

**Special Philippines Development Forum (PDF) Meeting  
A Focused Discussion on the Government's Fiscal, Social Protection and  
Food Security Programs**

**Wednesday, August 20, 2008; 8:30 to 1:00 p.m.  
New World Renaissance Hotel, Makati City**

**SUMMARY REPORT**

Introduction

1. The PDF is the primary mechanism of the Government of the Philippines (GOP) for facilitating substantive policy dialogue among stakeholders on the country's development agenda. It also serves as a process for developing consensus and generating commitments among different stakeholders toward critical actionable items of the Government's reform agenda. The PDF is co-chaired by the Philippine Government, represented by the Department of Finance (DOF), and the World Bank. The last PDF meeting was held on March 26-27, 2008 in Pampanga with around 300 participants from Government, international development partners, and other stakeholders, with the theme "*Accelerating Inclusive Growth and Deepening Fiscal Stability.*"

2. This special PDF meeting was convened to specifically discuss the Government's fiscal program, taking into account various measures to overcome challenges of rising food and fuel prices and mitigate their impact on vulnerable sectors. The meeting was co-chaired by Secretary Margarito Teves of the DOF and Mr. Bert Hoffman, Country Director of the World Bank.

Session I: GOP's Fiscal and Expenditure Program

3. Secretary Teves outlined the government's medium term fiscal targets including achieving a balanced budget by 2010, improving the tax effort ratio to 14.6 percent in 2008 and about 14.9 percent by 2010, sustaining a manageable consolidated public sector financial position, and cutting the national government debt to lower than 50% of GDP by end 2010. He stressed that the Government is intensifying implementation of more effective tax administration measures to enhance collection efficiency as well as stepping-up efforts against evasion and smuggling. He said these would help ensure that the Government has enough resources to withstand external pressures such as the global surge in food and fuel and sustain a high level of economic growth. He highlighted the importance of the reformed value-added tax (RVAT) in terms of generating revenues to fund Government expenditures in priority sectors particularly infrastructure and social services. Secretary Teves assured the development partners that the Government is working closely with Congress in pushing for the much needed legislative measures particularly the rationalization of fiscal incentives, seeking the exemption of the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) from the salary standardization law, and simplifying the structure of sin taxes. He further outlined the fiscal challenges in 2009 and underscored the need to implement the important policy measures to be able to sustain the growth achieved in recent years. Secretary Teves highlighted the value of maintaining focus, perseverance and working together in achieving sustained growth and inclusive development.

4. Secretary Rolando Andaya of the Department of Budget and Management (DBM) highlighted the importance of RVAT in meeting the expenditure requirements of Government in priority sectors. He reported that Government spending had accelerated in recent months. He said a higher rate of expenditures on priority programs would ensure that the Government's revised fiscal targets for the current fiscal year would be achieved, and that the new priorities of social protection and agricultural productivity would be met. He also gave a detailed account of additional spending on programs to protect the poor. He stressed that without the RVAT, new programs and expansion of existing programs under the priority areas of the national government could not be implemented. He said that in order to ensure funding for Government programs, the implementation of the RVAT must be sustained.

5. The International Monetary Fund (IMF) commended the Government for its fiscal reform policies that would help counter the rise in fuel and food prices in the Philippines. IMF underlined the need to exercise measures to protect tax efforts, including VAT and energy taxes in order for the country to cope with the high inflation on food and fuel. It cautioned that weakening the VAT may benefit the non-poor sector, and a significant drop in the tax effort may greatly affect the financial markets. IMF suggested that Government implement well-targeted expenditure programs to protect the poor. IMF further recommended that Government accelerate administration reform measures in BIR and BOC and prioritize legislative measures to rationalize fiscal incentives and reform excises.

6. Australia thanked the Government for providing a continuous dialogue for development partners to be informed of and take part in the reform measures being undertaken to respond to the needs of the poor, given the rise in food and fuel prices. It acknowledged the Government's tax efforts and emphasized the need to improve the quality of government expenditures. Australia affirmed DBM for its sound expenditure management and committed to continue supporting its programs.

