

**PHILIPPINES**  
**World Bank Group**  
**Country Assistance Strategy**  
**(CAS) - FY10-12**

**CAS Multi-Stakeholder Consultations**

**Asian Institute of Management, Makati City**  
**October 3, 2008**

Philippines CAS Team

# Outline of Presentation

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- Philippines – Key Development Challenges
- The World Bank in the Philippines
- New WB CAS for the Philippines
- Early Ideas for WB Engagement
- Questions for Discussion

# ***Philippines – Key Development Challenges***

- The Philippines Growth Story
- Poverty – Key Challenge
- Governance – Unfinished Agenda
- Decentralization – Varied Record
- Climate Change/Disaster Risk Management/  
Food Policy – Pressing Challenges

# Recent Economic Performance

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## Achievements

- Fiscal consolidation paved way for higher growth
- External balances remain reasonably robust
- Recent growth performance highest in three decades
- But low relative to neighbors, and sustainability is questionable
  - Consumption-driven, fueled by remittances
  - Low investments; low tax to GDP ratio
  - High rates of unemployment and underemployment
- Poverty reduction reversal and high inequality
- External conditions are becoming more adverse in 2008

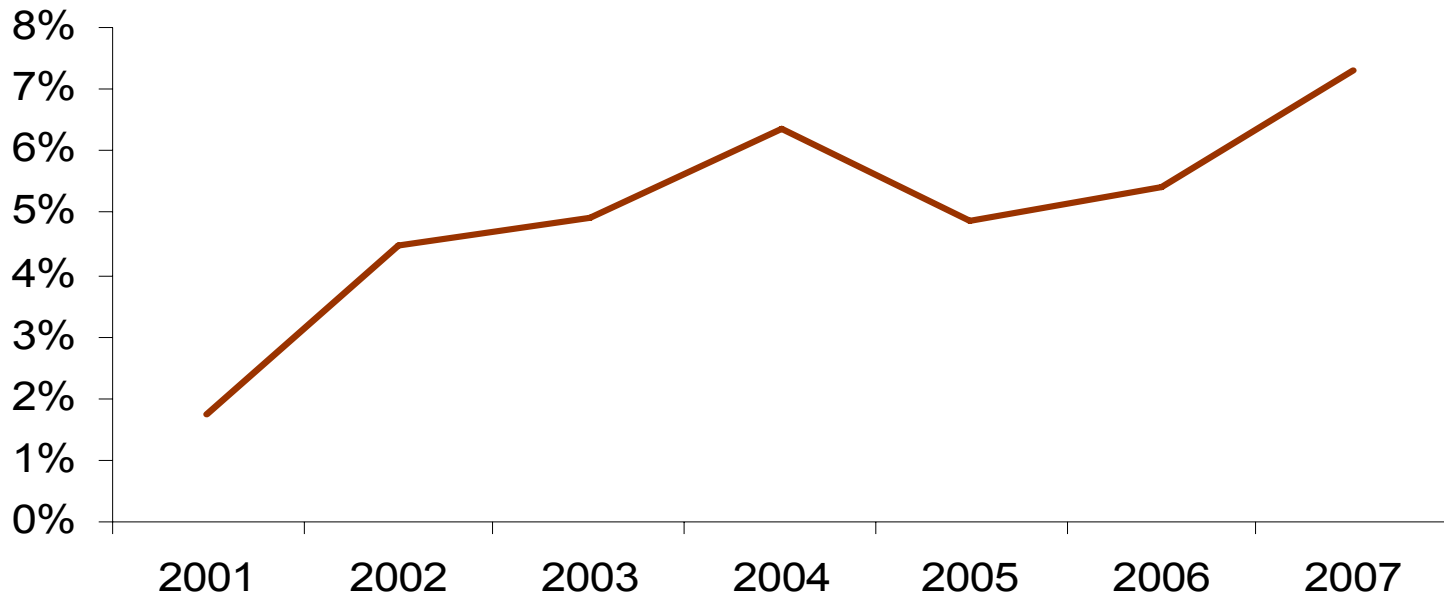
## Development Challenges

- How to sustain high growth?
- How to make it more inclusive?

# ***Economic growth has been accelerating...***

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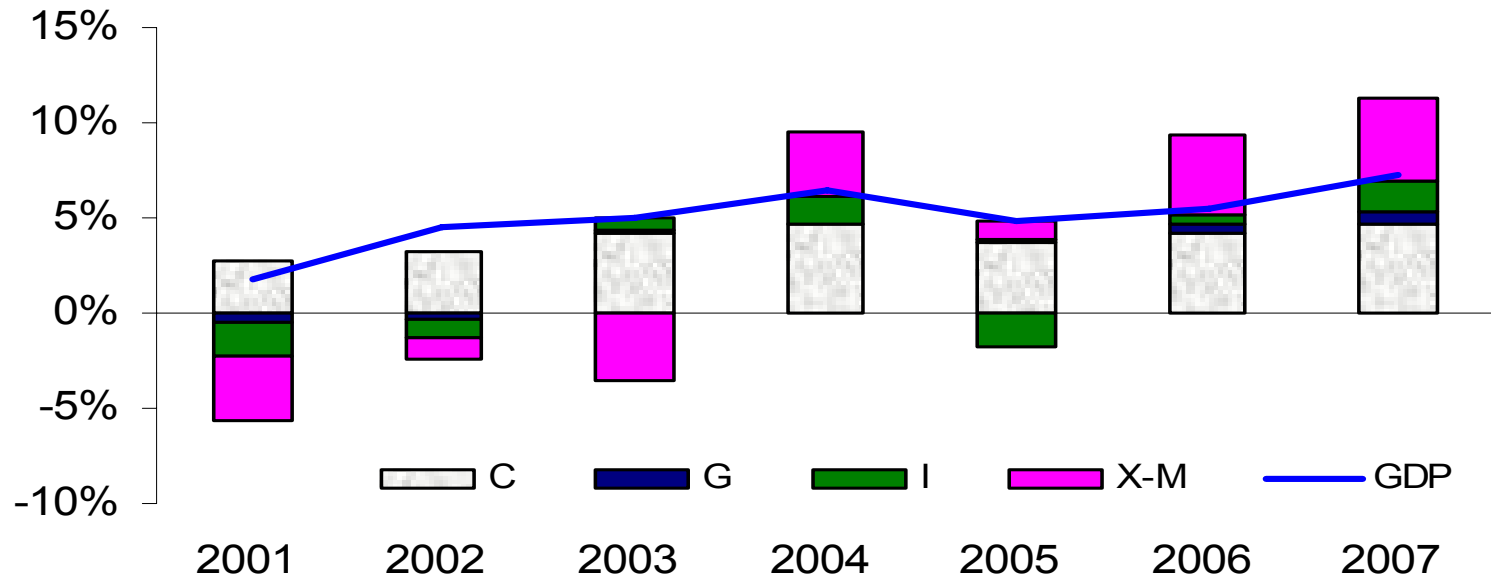
**Gross domestic product (real growth)**



