Philippines
Client Perspectives on Elements of World Bank Support

Working Paper for
Development Results in Middle-Income Countries
An Evaluation of the World Bank’s Support
**Acronyms**

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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AIM</td>
<td>Asian Institute of Management</td>
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<td>BIR</td>
<td>Bureau of Internal Revenue</td>
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<td>CAR</td>
<td>Country Assistance Review</td>
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<td>CAS</td>
<td>Country Assistance Strategy</td>
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<td>Country Assistance Strategy Completion Report</td>
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<td>CDD</td>
<td>Community Driven Development</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<td>CSO</td>
<td>Civil Society Organization</td>
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<td>DBM</td>
<td>Department of Budget and Management</td>
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<td>DoF</td>
<td>Department of Finance</td>
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<td>DSWD</td>
<td>Department of Social Welfare and Development</td>
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<td>GDLN</td>
<td>Global Distance Learning Network</td>
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<td>GEF</td>
<td>Global Environmental Facility</td>
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<td>GFATM</td>
<td>Global Fund for AIDS, TB, and Malaria</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>JBIC</td>
<td>Japanese Bank for International Cooperation</td>
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<td>LBP</td>
<td>Land Bank of the Philippines</td>
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<td>LCP</td>
<td>League of Cities of the Philippines</td>
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<td>MIC</td>
<td>Middle Income Country</td>
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<td>NEDA</td>
<td>National Economic and Development Authority</td>
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<td>NGO</td>
<td>Non-governmental Organization</td>
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<td>ODA</td>
<td>Overseas Development Assistance</td>
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<td>PDF</td>
<td>Philippine Development Forum</td>
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<td>QAG</td>
<td>Quality Assurance Group</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>UN</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>WHO</td>
<td>World Health Organization</td>
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PHILIPPINES

PREFACE

The Independent Evaluation Group (IEG) of the World Bank has conducted an “Evaluation of the World Bank’s Support to Middle-Income Countries”. As a contribution to that evaluation, IEG undertook background research on the topic in several countries. The aim was to use a client perspective drawn from in-country consultations—to shed light on the experiences of the Bank with its Middle-Income Country (MIC) partners.

This working paper draws upon responses from a selection of interviews conducted in mid-2006 with in-country stakeholders and a review of the relevant analytical and evaluative material. It provides valuable insights into selected issues faced by many MIC clients, and has been used as a background to the IEG evaluation. As with any research of this type, there may be contrasting views from other commentators, and this report is not intended to be a comprehensive assessment of the Bank’s country program and nor should it be considered as a formal report of the type produced by IEG in its country assistance evaluations.

The findings, interpretations, and conclusions expressed here are those of the authors(s) and do not necessarily represent views of the IEG, or the Board of Executive Directors of the World Bank or the governments they represent.

This working paper was prepared by Brett Libresco and Thomas O’Brien (IEG) based on field work in the Philippines in July and August 2006.
PHILIPPINES

1. INTRODUCTION

1. The Philippines is a middle income country (MIC), but at a GNI per capita of only $1,170, it is in the lower MIC category, and close to the bottom threshold of the group ($826). Indeed of the 86 MICs, the Philippines ranks number 74 in terms of income per person.\(^1\) It possesses many characteristics which are symptomatic of the problems faced by lower-income countries. For example, Manila is a mega-city with concentrations of poor and slum housing; significant communities with poor quality or non-existent clean water supply; and urban sprawl with dense traffic congestion and associated pollution.

2. The country has a $1 per day poverty rate of 15 percent, which is amongst the highest of the MICs and a $2 per day poverty rate of 47 percent. It has high inequality (its Gini coefficient exceeds 46 and has steadily worsened over the past decade), and deep-seated economic development issues. Notwithstanding a recent period of relative calm, its polity is often reported as unstable—the President, who took power after her predecessor was impeached, has herself faced several serious challenges, including enduring communist and Islamist insurgencies that have plagued security in many parts of the country, particularly in the southern region of Mindanao. This is compounded by a high turnover of cabinet officials, including the Secretary of Finance whose average term is only about 12 months, according to one counterpart.

2. RELEVANCE

3. Is the Bank relevant for the Philippines? Several counterparts turned to this topic by noting the longevity of the Bank’s involvement with the country. The Bank made its first loan to the Philippines in 1958, and a good number of the officials with whom we spoke had dealt with the Bank for a decade or more.\(^2\) They conveyed a sense that this longevity aided the Bank’s relevance because it provided the institution with an intimate knowledge of Philippine issues and a platform from which to address them.

4. Officials also noted, however, that a history of involvement was no guarantee of continuing relevance, and that indeed these were features of the Bank’s stance (see below) which were problematic. In terms of the Bank’s overall position, there was an almost universally positive appreciation of the role of the Philippine Development Forum (PDF), begun in 2005. This has been a useful tool in helping assure the relevance of the Bank’s strategy, and it is proving successful in constructing a consensus development agenda. It is inclusive to many stakeholders, and includes substantive engagement with civil society. The Bank is considered at the forefront of emerging issues, and as the most consensus-building and responsible international partner. One senior counterpart was upbeat, noting the forum maintains a good concentration on strategy and implementation.

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\(^1\) The Philippines is trailed only by Armenia, Angola, Azerbaijan, Bolivia, Djibouti, Georgia, Guyana, Honduras, Indonesia, Iraq, Kiribati, and Sri Lanka. In contrast to the Philippines, all of these save Iraq are eligible for IDA credits.

\(^2\) One senior official at the National Economic and Development Authority had observed and interacted with the Bank over the entire span of his still ongoing 30-year career.
rather than the pledging and positioning of donors, though she added that it could still improve. Moreover, the Bank concluded in its 2005 self-assessment, the Country Assistance Strategy Completion Report (CASCAR), and the IEG CASCAR Review concurred that the program was closely aligned with the government’s priorities, as laid out in the Medium-Term Philippine Development Plan.

