

**2006 Philippines Development Forum:  
A Meeting of the Consultative Group of the Philippines and Other Stakeholders  
Tagaytay City, Philippines, 30-31 March 2006**

REPORT OF PROCEEDINGS BY THE CHAIRMAN

Introduction

1. The second Philippines Development Forum (PDF) was held from March 30-31, 2006 in Tagaytay City, Philippines, continuing the tradition of annual meetings of the Consultative Group (CG) of the Philippines over the last 27 years. This year's Forum witnessed the expanded participation of different stakeholders and development partners. As in the previous PDF, the Government of the Philippines, led by the Department of Finance, organized and chaired the Forum; the World Bank served as co-chair for the Forum.
  
2. The PDF carried the theme "Building on Economic and Fiscal Reforms to Achieve Sustainable Growth and Social Progress" and was attended by approximately 300 participants from national and local government units, the executive, legislative and judicial branches, civil society, private sector, and the international development partners. This year's theme brought to the forefront the importance of continuing efforts and sustaining the gains achieved in seizing the narrow window of opportunity for socioeconomic progress through critical reforms and strengthening relationships among development partners in the pursuit of the country's development agenda.
  
3. Taking off from the precedence of the first PDF, this year's Forum focused on substantive policy dialogue among the various stakeholders, with the objective of developing a consensus on ways forward and harmonizing support towards a limited set of critical actionable items aimed at sustaining the gains made on the reform agenda. The format of the meeting included seven (7) separate break-out sessions designed to provide an opportunity for more substantial dialogue on key issues among the various stakeholders. Following last year's lead, the five inter-related themes of economic and fiscal reforms, MDG's and social progress, decentralization and local government, growth and investment climate, governance and anti-corruption remained core areas for discussion. This year's PDF also saw the inclusion of two new themes on Mindanao and on sustainable rural development.
  
4. The break-out sessions were the continuation of the activities of the Working Groups that emanated from last year's break-up group discussions where the development partners committed to continue working on specific points of action in the development agenda even after the Forum. Since the first PDF last year, the Working Groups become venues for the continuing process of consultation and interaction among development partners working on common areas of development.
  
5. The Government of the Philippines was represented by high-level officials from the Departments of Finance, Budget and Management, Agriculture, Agrarian Reform, Environment and Natural Resources, Energy, Interior and Local Government, Social Welfare and Development, Transportation and Communication, Trade and Industry, Foreign Affairs; National Economic Development Authority; Bangko Central ng Pilipinas; the Office of the Ombudsman; the Upper and Lower Houses of Congress; the Office of the Vice President; and the Office of the President. Local

Government was represented by officials from the various Leagues of local government units. The Philippine Judiciary was also represented. Her Excellency Gloria Macapagal-Arroyo and Vice-President Noli de Castro delivered separate addresses, which served as highlights of the Forum.

6. The development partners included delegations from Austria, Australia, Canada, China, Czech Republic, Finland, France, Germany, Indonesia, Italy, Japan, Korea, Malaysia, New Zealand, Spain, Sweden, United Kingdom, and the United States of America. Multilateral and other organizations that participated in the meeting included the Asian Development Bank, European Commission, International Finance Corporation, International Monetary Fund, Islamic Development Bank, Kuwait Fund for Arab Economic Development, Saudi Fund for Development, the United Nations agencies, and the World Bank.

7. Civil Society, the academe, and the private sector were also represented by leaders of various associations, institutions and organizations.

***The 2006 Philippines Development Forum carries the theme “Building on Economic and Fiscal Reforms to Achieve Sustainable Growth and Social Progress”.***

#### Opening Session

8. The Chairman, Secretary Margarito Teves of the Department of Finance, opened the Forum by welcoming the development partners and other participants. The Chair noted that the Forum’s theme, “Building on Economic and Fiscal Reforms to Achieve Sustainable Growth and Social Progress”, reflected the shared commitment among partners to preserving the gains and building on the momentum of the past year’s achievements. Secretary Teves remarked that this shared commitment had enabled the Philippine Government to prove its resilience and strength adding that the cooperation among development partners to implement sound policies and a comprehensive reform agenda positively influenced the economy, as the last year witnessed growth in the country’s GDP, increase in investment inflows and increase in support from stakeholders. In this regard, the Chair then called on all participants to take to task sustaining the momentum and working together to achieve critical progress in poverty reduction particularly in the areas of tax reform, governance reforms, and achieving the Millennium Development Goals (MDGs). Finally he thanked the international development community for their continued support to the Philippine Government’s development efforts and assured them of its commitment to pursue meaningful and sustained reforms and improve the lives of the Filipino people.

9. The Co-Chair of the meeting Mr. Joachim von Amsberg, Country Director of the World Bank, spoke on behalf of the international development partners. He welcomed all participants and thanked the Government for hosting and organizing the Philippine Development Forum. Setting the direction for the Forum, the co-chair emphasized that the PDF was a venue for continuous substantive dialogue, noting that the PDF’s format, which includes break-out sessions provided for expanded participation among stakeholders and anticipated the continuation of work beyond the Forum. Recognizing that the substantive dialogue among stakeholders might lead to a myriad of issues, he called on the development partners to focus on a few specific and concrete items that deserved the utmost priority and which the development partner community could most contribute to in the development of the Philippines. Mr. von Amsberg further noted that the presence of various stakeholders confirmed their commitment to work with all parties with openness on the country’s development agenda and their willingness to broaden the dialogue.

10. The Co-Chair then recalled the common message put forth during last year's PDF, which was the call to focus on a narrowing window of opportunity and the need for difficult reforms and front-loaded fiscal adjustments. He noted that since then, the Philippine Government had seized that window of opportunity and had moved forward in the implementation of key fiscal reforms citing the crucial Expanded Value-Added Tax (E-VAT) Law, which led to the restoration of market confidence. Seizing that window had also led to the decline in debt and deficit, as the country moved away from the serious risk of crisis. With this perspective, the Co-Chair proceeded to mention that the remaining challenge was to accelerate economic and social progress, keeping in mind the need to address and answer four (4) key questions on: i) how to sustain and deepen financial reforms based on revenue increases rather than further revenue reduction; ii) how to increase the transparency of public expenditure and control corruption effectively; iii) how to accelerate and broaden the base of growth to bring about investment to ensure that the benefits of growth are accruing to a large number of Filipinos; and iv) how to achieve poverty reduction and achieve the MDGs. The PDF's objective, then, was to identify a set of policies and actions and align the harmonized support of international development partners to such policies and the country's development agenda.

