



STATEMENT OF THE GOVERNMENT OF AUSTRALIA

2008 Philippines Development Forum
March 26-27 2008
Clark, Pampanga Philippines

Australia welcomes the decision of the Government of Philippines to focus the discussion at this year's Philippines Development Forum on Accelerating Inclusive Growth and Deepening Fiscal Sustainability. Delivering on both will be critical if the Philippines is to alleviate poverty, achieve higher economic growth and improve its international competitiveness as an investment destination.

The Philippines Government is to be congratulated on achieving 7.3 percent GDP growth in 2007, the highest in 30 years. This impressive result continues the encouraging and positive trend of the past five years. If the growth trend can be maintained, public and international confidence will build and provide a clear signal that the Philippines is capable of realising its enormous potential.

The Government is also to be congratulated on its impressive efforts on fiscal management. It has maintained fiscal discipline and recently increased spending in the social sectors, agriculture and infrastructure. It has avoided populist short term measures, such as removing the VAT on fuel, that would undermine the revenue base and compromise good fiscal management. Public debt to GDP ratio continues to decline, while inflation has so far remained low, albeit now under some pressure given increasing oil and food prices.

Clearly the most significant challenge is to continue to strengthen the fundamentals of the economy to ensure sustained high growth that will lead to a sustained decline in poverty. This will be difficult and will require: significant strengthening of government revenues through broadening the tax base and improving collection; greater attention to the quality of expenditure; continued increased allocations to the social sectors; and shifting the basis of growth from consumption to investment. The slowing global environment and its potential downward pressure on the economy will add to the challenge. The Philippines, like all countries, will not be immune from global pressures and, combined with existing structural issues, the economy is likely to slow in 2008. The Philippines can however minimise the risks and maximise the prospects for sustained and broad based growth by continuing its efforts to pursue solid economic reforms.

The two sides of the fiscal coin

Indisputably, a cornerstone of these reforms is in the area of tax administration and raising the percentage of tax revenue collected. Too much economic activity takes place outside the formal economy, and this must be harnessed. Australia encourages the Government to consider new tax raising measures such as those proposed by the IMF and World Bank and to vigorously pursue institutional reforms in BIR and BOC so tax evasion and smuggling can be more effectively tackled. Clearly taxation reform will be a key determinant of the Philippines' ability to sustain and increase critical spending in the social sectors and in vital areas such as agriculture and infrastructure.

A critical complement to improving the quantum of overall revenue is to ensure the highest quality of expenditure. The Government should be congratulated for introducing important reforms such as the Medium Term Expenditure Framework (MTEF) and the Paper on Budget Strategy (PBS) – areas in which Australia has provided significant technical assistance and which have supported the move towards aligning budget allocation to stated policy priorities. Further institutionalising the MTEF and PBS is important as it will improve the strategic focus of the budget and reduce the extent of poorly allocated funding which can often distort development priorities. Coordination between the key oversight agencies of DOF, DBM and NEDA will significantly enhance a strategic approach to budget formulation and will avoid the overlapping and occasionally duplicative agendas of these agencies.

Budget execution and transparency is also a priority need. Evidence suggests that a number of Government agencies are having difficulties spending their increased budgets. Strongly supported by Australia, as well as other donors, efforts are ongoing to assist the Government to reform expenditure management practices towards more systematic budget execution and transparent social sector spending. This is a difficult and long term agenda and the development of a time bound and performance oriented strategy to improve budget execution will significantly complement the current efforts to improve budget formulation.

Achieving inclusive growth

Translating a strong fiscal position and good growth rates into a sustained impact on poverty rates will require specific and targeted policies and strategies. Despite its impressive recent efforts, by the standards of comparator developing countries, the Philippines has high poverty rates, unusually poor income distribution and large regional disparities. The proportion of the population living on less than US\$1 per day is 13.2 % (12 million people or about the entire population of Manila), higher than both Vietnam (8.4%) and Indonesia (7.7%) - and this masks significant regional disparities in the Philippines where the proportion of poor is markedly worse. If the recent Income and Expenditure Household Survey figures are valid, despite consistent economic growth poverty appears to have increased over the period 2003 to 2006 and on current projections a number of MDG targets may not be achieved.

The Government should be applauded for its recent allocations to the social sectors but this needs to be increased and higher levels maintained. There is now an urgent need to: create productive employment opportunities; provide improved access to education and health; substantially increase investment in infrastructure and productive sectors such as agriculture; and formulate well targeted social protection strategies and social safety nets. The high population growth rate requires the Government to more seriously look at culturally acceptable and innovative ways to tackle this issue. Under current population growth projections, demand

will continue to outstrip supply and considerably erode otherwise impressive achievements. Avoiding this will not be easy, as spending on social services needs to grow by 7% a year just to remain constant in real terms – but it is spending above that which will make the necessary inroads.

