

2006 PHILIPPINES DEVELOPMENT FORUM
A Meeting of the Philippines Consultative Group and Other Stakeholders
March 30-31, 2006
Taal Vista Hotel, Tagaytay City, Philippines

Closing Statement by the Co-Chairperson
Mr. Joachim von Amsberg
Country Director, Philippines, World Bank

Mr. Chairman, Honorable Secretary Margarito Teves

Honorable Members of the Cabinet, Congress, and the Judiciary, and Officials from the National and Local Government

Honorable Ambassadors and Representatives from the International Development Community

Distinguished Representatives from Civil Society, Business, and Other Representatives from the Private Sector

Ladies and Gentlemen

Introduction

On behalf of the international development partners, I wish to express sincere thanks to the Government of the Philippines, particularly the Department of Finance, for its outstanding organization of this event. I would like to express appreciation for the high-level participation of the national leadership, including Her Excellency, President Gloria Macapagal Arroyo, and the Honorable Noli de Castro.

Recent Progress

We started our meeting by acknowledging the significant progress achieved by the Philippines in the course of the last year. Fiscal reforms have moved the country away from the acute risk of crisis to a virtuous circle of fiscal reform and restored market confidence.

We then posed four questions that we thought this meeting could address. Rather than repeat the summary reports from the seven PDF working groups, let me briefly reflect on how the reports of the working groups respond to the four questions posed yesterday. Let me also note that the extent of convergence and agreement on key policies was indeed quite striking and stands in contrasts with the contentious political environment.

How to sustain and deepen fiscal reforms through increased revenue collection rather than further expenditure reduction

The successful turn-around in public finances has created high expectations. The Forum strongly welcomes the government's plans to achieve a frontloaded revenue adjustment of 1.4 percent of GDP in 2006.

Strong performance on the revenue side in 2006 and beyond would ensure that government's deficit targets of 2.1 percent of GDP and public sector deficit of 2.0 percent of GDP in 2006 are met. This would pave the way for achieving a balanced budget in 2008.

If 2005 was the year of tax legislation, 2006 is the year of tax administration. The Philippines can draw on national and international best practice to strengthen collection. Measures to improve the performance of the BIR include accelerating efforts to improve taxpayer registration and filing, developing risk based audits, enforcing sanctions for evasion and building credibility through the use of information campaigns. In this regard, the creation of a reform manager in the BIR is a welcome development. In the BOC, a reform program focusing on building strong leadership, simplifying procedures, and building capacity is crucial. The recent crackdown on smugglers is a welcome sign and should be expanded. In both agencies, improving the framework for performance management would support comprehensive revenue collection initiatives.

Improving the overall financial balances of GOCCs would complement revenue enhancement initiatives. In this regard, accelerating reforms and privatization in the power sector is important. The launch of the wholesale electricity spot market and the successful bidding of Transco would help.

Progress on this front would create space to improve expenditures in priority areas such as infrastructure and social services.

How to increase transparency and efficiency of public expenditures and control corruption effectively

The Forum welcomed the Government's efforts over the past year to develop an overall National Anti Corruption Plan of Action. At the same time, however, the country's rating in some major perception surveys has declined. Important challenges thus remain. The development of, and focus on, robust measures of anti-corruption *outcomes*, such as cases resolved, cost savings, increased transparency and civil society participation, could lead to improved perception ratings.

Good governance also requires strengthening the performance and accountability of key government agencies, which will improve the public confidence in government. In this regard, the Government's efforts to promote performance-based budgeting and the rationalization of agency structures and staffing around the core service delivery mandate of each agency are significant. Strengthening government information systems is a core component of this agenda. The working group on sustainable rural development proposed a sector-wide rationalization of the rural development agencies in order to streamline and improve public service delivery in rural areas.

The Forum welcomed Government efforts to strengthen the budget process itself, for example through the forthcoming Paper on Budget Strategy. Delays in budget approvals severely undermine public confidence and effective use of budget resources. The proposed Fiscal Responsibility Bill could help address this problem.

The Philippines has made significant progress in devolution of functions to the local government level, and strengthening local capacity. There are many examples of good practices, innovations, and leadership at the local level. However, the process of devolution is incomplete. Attention to enhance local revenues and access to finance and the respective roles of national and local governments could strengthen local autonomy. A specific suggestion emerged that all national rural development agencies adopt a time-bound and systematic transition of their frontline support services to LGUs.

The Forum noted considerable momentum to improve the effectiveness of local capacity building by harmonizing programs and making assistance more responsive to the needs of local governments, especially the poorer and weaker LGUs. It is good to see solid progress in tools for local performance monitoring. Another important remaining challenge is to establish incentive mechanisms for encouraging good local governance and financial management.