5. Across Bank counterparts, there was a clear desire for Bank engagement both currently and in the future, and receptivity to the Bank’s agenda. But receptive clients who desire Bank support do not automatically lead to Bank relevance. Counterparts remarked that the Bank must be alert and flexible, as this enthusiasm for engagement can (and has) been curtailed due to a lack of appropriate financing instruments made available. Furthermore, interaction with the Bank can at times be a bit slow and burdensome, an observation reported by government officials, NGOs, and the private sector alike.

6. For a number of years under review, the Bank’s financial program was considered by several informed counterparts as not fitting Philippine needs, and the country reduced its borrowing dramatically: $114 million per year over 2001-2005, compared to $375 million per year over 1996-2000 (see Table 1 below). The FY03-05 Country Assistance Strategy (CAS) planned $1.1 billion in lending, but less than $400 million materialized, significantly below the minimum foreseen in the low case. IEG previously found in its 1999 Country Assistance Review (CAR) that since the 1980s the Philippines consistently borrowed less than the Bank was willing to lend and less than was desirable for investment needs, and noted the Bank was not nimble in offering appropriate finance.

7. In our fieldwork, counterparts identified two problems that led to low levels of borrowing. First, clients were of the view that the Bank had been providing mostly investment loans for individual projects, and yet the government wanted programmatic loans for sectors because their priorities sometimes changed with the circumstances, and they wanted to implement sector-wide reforms for a bigger impact on the economy. Second, clients felt that the Bank’s lending cycle was not well synchronized and intertwined with the Philippine budget process. In particular, the inflexible requirements for counterpart funding meant that emerging Bank projects were additional to line item projects already identified in the government’s draft budget, and so resulted in costs additional to what was already planned. Officials at the central oversight agencies, including the National Economic and Development Authority (NEDA), Department of Finance (DoF), and Department of Budget and Management (DBM), all agreed that the deficit put a squeeze on capital outlays, and foreign loans suffered the most due to their associated government expenditures.

8. Another reason raised by several counterparts (including DoF, NEDA, and the central bank) for reduced borrowing was the excessive imposition of conditionality that caused the use of funds to be more restrictive. For instance, a loan for banking reform

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3 Bank staff indicated that lending declined over the period for other reasons. First, the Bank was not convinced that the Philippine counterparts had the capacity to carry through projects on the same scale as in previous years. Second, the Bank was not sure that additional borrowing was sensible for the Philippines in light of its debt situation and fiscal position.
was cancelled because Philippine officials found the conditions impossible to fulfill. The client reported instead that the Philippines borrowed from the international markets.

9. This past year, the Bank changed its focus and began providing more flexible sector-wide investment loans to the Philippines, and leaves open the possibility of development policy loans in the latest CAS. These loans finance programs and projects already identified by the Philippine government. Last year, the Bank lent $410 million for programs in health, education, and local development. Government officials were optimistic that these new loans will allow appropriate flexibility. This experience highlights the increasing importance for the Bank to be flexible—it must more quickly and creatively tailor its support to country circumstances particularly in cases where the country is prepared to (and wants to) utilize Bank finance.

10. This aspect of the story of the Bank’s financial support to the Philippines is bittersweet. It has taken a number of years before the Bank was able to adapt to Philippine needs, and several counterparts asserted that the Bank could have acted sooner. The country team argued that until recently, the country’s large deficit created a situation in which programmatic loans carried too much risk, but the availability of private sources of finance returned earlier than the Bank.  

3. OVERALL EFFECTIVENESS OF BANK’S WORK

3.1 OVERALL

11. The 2005 CASCR Review, an independent evaluation of the Bank program over the FY03-05 CAS period, rated the Bank’s Philippines program to be moderately satisfactory. Most aspects of the program were considered satisfactory, but its inability to achieve macroeconomic objectives resulted in the lower rating. The large public sector deficit hampered the government’s ability to provide infrastructure, facilities, and

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4 It should be noted that the 2005 CASCR Review found the CAS program “responded flexibly in assisting the Philippine Government to address its development challenges by providing traditional investment loans for rural infrastructure and social sectors, also through budgetary support for key social expenditures—in particular, education and health sectors. Bank staff indicated that the issue of programmatic lending was not so much one of risk but one of accumulating debt and increasing debt to GDP levels under an environment where policy reforms were uncertain, and could exacerbate the situation.
services.\(^5\) But the evaluation notes that many of the key constraints were outside the Bank’s sphere of influence, and the Bank acted appropriately in withholding three large-scale development policy loans.\(^6\) The Bank was largely successful in meeting its other core objectives, including extending social services and infrastructure to rural communities, and improving the delivery of education and health services while promoting community participation. On governance, however, the Bank program yielded mixed results and corruption continues to be a significant obstacle to development in the Philippines.

12. In our fieldwork, counterparts were generally satisfied with the Bank’s work, and suggested it compared as well as if not more favorably to support from other multilateral development banks and bilateral donors. Although the pace of Bank delivery was not quick, it was considered a touch quicker and more flexible than that from other international partners, including the Asian Development Bank (ADB) and the Japanese Bank for International Cooperation (JBIC). Through the PDF, the Bank is considered a significant contributor to development policy and is involved in more than just grants and lending. An official at DBM called the Bank program “satisfactory”; a former senior official was “satisfied”; and a senior representative from NEDA said the Bank is focused on setting the Philippines on a reform-oriented path and that he is satisfied, but believes the partnership can yield more. Counterparts raised some concerns and points of weakness, but there were no dramatic complaints and no one was persistently negative or strident in discussing the program.

