



**A Partnership for
Results:**

**The World Bank
Country Assistance
Strategy for the
Philippines**

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October 2004



The Philippine Development Agenda



Great opportunities...

- Wonderful, entrepreneurial, highly-educated people
- Rich natural resources
- New opportunities in the world economy
 - Booming region (China,...)
 - Technological integration (call centers, ...)
- Philippines should be a booming country



...but modest outcomes

- Outcomes fall short of potential and compared to other countries in the region
 - Growth and investment relatively low
 - Poverty and inequality high
 - Basic services (health, education, water, security) limited
 - Increasing debt and economic vulnerability



Why outcomes below potential?

- It's not the people
- It's not the resources
- It's not the private sector
- It appears to be a failure of many public institutions to work for the common good
 - Weak governance
 - Capture
 - Corruption
 - Inefficiency



Two basic policy objectives

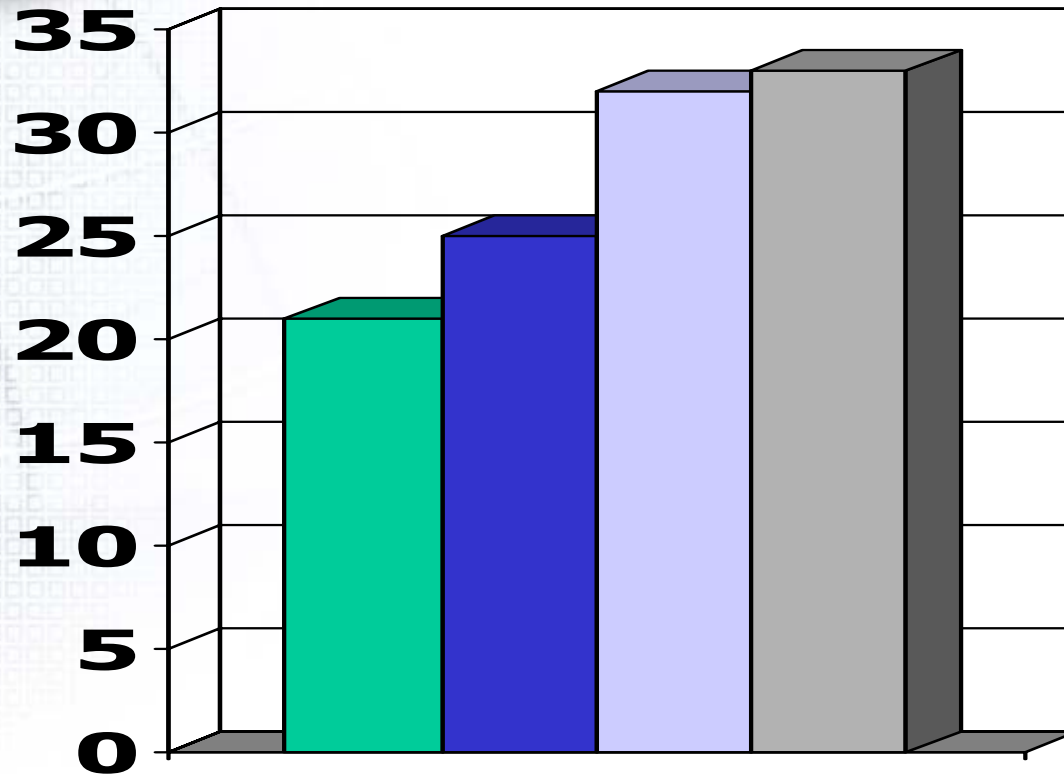
**1. Economic
Growth**

**2. Social
Inclusion**



1. Achieving higher growth

Between 1990-2003, investment as a share of GDP is lower in the Philippines than in Indonesia, Thailand and Malaysia