11. At this point, the Co-Chair encouraged frankness, openness, and constructiveness among all the participants in a substantive debate to make the PDF more productive towards an agreement on actions and to take the PDF as an opportunity to focus on the country's policy agenda and how all the partners could and stakeholders can collectively participate in the implementation of key priorities.

***The Government reports a stronger fiscal balance position and improvements in economic fundamentals for macroeconomic stability.***

*Session I: Overall Developments and Updates*

#### Macroeconomic Developments and Outlook

12. Secretary Romulo Neri of the National Economic Development Authority (NEDA) reported on the progress made on the Philippine development agenda as embodied in the Medium-term Philippine Development Plan (MTPDP). He started by presenting the current performance of the Philippine economy and the prospects for the medium-term. As he relayed, the economy proved its resilience, as it emerged stronger than market expectations. The Government's progressed in putting its fiscal house in order resulting in a stronger fiscal balance position and improvements in economic fundamentals for macroeconomic stability. These improvements were characterized by the strengthening of the peso in late 2005 despite increases in world oil prices and the new tax measures. However, sustaining these gains could only be achieved provided that continued measures of fiscal consolidation, inflation control, and policy directives are sustained and implemented as planned. The Government's key policy therefore, is to restore the health of the fiscal sector by remaining committed to its goal of balancing the budget by 2008 and managing inflation. Government will further prioritize spreading development to the regions, expanding markets, and increasing farmer productivity through knowledge diffusion and management. Secretary Neri then thanked the international development partners for aligning their country assistance programs to the country's development priorities and enjoined them to continue to support the Government's priorities including agribusiness, small and medium enterprise development, and agricultural development. He expressed hope that the development partners would also assist the Government in mobilizing greater private sector investment and public-private

sector partnerships, emphasizing that with their support, the country's MTPDP targets would remain relevant, doable, and attainable.

### The 2006 Expenditure Program

13. Secretary Rolando Andaya of the Department of Budget and Management (DBM) followed Secretary Neri's presentation with a briefing on the 2006 expenditure program. His presentation covered the development prospects and key challenges on the expenditure side, including the expenditure outturn in 2005 and the first two (2) months of 2006, the 2006 budget and related concerns and challenges, and the continuing prospects for 2007 and onwards. He reported that the 2005 expenditure outturn reflected prudent management contributing to a better than expected deficit of P146.5 B as against the P180 B target. Total disbursements were posted at P942.2 B, P20 B lower than the P963 B programmed for the year on account of savings in interest payments as well as due to the lower peso-dollar rate. Savings of P5 B were also posted from the net lending as government-owned and -controlled corporations (GOCCs) were able to repay advances availed in early 2005. Maintenance and other operating expenditures, and capital outlays however, fell short of the program levels due to the lower prior years account claims. Meanwhile, disbursements expanded at a slower rate compared to revenue growth. Furthermore, the good management of obligation releases resulted in the decline of accounts payable over time.

14. Secretary Andaya outlined the many challenges in managing the budget, which included: i) countering the effects of the delay in approval of the 2006 budget and continuing to pump-prime the economy; ii) harnessing the entire public sector to implement infrastructure projects; iii) completion of the rationalization program within the year to ensure quality and efficiency of public service among government agencies; v) passage of the Fiscal Responsibility Bill which will put a cap on debt in the medium-term to ensure that expenditure measures be backed by new revenue measures; vi) establishment of a multi-year budgeting system which will systematically map out requirements for ongoing and new projects on a three-year basis; and vii) narrowing the performance gap between public and private sector particularly in the supervisory and management levels. To address some of these challenges, Secretary Andaya reported that the Government would employ the following measures: i) on fiscal consolidation and improving the composition of expenditures, major portions of the budget increase will go to the economic and social services sector, while capital outlays will expand to include increases in infrastructure; ii) on performance, the DBM is set to propose a performance-based compensation system; and iii) for better financial management, Government would sustain procurement reforms.

15. At this point, the Chair opened the floor for comments from the PDF participants prior to the arrival of Her Excellency Gloria Macapagal Arroyo. Japan, through Ambassador Yamazaki of the Government of Japan, noted that the benign external environment and the favorable performance of the Philippine economy had created the window of opportunity for the Philippine Government to take bold and decisive actions to solve and deter current structural problems. Japan acknowledged the substantial progress made by the Government towards the right direction especially in the financial area particularly in the implementation of the VAT rate increases which had laid down the foundation for upfront fiscal consolidation. Japan stressed that it was determined to further align its Official Development Assistance (ODA) Programs with the development policy of the Philippines, and expressed continued support to the President's 10-point agenda and assistance to the nation-building efforts of the Philippines through various ODA mechanisms. Some concerns raised included: i) the importance of private funding in the socioeconomic development of the Philippines, and the importance of strengthening Philippine competitiveness to attract foreign direct

investments; ii) the need for stable supply of power and increased investments in power sector; and iii) the need to strengthen and improve coordination mechanisms in order to develop key infrastructure programs. Japan reiterated its commitment to support the Philippine's Millenium Development Goals (MDGs) particularly in the area of maternal health and improvement of regional health systems; and its continued support to peace and development in Mindanao. On behalf of Japan, Ambassador Yamazaki then expressed hope that the Philippine Government would continue its consistent and unwavering attitude in implementing policies and exerting political will in dealing with political and economic vested interests.

