Assessment (FSAP) and two Report on the Observance of Standards and Codes (ROSC) modules (accounting and corporate governance); both institutions have maintained a dialogue with the government in the context of the FSAP follow up. While progress is being made on banking reform, weaknesses in the financial sector are still a major concern for private sector development in the Philippines. The Bank fell short of meeting this strategic objective.

11. ***Improve the investment climate and enhance competitiveness:*** Concerns over the fiscal deficit, handling of contractual dispute on private infrastructure contracts, and political uncertainty have dampened private sector enthusiasm for the Philippines. An Investment Climate Assessment carried out by the Bank in FY04 showed that at least 30 percent of the firms surveyed saw macroeconomic instability, corruption, and electricity and tax rates as an important investment constraint. The Bank is addressing these issues through its macroeconomic dialogue, work with the government on governance (see Section D below), and operations and dialogue in the power and transportation sectors. Consensus building and capacity development on corporate social responsibility in the mining sector were supported through workshops, international experience sharing, and capacity building. While the Philippines enjoys many advantages in natural resources, labor force and location in a fast growing region, it still lags behind other Southeast Asian countries, such as Thailand and Malaysia, as a destination for investors. Therefore, the Bank fell short of meeting this strategic objective.

12. ***Alleviate infrastructure bottlenecks:*** Increased privatization in power and water sectors and sustainability of key infrastructure investment and institutions through, among others, better cost recovery and financial management, were key country outcomes in the CAS. The Bank has helped the government address some of their major infrastructure needs: 254 km of national roads were improved and 500 KV lines were installed between Sual and Masinloc. While Bank-supported projects have been able to provide and/or improve some physical facilities, implementation was significantly slower than expected due to procedural delays and budget constraints. Moreover, the sustainability of these investments is in doubt because of continued institutional weaknesses in key agencies: lack of progress on strengthening maintenance and road management in the Department of Public Works and Highways and the financial weakness of the National Power Corporation. There was little progress in privatization in the power sector, and substantial problems arose in private infrastructure projects in other sectors. Infrastructure in the Philippines still lags behind that of other East Asian countries and is considered to be a constraint to investment. The Philippine government undertook an ambitious program of privatizing infrastructure to address the country's needs. This has proven to be a complex undertaking. Privatization is proceeding, but slower than originally anticipated. The supply of power and water and sanitation in Metro Manila has improved, but infrastructure is still seen as a constraint by private investors. Therefore, the Bank has only partially achieved this strategic objective.

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8 For example, two large batches of non-performing loans were transferred from the banking system to private asset management companies, the Philippines Deposit Insurance Corporation charter has been amended, and staff afforded greater protection in the discharge of their regulatory duties.

B. Development with Social Equity

13. ***Enhance agriculture sector competitiveness and productivity:*** At the local level, the Bank continued to provide support to rural communities with a package of infrastructure and services. As of June 2004, various Bank projects have funded 1,280 km of rural roads, irrigated 28,410 ha of land, and constructed 19 post harvest and 50 multi-purpose centers. The Implementation Completion Report for the first Agrarian Reform Community Development Project (ARCDP I; completed in FY04) indicates that these investments have a positive impact on agricultural productivity and household incomes: real household incomes have increased 63 percent, yields increased 34 percent in project areas. At the national level, the Bank is assisting the Department of Agriculture (DA) strengthen its capacity to improve agricultural productivity and competitiveness in key crops. The Diversified Farm Income and Market Development Project (approved in FY04 after several years of dialogue on reform) supports DA's efforts to move from a traditional public sector, supply-driven approach to a more private sector, marketed oriented approach with emphasis on market development, market information. It also seeks to strengthen DA's regulatory functions. The Bank is meeting this objective within its project areas.

14. ***Scale up land administration and rural finance:*** The Bank continued to support the government's efforts to improve land administration and increase access to finance in the rural areas. The Land Administration and Management Project did not deliver the expected 10,000 new titles, but assisted the government to develop capacity and streamline procedures to provide land titles (347 titles issued, one-stop-shop established), which promises greater benefits in the future. The Bank's third Rural Finance Project supported the Land Bank to increase finance in rural areas, creating close to 10,000 rural jobs. However, there is concern that the funding mostly reached medium-sized enterprises and is not necessarily getting to small poor farmers. The Bank is making progress in strengthening land administration and rural finance, but the progress is falling short of initial expectations (in the number of titles provided, reaching the poor). This objective has been partially achieved.

15. ***Protect the environment and natural resource base:*** The Bank has been assisting the government to address natural resource management through projects and Analytical and Advisory Activities (AAA). Bank projects have led to 88,890 ha of marine areas, 1,594 ha of mangrove areas, and the placement of 6,690 ha of upland areas under environmental management. The Bank has also assisted the government to improve water resource management (water resource plans and watershed improvement plans) and helped to build consensus for a national minerals policy for environmentally sustainable mining. Bank projects (Community Based Resource Management and Laguna De Bay Institutional Development and Community Participation projects) have engaged local governments in the preservation of their local environments. The Bank has raised awareness of environmental issues through its AAA and instituted protection measures in project areas. This objective is being met in project areas.

16. ***Ensure participation, benefit, and ownership of local stakeholders:*** Community-based approaches (increasing community voice in developing investments in line with their needs) is a growing feature of the Bank's local infrastructure and service operations. All recent community-oriented projects (ARCPD II, KALAHI-CISS, and ARMM Social Fund Projects) have strong community participation. Participation is now an essential part of Bank community oriented operations and KALAHI is seen as an important program by the government. The Bank has achieved this objective.

17. ***Focus on the poor in development programs and target poorer regions, especially Mindanao and the Autonomous Region of Muslim Mindanao (ARMM):*** A large proportion of the Bank's portfolio aimed to promote development and increase incomes in poor regions, especially in Mindanao, which has become a focal point for Bank operations. The Bank has conducted studies to assess the specific needs of Mindanao: Human Development Study for ARMM and a Mindanao needs assessment for reconstruction in Mindanao, conducted jointly by several bilateral and multilateral donor agencies, which provided a wider assessment. Specific operations focused on Mindanao (the Mindanao Rural Development Project and the ARMM Social Fund) provided basic infrastructure and identified priority services by the communities. The Bank is working with other donors to coordinate aid in Mindanao, organizing and co-chairing with the government the Mindanao Working Group in FY04, championing the creation of the Mindanao Discussion Group (co-chaired by UNDP and Japan), and supporting the efforts to establish a multi-donor Mindanao Trust Fund once a peace agreement is signed between the government and the Moro Islamic Liberation Front (MILF). The Bank is meeting this objective.

C. Comprehensive Human Development Through Access to Basic Services

18. ***Improve investments in human resources (education and health) and ensure access by the poor:*** In education, the Bank assisted the Department of Education (DepED) to provide basic supplies (text books, desks, etc.) and school repair through its projects (the Third Elementary Education Project (TEEP), SEMP I & II). To date, Bank projects have constructed or improved 25,912 school buildings, provided around 800,000 desks, and supplied over seventy million text books. The Bank is also assisting DepED to improve education through piloting school-based management (through the restructured TEEP project) and to enhance procurement and internal controls (SEMP I&II). Education policy notes addressed issues such as education quality, teachers' performance, school-based management, improving educational outcomes among the poor and disadvantaged, and perfecting the efficiency of the education system. As for health issues, Bank-supported projects ensured provision for vaccines and basic supplies, facilities, and capacity development. To date, close to 130,000 people have received tuberculosis drugs and thirty healthcare clinics have been constructed or improved through Bank-supported projects. SEMP II strengthened procurement and financial management within the Department of Health. The Bank delivered policy notes on *Improving the Poor's Access to Affordable Drugs* and *On Making Philhealth Policies More Pro-Poor*. The Bank has assisted the government improve the delivery of education and health supplies which would benefit the poor who are not able to afford private alternatives and rely more on the government. The Bank is meeting this objective.

19. ***Provide basic services more efficiently (e.g., shelter, water supply, and sanitation) and ensure their environmental sustainability:*** The Bank has made funding available to communities, local governments, and water districts for water supply and sanitation investments through rural development projects (for rural communities) and water supply projects (for cities and urbanized municipalities). To date, 265 rural water systems have been constructed through Bank projects. Take-up of Bank funding for water systems in the cities and municipalities has been much lower than anticipated because of a combination of factors: changes in administration and priorities following elections; local governments' pursuit of financing at most favorable terms (including lobbying the legislature for grants); the "cost of doing business"; and the perceived high transaction cost of Bank loans. Within major urban areas, urbanization is exacerbating problems of solid waste management and sanitation, with many poor people living in unsafe environments. Industrialization and traffic congestion are worsening water and air pollution in the cities. The Bank has supported the development of key legislation: the Clean Air Act, the Ecological Solid Waste Act, and the Clean Water Act. The Bank's annual

Environmental Monitor publication is increasing awareness of these issues. The production and screening of an audio-video version (i.e., a video on water quality) has been effective in reaching a wider audience and generating public interest on the issue. While it has been successful in raising awareness of urban environmental issues and assisted the government improve water supply and sanitation in Metro Manila, the Bank has been less successful in reaching out to secondary cities. Difficulties in tariff reforms raise questions of sustainability of water and sanitation investments. The Bank has only partially achieved this objective.

D. Good and Effective Governance

20. The ***Bank's objectives*** were to: (i) keep a tight "firewall" against graft and corruption in Bank financed operations; (ii) improve citizen's access to information promoting participation; (iii) strengthen public sector capacity (increase confidence in the rule of law, improve governance to strengthen service delivery); and (iv) improve governance in both the public and private sectors, thereby helping to rebuild investor confidence and improve investment efficiency. The Bank is meeting these objectives.

21. The government, with support from the Bank and others, is making some progress in improving governance. The Bank saw the strengthening of government procurement and financial management capacity as well as a greater transparency through civil society participation in government as some key country outcomes. The Bank channeled over US$5 million in grants (ASEM, IDF) to support improvements in governance. These grants, together with the Public Expenditure and Procurement and Financial Management Reviews (carried out jointly with ADB and the government) paved the way for the systemic implementation of the Procurement Reform Act (passed in 2003). Civil society observers are involved in public bid committees, providing a greater transparency in the bidding process. As mentioned above, the Bank is working with the DepED, the Department of Social Welfare and Development, and the Department of Health to strengthen their procurement and financial management (SEMP II). The Judicial Reform Project is assisting the Supreme Court implement institutional reforms to strengthen public confidence in the judiciary system. To guard against corruption in Bank projects, the Bank has strengthened its procurement and financial management staff in the Manila office and brought in its Department of Internal Integrity to investigate a GEF grant. The Bank has been making progress in these areas, but more effort is needed as corruption generally continues to be a significant problem in the Philippines[9].

22. In sum, the Bank has been relatively successful in assisting the government maintain education, health, and social services and in providing basic infrastructure and services to rural communities and less developed areas, such as Mindanao, through its projects. The Bank has reached out to poor communities and promoted community participation in the identification, development and implementation of local investments. The Bank has been successful in assisting the government strengthen its procurement and administrative procedures. However, the Bank was not able to meet it macro-economic objectives. The public sector deficit and high levels of public debt will continue to limit the government's ability to provide infrastructure, facilities and services. The Philippines is seen as lagging behind Indonesia, Thailand, and other Asian countries in key economic areas, such as provision of infrastructure and the ability to attract private investment. Many key constraints were political and outside of the Bank's immediate sphere of influence. While progress is being made, strengthening the government's ability to deliver services (especially at the local government level) remains a key challenge.

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[9] About 35 percent of the firms surveyed in the Investment Climate Survey saw corruption as a major constraint , making it second only to "macroeconomic instability".

V. Bank Performance

23. ***Lending:*** Bank lending for FY00-04 has been lower than planned. Actual lending was US$472 million for FY00-02 compared to a base case of US$1.0~1.3 million in the FY00-02 CAS and about US$379 million projected for FY03-05 compared to a base case of US$1.1 billion in the FY03-05 CAS. Lack of adjustment lending was a key factor: the FY03-05 CAS included US$750 million in three adjustment loans in the base case scenario. The Bank did not go ahead with adjustment lending because the government did not meet the fiscal triggers (fiscal deficit reduction and revenue enhancement). The FY03-05 CAS had anticipated political opposition to fiscal reforms as a country risk. Investment projects often took longer than anticipated to prepare so that projects were eventually delivered but in many cases not in the fiscal year for which they were programmed. The proposed lending program and actuals for FY00-04 are presented in Attachment 2. Of the 23 projects proposed[10], 6 were implemented in the programmed fiscal year, 6 were implemented later than programmed, 2 are now programmed for subsequent fiscal years, and 9 were dropped. In addition, two additional projects, not scheduled in the original program, were approved.[11]

24. Although lending levels were lower than expected, the Bank was able to initiate some innovative projects: engaging the judiciary and lending to the Supreme Court under the Judicial Reform Project (FY04); reaching out to communities through KALAHI (FY03); and addressing national policy/agency reform issues through support for improved efficiency of expenditures within the government's budget under SEMPII (FY02) and the Diversified Farm Income and Market Development Project (FY04). Ownership and engagement by the leadership in the relevant government agencies was a critical factor in project development and implementation.

25. ***Analytical and Advisory Activities:*** While lending has been limited, the Bank has maintained an active AAA program responding to the government's need for knowledge and technical assistance. AAA activities are listed in Attachment 3. As discussed under Section III above, many have had a significant impact on the government: the Development Reviews (FY02 and FY04) helped focus discussion on key issues such as the fiscal deficit; the Country Procurement Assessment Report / Country Financial Accountability Assessment (FY02) and related technical assistance contributed to the development of the Procurement Reform Act; and the Environmental Monitors for air and water quality raised awareness of the issues.

26. In order to improve the impact of its AAA program, the Bank has been reaching out to the public at large, in addition to the traditional government and immediate stakeholder audiences. Through greater outreach, the Bank aimed to: (i) increase awareness of the challenges facing the Philippines; (ii) develop an understanding and foster trust of the Bank and its operations; and (iii) influence the public's thinking, especially since many of the issues require political action. In addition to the traditional launch events and press releases, the Bank expanded dissemination of AAA products through roundtables in the provinces and the production and distribution (where appropriate) of audio-video products (i.e., a water quality video).

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[10] Three projects scheduled in FY02 (River Basin Development, Rural Electrification, and Agrarian Reform) in the FY00-02 CAS were reprogrammed to FY03 and FY04 in the FY03-05 CAS and are only counted in their original fiscal year.

[11] The Land Administration Management Project was added in FY01 and the Diversified Farm Income and Agriculture Modernization Project was advanced from FY05 to FY04.

27. The Bank has established seven Knowledge for Development Centers (KDCs) nationwide, making available not only Bank publications but also development literature and other materials. KDC usage is averaging 400~600 visitors a month. A Global Distance Learning Center was set up in the Asian Institute of Management in FY02, beginning with about 12 courses and sessions in that year. These increased to 75 sessions in FY03 and 101 in FY04, enabling the center to post profits in FY03 and FY04 and to strengthen its financial sustainability. The Bank actively engaged civil society in the preparation of the FY03-05 CAS and similarly has done so during preparation of the FY06-08 CAS.

28. An Innovation Market Place was held in January 2004 with the title of *Panibagong Paraan* or "New Ways". It forged partnerships between key leaders from civil society, academe, the business community, development partners, and the government. The Bank was able to leverage its US$300,000 allotment, with the total award fund growing to more than US$1 million. More than 1,800 proposals were received under the theme "Making Basic Services Work for the Poor" and grants were given to more than 50 winners.

29. ***Portfolio Management:*** The Bank made portfolio management a priority during the CAS period and actively managed its portfolio in partnership with government and other donors. A summary of the portfolio indicators is provided in Attachment 4. This shows that overall portfolio performance improved over the past two CAS periods. Disbursement improved with the disbursement ratio[12] improving from 12 percent in FY01 to over 20 percent in FY03 and FY04, as problem projects were restructured and non-performing components and activities were dropped.

30. The Bank continued to work with the government and development partners to improve portfolio performance. The move to joint ODA portfolio reviews (initiated by the Bank in FY00) spurred positive changes, including: focusing senior government officials on portfolio issues; development of a "project readiness filter" adopted by government and development partners (JBIC, ADB); streamlining of government review processes; strengthening government agencies that oversee the ODA portfolio; and focusing attention on effective monitoring and evaluation. The Bank intensified efforts to improve implementation capacity, with seminars and workshops on procurement, financial management, disbursement, and social and environmental assessment for various implementing agencies. An IDF grant financed the improvement of the government's oversight functions. Semi-annual, joint project-level reviews have resulted in more continuous assessment and resolution of portfolio issues.