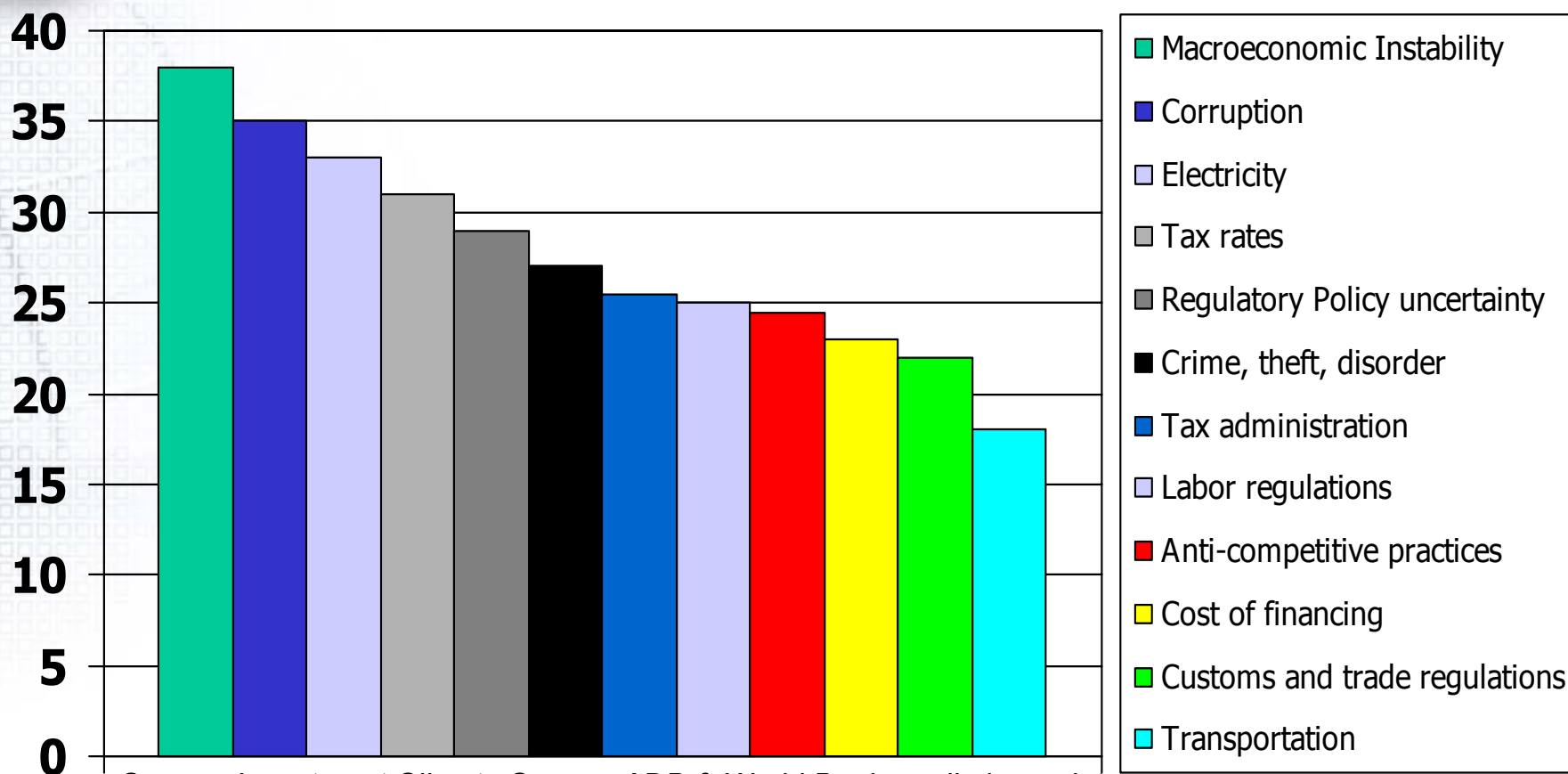


Higher growth will require a deeper financial system; better quality of infrastructure; balancing urban growth; creating competitive labor force; and a generally better investment climate.



Constraints on investment

Important investment constraints (% of firms surveyed)