Source of basic data: National Statistical Coordination Board (NSCB), BSP SPEI

# *... driven on demand side by consumption*

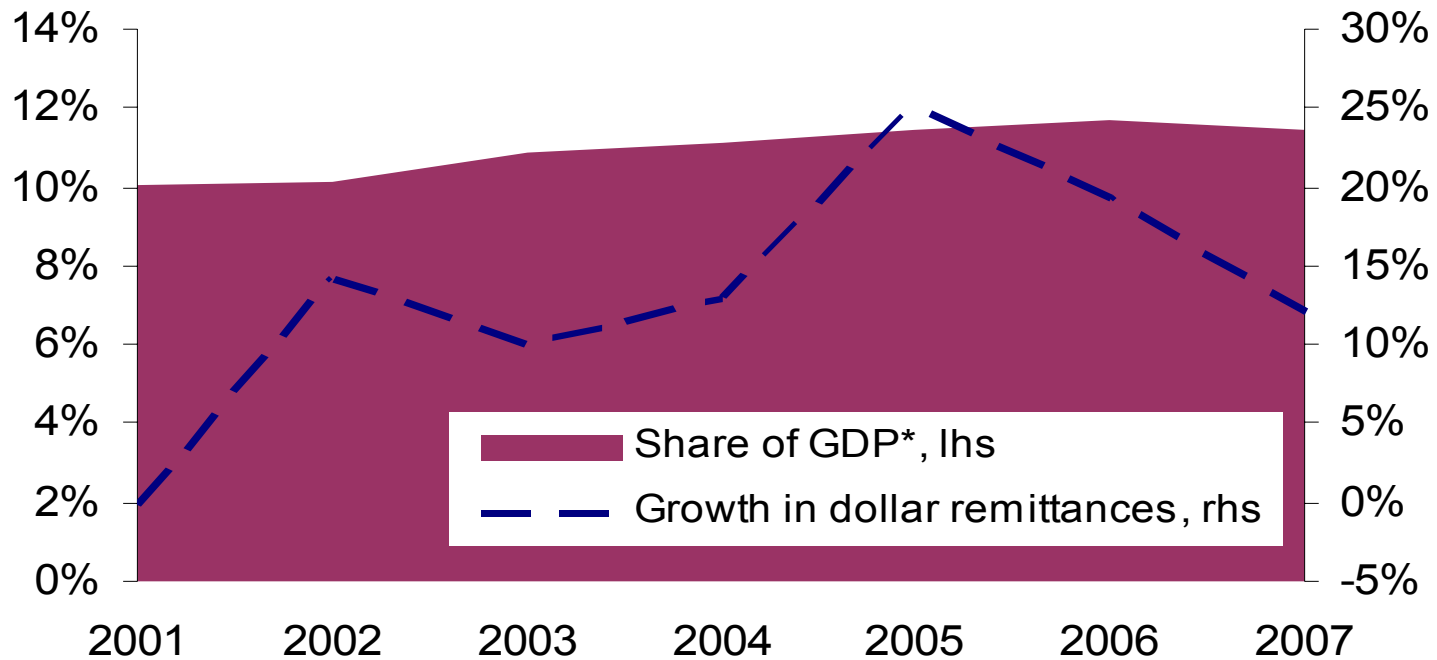
Contribution to real GDP growth



Source of basic data: NSCB

*(which is supported by growing remittances)...*

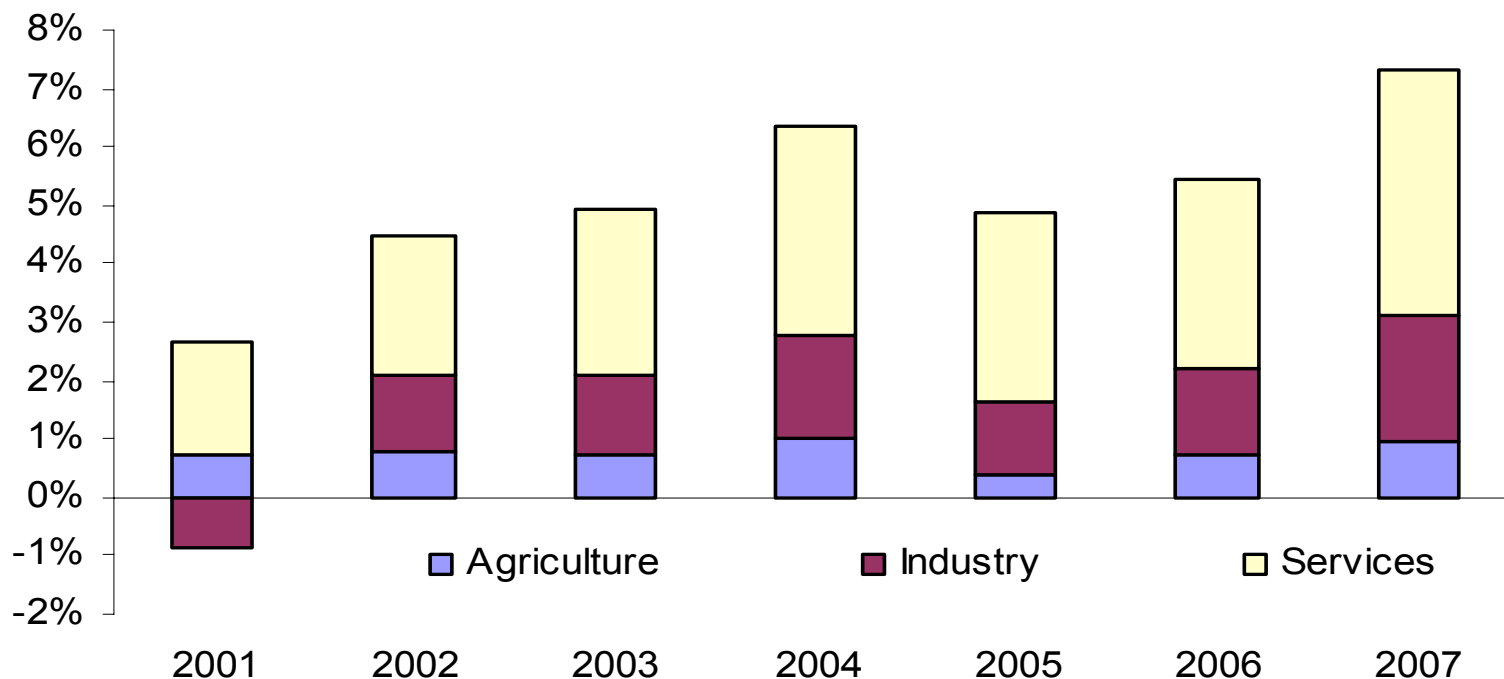
### Migrant workers' remittances



\*NIA definition, current prices. Source of basic data: BSP and NSCB

# *... and services on the supply side.*

## Sectoral contribution to GDP growth

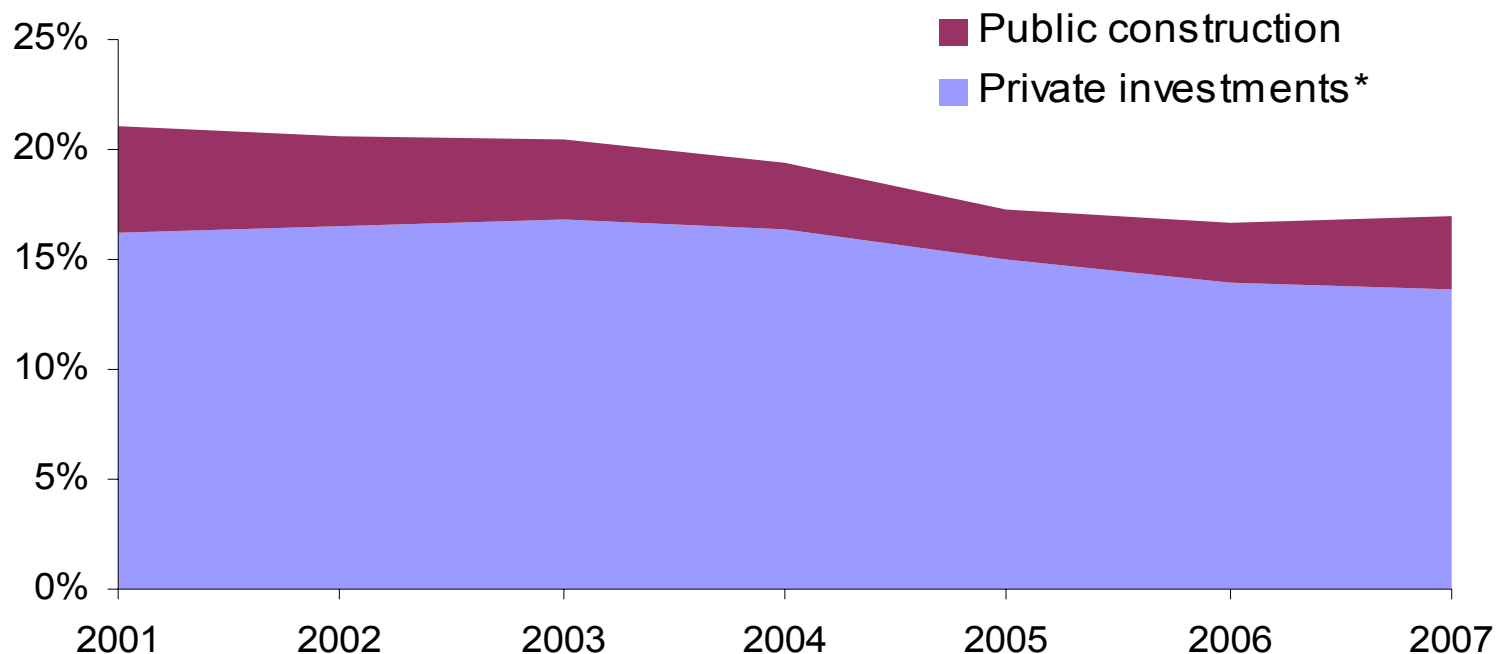


