



2008 PHILIPPINES DEVELOPMENT FORUM
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Clark Field, Pampanga, Philippines

CLOSING STATEMENT BY CO-CHAIRPERSON
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Honorable Chairman, Secretary Margarito Teves;
Honorable National and Local Government Officials;
Honorable Ambassadors and Representatives of the International Development Community;
Distinguished Representatives from the Private Sector and Civil Society;
Ladies and Gentlemen:

1. First, let me say that it has been my privilege to Co-Chair this Forum for the first time. The Philippines Development Forum represents the coming together of such a range of participants—national and local government leaders, representatives of the private sector, civil society, and academics—with the purpose of sharing views and ideas on how best to support the development and implementation of policies and actions to improve the lives of Filipinos. I, and many other participants, have been struck with the candor of the discussions over the last two days, which have been rich, open, substantive, and constructive.

2. On behalf of the international partners, I would like to thank the Government of the Philippines, particularly the Department of Finance, for its excellent organization of this event – and Secretary Teves for his strong leadership of the Philippines Development Forum. I would like to express our appreciation for the participation and commitment of President Gloria Macapagal Arroyo; Vice-President Noli de Castro; and so many esteemed members of the Cabinet. And I would like to thank all the participants: your contributions and work are testimony to the spirit of friendship and partnership for the development of the Philippines.

3. The PDF is an excellent opportunity for all of us working toward development of the Philippines to meet and reflect on what has been accomplished in the last year and agree on the priority tasks going ahead. Since the last PDF important progress has been made but some actions remain on the agenda. For example, the Government has increased budget allocations to health and education, based on clear strategies and refined medium-term expenditure frameworks. The Government is in the process of developing a similar social protection strategy and has launched a promising poverty alleviation program, *Ahon Pamilyang Pilipino*, based on an improved poverty targeting method. The passage of the Anti-Red Tape Law has already resulted in reduction in some business processing time, which can contribute to improved investment climate. Turning to the pending agenda, several legislative initiatives still await approval by one or both houses. These include the bills intended to rationalize fiscal incentives,

to reform excise taxes, to set up a credit bureau, and to update and rationalize compensation of civil servants. Likewise, major policy decisions such as the clarification of the LGU financing framework have not yet been reached.

4. Our discussions over the last couple of days revolved around a common theme and realization: the need for sustained growth, inclusive growth and good governance. In the past year, the Philippines has experienced strong performance in growth. Over the past three years, growth has been faster than any similar period in the past three decades. Important credit for this achievement rests with the Government, which over this period, has made great strides in re-establishing macroeconomic and fiscal stability. Yet, at this Forum, we all realize that now the critical challenge will be to sustain this growth, and broaden it to be more inclusive. Indeed, despite growth, alarmingly poverty has increased. The need for action on several broad, linked fronts became quite apparent during our deliberations. First, growth needs to be sustained if it is to benefit all Filipinos. This calls for continued vigilance in macroeconomic and fiscal management. It also calls for improvements in the investment climate and, related, for putting into place critically needed infrastructure. Second, even if sustained, this growth must be more inclusive so that it benefits all Filipinos, and particularly the poorest. The nature of growth, its sources, and the way its dividends are invested is of essence. Poorer Filipinos must participate in growth and benefit from improved public and private investment and service delivery if MDG targets are to be met. Clearly, the importance of improved investment climate and infrastructure needed for growth to be more inclusive was quite apparent, as was the important role that not only the national government, but also local governments would need to play in enhancing and delivering on inclusive growth. Third, for growth to be sustained and to be more inclusive, we all recognized that improved governance will be fundamental. As one participant noted, governance is indeed the foundation for economic development. Moving forward, there is consensus that this will require a concerted effort from all of us here in this room. In this concluding statement, I cannot hope to capture the richness of all our discussions on these issues. But please allow me to take this opportunity to highlight some of the key points of our discussions, some of the consensus reached, and commitments made.

Recent Progress and Main Challenges

5. The meeting recognized the recent impressive macroeconomic performance of the Philippines. Growth has gained momentum over the past few years, and at 7.3% in 2007 made the Philippines one of the stronger performers in the region. Economic policy has greatly contributed to this performance. The government's commitment to fiscal discipline has improved market confidence, resulting in lower sovereign spreads and significant capital inflows. Average inflation last year was the lowest since the 1980s. And, after several years of expenditure compression, the trend in declining capital expenditures was reversed in 2007 along with the general improvement in fiscal balance.

