



## 2008 SPECIAL PHILIPPINES DEVELOPMENT FORUM

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### **RP DEVELOPMENT PARTNERS EXPRESS SUPPORT FOR GOVERNMENT'S SOCIAL PROTECTION FOR THE POOR**

*Call for continued revenue performance, targeting of support and transparency*

**MAKATI, METRO MANILA, 20 AUGUST 2008**—Representatives from the government, development partners and selected stakeholder groups met today for a Special Philippines Development Forum (PDF) at the Renaissance Makati Hotel.

At the meeting, the Philippine government and its development partners discussed the impact of high global prices of food and fuel on the Philippine economy and the poor, the government's policy response, and the development partners' contribution to this response.

Development partners expressed appreciation of the government's efforts to protect the poor from the impact of higher food prices while maintaining the gains in macroeconomic stability and fiscal consolidation that underpinned higher economic growth in recent years.

The Special PDF meeting was chaired by Finance Secretary Margarito Teves and co-chaired by Mr. Bert Hofman, Country Director of the World Bank. Budget Secretary Rolando Andaya, Agriculture Secretary Arthur Yap, and Social Welfare Undersecretary Alicia Bala (representing Secretary Esperanza Cabral) made presentations at the meeting. Other Government officials, including Director-General Ralph Recto of NEDA, Undersecretary Zenaida Maglayo of DTI and other stakeholders attended, together with representatives from the Asian Development Bank, Australia, Austria, Canada, European Commission, France, Germany, International Monetary Fund, Japan, Korea, Spain, New Zealand, United States, United Nations, and the World Bank Group.

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.

Secretary Teves said: *“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. 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.”***

The meeting welcomed the government’s continued emphasis on revenue mobilization, noting that this is critical to sustainable financing of the social programs the government has prioritized. While the ongoing reforms in the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) were acknowledged, it was noted that the fruits of these reforms would only gradually further boost revenues over time. Development partners and stakeholders argued that legislative actions to boost revenues, specifically the rationalization of fiscal incentives and restructuring of excise taxes, are becoming increasingly urgent, specifically because the already approved reduction in corporate taxes and personal income taxes will lower revenue potential. As one participant said, “Legislative action on revenue measures is truly a national, not just a government priority”.

Secretary Andaya of DBM reported to the meeting that government spending had accelerated in recent months. 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.

Development partners welcomed the increased spending levels, and appreciated the transparency in the additional expenditures that the government planned on social protection and agriculture. Participants argued that transparency in the numbers would enhance the accountability of the implementing agencies, and ensure maximum results of the planned spending. In addition, participants noted that 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.

The meeting debated a variety of policy options proposed for protecting the poor from the impact of higher food and fuel prices. There was broad consensus among participants that 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. It was argued that such measures could even backfire as lower revenue effort could undo some of the gains that the Philippines has reaped from past fiscal and economic reforms.

The Department of Social Welfare and Development (DSWD) is currently implementing several social protection measures to cushion the impact of rising food and fuel prices, including a conditional cash transfer program called *Pantawid Pamilyang Pilipino Program* (4Ps).

***“The 4P is a developmental program that invests in human capital,”*** stressed Undersecretary Bala, speaking on behalf of DSWD secretary Esperanza Cabral. ***“The beneficiaries must meet specific conditions before they continue to get the cash assistance”***. Among the conditions are that the poor should send their children to school; visit health centers for check-ups; attend

family planning sessions, mother's classes and parent effectiveness seminars; and get pre- and post-natal services.

Development partners highlighted the merits of expanding the conditional cash transfer program (CCT) and emphasized the importance of establishing a solid targeting system for the CCT, which could also be used to target other pro-poor programs. This, it was noted, would in turn allow for rationalization of some of the less efficient programs, including subsidized rice. The meeting acknowledged that the CCT has the potential to boost the Millennium Development Goals (MDGs) as well as directly fight poverty and inequality, noting that sustained investment in the program could alleviate future economic shocks to the poor.

The meeting also discussed the government's plans to boost agricultural productivity as a means to enhance food security, and Secretary Yap of the Department of Agriculture presented the Government's "FIELDS" initiative. The development partners expressed appreciation of the government's objectives to boost farmer income and productivity, 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.

Participants debated the merits of subsidies for agricultural inputs such as fertilizers and seeds, and noted that these could best be used as a transition measure to cushion the impact of policy reforms on poor farmers. Participants argued that with the implementation of a modern social protection system, the need for rice price stabilization and rice distribution will diminish over time. Development partners offered assistance to implement critical reforms including rationalization of NFA's functions, trade policy, and irrigation issues.

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*For further information, please visit [www.pdf.ph](http://www.pdf.ph) and [www.worldbank.org.ph](http://www.worldbank.org.ph)*

*The Philippines Development Forum or PDF is the primary mechanism of the Government 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 Special Philippines Development Forum 2008 was held on August 20, 2008 at the Renaissance Hotel, Makati Metro 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.*