#### Arrival of Her Excellency President Gloria Macapagal-Arroyo, President of the Republic of The Philippines

16. Led by the Chair and Co-Chair, the participants of the PDF welcomed Her Excellency President Gloria Macapagal-Arroyo to the Forum. In his statement, the co-Chair, reported to the President that the development partners acknowledged the progress made by the Philippine Government in its reform program and reiterated their commitment to harmonize and align their efforts with the country's development agenda.

#### Keynote Address by Her Excellency President Gloria Macapagal-Arroyo

17. In her keynote address, Her Excellency Gloria Macapagal-Arroyo thanked the International development partners, and all the other participants for supporting the Philippines in its path of reform. She then acknowledged those who had expressed and continued to support bringing peace, stability, and justice in Mindanao, emphasizing that accelerating growth and achieving the MDGs was heavily dependent on achieving peace in Mindanao. The President then called on the development partners to pursue a proactive stance in providing aid to Mindanao as the Government awaited the signing of a peace accord. The President also highlighted that the Philippine economy was strong and moving in the right direction and emphasized Government's continued commitment to bold reforms including defense reforms and constitutional reforms, specifically Charter Change. She also mentioned key reforms such as the passage of a progressive national budget, and the adherence to tight fiscal reforms. In closing, the President conveyed her gratitude for the continued support of the development partners to the Philippine Government and the Filipino people.

#### The Fiscal Sector's Performance and Prospects

18. Secretary Teves presented the most recent developments in the fiscal sector and reported that Government had been able to implement the following fiscal measures: i) increasing power generation tariffs; ii) increasing sin taxes; iii) broadening the VAT base to include electricity, oil, and petroleum products, and the medical and legal professions; iv) changing VAT refund procedures; and v) raising the VAT from 10 to 12%, while some bills were still in progress such as: i) rationalizing fiscal incentives; ii) simplifying taxation of self-employed; and iii) the Fiscal Responsibility Bill. He mentioned, however, that much still needs to be done to address immediate challenges that include: i) sustaining improvements in tax collection by launching a diverse tax information campaign and pursuing Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) Action Plans; ii) intensifying collection efficiency and governance; iii) strengthening the oversight functions of GOCCs by adopting performance contracts; iv) accelerating reforms and privatization of the power sector; v) resolving outstanding issues related to privatization such as land titling, operation and maintenance of non-power components and rationalization of wholesale electricity spot market; and vi) broadening and deepening of the local capital market. Secretary

Teves then continued to present the Government's continuing priorities for the medium-term. Among these were: i) improving tax and revenue efforts to increase tax collection; ii) continue to rebuild tax and revenue efforts to pre-crisis level, reduce budget deficit, and lower borrowings pushing the Philippines to be at par with ASEAN neighbors; and iii) reaching a balanced budget by 2008 through the E-VAT and other administrative measures.

19. In conclusion, Secretary Teves emphasized that the steadfast implementation of reforms and prudent policies in the previous year enabled the Government to overcome challenges and continue to build a stronger and more resilient economy. However, he acknowledged that more needs to be done to achieve sustained growth and to significantly reduce poverty. He henceforth called on all development partners to work together to push the door of opportunity which would open much wider if all would push together in the same direction. He continued to express confidence that the Philippine Government and the development partners would achieve shared development goals that will result in a better future for the country.

#### Comments/Reactions to Government Presentations

20. The Co-Chair thanked the presenters for their presentations on the Government's plans and priorities and mentioned that the plans and commitment were very encouraging and that these would be discussed in more detail in the Working Groups. The Co-Chair then invited the PDF participants to share their views on the various proposals mentioned.

21. The development partners congratulated the Government in its progress in implementing the reform agenda and expressed optimism and confidence in the Philippines while reiterating their support for the development agenda of the Government. Several partners shared their views on these topics:

- The European Commission noted the need to further speed up very necessary and very fragile reforms in order to achieve equitable growth and attain the country's MDG targets. The EC also expressed its full commitment to aid harmonization in the Philippines. It pledged and confirmed support to pro-poor development in Mindanao and expressed hope for the resumption of peace negotiations between NDF-NPA and the Government.
- The Asian Development Bank (ADB) acknowledged the Government's progress in fiscal consolidation and confirmed its support for Government in identifying new and concrete measures to increase revenue in order to sustain and expand social expenditures. It also acknowledged the good coordination between the Government and the development partners that emanated from the PDF and recognized Government's efforts project administration and portfolio management. ADB then pledged to provide assistance in the area of harmonization and alignment of efforts among International Development Partners. It would also provide further support to private sector operations, and signified its intention to explore assistance in investment and infrastructure development through sub-sovereign and non-sovereign lending.
- The Wallace Business Forum represented by Mr. Peter Wallace, remarked that it was primarily Government's role to provide public sector services, infrastructure, and public utilities. However, since the Government was constrained to do this, it has turned to the private sector for assistance. It was noted however, that private sector's reluctance to do so is

rooted in the lack of guarantees on return on investment. It was further noted that ADB's assistance in terms of guarantees was a welcome opportunity for Government partnership with the private sector. On another topic, corruption was identified as a deterrent to business in the Philippines and emphasized the need to identify ways to curb corruption was emphasized.

- Korea praised Government's continuing effort to implement important fiscal and other policy reforms, particularly efforts to reduce deficit and collect more taxes. It noted, however, the need to focus on critical reforms, which would create significant results in infrastructure and in streamlining administrative procedures. It also noted other concerns such as: i) the need to speed up the privatization of assets; ii) acceleration of work on various infrastructure projects; iii) the strengthening of various business-related processes; and iv) the possibility of lifting the common carrier's tax imposed on foreign airlines. Korea then expressed its willingness to align its assistance to the policy priorities of the Philippine Government.
- The United Nations (UN) reconfirmed its commitment to peace and development efforts and in helping the country reach its Millennium Development Goals. It signified its intent to be a strong and effective partner in meeting Government priorities. It further endorsed the principles and essence of the PDF--of partnership, process, inclusiveness and working towards a common goal. In this regard, it endorsed the Paris Declaration on Aid Effectiveness and mentioned the UN's own process of harmonizing its efforts in the country in keeping with the Declaration. UN's focus of assistance would include the following: i) macroeconomic stability; ii) basic social services; iii) good governance; iv) environmental sustainability; and v) peace-building and conflict prevention.
- Australia joined the other development partners in commending the Philippines in its efforts to address the key challenges particularly of fiscal consolidation and management. It emphasized the need to focus on managing expenditures while enhancing social sector spending particularly on education. Australia also updated the plenary of its global expansion of its aid program directed at developing countries which exercise good governance, active reform, and sound anti-corruption measures, and in this regard expressed confidence that the Philippines would be a major beneficiary of this expanded aid. Australia then signified continued assistance to peace and development in Mindanao. On another topic, Australia also noted some issues in the mining sector, expressing concern over the negative publicity and unfavorable signals in the sector which have dampened investor confidence. It urged the Government to send some reassurance to the foreign investor community of its commitment to pursue an open regulatory environment in the sector.