Source of basic data: NSCB

## ***But investments have been declining ...***

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### **Fixed capital formation, % of GDP**



\* Fixed capital formation less public construction. Source of basic data:

# *...and unemployment remains high.*

## Labor indicators



Source of basic data: [www.census.gov.ph](http://www.census.gov.ph)

# Poverty/Social Issues

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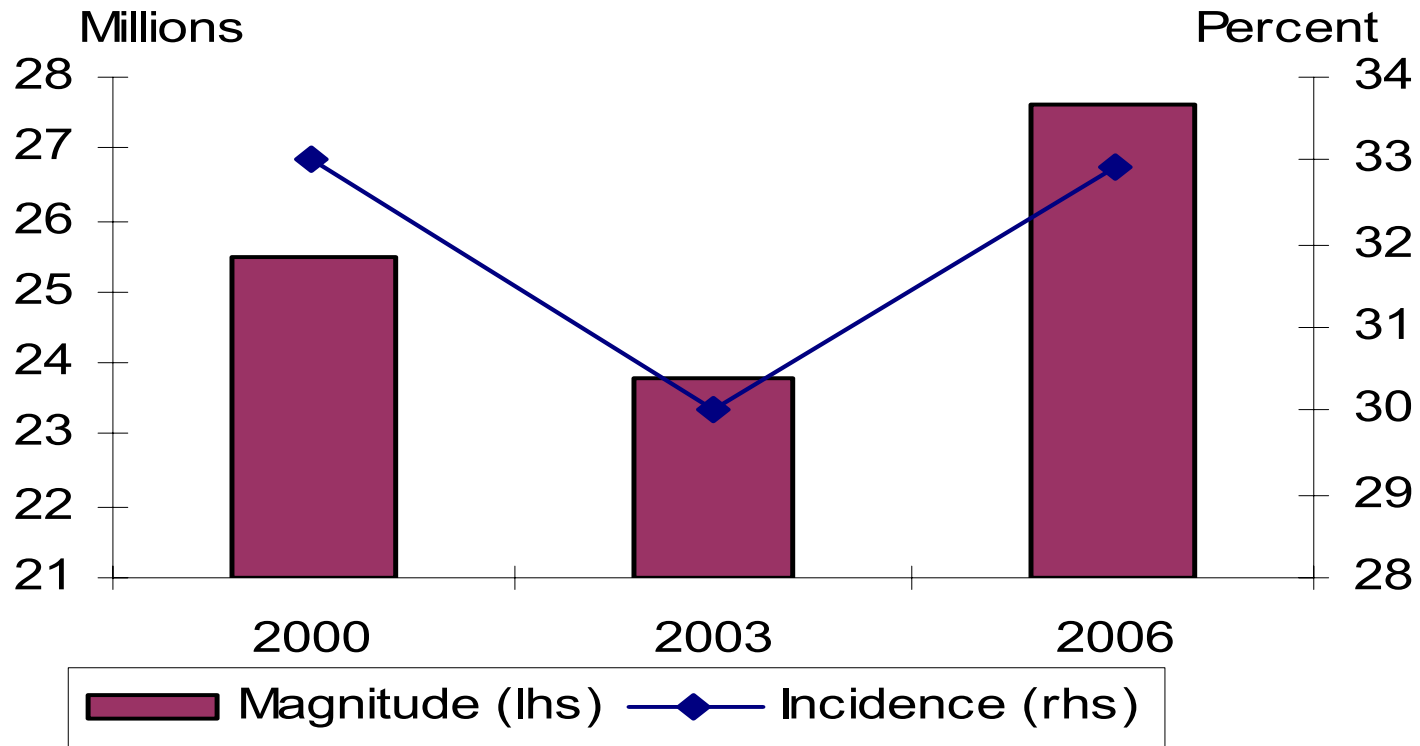
## Achievements

