

## EXECUTIVE SUMMARY

i. **The Philippines' Development Challenges.** In recent years, the Philippines' economic growth has rebounded on the back of fiscal consolidation, macroeconomic stability and a strong international economic environment. Higher growth has, however, not translated into less poverty: the share of the population below the poverty line is the same as it was a decade ago and has increased between 2003 and 2006. Income inequality remains high, and the country risks missing MDGs on education and maternal health. Weak governance is a recognized constraint to sustained growth and poverty reduction. The country's main development challenge, therefore, is to achieve more inclusive growth. In the short- and medium-term, the external environment for the Philippines is likely to deteriorate, and the country may face slower growth and renewed fiscal pressures. Furthermore, the elections in 2010, typical of such elections, may slow down decision-making and program implementation. At the same time, an incoming administration can be expected to engage with the World Bank Group on the policies and initiatives it gives priority to.

ii. **The World Bank Group Strategy.** The updated 2004-10 Medium-Term Philippines Development Plan (MTPDP) provides the framework for the Bank Group's CAS for the Philippines. The MTPDP focuses on economic growth and job creation; energy; education and youth opportunity; and anticorruption and good governance. It highlights the need for agriculture sector modernization to raise farmers' incomes and to upgrade rural welfare; supports sustained investments in infrastructure; and gives priority to protecting the poor through more employment opportunities, shelter, health insurance, microfinance, low-cost medicines, and cash transfers. Over the CAS period, the World Bank Group will contribute to achieving more inclusive growth by supporting the Philippines to (i) maintain macroeconomic stability and cope with increased macroeconomic uncertainty through a stronger revenue base, improved expenditure efficiency and targeting, and responsive financing; (ii) improve the investment climate through an enabling business environment that promotes competitiveness, productivity and employment, especially for sectors of particular importance to the poor, such as agriculture and fisheries, and developing better models of infrastructure finance and management; (iii) increase access to better public services for the poor by deepening the reform agendas in key public services sectors and expanding basic service delivery directly to the poor; and (iv) reduce vulnerabilities by expanding and rationalizing the country's social safety net, improving disaster risk management, piloting climate change adaptation measures and expanding climate change mitigation programs. In line with the Bank's country governance and anticorruption framework (CGAC), the Bank Group will promote good governance as a cross-cutting theme by supporting more capable and accountable government at the national, local, and agency level to strengthen core governance systems in public financial management, procurement and decentralization.

iii. **The World Bank Group Program.** The Bank Group's program focuses on core results areas through engagements at the national, local, and private sector level. The CAS proposes an IBRD lending program in the order of US\$700 million-US\$1 billion per year, which would reverse the recent trend of negative net transfers and could increase IBRD exposure to the Philippines from US\$2.7 billion in FY08 to US\$3.9 billion in FY12. The proposed lending plan is indicative as IBRD's capacity to lend can change over time. There is higher degree of certainty for the lending plans for the earlier years of the CAS period. The IFC investment program is expected to be in the order of US\$250-300 million per year, while advisory services will be supported by funding of approximately US\$3 million per year. The Bank Group will support efforts to counter the effects of the global economic crisis by financing faster-disbursing poverty alleviation programs such as the conditional cash transfers (CCT), the community driven development (CDD) project *KALAHI-CIDDS*, the national program support (NPS) for health and education, additional financing to ongoing operations, and repeater projects. The Bank has committed to support a possible government program for increasing revenues and fiscal transparency in calendar year 2009. Beyond current commitments for a development policy loan (DPL) with a possible draw-down option to mitigate the impact of the global economic crisis, the Bank will use development policy operations in support of disaster risk

management and in the context of a strong reform program in government financial management. The World Bank Group will also continue to support increasing local government access to finance through more diversified financial instruments. IBRD investment loans and IFC investment and advice will support the development of new models of financing and management for critical infrastructure. IFC's response to the global crisis will also include access to four financing facilities. The World Bank Group, in collaboration with other development partners, will increasingly emphasize knowledge cooperation and formalize a rolling knowledge program with the Government and in partnerships with consortia of think tanks and universities. A central aim of the program for the CAS period is to provide input into the MTPDP (2011-15) to be approved after the 2010 elections.

iv. **One Bank Group.** The Philippines CAS pilots deeper integration of IBRD and IFC efforts by building on lessons of successful World Bank Group integration, such as a shared assessment and a shared strategy developed jointly by a mixed IBRD and IFC team. IBRD and IFC will pursue joint programs in three areas: infrastructure, agribusiness, and financial sector. MIGA will also continue to offer its guarantee products, ensuring consistency with the overall Bank Group goals.

v. **Implementing the Program.** The World Bank Group will organize its Philippines program and its country team along the lines of the four strategic objectives, one cross-cutting theme, and eleven core results areas. For each of these, the Bank Group will organize, budget for, and monitor an integrated program of AAA, lending, trust funds and partnership activities. The Bank will flexibly adjust resource allocation among results areas depending on progress and emerging opportunities in those areas. IFC's resources will be integrated in the results areas that will be jointly pursued. The Philippines Governance Advisory Team (PGAT) will prioritize activities in governance reforms, and will advise task teams on governance improvements in specific activities, including through use of "Governance Filters". The World Bank Group will strengthen existing partnerships with civil society and academe and with other development partners within the overall framework of the Government-led Philippines Development Forum, which the Bank co-chairs. In delivering the program, the World Bank Group will pay special attention to strengthening the portfolio, improving lending efficiency, furthering the knowledge agenda, and leveraging its resources through strategic partnerships and trust funds. The Bank has identified, and agreed with the Government, a set of early "Readiness Filters" that will be used to screen projects during the regular programming discussions.

vi. **Managing Risks.** There are considerable risks, both internal and external, that may affect the implementation of the Philippines CAS. Political risks stem from the upcoming national elections and associated transitions, which may influence commitment to ongoing and planned programs. The World Bank Group will maintain dialogue with the administration to ensure continuity in its programs and help inform the development agenda of the incoming government. The ongoing global recession and financial turmoil is expected to affect negatively the Philippines, particularly through reduced remittances, exports, and possibly, lower revenues. The World Bank Group, together with the IMF and other partners, will assist the Government to manage fiscal and financial sector risks and external vulnerabilities through policy advice and monitoring of economic and social developments including through support for improved statistics. In case of a sharper-than-expected deterioration in the economy, the World Bank Group stands ready to use IFC crisis facilities, and IBRD financing for quick disbursing budget support within the broad parameters of the CAS lending range. The World Bank Group support will proceed once there is clarity on agendas and commitments, and projects meet the Bank's processing filters. Commitment to governance reforms is a major focus of these filters, including at the decentralized level.

#### **Suggested Items for Board Discussion**

- (i) Is the CAS adequately positioned to help the Philippines cope with emerging global uncertainties and likely shocks to economic management and prospects?
- (ii) Is the proposed indicative program and choice of instruments appropriate, considering the country circumstances and the Bank's comparative advantages?
- (iii) Is the CAS approach to operationalizing governance sufficiently strong?