22. Some Government representatives responded to some key points raised by the development partners. Secretary Ampatuan of the National Anti-Poverty Commission (NAPC) remarked that there were four possible points of focus in alleviating poverty: i) social protection and relief, ii) tying growth strategy to poverty reduction; iii) strategic production intervention in rural communities; and iv) promoting pro-prosperity values and individual responsibility. Secretary Neri, on the other hand, responded to more specific issues. On mining, he relayed that there was a need to ensure environmental sensitivity to the needs of the local populace. He also emphasized the need for knowledge dissemination of simple, low-cost yet high-impact technologies to help improve incomes of farmers. Secretary Dureza also pointed out two important points: i) the peace process was not only about peace negotiations but more importantly it is about the importance of

development in Mindanao; and ii) the peace process with the Moro Islamic Liberation Front (MILF) was already moving forward.

23. Moving on with the agenda, the Co-Chair reminded the participants to take responsibility for making the working groups productive to come up with concrete and specific actions and identify points of cooperation and convergence. He then thanked all the participants for their valuable contributions during the earlier discussion, and the Government partners for their comprehensive presentations.

***Working Groups focus discussions on specific themes and reach convergence on key priority actions in respective areas.***

### *Session II: Parallel Break-out Sessions*

#### Economic and Fiscal Reforms

24. The session was chaired by Secretary Teves. In his opening remarks, the Secretary mentioned the need to ensure that resources are put to good use, and reiterated the importance of government institutionalization of reporting mechanisms in order to monitor the utilization of resources especially in allocating for social services and infrastructure. He further stressed the Administration's goal to pump-prime the economy to attain economic growth and ensure fiscal discipline.

25. The session then proceeded with presentations from the Bureau of Internal Revenue (BIR), and the Bureau of Customs (BOC) on their respective Action Plans for the medium-term. Commissioner Jojo Bunag of BIR identified the following priority actions for BIR: i) to exceed collection targets by improving processes and ii) improve knowledge management through computerization. Specifically, these would involve: i) enhanced registration, filing and payment systems through database build-up to support clean audit activities and tax payer services; ii) strengthened audit capabilities within the Bureau through industry profiling and benchmarking, training of personnel, and development of audit manual; iii) strengthened legal and enforcement capabilities to increase tax payer compliance with tax laws; iv) enhanced collection enforcement and arrear management which will include the development of a computerized monitoring system to reduce delinquent accounts, improve management of forfeited properties, and update tax collection procedures; v) strengthened taxpayer service development and compliance; vi) enhanced performance management systems; vii) nationwide roll-out of the computerized Integrated Tax System (ITS); and viii) management reform through the employment of a full-time deputy commissioner to oversee the reform process.

26. The BOC led by Commissioner Boy Morales, on the other hand, laid out its agenda as follows: i) revenue enhancement by strengthening the processing of all importation and the straight implementation, proper description of goods, plugging revenue leakages, and establishment of a fool-proof and reliable registration of customs stakeholders; ii) improved enforcement and informed compliance by expanding the coverage of the Run After Smugglers (RATs) initiative; iii) trade facilitation through computerization of all importation processes and monitoring of compliance; iv) professionalized BOC personnel through merit-based systems and strengthening

rules on confidentiality, customs valuation, and civil service; and v) improved quality of corporate life by upgrading and maintaining BOC facilities to encourage better production. The Commissioner then reported that encouraging gains had been made in the area of increasing revenue collections as the BOC posted a surplus against targets for 2005 and in the pursuit of RATs cases whereby various smuggling operations had been intercepted. However, he also recognized the need to focus on: i) completion of the computerization of customs processes, ii) implementation of the Lateral Attrition Law; and iii) elimination of corruption and ineptitude in the Bureau.

27. Following the BIR and BOC presentations, Undersecretary Melinda Ocampo of the Department of Energy (DOE) made a special presentation on the power sector. Her presentation covered a status report on the implementation of the Electric Power Industry Reform Act (EPIRA), current needs and challenges in the sector, and possible solutions that may be pursued. DOE has reached significant improvements on the milestones set by the EPIRA. On the improvement of the National Power Corporation's (NAPOCOR) financial performance, Undersecretary Ocampo reported that NAPOCOR was set to improve its financial status through reduction in operating expenses due to correct dispatch giving priority to generators w/c give least cost to consumers, and imposition of a universal charge to reflect true costs. Undersecretary Ocampo relayed the key challenges which still needed to be addressed: i) promoting energy independence and hastening the pace of power sector restructuring; ii) resolving issues on plant-related concerns; iii) intensifying the search for oil and gas through public bid rounds and improved service contracting schemes; iv) pushing for widespread use of alternative fuels through renewable energy bills and the passage of the bio-fuel bill; v) encouraging construction of additional plants by private investors and completion of the transmission projects; vi) removing constraints to privatization of transmission; and vii) ensuring growth in capacity to support the growth in power demand. In this regard, the DOE expects to pursue the following measures for the medium-term: i) continued operation of Wholesale Electricity Spot Market (WESM); ii) bidding out of Independent Power Producer (IPP) administrators; iii) widespread use of alternative fuel to ensure the availability of reliable and reasonably priced fuel to meet the projected systemic demand and address the capacity balance in the medium-term.