13. One key strength of the Bank’s overall program identified by a former DoF official has been its role as “an important policy anchor” for official financing. For some time now, the Philippines has had an unstable policy environment, and the Bank provides “a clear roadmap that transcends a single ministry and short term perspectives.” This ability to provide multi-sector analyses and maintain continuity as cabinet secretaries change has been an important space for the Bank to fill.

3.2 **Tools for Effective Bank Work**

14. Many counterparts drew attention to the presence of an in-country Director, and a strong local office, as one ingredient helping to make the Bank’s work more effective. Decentralization has both made communication channels between Bank staff and Philippine stakeholders easier, quicker, and more relationship-based, and resulted in the Bank being more attuned to the cultural and social features of the country. A senior official at DoF called decentralization an efficient way to provide quick information and quick assistance, and that there is no better way of communicating and learning the needs of a country. He added that the Bank is moving in the right direction in terms of providing field staff with enough authority. A central bank official was also pleased with

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\(^5\) Since the CASCR Review was published, the Bank has found more success in helping the Philippines improve its fiscal situation, as noted in section 6.2.

\(^6\) While the CASCR Review agreed with the decision to withhold development policy lending, counterparts felt the Bank was too slow in providing programmatic investment lending to meet their needs.
the decentralization, but thought that providing in-country staff with more authority would be helpful. She gave the example of a project utilizing the Asia-Europe Meeting trust fund that needed approval from Washington. While this was a relatively small project, the back and forth process led to delays in the activity. An academic and former senior government official asserted that decentralization has made things faster and easier, and has improved access to Bank decision makers.

15. There have been two channels through which the Bank has sought to strengthen its interaction with civil society. According to a counterpart that has served both as a senior government official and civil society voice, the Bank has dramatically improved the extent to which it consults with civil society on development strategy. “The skepticism has been transformed into critical collaboration.” NGOs now feel that the Bank listens to their concerns and proposals, and are generally part of the process while they can still criticize Bank decisions. One indication of true collaboration with NGOs is their strong participation in creating the latest Country Assistance Strategy (CAS). This is in contrast to the findings of the 1999 CAR that found some NGOs resentful at being treated as less than full partners.

16. Second, NGOs have become more involved in implementation. The same official was impressed with the Bank’s work on a community driven development (CDD) project that she headed, Kalahi-CIDSS. Upon entering government and expressing to the Bank her interest in doing a CDD project, the Bank arranged for the official, others from NEDA, and NGO representatives on a mission to understand a successful CDD project in Indonesia. This proved the Bank’s seriousness in financing process-oriented projects, and allowed the Philippine representatives to expand their thinking about CDD projects, and ultimately adopt some of the ideas used in Indonesia. The Bank then provided project development through technical support, including bringing in outside experiences to help design the details of the project while maintaining a genuine partnership. Finally, the Bank helped during implementation to fund project monitoring at the village level and providing a “third eye” on the participatory process. Throughout the project, the Bank was flexible, relaxing procurement and fiscal requirements that could not be implemented by the villagers while closely monitoring funds (and ultimately rating village procurement and fiscal systems a 4 out of 5). Overall, the official considers the project a path-breaker. 7 The CASCR Review adds that community-based approaches have gained momentum, with three recent community-oriented projects including strong community participation.

17. One official was impressed with the Bank’s work on health and education through two Social Expenditure Management loans. The conditionalities were reasonable and the Bank was flexible (though sometimes it can be stubborn and will not allow the country to pursue alternative means for reaching the same agreed-upon conditions). In these project-specific loans, the Philippines was able to implement the conditions—the government

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7 A senior counterpart from NEDA disagreed. He remarked that the Bank sent a number of officials to see a project in Indonesia, but it seemed to ignore successful home-grown projects that already existed in the Philippines. In the end, he felt that Kalahi was quite expensive when measured per village, per person, or per outcome—the only result was community empowerment, but he was interested in results deeper than empowerment, He questioned whether the project had changed people’s lives.
had to agree to actions on which it could follow through because it wanted to draw down the loan. Evidence from the CASCR Review is congruent with this assessment, and it highlights the large number of school construction and repair projects (over 25,000 school buildings) and extensive provision of basic supplies (approximately 800,000 desks and 70 million textbooks).

18. A senior official from NEDA reported that the Bank has transformed the thrust of its program from one driven by commitments and disbursements, to one driven by country ownership and development results. Before the late 1990s, the Bank had measured its success in terms of finances. But it has since changed its role, moving the program to be more defined by country ownership. The official attributed this change to former Bank President Wolfensohn’s strategic level push. He also indicated that the Bank had repositioned its program to help the Philippines set up a results framework and monitoring system. In retrospect, the Bank should have devoted more resources to this framework, but it was a difficult environment because the government was restricting ODA and could not allow a larger program.

3.3 CONSTRAINTS ON EFFECTIVENESS

19. Interviewees also pointed to some significant weaknesses in the Bank’s program. Several officials volunteered that when the Bank was acting as a bank rather than a development institution, it lacked flexibility. For instance, one counterpart said the Bank was concerned that the Department of Social Welfare and Development (DSWD) was not fulfilling it counterpart support for a project, but this was because it was competing with other departments for central government funding in an environment where the top priority was deficit reduction. If the Bank had been acting as a development partner and explicitly showed DSWD the depth of the problem, DSWD could have more effectively lobbied the central government for additional funding. Another counterpart asserted that when the country has a difficult time meeting a challenging condition, the Bank approaches the situation by claiming, “You promised to do this. Why are you reneging?” Instead, it could work with the country to meet the conditions, or adjust them to be more achievable. Other officials, notably at DoF and NEDA, underscored these complaints by requesting the Bank not invent new conditionalities based upon the latest fashionable development ideas.

