

Session 8

Case Study: PHI: Development Policy Support Program

Kelly Bird
Southeast Asia Regional Department

**Introductory Course on Economic Analysis of
Policy-Based Lending Operations**
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The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in a white serif font on a dark blue square background.

ADB-Philippines Partnership

The Development Policy
Support Loan Program

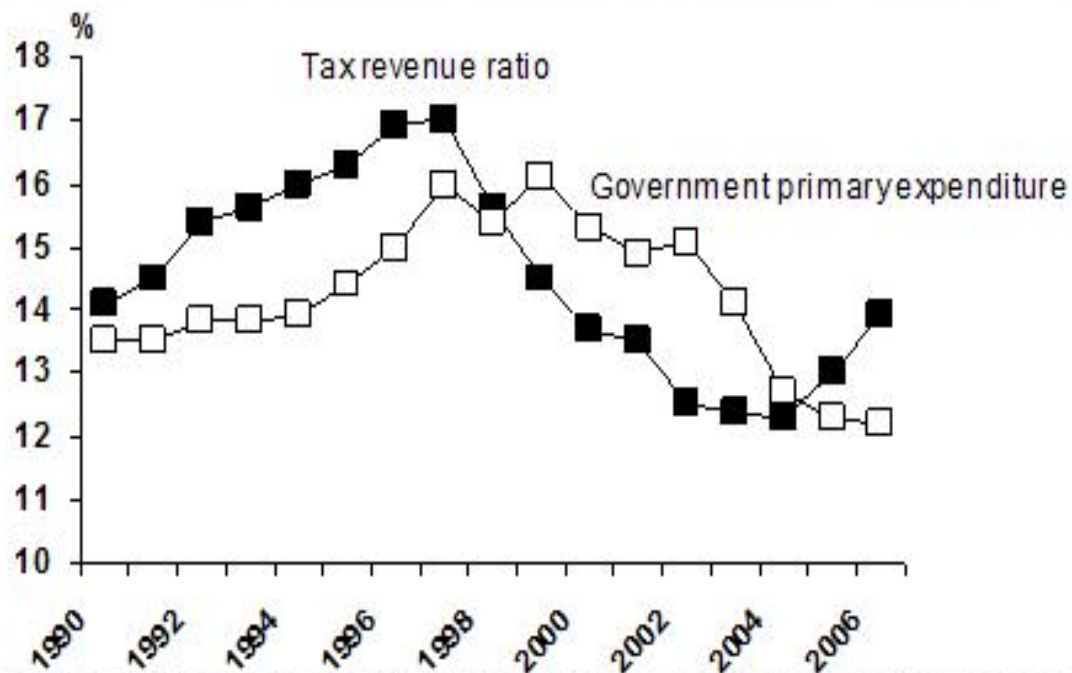
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Contents of Presentation

- Key Features of a Development Policy Support Program (DPSP)
- Philippine DPSP – Rationale, Objectives, Scope and Strategic Focus
- Core Areas of DPSP, Impact and Outcome
- DPSP and GOP's Policy Agenda
- DPSP and ADB's Country Strategy Assistance
- DPSP-1 Actions and Expected Accomplishments
- Triggers for DPSP-2
- Analytical Support
- Medium-term expenditure framework
- Conclusion

Primarily due to fall in tax revenues

Figure 3: Tax Revenue and Expenditure as Share of GDP



Source: Budget of Expenditures and Sources of Financing, Republic of the Philippines, various years.

Key Features of a DPSP

- Grew out of problems with traditional structural adjustment loans. Key features of DPSP include:
 - Program cluster – series of single tranche loans
 - Fewer conditionalities based on prior actions undertaken by Government before Board consideration
 - Medium term program with policy triggers or expected prior actions for basis of consideration for subsequent DPLs.

