

**CONFIDENTIAL**

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Statement by Jan Piercy

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**Philippines: Country Assistance Strategy**

1. We commend staff for the development of an exceptionally focused, informative CAS, and welcome the fact that this is a joint IFC/Bank effort. The strategy adopts the holistic approach of the Comprehensive Development Framework while remaining firmly grounded in performance and other evaluation criteria, and it incorporates many of the criteria proposed by the IDA Deputies for planning assistance programs. The proposed program tracks closely with the GOP's Medium-Term Philippine Development Plan, which is based on the critical goal of restoring sustainable economic growth while emphasizing poverty reduction and greater equity.
2. The key strategic directions underlying the CAS appear to be on target. Utilizing a partnership approach, the program is selective, emphasizing structural reforms, increased transparency, and evaluation. As an example, we support the decision to queue up health sector lending until after the completion of a comprehensive health sector strategy in 1999. The benchmarks for evaluating progress in achieving goals are clear and monitorable. The lending program appears to be reasonable, with appropriate triggers for low and high case scenarios. We look forward to tracking the results of pilot self-evaluation.
3. The enhanced participation of donors and civil society in the development of the CAS is laudable. We further support the Bank's plan to maintain partnerships with stakeholders during implementation. Annex I, if expanded to include amounts provided by other donors, would be a model for future CASs.
4. We appreciate the frank assessment of the **need to strengthen governance and anti-corruption efforts** in the Philippines. This is an important first step. The U.S. places great importance on the initiatives proposed: strengthening local government capacity, establishing a new national accounting/auditing system and a multi-year expenditure framework; pursuing an expanded privatization program at the national and local level; civil

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service reform; and commencing a dialogue on judicial reform. Support of the authorities is clearly indispensable to progress on this front and we therefore welcome the agreement reflected in this CAS. The key will be monitoring their implementation results.

5. On the other hand, a serious deficiency in the CAS is the insufficient analysis of challenges in the **environment sector**. While the GOP commits itself to ensuring environmental sustainability as one of its medium term priorities, the CAS does not fully follow through on outlining the challenges to address, nor provide an independent assessment of GOP performance to date. In particular, we believe that more explicit emphasis should be given to the protection of forests and coastal zones, which is becoming ever more closely linked to increasing rural poverty. The Environment Sector Assistance Strategy, compiled this year, should have been a building block for this CAS. Is staff satisfied that the strategy's findings are fully covered through the Bank and other donors' operations?

6. On the **macro/structural** side, we would like to reiterate the points raised in the CAS that critical areas for medium term reform are tax administration and fiscal consolidation. The authorities need to be looking ahead to exiting the crisis (e.g., returning to fiscal balance) without inappropriate expenditure cuts. Similarly, banking/corporate restructuring efforts must continue, even as the short-term pressure applied by the crisis begins to wane. Whereas the CAS notes these issues well, however, we believe the Bank could have dealt more squarely with **trade and competition issues** by picking up on the themes raised by staff at the recently held Consultative Group. In that context, the Bank highlighted that export performance and competitiveness are increasingly vulnerable, and set out a range of structural measures for future work. Although these issues may more appropriately be taken up by other partners, in particular the Fund, the Bank does have an ongoing policy dialogue role that we would have liked to see discussed in the CAS. Similarly, we would underline the importance of the Bank's strategic objective to improve the environment for private investment.

7. We have some concerns about the **portfolio management problems and slow disbursement** of loans discussed in the Country Strategy. 25 percent of Bank-financed projects are now at risk, mainly due to weaknesses in management, delays at the local level, and the effect of the financial crisis. Fortunately, the government appears committed to addressing this issue: a joint Government - World Bank Country Portfolio Performance Review was completed in December 1998. We fully concur that it is appropriate to design a trigger for the Low Case lending scenario on the failure to address portfolio problems and decline in disbursement performance. We urge Bank staff to remain vigilant on this issue.

8. We would have liked a more meaningful discussion of **non-productive expenditures** such as military spending that divert scarce resources from investment to support economic growth and urgent investments in social safety needs. This is a fundamental issue of resource allocation and public expenditure prioritization, and cannot be ignored in the development process. This affects not only current income levels but also future opportunities. We encourage Bank staff to pursue these issues further with the GOP.

9. Furthermore, it is disappointing that the CAS provides no review of **labor issues**. The absence of a thorough analysis of core labor standards is not consistent with assurances given by the Bank to assign more priority to such matters. Specifically, the private sector strategy indicates that the IFC will support corporate restructuring in general manufacturing, agribusiness, and infrastructure. However, no mention is made of labor issues involved in restructuring or of the protection of core labor standards. Such issues could emerge, and should be taken into account in the planning process.

- On a side note related to IFC, we think it would be worthwhile for the IFC Board to open a discussion on the future of IFC's corporate restructuring work. In response to the crisis, the Board has consented to the use of IFC resources for such investments that do not provide new capacity, per se. Although many corporations in developing countries continue to face difficulties in accessing capital markets, and suffer from balance sheet issues such as over-leverage and asset/liability mismatch, we believe that it is now time to reconsider how IFC proposes to further its development impact by providing finance for corporate restructuring.

10. Lastly, as CODE Chair I would like to make special mention of the reference in the CAS to **OED's recent Country Assistance Review**. The evaluation process is only as good as how lessons learned are incorporated back into strategy for the future, and this CAS utilizes well OED's findings and the CODE's discussion in that context.