20. Several influential counterparts from DoF and DBM identified poor project design as the driver behind unsuccessful projects. A common feature of these projects is that the design is too complex, and that it lacks a full appreciation of country conditions. For instance, the Bank was trying to achieve an ideal output on an education project and created a very complex project, but it did not consider the limited capacity of the Department of Education and local government units. As the DBM official put it, this was a case of a well-meaning official trying to implement international best practices.

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8 It has been pointed out by Bank staff familiar with such situations that this phenomenon can also work in the other direction, namely that some Departments or interest groups within Government actually want the Bank to push for tough actions (through conditionality), as a support for reformers operating in a challenging environment.

Client Perspectives on the Bank’s Support
without understanding the local challenges to be overcome. Bank staff pointed out that in their view the project preparation team had tried to consider the specific features of the Philippines, including by having local education experts as part of the team. The 2005 CAS calls for less complex designs and a greater focus on implementation, perhaps in response to comments such as these. The education project itself was restructured at mid-term and while a formal evaluation has yet to be conducted, the Bank itself is reporting that it has subsequently registered positive results via targeted outcomes.

21. One very senior former government official identified three major shortfalls of the Bank’s approach in the Philippines. First, the Bank must be much more attuned to economic structures in the Philippines—it has very high inequality similar to Latin American countries, but Bank programs too often try to make it less painful to be poor rather than to raise people out of poverty. It should support the country in eliminating the obstacles that keep a middle class from rising and prevent entrepreneurship. The respondent identified a lack of sufficient infrastructure as the main obstacle. Second, on governance, he asserted that the Bank has produced good papers and held conferences, but these did not elicit direct government actions such as reducing the number of discretionary actions in government processes (this point was identified as a major obstacle to business development by a representative of the Philippine Chamber of Commerce and Industry). A government official underscored this position, noting that the government did not seek out the Bank when looking to address governance and corruption, but rather the governments of Australia and New Zealand. The 2005 CASCR Review concurred, noting that on governance reforms “actual progress has been slow and the country continues to rank poorly in international perception surveys of corruption.” The Bank should help by supporting the empowerment of a middle class to fight these obstacles to development. Third, the Bank promotes a mentality of providing for citizens rather than enabling them to provide for themselves.

4. **Importance and Impact of Bank Lending**

22. The transformation of lending strategy discussed above highlights some of the central tensions in the Bank’s relationship with the Philippines. Several interviewees indicated that there remains a very important role for Bank finance, particularly in infrastructure development. It also appears government officials are more connected to the Bank and its agenda when it is providing finance, but they desire more flexibility than the Bank is willing to offer. A Department of Finance official asserted that the Bank should be more selective in project financing and more expansive in program financing. It should have moved to programmatic lending earlier, and on a large scale. The Philippines has other, better means for financing individual projects, except for

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9 The FY06-08 CAS notes that due to inequality and lack of access to services, the poor do not share many of the income benefits generated by growth. It views social inclusion as the primary vehicle through which the poor would be enabled to participate in those opportunities. This would be supported by public spending targeted to the poor and participation in decision processes.

10 The 2006 Doing Business report ranks the Philippines 19th out of 23 East Asian countries and 126th globally out of 175 in ease of doing business.
specialized projects where the Philippines needs Bank expertise (these include complex multi-sector projects that have impacts on the environment and social sectors, and need a certain balance). Program financing, he added, gives the government larger amounts of money and more flexibility. Another official was satisfied with the mechanisms and instruments recently made available for budget alignment, and sees this as the most important aspect of the Bank’s involvement. The Bank should be able to do more with creative instruments.

23. It should be noted that this feedback, which was clearly relayed, came primarily from counterparts working in Ministries with central oversight responsibilities. During the course of the field assessment, for practical reasons a much smaller number of interviewees were conducted with those in sector Departments or other implementing agencies. It is possible that the views of counterparts in implementing agencies might be somewhat different, since they tend to have a more immediate connection with (indeed, institutional benefit from), traditional Bank investment operations.

24. Most Overseas Development Assistance (ODA) financing in the Philippines, approximately 60 percent, comes from the Japanese Bank for International Cooperation (JBIC). About 35 percent comes from the Bank and ADB, with their separate contributions fluctuating. JBIC lends primarily for infrastructure – it is well suited to large capital costs due to its 30-40 year term. China has been positioning to play a much larger and more proactive role recently in relations with the Philippines development partners, perhaps influenced by China’s large and growing reserves and China’s desire to become more active in ODA globally. Chinese partners are considering financing the south rail project, at almost $1 billion. They are also focused on economic infrastructure for growth. Generally, however, bilateral involvement is mostly project-linked rather than programmatic, and these arrangements end up being very costly for the Philippines because the government must invest a lot of personnel resources for a relatively small project with little impact on the overall economy.

25. Private capital for project finance can be more attractive than Bank lending. The Philippines has fluctuated around a BB credit rating for ten years—this is below investment grade, but when credit markets are liquid, private finance remains an option. Bank money carries notably lower interest charges than private finance, but also has several drawbacks, according to some respondents with experience with this issue. The drawbacks include (i) Bank finance takes longer to arrange; (ii) it carries less predictability in the certainty and phasing of its delivery; (iii) it is less flexible in helping the government manage its cash flow; and (iv) it can be onerous in policy and other conditions. A counterpart outside of government explained this logic as a crucial factor in deciding from whom to borrow—cash flow is more important to decision makers than the exact cost of finance. They have a short horizon perspective, and they are most concerned with having the money they need on time rather than getting the best possible deal on finance.