6. The challenge now is to ensure that growth is sustained and—to make a serious dent in poverty levels—to make growth more inclusive. Despite recent growth, participants stressed the need for deepening this growth and making it more sustainable. This challenge is all the greater, given the prospects of a global slowdown. As the President emphasized, the imperative will be *“to stay focused on economic reform.....and to invest, invest, and invest in the nation.”* Several participants noted that recent growth has been consumption-led and boosted by strong

performance in services, with continued stagnation in the manufacturing and industrial sectors. It will be critical to increase investment levels, which continue to be low. Likewise, participants highlighted the need to increase productivity from its current levels if growth is to be accelerated over the longer term. Discussions also focused on the finding that poverty has increased over the past few years and that there is wide regional disparity not only in growth but also in the incidence of poverty. Making growth more inclusive will be critical to the objective of poverty reduction, but it will also be important to the achievement of the MDGs and the very sustainability of development.

SUSTAINING GROWTH

Maintaining Macro-stability and Fiscal Discipline

7. Significant progress has been made in reducing the public debt over the past few years. This is a job that is not easy and is never over. Or to use Secretary Teves' words, "*this 'amazing race'...is a marathon, not a sprint.*" The Government is to be commended for its steadfast attention to working toward meeting fiscal targets. Indeed, in 2007 the government more than met the budget deficit target of 0.9% of GDP—recording a fiscal deficit of only 0.1% of GDP. A decline in the tax effort was compensated for by privatization receipts, increasing overall revenues. This allowed an increase in capital expenditures and a further reduction in public debt. Going forward, however, participants highlighted the importance of increasing revenues on a sustainable basis instead of relying on one off privatization proceeds in order to finance the spending needed on infrastructure and social services without jeopardizing fiscal stability.

8. Improving the fiscal position over the longer term requires strengthening tax administration, especially in view of the planned roll-back in corporate taxes. This will need, as a first step, a more effective tax registry. In this regard the recent progress made in cleaning up the stop-filers database is a welcome development. Participants took note of the government's tax administration priority actions for the coming year, which include strengthening collection enforcement and arrears management, establishing third party information linkages, strengthening information sharing between the BIR and LGUs, strengthening the audit program and revamping and strengthening the Run after the Tax Evaders (RATE) and the Run after the Smugglers (RATS) programs. The meeting noted however that poor capacity and weak incentives in the revenue agencies remain a severe constraint to implementing tax administration improvements. In this context, the rationalization of the BIR and DBM would be an important step. Participants also emphasized the need for reform of excise taxes and rationalizing fiscal incentives to raise the tax effort on a sustainable basis.

9. The meeting welcomed the government's efforts to further develop the capital markets that would both enable the government to rely more on domestic financing and provide an alternative investment vehicle for Filipino savers.

Improving the Investment Climate

10. Participants commended the positive developments over the past year. Domestic and foreign investments increased sizably. However, they noted that the level of investment

remains low compared to peer countries. They emphasized that in addition to macroeconomic stability, good governance, particularly consistency of policy, transparency, property rights and the sanctity of the rule of law, plays a fundamental role in shaping the investment climate. The need to reduce red tape and transactions costs were also highlighted. Clarification of roles and responsibilities between government agencies and between levels of government would help in this regard. Specific actions identified during the discussions include: accelerated implementation of the Philippine Business Registry; implementation of the Credit Information System; assessment and improved operations of LGUs' One-Stop Shops and DTI's NERBAC; and streamlining government processes pertaining to business operations and closure.

Upgrading Infrastructure

11. Inadequate infrastructure—from transport to energy, solid waste, communication to water supply and sanitation—poses a severe threat to the investment climate and competitiveness of the Philippines, and thus to the creation of jobs, as well as the delivery of basic services to the Filipino population.

12. Development partners agreed that sustaining and accelerating growth in the Philippines will require higher levels of investments in infrastructure. Some participants stressed the importance of a strategy that focuses on high priority investments. Fulfilling the infrastructure gap requires action in the following six areas: (i) adopting a Comprehensive Integrated Infrastructure Plan (CIIP), preparing master-plans by sub-sector so that they can be fast-tracked; (ii) improving project preparation and faster resolution of technical and legal issues such as Rights of Way and land acquisition ; (iii) introducing clear competition policies and economic regulation in infrastructure provision, separating operations from regulation, in key areas such as toll roads, ports and aviation; (iv) strengthening capacity for infrastructure development by improving quality management systems, and increasing the skills and knowledge needed to develop public-private partnership (PPP) projects at the national and local level; (v) improving the linkages between planning, budgeting and funding processes at all levels; and (vi) ensuring that user charges and cost recovery considerations are duly taken into account so as to strike the balance between affordability for the poor and industry competitiveness. In expanding infrastructure investment, it will also be important to ensure social and environmental sustainability.

13. Considerable progress has been made on an ambitious infrastructure reform agenda, especially in the power and communication sector. However, full implementation of a comprehensive infrastructure reform program remains critical. In light of the importance of infrastructure for investment climate and competitiveness, participants in the PDF agreed to form a new Working Group on infrastructure.