- Increase in social spending as share of total budget
- Progress in reform agenda in education/health, early steps in SP
- CDD programs deliver services and improve incomes in poor areas

## Development Challenges

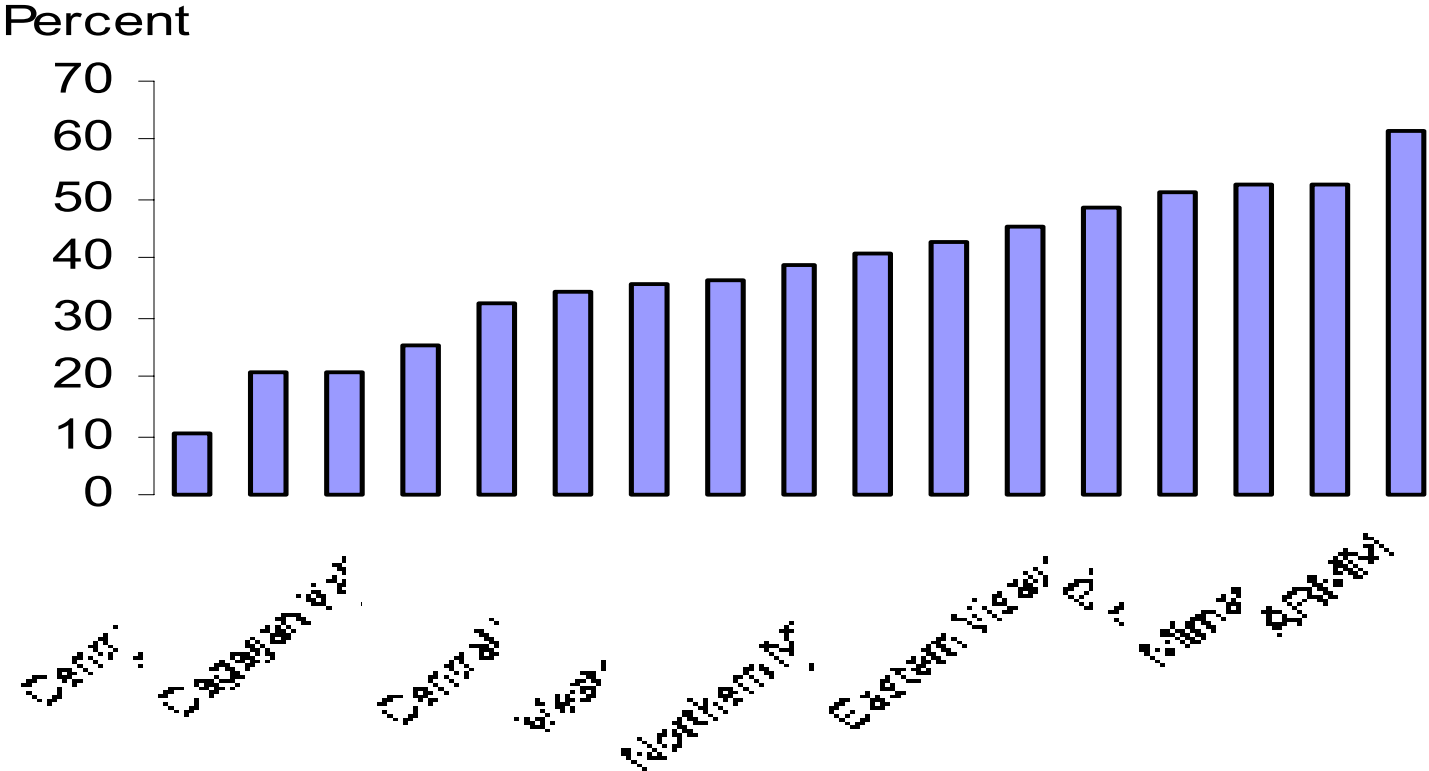
- Low response of poverty reduction to growth
- Low MDG outcomes for key social indicators
- Growth is undermined by inequality that remains HIGH
  - across households, regions and rural-urban space
  - by sector and employment
  - in terms of access to services
- Many Government poverty programs are poorly targeted and coordinated
- Inadequate poverty and service delivery statistics limit evidence-based policy making
- Unresolved Mindanao conflict exacerbates poverty