26. Moreover, according to a DoF official national requirements are less stringent than the Bank’s when it comes to environment and resettlement, and every few years there is a new objective with associated conditions. An official at DBM, conversely, did
not find the Bank’s safeguards as a major project obstacle. She is working with the Bank on procurement rules, and the country and Bank have succeeded in reducing the number of disputed rules from eighteen to five. From a client perspective, the gap between the cost of borrowing from the Bank and other sources has not been trivial, and would not be overcome with marginal changes such as the elimination of the front end fee or reducing the time it takes to provide a loan by a few months (albeit clients would welcome such changes). Clients, for the most part, are seeking predictable finance that matches their time horizon without many conditions attached.

5. COORDINATION OF SERVICES ACROSS THE BANK GROUP

5.1 OVERALL

27. The International Finance Corporation (IFC) has recently become more involved in setting the agenda for the Philippines’ development strategy. The last CAS in 2005 was written jointly by the Bank and IFC, and IFC holds a clear seat at the table via its recent participation in the Philippine Development Forum. An official from NEDA asserted IFC’s contributions are substantial. Another senior official added, however, that this participation could have begun sooner. According to a senior counterpart, the Philippines represents a potentially growing market for IFC because of its improving business environment, but IFC needs to be more aggressive and bold in pursuing projects, particularly in capital market development.

28. Most counterparts had not observed very much coordination between the Bank and IFC beyond working together at the PDF and on the CAS. For instance, an official at DoF argued that better coordination would be welcome, and it could lead to enhanced public-private partnerships. Another very senior official agreed they should be better coordinated and that she was “not sure the Bank and IFC talk to each other enough.” Furthermore, several counterparts raised the issue of missed opportunities for collaboration, particularly in the infrastructure and power sectors. It also appears that the IFC has less involvement in global engagement, as a senior partner working on urban development issues commented that she has had no involvement with IFC. One official suggested that co-location may play some part in improving Bank-IFC coordination to address many of these issues.

29. The private sector is often very concerned with the pace with which it can complete projects. Two private sector representatives noted that IFC is not noted for its pace in completing an investment, and the Bank is considered as slow if not slower. One counterpart is in preliminary discussions with IFC on an extension of the light rail system. In this case, he is very averse to interacting with the Bank because it will lead to engagement with the government and likely include conditions that are inimical to the project. This raises the danger that coordination may hurt IFC’s competitiveness. If private sector partners perceive IFC to be more closely linked to the Bank, they may fear

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Staff at the Bank and IFC reported that recently the IFC and Bank have been collaborating more closely with IFC having two representatives in the Bank’s country management team, as well as several joint meetings on relevant infrastructure and local government projects.
that IFC investments could trigger deeper Bank and Philippine government involvement, and potentially slow down project preparation and implementation.

5.2 SOME EXPERIENCES

30. One of IFC’s highest profile engagements in the Philippines was with regard to the Manila water privatization, begun in the mid 1990s. The Bank was involved in developing broad water sector policies, having been a long time financier of the public system. The government brought in IFC to create a structure for the bid, which was valued because it was considered technically competent and impartial, according to a private sector counterpart. The bid was patterned after a similar one in Argentina, with some changes. IFC advised that two separate concessions be created in different geographic districts in Manila, allowing them to be benchmarked against each other. After concessionaires were selected, IFC invested in both—a decision that provided stability according to a former government official and private sector consultant familiar with the project. One company has been successful; the other has failed and may be re-privatized.

31. The successful concessionaire, Manila Water, Inc., was pleased with its interactions with IFC and the Bank. The concession was well-designed because it encourages infrastructure development and builds in an arbitration process, although the senior official with whom we spoke was unsure whether the split concession was wise in the first place. She noted that many private sector colleagues viewed IFC as slow in providing finance for projects and several of Manila Water’s board members were concerned that its participation would slow the process, but in this project IFC acted swiftly. Manila Water also has a direct relationship with the Bank—it services debt issued to a government agency that previously provided water service, the Bank provides loans to the agency that currently provides some funding for Manila Water. The senior official’s own contact with staff at both the Bank and IFC had never occurred in a joint meeting involving all parties, although Bank and IFC staff have reported joint interactions with Manila Water officials at an operational level.

32. Another perspective on this episode was provided by a private sector representative who had previously been a senior government official. Overall he remarked positively about IFC’s involvement in water privatization. He asserted that IFC was unbiased in setting up the concession, brought stability to the project once the concessionaires were selected, and did not identify any sense of a conflict of interest within IFC or between IFC and the Bank. A very senior government official considered privatization a more mixed experience. She believed IFC pushed the process too hard without full consideration of the factors, implications, and risks involved in the process.
33. The experience of water privatization in Manila has been complex and elicits contrasting assessment from even within the limited sample with whom we met. It is therefore difficult to be definitive in an overall assessment of the project.

34. One experience of Bank-IFC collaboration was with regard to the government-run Land Bank of the Philippines (LBP). LBP primarily provides rural finance and maintains a large network of branches in underserved regions. LBP was very satisfied with three loans the Bank provided in 1992, 1997, and 1999, noting, “the market for long-term capital is very small in the Philippines; sometimes it does not even exist . . . I strongly appreciate the World Bank’s role in ensuring Land Bank is viable.” LBP has only gone to international capital markets for finance once, and even then, bond purchasers felt secure in their investment because they knew the Bank was also financing LBP. LBP was seeking a fourth loan, but within the Bank group, IFC argued that LBP’s presence was distorting the banking market and crowding out private sector banks in rural areas. In the event, at a fairly advanced stage of processing the project (and expenditures of approximately $300,000 on preparation costs), the Bank made the strategic decision to drop the project. This is an example in which Bank-IFC coordination was necessary to prevent a project that may have reduced development effectiveness, rather than a case where the Bank and IFC worked together to implement something new. It is also a practical case of coordination. Although arguably the decision was made rather late in the project processing schedule, the Bank and IFC discussed the issue privately, which ultimately led to the Bank deciding to drop the project. A unified and coherent case was subsequently made to the counterparts.