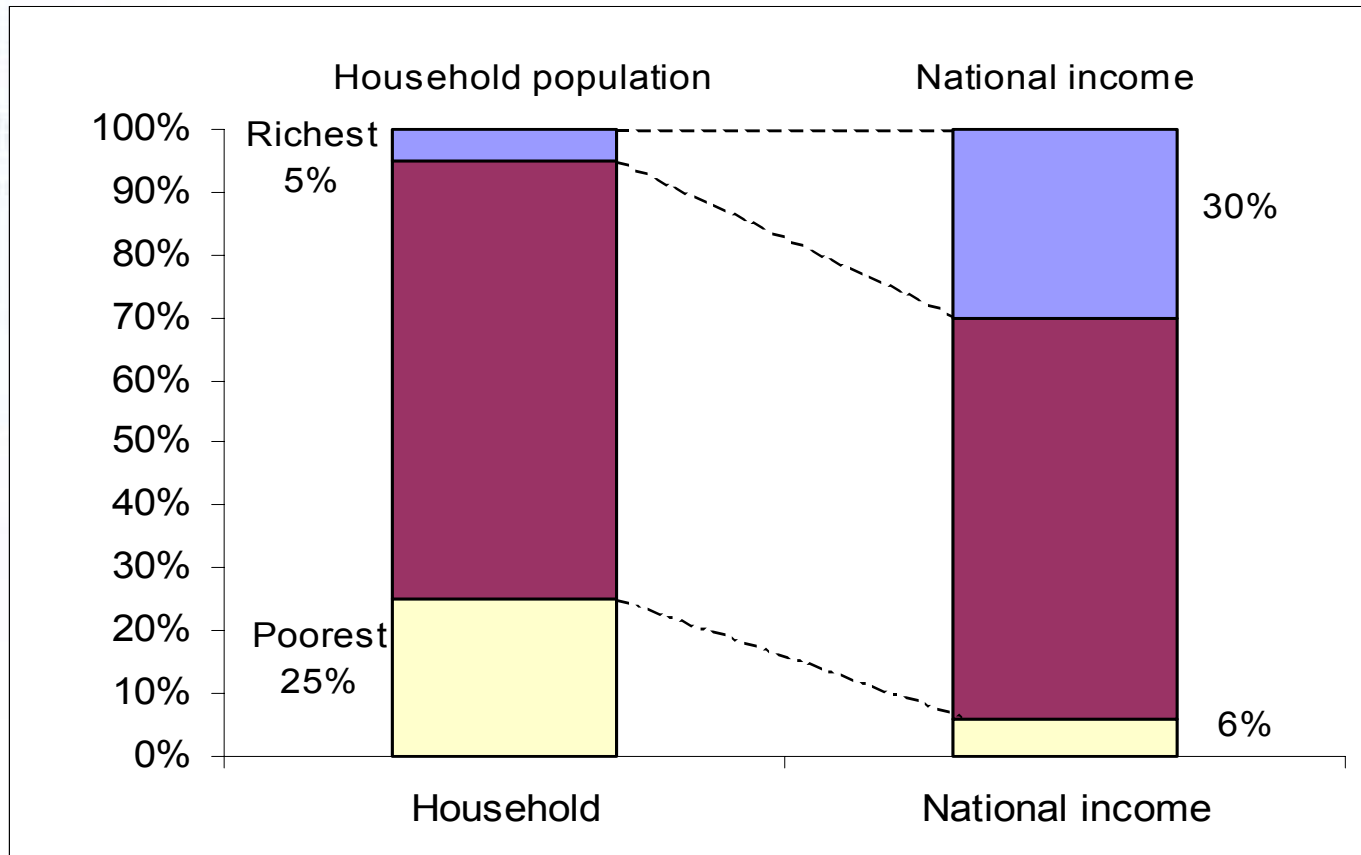
Source: Investment Climate Survey, ADB & World Bank, preliminary data, 2004

A better investment climate will require fundamental improvements in transparency, credibility, and predictability.



2. Improving social inclusion

Inequality in income distribution is high and is increasing



Improving inclusion will require better access to key public services to the poor; expansion of opportunities for the poor; sustained agrarian reform; and better management of natural resources.



Falling behind in education

Countries	Average Scale Score
Taiwan	569
Singapore	568
Korea	549
Hongkong	530
Malaysia	492
Thailand	482
Indonesia	435
Philippines	345
Intl. Ave. Score	488

Source: Trends in International Mathematics and Science Study, 1999



Two major levers for reform:

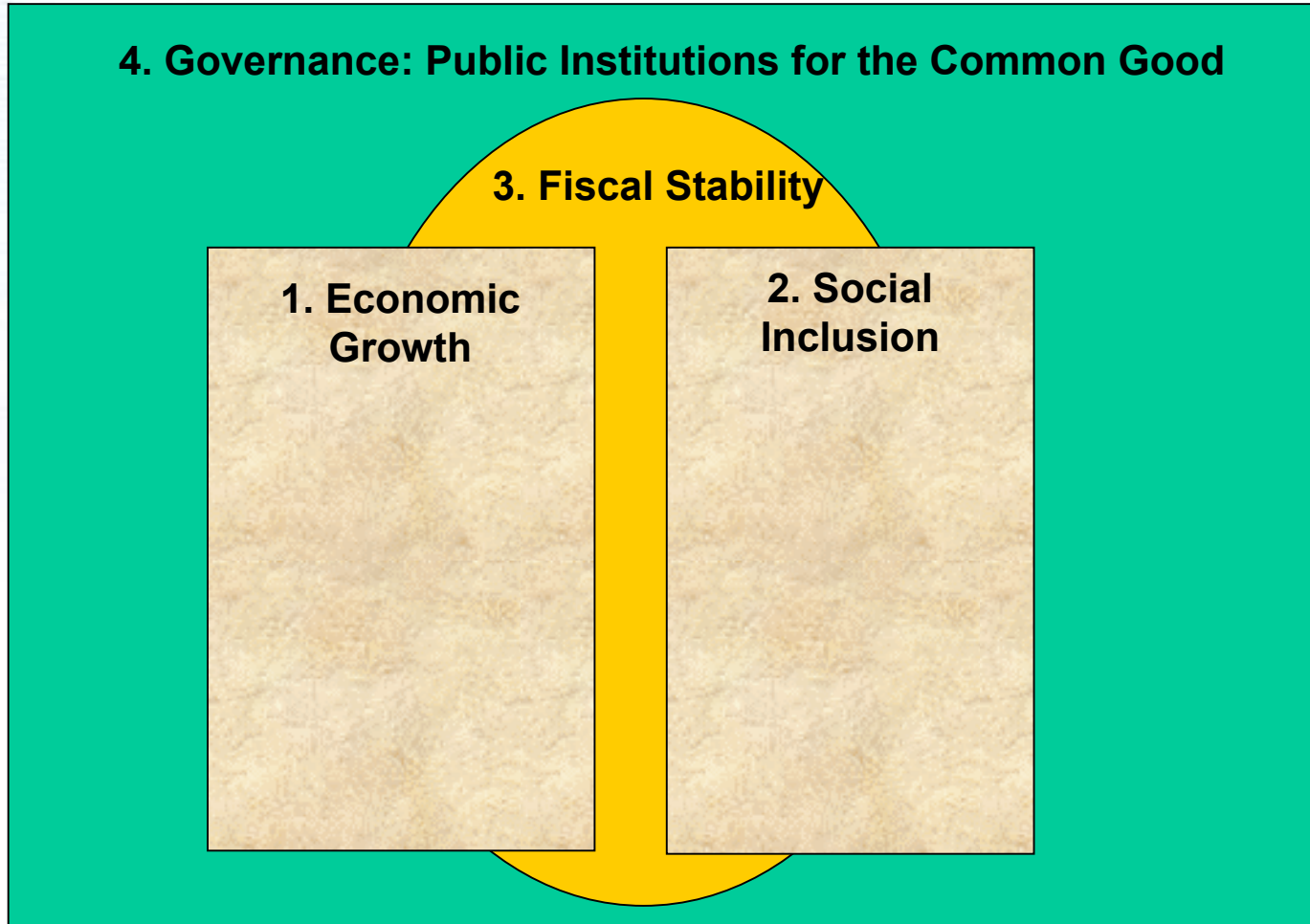
Restoring Fiscal Stability
Improving Governance