# Poverty Trends



Source of basic data: National Statistical Coordination Board

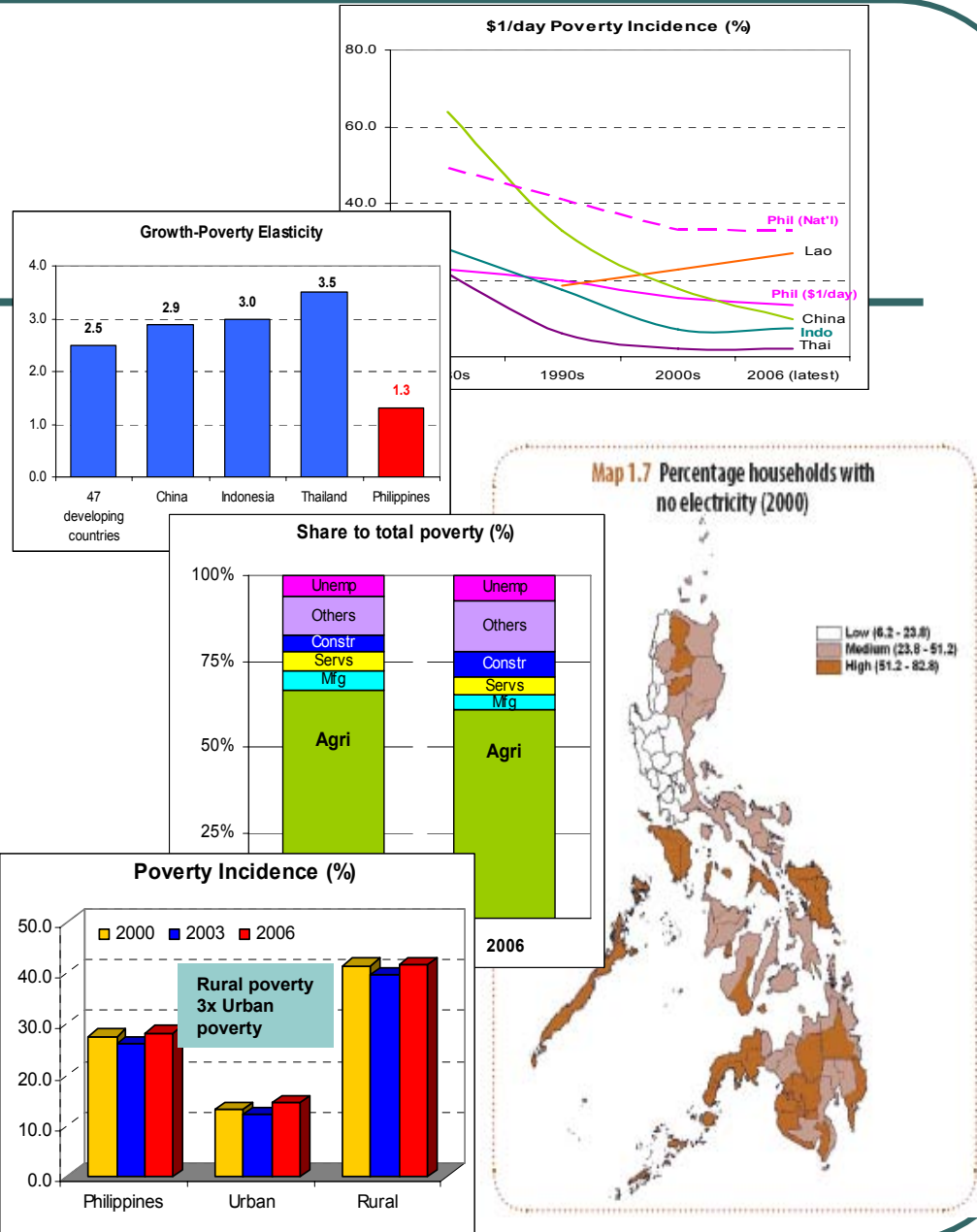
# Poverty Trends by Region



Source of basic data: National Statistical Coordination Board

# Poverty – Key Challenge

Low response of poverty reduction to growth



# Investment Climate

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## Achievements

- Stronger regulatory framework and high returns led to higher private investments in power sector
- Increased awareness of the need for improved regulatory systems
- Efforts to develop public-private model of investments underway
- Dialogue underway for rationalization of fiscal incentives to invest
- Credit information system contemplated to improve access to finance
- LGUs engaged in business enabling environment

## Development Challenges

- Inadequate infrastructure is a major impediment to investments
- Regulatory system is cumbersome, expensive and uncertain
- Cost of financing is an important constraint
- Lack of competition in key areas (e.g. transport, retail, construction)

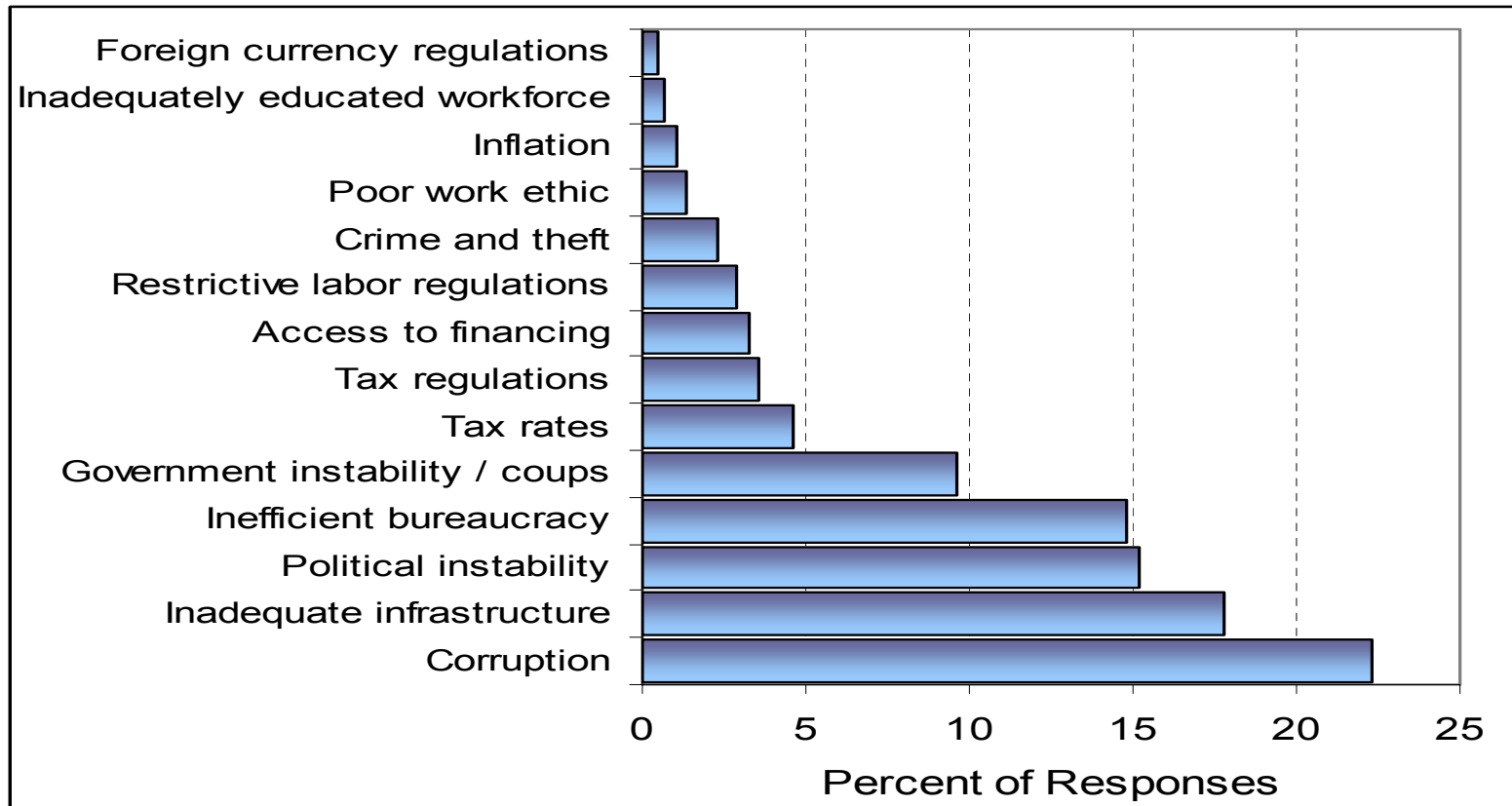
# Infrastructure Indicators

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Quality of Infrastructure Indicators	Ranking	(out of 131)
● Quality of Overall Infrastructure	101	
● Quality of Roads	91	
● Quality of Railroad Infrastructure	90	
● Quality of Port Infrastructure	102	
● Quality of Air Transport Infrastructure	82	
● Available Seat Kilometers	30	
● Quality of Electricity Supply	80	
● Telephone Lines	104	