7. The Asian Development Bank (ADB) pledged its support for Government's approaches in dealing with the food and fuel crisis. It lauded the current Government's remarkable performance in achieving fiscal consolidation as evidenced by the high growth marked in recent years. ADB also appreciated the Government's tax administration programs, and said it is necessary to maintain the momentum for sustainable revenue increases to be able to finance priority expenditures.

8. Japan supported the Government's efforts in ensuring a balanced budget in 2010 and appreciated Government's explanation on how proceeds from RVAT are utilized to support social protection programs. It commented that the move to discontinue RVAT would reduce resources for anti-poverty expenditures and therefore greatly affect the poor in the long term. Japan also appreciated Government's approach to strengthen the revenue base. Lastly, it committed to continuing its support to the BOC's tax administration efforts in coordination with other development partners like the EU and US.

9. Mr. Hoffman noted the consensus of development partners in terms of supporting the Government's fiscal reform policies and recognizing the necessity to maintain revenue efforts and efficient expenditure management. He emphasized the importance of pushing for the legislative measures that are critical in achieving higher revenues. Secretary Teves said the reactions from development partners reinforced the Government's desire in implementing the policies that would raise the revenues needed to finance the country's development requirements.

#### Session II: GOP's Social Protection Program

10. Undersecretary Bala of the Department of Social Welfare and Development (DSWD) made a detailed presentation of the Government's social protection program, which would help mitigate the effects of rising food and fuel prices. She reported that the Government's social protection program is composed of (i) labor market interventions, (ii) social insurance, (iii) social welfare and (iv) social safety nets, all of which are guided by a social protection framework. Undersecretary Bala mentioned several programs being undertaken to cushion the impact of rising food and fuel prices, including a conditional cash transfer (CCT) program called *Pantawid Pamilyang Pilipino Program* (4Ps). She said the 4P is a developmental program that invests in human capital, and provides cash assistance to the poor to help meet their needs. The program, targeting 312,000 households until 2012, is expected to improve the health and nutrition, education and the economic status of the poor. Undersecretary Bala stressed that the Government is using a national targeting system to ensure that Government programs reach the poorest of the poor.

11. World Bank acknowledged the Government's increased focus on social protection and suggested that more resources be allocated to targeted social protection programs. It underscored the importance of collaboration among various agencies and the need to effectively implement a holistic framework and strategy, especially in allocating resources across sectors. World Bank likewise commended the Government's CCT program, which could serve as the backbone of poverty reduction programs if properly implemented. It affirmed the setting up of a national targeting system that could be used as effective tool in dispersing the impact of Government's various poverty alleviation programs.

12. UN/World Food Program expressed appreciation on the Government's measures to improve the lives of the poor as a response to the rising food and fuel prices. It mentioned the achievements of Government's Food for School Program, which employed an effective targeting system and reached the poorest provinces of the country.

13. ADB raised that there is a big challenge in expanding social protection given the fact that only about 30% of the poor are being accommodated by poverty alleviation programs. It inquired on the cost of implementing the CCT program, the targeting and monitoring mechanisms being used by Government, and the impact of Government's employment programs in reducing the rate of unemployment. ADB suggested having a wider dialogue among development partners on social protection reforms to be able to help Government pursue and strengthen its social protection agenda.

14. DSWD reported that the CCT program would entail P4.4 billion over five years of implementation, catering to 321 households per year. It stressed that monitoring of the program is important to ensure that objectives are met and the cash transferred to beneficiaries are well-accounted for. DSWD also mentioned that there is an established convergence among LGUs and national government agencies to make sure that the CCT activities are in line with the priority areas identified by respective sectors. In terms of employment, DSWD said they are providing assistance to communities in enhancing their livelihood activities.

15. IMF said the Government should prioritize and target its social protection programs to make sure that the proceeds from revenue enhancement measures and tax efforts are allocated to the right priorities. IMF said this would address the skepticism of some sectors on Government's ongoing tax measures like the RVAT.