SUPPORTING INCLUSIVE GROWTH

14. A central theme of our discussions was how to make growth in the Philippines more inclusive. Lagging progress in reducing poverty and other key MDG indicators stresses the imperative for action.

Increasing the Incomes of Poorer Filipinos

15. Poorer households need increased opportunities to participate in and contribute to the growth process. In the Philippines, where most of the poor live in rural areas, it was recognized that facilitating pathways out of poverty will depend on improving agricultural productivity through diversification, completion of agrarian reform, and strengthened property rights. It was agreed that government resources for accelerating growth and improving competitiveness would need to focus on improving the investment climate and providing public goods—such as research and extension services—to improve agricultural productivity in rural areas. Participants also stressed the role that the private sector could play in rural development. There was also consensus on the imperative to enact laws for land use policy in order to foster increased private sector initiatives.

16. Improving incomes also means the need to generate more quality jobs in rural and urban areas. Some participants noted the high rate of underemployment and the high share of informal sector work. The imperative of stimulating off-farm employment in rural areas was also recognized as a key pathway out of poverty. The critical role of SMEs in providing job opportunities for the poor was highlighted, as was the need to address constraints to SME, such as access to microfinance for example. Here participants also agreed on the critical need to address policies at the national and local levels that unduly restrict competition and inhibit efficiency, for example in sectors such as transport. Indeed, allowing competition and entry has a dual benefit to the agenda of inclusive growth: it increases efficiency and lowers costs, including to Filipino consumers; and it will permit the generation of more economic activity and more jobs.

Improving the Human Capital of Filipinos

17. Participants agreed that the dividends of growth must be used to increase investment in the human capital of Filipinos, and particularly the poor. The Government was commended on its increased spending on the social sectors last year and planned higher spending for this year. However, given the low levels and poor outcomes on some MDGs, there was general consensus that further increases in spending are required. Where possible, there is a need to seek out mechanisms that will allow central government to leverage the efforts of local government and the private sector in financing and delivering basic services to citizens. The Forum agreed that there needs to be more focus on lagging indicators, such as maternal mortality and the low school participation rate and high drop out rate, and on lagging regions, such as conflict-affected Mindanao, but also poorer provinces across the country. Some participants stressed that the MDG target on maternal mortality was unlikely to be met. The Government's national education sector reform program (BESRA) and health sector reform program (*Formula One*) are commended in this regard, and the need for future predictable funding for the social sectors was highlighted. However, the Philippine's high population growth rate increases the challenge of delivering services and creating jobs for all. Indeed, some participants felt that addressing reproductive health, including through enhanced financing, would contribute to national development and inclusive growth. This calls for urgent public action by all levels of government and by development partners.

Reducing Risks and Vulnerabilities to Poorer Filipinos

18. Poorer Filipino families are particularly vulnerable to risks and shocks that could permanently throw them into destitution. In addition to the pervasive health and economic risks they face, households also have to contend with the risks of natural disasters, environmental risks, and now of climate change and high food prices. It was agreed that this calls for the more effective implementation of social protection and risk mitigation strategies. On the current issue of rising food prices, it was agreed that a study group be immediately convened to consider options on how to address recent increases in rice prices as well as medium to long term solutions on food security and agricultural productivity. Critical for implementing social protection and poverty programs for the poor is the establishment of a credible and accurate administrative system of targeting poor households. In this regard, the household poverty targeting system being developed for the Government's APP conditional cash transfer was seen as an important and welcomed development. Indeed, many participants recognized that the roll-out of the Government's conditional cash transfer program, if carefully implemented, could prove to be the back-bone of a social protection strategy in the Philippines and could develop the basis of a targeting system that could be used nationally, for other programs such as the PhilHealth Indigent subsidy.

Enhancing Security by Addressing Conflict in Mindanao and Elsewhere

19. Addressing the insecurity and shocks related to conflict is critical to the agenda of reducing poverty and vulnerability in the Philippines. Not surprisingly, some of the poorest provinces in the country are in conflict-affected areas in Mindanao; and these were the areas that suffered a further increase in poverty according to recently released data. Meanwhile, it was noted that several provinces in Mindanao that were not affected by conflict made progress in poverty reduction. There was an urgent call for all sides to cease the conflict. This was seen to be key to the development effort of the Philippines. Participants agreed that it was imperative for the government and the MILF to continue pursuit of a negotiated settlement of their conflict. The ongoing review of the 1996 Peace Agreement with MNLF was seen as a positive development. A reduction in conflict would permit the full development of regional agricultural and growth potential. Donors agreed to work through a unified strategy and mechanism for conflict-affected areas so that assistance is used effectively during and after the peace process. Development efforts, such as local government peace building efforts and community driven development programs have shown great promise in delivering the much needed basic services in poor and conflict-affected areas. Strengthening the capacity of local government authorities was recognized as critical to peace and development in Mindanao.

