

**United States Delegation Statement
2006 Philippines Development Forum
Consultative Group and Other Stakeholders Meeting for the Philippines
March 30-31, 2006
Tagaytay City, Philippines**

The U.S. Government welcomes the significant progress the Government of the Republic of the Philippines (GRP) has achieved on many aspects of its economic reform agenda. Solid economic growth performance, an appreciating peso, implementation of the expanded value-added tax law (e-VAT), and financial and electricity sector reforms were especially notable. Major challenges nonetheless remain, including: rectifying systemic fiscal weaknesses; further strengthening institutions of governance and anti-corruption; improving the investment climate; ensuring better law enforcement action, especially regarding intellectual property rights (IPR) and trafficking in persons; addressing critical infrastructure gaps; improving the delivery of health and education services; and, supporting peace and security initiatives, particularly in Mindanao.

Achieving Fiscal Targets and Fighting Corruption

We recognize that the GRP has made substantial progress since last year's PDF, as seen in the passage of key tax legislation, most notably, the e-VAT. The budget deficit for the year was below the target minimum and continued to decline as a share of GDP, while the peso was Asia's best performing currency, in part due to increasing remittances from Overseas Filipino Workers (OFWs). The stock market made strong gains, and two international credit rating agencies upgraded their outlook for the sovereign ratings of the Philippines. We support GRP plans to sustain its fiscal efforts through effective e-VAT implementation and intensified efforts to curb tax evasion -- essential to reaping the benefits of the new tax law. The implementation of the 2005 Lateral Attrition Law -- both in the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC)—will help in improving effectiveness and reducing corruption in these agencies.

We applaud recent successes by the GRP in pursuing large tax evaders and corruption at higher levels in the public sector. The increase in the budget for the Ombudsman's office points to growing commitments by both the legislative and executive branches to address corruption. The Philippines' Anti-Money Laundering Council made sufficient progress to win removal from the list of countries monitored for suspicious transactions of the OECD's Financial Action Task Force (FATF). However, making corruption a truly high risk, low reward activity remains a major challenge. Corruption increasingly appears on investor surveys as a critical weakness in the Philippines' investment climate. We support intensified GRP activities in the prosecution, conviction, and punishment of corrupt officials and welcome systemic measures directed at controlling corruption before it happens.

The GRP's anticipated submission of its Threshold Country Program proposal to the U.S. Government's Millennium Challenge Corporation (MCC) is an important step. If

approved by the MCC, the Threshold Program represents a substantial opportunity and will provide grant resources for the GRP to advance its fiscal consolidation and anti-corruption initiatives.

Promoting Growth and Stability

At the macro-level, an improved fiscal situation and real progress on the anti-corruption front will increase the overall confidence of foreign and domestic investors. This increased confidence will, in turn, improve the prospects for more robust economic growth and job creation for the 900,000 Filipinos that enter the national labor pool each year.

In terms of the enabling environment for business, implementation of the Procurement Law and the Optical Media Law addresses some key concerns of investors. Last year's Supreme Court ruling allowing increased foreign participation in mining is also encouraging. In recognition of the GRP's improved IPR enforcement, the Office of the United States Trade Representative recently made a determination to move the Philippines from the "Priority Watch List" to the "Watch List." The U.S. Government will continue to work with the GRP to improve its IPR enforcement regime.

Additional steps by the GRP to focus more intensively on improving the investment climate and resolving outstanding investment disputes and bottlenecks should pay off in greater foreign direct investment. Resolution of questions involving tax incentives at the Clark and Subic Economic Zones will also send a positive signal to investors that the Philippines welcomes foreign direct investment. Sustained reform efforts to increase competition and private sector participation in infrastructure -- notably power, ports, road transportation, telecommunications, and water services -- are crucial for increasing private investments in critical infrastructure.

The Philippines has already taken positive steps toward the transformation of energy institutions and markets. To address projected energy gaps, the GRP will need to continue implementing its energy reform agenda, including: privatization of transmission and generation assets; encouraging new investments in power generation and distribution systems; supporting rate structures that reflect the true cost of power; developing policies to promote indigenous cleaner fuels such as renewable energy; and, ensuring a fair, efficient, and independent regulatory environment.

An estimated thirty million Filipinos are without access to safe water or sanitation services. The GRP should look at how it can best leverage its resources to attract private sector financing for water and sanitation services, rationalize Official Development Assistance in this sector, and help those water utilities able to borrow on market terms to do so.

Free and fair elections are integral to democracy, stability and growth. The appointment of former Chief Justice Hilario Davide, Jr. as President Arroyo's Senior Advisor on

Electoral Reforms is encouraging, and we look forward to supporting reforms in this important area.

The Philippines achieved recent limited progress in prosecutions and convictions in combating trafficking in persons. However, more progress in law enforcement efforts is needed.

Promoting Peace and Security

We commend the GRP's commitment to the global war on terrorism, including efforts to combat terrorist groups such as the Abu Sayyaf Group and Jemaah Islamiyah. At the GRP's request, the U.S. Government continues to provide assistance to these efforts with our various military programs, including humanitarian assistance efforts and intelligence fusion centers.

The U.S. Government's bilateral development assistance program implemented by USAID continues to prioritize Mindanao, with about 60% of USAID's country budget invested in a range of programs, totaling \$220 million in grant assistance from 2001 to 2005. We remain convinced that a lasting peace in Mindanao -- which would ensure the elimination of safe havens for known terrorist groups -- is absolutely key for stability and growth of the entire country. The democratic transition in the Autonomous Region of Muslim Mindanao (ARMM) last year represented an important opportunity to provide its residents with democratic choices for their future.

We welcome progress in the ongoing peace talks between the GRP and the Moro Islamic Liberation Front (MILF). The U.S. Government is prepared to immediately implement a program of bilateral assistance for the MILF in the event of a peace accord. We also look forward to engaging with our development partners regarding plans for the multi-donor Mindanao Trust Fund, which serves as a vehicle for donor coordination.

Investing in People and the Future

The Philippines' position in an increasingly competitive world, as well as in meeting Millennium Development Goals, will depend on additional investments in people. The Philippine education system has deteriorated significantly over the past three decades. The state of the education system in the ARMM is of particular concern. We support the GRP's programs to increase access to education and improve instruction quality.

While total health expenditure of the country showed a dramatic improvement and the highest increase since 1997, the adequacy of public expenditures in the health sector for the poor continues to be a concern. We support the GRP's intention to improve spending for the poor, especially through social health insurance, with special attention to maternal and child health, nutrition, and reproductive health services. Promulgation by the GRP of policies that could secure multi-year financing for major health concerns and building local government unit (LGU) capacity for the delivery of an essential health services

package are essential. HIV/AIDS is a growing concern among certain high-risk groups, notably intravenous drug users and OFWs. We congratulate the GRP for its well-developed avian influenza (AI) preparedness plan and for initiating broad-based task forces at the national and sub-national levels. The U.S. Government is committed to assisting the GRP in guarding against the AI threat. However, we remain concerned about the adequacy of GRP budgetary resources and the impact on the effectiveness of public information and field-level program operations.

Significant environmental stewardship improvements are necessary for sustainable development. Expansion and intensification of enforcement activities must continue over time and result in prosecution of those most responsible for the unsustainable exploitation of the Philippines' forest and coastal resource endowments.

Conclusion

The U.S. delegation applauds the Philippines for its achievements over the past year despite major economic, governance, and social challenges, and the U.S. Government looks forward to deepening its productive development partnership with the GRP, civil society, the private sector and other international donor partners.

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