16. DSWD informed the meeting that there are effective social protection programs that are worth noting, such as the CCT, KALAHI-CIDSS and the Food for School Program. It underscored the Government's serious commitment in sustaining targeted interventions and increasing allocations to such activities. Consistent with this commitment, DSWD reported that DBM approved an increased agency budget of P4.2 billion for 2009 to be able to ensure implementation of the CCT, among other social protection initiatives.

17. The National Commission on the Role of Filipino Women (NCRFW) raised the need to enhance the definition of social protection to recognize gender differences in the context of risk and vulnerabilities. It advocated for the strengthening of social insurance especially for workers and women in the informal sector. NCRFW also reiterated the need for better coordination of social protection.

18. As a segway for the next part of the meeting, Mr. Hofman noted that while the Philippines had commendably managed to avoid oil subsidies, the government's subsidized rice program had turned into a major social protection program that might need to be reconsidered. He indicated that the World Bank would be happy to work with government to make the rice program more targeted and efficient.

### Session III: GOP's Food Security Program

19. Secretary Arthur Yap of the Department of Agriculture (DA) provided a background on the existing challenges the country is facing related to the issue of the rising price of rice. He discussed how the Government fared in terms of implementing measures to address these challenges. Secretary Yap outlined the Government's plans to boost agricultural productivity as a means to enhance food security. He presented the Government's "FIELDS" initiative, a comprehensive program that covers the following key components being provided to farmers – (i) fertilizer; (ii) irrigation; (iii) extension, education and training; (iv) loans; and (v) seed subsidy. Like in the social protection sector, Secretary Yap agreed to having well targeted programs and interventions in the agriculture sector to be able to reach the right beneficiaries. He also said that the Government is working on price stabilization programs, which would not harm

or negatively impact on domestic rice production and on the agricultural credit market. He shared the Government's outlook on the rice industry and raised hopes that the country would be able to meet the demand for rice in the near term.

20. The United Nations (UN) articulated its concern on the state of global food security and its possible impact on the achievement of the Millennium Development Goals (MDGs). It informed about the UN's comprehensive framework of action to address food security issues, as well as of the UN Country Team's steering committee on food security that share information and coordinate actions to provide efficient support to Government. UN said Government's efforts are consistent with the global comprehensive plan of action which aims at meeting the immediate needs of vulnerable groups, and working toward achieving a sustainable food security program. UN supported the shift from short term to medium-to-long term approach in addressing food security to be able to tackle implementation issues and provide flexibility for Government to optimize the use of its resources. UN reiterated its support to Government's programs and offered to continuously assist in capacity building activities in various areas with UN's competitive advantage.

21. Japan informed the meeting of its continuing support for Government programs in the agriculture sector. It expressed interest in providing further assistance particularly on infrastructure projects that would be critical in enhancing agricultural productivity. Secretary Yap acknowledged such support and encouraged joint efforts in implementing programs in the sector.

22. Australia complimented the very informative presentation by the Government and underlined the importance of having policies and programs that mitigate the effects of the food and fuel crisis on the poor population. It raised the issue of the National Food Administration's (NFA) huge losses and suggested the need for the Government to consider reforms to make the agency effective in terms of delivering emergency operations and improved social protection programs. Australia also inquired on Government's measures to increase income of rural communities, which constitute the majority of the poor population.

23. Secretary Yap assured the development partners that the Government is ensuring that income and livelihood opportunities for farmers in the rural communities are increased through the various productivity programs earlier presented. He said that under the President's framework to mitigate hunger, the focus is to put income back into the pockets of the people. On the issue of NFA, Secretary Yap asserted that there has been an aggressive move to amend the NFA charter but it still needs legislative action. He said Government is open to having further dialogues in finding workable solutions on the issues confronting NFA.

24. US congratulated the Government and the development partners in making the PDF an effective and innovative dialogue that tackles important and timely issues affecting the country. It appreciated the Government's economic performance in recent years, as well as its policies and programs that help the country withstand the crisis. US commented that increasing funding for the social sector particularly education, is crucial to enable the country to reach its potential.

It suggested for better targeting and more efficient management of expenditure to maximize the benefits of sound fiscal policies.