35. As part of the infrastructure strategy, the 1998 CAS called to improve road quality and conditions. The Bank proposed to finance part of the government’s road maintenance budget, which it did in FY2000 with a US$150 million National Roads Improvement and Management project (APL). IFC was to look into possible investments in roads among other infrastructure projects. In 2001, IFC provided US$46 million in long-term financing to the Manila North Tollways Corporation for the rehabilitation and expansion of the North Luzon Tollway in coordination with ADB and MIGA. The tollway was one of the country’s largest infrastructure projects in ten years, and it became operational in 2005.

36. The FY06-08 CAS offers some strategies through which IFC and the Bank intend to coordinate efforts in the coming years. For instance, IFC will especially seek to invest in infrastructure projects because lack of infrastructure is a medium-term structural constraint to development, as assessed by the Bank. In addition, as the Bank focuses on decentralization of power and revenue mobilization to the local level, IFC may support the development of private firms to smooth the functioning of municipal bond markets. However, as we have seen in other CASs, the proposed collaborative activities are described as possibilities, and none of them provides a framework to trace through results.

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12 We should also note we were unable to meet with the investors who had been running the other (unsuccessful) concession.

13 Based upon our limited number of interviews, we did not assess whether or not LBP should have been financed a fourth time.
6. **THE USE AND SHARING OF KNOWLEDGE**

6.1 **OVERALL**

37. Philippine counterparts were generally satisfied with the Bank’s knowledge services, citing several successful examples. A senior official at DoF noted that there is an emerging role for the Bank as a knowledge institution—it uses its international experiences, and this is particularly helpful in complex reforms for entire sectors. It also challenges the creativity of Philippine officials. A NEDA official agreed, adding that the Bank has a significant comparative advantage in knowledge services: “The Bank is more than just money... [It is] an independent source of advice” that the Philippine government clearly values. A former DoF official said, “I personally valued the advice more than the money.” Counterparts also believed Bank reports were of good quality—an academic says “I cannot quarrel with [the scholarship of] the World Bank”, and their findings hold weight in political debates.

38. The 2005 CASCR Review deemed the Bank’s knowledge services to be of high quality, although some planned products were delivered with some delay. In addition to the planned reports, the Bank carried out additional studies in public sector reform and infrastructure. The CASCR Review also found that core diagnostic products “provided solid foundation for a reform agenda,” and that informal policy notes facilitated the policy dialogue. In addition, the Bank’s Quality Assurance Group (QAG) rated all six studies it evaluated over FY99-04 as satisfactory or highly satisfactory.

39. Moreover, the Bank remains a very capable convener—a business leader who was working as a consultant for the Bank on pension reform had a meeting a week before our interview, and the Bank involved experts from all over the world, both in person in Manila and by teleconference. The Bank was able to bring all of the experts together, and though there are other ways to do this, it is very convenient for the Bank to be involved because it provides objective advice.

40. An academic and former government official frequently uses Bank documents as a reference, and includes them as required reading in her class. When in government, however, she found it difficult to find time to read these lengthy reports or to attend seminars on their findings. Instead, she asked more junior staff to read documents or attend events, and brief her afterwards. She was thus familiar to a degree with Bank studies, but lacked a deep knowledge about any given report.

41. Several counterparts suggested that the Bank’s advisory services sometimes lack applicability. A former DBM official said that while Bank documents reflect good thinking and are of good quality, they are sometimes too ambitious, and timelines and procedures do not take into consideration the culture and traditions of the Philippines. The Bank, she asserted, should select experts based on their ability to implement, and so practitioners are preferable. The 2005 CAS confirms this view of overly ambitious strategies with a lack of focus on implementation.14 A senior counterpart from the central

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bank assessed the quality of reports as good, but questioned the Bank’s ability to account for country dynamics. For instance, he noted, the Bank’s advice on tax reform was not realistic, and needed a better understanding of political and cultural sensitivities. A NEDA official thought the Bank should provide narrower, more concise advice based on more specific terms of reference, and bring knowledge services closer to exactly what government officials need, rather than covering a much wider range of issues than necessary. Moreover, he added, two-thirds of many reports dwell on diagnostics and identify issues of which the government is already aware (and sometimes has already addressed).

42. An official at DBM described how the Bank is changing its focus from doing studies and diagnostics to providing assistance within systems, and trying to improve systems within departments in response to Government requests. Bank advisory support has evolved from one-off external support to working directly with people. In this respect, she asserted, the Bank is the exception rather than the rule (this does not occur with USAID, ADB, JBIC, or others). For example there is a Bank economist working with the BIR in the Department of Finance, and helping with the budget at DBM. The success of an approach like this depends on the Bank’s ability to identify reform-minded people within an agency willing to push an initiative, rather than just liaising with the agency heads. According to the official, this is a riskier approach, but when it works it is much more effective.

6.2 **Key Successes**

43. A senior NEDA official asserted that the Bank has been improving its knowledge services in recent years. An example of successful experience was the preparation of a plan to increase government revenue—tax revenue declined from 17 percent of GDP to 12.3 percent between 1997 and 2004 creating a large fiscal deficit. The 2005 CASCR Review identified the unwillingness of the legislature to approve increased taxation as a key constraint to expanding the government’s revenue base. The Bank provided its own advice, and served in a coordinating role by bringing in the ADB and other experts to be involved in the process. Ultimately, the government increased the value-added tax (VAT) to 12 percent with the support of most stakeholders (including the Chamber of Commerce), and the decline in government revenue was halted. The Bank also found some success in working with DBM to modernize procurement systems—they have been giving TA to professionalize and harmonize the system. This has been useful because the previous system had over 100 rules. Current and former DBM officials agreed that the Bank’s TA was systematic, and ultimately successful.