31. The Bank is also working with the government to strengthen the focus on results in portfolio reviews. Outputs and outcomes of all projects under implementation were summarized using a common results framework, which helped to identify shortfalls in expected achievements, and weaknesses in project monitoring. A preliminary assessment was also made of results achieved under technical assistance provided through grants. This process will be extended to include AAA in portfolio reviews beginning in early 2005. This work, combined with the development of a results framework under the new CAS, will allow the Bank and government to use results to manage the country assistance program in the Philippines.

32. The Bank is also strengthening coordination among projects involving local governments. The Local Government Code of 1991 devolved many functions carried out by national government agencies and significantly increased the responsibility of local governments. Both

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[12] The ratio of disbursements during the year to the undisbursed balance of the portfolio at the beginning of the year.

national and local governments have been struggling to adjust to this new environment. The Bank's sector-focused approach, working primarily through national government agencies, promoted a number of successful models for improved delivery of devolved functions, but did not necessarily encourage a consistent approach across local governments. The Bank took steps to address this issue by: (i) creating the Local Government Portal which allows local governments to obtain information on Bank support available to them through the Bank's website; (ii) developing an Interactive Project Map that allows people to view Bank projects in their localities through the website; and (iii) conducting a workshop on joint supervision of all projects providing services at the local level. This workshop identified the potential for streamlining and simplifying procedures for local government, with increased focus on the core development priorities and capacity requirements of local governments. A development partners working group on local governments is being reactivated to promote greater harmonization of local development efforts. The government's decision in late 2004 to limit national government grant financing of devolved activities to local governments required further rethinking of the Bank's approach towards local governments.

33. ***Aid Coordination:*** The Bank worked effectively with its development partners. The Bank continues to collaborate closely with the IMF, ADB, JBIC, and key development partners through its leadership in the Consultative Group and the Quarterly Development Partners Breakfast Group. The Bank is taking an active role in coordinating assistance to Mindanao through a needs assessment completed jointly with other development partners and the preparation of a proposed multi-donor Mindanao Trust Fund.

34. On harmonization, the Bank: (i) regularly conducts joint quarterly reviews of the portfolio with government, ADB, and JBIC; (ii) completed a joint Public Expenditure Procurement and Financial Management Review with ADB (together with the government); and (iii) harmonized procurement around the government's new procurement law. The Bank worked with the government and other partners to complete standard national competitive bidding documents for goods, works, and consulting services, which are now being widely disseminated. Some progress was also made on harmonizing financial reporting formats and developing a common approach to land acquisition and resettlement

VI. Client Feedback

35. As part of the CAS Completion Report, senior Filipino officials who have been involved with Bank operations were interviewed to obtain feedback on the effectiveness of the Bank in the Philippines. These interviews focused on their perceptions of the Bank's key accomplishments and shortfalls during 2000-04 and the Bank's contribution to meeting their agency's strategic objectives.

36. Overall, the Bank's clients gave a favorable view of the institution. When asked to rate the Bank performance on a scale of 1-10 (with 1 being totally ineffective and 10 being extremely effective), most responded with a 7 or 8. They clearly saw the value of working with Bank staff. The increasing decentralization of Bank operations to the country office was seen as beneficial. Many officials talked about how they had benefited from the knowledge they obtained through interaction with staff, especially on experiences from other countries. Based on this feedback, the Bank's strengths are in its:

- Convener role: leadership among donors; "honest broker" among conflicting stakeholders.
- Knowledge: quality of analysis; knowledge transfers (both formal and informal); and strength of a global institution.
- Willingness and ability to develop approaches that address client needs: The Bank was seen as "innovative", "responsive", and "flexible".

37. The Bank also created opportunities to "learn by doing". For example, Bank projects provided a model for the Departments of Agrarian Reform, Agriculture, and Environment and Natural Resources to work with local governments in a decentralized environment; SEMP I & II allowed the Departments of Health, Education, and Social Welfare to implement procurement and financial management reform.

38. Clients often cited as keys to success experiences in which they felt they and the Bank had been able to work well together during project development and restructuring in a truly collaborative manner. Similarly, some clients cited cases where they felt they had not been engaged during project preparation as a shortcoming – often a non-lead agency in a multi-agency project[13].

39. Through nterviews, complaints emerged over the "cost of doing business" – procurement review delays, safeguards "over-kill," and special account amounts. However, there was no overarching issue, with different agencies citing problems with diverse aspects. Several agencies appreciated the Bank for having a greater number of local procurement and financial management staff in Manila.

40. There is still area for improvement. When asked where the Bank could do more, one respondent mentioned the need to return the focus more on strengthening economic competitiveness. Another suggested taking a systematic approach to local government capacity building. For instance, significant resources go into capacity building through multiple projects, but as these activities are not well coordinated, the country may not be getting full return on the overall investment in capacity building.

VII. Conclusions and Lessons Going Forward

41. The Bank has responded flexibly in assisting the Philippine government address its development challenges, at a time when the sense of urgency for change following the East Asia financial crisis may be fading. The Bank continued to assist the Philippine government address their infrastructure and service needs not only through traditional investment loans, but also through budgetary support for key social expenditures (SEMP I & II). The Bank also reached out to communities to help address their immediate needs (KALAHI), initiated innovative approaches (e.g., Judicial Reform), and worked with the government to strengthen administrative practices (e.g., procurement and financial management). Many challenges remain, however. Poverty continues to be a concern with over 35 million people (44 percent) living on less than US$2 a day in 2003. The Philippines continues to face the degradation of natural resources despite the progress being made in Bank project areas. Macroeconomic

[13] For example, the Water Districts Project was initially prepared with the Department of the Interior and Local Government in the lead and the Development Bank of the Philippines was later brought in when the need for a financial intermediary became apparent.

instability, corruption, and poor infrastructure continue to be identified as key constraints to private investment.

42. While the country has not been able to meet a key macroeconomic objective of the CAS -- increasing tax revenues and reducing the fiscal deficit -- the Bank adapted to the situation, concentrating on AAA to address constraints which were within the Bank's (and the government's) area of influence. The Bank identified political reluctance to proceed with critical aspects of the reform program as a country risk and pro-actively managed it by reaching out to a variety of stakeholders, opinion leaders, and the public at large to raise awareness of the challenges facing the Philippines. While lending volumes have been below targets, the Bank was correct to set clear fiscal triggers for adjustment lending and to stand by them.

43. Overall, the Bank's performance in the Philippines is satisfactory. The CAS did not provide a clear statement of what the Bank intended to achieve, making this evaluation difficult. The Bank did not achieve some traditional markers, such as the volume of lending planned. At the same time, the Bank adapted to the situation in the Philippines, exploring ways with the government to address their priorities. Strong positive feedback from the government on the Bank's performance, especially its willingness to listen to and to work with the client, is an endorsement of this flexible approach.

44. Key lessons going forward are as follows. The Bank should:

- Build on its strong relationship with the client and continue to strengthen country ownership of the program. The Bank will need to: (i) collaborate closely with its clients in operations and fully incorporate their needs and priorities; and (ii) ensure that clients continue to see the Bank's inputs as relevant, responsive, and innovative. Being innovative does not necessarily mean taking state-of-the-art solutions to problems, but working with the client to adapt experiences and knowledge from other countries to the situation in the Philippines.
- Continue its outreach to political leaders, opinion leaders (i.e., the media), and civil society to build awareness of and promote consensus on the challenges facing the Philippines and the Bank's position on these issues. Increasing revenues, reducing the fiscal deficit, and containing contingent liabilities will continue to be core challenges facing the government. Many of the solutions are political, requiring action by the legislature. The Bank will need to continue its "honest broker role," but should be realistic about what can be accomplished in the near term.
- Continue to focus on improving portfolio performance. While the CAS tends to highlight new operations for the coming years, a significant amount of resources remain to be transferred to the Philippines. As of September 2004, there was an undisbursed balance of about US$686 million out of total commitments of US$1.2 billion over 23 projects (including GEF). These projects will have a more immediate impact than operations currently in, or to be included in, the pipeline.
- Further coherence among Bank projects involving local governments. In the past, local governments were often seen as critical implementers of various sectoral strategies, rather than as units of government in themselves. Going forward, local government programs should: (i) strengthen local ownership by addressing their priorities; and (ii) take a systematic approach to key cross-cutting areas such as capacity building and revenue enhancement.

- Continue to strengthen its focus on results. The move to results-based CASs provides an opportunity to get a better handle on key strategic outcomes at the country level around which the Bank should focus its program. It is critical to: (i) select a limited number of core medium-term outcomes; (ii) develop indicators to measure progress towards these outcomes; and (iii) establish clear links with the portfolio, proposed lending, and proposed AAA. These should be developed with the government and used to jointly monitor progress on the program. The Bank needs to be selective, but this does not necessarily mean selecting which sectors the program will focus. The Bank should be selective in what it realistically can achieve during the FY06-08 CAS period. Various operations should be assessed based on the contribution they can make towards achieving these objectives.

Attachments:

1. CAS Completion Summary
2. Lending Summary – Planned Versus Actual
3. AAA Summary – Planned Versus Actual
4. Portfolio Performance Summary
5. List of Key People Met

PHILIPPINES CAS COMPLETION SUMMARY

STRATEGIC OBJECTIVES	COUNTRY PROGRESS	BANK PERFORMANCE	OVERALL ASSESSMENT & KEY LESSONS LEARNED PER STRATEGIC AREA
I. Macroeconomic Stability and Equitable Growth Based on Free Enterprise			
• **Objective:** *Strengthen fiscal policy by improving tax effort and containing contingent liabilities.*	• The poor state of public finances continues to be a serious issue. Non-financial public sector (NFPS) debt has been growing in recent years, increasing from 99% of GDP in 2000 to about 107% in 2003. This is a consequence of large NFPS deficits which reached an estimated 6.3% of GDP in 2003 (from around 5.2% in 2000), driven among others by national government and power sector deficits. While the government has attempted to control costs, revenues have not met expectations. Government expenditures to GDP have remained around 19%, but tax revenues fell from 13.9% of GDP in 2000 to 12.4% in 2003. The government has made improvements in tax administration in the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC), although issues (such as tax evasion) still remain. A key constraint has been tax policy where legislative action has stalled on issues such as adjusting excise taxes and rationalizing tax incentives. Following re-election in May 2004, the President has made the fiscal deficit a key priority. The government is beginning to turn the deficit situation around – CY2004 below target, progress made on three tax bills, and increase in power tariffs.	• Adjustment lending programmed in the CAS (base case) did not materialize because of inadequate fiscal deficit reduction and revenue enhancement (i.e., the base case triggers of increase in Tax/GNP ratio of 0.4% p.a., and a decline in national government deficit/GNP of 0.5% p.a. were not met). • The Bank has completed policy reviews (FY02, FY04) where the macroeconomic issues were raised. The issues and possible solutions are known to the technocrats within the government. The Bank strengthened dissemination of AAA and has been reaching out to legislators and other stakeholders to increase awareness of the issues and actions that need to be taken. The policy reviews have helped focus public discussion on key development challenges such as revenue generation. However, these are complex problems which may not be easily communicated to the public-at-large.	• The Bank has not been successful in achieving the macroeconomic and growth objectives that it set for itself, although this is not due to lack of effort. The fiscal deficit, weak financial sector, sustainability of power sector finances, and poor infrastructure continue to pose challenges to the future development of the Philippines. However, many of the key constraints involve legislative action, where the Bank's influence may be limited. The Bank has been working with the executive and now the judiciary to improve public administration and improve government services. Lack of a measurement system makes it difficult to asses the impact we are having through many of our institutional development efforts.

		• The Bank continued to support government efforts to improve public sector management through: (i) Implementation of the Social Expenditure Management Projects (SEMP I & II approved in FY02) which, in addition to providing funding for critical education, health and social expenditures, strengthened procurement and financial management in DOH, DepEd and DSWD; (ii) Public Expenditure, Procurement and Financial Management Review, jointly with ADB in FY02, which led to harmonization of procurement between the government, Bank, ADB and JBIC; and (iii)Technical assistance which facilitated, among others, development of the Procurement Reform Act, introduction of results based management and performance based budgeting; and introduced computer assisted tax audits in BIR.	• Key lessons learned: Limitation to dealing with political risks. The Bank has been actively reaching out to legislators, local opinion leaders and other stakeholders to raise awareness of these macroeconomic issues. However, it is not clear whether we are having an impact, especially since these messages are complex (unlike pollution which people can easily relate to). Complexities of reform. The Philippines has initiated ambitious reforms in privatizing infrastructure and the bank sector. The government and the Bank may have underestimated the time required to implement these reforms. Revenue generation is not just a national issue. Most Bank projects involving local governments finance infrastructure and services but have made little progress to date on cost recovery and resource mobilization at the local level.
• **Objective:** *Improve the investment climate and enhance competitiveness.*	• Philippine competitiveness has not kept pace with other competing Asian countries and is ranked with Indonesia and Vietnam and well behind Malaysia, Thailand, and China (IMD World Competitiveness Yearbook). A survey of top 1000 firms in 2003 showed that the Philippines was not among the top twenty destinations of foreign investors. While some progress has been made to create a regulatory and legal framework conducive to private investments, delays in enacting other legislature and handling of some contractual dispute in infrastructure has raised concerns over investing in the Philippines.	• In an *Investment Climate Assessment* conducted in FY04 (to be issued in FY05), over 30% of the firms surveyed identified the following as constraints: macro-economic stability, corruption, electricity, and tax rates. The Bank is addressing the various constraints to competitiveness through its efforts to address the fiscal deficits, fight corruption, and provide essential infrastructure (transportation and power). • The Bank is taking measures to: (i) Strengthen public trust in the judicial system (the Judicial Reform Project); (ii) Improve security of land tenure and increase tradability and alienability of land titles (Land Administration Management Project); (iii) Address infrastructure constraints (see below); and (iv) Increase awareness of corporate governance.	

• **Objective:** *Deal with banking sector problems and deepen capital markets.*	• The Philippines financial sector is underdeveloped compared to other countries in the region. While the banking system dominates the financial sector, the ratio of total assets of the Banking system to GDP is among the lowest in East Asia. Non-bank, market-based financing also remains underdeveloped: e.g., corporate bonds account for only 2% of GDP compared to 10% and 30% for Thailand and Malaysia respectively. The banking system continues to be fragile and is ineffective in its role as intermediary. Lending from banks has been stagnant and the ratio of total gross commercial bank loans to GDP dropped from nearly 65% in 1997 to around 40% in 2003. The banking system's capacity to intermediate remains constrained by a high level of nonperforming assets, insufficient provisioning, and a low capital base. The private sector is starting to restructure non-performing loans under the Special Purpose Vehicle Act (2001). In 2004, more than 30 Asset Management Companies have been registered with the Securities and Exchange Commission and have begun transferring non-performing loans from banks.	• The momentum for banking reform following the 1997 East Asia financial crisis subsequently stalled, resulting in the cancellation of the Bank System Reform Loan (an adjustment loan) in 2001. The legislature's reluctance to pass legislation to provide legal protection for bank supervisors and strengthen the power of the regulatory authorities to intervene was a key reason for the cancellation. Inadequate protection and weak regulatory powers are considered to be major factors in the slow progress of resolving non-performing loans and distressed assets today. The Bank and Fund completed a Financial Sector Assessment (FSAP) and two ROSC modules (Insolvency and Creditor Rights and Financial Accountability) in FY02. The Bank is maintaining a dialogue with the government through follow up on the FSAP.	
• **Objective:** *Alleviate infrastructure bottlenecks.*	• Lack (or poor quality) of infrastructure is considered to be a key constraint to private sector development. Road quality as well as power generation and distribution are among the poorest in the region: e.g., 21% of roads in the Philippines are paved compared to 46% in Indonesia and 76% in Malaysia; electric power transmission and distribution losses are 14% in the Philippines compared to 11% in Indonesia and 8% in Malaysia. Low and declining public spending on capital investments and maintenance and falling private sector investments in infrastructure are considered to be the primary causes for infrastructure	• The Bank has been assisting the government address major infrastructure needs: e.g., 254 km of national roads were improved (First National Roads Improvement Project); the installation of 500 KV lines from Sual to Masinloc and the reinforcement of 230 KV substations (Transmission Grid Reinforcement Project). However, the implementation of ongoing Bank investments in national highways and key Metro Manila roads are behind schedule. The sustainability of the investments and achievements made to date are in doubt because of continued institutional and policy weaknesses. The Bank has assisted DPWH improve internal business processes through the Road Information Management Support	

	deficiencies in the Philippines. Between 1997 and 2001, national government capital expenditure as a share of GDP fell by 0.5% to 1.6%, one of the lowest in the region and private investment in infrastructure fell to around US$1 billion from US$4 billion in 1993-97. Private investors have become weary due to large losses in the late 1990s and negative corporate environment caused by barriers to entry, distorted regulations, unclear and changing policies on the respective roles of the public and private sectors, as well as weak government administrative capacity. Failure to follow through is constraining the government from realizing the full benefits of its reform efforts. For example, Congress's inability to pass the Franchise Bill is stalling privatization in the power sector.	System (RIMSS) and introduced contracting of maintenance, but overall reform of DPWH is considered to be progressing slower than anticipated – e.g., the Road Board was established in 2003 but the head was only recently confirmed; the bulk of road maintenance continues to be carried out by DPWH staff. In power, the National Power Corporation faces high losses due to, among others, the government's inability to raise tariffs. These losses are threatening not only the viability of the power sector but contributing to the overall fiscal deficit and high government debt load.	
	• Continued urbanization is worsening the problems of solid waste disposal, water pollution, and air pollution in the cities. The government has responded by passing the Clean Air Act (1999), the Ecological Solid Waste Act (2004), and the Clean Water Act (2004). Continued visible pollution and limited availability of reliable information regarding environmental quality and policy have resulted in a lack of faith in the government's ability to manage the environment.	• The Bank has assisted Metro Manila address water pollution through the Manila Sewerage Project. However, efforts to expand sanitation improvements into secondary cities has been less successful because of these cities' reluctance to borrow funds. • The Bank has published (both in print and video) Environment Monitors for air quality (FY02) and water (FY03), making key environmental information available to decision makers and the public. These monitors have energized public debate on environmental issues and has resulted in some municipalities taking anti-pollution measures.	

