Board Meeting of March 24, 1998
Statement by Joaquim Carvalho

The Philippines: Country Assistance Strategy—Progress

We welcome the discussion of this progress report on the implementation of the Bank’s Country Assistance Strategy for the Philippines and commend the government for being able to effectively weather the regional financial crisis. The decade of structural reforms has made the country more open to foreign investment, reduced government involvement in areas where the private sector has comparative advantage and led to a stronger banking system. These efforts have, in no small way, assisted the country to contain the contagion effect of the East Asian crisis, notwithstanding the deceleration of real GNP growth to 4 percent this year from 7 percent in 1996 and the slight increase in the inflation from 7 percent in 1996 to 8 percent in 1998. Nevertheless, several development challenges still lie ahead as the country extends and deepens the sequencing of its economic reforms.

We are particularly pleased with the Bank’s response and assistance to the Government of the Philippines since the beginning of the East Asian crisis. We find the specific adjustment reforms proposed for the FY98-99 program, as summarized in the Executive summary of the report, appropriate. The proposed plan by the Bank, the Fund and the AsDB to support the government’s reform initiatives with quick disbursing assistance will go a long way to prevent the situation from deteriorating any further. We also welcome the proposals to offer technical assistance to the country in the areas of public sector management, financial sector reform and strengthening competitiveness. We applaud the efforts being made to assess the social impact of the economic crisis with the aim of identifying quick response interventions to protect vulnerable groups of society. The expansion of the Bank’s regular lending program in response to the government’s request to include lines of credit for agriculture and industry is also welcome, given the severe credit crunch the region is currently experiencing as a result of the financial crisis.

On portfolio management, the performance has been satisfactory, with 92 percent of projects rated satisfactory in terms of reaching their development objectives and 85 percent in terms of implementation process. We expect that the current decentralization process in tandem with strengthening the Resident Mission would enable the Bank to be more effective in supervising implementation, monitoring
results, improving partnerships and providing more support for the procurement operation in the country. We are however concerned with the likely effect of the crisis on the Bank’s portfolio as many of the projects depend on government’s counter-part funding.

In view of the country’s impressive track record in implementing reforms, we endorse the proposed lending volumes, the attendant triggers and the Bank’s exposure as stated in paragraph 29 of the report. However, we see considerable merit in supplementing the Learning and Innovation Loans and Adaptable Program Loans with assistance through the new instrument of adjustment lending to Sub-National entities. This, in our view, will enable these entities to play an active role in the implementation of poverty alleviation programs in the country. Achieving that will also require adequate institutional capacity. In this regard, we applaud the on-going efforts to strengthen the Resident Mission in the Philippines, as this will position the Bank to play a more active role in the implementation of its assistance programs.

Since the East Asia crisis has clearly demonstrated how the interests of all members of the region are interwoven, it would be helpful to understand how the country teams are coordinating the country strategy with the rest of the Region. We would appreciate some comments from staff on this matter.

We welcome the Bank’s collaboration with the IMF and AsDB and expect the continuation of their concerted efforts in assisting the Philippines to strengthen its economy, regain its creditworthiness in financial markets and restore confidence of foreign and local investors. We applaud IFC’s strong presence in the country’s financial sector and commend its catalytic role in privatization, infrastructure and general manufacturing. Although MIGA is relatively new in the Philippines with only two guarantee contracts, we see the Agency playing a bigger role in helping the country attract more foreign direct investment.

Finally, we support the three projects accompanying this report and wish the Government of the Philippines every success in the implementation of its reform programs.