

Statement by the World Bank

Mr. James Adams, Vice President, East Asia and Pacific Region

The World Bank wishes to thank the Government for convening the Philippines Development Forum 2008. Thanks to the Government's strong leadership the Forum has grown to become the prime venue for policy debate and exchange among development partners in the Philippines. The broad-based participation among government, development partners, civil society and private sector suggests that this debate is in excellent shape. The presence of the President, Vice President, and many cabinet members is a clear signal from the Government that it is strongly committed to continued international cooperation. We believe that discussions at the forum in recent years have been very productive in addressing critical issues in development, in focusing development assistance on the country's priorities, and in coordinating efforts among the many partners of the Philippines. This year's theme of the forum is particularly apt, as it reflects the Government's continued commitment to macroeconomic stability and fiscal discipline, while it signals a growing consensus on the need to reinvigorate the fight against poverty. The World Bank and other development partners stand ready to work with the Government to support the policies to sustain growth and reduce poverty already in place, and discuss what additional options the Government has to achieve more inclusive growth.

The World Bank would like to commend the Government on the recent economic performance of the country, including higher economic growth, fiscal consolidation, and lower interest rates and inflation. This remarkable turnaround from only a few years ago reflects the determination with which the government has addressed the country's macroeconomic issues. In recognition of these achievements, the World Bank has recently increased the amount the Philippines could borrow from the Bank, if the Government so desires. The recent approval of "compact status" for the Philippines by the Millennium Challenge Corporation is further evidence of international recognition for the Government's efforts in restoring growth and stability.

Recent growth in the Philippines has been impressive, the fastest in two decades, while growth has gained momentum over the last three years. We believe that to achieve the Government's goals to join the ranks of advanced nations, though, the country needs to sustain this level of growth for at least a generation. Moreover, as the recently released poverty numbers show, for growth to make a serious dent in poverty levels, it needs to become more inclusive. Sustaining growth and making it more inclusive pose a major challenge to the authorities, more so because the favorable international environment of the last four years is weakening. And with the economy nearing full capacity, sustaining high growth must increasingly come from higher investment, greater productivity increases, lower transactions costs and better technology. A strong focus on further policy reforms will therefore be critical to ensuring that rapid growth can be sustained and become more inclusive.

The rising poverty levels are a growing concern. Poverty headcount rose from 30 percent in 2003 to 32.9 in 2006, eroding the gains made. This means that out of a population of 84 million in 2006, almost 28 million Filipinos fell below the national poverty line. In some regions, and notably in conflict-affected areas, poverty is much higher, as high as 70 percent of the population in the conflict-affected Autonomous Region of Mindanao. Poverty reduction is also slower in the Philippines than in neighboring countries such as Indonesia, Thailand, Vietnam, and China. One reason is inequality—across income brackets, regions, and sectors. High inequality means that it requires more growth to get the same reduction in poverty headcount, as more of growth benefits the better off in society. While income inequality has improved slightly in the three years to 2006, it remains higher than many other countries in the region. In addition to slow progress in reducing income poverty, there has been mixed progress in addressing the non-income dimensions of poverty, particularly as they relate to human development outcomes.

The recently approved budget reflects the government's continued commitment to macroeconomic stability as well as increased emphasis on poverty alleviation and better infrastructure. However, the disappointing tax revenue outcome for 2007 emphasizes the need for continued efforts to improve revenue efforts in order to raise the resources needed to spend more on social programs for growth and poverty alleviation as well as improvements in infrastructure. We also believe that a stronger tax effort would position the Government well for countering any adverse impact from the expected global slowdown. The planned reduction in corporate income tax is a welcome one, but it means that the Government has to redouble its efforts in tax administration and policy to make up for any revenue losses. Accelerating the BIR reforms is therefore of the utmost importance. In addition, exploring policy options for rationalizing tax incentives and improving the excise tax structure, steps are likely to be necessary to restore tax buoyancy in the Philippines.

Results from higher spending in terms of poverty alleviation and growth depend on the quality of the government's programs and on sound implementation. We commend the government on progress in the areas of education and health reforms, which has the promise to reverse worrisome trends in education outcomes and tackle lagging outcomes in the MDGs. We also welcome the Government's initiative to establish a conditional cash transfer program, which, if well targeted and implemented, could make a real difference for poor families across the country, much as nationwide scaling up of Kalahi-CIDDS would do for poor communities across the nation. The World Bank and its partners are proud to be associated with each of these initiatives, and we are strongly committed to make them a success.