28. The International Monetary Fund acknowledged and congratulated the Government on its progress on key reforms. It emphasized the need to pass the 2006 budget to avoid compression of expenditure, and to pursue comprehensive BIR and the BOC reforms while ensuring coordinated assistance from the development partners. It also noted the need to break the gridlock in the power sector by boosting privatization and bringing in investment.

29. The World Bank agreed with the points made by the IMF and added that there was also a need to look into addressing structural problems to address service delivery issues, and maximizing the gains on reforms by strengthening the social contract and continuing to make more people pay taxes. It also pointed out the need to strengthen the administration and implementation of other reforms such as those on excise tax. In general, the good overall fiscal consolidation was acknowledged, and Government was encouraged to build on its potential to increase revenues and provide better gains from interest savings and increases in tax collection.

30. The ensuing discussion was moderated by Mr. Romy Bernardo of the Economic Freedom Foundation. Other Government representatives contributed to the reports made and some of the participants shared their views on various issues raised. Congressman Lapuz, Chairman of the House Committee on Ways and Means, shared developments in terms of legislation in the sector highlighting: i) the regular Joint Congressional Committee performance appraisals of the BIR and

BOC; ii) passage of the Lateral Attrition Law; and iii) other pending bills on Rationalization of Fiscal Incentives, restoration of nullified Executive Orders (Eos) on particular government assets, and Simplified Act on income taxation. Meanwhile, Secretary Andaya apprised the group on new reforms such as the performance budgeting, which would consider the absorptive capacity of the different Government agencies.

31. Issues that were discussed during the group interaction revolved around suggestions to: i) publicize more broadly the key priorities in infrastructure to encourage and attract investment; ii) come up mechanisms for regular and more frequent reporting on fiscal performance and overall fiscal operations; iii) more support among development partners for technical assistance to the BIR and BOC; iv) install reporting mechanisms and increase transparency in tax revenue utilization; and v) prepare a roadmap for investments in the power sector. Other concerns included: i) possible budgetary support from international development partners especially for stand-alone programs; ii) improved implementation of tax amendments to ensure optimal benefits; and iii) further assistance in missionary electrification and governance reforms in the power sector.

32. In summary, Mr. Bernardo mentioned the following points highlighted by the Group: i) general acceptance and commendation for Government's successes in the implementation of the VAT and its resolve for frontloaded fiscal measures despite difficult political and economic circumstances; ii) support to achieving a balanced budget by 2008; iii) emphasis on the need for monitoring the quality of spending and communicating clearly of VAT utilization; iv) concern and support for implementation of infrastructure projects through BOT mechanisms; v) support for BIR and BOC action plans; vi) call for acceleration of privatization in, and restructuring of the power sector; and vii) support for tax administration targets and consolidation of fiscal adjustments to allow for more social and infrastructure expenditure.

### MDGs and Social Progress

33. The break-out session for MDG's and Social Progress was opened by Secretary Esperanza Cabral of the Department of Social Welfare and Development (DSWD). In her opening statement, Sec. Cabral welcomed the participants and thanked all development partners for their continued support in helping the country move forward in achieving its MDGs. She stated that this year's discussion would focus on accelerating activities and reforms towards achieving MDGs and ensuring that the Philippines fulfills its commitments by 2010.

34. In her opening statement, Co-Chair Ms. Nileema Noble, UN Resident Coordinator, highlighted the following: i) the remarkable effort of the Philippines in reaching the MDGs particularly the existence of a Congressional Committee devoted to ensuring that the MDGs are advocated and met; and ii) the mainstreaming of MDGs in national and local development plans including monitoring and evaluation systems at the community level. She emphasized the need for translating plans and policies into tangible actions. She also suggested that the group take into consideration the concerns on: i) interlinkages and intersectoral impact; ii) the need to balance economic growth and the need to ensure the well-being of the Filipino people; and iii) the gap in financing and the ambitious reform agenda. Ms. Noble then put forth a framework for the Working Group's discussion which should lead to: i) action-oriented terms of reference among partners; ii) accountability measures; and iii) building linkages with the other working groups.

35. Secretary Cabral reported the highlights of the MDGs and Social Progress Working Group Report. The Working Group, chaired by the DSWD and co-chaired by the UN, initially focused on three areas: i) basic education led by the Department of Education (DepEd) and AusAID; ii) health which was convened by the Department of Health (DOH) and the European Union (EU); and iii) poverty monitoring led by the National Anti-Poverty Commission and the United Nations Development Programme (UNDP). Since then, additional concerns such as job creation, gender, and social protection had been included. The Working Group now also included representation from Civil Society, the Committee on the MDGs of the House of Representatives, local governments, and the business sector. Over the last year, the Working Group had made progress in: i) the adoption and the growing acceptance of the MDGs among key stakeholders; ii) mainstreaming of MDGs in government agencies; iii) localization of MDGs; and iv) institutionalization of community-based monitoring systems (CBMS). Secretary Cabral also touched on specific sectoral accomplishments which were further elaborated by the subgroups.

36. Secretary Fe Hidalgo of the DepEd made a short presentation on education which focused on the following key issues: i) the need to improve the quality of education and ensure “education for all”; ii) weak governance and the lack of a clear accountability structure; and iii) underinvestment and lack of funds attributed to poor fiscal management and performance. In this regard, Secretary Hidalgo proceeded to outline the Department’s key reform thrusts: i) to focus on schools through more decentralized governance; ii) to address teacher welfare and improving the quality of instruction; iii) to provide social support to quality assurance of learning and learning outcomes; iv) to study complementary interventions between formal education and other alternative learning systems; and v) to promote institutional cultural change in the Department and at a decentralized level. The DepEd will therefore pursue as its top priority, development and implementation of the Basic Education Sector Reform Agenda, while affirming the institutional leadership of the DepEd and pursuing further cooperation with the International Development Community and other stakeholders.

