



## World Bank Group Statement

**The World Bank Group commends the policy directions of the Aquino Administration's Social Contract and its proposed operationalization through the Philippine Development Plan (PDP).** We are confident that with proper implementation of the Philippine Development Plan, coupled with the strong trust of the Filipino people in the leadership of President Benigno Aquino, a new window of opportunity has been created for inclusive growth in the Philippines.

**It is encouraging to note that the economy rebounded in 2010 with a growth rate of 7.3 percent, the highest in over 34 years. However, despite robust economic growth, poverty remains a challenge.** As the Government acknowledges, for all the macroeconomic resiliency and strength, growth continues to have little impact on the poor as poverty rose again in 2009 and probably in 2010. Some 23.1 million Filipinos lived in poverty in 2009, or 26.5 percent of the population, up from 24.9 percent in 2003. Aside from high poverty, the Philippines has among the most unequally distributed income and consumption among the East Asian middle-income countries. Furthermore, the evidence suggests that the distribution of income has actually worsened over the last decade and is higher than reported in official statistics. In light of this assessment, the Government's focus on strong, sustainable inclusive growth and poverty reduction is highly appropriate.

**The World Bank Group strongly supports the thrusts and priorities laid out in the PDP.** The following areas, structured under the Government's clusters to be discussed today, are what we consider to be key in sustaining strong growth and significantly reducing poverty: in governance and security – implementation of disclosure and transparency in budgeting systems and sustainable peace and development in Mindanao; in human development – modernization of education, health, and social protection systems; and in economy – revenue mobilization, promoting public-private partnerships (PPPs), and developing the agribusiness sector in support of food security.

### *Governance and Security*

- ***Transparency and Accountability of Public Finances.*** As the Aquino Administration has stressed, corruption and bad governance harm the poor, both directly by diverting resources intended for them, and indirectly, by holding back economic growth. We commend the Government for already taking significant steps to improve governance, a challenging task that will require reforms across a broad range of institutions, including justice sector, anti-corruption authorities, civil service, and government financial management. We believe that improving government financial management is among the low-hanging fruits, and recent revelations regarding the lack of financial controls have demonstrated the

importance of reforms in this area. We therefore welcome the initial steps taken as part of the 2011 budget to improve the efficiency, transparency and accountability of public finances. Also significant is the Fiscal Risk Statement published in November, accompanied by a program of institutional capacity building to address risks in public debt, contingent liabilities, and the governance of government-owned and controlled corporations (GOCCs) and government financial institutions (GFIs). We welcome the initiatives of the Department of Local Government and Interior to increase transparency and accountability of the budgets of Local Government Units. We are encouraged to note the agreement among the Commission on Audit, the Department of Budget Management and the Department of Finance to develop a functional government integrated financial management information system. The World Bank Group is looking forward to continue and expand its support for this important initiative.

- ***Sustainable Peace and Development in Mindanao.*** We are pleased to see that the negotiations with the Moro Islamic Liberation Front (MILF) and the National Democratic Front (NDF) have recommenced. However, the achievement of a negotiated settlement with the MILF is a necessary but not sufficient condition for achieving peace and security. Some of the poorest provinces in the country are in Mindanao. Without addressing the development challenges there, the country cannot achieve true inclusive growth. Mindanao is trapped in a vicious cycle of conflict and underdevelopment, and is faced with governance issues in the form of entrenched patterns of patronage politics that have often been taken to an extreme. The limited degree of economic integration of much of Mindanao is an equally significant factor. The armed conflict is concentrated in the economically lagging areas, resulting in greater poverty, which feeds violence, and vice versa. Achieving sustainable peace, security, and development in Mindanao will require addressing all these factors. A negotiated settlement will not be sustained if the root causes of conflict are not addressed. Addressing land issues, providing sustainable livelihood, supporting economic integration of conflict-affected areas with centers of growth, and developing agribusiness and value chains are some of the critical elements of sustaining peace in Mindanao, at the same time contributing to inclusive growth.

#### *Human Development*

- ***Basic Education Services.*** We welcome the Government's initiatives to improve the quality of basic education services and the plans to extend the basic education cycle from 10 to 12 years. The Department of Education (DepED) is implementing a number of policy and budget measures to address the interlinked problems of coverage and poor access that disproportionately affect the poor and hold back the competitive development of the Philippines economy. We will continue to support these initiatives.
- ***Universal Health Care Coverage.*** We applaud the identification by the Administration of achieving universal health care coverage within the 2011-2016 PDP as its main health sector goal. Health financing reforms with a focus on PhilHealth, health facility enhancement, and health-related MDGs are appropriately identified as priority areas of action. World Bank support will focus on increasing effective coverage (health insurance coverage, utilization and financial protection) under the National Health Insurance Program

(NHIP) for underserved populations, cost-effectiveness of the health delivery system, and better coordination among different levels of government.