4. Governance: Public Institutions for the Common Good

3. Fiscal Stability

**1. Economic
Growth**

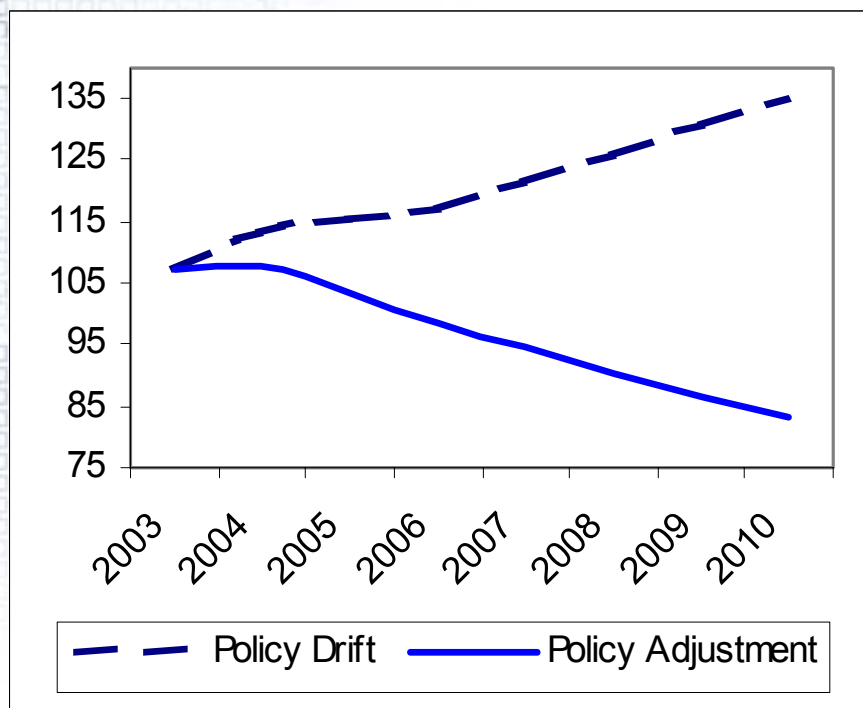
**2. Social
Inclusion**





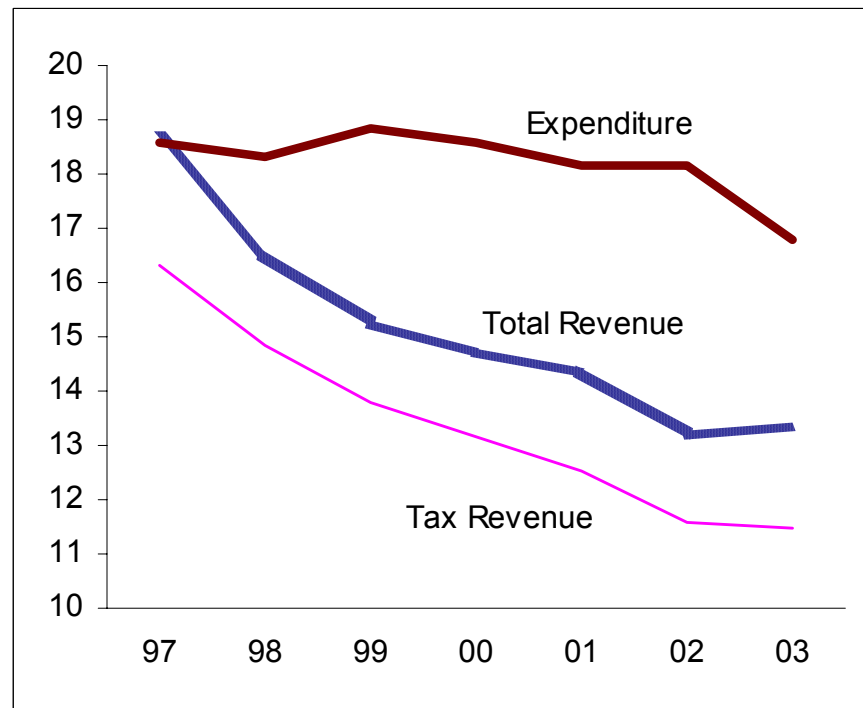
3. Restoring fiscal stability

Fiscal scenarios (Nonfinancial public sector debt, % of GDP)



Source: DOF, World Bank staff

National government revenue and expenditure (% of GNP)



Source: Bureau of Treasury

Reversing deterioration in fiscal management requires urgent action to increase public revenues and contain off-budget losses, especially in the power sector.



4. Making public institutions work

- Most important long-term challenge, cultural change
- Establishing cultural change for public institutions that serve the common good
 - Fighting corruption
 - Results-oriented public sector management
- Accelerating transition from patronage to accountability for service delivery
- Building on “Islands of Good Governance” – effective LGUs and NG agencies
- Reducing tolerance of population for poor governance