37. The developments in the health sector were presented by Undersecretary Alex Padilla of the DOH, which highlighted progress in the Health Sector Reform Agenda such as: i) finalization and issuance of a clear implementation strategy for health sector reform or what is known as the FOURmula ONE; ii) firming up of financing mechanisms to undertake reforms; iii) finalization of investment plans for advanced implementation provinces; iv) development of program packages for maternal health, child care and infectious diseases; and v) upgrading of health facilities. Undersecretary Padilla also noted the remaining challenges in the sector: i) inadequate access to quality care and facilities particularly in the rural areas; ii) need for a strengthened comprehensive multi-sectoral nutrition strategy; iii) the need to ensure better working conditions for health professionals; and vi) the need for increased coverage of the informal sector and poor families through the PhilHealth Indigent Program, among others.

38. Additional Government contributions were also shared by various Departments and other Philippine Government delegates. Agreeing with the concerns regarding population, Rep. Nerissa Soon-Ruiz suggested that the Working Group come up with a statement supporting population management strategy. Secretary Ampatuan, meanwhile, pointed out the need for a monitoring scheme that would cover the different sectoral goals and targets related to the MDGs, then put forth suggestions for: i) modeling of intervention projects based on CBMS-generated information; ii) CBMS-based MDG operational monitoring map; and iii) an integrative performance monitoring tool for MDG programs and services. The Department of Foreign Affairs (DFA) also provided a brief update on the MDG Debt Development Program proposed by the Philippine Government

during the 2005 World Summit. As reported, this Program proposes debt for financing of MDG programs was initially supported by the G77 countries. However, there is still a need to review the concept of debt sustainability which must be reformed to adapt to the need of middle-income developing countries to enable them to continue to meet MDG goals. In this regard therefore, the Philippines intended to seek more support for international advocacy to creditor countries to be more flexible in their debt conversion programs as well as reforming the concept of debt sustainability.

39. The various participants shared their views on the various issues in the sector. The Chair as UN representative, spoke about the need to focus on areas that were least likely to meet MDGs, while looking at specific issues of: i) availability of services; ii) the need for a feasible and sustainable population management policy; iii) need to link up with other agencies for the more efficient use of resources; iv) the need to look at and identify quick wins; and v) upscaling of initiatives to create greater impact of various achievements and accomplishments. Other development partners also gave their comments. The European Commission mentioned its support for population management and sector-wide approaches, while reiterating the need for further harmonization of assistance among partners. UNAIDS called for targeted interventions focusing on vulnerable groups particularly to achieve MDG targets on AIDS. Germany and Japan reconfirmed their support to achieving the MDGs and also mentioned their respective programs of support for the sector. WB noted the need for better alignment of development partner efforts on employment, social protection, and community empowerment. ADB indicated the need for caution on the issue of debt repudiation and conversions. AusAID strongly endorsed the Community-based Monitoring Systems and mentioned support for sector-wide frameworks. Meanwhile, ILO added some points on the importance of addressing issues on child labor.

40. Civil society contributions included concerns on: i) population management and access to reproductive health-related services; ii) promotion of breast-feeding; iii) culture change towards gender sensitivity and gender equality; and iv) the need for debt audit. Social Watch also brought attention to ensuring that increases in revenues incorporate subsequent increases in allocations for the social sector, further suggesting that savings in debt-servicing be used for social expenditures. It also raised concerns on water supply, rural sanitation, and urban housing.

41. In conclusion, the Chair noted that a clear message was being sent that the group include as part of its Work Plan for the next year, efforts on: i) advocacy for population management; ii) bridging the financing gap in the reform process; iii) ensuring that the benefits from economic growth benefit directly the most vulnerable groups and other social sectors; iv) identifying programmatic areas for priority assistance; and v) identifying quick wins of low-cost and measurable actions.

### Mindanao

42. Secretary Jess Dureza of the Mindanao Economic Development Council (MEDCo) began the session with a briefing on the status of the peace process, noting that the Government was working on the the full implementation of the MNLF Peace Agreement and negotiations with the MILF were underway and possible resolution was expected by the end of the year. Usec. Virgilio Leyretana supplemented the brief with a report on the results of an initial Working Group meeting wherein the following issues and challenges were identified: i) finding an expeditious resolution and conclusion of peace negotiations; ii) improving the delivery of public services and providing sustainable livelihood opportunities especially in the rural areas; iii) protecting indigenous people's

rights and ensuring sustainable management of resources; iv) synchronizing, harmonizing and streamlining of development partners' goals, strategies and approaches; v) improving partnerships between development partners and LGUs; vi) need for flexibility in terms of counterpart requirements from LGU beneficiaries; vii) ensuring that interface and dialogues on Brunei-Indonesia-Malaysia-Philippines-East Asian Growth Area (BIMP-EAGA) include the participation of small-scale entrepreneurs; and viii) providing grant packages for emergency responses to conflict-affected communities.

43. After the presentations, the Working Group engaged in a discussion focusing on three main topics: i) peace, security, and public safety; ii) socioeconomic development of the environment; and iii) good governance and development coordination. Comments were made on these topics:

- On financing, issues were raised about the inability of some LGUs to provide counterpart financing and their need to explore alternative financing schemes. On this point, ADB and World Bank apprised the group of flexibilities within their respective systems for financing to LGUs. Other suggestions from the group also included: i) enhancing private sector-LGU partnerships; ii) exploring the possibility of accepting counter-parts in kind such as labor, facilities, etc.; and iii) considering the use of other financial instruments to attract investments. It was also suggested that assistance be made available to other areas in Mindanao beyond the conflict areas.
- On public safety, concerns were raised about the proliferation of arms and weapons which threaten peace and security. On this issue, the Government and International Development Partners agreed on the general suggestion of employing an effective disarmament and decommissioning program.
- The importance of social mobilization and inter-faith dialogue was also highlighted. Interfaith dialogue as an important component of the peace-building process, was endorsed by the Group in general and the Government agreed to pursue efforts in the area through greater advocacy.
- The need for settling the issue of ancestral domain was pointed out by some partners. The Government mentioned some of its current initiatives in the area. However, it recognized some constraints relative to compensating current title holders and called on development partners for further assistance in developing policies and identifying mechanisms to resolve the issue.
- The development partners, while confirming their support for Mindanao, emphasized the need for a comprehensive development plan to better maximize resources and personnel. They also mentioned their willingness to support other areas such as: i) support to SMEs through improving access to credit, information and market; ii) infrastructure development for local purposes and regional connectivity through the BIMP-EAGA; and iii) capacity-building for Mindanao LGUs, the ARMM Government and the Bangsamoro Development Agency. Some development partners also suggested building on the Mindanao Trust Fund, and reconfirmed their commitment to it.