- ***Social Protection.*** With over a quarter of the population living in poverty and many more at risk, we deem it highly appropriate that social protection is a central part of the Administration's anti-poverty strategy. In 2008, the Government launched the *Pantawid Pamilyang Pilipino Program* (4Ps) Conditional Cash Transfer (CCT) program to provide support to poor households that are investing in the future of themselves and their children. It is based on a National Household Targeting System (NHTS) that provides a set of uniform, objective, and transparent criteria for identifying the poor—the first time that such nationwide identification of the poor has taken place. This program provides far better targeted social protection than any of the programs it replaces, and it is important that these high standards in implementation be maintained as the program rapidly expands. The real importance of the 4Ps lies in its ability to both support the poor while providing their children with the human capital to lift them out of poverty and efficiently target the poor. We welcome the Government's plans to use the NHTS to better target other programs aimed at reaching the poor. In partnership with AusAID, the World Bank will continue to support the Government with technical assistance in design, monitoring and evaluation, and in financing the program itself. We welcome it that other partners have joined or plan to join this successful program and commit to closely coordinate our efforts under the Government's leadership.

### *Economy*

- ***Revenue Mobilization.*** The current level of public revenues is insufficient to fully implement the Philippine Development Plan. We therefore firmly support the Administration's focus on revenue mobilization. Public spending on health, education, infrastructure, and agriculture is significantly lower in the Philippines than in its neighbors and has been declining both as a percentage of GDP and as a share of government expenditures. Indeed, since the late 1990s, the country has been caught in a low-expenditure, low-revenue trap, with tax collections chronically below the levels targeted in government plans and budgets. Between 1997 and 2009, the tax effort declined from 17 percent of GDP to 12.8 percent. Aligning public spending in priority areas with those in East Asian comparator countries is estimated to require an increase in expenditures of around 5-7 percent of GDP. Some of these can be financed by reducing waste and phasing out ineffective programs, but a significantly higher tax collection effort is required to keep the deficit at sustainable levels. We welcome the renewed efforts to revamp the country's tax administration system, and believe that considerable revenue increases can be achieved by improving the efficiency of tax collection. However, once this is achieved, it may still be necessary to increase tax rates or introduce new taxes. This is an opportunity to establish a better, more equitable and more efficient tax system for the Philippines, and we encourage the Government to develop options for such a system that can be supported by a broad consensus among the Filipino people. The World Bank stands ready to support the authorities in this endeavor.
- ***Public-Private Partnerships (PPP).*** We welcome the Administration's PPP agenda. The poor quality of infrastructure in the Philippines has been recognized as a critical bottleneck

to growth and competitiveness. Properly structured PPPs that are transparently put out to bid have the potential to leverage scarce public resources to address this bottleneck. In light of the governance issues in this area, investors today need reassurance of a fair and transparent legal and regulatory framework. It is important that the Administration follow through on the commitments made at the recent Infrastructure Philippines 2010 conference to provide appropriate guarantees against policy and regulatory risks. Particularly critical to the success of the PPP agenda will be the development of a pipeline of bankable projects. There is also a need to strengthen the in-country transaction advisory capacity of the Government to properly manage these efforts. Finally, while we agree with the Government that private financing of infrastructure is important, considerable financial commitments from the Government will still be necessary to fully close the financing gap.

- ***Agriculture, Agribusiness, and Food Security.*** We are encouraged by the approach of the Administration to the agricultural and agribusiness sectors. Achieving food security will remain a challenge in the years ahead, even as the Philippines is currently spared the sharp hikes in staple food prices that other countries are experiencing. This benevolent situation may not last, though, and considerable policy and structural changes are necessary to better reconcile the objective of food security, higher incomes for poor farmers and adequate protection against high prices for consumers. It is increasingly understood that for food security to be seriously tackled the value chains of key food crops require sustained modernization in order to become more efficient, productive and reliable in supporting the country's food requirements. We agree with the Administration that the modernization of value chains and a more orderly and stable food trade cannot be secured without the contribution of a competitive private sector. We applaud the Administration's intention to close the agribusiness infrastructure gap through PPPs. Even more can be achieved by developing a strong collaboration between private and public sectors in such key areas as food safety, promotion of exports, and provision of other relevant services for competitive value chains. Finally, we are pleased to see that sustainable rural development is viewed as an important pillar of the equitable growth agenda.

**A topic that we feel strongly about is poverty statistics.** We believe that the Administration's ambition to fight poverty should be matched with better, more frequent and much more rapidly available statistics on poverty and social indicators. With that, the President's call for evidence-based policy making can be turned into reality, and the progress on the Government's agenda can become evident for all to see, from year to year, with little delay. We would be keen to support the Administration further in its efforts to improve statistics.

**In closing, let me reiterate that the World Bank Group welcomes the efforts of the Administration to promote inclusive growth and poverty reduction in a climate of good governance.** The Bank stands ready to contribute to these ends through both the provision of international knowledge and experience, and through lending in support of Government programs. We believe that the World Bank Group's Country Assistance Strategy for the Philippines, with its focus on growth that works for the poor, is consistent with the thrusts and priorities of the new Philippine Development Plan. We will be presenting an updated of our strategy to the World Bank's Board this May, which will ensure full alignment with the Government's new priorities. We anticipate that the updated strategy will include a significant increase in World Bank Group assistance that the Government could draw on if it so desires.