Key Features of a DPSP

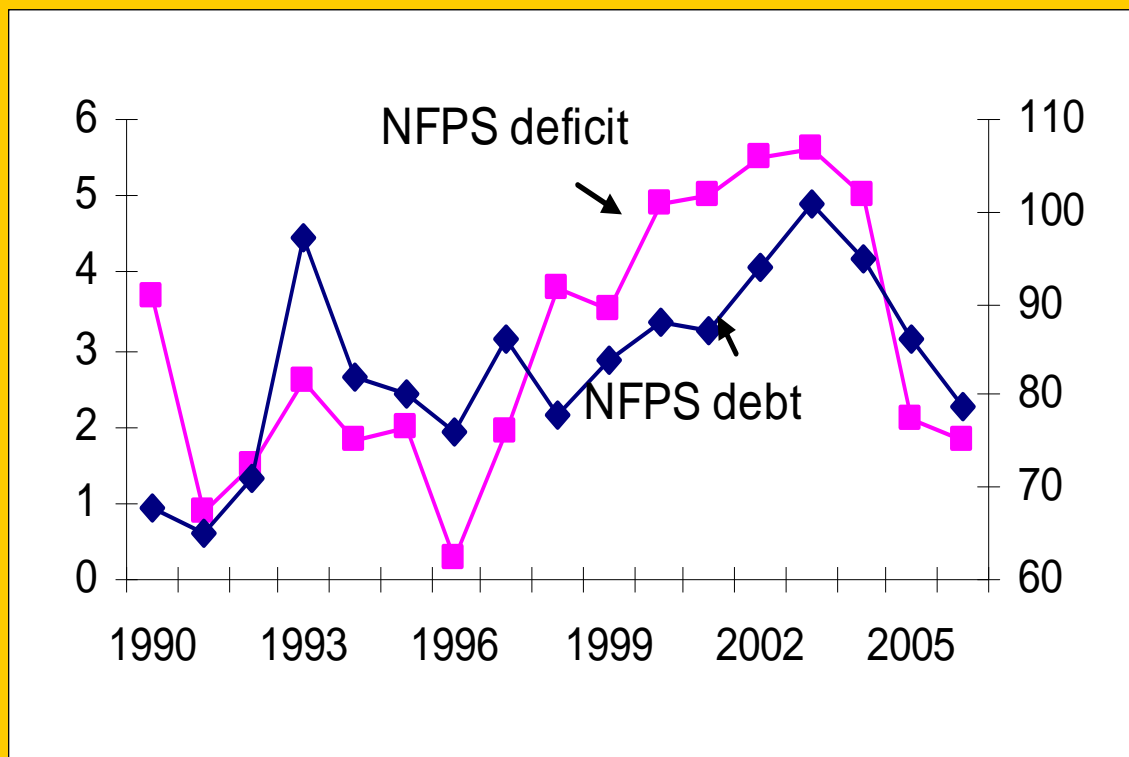
- Policy triggers and milestones provide a vehicle for continuous dialogue between Government and development partners
- The DPSP should be based on the Government's own economic agenda, thus ensuring Government ownership and stakeholder buy-in.
- DPSP focuses on broader policy agenda addressing thematic and cross-cutting issues, while leaving detailed policy prescriptions to the sector loan programs

Philippine DPSP - Rationale

- Proposed series of annual DPSPs over the period 2006 to 2009
- Parallel financing between ADB's DPSP and World Bank's DPL
- ADB's co-financing of proposed \$300 million in the first DPSP-1
- Rationale for DPSP threefold:
 1. Lend support to the GOP's swift and remarkable turnaround in the fiscal situation and macro-economy. Philippines has met the fiscal triggers set out in the Philippine CSP and World Bank High Case Scenario.
 2. Further deepen reforms in fiscal and economic policies supportive of higher economic growth and poverty reduction
 3. Vehicle for donor harmonization behind a common policy agenda of the Government.

Deteriorating Fiscal Deficit

Figure A4.1: NFPS Deficit and Debt as Share of GDP



Source: Bureau of Treasury, Department of Finance.

Philippine DPSP – strategic focus and scope

Four core areas:

1. Fiscal and macroeconomic stability and credit worthiness
2. Improved governance in public financial management and control of corruption- target key agencies with committed champions for change
 - Key revenue collecting agencies (DOF, BIR, BOC)
 - Key line ministries with large procurement budgets in infrastructure and social policy (DPWH, DepEd, DOH, DA)

Philippine DPSP – strategic focus and scope

3. Investment climate and infrastructure
 - Reduce transaction costs to business
 - Improve policy framework to encourage infrastructure investment including PPPs
4. Social inclusion with focus on governance and improving poverty targeting, mapping, monitoring and planning

DPSP and GOP's Agenda MTPDP and Partnership Development Forum (PDF)

Medium Term Development Plan – Five Priorities Addressing 22 Policy Areas

Priority 1
Economic growth and job
creation

Priority 2
Energy independence

Priority 3
Social justice and basic
needs

Priority 4
Education and youth
opportunities

Priority 5
Anti-corruption and good
governance

Philippines Development Forum – Seven Working Groups

WG 1
Economic and fiscal reforms

WG 2
Governance and anti-
corruption

WG 3
Growth and investment
climate

WG 4
MDGs and social progress

WG 5
Decentralization and local
government

WG 6
Sustainable rural
development

WG 7
Mindanao

Note: Dotted boxes reflect areas supported by the Development Policy Loan Program

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Overview of the Long Term Programmatic Approach

Strategic Framework: Medium Term Philippine Development Plan (MTPDP)

Key Economic and Social Outcomes:

- (i) Economic growth of 7% or more by 2010 through raising the investment rate from 17% to 28% of GDP
- (ii) Reduce household poverty incidence from 28% to 17.9% by 2010
- (iii) Creation of 1 to 2 million new jobs annually
- (iv) Balance the government budget by 2010

Cross-Cutting Policy Issues and Reforms

2006 – DPL 1
Government program:
MTPDP and PDF
Focus:
Fiscal consolidation
Governance
Investment climate
Social sectors

