



Asian Development Bank

2008 PHILIPPINES DEVELOPMENT FORUM

ACCELERATING INCLUSIVE GROWTH AND DEEPENING FISCAL SUSTAINABILITY

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Asian Development Bank**

Magandang umaga sa inyong lahat.

The very positive economic results – of which we have been provided details this morning by the economic management team – are the dividend of several elements: (i) a shared sense of responsibility and accountability among Filipinos and development partners; (ii) capable, committed, competent economic management; and (iii) doing the right things, and doing things right.

A shared sense of responsibility and accountability. We are jointly responsible and accountable for the success of the PDF, and, in a larger sense, the progress that is being made by the Philippines. The Philippine Development Forum epitomizes the way in which we can work together, and work together effectively, to support the common vision of a Philippines free from poverty. The PDF is a *process*, encompassing a series of mutually supportive year-round *events*, including but not limited to the regular gatherings of the seven thematic working groups and the annual forum. An important part of the process is the way in which we assess our own effectiveness: we began this effort last year, and continue it this year, partly with the aid of the monitoring framework which has been distributed to each of you. We need to be results oriented, and the monitoring framework assists us in that endeavor. It is also helpful that we are focused and selective in identifying constraints to development and agreeing on action-oriented proposals for their solutions.

Success over the past few years reflects the **competence, capability, and commitment of the economic management team**. It is not coincidence or luck that we are seeing improving trends in growth, and internal and external balances. It is rather the result of hard work, correct priorities, and effective use of instruments. The economic team has established its credibility as being able to deliver on core items of the development agenda. None is more apparent than the fiscal consolidation story. The dividend of greater credibility is raising the level of trust, and increasing willingness of an ever-widening group of stakeholders to align their programs with the Philippines agenda for development.

There are many examples of the **Philippines doing the right things, and doing them right**. For example, prioritizing fiscal consolidation and reducing the budget deficit are the right things to do at this time; reforming the tax system to increase the tax effort is one of the right ways to achieve it; severe cuts in spending could achieve the same headline result, but is not the right course of action for sustainable development. Doing the right things means prioritizing actions

that are responsive and relevant to addressing constraints on sustainable and inclusive growth. Doing those things right means being effective in what is done.

Without itemizing all the successes, there are several **positive qualitative and quantitative outcomes we especially want to acknowledge**:

- Virtuous cycle of reform. Philippines has moved closer to entering a sustained virtuous cycle of: reform=>macroeconomic stability=>lower costs of doing business=>increasing trust and confidence=>crowding in ODA and private investment=>faster growing economy=>easing resistance to some of the more difficult reforms=>macroeconomic stability=> ...
- Accelerated economic growth. ADB and others have long held the view that sustained and deeper inroads into poverty reduction need at least 7% GDP growth for an extended period. For the first time in 3 decades, in 2007 the Philippines economy grew by more than 7%.
- Domestic and foreign, public and private investments have all been far too low for far too long. Things are turning around. With regard to foreign direct investment: – USA’s Texas Instruments is establishing its second major plant at Clark; South Korea’s Hangjin is expanding its shipbuilding facilities in Subic; and sale of NPC’s power assets is gathering pace.
- The business process outsourcing industry in the Philippines is one of the world’s biggest (along with PRC and India), with a 5% share in 2006 of global offshore outsourcing. Revenues grew by 48% during 2004-2006. The industry aims to double its market share to 10% by 2010, and generate an additional 1 million jobs.
- Headline fiscal imbalance. The very significant reduction in the imbalance since it peaked at 5.3% of GDP in 2002 is sine qua non for establishing the Philippines credibility to manage its broader socio-economic development program. This is perhaps the premier success story.
- Public procurement reforms provide Philippines with a very robust framework for ensuring better value-for-money and reducing leakages.
- Corruption. Possibly the most obvious and highlighted area of the broader area of governance. Philippines is developing an increasingly holistic framework for reducing corruption: passage and implementation of the omnibus public procurement law; including detection, enforcement, prevention, promotion, prosecution. Success of Ombudsman in prosecuting cases.
- The privatization program has gathered traction. Successes include power, toll roads, water distribution in Metro Manila, and telecommunications.
- Healthy, open and honest debate. Vibrant discussion of issues and alternate courses of action to address development constraints.
- Changed mind set. It must be done, it can be done, together we will ensure it is done. The PDF demonstrates this paradigm in action.
- Better public expenditure management, performance-based budgeting, and enhanced rigor in budget allocative efficiency.
- The importance of messaging. Clear, unambiguous, easily understood and remembered messages that encapsulate elements of the reform agenda. Strong, wide buy-in of all stakeholders. Secretary Teves’ gave us this morning “the amazing fiscal race – it’s a marathon, not a sprint”; the innovative mnemonics of the RATS and RATE programs to enhance tax revenues; President Arroyo’s encapsulation of the Ten Point Agenda in her inspirational mnemonic BEAT THE ODDS. President Arroyo’s reference in her keynote address to the three “E”s – economy, education, and environment; and her 3 “I”s –

invest, invest, invest. Each of these is an important aid to crowding in stakeholders and improving awareness.