44. Another example of development impact through the Bank’s knowledge services was raised by an academic and former Secretary of DBM. She reported that the Bank prepared a landmark anti-corruption paper in 1999 or 2000 on the burning issues of the day that made everyone aware of the gravity of the issue. The report helped to trigger many of the current government reforms—electoral reform, judiciary, public expenditure management, procurement, and the strengthening of civil society. The interviewee was sure these reforms would have happened eventually without the Bank report, but it would have taken longer. “Sometimes we use you”—if government reformers cannot convince
decision makers to make a particular reform, they point to a finding in a World Bank document. “If it is the World Bank speaking, everybody listens . . . like it or not, when the World Bank produces a document, it is considered truth.” As noted above, another former senior government official disagreed with this assessment asserting that the Bank has in recent years produced lots of good papers held and conferences on good governance, but there have been no direct actions taken.

45. The CASCR Review concluded that while positive progress was achieved in the CAS objective of good and effective governance, “major weaknesses still remain in the structures of public administration, public expenditure management, and civil service,” and these weaknesses reduce the effectiveness of public expenditures. Progress was partially attributed to the Bank’s use of civil society to maintain transparency in public bidding.

6.3 SHARING KNOWLEDGE ACROSS COUNTRIES

46. A NEDA official noted the Bank’s comparative advantage in knowledge sharing is a result of its global reach. For example, with increased government revenues described above, the cabinet (divided into three: security and peace, poverty reduction, and economic management) debated how to invest the extra resources. The economic management team agreed to meet with the poverty reduction team to discuss their position, and the poverty reduction team approached the Bank for ideas and advice. The Bank set up a teleconference with Bank experts and Brazilian officials for the team to explore the experiences of Brazil and Venezuela (the Bank was reluctant to discuss Venezuelan experiences, but the Philippine Secretaries insisted), as well as one with the Social Protection office in Washington to discuss the Conditional Cash Transfer program. The ideas in the debate helped inform the discussions between the Bank and Government counterparts, although no specific activities resulted from the discussions.

47. Sharing of knowledge can be important for project success, but global experiences cannot simply be transplanted into a new environment. A senior CSO representative commented that the Bank should more systematically use local experts to address this issue. One knowledge product that failed in implementation because it did not effectively connect an international experience to the political and institutional on-the-ground realities in the Philippines was a project to reform the Bureau of Internal Revenue (BIR). The Bank tried to emulate reforms completed in Peru, and provided advisory support for counterparts. In order to build consensus, the Bank brought officials from NEDA, DBM, and the Senator and Congressman from the Ways and Means and Appropriation committees to a seminar in Washington on fiscal responsibility. The group had never worked together as a team, but drafted the bill as a group. A former DBM official said “What the Bank was trying to do was, I guess, good,” but it did not anticipate the political difficulty of passing such a reform in the Philippines. Ultimately the government failed to get Congressional approval for reforms and therefore the Bank’s efforts have not yet borne fruit and it remains to be seen whether they will engender a change at some point in the future.
6.4 Using Local Expertise

Several interviewees noted the importance of including Philippine expertise in designing reforms, and blending this expertise with international experiences. A DoF official asserted that most projects can be undertaken with existing Philippine expertise or that from other partners. A former senior official and now private sector representative agreed, noting that “we have become experts ourselves,” and with increased access to global information, it is easier for local experts to access global experience. A senior DBM official cited the importance of utilizing local institutions and people instead of foreign consultants because support for developing local capacity in some departments will lead to capacity development in others, eventually putting the government on a self-sustaining path. She added that it can be difficult to influence the direction of the Bank’s knowledge work, but that “if we speak loudly and strongly enough, the Bank listens.”

Government officials were not satisfied with the Bank’s use of local expertise and organic processes to reach conclusions. Several interviewees called for more “organic processes” in designing and implementing knowledge work. Many counterparts complained about the misguided use of highly priced foreign consultants who often lack a fulsome understanding of country conditions, which leads to negative results for projects. For instance, a senior DBM representative said that the Bank uses local expertise about half the time, and only when they run into problems with foreign consultants. An example of poor work by a foreign consultant was due diligence on the measurement of the economic returns of civil service reform. They were to confirm that estimates and computations on social security institutions were correct in terms of pensions. The Philippine government managed the Bank-financed study, hiring a Bank-selected consultant (both “high-priced and high-handed”) whose output was substandard. Bank staff have noted that there are indeed many first-rate local experts, whom they make efforts to involve in Bank activity, but such experts are often overbooked and overextended. It is argued that this creates a practical difficulty and limitation for the Bank’s efforts in this regard.

Additionally, a NEDA official objected that when providing advice, the IFC hires out experts without input from the government rather than providing resources and allowing NEDA to bid out the work. The DoF representative said the Bank is not yet at the point of using local expertise sufficiently, but recognized that sometimes it would not be appropriate because sometimes he needs straightforward advice that does not get mixed up with building local capacity. Finally, a former DoF Secretary now at the central bank warned that the Bank does not incorporate capacity building into its knowledge services.

7. The Engagement of MICs in Global Programs

Some argue that engaging MICs in global issues and global programs is one of the most important reasons for working with them. In the Philippines, we explored three issues that have a global dimension: (i) the Cities Alliance global program; (ii) various health programs with global interest; and (iii) the Global Distance Learning Network (GDLN). We looked to see the extent to which the Bank worked to involve Philippine
counterparts in various global programs. We also sought to measure some indications of the Bank’s program that have been shown to facilitate engagement in global programs, including the extent to which global programs are connected to the country program, and the extent to which counterparts have influence over the strategic decisions of individual global programs.