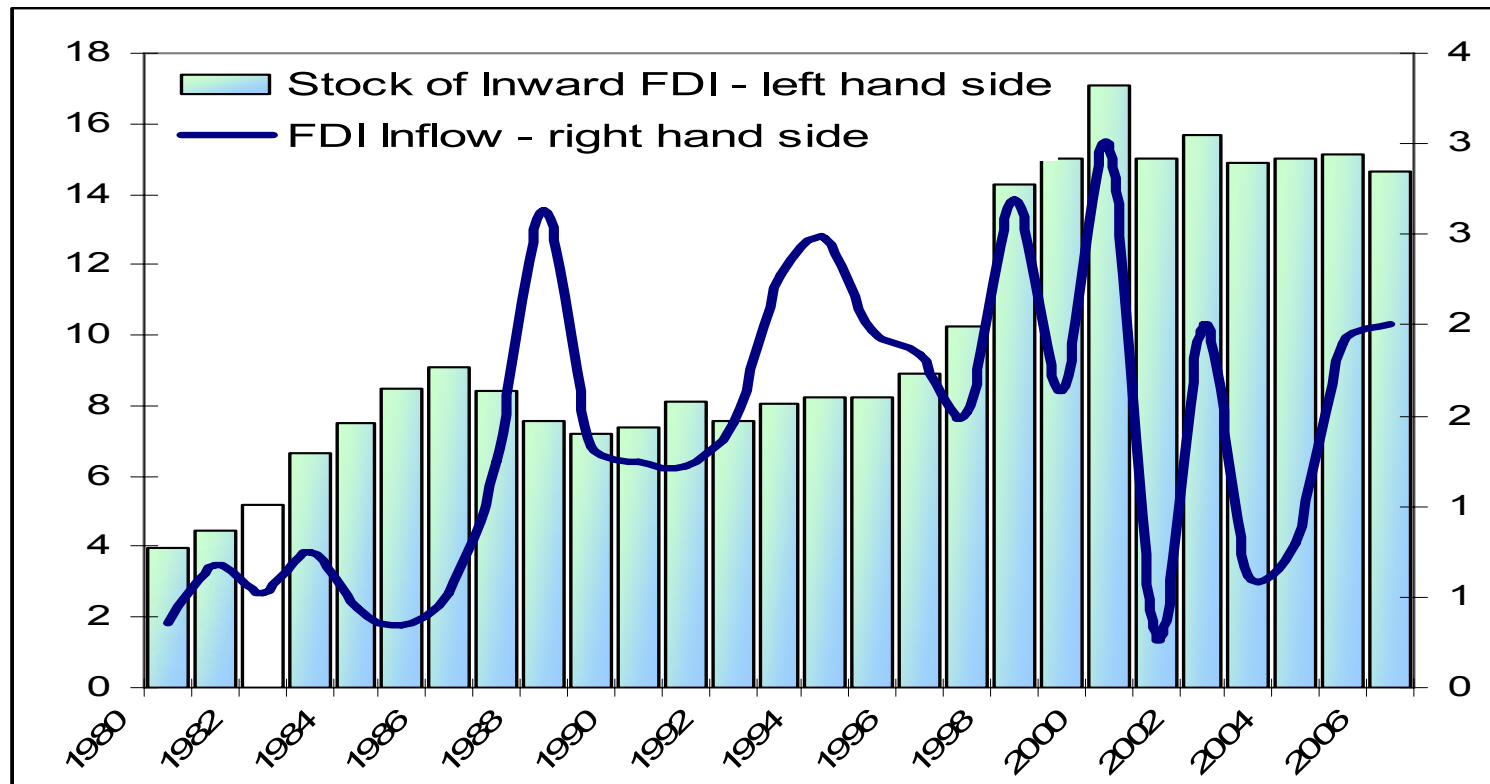
*Source: World Economic Forum. Global competitiveness Report 20071-2008  
(<http://wreform.org>)*

# Most Problematic Factors for Doing Business in 2007 (% of responses)



Source: World Economic Forum & Makati Business Club

# Stock and Flow of Inward FDI (% GDP)



Source: UNCTAD World Investment Report 2007.

# **Governance – Unfinished Agenda**

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## **Achievements**

- Progress in procurement reform and harmonization
- Good examples of GAC reform in HD sectors: DepEd, DOH, DSWD
- Incremental progress in PFM through budget reform
- Strengthened demand-side governance thru CSO involvement (e.g., procurement oversight, CDD)

## **Development Challenges**

- High corruption risk in some government agencies
- Civil service performance
- Weak coordination among oversight agencies in managing governance agenda
- Political challenges linked to elections

# Decentralization – Varied Record

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## Achievements

- Philippines has a strong history of democratic decentralization
- Improved access to credit for LGUs
- Decentralization work under PDF consolidating support to LGUs
- Good practice examples at LGU level
- Bottom-up approaches improving LGU accountability and transparency

## Development Challenges

- Unclear whether decentralization objectives have been met
- LGU service delivery record varies
- Renewed effort to re-centralize services (e.g. health)
- NG support systems for LGUs weak and fragmented
- Inconsistency in data collection and weak M&E
- Weak incentives for LGUs to improve performance
- Some LGUs remain dependent on central government
- Downward accountability to citizens remains weak

# Climate Change (CC)/Disaster Risk Management (DRM) – Pressing Challenge

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## Achievements

- Privatization of environmental services in Metro Manila
- Use of economic instruments to complement regulation – e.g. tariffs, user fee and public disclosure
- Regional approaches to ENR management
- Community-based coastal and NRM
- CC mitigation/adaptation through GEF-supported projects and CDM projects
- Local DRM initiatives; mapping of high-risk, ecologically sensitive and geologically unstable areas

## Development Challenges

- Environment and natural resource degradation impacts the poor disproportionately
- Coping with increased incidence of natural disasters
- No clear strategies for CC and DRM
- CC and DRM not integrated into development plans
- Disaster management in the country is mostly reactive

# Food Policy – Pressing Challenge

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## Achievements

- Food sufficiency through combination of local production and imports (no famines!)
- Employment opportunities for 1/3 of labor force, esp. for poor
- Agriculture growth rate of 5.1% in 2007

## Development Challenges

- Sustainability of natural resource base
- Low productivity growth in farm and nonfarm economy
- Slow progress on crop diversification
- Non-farm opportunities no keeping pace with employment needs
- Regional and urban-rural disparities and stagnating lagging areas
- Higher international food prices
- Rice policy

# ***The World Bank (WB) in the Philippines***

- WB 2006-09 CAS – Objective and Focus
- Results Areas of the Current CAS
- Main Country Outcomes
- Bank's Contribution to Phl Development
- Examples of Results to Date

# **The 2006-09 Country Assistance Strategy**

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- **CAS Objectives**

- Achieving fiscal stability
- Generating economic growth
- Ensuring social inclusion and improved delivery of basic services
- Improving governance

- **Focus on “Islands of Good Governance”**

- Areas where governance arrangements are sufficiently sound to provide a reasonable chance of success

# Results Area of the Current CAS

	<b>National Platform</b>	<b>Local Platform</b>	<b>Private Sector Platform</b>
<b>Governance</b>	Systems and processes for allocating and executing budgetary resources are more transparent and efficient.	Systems and processes of local governments for planning, budgeting, and delivering services and investments are transparent and efficient.	Improve governance of corporate sector and infrastructure regulatory agencies.
<b>Fiscal Stability</b>	Improved public revenue mobilization, public expenditure management, and management of state-owned enterprises.	Expanded local revenue base and increased revenues from local sources in at least 20 local governments.	Reduced fiscal burden through financial strengthening of government corporations and financial institutions.
<b>Growth</b>	Competitiveness of the economy improved by increasing investment, upgrading infrastructure, & improving productivity.	Productivity increased through local provision of infrastructure and services.	Catalyze private investment in key sectors including infrastructure.
<b>Social Inclusion</b>	Improved performance of national institutions and increased access for the poor and disadvantaged 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.