II. Environmentally Sustainable Rural Development with Social Equity • **Objective:** *Scale up Land Administration and Management Program in addition to rural credit and expand micro-credit to encourage rural investment, especially by the poor.*	• The agriculture GDP grew in real terms between 2000-2003, ranging between 2.5%~3.7% p.a. or slightly below GDP growth for the same period. Share of agriculture to GDP decreased slightly as a result, averaging just over 19% in 2003. Poverty continues to be a concern in the rural areas where 41% of the households were living below the poverty line in 2000 (compared to 37% in 1997). The Philippines has a trade deficit in agriculture of just over US$ 1 billion, reflecting a lack of competitiveness in key commodities (rice, corn, sugar, and coconut). The agricultural sector continues to suffer from inadequate research in high value products, poor market information, poorly defined and inadequately (or inconsistently) enforced regulations, inadequate infrastructure (often due to poor maintenance), high transportation costs, and inadequate access to credit.	• The Bank continues to provide essential infrastructure and services to rural communities to address their development needs. As of FY04, the Bank projects supported the construction of 1,280 km of rural roads, the irrigation of 28,410 ha, the construction of 19 post harvest facilities and 50 multi-purpose centers. The evaluation of the First Agrarian Reform Community Development Project (ARCDP I, completed in FY04) estimated that the project resulted in a 63% increase in real net income, a 43% increase in crop intensification, and a 34% increase in yields from irrigated lowland rice farms in the project areas. • Overall agricultural productivity and competitiveness issues are being addressed through the Diversified Farm Income & Market Development Project (approved in FY04) which supports the Department of Agriculture's (DA) efforts to provide market-oriented services.	• The Bank has been successful in assisting project communities access infrastructure, services and finance, which have positive impact within their project areas. The Bank is also working at the national level to address policy issues (e.g. DA restructuring, land titling, etc.). Bank projects have assisted DA and DAR to develop approaches to interact with local governments in a post-devolution environment. However, rural poverty and natural resource degradation continue to be major issues. A key issue is scaling up and leveraging our operations to have a wider impact. A constraint may be the Bank's compartmentalized approach to projects where projects which fund similar investment and have similar institutional objectives (such as developing local government capacity for planning and service delivery) may take a somewhat different approach based on the specific objectives and needs of the project.
• **Objective:** *Scale up Land Administration and Management Program and rural credit and expand micro-credit to encourage rural investment, especially by the poor.*		• The Land Administration Management Project resulted in 347 agricultural land titles to date and contributed to the drafting of a Land Administration Bill as well as the creation of a "One Stop Shop" for land titling. • Rural Finance III is making funding available in rural areas, creating close to 10,000 jobs. Nevertheless, there is concern over possible lack of impact on small farmers and enterprises.	

• **Objective:** *Enhance LGU technical implementation capacities at provincial, municipal and barangay levels.*		• The Bank's operations have helped national government agencies develop models to interact with local governments to which many of their functions have devolved: e.g., the ARCDP model was used by the Department of Agrarian Reform for its projects with other donors. • However, several Bank projects (e.g., ARCDPII, CBRMP, MRDP, ARMM Social Fund, KALAHI-CIDSS) finance rural infrastructure and facilities at the municipal and/or community level. This has promoted innovative approaches but has not always ensured a consistent approach to local government capacity development, and may have resulted in competition among projects (e.g., communal water systems being funded as grants under some projects but as loans under another).	
• **Objectives:** – *Protect the environment and natural resource base.* – *Implement community based rural development and natural resource management approaches.*	• Population growth has strained the environment in the Philippines. In rural areas, natural resource degradation continues, despite government efforts. The country continues to lose forest cover, leading to an extensive loss in biodiversity.	• The Bank has been assisting the government address natural resource management and environmental management through a number of projects and AAA. The community-based Resource Management Project has led to placement of 88,890 ha of marine areas, 1,594 ha of mangrove areas and 6,680 ha of upland areas under effective management. The Water Resource Development Project led to the formulation and implementation of Natural Water Resource Plans and Watershed Improvement Plans in project areas. A Natural Resource Management Study was carried out in FY04 and the results are currently being disseminated.	
		• The Bank provided technical assistance on sustainable development in mining to the Department of the Environment and Natural Resources at its request. The Bank supported workshops, conferences,	

		and study tours to bring together stakeholders and build a consensus on harnessing mining resources in an environmentally responsible way. This assistance has contributed to the development of the country's National Minerals Policy.	
• **Objective:** *Focus on the poor in development programs and target poorer regions, especially Mindanao and the ARMM.*	• The Macapagal-Arroyo administration shifted from armed conflict to pursuing peace and development in Mindanao, a region which had suffered from conflict between the government and Muslim factions. Conflict-afflicted areas are generally poor, lacking basic infrastructure and access to services. In 2000, incidents of poverty in the Autonomous Region in Muslim Mindanao (ARMM) were almost 66% (compared to a national average of about 28%) and life expectancy of adults was just comparable to the national average in 1970.	• The Bank continues to play a leading role in supporting development in Mindanao. The ARMM Social Fund project was approved in FY03 as a follow-up to the SZOPAD Social Fund Project (closed in FY03). The Bank completed a Human Development Study for ARMM (FY03) and a Mindanao Joint Needs Assessment (FY04). The Bank is leading the aid coordination efforts in Mindanao, organizing (and co-chairing with the government) the Mindanao Working Group in FY04 as well as acting as the secretariat to the Mindanao Discussion Group (co-chaired by UNDP and Japan).	
• **Objective:** *Ensure participation, benefits, and ownership of local stakeholders and management of the environment and natural resources.*		• Community-based approaches (increasing a community's voice in developing investments in line with its needs) are a key feature of the Bank's local infrastructure and service operations. All recent community-oriented projects (ARCPD II, KALAHI-CISS and ARMM Social Fund Projects, all approved in FY03) have strong community participation.	

III. Comprehensive Human Development Through Access to Basic Services • **Objective:** *Improve investments in human resources (education and health) and ensure access to the poor.*	• The country continues to face problems of quality and disparities between the rich and the poor in education and health. While enrollment rates appear high (e.g., a net primary enrollment rate of 97% in 2001), completion is only 66% at the elementary level and 48% at the secondary level. Only slightly more than half the students pass national exams. While infant mortality rates declined from 57 per live births in 1990 to an estimated 29 in 2003, the rate among households in the poorest quintile is 2.3 times higher than that of the richest quintile. The rich can afford higher quality private education and health services, but the poor have to rely on the government. The Department of Health continues to implement its Health Sector Reform Agenda (adopted in 1999), but faces difficulties in overseeing a sector in which responsibility for service delivery rests with local governments and the private sector. The Department of Education (DepEd) has taken steps to improve basic education, e.g., introducing a Restructured Basic Education Curriculum Program to improve efficiency in student learning, addressing the textbook shortage, etc., but some fundamental challenges, such as increasing the productivity of a large teaching force, still remain.	• Bank projects have assisted the government address the basic needs of the poorer communities in the Philippines. The Bank has worked with DOH, Department of Social Welfare and Development (DSWD) and DepEd to provide essential education, health and social services through: (i) The Early Childhood Development and the Third Elementary Education (TEEP) Projects which targeted regions or provinces with higher poverty; (ii) The Social Expenditure Management Projects (SEMP I&II) which provided budgetary support for key expenditures; (iii) Community-based projects (KALAHI-CIDSS, ARMM Social Fund). To date, the Bank projects have resulted in the provision and/or improvements approximately 26,000 schools, 800,000 desks, over 70 million text books, and about 130,000 TB drugs. The Bank's projects have also had positive institutional impacts: i.e., SEMP I & II facilitated procurement and financial management reform in DOH, DepEd and DWSD; TEEP piloted school based management; and KALAHI-CIDSS incorporated a community-driven development approach. • The Bank also prepared Education Policy Notes and Health Policy Notes on Improving the Poor's Access to Affordable Drugs and On Making Philhealth Policies More Pro-Poor.	• The Bank has been successful in: (i) Addressing the health, education, and basic service needs of the poorer communities by targeting assistance to lower income areas; and (ii) maintaining expenditures in social sectors and improving administrative efficiency in DOH, DepEd and DWSD. The Bank moved, whenever necessary, to restructure poorer performing projects (e.g., the TEEP). However, significant challenges still remain: e.g., improving the quality of education and providing basic services in water, sanitation and solid waste disposal in line with increased demand from urbanization.

• **Objective:** *Provide basic services efficiently (e.g. shelter, water supply, and sanitation) and ensure their environmental sustainability.*	The country is struggling to provide basic services in line with the increasing demand. The water sector is in a state of stagnation and unable to meet the demands of its growing and increasingly urban population for safe and reliable water. Access to safe water deteriorated somewhat from 81% in 1999 to 80% in 2003, but independent surveys report a lower figure with only 63% of the population having access to formal water systems in 2000. Sanitation and solid waste services remain rudimentary. Effluent from septic tanks drains into uncovered drains, exposing people to raw sewage. Solid waste blocks drainage channels, resulting in unsanitary conditions. Even when collected, improper disposal practices for both solid waste and septic tank sludge contribute to environmental degradation.	• The take-up of Bank funding for water systems in the cities and municipalities has been lower than anticipated.	
IV. Good and Effective Governance • **Objectives:** – *Maintain a tight "firewall" against graft and corruption in Bank financed operations.* – *Improve citizens' access to information promoting participation.* – *Strengthening public sector capacity: increase confidence in the rule of law, and improve governance to strengthen service delivery.* – *Improve governance in both the public and private sectors to help rebuild investor confidence and improve investment efficiency.*	• After President Estrada was removed from office in 2001 following allegation of corruption, anti-corruption and good governance have been key policies for the current administration. The Philippines has taken several measures to improve governance. • On judicial reform, the Supreme Court adopted an Action Program for Judicial Reform which includes institutional reforms and improvements in technology, infrastructure and human resources. • The Procurement Reform Act, adopted in January 2003, simplified pre-qualification procedures, encouraged electronic procurement, reduced officials' discretion on bids and awards, established a Government Procurement Policy Board for oversight, protected procurement officials from unjust legal suits, and imposed criminal and civil liabilities on those found guilty of collusions.	• The Bank strengthened its procurement and financial management team in Manila. The Manila Office requested the Department of Internal Integrity to conduct an audit of a GEF grant where irregularities were uncovered in the NGO managing the grant. • The Bank started implementation of the Judicial Reform Project (approved FY04), an innovative approach, where the Bank will work through the Supreme Court as the implementing agency to foster public trust and confidence in the legal system through, among others, improvements in information systems, better human resource management (including strengthening the Code of Ethics), and implementation of modern case management techniques.	• Overall progress being made in strengthening administration and improving transparency. Extent of impact not clear: difficulty in measurement and initial stages of program.

	• On financial management, the Commission on Audit is implementing a new government accounting system, simplifying government accounting and bringing it closer to international accounting standards.		
	• The government initiated "lifestyle consistency checks" to determine whether assets were consistent with incomes (initially targeting tax collectors).	• As of July 2004, the Bank provided US$5.2 million in grants (ASEM, IDF, etc) on governance, supporting the government's program of policy reforms. A Public Expenditure Procurement and Financial Management Review, conducted jointly with the government and the ADB, paved the way for the systemic implementation of the Procurement Reform Act. Among the outcomes from the Bank's assistance are: the establishment of the Government Procurement Policy Board and its secretariat; enhanced transparency in public bidding through participation of civil society observers in public bidding committees; strengthening local government accountability and financial management through preparation of a financial management manual and enhancement of audit methodology and capacity; pilot testing of the new government accounting system; and introduction of computer assisted tax audits by BIR.	

a/ The Bank's strategic objectives are not necessarily clearly stated in the FY2003-2005 CAS. Table 3-1 provides a list of objectives, aligning the Bank's CAS with the government's MTPDP. The text provides a write-up of the Bank program and objectives (pages 35-48), and the policy matrix (Annex B9) contains many objectives (broken down by the MTPDP themes). These three sources are not entirely consistent. Therefore, a summary version, amalgamating all three sources, was employed in the Bank's strategic objectives for this report.

Planned Lending Program and Actual Deliveries (FY00-04)[a/]

	CAS Plans		Current Status (as of June 2004)	
FY	**Project**	**IBRD**	**Status**	**IBRD**
2000	Mindanao Rural Development (APL)	30.0	Actual	27.5
	Nat. Roads Improvement Mgmt (APL)	100.0	Actual	150.0
	SEMP I	100.0	Actual	100.0
	Public Sector Reform Loan	100.0	Dropped	
	Housing Finance Technical Assistance	8.0	Dropped	
	Sub-total	*338.0*	*Sub-total*	*277.5*
2001	Metro Manila Urban Transport	89.0	Actual	60.0
	SEMP II	100.0	Slipped to FY02	
	LGU Urban Water & Sanitation (APL) II	60.0	Slipped to FY02	
	CALA Regional Development	80.0	Dropped	
	Financial & Corporate Sector Reform	100.0	Dropped	
	Solid Waste & Ecological Enhancement	40.0	Dropped	
			Additional Actual Projects	
			Land Administration Mgmt. Project	4.8
	Sub-total	*469.0*	*Sub-total*	*64.8*
2002	Lake Laguna Environ. Mgmt. (APL)	100.0	Slipped to FY04	
	Rural Electrification (APL)	200.0	Slipped to FY04	
	Agrarian Reform Project	50.0	Slipped to FY03	
	River Basin Development (APL)	50.0	Slipped to FY04	
	Fourth Elementary Education	100.0	Dropped	
			Actual Projects from Other FYs	
			SEMP II	100.0
			LGU Urban Water & Sani. (APL)-II	30.0
	Sub-total	*500.0*	*Subtotal*	*130.0*
2003	Agrarian Reform Community Project-II	50.0	Actual (from FY02)	50.0
	KALAHI CDD Project	100.0	Actual	100.0
	ARMM Social Fund	35.0	Actual	33.6
	Judicial Reform	18.0	Slipped to FY04	
	Public Finance Strengthening	200.0	Dropped	
	Sub-total	*403.0*	*Subtotal*	183.6
2004	Rural Power 1 (APL)	25.0	Actual (From FY02)	10.0
	Population Mgt./Women's Health II	30.0	Slipped to FY05	
	Health Sector Reform	40.0	Slipped to FY07	
	River Basin Development	75.0	Dropped (From FY02)	
	Program Loan (Public Sector Reform)	150.0	Dropped	
			Actual Projects from Other FYs	
			Laguna Lake Inst. Strengthening and Community Participation	5.0
			Judicial Reform	21.9
			Diversified Farm Income/Ag. Modernization	60.0
	Sub-total	*320.0*	*Subtotal*	96.9