44. Based on the discussions, the Working Group identified the following next steps: i) finalization of the Mindanao Database of programs and projects; ii) preparation of an action plan

for the next 12 months; iii) reconfirmation of financial support for Mindanao; iv) establishment of a consolidated monitoring and evaluation mechanism and documentation of lessons learned; and v) formulation of a socioeconomic reintegration program for ex-combatants.

### Decentralization and Local Government

45. The Working Group session on Decentralization and Local Government was chaired by Secretary Ronaldo Puno and co-chaired by Mr. Chris Hoban of the WorldBank. In his opening remarks, Secretary Puno highlighted the larger capability of LGUs in the planning and development of their communities. He noted however, that the involvement of the Department of Interior and Local Government in building the capacities of LGUs in project development and implementation had dwindled, resulting in uneven capacities among different LGUs. Furthermore, he observed that there was a need to increase the incomes of LGUs to enable them to engage in economic activities. In this regard, he put forth these recommendations: i) for National Government in coordination with development partners to assist LGUs in preparing specific programs for poverty reduction; ii) possible realignment of DILG budget to cover some capital outlay for various projects; and iii) conduct of a study of the corporate character of LGUs. Mr. Hoban noted the following challenges: i) high drop-out rate of individual LGUs in various programs; ii) lack of sustainability of good LGU pilot projects; and iii) need to deepen the involvement of LGUs in the design and implementation of projects initiated by National Government.

46. Governor Enrico Aumentado also shared his thoughts and noted that LGUs are responding well to the challenge of devolution and had become agents of change, reinventing government at the grassroot level by developing new business opportunities, creating new jobs, revitalizing communities and ensuring progress. However, despite some dramatic breakthroughs, Governor Aumentado noted challenges in LGU service delivery such as the need for: i) funding and equitable sharing of resources between national and local government in view of greater devolved services; ii) immediate passage of the 2006 budget which would benefit LGUs in terms of Internal Revenue Allotment (IRA) increments; iii) timely release of IRA and other IRA-related issues; and iv) availability of grants and alternative forms of financing for LGUs. Governor Aumentado further expressed hope for increased assistance to LGUs from development partners not only within aid-oriented relationships but deeper development partnerships with shared goals and resources.

47. Following these statements from Government partners, Mr. Angus Barnes of AusAID gave a brief presentation on the accomplishments of the Working Group's subcommittee on capacity-building. He reported that three sub-groups had been formed to work on i) management and coordination of capacity development programs; ii) capacity building for planning and project development; and iii) capacity-building for fiscal and financial management. He also highlighted the following needs: i) a coordinated assistance and a sustainable mechanism for rationalizing capacity-building efforts; ii) an inventory of LGU capacities and developing the planning skills of local chief executives; and iii) identification of information sharing mechanisms among stakeholders. Some participants reacted to this sub-topic and brought out further concerns on: i) the importance of exploring the corporate powers of LGUs as a vehicle for expanding revenue and delivering basic services; ii) the need for a self-assessment tool to diagnose LGU strengths and weaknesses; iii) the need for standardized diagnostic tools to assess the current capacities of LGUs to be able to identify LGUs which need priority assistance.

48. On performance benchmarking, Assistant Secretary Austere Panadero noted that the committee agreed to work on institutionalizing a performance-benchmarking system based on the Local Government Project Monitoring System (LGPMS) and the Local Government Financial Monitoring system (LGFMS) platforms. In this regard, the Working Group has through DILG and with assistance from development partners, supported the roll-out of the LGPMS in various provinces and the integration of the LGFMS in the LGPMS. Furthermore, the committee would further pursue: i) the full integration of LGPMS and continued utilization through advocacy with LGUs; ii) quality assurance of administrative data being used under the LGPMS; and iii) conduct of further studies on performance benchmarking and assessment. Comments on this topic were shared by some development partners particularly the need for an incentive and disincentive system to support the continued use of LGPMS and possible performance-based allocation of resources.

49. Undersecretary Roberto Tan of DOF led the discussion on local government finance. He reported on the Working Group's recent efforts in the area such as: i) implementing an LGU-financing framework that would enhance LGU capacity to access private capital and other sources of financing; ii) pursuing the shift to performance-based financing; iii) through the National Credit Council (NCC), determining policy directions to come up with a clear policy environment on on-lending terms by channels of Official Development Assistance (ODA) funds and other sources of financing for LGUs; and iv) developing LGU sources of revenues. After the initial presentation by Undersecretary Tan, some participants noted the initiative of some multilateral organizations to operationalize facilities for LGUs without sovereign guarantee and further urged development partners to look into: i) IRA guarantee for private banks; ii) improving accounting rules regarding LGU economic enterprises; and iii) providing better LGU access to concessional loans and performance-based grants.

50. Finally the break-out session group tackled the issue of policy reforms. As reported by Assistant Secretary Panadero, over the last year, the Group had embarked on initiatives towards: i) creation of a Committee on Devolution within Government to reviewing the decentralization and devolution process and streamlining local and national government functions; ii) commissioning of studies to further identify areas of devolution in agriculture, health, environment and natural resources, social welfare and financial matters; and iii) provision of technical assistance for the assessment of the decentralization experience.

51. The following observations summarized the discussions at the break-out session: i) the Working Group would prioritize its efforts in harmonizing local capacity-building and in aligning it with the needs of LGUs; ii) there were good tools available for performance monitoring and the challenge was to apply objective measures; iii) there was a need for clarifying the local financing framework; iv) the Working Group supports the rationalization process on devolution; and v) the Working Group supports DILG and DOF in their efforts to provide assistance to LGUs.