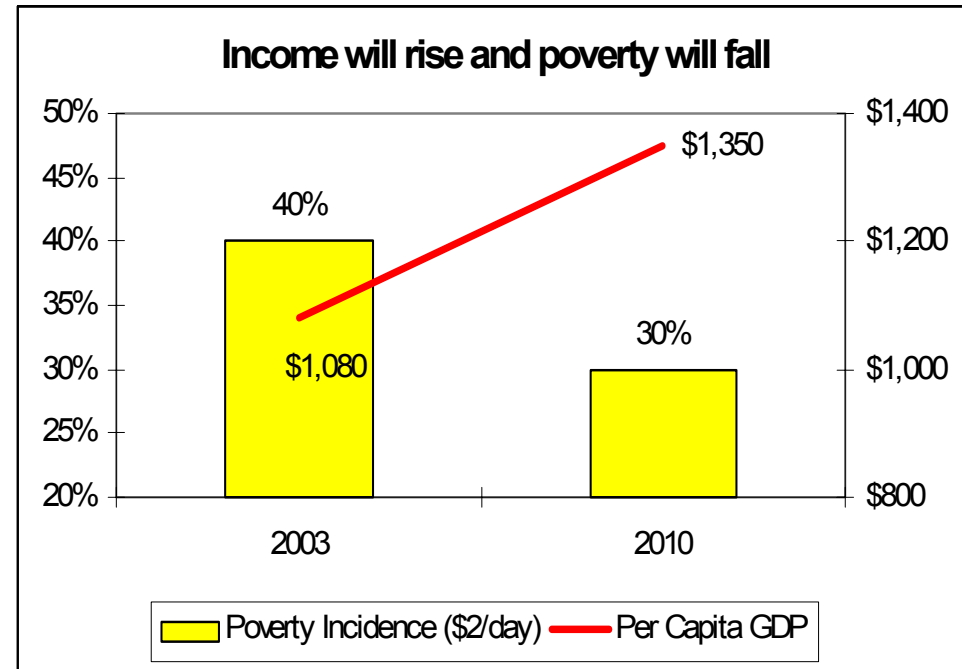
Objectives and Levers are Linked

- Good human and natural resources mean that rapid change is possible
- Virtuous circle
 - Fiscal adjustment encourages investment and growth
 - Growth generates revenues and income
 - Incomes and services improves social peace
 - Social peace increases trust and investment ...
- Vicious circle
 - Fiscal crisis stops investment and growth
 - Less income means less revenues and less services
 - Less services means less trust in public institutions
 - Social conflict means less investment ...



Policy Choices with Big Impact

- Bold policy actions will improve social outcomes...
 - Social indicators will improve ahead of the MDGs
 - Access to safe drinking water will increase from 80%
 - 15 million people will have income greater than \$2/day





Now is the time to act

- New mandate opportunity to formulate a bold reform program and forge a national alliance with Congress, business, civil society, and other stakeholders
- Favorable economic environment. Economic growth and the external environment are as good as they are likely to be for quite some time (Higher interest rates and oil prices)
- Options will quickly narrow in the next months