[a]/ All amounts in US$ millions

Analytical and Advisory Services (AAA)
Planned and Actual Deliveries (FY00-04)

FY	CAS Plans	Current Status
2000	Decentralization Study Health Services Under Devolution Study Rural Power Sector Action Plan Recent Developments in Economy, Financial Sector, and Poverty Indicators Recent Trends in Social Development Recent Trends in Agriculture, Food Supply and Environmental Indicators	Deferred to FY03 Input into the Decentralization Study Rural Power Sector Study Growth with Equity: The Remaining Agenda Poverty Assessment Rural Development and NRM: Trends and Strategy, Implementation, and Framework Performance System Environment Scorecard *Additional Actual Products:* Judicial Assessment (informal paper) National Urban Partnerships (informal paper)
2001	Provincial Roads Study Recent Developments in Economy, Financial Sector, and Poverty Indicators Recent Trends in Social Development Recent Trends in Agriculture, Food Supply and Environmental Indicators	Dropped Filipino Report Card on Pro-poor Services Rural Development & NRM Trends Update Note Environmental Monitor Update Note. *Additional Actual Products:* Mindanao watching briefs Policy Notes – briefs for new administration ROSC Reports – Corporate Governance Update Notes on water and power sectors
2002	Recent Developments in Economy, Financial Sector and Poverty Indicators Recent Trends in Social Development Recent Trends in Agriculture, Food Supply and Environmental Indicators *Technical Assistance:*	Development Policy Review Out-of-School Youth Report; Health Policy Notes: *Improving the Poor's Access to Affordable Drugs* and *On Making Philhealth Policies More Pro-Poor* Environmental Monitor 2001 (Solid Waste Mgt.) *Additional Actual Products:* Public Expenditure, Procurement (CPAR) and Financial Management (CFAA) Review Private Sector Development Strategy Urban Strategy Financial Sector Assessment (FSAP) ROSC Reports – Insolvency and Creditor Rights, Financial Accountability Rural Development and Natural Resources Mgt. Monitoring (IDF Grant)

2003	Economic Monitoring Decentralization Study Transportation Cost Review Strengthening Human Development Study (ARMM) Gender Coordination Environmental Monitor Natural Resource Management Study East Asia Regional Studies *Technical Assistance:* Civil Service Reform Civic Engagement in Expenditure Tracking Capacity Building of BIR Improving Public Sector Governance Financial Sector (FSAP follow up) Corporate Governance Mindanao Post-Conflict Assistance	Continuous Completed (Phase 1) Incorporated into the FY04 Meeting Infrastructure Needs Study Human Development Study for ARMM Gender Portfolio Review completed Environment Monitor 2002 (Air Quality) Started in FY03 and completed in FY04 Inputs to the Half-Yearly Economic Brief TA provided under a PHRD grant to DBM TA provided under an IDF grant to DBM TA provided under an IDF grant to BIR TA provided under ASEM, UDF and PHRD grants Provided under trust fund work Provided to the Institute of Corporate Directors under an ASEM grant TA and advisory support through Dev't Grant Facility – Post-Conflict Fund *Additional Technical Assistance* TA to DENR on strengthening environment regulations enforcement Study tour on Budget and Appropriations Process for DBM, DOF, NEDA and Congress
2004	Economic Monitoring Development Policy Review Urban Infrastructure Health Sector Issues Support Regarding Violence Against Women Country Environmental Analysis Mindanao Post-Conflict Assistance East Asia Regional Studies *Technical Assistance:* Poverty Assessment Capacity Building of BIR Improving Public Sector Governance	Continuous Development Policy Update Incorporated into study on Meeting Infrastructure Needs Completed in FY02 Integrated in Womens Health Project Environment Monitor 2003 (Water) Mindanao Joint Needs Assessment Inputs to the Half-Yearly Economic Brief National Disaster Mgmt. Study (initiated through regional initiative) *Additional Products:* Discussion Briefs for the New Administration Education Policy Notes Poverty monitoring and analysis (ASEM grant) Continuing - ongoing IDF grant to BIR Continuing - ongoing ASEM, PHRD and IDF grants
	Selected Public Enterprise Reform	Trust-funded work on restructuring of water authorities

	Financial Sector (FSAP follow up)	TA for financial risk monitoring under pension reform TA for strengthening capacity for bank supervision
	Corporate Governance	Completed in FY03
	Gender Coordination	Coordination with other donors in Gender and Development working group
	Mindanao Post-Conflict Assistance	Continuing TA and advisory support through Post-Conflict Fund *Additional Technical Assistance:* Sustainable Development in Mining

Selected Indicators of Bank Portfolio Performance and Management

	FY00	FY01	FY02	FY03	FY04
Portfolio Assessment					
No. of Projects Under Implementation [a/]	25	24	21	21	23
Average Implementation Period (Years) [b/]	3.4	3.7	3.9	4.2	4.0
Percent of Problem Projects By Number [c/]	16.0	12.5	19.0	0	13.0
Percent of Problem Projects By Amount [c/]	33.5	9.1	20.1	0	20.7
Percent of Projects At Risk By Number [d/]	16.0	12.5	19.0	0	13.0
Percent of Projects At Risk By Amount [d/]	33.5	9.1	20.1	0	20.7
Disbursement Ratio (%) [e/]	17.3	11.9	14.9	23.4	21.2
Disbursements (US$ million)	203	125.9	136.3	205.2	167.2
OED Disconnect	12.5%	50%	33.3%	0%	0%
QAG Quality at Entry	NS	100%	100%	100%	NA
QAG Quality of Supervision	NS	100%	100%	-	NA
QAG Quality of Economic Sector Work	100%	100%	100%	-	NA
Portfolio Management					
CPPRS During the Year (Yes/No)	Yes	Yes	Yes	Yes	Yes
Supervision Resources (Total US$ '000)	2,024	1754	1431	1731	1946
Average Supervision (US$ '000/project)	67.0	73.1	68.1	82.4	84.6

a/ As shown in the Annual Report on Portfolio Performance
b/ Average age of project in the Bank's country portfolio
c/ Percent of projects rated U or HU on Development Objectives and/or Implementation Progress
d/ As defined under the Portfolio Improvement Program
e/ Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio as of the beginning of the year (investment projects only)
NS No PHL project selected for review
NA Not available

CAS Completion Report Mission
List of Key People Met
(Excluding Bank Group Staff)

Government:

Ms. Laura Pascua, Undersecretary
Department of Budget & Management

Mr. Roberto Tan, Assistant Secretary – IFG
Department of Finance

Mr. Rolando Tungpalan, Assistant Director General
National Economic & Development Authority

Mr. René Villa, Secretary
Mr. José Mari B. Ponce, Undersecretary
Department of Agrarian Reform

Ms. Corazón Juliano Solimán, Secretary
Luwalhati F. Pablo, Undersecretary
Mateo G. Montano, Assistant Secretary
Department of Social Welfare & Development

Mr. Edmund Sana, Undersecretary – Regional Operations
Department of Agriculture

Mr. Alex Padilla, Undersecretary
Department of Health

Mr. Juan Miguel Luz, Undersecretary – Finance & Admin.
Department of Education

Mr. Austere Panadero, Assistant Secretary
Department of Interior & Local Government
Local Government Academy

Mr. Rafael E. Camat Jr., Assistant Secretary - FASPO
Department of Environment & Natural Resources

Mr. Teodoro Encarnación
Presidential Adviser on Procurement Concerns
Office of the President

List of People Met (continued)

Government Corporations:

Mr. Orlando Hondrade, Administrator
Metropolitan Waterworks & Sewerage System

Eufemia C. Mendoza, First Vice President
Marissa V. Soriano, Senior Assistant Vice President, Fund Sourcing
Development Bank of the Philippines

Others:

Dr. Roberto de Ocampo, President
Asian Institute of Management

Ms. Luz Rimbán, Broadcast Director
Philippine Center for Investigative Journalism

Mr. Vipul Bhagat, Country Manager
International Finance Corporation

Annex 2
CAS Consultations and Client Survey Summary

1. The preparation of the FY2006-08 Country Assistance Strategy of the Bank Group drew on various dialogue and feedback mechanisms, including a CAS Completion Report (Annex 1), a client survey, in addition to a series of formal and informal meetings with key opinion leaders from various sectors and with government officials from oversight and implementing agencies. Feedback was also received from a government CAS counterpart group, set up to coordinate with the Bank Group on the CAS process and its substance.

2. In collaboration with NGOs, the private sector, and the government, the Bank Group also held various conferences and workshops around the country with youth representatives. The findings of these gatherings were incorporated by the government in its Youth Assessment Study and National Youth Development Plan, and were also considered in the formulation of the Bank Group's CAS. Youth groups voiced some pessimism about their future, as reflected in discussions on: substance abuse, reproductive health, education, and employment opportunities. The underlying theme of all the discussions, however, was the need for the youth to think more critically about their own situation, articulate their needs, and do everything they can to pursue their dreams and visions for a better life.

3. Separate meetings were also held with other development partners, both bilateral and multilateral agencies. Through small and large meetings, the Bank Group heard the views of its various stakeholders on the development needs of the country over the next three years and views on how the Bank Group can assist the government and other development partners in addressing these needs.

4. This Annex reports on the process and results of the more structured and formal multi-stakeholder meetings and the client survey, which complemented the other forms of consultations.

Multi-Stakeholder Consultations

5. Building on the consultations conducted for the previous two CAS's prepared in 1999 and 2003, as well as its regular outreach and dialogue activities, the Bank Group organized multi-stakeholder consultation workshops across the country. These workshops involved national (executive, legislative, and judicial) and local governments; civil society; the business community/private sector; academe; labor groups; and other development partners. The workshops were designed to gather the views of the stakeholders on: the critical problems facing the country, policy options and programs that will lead to better development outcomes over the medium-term; and, how the Bank Group can improve its programs of assistance and operations in the country.

6. Close to 300 participants attended the workshops held between August and October 2004. The national government representatives comprised the bulk of the participants (38 percent), followed by representatives from civil society and labor (28 percent), LGUs (16 percent), and academe (12 percent). All consultation workshops were done in partnership with the government's central planning agency, the National Economic Development Authority (NEDA). As the government's Medium Term Philippine Development Plan (MTPDP) was also

being finalized during the same period of the CAS consultations, it was an opportune time for the government to present the draft MTPDP to a wider group of stakeholders.

7. Two meetings were held in Manila, and one meeting each was held in Tuguegarao, Cebu, and Davao. The active participation of high-level local chief executives from Mindanao (Davao) and the Visayas (Cebu) regions was quite impressive. Except for one meeting in Manila, all the CAS consultations were organized in partnership with the Bank's Knowledge for Development Centers: St. Paul University, University of Southeastern Philippines, University of San Carlos, Silliman University, and the Asian Institute of Management.

8. Consistent with the thrust towards making the CAS more thematic (focusing on cross-sectoral rather than purely sectoral issues) and results-oriented, the consultations also followed a process that: validated the broad themes and the critical measures that would comprise a strategic action agenda for the country, initially formulated by the Bank Group. In general, the consultations confirmed the importance of the four emergent CAS themes -- growth, social inclusion, fiscal stability, and governance. The Bank Group also used consultations to discuss the proposed platform approach to implement its assistance strategy (national government, local government, and private sector).

9. The key messages and implications for Bank Group assistance gathered from the consultation workshops are summarized in the table below. A detailed feedback report was sent to all the participants and more details were posted on the Bank's Philippines website to inform the general public about its messages and recommendations. As the goal was to listen to a wide spectrum of voices and not to build a consensus, these details would show some divergent views and opinions of various sectors across the country.

10. An elaboration of the main messages related to the four CAS themes is discussed below. The stakeholder's views on the proposed platform approach to implement the Bank Group assistance strategy is also considered.

11. ***Growth*** While the Philippines has been able to grow at a modest rate in the last three years, the growing population requires a more accelerated economic growth performance in order to significantly reduce poverty. There was consensus that economic growth will be difficult to achieve if the current fiscal and governance issues are not addressed. There was a very strong clamor for the government to: show political will in pursuing revenue measures to avert a possible economic crisis; and to rally the people towards supporting necessary measures which may be painful to implement but which may be more bearable than a full-blown economic crisis.

12. Based on the consultations, the attainment of economic growth in the medium-term will hinge on:

- addressing infrastructure bottlenecks;
- raising investments particularly in identified priority sectors where the country has comparative advantage;
- developing further the financial market;
- arresting the declining competitiveness of the country;
- developing a globally competitive labor force; and
- promoting the sustainable use of natural resources.

Key Messages to the Bank Group from Multi-Stakeholder Consultations

Growth	**Social Inclusion**
➢ Promoting pro-poor growth will not only require more investments at the national level but should also: (i) address impediments to local development; (ii) encourage community-based industries. ➢ Addressing growth and social inclusion will increasingly require looking at greater roles for LGUs and better coordinative mechanisms between national government agencies and LGUs. ➢ Explore more active involvement of the IFC in local level investments.	➢ Support provision of poverty targeted grants and expand community-driven development projects to promote improved governance at local levels. ➢ Support rural infrastructure, advocacy to improve institutional and regulatory environment for farmers, and human capital development. ➢ Support delivery of social services to poor communities by converging poverty-related services at the local level and improving coordination between national and local governments ➢ Support marginalized groups to voice their needs and to be involved in community undertakings. ➢ Assist the government in formulating safety nets for vulnerable groups.
Fiscal Stability	**Governance**
➢ It is urgent to undertake fiscal reform. ➢ Support advocacy for fiscal reform among different sectors; share experiences of tax and other measures implemented by countries during crises. ➢ Coordinate with other development partners in packaging a comprehensive program loan linked to policy reforms. ➢ Provide credit enhancements to the government's capital market operations linked to policy reforms. ➢ Assist the government in addressing GOCC problems (e.g., NPC), and in strengthening oversight agencies like DOF, NEDA, and OA.	➢ Growth and human development are contingent on improving governance at all levels. ➢ Support a governance reform package with LGU and national government level components to make decentralization work better; include capacity building in planning, poverty targeting, management, monitoring and evaluation, etc. ➢ Private direct assistance to LGUs; adopt innovative models for financing. ➢ Support projects and programs that improve efficiency and transparency of government operations similar to the e-procurement project.

13. There was also a strong call to localize economic growth and to institute policies that would promote a more balanced rural-urban growth through increased investments outside Metro Manila for the development of community-based industries.

14. ***Social Inclusion*** Consistent with the pursuit of growth is the need to work towards greater social inclusion and more equitable distribution of income in the country. The consultations highlighted the need to:

- promote sectors that can generate employment and improving the productivity of workers;
- improve access of the people to productive assets (e.g., land) and to services like education and health;
- empower marginalized and vulnerable groups through social protection and safety net programs to prevent them from being poor or from falling deeper into poverty, especially with the vulnerability of the Philippines to crisis situations;
- address population issues;
- provide programs for youth; and
- enjoin civil society groups, the community, and the private sector in general to participate more actively in the planning, implementation, and monitoring of social sector projects.

15. The consultations also discussed the increasing role of LGUs in the delivery of basic social services at the community level. More efficient service delivery to poor communities, which is partly dependent on the convergence of poverty-related services at the local level, however, requires improving the coordination between the national government and the LGUs. At the same time, the consultations also called for more participatory governance through the implementation of more community-driven development projects, replicable in other poverty areas in the country.

16. ***Fiscal Stability*** In general, workshop participants expressed impatience with the pace of the government's response to the fiscal problem. This was partly due to the slow action of the legislative branch, perhaps traced to the lack of appreciation of the gravity and urgency of the fiscal situation, as well as to the perceived need for stronger leadership of the executive branch. The consultations called on the government to recognize the seriousness of the problem and to rally the people towards supporting solutions. It was also suggested that individuals and academic groups work together as policy champions, giving briefings to the public on the implications of a possible economic crisis and of the proposed revenue measures to the lives of ordinary Filipinos.

17. Recognizing the difficulty of legislating the needed revenue measures proposed by the executive branch, the consultations suggested to:

- formulate contingency measures consisting of a "second best" reform agenda in case congress fails to pass the revenue measures which could include temporarily closing sources of revenue leakages such as duty free shops and alternative tax measures used in countries with similar problems;
- pursue expenditure management reforms such as the reorganization of government; and
- focus on cash-strapped government-owned and controlled corporations (e.g., NPC and NFA) and oversight agencies (e.g., DOF, NEDA, COA); and implement procurement reforms, especially at the local levels.