Grassroots initiatives managed by communities to take on greater responsibility for their own development can also improve transparency in the allocation and utilization of public funds and the accountability of public institutions in responding to community needs. Community-driven development programs are improving the delivery of local public services often at lower cost, as opportunities for corruption are reduced through community monitoring of procurement and project implementation.

How to accelerate and broaden the base of growth to ensure it benefits a larger number of Filipinos

Key to growth is improved infrastructure. The poor who need better access to market are hampered most by deficient infrastructure. A critical challenge to improving infrastructure is the strengthening of the Government's institutional capacity.

A key priority will be to improve the overall planning and coordination of infrastructure investment, while ensuring protection of the country's natural resources. Related to this is the need to shift the oversight agency responsibilities from detailed project-level review to a more forward-looking role, including the formulation of strategies and policies. Integral to this, the Government could develop a mechanism to select and prioritize strategic investments especially for transport, water and energy. A related need is a better implementation model for public-private partnership. For their part, line agencies will need to develop the capacity to better plan, prepare, and implement the prioritized investments. In addition the working group urged the government to pay more attention to investors concern and act quickly to resolve them.

To facilitate private investments in infrastructure and other sectors it will be critical to streamline fiscal incentives. An important objective will be the consolidation of the eight investment promotion agencies to address revenue leakages. Indeed, with over

100 independent incentives in conjunction with a very complicated legislative environment poses a significant challenge for any business.

An underlying source of growth, jobs, and greater inclusion is unleashing the potential of small and medium-sized enterprises. To make this happen, LGUs could reduce red tape for establishing and running businesses. An immediate focus should be on streamlining business registration. The development partners can support this and other objectives.

How to achieve more rapid poverty reduction and to attain the Millennium Development Goals

The Forum emphasized the need for improving the quantity and quality of social spending particularly in the key focus spending areas of the government. To reduce poverty and achieve the MDGs, important actions are needed to improve the delivery of social services. Education outcomes can be improved through efforts to support early childhood education, alternative learning systems, and private sector participation under the Basic Education Reform agenda that makes schools more accountable to parents and teachers.

Health outcomes can be improved through implementation of programs that support children and women's health services for early childhood interventions. Improving women's reproductive health continues to be handicapped by a high rate of population growth. The country needs to find common ground on this difficult issue and define a specific policy and strategy on population, possibly as an element of the government's health sector strategy.

In addition, the targeting of social assistance benefits to poor households can be improved by use of evidence-based instruments. More also can be done for other social services in the areas of social protection, social assistance, and social development especially for vulnerable groups.

Yesterday, the President told us about the progress being made on the Mindanao peace process. She emphasized the importance of an early peace dividend on growth and greater inclusion. The Mindanao working group subsequently considered ways to support the Government's peace and development initiative, especially to conflict-prone areas that have thus far been neglected.

The participants agreed on a much deeper level of coordination and consideration of an immediate increase of resources for the conflict-affected areas. They emphasized the need for better tracking of development indicators, greater participation of LGUs, and improved project implementation by the government.

Inequality and exclusion are holding back development of the Philippines. Social policies to ensure that all Filipinos benefit from economic development and to ensure that all Filipinos can contribute to development deserve a prominent place in the national policy debate. Of course, progressive social expenditures depend on the health of public finances and the ability to target public expenditures well.

The overall theme: More tax collection for more and better public services

Public finances link the four questions here discussed. If there is a single message from this PDF, it is the need for more and more equitable tax collection for more and better public services. The objective of improved tax collection is to set in motion another virtuous circle of improved public finances, better public services and growth, more employment and jobs, and more rapid social progress and poverty reduction as a result.

The policies laid out by government leaders and discussed during this forum could move the Philippines onto a sustainable path of rapid social and economic progress. Decisive *implementation* of these policies is the key. The international development partners, the “Friends of the Philippines,” stand ready to support the critical policies discussed here. We are keen to harmonize our efforts and align them with the agenda discussed here.

Closing

In closing, I would like to emphasize that the current format of the Philippines Development Forum has again been very effective. This process was begun over a year ago in Davao City when the working groups were first created. Since then, the PDF process has provided tremendous opportunities to share ideas, listen to each other, and commit to actions for the benefit of the country. I have strong hopes that all working groups will continue their work on an ongoing basis. I would like to thank all participants for their active engagement in this PDF. I would like to specially thank our Chairman, Secretary Teves, for his able leadership of this event, and even more importantly for his most effective leadership of the Philippines public finances in the last nine months.

Maraming Salamat po and Mabuhay!