STRENGTHENING GOVERNANCE

20. Good governance is a foundation for effective management of both economic and social policies that are necessary to make this growth sustainable and inclusive. It underlies all of the action agenda I have summarized so far. The meeting reiterated the importance of increasing government spending in critical areas of infrastructure and social development. The medium-term expenditure framework that the Government has been working to institutionalize has begun to show dividends. Allocations have been increased to priority sectors.

21. Deepening procurement reform is clearly a priority in improving efficiency and accountability in the use of public money. Recent assessment of the procurement law showed that the law substantially meets the standard of international good practice. However, there are concerns about slow and inconsistent implementation and enforcement. Increased use of electronic procurement and consistent application of open competitive bidding methods are among the concrete measures that the Government is pursuing. It is also timely to institutionalize the Government's successful harmonization of procurement documents and manuals with ODA partners through Implementing Rules and Regulations (IRR-B) of the procurement law to specify the regulatory framework for procurement under foreign-assisted projects. This will strengthen the implementation and enforcement of the law, including at the local government level. The development partners expressed their general appreciation for the Government's proposal to engage them in open consultations to work out the details of the IRR-B and reaffirmed their commitment to work with the Government to this end within the framework of the PDF sub working group on procurement.

22. The Government laid out its priority reform agenda for improving expenditure management and the quality of spending. Two important elements of this agenda are, first, deepening results based budgeting through better performance monitoring and the development of internal audit capacities and control systems, and, second, the harmonization of budgeting, accounting and auditing procedures and reporting requirements--by oversight agencies, development partners and LGUs. These measures, combined with streamlined budget release procedures, would complement a more comprehensive strategy to improve budget execution by priority agencies. The increased involvement of civil society in budgetary monitoring is welcome and participants stressed the importance of gender equity in budgeting. Budget transparency is a backbone of expenditure management reforms. The participants noted the importance of greater public disclosure of fiscal data and publication of improved budget reports.

23. The need to control corruption and strengthen the rule of law was mentioned by a number of participants. The Government, including the President, recognized the centrality of these issues to sustainable and inclusive development and reiterated their commitment to intensify the fight against corruption. Participants acknowledged the government's actions against corruption and welcomed the establishment of the Procurement Transparency Group with strong civil society presence. They supported the announcement to create a similar watch-dog body to support better revenue administration. At the same time, civil society groups highlighted the need for vigilance against systemic corruption that may escape the existing control mechanisms that are mainly geared to control administrative corruption. A private sector representative suggested that stakeholders in the Philippines could look to raise the bar and work toward "progressive governance standards".

24. Strengthening governance at the local level is vital to ensure sustainable growth and improve service delivery. Meeting ever increasing demands for more and better public services requires that LGUs promote and facilitate access to basic services as well as local economic development. In this regard, Government's call for development partners to join forces through a trust fund to support the agenda of local government and decentralization was embraced. While it is essential that capacities be upgraded, mechanisms for encouraging inter-local cooperation must also be strengthened. The meeting identified several key areas for capacity building,

including the skills and data required to: monitor the achievement of MDGs, improve the business environment, and develop vital infrastructure networks. The need to further clarify the roles and responsibilities of LGUs vis-à-vis national government agencies and other LGUs was also highlighted and devolution identified as a means to address short-falls in the delivery of services at the local level. It was recognized that incentives for improving the performance of LGUs also play a role in leveraging resources and accelerating growth. Existing survey instruments such as LGPMS and CBMS should evolve reliable systems for monitoring and benchmarking LGU performance. For this, reliable yet simple ways must be found to validate and update the indicators and make them publicly accessible.

25. Promoting citizen participation in governance, especially at the local level is a good way to enhance transparency and limit the scope for corruption. Community-driven development approaches, such as the KALAHI-CIDSS program, have proved effective in targeting the delivery of basic public services to poor communities. It has also strengthened local governance by empowering communities to take the lead through participatory planning, as well as by undertaking the procurement process themselves, reporting all financial transactions in barangay assemblies, and engaging communities in the important work of monitoring the performance of contractors and other service providers – all of which serve to enhance transparency and accountability at the local level.

26. In summary, the Government has laid out clear and credible plans to address the key development challenges. The development partners are here as friends of the Philippines, ready to support the efforts in sustaining and deepening inclusive growth and improving the lives of Filipinos. The working groups have an active agenda ahead of them in the coming year, and I look forward to the PDF in 2009 when we will be able to recognize the fruits of the important actions that we have discussed.