Education provides a fundamental building block to productivity and competitiveness

While Australia warmly welcomes the recent budget increases to education, we note the worrying signals that could lead to a serious decline in perhaps the most important of the assets of the Philippines – its well educated people. Net enrolment rates are declining, school drop-out rates and academic achievement standards are on the downward slide. These negative trends are largest in the poorest regions of the Philippines, particularly Mindanao (ARMM, Caraga and Western Mindanao).

The Department of Education (DepEd) Basic Education Reform Agenda (BESRA) should be commended and it is an area in which Australia is playing a very significant supportive role. It provides a sound framework for reform and an opportunity for development partners to act collectively to support improvements in basic education. For BESRA reforms to be sustained and deepened, the Department of Education will need to be re-engineered and modernised. This needs a framework to clarify the roles and responsibilities of different levels of the Department in support of schools. The Government needs to support the Department of Education put in place a rationalisation plan to underpin the re-engineering process. For BESRA to achieve its objectives, enough trained teachers, with appropriate qualifications and deployed in places with the greatest need will be required. Amendments to the laws relating to the so called ‘Magna Carta for teachers’ is fundamental and key oversight agencies and lawmakers have a vital role to play in supporting the Department of Education progress these reforms.

High levels of investment remain the key to sustaining strong growth

The Philippines is blessed by a gifted people, huge natural resource endowments, fertile lands and an enviable geographic position. All are factors that should lead to strong domestic and international interest in investing in the country. There has been recently improved performance in investment now at 14% of GDP, but this is far too low to move the Philippines to a higher sustainable growth path. The Philippines ranks badly in international competitiveness rankings (109 out of 122 countries surveyed). The challenges to increasing and sustaining high levels of investment are manifold and well known. These challenges invariably involve complex issues requiring political will and long lead times to address systemic capacity and management weaknesses. Political instability, weak institutions, influence of vested interests and corruption, as well as factors such as labour productivity, rising poverty and a poor business environment undermine investment potential and need to be tackled vigorously.

The mining sector is perhaps symptomatic of the problems facing investors. Mining has the potential to promote regional development through the provision of infrastructure, jobs and revenue for local communities. In Australia’s own case mining has underpinned much of our domestic growth over the past decade. Yet in the Philippines investor uncertainty, security concerns and slow and unpredictable governance arrangements are impeding the development of a potentially crucial industry. Without compromising the need to ensure adequate social and environmental safeguards, predictability and transparency in government processes and

proper and timely implementation of laws and regulations will, potentially, unleash billions of dollars in foreign investment.

Australia is pleased to see that spending in infrastructure - a sector critical to attracting investment - increased since the last PDF. As the Government recognises, there is still quite a way to go. Successive decades of poor and misallocated investment have left the Philippines with a decrepit infrastructure base. Increased Government spending along with strong partnerships with the private sector will be critical to restore this important asset base. Australia asks that the Government demonstrate to the market that reforms and clean procurement practices are possible and Public Private Partnerships (PPP) are genuine investment and partnering opportunities. The Panguil Bay Bridge presents a possible demonstration project of a model PPP project in the road sector and could be advanced to market in 2008. Australia is prepared to fully assist DPWH in this endeavour. Australia will also devote considerable effort to improving the Philippines road network. The road network accounts for 50 percent of the country's freight as well as providing the most common means of transporting passengers and economic goods within the islands as well as between them.

And without peace....

Instability and insecurity continue to act as a brake on development. Low level insurgencies and difficulties in bringing the peace process to completion, contribute to unrest and disgruntled communities – providing the basis for radicalisation and a security concern for the Philippines and its neighbours. There is a high opportunity cost to not securing peace. Scarce Government resources will continue to be sapped, investment will remain constrained, and efforts to raise living standards will be diluted. Resolution of ancestral land issues, the formulation of an appropriate governance framework for an autonomous region and significantly increased access by the poor to services, remains at the heart of securing a lasting peace. Australia welcomes recent efforts by the Government to put the MILF peace process back on track and to address the outstanding aspects of the peace accord with the MNLF. We would encourage both Government and the Moro people to bring this conflict to an end. The peace dividend for the Philippines and the Moro people will be considerable.

Australia remains a strong partner in supporting development efforts in the Philippines

Australia is committed to working with the Philippines Government in pursuit of the necessary economic reforms and measures that will boost the investment climate, sustain solid growth and reduce poverty. The Australia Philippines Development Assistance Strategy 2007-11 underpinned by approximately \$100 million in annual grants, has as its core, enhancing economic growth, boosting basic education efforts and supporting national stability and human security. Australia will be: supporting better national budgeting practices and public expenditure management; assisting DPWH improve procurement and governance practices in PPP arrangements; supporting road maintenance and planning at the national, provincial and barangay level; playing a major role in supporting DepED to enhance the quality of basic education; and will work with all relevant parties to build the foundations for peace in Mindanao. Australia looks forward to working in strong partnership with the Government and to further harmonising its delivery approaches with Government systems and the efforts of other donors.