18. ***Governance*** Weak governance at the national and local levels was generally perceived as derailing the country's development. The discussions went beyond the usual concerns about corruption towards a discussion on the means of making public institutions work

better for the common good with greater accountability and quality of service being required from public servants.

19. There was also a strong clamor for promoting good governance at the local level, where there has been exemplary models of effective service delivery or "islands of good governance" in recent years, which were proposed to be replicated. It was generally believed that the effective implementation of the Local Government Code offers potential opportunities for improving public service delivery at the sub-national levels.

20. Promoting just and sustainable peace especially in Mindanao was, likewise, identified as a critical factor for the country's development. A combination of peace-keeping efforts and social development interventions is important in the pursuit of lasting peace in the country.

21. ***Strengthening the National Government*** The attainment of the country's development agenda is premised on the national government's ability to exercise strong political will and leadership to implement needed economic and political reforms. The consultations highlighted the politics of policy making as an important consideration in the pursuit of growth particularly:

- consistent implementation of policies even with changes in administration;
- participatory policy making which calls for constant consultation with stakeholders, including local government officials; and
- improved coordination among branches of government, and between the national and local governments, in policy formulation, implementation and monitoring.

22. The necessity of closer coordination is more crucial between the national government and the LGUs in the effort to make decentralization work better through the LGUs' increased responsibility in the delivery of basic services. In relation to this, the consultations called for the transformation of the national government's role vis-à-vis the LGUs, in which the former focuses on standard or performance benchmarking, incentive setting, and performance monitoring rather than the traditional project implementation even for devolved functions. To assist the national government in the implementation of the MTPDP at the local level, the LGUs are proposing a "burden-sharing," scheme based on a two-way arrangement in which LGUs will be tasked with more responsibilities and accountability for the implementation of critical MTPDP-related projects which are to be matched with resources from the national government for project implementation.

23. In line with the objective of improving good governance is the importance of streamlining government operations involving the entire public sector from the executive to the judicial branches, as a means to improve the efficiency and effectiveness of service delivery. Specifically, the consultations pinpointed the importance to:

- address graft and corruption in "high profile" agencies like tax collecting agencies;
- make agencies accountable to the public; and
- focus efforts on the agencies that are critical to the attainment of economic growth such as peace-keeping agency levels (e.g., Philippine National Police) and the judicial system.

24. The consultations identified examples of "islands of good governance" both at the national and local agencies which need to be more systematically scaled-up nationwide.

25. ***Building LGU Capacity*** To make decentralization work better, LGUs should be assisted through capacity-building measures in planning, including poverty reduction, income generation, project programming, and budgeting and monitoring. Recognizing that many LGUs are dependent on central government transfers through the Internal Revenue Allotment (IRA), the consultations recognized the importance of assisting LGUs to be financially independent of the national government by improving their capability to raise revenues and other capital resources. In line with this, the LGUs have appealed to both the national government and multilateral and bilateral development agencies to review existing financing mechanisms available to LGUs in order to increase their access to both grants and direct loans and/or to facilitate the processing of their loan requirements through existing windows like the Municipal Development Fund.

26. Part of LGU strengthening is the promotion of participatory governance, which partly entails enjoining communities to have a stronger role in planning and implementing local projects most beneficial to them. This would be implemented partly by strengthening civil society's partnership with local governments in all aspects of governance.

27. ***Increasing Private Sector Role in Development*** While the private sector remains the engine of growth in the country, the government has called on the business community to play a greater role in attaining social development goals, especially given the present fiscal problems. On service delivery, the private sector can partner with government in its poverty reduction programs. To improve governance, the private sector is encouraged to set up systems for monitoring public sector performance in public works, procurement, among others.

28. In line with participatory governance, the consultations affirmed the importance of greater involvement of civil society organizations not only in monitoring public sector performance but also in the planning and implementation of projects and programs. Increasing involvement by civil society organizations, however, would entail not only their participation in meetings and conferences but also increasing their capacity to understand, analyze, advocate, and monitor policies as well as programs and projects.

Client Survey

29. All workshop participants were invited to provide their opinions on the Bank Group's assistance to the country by participating in a client survey. A total of 148 stakeholders (54 percent) participated in the client survey through a self-administered questionnaire. The survey requested respondents' views on: overall attitudes toward the Bank Group; its greatest value and weakness; the importance of specific areas of its work and its effectiveness in those areas; its effectiveness in the way it does business; their level of agreement with a series of statements about the Bank Group's projects and programs; and questions about general issues facing the Philippines, including whether the country is headed in the right direction and its highest priority development challenges. In addition, respondents were asked about the Bank Group's communication and outreach efforts and how it should best be involved in the country's development.

30. The client survey results indicate that the Bank Group is performing at a high level in certain areas, with some indication of areas that may require more attention and focus. The results also showed that the relationships between the Bank Group and its stakeholders (those represented at the meeting in which the client survey was distributed) are strong and positive.

31. Other interesting findings from the client survey include:

- Respondents identified poverty reduction and corruption as the top development priorities in the Philippines. They reported that the Philippines is not moving in the right direction in terms of reducing corruption.
- This view of corruption may be the prism through which stakeholders view development progress. Respondents may be less optimistic about the overall progress taking place in the Philippines (in terms of development) because they do not believe much can really change until this challenge is managed more effectively. As possible evidence of this, more than 40 percent of respondents reported that the Philippines is moving in the wrong direction (overall).
- In contrast with their views on corruption, stakeholders believe that a fair amount of progress is being made on a number of other areas including ensuring access to clean water, managing the economy, and promoting growth.
- Stakeholders see a broad role for the Bank Group in the Philippines -- particularly related to sectors – as well as a fair amount of support for more Bank Group involvement. At the same time, while a bit less than half of respondents reported that the Bank Group should continue its strategy of working in "all areas with all players," many others said the Bank Group should either work primarily with local governments or local communities. The survey findings do not indicate a "mandate" for any of the approaches described.
- The Bank Group is considered fairly effective in a broad range of areas, including many of the areas that are considered high priority such as poverty reduction. However, there are a number of areas that are tangentially related to corruption, where expectations exceed performance. These include transparency and governance, and improving accountability in the use of public funds.
- Those outside government have a much lower level of familiarity with the Bank Group than those inside government (based on this specific sample of meeting attendants). In most surveys related to the Bank Group's work, it has been shown that the more familiar stakeholders are with the Bank Group, the more effective they consider the institution. According to data analysis, this is true in the Philippines as well.
- There is nearly unanimous support for increased community-driven development in the Philippines. Most stakeholders are familiar with CDD; a large percentage thinks it is effective, and nearly all stakeholders believe that this approach should be more widespread.

Annex 3
Country Financing Parameters for the Philippines
(January, 2005)

The country financing parameters for the Philippines below have been approved by the Regional Vice President, East Asia and Pacific Region.

Item	Parameter	Remarks / Explanation
Cost sharing Limit on the proportion of individual project costs that the Bank may finance.	Up to 100 percent	The Bank's overall financing share is not expected to change significantly in aggregate level, with expected increase in sector-wide assistance (in which the Bank's financing share is typically low). Projects implemented by local governments will likely include some counterpart funding. For projects implemented by government-owned corporations, evidence of ownership and commitment would be assessed, taking account of budget and planning processes and project cost sharing. One hundred percent Bank financing could be provided for some projects and activities with strong evidence of ownership and commitment.
Recurrent cost financing Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance.	No country limit, but strong emphasis on arrangements to ensure sustainability	Integration of Bank financing in the budget process ensures that increased recurrent cost financing would not jeopardize overall debt and fiscal sustainability. The Bank will continue to monitor the overall fiscal situation and its implications for recurrent cost financing. At the project level, recurrent cost financing could be considered if consistent with project objectives, provided there is strong demonstration of arrangements to ensure sustainability after Bank financing ceases.

Item	Parameter	Remarks / Explanation
Local cost financing Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects.	Yes	The two requirements for Bank local cost financing are met. Therefore the Bank may finance local costs in the proportions needed in individual projects.
Taxes and duties Are there any taxes and duties that the Bank would not finance?	None	Taxes and duties are considered reasonable. At the project level, the Bank would consider whether taxes and duties taxes and duties constitute an excessively high share of projects costs. The Bank would monitor local taxes for possible distortions and that these maintain consistent acceptable practices.

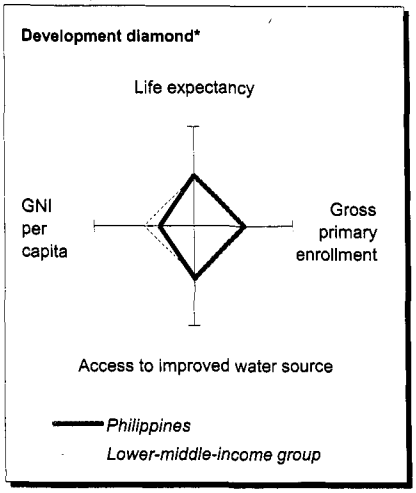
Annex A1
Key Economic & Program Indicators - Change from Last CAS

	Forecast in Last CAS			*Actual*			*Current CAS Forecast*		
Economy (calendar year)	*2003*	*2004*	*2005*	*2003*	*2004*	*2005a*	*2006*	*2007*	*2008*
Growth rates (%)									
GDP	4.5	5.0	5.0	4.5	6.1	5.0	5.0	5.2	5.2
Exports (GNFS)	4.4	7.2	7.4	3.3	14.0	9.8	7.7	8.5	8.7
Imports (GNFS)	5.3	7.3	8.1	10.3	6.3	12.7	9.3	9.4	9.9
Inflation (%)	5.5	5.0	5.0	3.1	5.5	6.8	5.5	5.0	4.5
National accounts (% GDP)									
Current account balance	3.9	3.5	3.1	4.9	4.5	3.5	3.0	2.5	2.5
Gross investment	18.0	18.0	19.0	16.6	16.9	17.4	17.8	18.0	18.2
Public finance (% GDP)									
Fiscal balance	-2.7	-2.1	-1.6	-4.6	-3.8	-3.6	-3.4	-2.9	-2.7
Foreign financing	0.6	0.3	-0.7	3.3	1.7	1.0	0.7	2.8	-0.7
International reserves (as months of imports)	4.9	4.8	4.8	4.4	4.0	4.1	4.2	4.3	4.4
Program (Bank Group's fiscal year)	*FY03*	*FY04*	*FY05*	*FY03*	*FY04*	*FY05*	*FY06*	*FY07*	*FY08*
Lending (US$ million)	403	320	395	184	97	98	285	455	265
Gross disbursements (US$ million)	350	300	242	205	167	142	180	230	240

Philippines at a glance

4/21/05

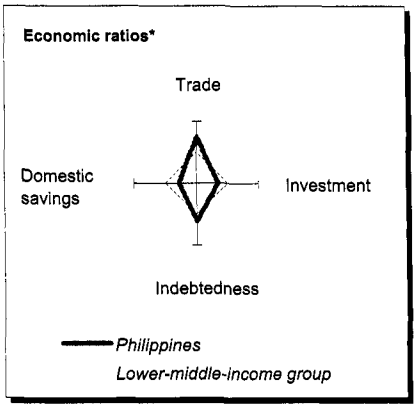
POVERTY and SOCIAL	Philippines	East Asia & Pacific	Lower-middle-income
2003			
Population, mid-year *(millions)*	81.5	1,855	2,655
GNI per capita *(Atlas method, US$)*	1,020	1,080	1,480
GNI *(Atlas method, US$ billions)*	82.8	2,011	3,934
Average annual growth, 1997-03			
Population *(%)*	2.2	1.0	0.9
Labor force *(%)*	2.4	1.1	1.2
Most recent estimate (latest year available, 1997-03)			
Poverty *(% of population below national poverty line)*	30	..	..
Urban population *(% of total population)*	61	40	50
Life expectancy at birth *(years)*	70	69	69
Infant mortality *(per 1,000 live births)*	29	32	32
Child malnutrition *(% of children under 5)*	32	15	11
Access to an improved water source *(% of population)*	86	76	81
Illiteracy *(% of population age 15+)*	4	10	10
Gross primary enrollment *(% of school-age population)*	113	111	112
Male	114	112	113
Female	113	111	111



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

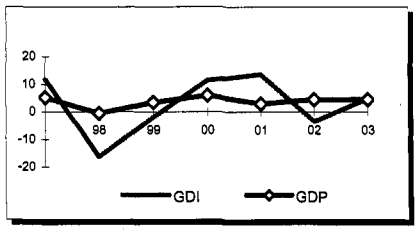
	1993	2002	2003
GDP *(US$ billions)*	54.4	78.0	80.6
Gross domestic investment/GDP	24.0	19.3	18.7
Exports of goods and services/GDP	31.4	48.9	48.3
Gross domestic savings/GDP	15.5	18.8	16.2
Gross national savings/GDP	18.6	26.1	24.5
Current account balance/GDP	-5.5	5.6	4.2
Interest payments/GDP	3.3	3.6	3.2
Total debt/GDP	66.5	77.1	77.8
Total debt service/exports	25.6	20.6	18.4

	1983-93	2002	2003	2003-07
(average annual growth)				
GDP	2.1	4.4	4.5	5.3
GDP per capita	-0.3	2.3	2.5	3.3
Exports of goods and services	6.0	3.6	3.3	8.1

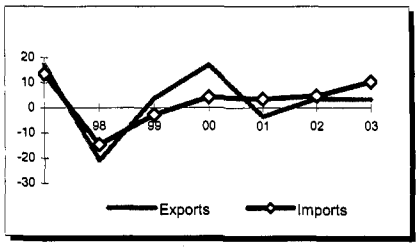


STRUCTURE of the ECONOMY

	1993	2002	2003
(% of GDP)			
Agriculture	21.6	14.7	14.5
Industry	32.7	32.5	32.3
Manufacturing	23.7	22.8	22.9
Services	45.7	52.8	53.2
Private consumption	74.4	69.1	72.3
General government consumption	10.1	12.1	11.4
Imports of goods and services	39.8	49.4	50.7



	1993-03	2002	2003
(average annual growth)			
Agriculture	2.3	3.3	3.9
Industry	3.8	3.7	3.0
Manufacturing	3.5	3.5	4.2
Services	4.7	5.4	5.9
Private consumption	4.0	4.1	5.1
General government consumption	2.6	2.4	-2.8
Gross domestic investment	3.3	-3.5	4.8
Imports of goods and services	4.4	4.7	10.3

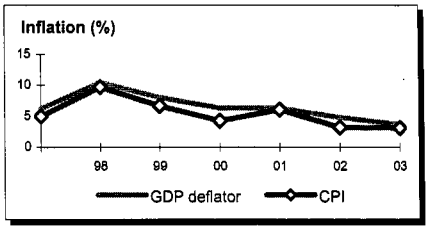


* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete. Poverty figures are government estimates based on Family Income and Expenditure Survey (FIES) 2003 data.