- Strong buy-in to the five pillars of the Paris Declaration on Aid Effectiveness. The Philippines has emerged as a leader in operationalizing for its own circumstances the global aspirations of the Declaration. It was implementing many of its aspects long before they became popularized and formalized in the signed declaration in March 2005.

What needs to be done now is to **lock in these gains, and build on them**. We must not relax after reaching intermediate milestones. As Vice President de Castro noted this morning, it remains a work-in-progress. And as Secretary Teves mentioned, we must acknowledge the need for a sustained effort – “it’s a marathon, not a sprint”.

Each of the successes comes with at least one important “however”. These **caveats highlight the unfinished agenda** and the need to continue with vigor and rigor on further reforms and to be ever vigilant in their implementation.

- Growth. How is it to be sustained, especially in the emerging global environment which is less favorable; in which Philippines’ domestic growth is heavily dependent on private consumption spending which in turn is heavily dependent on remittances of overseas workers; with low investment (domestic, FDI, public and private). This morning, Trade and Industry Secretary Favilla lamented the fact that Philippines is not attracting its potential share of FDI, despite recent significant successes. We must work to improve the investment climate.
- Inclusiveness. High growth is good; sustained high growth is better; sustained high growth that is inclusive is best of all. Growth that has been accompanied by increases in poverty – absolute numbers and proportions. What is behind this apparent decoupling of the higher GDP-increasing poverty link? How do we stop the near poor slipping back into poverty; how do we make faster inroads into poverty?
- Jobs. Although almost one million new jobs were generated last year, yet with one of the highest population growth rates the Philippines faces a daunting challenge of generating quality work for all worker.
- Fiscal consolidation. Is there softness behind the headline number? Tax effort declined in 2007, while the overall decline in the deficit relied more on non-sustainable privatization receipts. Structural erosion of the tax effort must be addressed: non-indexation to inflation of excise taxes; lower rates of corporate tax will soon kick in; (as mandated by the EVAT bill); relatively less-taxed economic sectors are the ones that are growing; the structure of fiscal incentives available to new investors need to be reviewed for redundancies.
- Human resources and capacity. Despite the plan-of action for improving public expenditure management, how well resourced are the responsible agencies such as BIR, BOC, and oversight agencies like DOF, DBM and NEDA to implement the reforms?
- Priority spending needs. Infrastructure and social spending. Need to raise public capital spending closer to 5% GDP by 2010 (as mentioned by Secretary Teves this morning).
- Public procurement. Robust framework at times compromised by failure to honor it, and implement it. ADB supports Government’s proposal to bring all ODA within the ambit of the Public Procurement Reform Act.
- Corruption. Needs to be seen as a high risk-low reward activity.

Many of these caveats to higher, sustained and inclusive growth are canvassed in detail in ADB's recent publication: *Philippines: Critical Development Constraints*. (ADB. Manila, December 2007). Copies are available at the ADB desk outside this room. It can be accessed on the web through www.adb.org.

These caveats to the improving trends define our agenda as effective partners in Philippine development.

The link between economic success and the ADB-Philippines operational partnership. ADB, like several other development partners, has, over the past few years, assessed reforms at the macro and sector levels to be the right ones, and which are being implemented in the right way. They are sufficient to **enable ADB to move to what we refer to as our high case lending scenario**. Most recently, this view is buttressed by (i) Moody's and Fitch's upgrading of their outlooks on sovereign debt; (ii) Millennium Challenge Corporation upgrading the Philippines from a thresh-hold to a compact country, now eligible to access much larger amounts of financing.

We are encouraged greatly by the honest assessments we heard this morning of the issues that remain to be addressed. Vice President de Castro's acknowledgment that this all remains a work-in-progress – we need to move on from welfare activities towards sustainable income generation; we need to seal the gains and prevent backsliding on reforms. In the afternoon, President Arroyo, in her keynote address, gave us the three “E”s – economy, education, and environment, and the 3 “I”s – invest, invest, invest. Jaime Augusto Zobel de Ayala, representing the private sector perspective, expressed concern for weak governance and weak institutions, and identified corruption as “the number one problem” for doing business in the Philippines; as well as the need for greater spending on infrastructure. Together, these provide much material for framing the road map to guide the PDF's support to the Philippines development agenda. A year from now, at the next PDF, we will serve ourselves well by considering the effectiveness of that support.

ADB will continue supporting the Philippines in its efforts to achieve higher sustainable growth, which is more inclusive and allows all Filipinos to share the benefits of a more bountiful harvest. **High growth is good. Sustainable high growth is better. Growth that is high, sustained and inclusive is best of all.**

Maraming salamat po.