The Emerging Framework for the World Bank Country Assistance Strategy

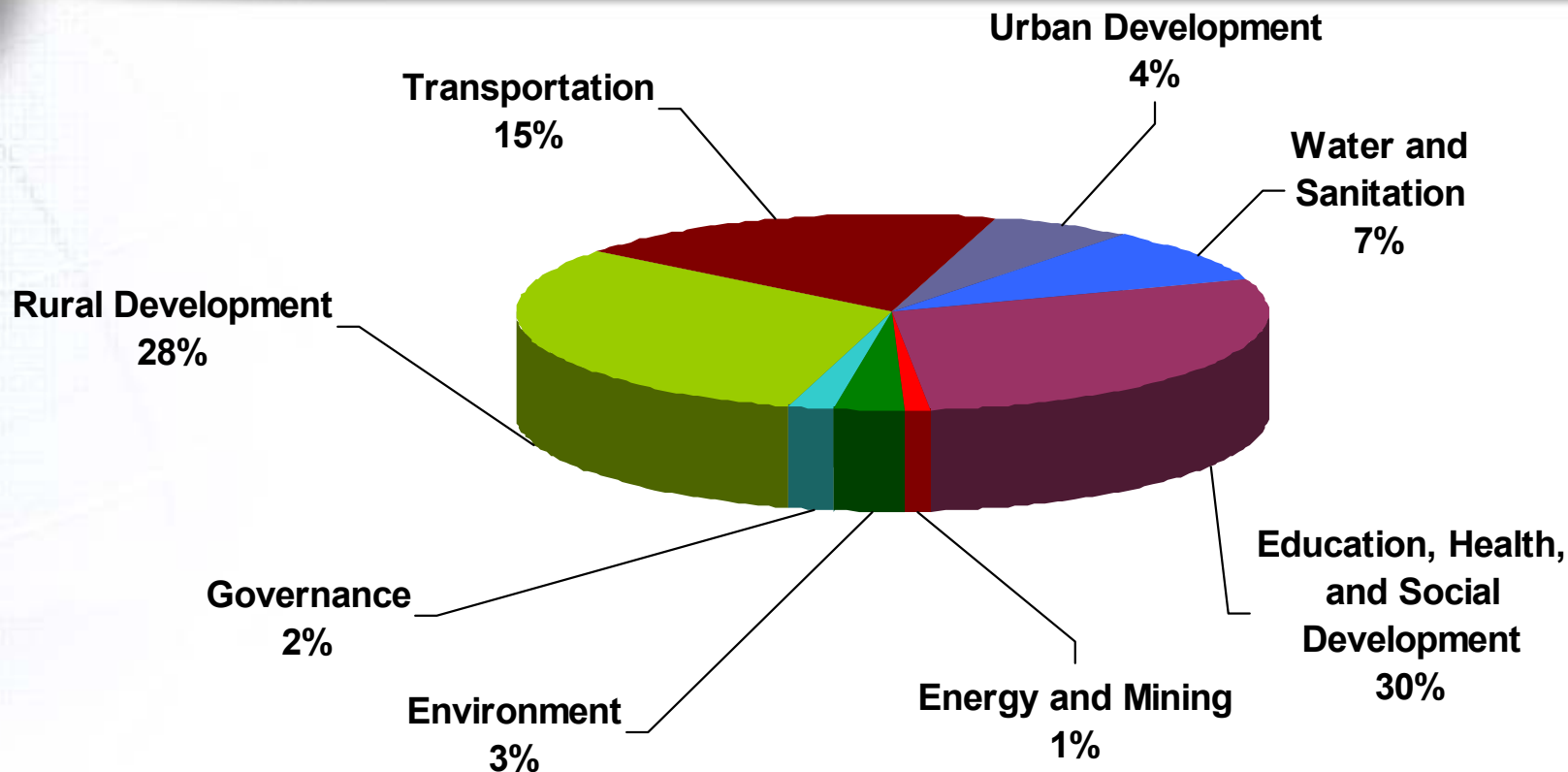


What does the World Bank do?

- Our vision is a world without poverty
- World Bank is a financial cooperative owned by 184 member countries
- World Bank Group: IBRD, IDA, IFC, MIGA, ICSID
- Main Instruments
 - IBRD Loans to governments financed from bond issues
 - IFC loans and investments in private companies
 - Analytical work and research: development knowledge bank
- Works in partnership to design assistance strategies tailored to the needs of each country



The World Bank in the Philippines



As of July 2004, 23 Projects, 52% of which are for direct poverty reduction

- Net Commitment: \$1.158 Billion
- Disbursed Amount: \$467 Million
- Undisbursed Amount: \$693 Million



World Bank in the Philippines

(cont'd)

- Compared to markets, very attractive financing conditions
- Outstanding debt \$3 billion (6% of external debt)
- Annual lending \$150 million but could be significantly more under the right circumstances



World Bank in the Philippines

(cont'd)

- National projects (including with regional implementation):
 - TEEP, ECD, Kalahi, Rural Finance 3, ARCDP 2, WRDP, CBRM, LOGOFIND, LAMP, DFIMDP....
- Region-specific projects:
 - Mindanao Rural Development Project, ARMM Social Fund, Laguna de Bay Institutional Strengthening
- Analytical work relevant to specific sectors and across sectors:
 - Investment Climate Assessment (forthcoming)
 - Environmental Monitors (annual publication)
 - Education Policy Notes (being discussed with GOP)



Knowledge Bank in the Philippines

- Global reports
 - World Development Report
 - World Development Indicators
 - Global Development Finance
 - Doing Business database
- Country Reports
 - Development Policy Review
 - Country Financial Accountability Assessment / Country Procurement Assessment Review
 - Environment Monitor
 - Social Services in ARMM
- Knowledge for Development Centers



The Country Assistance Strategy

- How do we use our staff, our financial resources, our knowledge, and our honest-broker role for the biggest impact on better development outcomes?
- How can we be the partner of choice for the country?
- What are the most strategic tasks and partners to support?
- Do we need to change the way we do business to be most helpful to the country?