# Main Country Outcomes

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- **Fiscal Stability**

- Significant progress in turning the fiscal situation around; tax revenues increased; national govt. fiscal situation goes from deficit to surplus
- *But can this be sustained?*

- **Economic Growth**

- The economy continues to grow at 5%+ per annum
- *But driven primarily by consumption. Need to increase investment*

- **Social Inclusion**

- Poverty increased despite economic growth
- *Need to ensure the poor benefit from growth*

- **Governance**

- Govt continues to strengthen procurement, improve budgeting
- *But civil service reform is lagging, government corruption continues to be a concern*

**=> Conclusion:** Improvements in public sector finances and management and higher economic growth, but these efforts need to be sustained and accelerated with measures to ensure that the poor benefit more

# Bank's Contribution to Philippines Development

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## ● Transfer of Knowledge

- **International experience** applicable to the Philippines: e.g. conditional cash transfers
- **Conducts diagnostics:** e.g. Development Policy Updates, Doing Business in the Philippines, Environmental Monitors, Agricultural Public Expenditure Review, etc.
- **“Cutting edge” operations:** e.g. carbon emissions reduction
- **KDCs:** 11 “Knowledge for Development Centers” in partnership with leading private and state universities

# Bank's Contribution to Philippines Development

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- **Transfer of Funds**

- Committed \$1.05 billion of new funds for education, health, natural resource management, roads, rural development and local government development in FY06-08
- At the national government level, move to support government programs (rather than specific investments)
- Value-added grants thru Japan Social Development Fund, Institutional Development Fund, Mindanao Multi-Donor Trust Fund and others

# Bank's Contribution to Philippines Development

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- **Development Partner Cooperation**

- Active in the Philippines Development Forum, working with the Government and other development partners to increase development effectiveness
- Support for harmonization agenda

- **“Panibagong Paraan”**

Development Market Place: a competition open to civil society for grant projects to address local development challenges

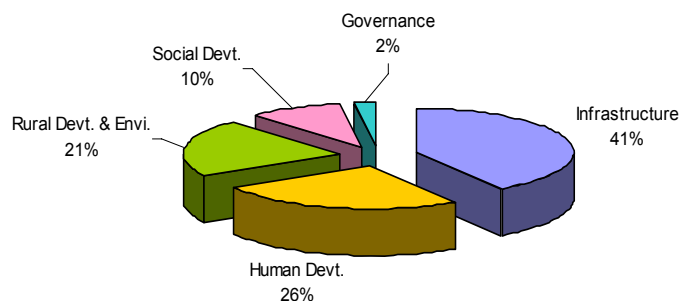
## Examples of Results to Date

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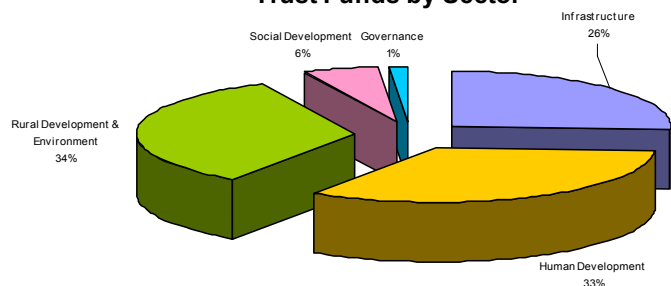
- \$214 million lent to small, rural enterprises, creating an estimated 17,000 new jobs (Rural Finance 3)
- Agrarian Reform Communities report 21% increase in real income after 3 years (ARCDP 2)
- 382 km of national roads improved; 721 km of preventive maintenance carried out (NRIMP 1)
- 383 LGUs receive funding; 643,896 gain access to local infrastructure and services; staff of 979 LGUs receive training (LOGOFIND)
- Others: increased access to electricity in rural communities; greater community participation in local investment planning, etc.

# The WB Philippine Portfolio

## Loans by Sector



## Trust Funds by Sector

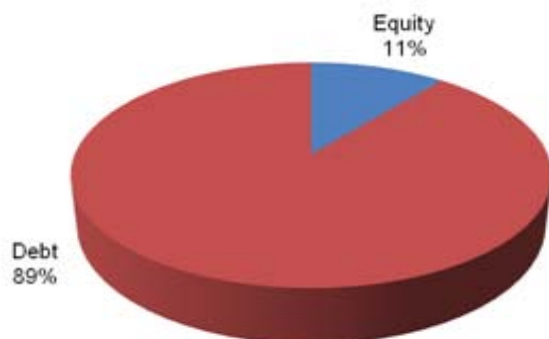


- 27 Active projects - \$1.4 bln commitment
  - 22 loans
  - three stand-alone trust funds
  - two stand-alone and two supplemental GEF grants
- 72 active trust funds - \$137 mln

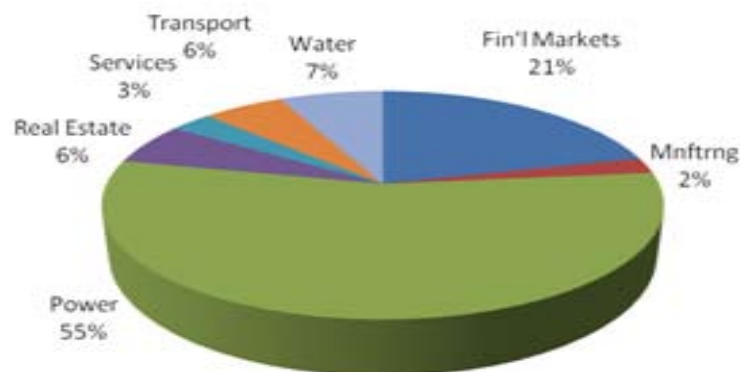
# Philippines: IFC Investments

- Manila field office since 1977
- Davao office in 2006
- Committed US\$ 2+ billion since 1963
- New commitments in FY 08: US\$ 564m
- September 2008 exposure: US\$ 986m, (including US\$ 5m in syndication)

IFC Portfolio by Product



IFC Portfolio by Sector



*Outstanding + Undisbursed Commitment. Includes syndication participants.*

# ***New World Bank CAS for the Philippines***

- Why a new CAS?
- Emerging Strategic Shifts
- Perceived Operational Needs
- Strategic Principles
- CAS Selectivity Filters
- CAS Engagement Plan

# Why a New CAS?

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- Strengthen client orientation
- Ensure alignment with country priorities
- Increase focus on development outcomes
- Establish new agreement with Government
- Re-confirm partnership with all stakeholders
- Reshape and invigorate Bank program

# Emerging Strategic Shifts

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- Increase focus on direct poverty alleviation
- Operationalize the focus on governance
- Expand and re-focus knowledge agenda
- Strengthen linkages to global issues – climate change, disaster risk management