7.1 **Cities Alliance**

52. According to counterparts at the League of Cities of the Philippines (LCP), the introduction of the Cities Alliance—a virtually seamless transition from the City Development Strategies Bank program—and the Philippines’ interaction with it has worked well. It is largely perceived as an off-shoot unit of the Bank, and so very connected to the Bank’s program. In the Philippines, the program is demand-driven and country-owned—interventions are designed and overseen by the Philippines team. The program is also integrated into the 2005 CAS as a mechanism through which to provide TA to local government units.

53. Philippine influence over the governance of the Cities Alliance is less clear. The Philippines was not consulted about, nor had any involvement in, the formation of the program and its method of governance and oversight. A senior government partner familiar with the program noted that the Philippines has a voice on the Policy Advisory Board that supports implementation, but not on the governing Consultative Group. Respondents did not report the Philippines’ lack of voice at the global level as problematic, particularly because it often asks for input from stakeholders. For instance, the LCP suggested creating a sister cities program, and this has been well-received by the Alliance’s current director.

7.2 **Health Programs**

54. Although the Philippines is trying to address various health problems, the counterparts with whom we met did not suggest that the Bank had linked them to the relevant global programs. A counterpart in the Department of Health indicated that it deals with the United Nations (UN) on most of the major global health programs—the Bank is clearly not the primary interlocutor on this topic. She was not familiar with the full range of global programs available, nor was she made aware of them in a systematic fashion. The Philippines does participate in the Global Fund for AIDS, Tuberculosis, and Malaria (GFATM), with six projects totaling $95 million in grant finance. There is a Country Consultative Mechanism (begun in 2002) that administers GFATM grants, but it does not appear that the Bank has been closely involved. A representative from the World Health Organization (WHO) indicated that she does not have much interaction with the Bank, and implied that the Bank is not a major player in global health programs in the Philippines.

55. Sometimes, operational modes can end up actually or appearing to create parallel implementation structures, which may not be efficient. For instance, the 2001-2003 round of finance from GFATM primarily funded a quite capable NGO, but it may have duplicated structures already put in place by the Department of Health. This outcome
contrasts with the ongoing effort by the government to take a sector-wide approach (SWAP) to health in the Philippines.

56. Finally, one counterpart at the Department of Health complained that the Philippines faces a structural problem of very high prices for important drugs, such as tablets that are used to de-worm children.  

15 Similarly, some food products such as milk substitutes are very highly priced. He attributed the problem to excessive power and influence by multi-national pharmaceutical companies, and indicated that the international community, including the Bank and various global programs, have not done enough to raise the issues and push against these corporations. On the milk supplement, he reported that in the context of the most recent PDF, the government and Bank completed analytical work to create legislation on the topic, but it remains to be seen if there will be a tangible result.

7.3 **GLOBAL DISTANCE LEARNING NETWORK**

57. The Global Distance Learning Network (GDLN) located at the Asian Institute of Management (AIM) was reported to have limited impact. The GDLN is a missed opportunity because it could be used to spread development management knowledge cost effectively throughout the Philippines and to local government units. The Bank views GDLN as a global network, but the President of AIM, formerly a very senior government official, would find it more useful if it also worked as a national network. He asserted that this exemplifies a lack of synergy between the Bank’s global dimension and the Philippines’ country dimension. Bank staff made the point that in the past they have shared several of these concerns, and are seeking to work with counterparts to address them and thereby improve the effectiveness of this initiative.

7.4 **CONCLUSION**

Some Global programs, (e.g., health, GDLN), were not closely linked to the Bank’s country program in the Philippines. As several counterparts explained, the Bank did not make Filipino officials familiar with the full range and diversity of global programs. They were familiar with several—the Cities Alliance, Global Environmental Facility (GEF), and Consultative Group to Assist the Poor (CGAP)—but not many others. The Bank does integrate Cities Alliance into its program, as development of Local Government Units is a major platform in its CAS, but this program is housed within the Bank and appears to be an exception that proves the rule.

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15 He explained that in Cambodia, 75 percent of children receive de-worming tablets, while only 15 percent are covered in the Philippines. This is because the international price for one tablet is $0.03, while in the Philippines it is 80 Pesos (approximately $1.60).

16 Bank country team representatives have made the point that the team’s first-in-line focus is on the Philippine Government’s own development priorities, some or many of which may not be immediately or closely associated with global programs. Hence care must be taken when observing the situation as to the reasons behind the particular engagement—or lack thereof—with global programs.
ANNEX 1: PHILIPPINES FIELD WORK: INTERVIEW LIST

This field assessment conducted interviews with development practitioners across a spectrum of in-country institutions. Most of the counterparts were at a senior level—typically playing a significant role in the organization’s management team. The sample also includes some counterparts with practical operational roles. The interviews were drawn from the following diverse range:

- National Economic Development Agency (NEDA)
- Department of Finance
- Department of Budget and Management (DBM)
- University of the Philippines
- Land Bank of the Philippines (LBP)
- Rizal Commercial Banking Corporation
- Asian Institute of Management
- Philippine Chamber of Commerce and Industry
- INCITE Gov
- League of Cities of the Philippines
- Philippine Infrastructure Corporation
- Manila Water Company, Inc.
- World Bank Group Staff

On occasion, the references in the working paper appropriately are associated with particular institutional vantage points, which allow the reader to see the richness of the debate. Noting this, the appendix therefore does not identify respondents by name.

Thomas O'Brien
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