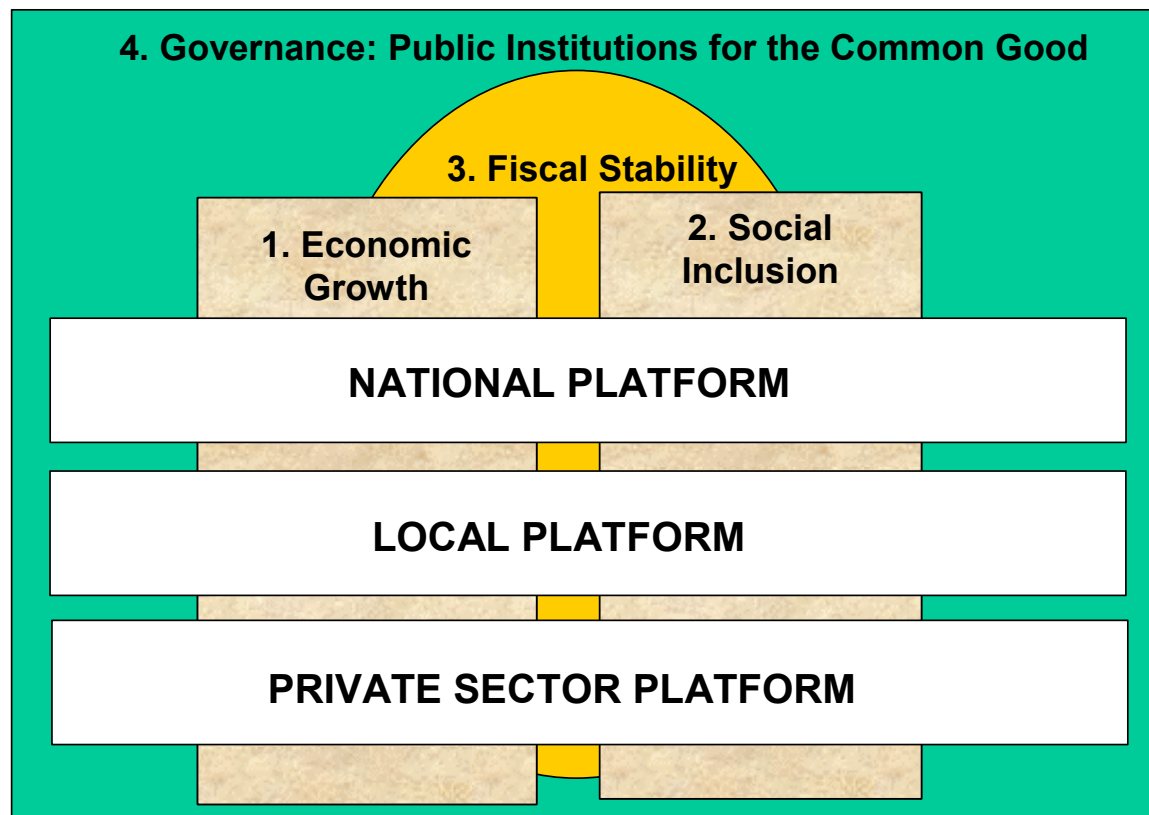
Supporting the Development Agenda

2 X 2 X 3 Program Framework for World Bank Engagement

2 key objectives: increasing growth and social inclusion

2 core levers: fiscal reforms (financing within the budget, using country systems) and governance (strengthening and upscaling “islands of good governance”)

3 platforms: national and local platforms seek to make decentralization work better; private/public sector interface seeks to stimulate private sector led growth



Helping build public institutions that work for common good



National platform of WB support

- Support improvements in core public sector service delivery and civil service effectiveness
- Support devolution of functions
 - Help rationalize NG involvement in devolved functions: from implementer to enabler; from ad-hoc to systematic promotion of performance & equity
 - Lend to NG agencies to support shift towards technical assistance and capacity building to LGUs for devolved activities
- Provide budget support for core functions
 - Budget support linked to policy and governance improvements in core service areas (e.g., education health, infra, rural, environment)



Local platform of WB support

- Making decentralization work: from implementer of sector projects to World Bank client
- Use performance and governance framework
 - Benchmark with clear performance evaluation framework
 - Make demand-driven and provide only to committed LGUs
- Support capacity building
 - Support improvements in LGU governance system (participation, planning, budgeting, expenditure and financial management, procurement, etc)
 - Assist with project development & implementation
 - Coordination of international development partners



Local platform of WB support (cont'd)

- Integrated financing options for LGUs
 - Finance LGU priorities through appropriate intermediaries (GFI, provinces, or large individual LGUs)
 - Pool resources to achieve leverage (GOP, WB, partners)
 - Help improve GFI (MFC, LBP, DBP) services to LGUs
 - Support opening up of private capital (PFI, bonds) for LGU credit financing (involve IFC)
 - Simplify procedures for LGUs to access financing
 - Help strengthen LGU own resource mobilization



Private sector platform

- WB Group's International Finance Corporation (IFC) can provide equity and debt financing directly to private sector entities
- WB Group's Multilateral Investment Guarantee Agency (MIGA) can facilitate foreign investment through its political risk guarantees
- IBRD can provide guarantees with NG counter-guarantee and provide analytical support and technical assistance to:
 - NG, to improve investment climate (e.g., improve regulatory capacity, deepen financial system, promote competition)
 - LGUs, to widen access to private capital



The Bank is changing

- We can make use of changes in the Bank
 - More flexible instruments
 - More reliance on strengthened country systems
 - More focus on tailored country-client focused approaches
 - More synergies between IBRD-IFC-MIGA



Maraming Salamat Po