2007 – DPL 2
Government program:
MTPDP and PDF
Focus:
Fiscal consolidation
Governance
Investment climate
Social sectors

2008 – DPL3
Government program:
MTPDP and PDF
Focus:
Fiscal consolidation
Governance
Investment climate
Social sectors
Other areas

Supporting and Re-enforcing In-depth Sector Reforms through ADB Initiatives under the CSP 2005–2007

- Power sector development loan program
- Financial market regulation and intermediation loan program
- Health sector program
- Investment loans in support of Metro Manila urban services to the poor, SME development, and others
- TAs for GOCCs reform, local government finance and governance, debt and risk management, and others

- Local government financing and budget support
- Governance and judicial reforms
- Microfinance development

CSP 2008 to 2010
Under preparation

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DPSP-1 for 2006

Prior policy actions cover...

1. Fiscal policy and macro-economic stability
 - Reduce national government deficit to 2.1% of GDP in 2006 and consolidated public sector deficit to about 2%
 - Increase tax revenues to GDP by over 1% in 2006 over 2005
 - Reform taxes to improve sustainability of tax revenues (raised taxes, expanded VAT coverage)
 - Make tax administration efficient and fair (established task force in BIR to implement reforms)

DPSP-1

2. Governance in public financial management

- Improve public expenditure management including piloting MTEF in 2007 budget
- Strengthen performance management by implementing performance systems
- Implement measures to improve efficiency, transparency and accountability in procurement (e.g., posting bids and awards on DBM website)
- Undertake measures to reduce corruption (carry out Integrity Development reviews, intensify initiatives such as RATS, RATE, RIPS)

DPSP-1

3. Investment and Infrastructure

- Strengthen the legal and regulatory framework on investments (review incentives framework, establish task force on business regulatory reform, abolish all export fees)
- Improve policy framework for infrastructure investment and coordination (revise implementing regulations under BOT law)

DPSP-2 Triggers

Entry into the next DPSP for 2007

- Continue with fiscal consolidation
 - Continue to reduce deficits, debt and raise taxation
 - Focus on implementing tax admin reforms to raise taxes
- Greater emphasis on governance in public financial management under DPSP-2
 - Implement a refined MTEF for the 2008 budget
 - Continue with measures to improve transparency and accountability in public expenditure management and procurement
- Set of milestones for Investment climate and infrastructure that will set the ground work for a more comprehensive investment climate agenda in subsequent DPLs

Analytical Support

- DPSP fact finding began in August 2006, Board approval February 2007
- No PPTA
- Relied on analytical work of the ADB and WB in the areas (primarily work of the DPSP and DPL teams and also shared from other programs and TAs – e.g., Public expenditure review

Central to DPSP is the GOP's Fiscal Policy Framework

- Fiscal sustainability requires a well functioning budget and financial management system: three core elements:
- A medium-term framework in budgeting that aligns allocations more explicitly to the government's policy priorities.
- Performance-based management system to ensure operational efficiency at the government agency level.
- Financial management information system to ensure budget transparency.

Some Problems with Philippine Public Finance

- A lack of consistency between the ambitious (and extensive) planning process and the composition of the budget, compounded by policy being made continuously throughout the budget cycle;
- The practice of incremental budgeting, whereby budget allocations increase incrementally for similar programs and projects; and
- Inadequate framework for performance-based budgeting in government departments and agencies.

(1) MTEF

- Medium-Term Expenditure Framework (MTEF) links annual budgeting decisions to medium-term spending constraints and contains a 3-year rolling projection (or forward estimates) of expenditure requirements of approved programs and projects.
- FE are meant to be ceilings
- The MTEF has been only partially implemented (e.g., no budget ceilings have been imposed) and the pace of implementation has been slow (it is being implemented in only two departments although it was first introduced in 2001).

(2) Performance based management

- Introduced Organizational performance indicator framework (OPIF). The OPIF requires the agencies to specify their outcomes, MFOs, and performance indicators
- 20 departments has adopted OPIF

(3) Transparency

- Department of Budget and Management (DBM) took lead
- Require pilot line ministries to post budget disbursements on website to allow stakeholders to track funds from DBM to line ministries and to verify actual expenditure on projects
- Procurement website (PhilGeps) start posting all notices for bids and awards on the website.

Conclusion

- DPSP is structured to reflect the realities of the Philippine policy making process
- DPSP focuses on thematic and crosscutting issues in fiscal sustainability, governance, investment and social sectors, while leaves detailed, policy prescriptions to ADB sector loan programs
- Vehicle for continuous policy dialogue with GOP on areas ADB currently engaged, or plan to work on under ADB's country strategy
- Mechanism for harmonizing donor programs behind a common policy agenda with GOP
- Proposing advisory technical assistance to broaden the reform agenda under the DPL, with focus on 2 of the 4 core DPL areas - investment climate/competitiveness and fiscal policy
- MTEF, performance based management and transparency keys elements of fiscal sustainability

Thank you

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