Philippines

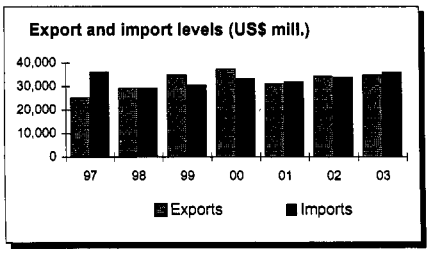
PRICES and GOVERNMENT FINANCE

	1993	2002	2003
Domestic prices			
(% change)			
Consumer prices	7.6	3.2	3.1
Implicit GDP deflator	6.8	4.9	3.7
Government finance			
(% of GDP, includes current grants)			
Current revenue	17.7	14.1	14.4
Overall surplus/deficit	--	-5.2	-4.6



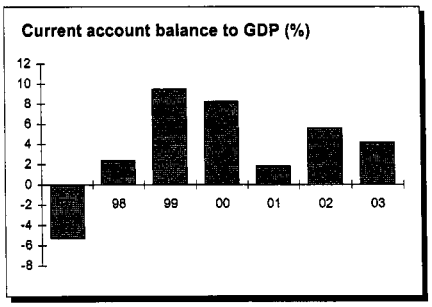
TRADE

	1993	2002	2003
(US$ millions)			
Total exports (fob)	11,375	34,383	34,842
Electronics/Telecom	3,551	18,583	18,300
Garments	2,272	2,391	2,348
Manufactures	8,729	31,181	1,252
Total imports (cif)	17,597	33,975	36,095
Food	714	1,384	1,340
Fuel and energy	2,016	3,273	4,169
Capital goods	5,610	13,532	15,023



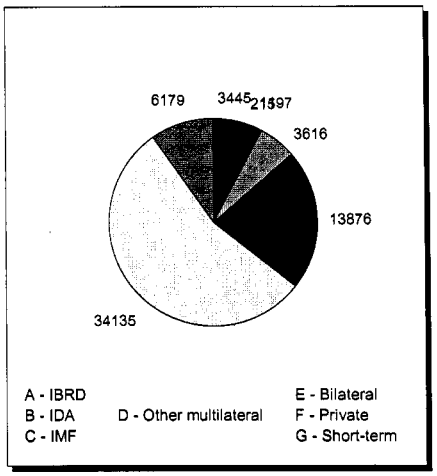
BALANCE of PAYMENTS

	1993	2002	2003
(US$ millions)			
Exports of goods and services	16,048	37,439	37,812
Imports of goods and services	20,700	38,042	40,292
Resource balance	-4,652	-603	-2,480
Net income	937	4,475	5,215
Net current transfers	699	503	2,445
Current account balance	-3,016	4,375	3,347
Financing items (net)	2,850	-5,035	-2,898
Changes in net reserves	166	660	-449
Memo:			
Reserves including gold *(US$ millions)*	5,922	16,180	16,115
Conversion rate *(DEC, local/US$)*	27.1	51.6	54.1



EXTERNAL DEBT and RESOURCE FLOWS

	1993	2002	2003
(US$ millions)			
Total debt outstanding and disbursed	36,143	60,090	62,663
IBRD	4,598	3,325	3,445
IDA	167	208	215
Total debt service	4,920	9,374	9,207
IBRD	669	480	478
IDA	3	7	8
Composition of net resource flows			
Official grants	270	178	120
Official creditors	972	-31	-12
Private creditors	584	357	1,123
Foreign direct investment	1,238	1,733	161
Portfolio equity	..	1,912	-706
World Bank program			
Commitments	428	200	116
Disbursements	673	178	202
Principal repayments	340	327	345
Net flows	333	-149	-143
Interest payments	332	159	142
Net transfers	1	-308	-285



Annex B2
Selected Indicators of Bank Portfolio Performance and Management [a/]

Indicator	*2002*	*2003*	*2004*	*2005* *as of 3/31/05*
Portfolio Assessment				
Number of Projects Under Implementation [b]	21	21	23	21
Average Implementation Period (years) [c]	4.0	4.5	4.3	5.2
Percent of Problem Projects by Number [b, d]	19.0	0.0	13.0	14.3
Percent of Problem Projects by Amount [b, d]	20.1	0.0	20.8	9.8
Percent of Projects at Risk by Number [b, d]	19.0	0.0	13.0	14.3
Percent of Projects at Risk by Amount [b, d]	20.1	0.0	20.8	9.8
Disbursement Ratio (%) [f]	14.9	23.4	21.2	14.0
Portfolio Management				
CPPR during the year (yes/no)	Yes	Yes	Yes	Yes
Supervision Resources (total US$'000)	1,431	1,731	1,946	1,893
Average Supervision (US$'000 per project)	68	82	85	82

Memorandum Item	*Since FY 80*	*Last Five FYs*
Proj Eval by OED by Number	130	13
Proj Eval by OED by Amt (US$ millions)	8,305.1	770.4
% of OED Projects Rated U or HU by Number	30.2	46.2
% of OED Projects Rated U or HU by Amt	31.5	42.3

a/ All indicators are for projects active in the portfolio, with the exception of disbursement ratio, which includes all active projects as well as projects which exited during the fiscal year.

b/ As shown in the Annual Report on Portfolio Performance (except for current FY).

c/ Average age of projects in the Bank's country portfolio.

d/ Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

e/ As defined under the Portfolio Improvement Program.

f/ Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: investment projects only.

Annex B3
Indicative List of Possible Projects [a]
FY2006 - 2008

Fiscal Year	*Project Name* [b]	*IBRD Amount (US$ millions)* [c]	*CAS Platform Focus* [d]
2006	National Program Support for Basic Education	100	NG
	National Program Support for Health	40	NG
	National Program Support for Public Expenditure Rationalization	80	NG
	National Program Support for Participatory Irrigation	30	NG
	Local Government Support for Cities Development	35	LG
	Development Policy Loan (if in enhanced base or high case)	*tbd*	*NG*
2007	National Program Support for National Roads 2 (NRIMP2)	200	NG
	National Program Support for the Environment & Nat'l Resources Mgmt	30	NG
	National Program Support for Mindanao Rural Development 2 (MRDP2)	75	NG
	Local Government Support for Municipal Finance	50	LG
	Private Sector Development Support for MWSS Financial Rehabilitation	100	PS
	Development Policy Loan (if in enhanced base or high case)	*tbd*	*NG*
2008	National Program Support for Social Protection	50	NG
	Local Government Support to LGUs Through Performance Grants	50	LG
	Local Government Support for Regional Water Supply	50	LG
	Private Sector Development Support for Rural Power 2	40	PS
	Private Sector Development Support for Logistics / Infrastructure	75	PS
	Development Policy Loan (if in enhanced base or high case)	*tbd*	*NG*

[a] This table presents several possible projects under consideration for the three-year CAS period under the base case (except for DPL if in the enhanced base or high case). Depending upon evolving country needs and priorities (e.g., within the MTPDP), new projects may be introduced and others may be dropped in consultation with the government; actual deliverables will fall within the CAS ceiling. Additional projects under consideration include: National Program Support for Agrarian Reform, National Program Support for Agriculture (DFIMP2), National Program Support for Kalahi-CIDDS 2, National Program Support for Disaster Preparedness, National Program Support for Judicial Reform 2, Private Sector Development Support for Rural Finance, Private Sector Development Support/Guarantee for Power Reform, Private Sector Development Support for Private Participation in Infrastructure.

[b] Project titles are subject to modification as project details are further refined.

[c] All amounts are tentative.

[d] CAS Platforms: NG: National Government; LG: Local Government; PS: Private Sector

Annex B4
Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-2003	East Asia & Pacific	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	42.0	54.2	81.5	1,854.5	2,655.2
Growth rate (% annual average for period)	2.8	2.4	2.2	1.0	0.9
Urban population (% of population)	35.6	43.1	61.0	39.7	49.7
Total fertility rate (births per woman)	5.2	4.5	3.2	2.1	2.1
POVERTY					
(% of population)					
National headcount index[a/]	..	..	30.4	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNI per capita (US$)	380	530	1,080	1,080	1,480
Consumer price index (1995=100)	10	43	159	..	..
Food price index (1995=100)	..	46	142	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Share of income or consumption					
Gini index	..	..	46.1	..	..
Lowest quintile (% of income or consumption)	..	..	5.4	..	..
Highest quintile (% of income or consumption)	..	..	52.3	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	1.5	1.9	2.6
Education (% of GDP)	2.0	1.3	3.2	3.2	4.0
Social security and welfare (% of GDP)	..	..	..	..	..

Annex B4
Social Indicators
(Continued)

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-2003	East Asia & Pacific	Lower-middle-income
Net primary school enrollment rate					
(% of age group)					
Total	97	96	93	92	91
Male	94	97	92	92	92
Female	99	96	94	92	91
Access to an improved water source					
(% of population)					
Total	..	..	86	76	81
Urban	..	..	91	93	94
Rural	..	..	79	67	70
Immunization rate					
(% of children ages 12-23 months)					
Measles	..	49	73	70	78
DPT	..	59	70	78	84
Child malnutrition (% under 5 years)	50	33	32	15	11
Life expectancy at birth					
(years)					
Total	59	63	70	69	69
Male	58	61	68	68	67
Female	61	66	72	71	71
Mortality					
Infant (per 1,000 live births)	60	55	28	32	32
Under 5 (per 1,000 live births)	90	81	37	42	40
Adult (15-59)					
Male (per 1,000 population)	376	323	249	184	214
Female (per 1,000 population)	314	259	142	129	135
Maternal (modeled, per 100,000 live births)	..	..	200	..	..
Births attended by skilled health staff (%)	..	..	58	68	..

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

World Development Indicators database (August 2004), World Bank

[a/] Source: National Statistical Coordination Board, based on 2003 Family Income and Expenditure Survey.
NSCB is currently reviewing urban/rural headcount index for 2003.

Annex B5
Key Economic Indicators

Indicator	Actual 2001	Actual 2002	Actual 2003	Estimate 2004	Projected 2005	Projected 2006	Projected 2007	Projected 2008
National accounts (as % of GDP)								
Gross domestic product[a]	100	100	100	100	100	100	100	100
Agriculture	15	15	14	14	14	14	14	14
Industry	32	33	32	32	32	32	31	31
Services	53	53	53	54	54	54	55	55
Total Consumption	82	81	84	82	84	84	84	83
Gross domestic fixed investment	20	19	18	20	19	20	21	22
Exports (GNFS)[b]	49	49	48	49	46	45	45	45
Imports (GNFS)	52	49	51	51	50	49	50	51
Gross domestic savings	18	19	16	18	16	16	16	17
Gross national savings[c]	25	26	24	25	23	24	24	25
Memorandum items								
Gross domestic product (US$ million at current prices	72,043	77,954	80,573	87,069	99,485	109,805	120,090	130,712
GNI per capita (US$, Atlas method)	1,030	1,030	1,020	1,180	1,250	1,350	1,480	1,590
Real annual growth rates (%, calculated from 1985 prices)								
Gross domestic product at market prices	3.0	4.4	4.5	6.1	5.0	5.0	5.2	5.2
Gross Domestic Income	1.3	7.4	5.7	5.4	5.4	5.2	5.5	5.5
Real annual per capita growth rates (%, calculated from 1985 prices)								
Gross domestic product at market prices	0.7	2.3	2.5	4.1	3.0	3.1	3.3	3.3
Total consumption	1.8	5.2	6.8	1.9	3.9	2.9	2.8	2.9
Private consumption	2.8	5.7	7.9	2.1	4.3	3.2	3.1	2.4
Balance of Payments (US$ billions)								
Exports (GNFS)[b]	34.4	37.4	37.8	42.3	45.8	49.4	53.8	59.4
Merchandise FOB	31.2	34.4	34.8	38.3	41.2	44.4	48.1	52.9
Imports (GNFS)[b]	37.2	38.0	40.3	44.6	49.5	54.3	59.5	66.4
Merchandise FOB	32.0	34.0	36.1	39.5	42.7	46.4	50.4	55.4
Resource balance	-2.8	-0.6	-2.5	-2.3	-3.7	-4.8	-5.7	-7.1
Net current transfers	0.4	0.5	2.4	-3.4	-3.8	-3.5	-3.3	-3.0
Current account transfers	1.3	4.4	3.3	4.0	3.4	3.7	3.9	4.0
Net private foreign direct investment	1.1	1.7	0.2	0.5	0.6	0.8	1.1	1.3
Long-term loans (net)	1.4	1.5	1.8	-1.9	0.4	-2.7	-1.7	-2.4
Official	-0.2	0.0	0.0	0.8	0.6	-0.1	-0.5	-0.6
Private	1.6	1.5	1.8	-2.7	-0.1	-2.5	-1.3	-1.8
Other capital (net, including errors and ommissions)	-3.7	-8.3	-4.8	-2.9	-2.4	0.4	-0.8	0.0
Change in reserves[d]	-0.2	0.7	-0.4	0.2	-2	-2.2	-2.5	-3

(Continued)

Key Economic Indicators
(Continued)

Indicator	Actual 2001	Actual 2002	Actual 2003	Estimate 2004	Projected 2005	Projected 2006	Projected 2007	Projected 2008
Memorandum items								
Resource balance (% of GDP)	-3.9	-0.8	-3.1	-2.6	-3.7	-4.4	-4.8	-5.4
Public finance (as % of GDP at market prices)[e]								
Current revenues	15.3	14.1	14.4	14.4	14.9	15.0	15.2	15.3
Current expenditures	17.7	19.3	16.4	16.0	16.2	16.3	16.0	16.0
Current account surplus (+) or deficit (-)	-2.3	-5.2	-2.0	-1.5	-1.3	-1.3	-0.8	-0.7
Capital expenditure	0.0	0.0	2.5	2.5	2.3	2.2	2.2	2.2
Foreign financing	0.6	2.8	3.3	1.7	1.0	0.7	2.8	-0.7
Monetary indicators								
M2/GDP	41.5	42.1	40.0	38.0	36.7	35.8	35.1	34.8
Growth of M2 (%)	6.8	9.5	3.3	7.5	8.5	8.0	8.5	9.0
GDP deflator (%change)	6.4	4.9	3.7	5.5	6.8	5.5	5.0	4.5

a/ GDP at market prices
b/ "GNFS" denotes "goods and nonfactor services."
c/ Includes net unrequited transfers excluding official capital grants.
d/ Includes use of IMF resources.
e/ Consolidated central government.
f/ "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.

Annex B6
Key Exposure Indicators

Indicator	Actual 2001	Actual 2002	Actual 2003	Estimate 2004	Projected 2005	Projected 2006	Projected 2007	Projected 2008
Total debt outstanding and disbursed (TDO) (US$millions)[a]	58.5	60.1	62.7	62.5	62.7	60.3	59.3	57.6
Net disbursements (US$billions)[a]	1.6	-0.5	1.1	-2.7	0.2	-2.4	-1.1	-1.7
Total debt service (TDS) (US$billions)[a]	9.1	9.4	9.2	9.4	9.4	10.1	8.6	10
Debt and debt service indicators (%)								
TDO/XGS[b]	140.5	132.0	135.0	111.7	104.3	92.8	84.3	74.8
TDO/GDP	81.2	77.1	77.7	71.8	63.1	54.9	49.3	44.0
TDS/XGS	21.9	20.6	19.8	16.8	15.6	15.6	12.2	13.1
Concessional/TDO	19.2	20.8	22.6	25.0	26.7	28.6	29.3	29.9
IBRD exposure indicators (%)								
IBRD DS/public DS	8.8	7.8	7.5	8.3	8.1	7.1	8.0	6.3
Preferred creditor DS/public DS (%)[c]	17.7	22.1	23.9	25.5	21.7	16.7	18.0	11.8
IBRD DS/XGS	1.2	1.1	1.0	0.9	0.9	0.8	0.7	0.7
IBRD TDO (US$millions)[d]	3.2	3.3	3.4	3.4	3.2	3.0	2.8	2.7
IFC (US$millions)								
Loans	243.7	389.3	374.1	347.3				
Equity and quasi-equity[e]	77.8	71.9	70.5	87.2				
MIGA								
MIGA guarantees (US$millions)	139.5	124.9	117.0	112.0				

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

Annex B7
Operations Portfolio (IBRD)
As of 02/09/05

Closed Projects 151

IBRD/IDA *

Total Disbursed (Active)	494.09
of which has been repaid	39.50
Total Disbursed (Closed)	8,604.85
of which has been repaid	6,905.05
Total Disbursed (Active + Closed)	9,098,942,482.81
of which has been repaid	6,944,552,459.04
Total Undisbursed (Active)	598.92
Total Undisbursed (Closed)	2.18
Total Undisbursed (Active + Closed)	601,101,907.58

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Millions				Difference Between Expected and Actual Disbursements[a]	
Project ID	Project Name	Development Objectives	Implementation Progress	Fiscal Year	IBRD	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
P066076	Judicial Reform Support Project	S	U	2004	21.90			20.76	-1.14	
P073488	ARMM Social Fund	S	S	2003	33.60			29.90	11.50	
P059933	Coastal Marine	S	S	2000		1.25		0.59	0.95	0.138545
P004595	Community Based Resourse Management	S	S	1998	50.00		12.00	13.17	25.17	13.17094
P004613	Water Resources Development	S	S	1997	58.00		16.27	3.87	20.14	1.768408
P077012	Kalahi-CIDSS Project	S	S	2003	100.00			86.65	20.98	
P070899	Laguna de Bay Institutional Strengthening	S	S	2004	5.00			4.95	-0.05	
P004406	ODS Investmen	S	S	1995		30.00		16.58	1.63	-6.167085
P069916	2nd Social Expenditure Management	S	S	2002	100.00			42.50	-4.17	
P004566	Early Childhood Development	S	S	1998	19.00			2.04	2.04	-0.727528
P039019	First National Roads Improvement	S	S	2000	150.00			70.81	70.81	
P066532	GEF-Electric Cooprtv System Loss Redu	S	S	2004		12.00		12.00	0.00	
P066509	GEF-MMURTRIP-Bicycle Nwk	S	#	2001		1.30		0.86	0.31	
P072096	GEF-Rural Power Project	S	#	2004		9.00		8.73	0.03	
P048588	LGU Finance and Development	S	S	1999	100.00		40.00	41.03	65.03	18.33286
P069491	LGU Urban Water APL2	S	U	2002	30.00			33.74	15.69	
P004611	Manila Second Sewerage	S	S	1996	57.00		20.90	9.62	30.52	1.071718
P057731	Metro Manila Urban Transport	S	U	2001	60.00			51.58	38.67	
P057598	Rural Finance III	S	S	1999	150.00			37.49	37.49	
P066397	Rural Power	S	S	2004	10.00			10.19	-1.06	
P004602	Third Elementary Education	S	S	1997	113.40		20.10	22.15	42.25	22.14979
P004576	Water Districts Development	S	S	1998	38.60		10.73	12.33	41.27	3.996399
P075184	Diversified Farm Income & Mkt. Devt	S	S	2004	60.00			59.30		
P071007	Second Agrarian Reform Communities Dev	S	S	2003	50.00			46.85	16.62	
Overall Result					1206.50	53.55	120.00	637.69	433.98	53.73405

