# Economic integration loan

Report No: ; Type: Report/Evaluation Memorandum ; Country: Philippines; Region: East Asia And Pacific; Sector: Macro/Non-Trade; Major Sector: Economic Policy; ProjectID: P004606

Philippines: Economic Integration Loan (Loan 3539-PH)

The Implementation Completion Report (ICR) for the Philippines Economic Integration Loan (EIL, Loan 3539-PH,

US$200 million equivalent approved in FY93 and closed 15 months behind schedule in FY95), was prepared by the East Asia and Pacific Region. The ICR does not include Appendix B, the Borrower Contribution; however, the text of the report incorporated comments from the Government on an earlier draft ICR.

The EIL was a quick disbursing, two tranche operation, for which parallel financing in the amount of US$200 million was provided by the Export-Import Bank of Japan. The objectives of the EIL were: (a) to support macroeconomic management through improving the finances of the Central Bank and setting appropriate energy pricing policies; and (b) to improve the environment for private investment through trade and transport liberalization, implementation of a new Foreign Investment Code, completion of the Government's privatization program and liberalization of the foreign currency market. The loan was designed to complete reforms initiated earlier with the support of several Bank structural adjustment loans. The ICR concluded that the loan met and, in many cases, surpassed its original targets. The Government successfully restructured the Central Bank and brought into surplus the Oil Price Stabilization Fund, a key source of the persistent fiscal deficit in previous years. Impressive gains were made in deregulating the transport sector and in foreign exchange liberalization. Macroeconomic stability has been maintained, a new law on foreign investment opened most sectors to foreign ownership, and investor confidence has returned; as a consequence, foreign investment has increased considerably. The Government succeeded in reducing commercial bank debt and debt service, privatizing over one hundred government corporations, reducing import tariffs, eliminating quantitative restrictions and promoting competitiveness.

The ICR rates the project outcome as highly satisfactory, sustainability as likely, institutional development as substantial and Bank performance as highly satisfactory. OED agrees with these ratings, but notes that the positive achievements are part of the outcome of a series of loans supporting structural adjustment, in addition to the Economic Integration Loan. The ICR is of satisfactory quality (although it could have made a better distinction between the value added of this loan and that of the rest of the loans contributing to the reforms). On lessons learned, the ICR emphasizes the need for: (a) flexibility in supervision; and (b) a correct balance between the Bank's encouragement of fast reforms and the need for the speed of the reforms to be determined by country ownership and local political developments. No audit is planned.