# Perceived Operational Needs

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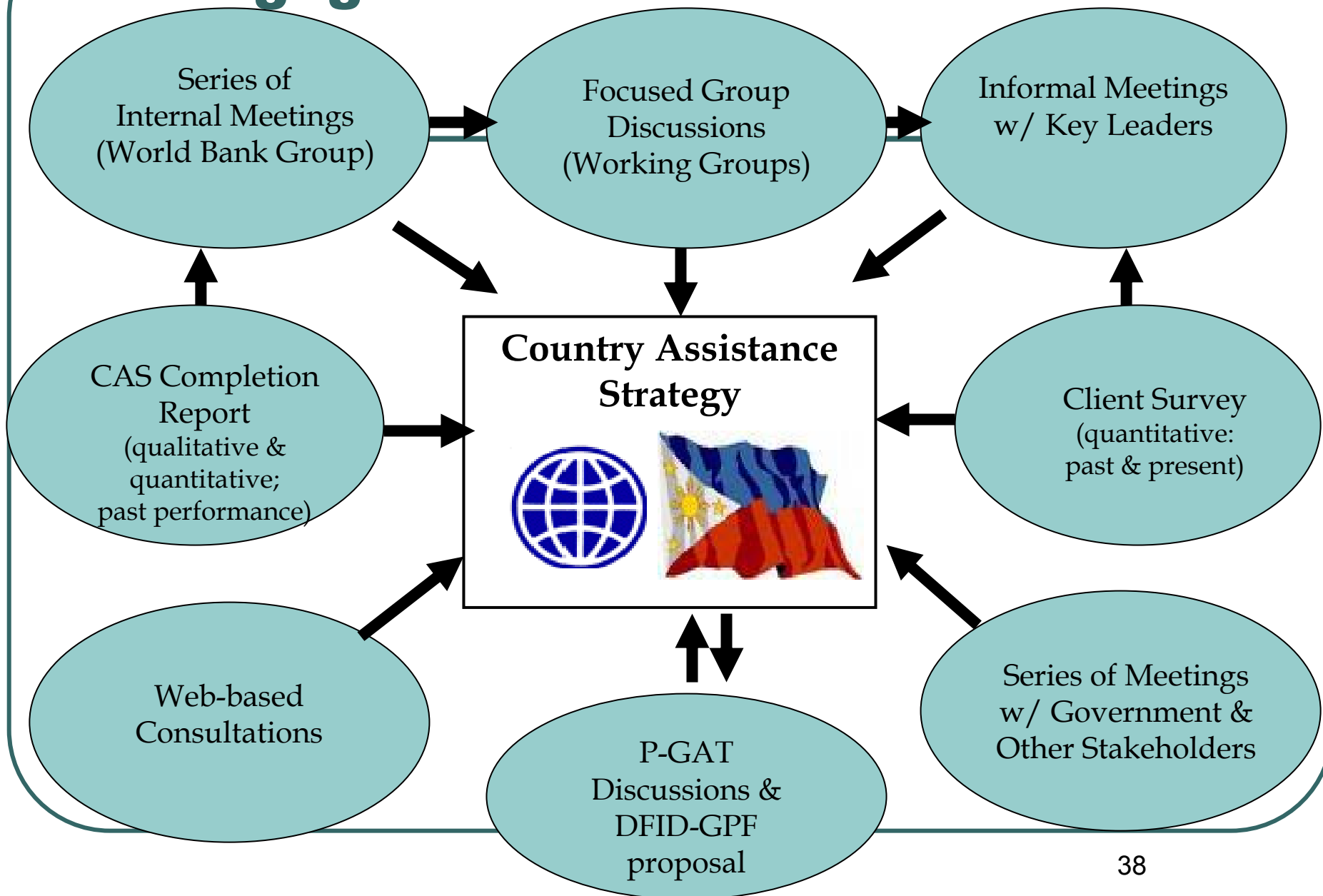
- Increase focus on results
- Speed up implementation
- Reduce preparation costs and time
- Critically review ongoing program and pipeline
- Strengthen partnerships
- Consider innovations and entry points of reform
- Improve integration of available instruments

# CAS Selectivity Filters

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- Priority for the country
- Relevance for poverty and governance
- Operational feasibility
- Comparative advantage/partnerships
- Support for Bank strategic themes
- “Humility” filter – acknowledge MIC reality

# CAS Engagement Plan



# ***2010-12 CAS***

## ***Early Ideas for Engagement***

### **Possible CAS Results**

- Caveat
- Growth/Fiscal
- Social Inclusion
- Governance

# Caveat

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- The following three slides are a factual overview of the results of the WG discussions as presented in an internal Bank workshop on August 14, 2008.
- The outlined results areas are still early ideas that are yet to be internally agreed and captured in a coherent conceptual framework.
- The purpose of this presentation is to get early feedback on possible critical gaps and highest priorities.

# CAS Results – Growth/Fiscal

- **Strengthened tax administration**
  - **Increased rural financial market access**
  - **Strengthened regulatory systems in power and water**
  - **Scaled up privatization of urban environmental services**
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- **Understanding of patterns and drivers of inclusive growth**
  - **Improved transport, water and irrigation infrastructure**
  - **Increased access to finance for SMEs and MSMEs**
  - **Carbon projects using programmatic and sectoral approaches**
- 
- **Climate change adaptation mainstreamed in policies and programs**
  - **Strengthened land property rights and titling**
  - **Anti-monopoly/competition policy in place**
  - **Area-based cross-sectoral approaches to development**
  - **Strengthened focus on urban LGUs as drivers of growth**
  - **Use of remittances for development**
  - **High potential sectors/industries – mining, tourism**

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# CAS Results – Social Inclusion

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- Scaled up investments in rural infrastructure
  - Completed land administration and management agenda
  - Improved social service delivery and spending among NGAs
  - Scaled up a convergent CDD model, linked to LGU planning
  - MTF in support of peace process
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- Better and consistent targeting of pro-poor programs
  - CCT program in place and implemented well
  - Regional/integrated and community-based ENR approaches
  - Scaled-up assistance and post-conflict engagement in Mindanao
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- Disaster risk management – prevention and preparedness
- Reduced poverty in IP communities and upland areas
- Pilot models to improve service delivery to the poor
- Rice policy to support pathways out of poverty
- Population policy to reduce poverty

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# CAS Results - Governance

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- Consolidated LGU capacity strengthening efforts
  - LGU financing reform and performance monitoring in place
  - Increased efficiency and integrity of judicial performance
  - Full enforcement of procurement reform
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- Emergence of a coherent PFM agenda
  - Improved utility and use of LGU performance monitoring
  - Higher transparency and public awareness about governance
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- Better statistics to inform decision making thru better M&E
- Fostered citizens' participation in governance
- Civil service reform designed and implemented (renewed)

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# Questions for Discussion

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- Do the emerging strategic shifts resonate with you?
- Are there specific interventions the Bank should support to more directly alleviate poverty?
- What specific interventions could the Bank support to help improve governance?
- How can we better prioritize?