25. ADB offered to renew partnership with Government in pushing forward important policy reforms in the agriculture sector. ADB mentioned its earlier support for grains sector development which did not bear fruit because of difficulties in ‘decoupling’ the functions of the NFA, which was one of the components of the policy-support program. It raised questions on how to effectively sell the reform package to communities. ADB also mentioned its willingness to assist Government in the area of irrigation management.

26. IMF reiterated that social protection programs should be executed effectively to take advantage of the gains from improved revenue collections. It also encouraged Government to look into its credit policies and eliminate the constraints in the credit market.

27. Secretary Yap said that the Government has veered away from providing direct credit assistance to farmers. Funds generated from VAT are being packaged as guarantee fund channeled through the Land Bank of the Philippines, which facilitates credit assistance to farmer beneficiaries. On NFA, Secretary Yap recognized the difficulty in pushing the reforms in Congress and acknowledged development partners’ interest in discussing ways to effectively market the much needed reform agenda. He said Government is also open to collaborating with ADB on implementing an irrigation management transfer program.

28. Korea affirmed Government for its consistent efforts and sense of direction in addressing the issues at hand. Korea articulated its commitment in supporting projects in the agriculture sector especially in areas of fertilizer, food processing and post harvest facilities.

29. Canada applauded the Government’s comprehensive presentation and discussion of the issues, and supported NCRFW’s call to integrate gender perspectives and conduct more gender-based analysis when preparing and implementing social protection programs.

30. Speaking on behalf of the World Bank, the Co-Chair noted common understanding among the development partners on a variety of issues. He informed that World Bank is engaged in agricultural productivity programs particularly rural roads, and is open to discussions on possible support to important policy reforms in the sector.

31. The representative from the Foundation for Economic Freedom agreed to the policy directions presented by the Government and expressed support for maintaining the RVAT, broadening of the revenue base, rationalization of fiscal incentives and simplification of sin taxes. It also expressed support to Government’s social protection programs, particularly the CCT, as well as programs in the agriculture sector. He stressed the importance of addressing governance issues and strengthening implementation and monitoring of programs so that well-defined policies become beneficial.

32. FAO suggested that Government also prioritize small scale irrigation facilities that would help farmers increase agricultural productivity.

## Closing

33. Mr. Hoffman thanked and applauded the Government for sharing with development partners the important fiscal policies as well as programs on social protection and agricultural productivity that would help mitigate the effects of the rising food and fuel prices. He noted the following consensus points raised by the development partners:

- Increased spending levels on Government's social protection and agriculture programs are much appreciated. Transparency in the numbers would enhance the accountability of the implementing agencies, and ensure maximum results of the planned spending.
- Better targeted government spending and more transparency could also boost revenue efforts, as taxpayers are more likely to comply if they see their money is used well.
- Across-the-board measures such as a reduction in the VAT rate, abolition of the VAT on oil, or changing the VAT on oil to a specific tax, would not be the appropriate tool for the objective of supporting the poor since most of the benefit from reducing the VAT would benefit the better off.
- There are merits in expanding the CCT program and establishing a solid targeting system for the CCT, which could also be used to target other pro-poor programs, is important.
- Government's objectives to boost farmer income and productivity are appreciated, noting that the government would need to balance direct assistance with policies that improve policy environment for the private sector to invest in agriculture and engage in agricultural trade including furthering trade reforms at the border through a consultative process with stakeholders.
- Implementation of critical reforms in agriculture including rationalization of NFA's functions, trade policy, and irrigation issues, are necessary. Development partners offered to support Government in these areas.

34. In closing, Secretary Teves thanked the development partners for their sound interventions during the meeting. He also appreciated the development partners' support to Government's fiscal policies, particularly its resolve to maintain the VAT, and the policies and programs for social protection and agricultural productivity. Secretary Teves coined a new acronym PADS, which means "people advancing development and success", to basically highlight the value of working together in attaining a stronger and more progressive Philippines, noting that "coming together is a beginning, staying together is progress, and working together is success." For the next PDF, he suggested to tackle the measures on how to gradually shift from rice subsidy to more sustainable approaches in dealing with the issue.