We welcome the recent progress made in the management of public money and encourage the Government to accelerate reforms in this area. Public financial management and procurement are critical to turn policies and budgets into results on the ground, and as such are core elements of the development agenda. The Philippine government has made commendable progress in public procurement, and we consider the Philippines Public Procurement Law of high quality and based on the sound principles of

transparency and competition. In fact, the World Bank and other development partners agree to the use of the Philippines' procurement rules for a considerable share of the projects it finances. Yet, some high profile corruption cases have their origin in public procurement, and consistent application of the law to all government procurement remains highly desirable. Equally desirable is further progress in public financial management reforms, where more policy driven allocations, more regular release of funds to implementing agencies, and more transparency in the budget process could contribute to better government services that are needed to lift Filipinos out of poverty.

Development partners appreciate the Government's leadership in further implementation of the Harmonization agenda. The World Bank is committed to work with Government on this agenda, while recognizing its obligation towards all of its shareholders in the process. The World Bank and other partners acknowledge the Government's commitment to the Harmonization Agenda, and commend the successes achieved to date in Procurement and in Monitoring and Evaluation. The Procurement Law has brought substantial changes in the procedures, and can be better enforced through the development of PhilGeps and improvement of LGUs capacity. Additional steps to strengthen the Philippines regulatory framework would be hailed by the development partners as significant move of the Harmonization agenda and would confirm that transparency and competition values are shared by government and development partners. The Bank is open to the possibility of extending further the use of procurement country systems, and would welcome detailed technical discussions with the government. In addition, the Harmonization agenda for FM would be furthered by mainstreaming Internal Audit in all government agencies. Finally, while the first successes achieved in the use of safeguard policies on environmental impact assessment, indigenous people and gender issues are very promising, they still require additional work before joint consideration by government and development partners.

Improving infrastructure services remains one of the best ways for Government to accelerate and sustain growth. Although more spending is also needed here, it will be even more critical that this spending is used well. Beyond continued procurement reforms, this would require further improvements in budget allocation and continued reforms of core ministries. As important are continued regulatory reforms to increase competition to reduce costs—reforms that are well under way in the power sector, but that need to be sustained in order to avoid bottlenecks in the years ahead. These reforms also need to be expanded to transport and logistics where a level playing field would create the competition needed to drive down excessive costs. Finally, the need to draw in private money will require not only a sound framework for PPPs and consistent application of the BOT law, but also the availability of a steady stream of feasible and bankable projects and tight management of the remaining government risks in those PPPs. In all of these areas, the World Bank Group is either already engaged, or stands ready to deepen its engagement with Government and other development partners.

Rural development and higher agricultural productivity remain one of the most powerful tools for poverty alleviation, and the World Bank and other partners stand ready to support government initiatives in this area. Poverty in the Philippines

remains predominantly a rural phenomenon, and combined with the country's concerns on food security, this implies that the government has a delicate balance to maintain between the interests of consumers, producers, and the poor. Like elsewhere in the world, though, rapidly rising food prices in international markets have been a key factor in the rise in poverty in the Philippines, and the Government may wish to re-evaluate this balance. Other middle income countries have adjusted their trade policies to reduce the impact of international food price increases on the poor, and this may be a good time for the Government to consider accelerating the agricultural trade reforms already committed to.

The World Bank welcomes the President's strong commitment to seek a peace agreement in Mindanao before 2010. Development partners are already strongly supporting peace and trust building and development activities in Mindanao, but as the recent poverty numbers show, the challenges in conflict affected areas remain enormous. With a real chance of peace now on the horizon, though, I believe it is of paramount importance that we as development partners are prepared to step up our efforts in Mindanao when a peace agreement will have been concluded. Being ready would mean to grasp the opportunity for peace to trigger development, and development to solidify the peace. The World Bank calls on all partners to work together to prepare a package of assistance that would give real meaning to the word peace dividend, and we hope we can report back to this forum a year from now on the size and modalities of such a package that would kick in when a peace accord is concluded.