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex B8
Operations Portfolio (IFC & MIGA)

Statement of IFC's Committed and Outstanding Portfolio
as of 02/28/05
(In US$ millions)

		Committed				Outstanding			
Approval Fiscal Year		***Loan Out-IFC***	***Equity Out-IFC***	***QL+QE Out-IFC***	***All Out-Part***	***Loan Out-IFC***	***Equity Out-IFC***	***QL+QE Out-IFC***	***All Out-Part***
2001	AEI	1.00	0.00	0.00	0.00	0.75	0.00	0.00	0.00
2001/2002	APW Trade	0.00	1.00	0.65	0.00	0.00	1.00	0.65	0.00
2003	Alaska Milk	0.00	0.62	0.00	0.00	0.00	0.62	0.00	0.00
1996	All Asia Growth	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2000	Asian Hospital	7.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00
2002	Banco de Oro	0.00	0.00	20.00	0.00	0.00	0.00	20.00	0.00
1998	Drysdale Food	7.97	0.00	0.00	4.40	7.97	0.00	0.00	4.40
2002	Eastwood	18.67	0.00	0.00	0.00	18.67	0.00	0.00	0.00
2001	Filinvest	20.93	0.00	0.00	0.00	14.93	0.00	0.00	0.00
2004	Globe Telecom	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998	H&Q PV III	0.00	5.76	0.00	0.00	0.00	5.76	0.00	0.00
1989	H&QPV-I	0.00	0.59	0.00	0.00	0.00	0.59	0.00	0.00
1993	H&QPV-II	0.00	1.11	0.00	0.00	0.00	1.11	0.00	0.00
1992	Holcim Phil	0.00	5.63	0.00	0.00	0.00	5.63	0.00	0.00
2004	LARES	22.00	2.70	0.00	0.00	0.00	0.00	0.00	0.00
2000	MFI MEP	0.00	0.12	0.00	0.00	0.00	0.12	0.00	0.00
2001	MNTC	45.08	0.00	0.00	0.00	38.38	0.00	0.00	0.00
2003/2004	MWC	64.79	14.96	0.00	0.00	5.33	14.96	0.00	0.00
1970/1972/2000	Mariwasa	12.19	0.00	3.20	0.00	12.19	0.00	3.20	0.00
1993	Mindanao Power	0.00	4.26	0.00	0.00	0.00	4.26	0.00	0.00
1993	Mirant Pagbilao	12.00	10.00	0.00	0.00	12.00	10.00	0.00	0.00
2001	PEDF	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1992	Pilipinas Shell	0.00	1.56	0.00	0.00	0.00	1.56	0.00	0.00
2000	PlantersBank	0.00	0.00	5.81	0.00	0.00	0.00	5.81	0.00
1998	Pryce Gases	13.00	0.00	0.00	5.00	13.00	0.00	0.00	5.00
2000	SME.COM	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2000	STRADCOM	11.99	0.00	8.00	0.00	9.59	0.00	8.00	0.00
2003	SVI	0.00	4.00	0.00	0.00	0.00	2.00	0.00	0.00
1995	Sual Power	21.72	17.50	0.00	54.52	21.72	17.50	0.00	54.52
1994	Walden Mgmt	0.00	0.05	0.00	0.00	0.00	0.05	0.00	0.00
1994	Walden Ventures	0.00	0.58	0.00	0.00	0.00	0.58	0.00	0.00
Total Portfolio:		258.34	70.43	37.66	63.92	159.53	65.73	37.66	63.92

Statement of MIGA Guarantees
as of 2/28/05
(In US$ millions)

As of end of fiscal year	*FY2001*	*FY2002*	*FY2003*	*FY2004*	*FY2005 through*
Sectoral Distribution					
Finance	52.5	37.9	30.0	30.0	21.0
Infrastructure	87.0	87.0	87.0	82.0	82.0
Mining	0.0	0.0	0.0	0.0	0.0
Oil & Gas	0.0	0.0	0.0	0.0	0.0
Agribusiness/Manuf/	0.0	0.0	0.0	0.0	0.0
	139.5	124.9	117.0	112.0	103.0
MIGA's Risk Profile					
Transfer Restriction	139.5	124.9	117.0	112.0	103.0
Expropriation	139.5	124.9	117.0	112.0	103.0
War & Civil Disturbance	82.0	82.0	82.0	82.0	82.0
Breach of Contract	0.0	0.0	0.0	0.0	0.0
MIGA's Gross Exposure in Country	139.5	124.9	117.0	112.0	103.0
% Share of MIGA's Gross Exposure	2.7%	2.4%	2.3%	2.2%	1.9%
MIGA Net Exposure in Country	129.1	115.9	108.8	103.8	94.8
% Share of MIGA's Net Exposure	4.1%	3.6%	3.4%	3.2%	2.9%

List of Active MIGA Projects

Project Name	*Investor Name*	*Investor Company*	*Business Sector*	*Effective Date*	*Original Amount Issued ($M)*
ING Bank Manila	ING Bank	Netherlands	Financial	12/1/95	30.00
Manila North Toolways Corporation	Wesdeutsche Landesbank	Germany	Infrastructure	6/29/01	82.00

Annex B9
CAS Results Framework

GOVERNANCE – National Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Rationalize scope/ functions of agencies through effective implementation of medium-term expenditure framework and public investment program* ➢ Improve frontline service delivery, specifically audit of systems and procedures to simplify and speed up agency processes*	➢ Declining tax revenue and rising debt service and personnel expenditures have squeezed discretionary public spending on maintenance and capital investments ➢ Budget framework is not updated nor fully implemented	Systems and processes for allocating and executing budgetary resources are more transparent and efficient	➢ Performance principles used to realign budget process for at least 3 national agencies ➢ Budget allocation, execution, and fiduciary processes improved in at least 3 national agencies ➢ Rationalization of staff previously performing devolved functions in at least 1 national agency	**Ongoing**: AAA on expenditure management and performance-based budgeting; program support for agriculture **New**: program support for government expenditure rationalization, basic education, environment and natural resource management, national roads, health, agriculture, agrarian reform, irrigation, judicial reform; AAA cluster on governance, political economy, and anti-corruption
➢ Strengthen procurement reforms* ➢ Involve all sectors at all levels to scrutinize government projects*	➢ Slow pace of capacity building and professionalization of the procurement function ➢ Weak mechanisms for transparency and dispute resolution ➢ Weak mechanism for monitoring procurement performance		➢ Capacity and outcomes strengthened in at least 2 key anti-corruption agencies ➢ Bid invitation and award results disclosed publicly for at least 50% of the major transactions in 3 agencies ➢ Scope of civil society participation in bids and awards committees expanded with ongoing training & dissemination	**Ongoing**: judicial reform support loan; attention to fiduciary procedures in national program; AAA on capacity building in procurement reform, financial management, local government audits, anti-corruption. **Partnerships**: CG working group on governance and anti-corruption

GOVERNANCE – Local Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Fully implement devolution provision of Local Government Code*	➢ Imbalances in inter-government transfers have led to insufficient resources for poorer LGUs and limited national government capacity to ensure efficient local service delivery	Systems and processes of LGUs for planning, budgeting, delivering services, and investments are transparent and efficient	➢ LGU performance framework developed and accepted by various stakeholders and partners	**Ongoing:** AAA through local finance projects **New:** AAA on LGU performance framework; program support to local governments **Partnerships:** CG working group on decentralization and local government
	➢ Institutionalized planning among local governments is weak and budget formulation and execution is largely non-transparent		➢ At least 10 LGUs assisted in preparing and implementing local plans, with inputs from communities ➢ Local resource mobilization and local ownership of community projects increased	**Ongoing:** local finance projects and grants to poor local communities; AAA on community monitoring of LGU budgets **New:** support for LGU financing; AAA on LGU performance grants

GOVERNANCE – Private Sector Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Promote regulatory independence, separating operator and regulatory functions and enforcement of safety, quality, environmental, and legal standards*	➢ Regulatory uncertainty and perceptions of pervasive corruption have turned away prospective investors or encouraged complex and costly transaction structures	Improved governance of corporate sector and infrastructure regulatory agencies	➢ Capacity of at least one regulatory agency in the infrastructure sector strengthened	**Ongoing**: AAA on infrastructure **New:** AAA depending on demand; possible operation in water, energy or transport
➢ Align corporate practices and financial reporting structures with international best practices*			➢ Public awareness and debate on corporate governance issues increased	**Ongoing**: AAA on investment climate, corporate governance, and banking supervision **Partnerships:** CG working group on growth and investment climate

FISCAL STABILITY – National Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Balance government budget by 2010* ▪ Rebuild public revenues ▪ Reduce national government debt to GDP ratio* from 78% (2003) to less than 60% ➢ Generate at least P 80 billion from 8 new tax measures*	➢ Unsustainable growth in the public sector deficit due primarily to declining tax collection ➢ Tax evasion, avoidance, and corruption in revenue agencies and special tax exemptions and incentives have undermined fiscal revenue generation	Improved public revenue mobilization, public expenditure management, and management of state owned enterprises	➢ Level of public awareness and debate around fiscal management issues heightened *NOTE: Improvements in fiscal position are very important country goals supported by the CAS, but their achievement will depend on factors much broader than the Bank Group assistance program*	**Ongoing**: AAA on macroeconomic framework; capacity building on revenue mobilization **New**: development policy loan, subject to appropriate policies and outcomes; AAA cluster on fiscal reforms **Partnerships:** ADB, JBIC, IMF; CG working group on economic and fiscal reforms

FISCAL STABILITY –Local Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Increase share of local resources mobilized by LGUs as a percentage of total local government budget	➢ LGUs heavily dependent on transfers from national government and have limited incentives to raise own-source revenues ➢ LGU borrowing is primarily through government financial institutions, with ODA as the principal source of long-term credit	Expanded local revenue base and increased revenues from local sources in at least 20 LGUs	➢ The share of own-source revenue in total revenue increased in at least 20 LGUs	**Ongoing:** AAA through local finance projects **New:** AAA cluster on LGUs, municipal finance and fiscal decentralization; LGU performance framework and performance grants **Partnerships**: ADB, EC, AusAid, Canada; CG working group on decentralization and local government

FISCAL STABILITY – Private Sector Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Address NPC/PSALM deficits*	➢ High level of contingent liabilities due to: - guarantees on risks under build-operate-transfer contracts - poor tariff policies and lack of credible regulatory agencies - weak corporate governance in state owned enterprises	Reduced fiscal burden through financial strengthening of government corporations and financial institutions *NOTE: Support for power privatization, utility cost recovery, and financial sector strengthening are important CAS goals but outcomes will depend largely on demand for this support*	➢ All contingent liabilities for major state owned enterprises accounted for and time bound action plans to reduce contingent liabilities put in place ➢ Tariff adjustments and cost recovery mechanisms implemented in the water and energy sectors ➢ Progress made in reforms in at least 1 infrastructure regulatory agency	**Ongoing:** policy dialogue on consolidated fiscal deficit; AAA on infrastructure regulatory issues, competition policy, bank supervision **New:** development policy loan, subject to appropriate policies and outcomes; possible energy guarantee; IFC support for privatization of at least 1 public sector power asset; IFC support to strengthening capital market, such as in housing finance **Partnerships**: CG working group on growth and investment climate
➢ Rationalize government pension and retirement schemes*	➢ Increasing losses expected from government-run contractual savings system under present package of benefits and contributions		➢ Public awareness and debate on pension liabilities increased	**Ongoing:** AAA on pension reform **New**: AAA depending upon demand

GROWTH – National Platform				
Country Development Goals [a] *stated in MTPDP	**Issues and Obstacles** [b]	**CAS Outcomes** [c]	**Milestones** [d]	**Bank Group Program and Partners** [e]
➢ Increase investment from 19% to 28% of GDP through investment promotion activities* ➢ Increase annual spending on public infrastructure by P100 billion*	➢ Growth driven largely by consumption, rather than by investment ➢ Higher borrowing costs and risk premia constrain domestic firms' ability to attract foreign capital ➢ Low public savings preclude expansion of public investments in needed infrastructure	Competitiveness of the economy improved by increasing investment, upgrading infrastructure, and adopting reforms aimed at improving productivity of firms	➢ Service delivery improved via effective public investments in at least 3 national government agencies, as measured by project level indicators	**Ongoing**: investment projects in national roads, elementary education, irrigation systems **New**: program support for roads, agrarian reform, basic education
➢ Ensure sufficient and reliable power supply and system efficiency improvement* ➢ Pursue total barangay electrification*			➢ Creditworthiness improved, in at least 6 electric cooperatives ➢ Number of barangays provided with electricity increased	**Ongoing**: rural power loan; GEF grant for electric coops system loss **New**: follow-on loan for rural power
➢ Distribute at least 100,000 ha of A&D lands annually* ➢ Integrate all agencies involved in land titling through legislation*	➢ Inappropriate policy environment and inadequate government support for land acquisition and core agriculture support services ➢ Multiple systems for land registration and slow, inefficient, and costly service delivery has led to doubtful and inconsistent valuations		➢ Rural productivity, as measured by project level indicators in project areas, increased ➢ Market orientation of government agricultural support services enhanced ➢ Land titling procedures streamlined and valuation system in project areas implemented	**Ongoing**: investment projects in agrarian reform and Mindanao rural development; program support in agriculture; AAA on sources of rural growth; investment project in land administration **New**: program support in agrarian reform, agriculture; follow-on loan for land administration

GROWTH – National Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Achieve sustainable and more productive utilization of natural resources to promote investments and entrepreneurship ➢ Streamline and refocus environmental compliance systems* ➢ Improve management of waste especially in Metro Manila*	➢ Inadequate funding and weak implementation of natural resource management policies ➢ Inadequate funding and information, lack of coordination among government agencies and LGUs, and weak enforcement of anti - pollution regulations	Competitiveness of the economy improved by increasing investment, upgrading infrastructure, and adopting reforms aimed at improving productivity of firms	➢ Significant improvements made in environmental protection and management arrangements ➢ Coverage of sewerage services in Metro Manila increased	**Ongoing:** Laguna Lake project. AAA and capacity building in environmental performance monitoring and evaluation **New**: program support for environment and resource management **Ongoing**: investment project for sewerage expansion **New:** support for MWSS financial rehabilitation; follow-on operation in sewerage expansion

GROWTH – Local Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Provide water to 200 waterless barangays*	➢ Despite increase in LGU spending, wide disparities persist in coverage, quality, and availability of public services delivered by LGUs	Productivity increased through local provision of infrastructure and services	➢ Financing for investment subprojects supported by the Bank tapped by at least 10 LGUs ➢ More effective LGU financing framework adopted and implemented ➢ Stock of LGU-provided infrastructure increased, as measured by project level indicators.	**Ongoing:** investment projects for LGU financing **New:** support for LGU financing; AAA on LGU performance framework and performance grants
➢ Focus and strengthen the protection of vulnerable and ecologically fragile areas, especially watersheds and areas where biodiversity is highly threatened*	➢ Reliance of the poor on natural resource extraction in marginal habitats have exacerbated environmental degradation, poverty and income inequality		➢ Environment protection and management strengthened through CDD approaches	**Ongoing**: investment projects using CDD approach; Laguna Lake project

GROWTH – Private Sector Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Promote a stronger, stable and deeper financial system	➢ Banks have been risk averse due to heavy burden of non-performing loans	Catalyze private investment in key sectors including infrastructure *NOTE: Increasing the investment-to-GDP ratio and increasing foreign direct investment are important country goals, but their achievement will depend on factors much broader than the Bank Group assistance program*	➢ Public awareness and debate increased on investment climate issues and ways to reduce costs of doing business	**Ongoing:** AAA on investment climate, bank supervision
➢ Ensure sufficient and reliable power supply and system efficiency improvement* ➢ Modernize the physical infrastructure and logistics system at least cost to ensure efficient movement of goods and people	➢ Inadequate infrastructure, labor market rigidities, and corruption have contributed to high costs of doing business ➢ Private firms have short-term investment horizon, in part due to uncertain and inconsistent regulatory policies		➢ Private infrastructure investments increased and relevant regulatory policies and agencies streamlined, in response to government demand	**Ongoing:** AAA on infrastructure; IFC financing of private-public investments in power, transport, water supply, driver licensing **New:** possible energy guarantee; Possible IFC investments in land titling, food, mining, IT-enabled services and electronics sectors; Possible investments with Bases Conversion Development Authority and Philippine Infrastructure Corporation

SOCIAL INCLUSION – National Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Ensure income, access, and opportunities for the poor and vulnerable ➢ Reduce proportion of people whose income is less than US$1 a day (MDG)	➢ Slow progress on poverty reduction due to weak economic growth and persistent, high income inequality	Improved performance of national institutions and increased access for the poor and disadvantaged groups to basic services	➢ Framework clarified for targeting national government grant assistance for programs at the local level for the poor and disadvantaged	**Ongoing:** investment projects for LGU financing **New**: AAA on LGU performance framework and performance grants
➢ Rationalize the budget for basic education and improve the quality of basic education ➢ Increase the access of economically and socially disadvantaged groups to education services	➢ Erosion of Philippines' edge in its human capital over other developing countries is due to poor quality and coverage of the educational system		➢ Number of project schools with effective/functioning school governing councils increased ➢ Achievement scores in project schools improved [from 51.7% in 2001] ➢ Elementary school completion rates in project schools improved [from 66.3% in 2002]	**Ongoing**: investment project for elementary education **New**: program support for basic education **Partnerships:** CG working group on education
➢ Reduce by half, cost of medicines through increased / improved distribution*	➢ High incidence of incomplete treatment, increased self-care, and inadequate professional consultation due to high drug prices		➢ Increased awareness and debate on the reduction of out-of-pocket expenditures on health by the poor ➢ Strategy for reducing maternal mortality developed	**Ongoing:** investment project in women's health **New:** program support for health

SOCIAL INCLUSION – National Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Protect the vulnerable: children, elderly, people with disabilities ➢ Achieve 85% health insurance coverage by 2010*	➢ Limited capacity to deliver better health due to sector structural inefficiencies ➢ Continued limited coverage and low benefit utilization among indigents under the National Health Insurance Program	Improved performance of national institutions and increased access for the poor and disadvantaged groups to basic services	➢ National framework and strategy for social protection articulated more clearly	**Ongoing**: AAA on social protection strategy **New**: possible program support for social protection
➢ Deepen and conclude peace agreement with the MILF* ➢ Rehabilitate and develop conflict-affected areas*	➢ Threats to human security in conflict-affected areas of Mindanao		➢ Capacity of national and local institutions to promote efficient service delivery in conflict-affected areas in Mindanao strengthened ➢ Sub-projects implemented in at least 15 conflict-affected communities in Mindanao	**Ongoing**: ARMM Social Fund, investment project for Mindanao rural development; AAA and donor coordination for needs assessment in Mindanao **New**: Mindanao Trust Fund; program support for Mindanao rural development

SOCIAL INCLUSION – Local Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Improve accessibility and affordability of essential services: clean water and health care	➢ Wide disparity in service delivery among regions and between richest and poorest groups	Greater voice and improved access for the poor and disadvantaged in the planning and delivery of education, health, and other basic services at the local level	➢ Local service delivery in project areas, as measured by project level indicators, increased ➢ Unmet need for contraception in project areas reduced ➢ Portion of attended births in health facilities in project areas increased ➢ PhilHealth coverage of indigent and informal sector in project areas increased	**Ongoing**: investment projects in elementary education, early childhood, CDD approaches in social expenditures, local water supply **New**: LGU financing and KALAHI2
➢ Empower the poor: full implementation of KALAHI-CIDSS*	➢ Unclear delineation of responsibilities and priorities between national and local governments resulting in poor service delivery ➢ Poor and marginalized groups unable to benefit from growth and participate in decision-making processes		➢ Communities and stakeholders participate in the decision making process in at least 50 LGUs ➢ CDD sub-projects designed and implemented in at least 50 communities	**Ongoing**: AAA; KALAHI and other investment projects using CDD approaches **New**: KALAHI 2

SOCIAL INCLUSION – Private Sector Platform				
Country Development Goals [a/] *stated in MTPDP	**Issues and Obstacles** [b/]	**CAS Outcomes** [c/]	**Milestones** [d/]	**Bank Group Program and Partners** [e/]
➢ Provide an environment conducive to medium and small-scale enterprise development. ➢ Implement development program for conflict-affected areas of Mindanao	➢ High cost of borrowing and limited access to finance deter domestic entrepreneurs and investments ➢ Low level of investments in Mindanao (despite agribusiness potential) due to security and tenure issues, limited access to credit, and poor infrastructure	Increased access to financing of micro enterprises, cooperatives, and small & medium enterprises and increased private delivery of basic social services	➢ Sustainable livelihoods promoted through improved access to finance ➢ Private services in health, education and water improved ➢ Advocacy for promoting private investments in Mindanao, including IFC investments increased	**Ongoing**: investment projects for rural finance **New**: follow-on loan for rural finance; possible IFC program for small and medium enterprises in Mindanao

a/ Longer-term or higher-order development objectives identified by the country. Usually not achievable in the CAS period nor solely addressed by the CAS program. Only those to which CAS outcomes will contribute are included.

b/ Critical issues and obstacles to achieving country development goals, providing the logical link to CAS outcomes.

c/ Results achievable in the CAS period and which the Bank expects to influence through its interventions.

d/ Progress markers of CAS implementation; outputs, actions, or outcomes expected to be realized during CAS implementation.

e/ Ongoing and planned lending, grants, and guarantees; analytical and advisory activities. Includes Bank, IFC, and MIGA. Partners included if providing other support of same CAS outcome.

Annex B10
Bank Group Activities Mapped According to CAS Themes and Platforms

CAS Goal	Lending Operations [a/]			Non-lending Operations		
	National Platform	Local Platform	Private Sector Platform	National Platform	Local Platform	Private Sector Platform
Governance	**Ongoing** ➢ Social Expenditure Management 2 ➢ Diversified Farm Income & Market Development ➢ Judicial Reform Support	**Ongoing** ➢ LGU Finance & Development	**Ongoing** ➢ Manila Second Sewerage	**Ongoing** ➢ ASEM Public Sector Strengthening ➢ IDF Strengthening Institutional Capacity for Expenditure Mgmt ➢ ASEM Strengthening the Ombudsman ➢ IDF Procurement Oversight Agency and Capacity Building ➢ IDF Strengthening Public Financial Mgmt ➢ IDF Strengthening Accountability in Poor LGUs ➢ ASEM Procurement Strengthening	**Ongoing** ➢ IDF Pro-Poor Budgeting and Local Government Accountability ➢ JSDF Developing Community Capacities For Pro-Poor Budgeting	**Ongoing** ➢ Liaison with IFC & MIGA ➢ Meeting Infrastructure Needs Report ➢ Investment Climate Assessment ➢ ASEM Corporate Governance ➢ ASEM Strengthening Capacity for Bank Spn. ➢ ASEM Closing Productivity Gap
	New ➢ National Program Support for Public Expenditure Rationalization ➢ National Program Support for: ▪ Basic Education ▪ Health ▪ Environment & Natural Resource Management ▪ National Roads ▪ Participatory Irrigation ▪ Agrarian Reform ▪ Judicial Reform 2	**New** ➢ Local Government Support for Cities Development ➢ Local Government Support through LGU Performance Grants	**New** ➢ Private Sector Development Support for MWSS Financial Rehabilitation	**New** ➢ AAA cluster on governance, political economy, and anti-corruption	**New** ➢ LGU Performance Framework	

[a/] New Bank lending operations are taken from Annex Table B3 which includes possible projects under consideration. Depending upon evolving country needs, new projects may be introduced and others dropped. Several possible IFC operations are also noted.

CAS Goal	Lending Operations [a/]			Non-lending Operations		
	National Platform	Local Platform	Private Sector Platform	National Platform	Local Platform	Private Sector Platform
Fiscal Stability		**Ongoing** ➢ LGU Finance & Development		**Ongoing** ➢ Development Policy Review ➢ IDF Revenue Mobilization ➢ ASEM Sustainable Poverty Reduction	**Ongoing** ➢ IDF Pro-Poor Budgeting and Local Government Accountability	**Ongoing** ➢ ASEM Pension Reform
	New ➢ Development Policy Loan ➢ National Program Support for Public Expenditure Rationalization	**New** ➢ Local Government Support for Cities Development ➢ Local Government Support through LGU Performance Grants	**New** ➢ IFC support for: ▪ privatizations ▪ strengthening capital market products, such as in housing finance	**New** ➢ AAA cluster on fiscal reforms	**New** ➢ AAA cluster on LGUs, municipal finance and fiscal decentralization ➢ LGU performance framework	

CAS Goal	Lending Operations			Non-lending Operations		
	National Platform	**Local Platform**	**Private Sector Platform**	**National Platform**	**Local Platform**	**Private Sector Platform**
Growth	**Ongoing** ➢ National Road Improvements & Management 1 ➢ Third Elementary Education ➢ Diversified Farm Income & Market Development ➢ Agrarian Reform Communities Development 2 ➢ Land Administration & Management 1 ➢ Laguna de Bay Institutional Strengthening ➢ Metro Manila Urban Transport ➢ Water Resources Development	**Ongoing** ➢ Community Based Resources Development ➢ Laguna de Bay Institutional Strengthening ➢ LGU Finance & Development	**Ongoing** ➢ Manila Second Sewerage ➢ Rural Finance 3	**Ongoing** ➢ Environment Monitor ➢ IDF Strengthening Environmental Performance Monitoring and Evaluation ➢ GEF Ozone Depletion Substance (Montreal Protocol) ➢ PHRD- Laguna de Bay Community Carbon	**Ongoing** ➢ PHRD Laguna de Bay Community Carbon ➢ Watershed Management	**Ongoing** ➢ AAA on Banking Capital Markets ➢ Investment Climate Assessment ➢ Meeting Infrastructure Needs Report ➢ IFC financing of private-public investments in power, transport, water supply, driver licensing and land titling
	New ➢ Land Administration & Management 2 ➢ National Program Support for: ▪ National Roads (NRIMP2) ▪ Agrarian Reform ▪ Basic Education ▪ Agriculture ▪ Participatory Irrigation ▪ Environment and Resource Management	**New** ➢ Local Government Support through LGU Performance Grants	**New** ➢ Manila Third Sewerage ➢ Private Sector Development Support for MWSS Financial Rehabilitation ➢ Private Sector Development Support for: ▪ Logistics/ Infrastructure ▪ Private Participation in Infrastructure ➢ IFC investments in food, mining, IT-enabled	**New**	**New**	**New** ➢ AAA cluster on growth and investment climate ➢ AAA cluster on meeting infrastructure needs ➢ sectors

CAS Goal	Lending Operations			Non-lending Operations		
	National Platform	Local Platform	Private Sector Platform	National Platform	Local Platform	Private Sector Platform
			services and electronics			
Social Inclusion	**Ongoing** ➢ Third Elementary Education ➢ Mindanao Rural Development ➢ ARMM Social Fund ➢ Early Child Development ➢ Social Expenditure Management 2 ➢ Agrarian Reform Communities Development 2 ➢ Kalahi-CIDSS	**Ongoing** ➢ Kalahi-CIDSS ➢ Water Districts Development ➢ LGU Urban Water & Sanitation 2	**Ongoing** ➢ Rural Power ➢ Rural Finance	**Ongoing** ➢ Social Protection Strategy ➢ Mindanao Joint Needs Assessment ➢ Youth Development ➢ Gender and Conflict in Mindanao ➢ Land Tenure and Ownership in Mindanao ➢ GEF-Coastal Marine ➢ Gender Portfolio Review ➢ ASEM Strengthening Poverty Analysis	**Ongoing** ➢ JSDF Upscaling of Urban Poor Communities Renewal ➢ JSDF Community Managed Agrarian Reform ➢ JSDF Mainstreaming Indigenous Peoples in Agrarian Reform	**Ongoing** ➢ GEF Electric Cooperative System Loss Reduction
	New ➢ Women's Health & Safe Motherhood 2 ➢ National Program Support for: ▪ Basic Education ▪ Health ▪ Social Protection ▪ Mindanao Rural Development 2 ▪ Disaster Preparedness ▪ Kalahi-CIDSS 2	**New** ➢ Women's Health & Safe Motherhood 2 ➢ Local Government Support for Regional Water Supply	**New** ➢ Private Sector Development Support for: ▪ Rural Power 2 ▪ Rural Finance ➢ Private Sector Development Support/Guarantee for Power Reform ➢ IFC program for small and medium enterprises in Mindanao	**New** ➢ AAA cluster on social development, and poverty ➢ Mindanao Trust Fund activities ➢ LGU performance framework ➢ JSDF empowering poor	**New** ➢ JSDF SARS prevention and control	

a./ New Bank lending operations are taken from Annex table B3 which possible projects under consideration. Depending upon evolving country needs, new projects may be introduced and others dropped. Several possible IFC operations are also noted.

Annex B11
Environment Indicators

	Country Data	*Group Data*	
		East Asia & Pacific	*Lower middle income*
Agriculture			
Land area 91,000 sq km)	298	15,885	54,034
Agricultural land (% of total)	40	50	35
Irrigated land (% of crop land)	14.6	34.7	20.5
Fertilizer consumption (100 grams/ha arable land)	1,383	2,077	1,060
Food production index (1989-91=100)	136	171	158
Population density, rural (people/sq km arable land)	564	568	492
Forests			
Forest Area (1,000 sq km)	58	4,238	19,065
Forest Area (% of total land area)	19.4	27.2	31.8
Annual deforestation (%change, 1990-2000)	1.4	0.2	-0.1
Biodiversity			
Mammal species, total known	153	--	--
Mammal species, threatened	50	--	--
Bird species, total breeding	404	--	--
Bird species, threatened	67	--	--
Nationally protected area (% of land area)	5.7	9.2	7.2
Energy			
GDP per unit of energy use (PPP$/kg oil equiv)	6.8	--	3.7
Energy use per capita (kg oil equiv)	538	854	1,226
Energy imports net (% energy use)	53	-3	-21
Electric power consumption per capita (kWh)	489	816	1,304
Share of electricity generated by coal (%)	40.6	65.1	42.5
Emissions and pollution			
CO_2 emissions per unit of GDP (kg/PPP$ GDP)	0.3	0.6	0.7
CO_2 emissions per capita (mt)	1.0	2.1	3.0
Consumption of CFCs (ODP metric tons)	1,632	42,259	47,373
Particulate matter (pop-weighted average-$\mu g/m^3$)	49	69	48
Passenger cars (per 1,000 people)	10	10	26

	Country Data	*Group Data*	
		East Asia & Pacific	*Lower middle income*
Water and sanitation			
Freshwater resources per capita (m^3)	5,992	6,020	9,401
Freshwater withdrawal			
total (% total water resources)	11.6	7.2	5.4
agriculture (% total freshwater withdrawal)	88	81	73
Access to an improved water source (%total pop)	86	76	81
rural (% rural pop)	79	67	70
urban (% urban pop)	91	93	95
Access to sanitation (% total pop)	83	47	59
rural (% rural pop)	69	36	42
urban (% urban pop)	93	72	81
Under-5 mortality rate (per 1,000 live births)	37	42	40
National accounting aggregates - 2002			
Gross national savings (%GNI)	24.5	38.8	30.8
Consumption of fixed capital (% GNI)	7.9	9.2	9.9
Education expenditure (%GNI)	2.9	2.2	3.2
Energy, depletion (% GNI)	0.0	3.4	6.6
Mineral depletion (% GNI)	0.1	0.3	0.3
Net forest depletion (% GNI)	0.2	0.1	0.1
CO^2 damage (% GNI)	0.7	1.8	1.7
Particulate emission damage (% GNI)	0.4	0.8	0.7
Adjusted net savings (%GNI)	18.0	25.5	14.6

Source: The Little Green Data Book, World Bank, 2004

MAP SECTION