### Growth and Investment Climate

52. Secretary Peter Favila of the Department of Trade and Industry (DTI) opened this session by recalling the agreement of the Working Group during last year's PDF to pursue action points that would contribute to the development of the business sector leading to the formation of three subcommittees on: i) infrastructure; ii) business climate; and iii) small and medium enterprises (SMEs). He expressed hope that through the strong collaboration among Government, private

sector, and the development partners, this year's discussion would lead to the realization of intended outputs providing a conducive environment for local and foreign investments. The Co-Chair, Ambassador Yamazaki of Japan, emphasized the importance of improving the investment climate in the industrial sector to attract more foreign direct investments. In this regard, he urged the Government to focus on improving the power sector and developing a framework for the power sector investments, as well as strengthening the policy framework for public-private partnership projects particularly in infrastructure.

53. The session proceeded with presentations from the various subcommittees on their particular progress over the last year. Mr. Noel Kintanar of the Philippine Infrastructure Corporation (PIC) discussed some of the concerns of the subcommittee particularly the need for a concrete pipeline of public-private sector partnership (PPP) projects and the subsequent financing of these projects. He laid out the recommendations of the subcommittee as such: i) building of a project development facility that would ensure the quality of infrastructure projects; ii) creation of a separate dialogue for the power sector; and iii) identification of a lead agency in the water sector.

54. At this point, the Joint Foreign Chambers congratulated the Government for the dialogue and the initial progress made. However, it pointed out that the process of engaging the private sector was still not clear, noting that the private sector wanted an even playing field, and a fair and transparent process to be able to realize a real return on investment. In this regard, they proposed further dialogue not only between Government and the private sector but also between the private sector and the development partners. Other issues pointed out by the participants included the need for: i) a clear and coherent policy framework for infrastructure based on an assessment of the sector; ii) speeding-up project processes to include design preparation and approval; iii) ensuring quality at entry of infrastructure projects; and iv) appropriate financing mechanisms that would ensure financial and economic returns with a focus on supporting off-budget, stand-alone projects.

55. The subcommittee on business climate through Undersecretary Elmer Hernandez of DTI provided updates of its accomplishments such as: i) the approval and establishment of the minerals development council; ii) establishment of a DTI-Private Sector Forum on key investment sectors; and iii) establishment of partnerships with the academe and industry in priority sectors such as Information and Communication Technology. Furthermore, it also identified the passage of the Bill on Rationalization of Fiscal Incentives as its main priority issue, and in this regard, requested further assistance from the development partners in developing a detailed study to identify appropriate and attractive incentives taking into consideration offers in competitor countries, and in formulating a national investment program and related sectoral plans.

56. Development partners such as the IMF and the IFC rallied their support to a fiscal incentives measure. However, they raised concern over the need to: i) study the impact of the current incentives system in the Philippines; ii) balance benefits and costs to include the concept of accounting for foregone tax revenues, and iii) study the nature of the constraints related to implementation of incentives. Meanwhile, other development partners encouraged the Government to build on the country's other investment-oriented assets such as its labor force and the inflow of remittances of Overseas Filipino Workers.

57. Undersecretary Mel Alonzo of the DTI on behalf of the subcommittee on SME development, reported that the subcommittee had identified streamlining of business registration procedures as its

primary concern for the short-term, and in this regard, the Subcommittees had the identified the following action points: i) upgrading of the business name registration system ; ii) promotion of online business registration among SMEs; iii) documentation of LGU best practices on streamlining of business requirements; iv) sustaining Philippine participation in the Asia Pacific Trade Facilitation and Electronic Business; and v) conduct of IT capacity-building for export-clearance in related agencies, among others. It further sought continued support of the development partners in areas such as: i) implementation of the Philippine Business Registry; ii) piloting of streamlining business registration and replicating models; iii) identifying and documenting best practices in streamlining business regulatory requirements; iv) organizing learning events for LGUs; v) computerizing the issuance of business licenses and creating a one-stop-shop for business registration; vi) conducting an SME summit on the value of business formalization; viii) improving business promotion capacity; and viii) developing a communication plan to support DTI's advocacy efforts in streamlining activities. The development partners responded with expressions of support to the Government's SME Development Plan, and to the focus of the Working Group action plan for SMEs.

58. In summary, the Chair noted the enthusiasm, interesting insights, and provocative thoughts shared by the development partners. He reiterated Government's commitment to provide a healthy, simplified and profitable environment for business while expressing confidence in the continued support of the partners to reinforce and empower the Philippine economy.

#### Governance and Anti-corruption

59. The Governance and Anti-Corruption break-out session was chaired by Secretary Rolando Andaya of DBM and co-chaired by Mr. Ayumi Konishi of ADB. Mr. Konishi mentioned that the discussions in last year's PDF had led to the creation of a sub-group on governance to tackle the longer-term reform issues on institutions, procedures, the bureaucracy and the political process. Mr. Konishi then apprised the group that this year's discussions will therefore involve three parts: i) governance; ii) anti-corruption; and iii) judicial reform.

60. Secretary Andaya then reported on the good governance and management reforms pursued by Government together with other development partners since last year's PDF. These include: i) the issuance of Austerity Measures within Government; ii) energy conservation measures through mandatory reduction in energy and fuel use; iii) establishment of IT-based systems such as the e-budget, the Foreign Assisted Projects database system, and the New Government Accounting System (e-NGAS); iv) pursuance of the Fiscal Responsibility Bill; v) adoption of sector-wide approaches in project implementation; and vi) adherence to the Organizational Performance Indicator Framework approach. The Government would also pursue the following: i) the enactment of the Reengineering Bill that would give the Executive branch the power to pursue restructuring plans for specific agencies; ii) continuance of its Rationalization Program for more efficient and effective public service delivery; and iii) finalization of the Paper on Budget Strategy aimed at providing strategic directions on fiscal policy.

61. After listening to this report, the participants proposed further recommendations on: i) increasing civil society participation in monitoring procurement and other transparency and accountability measures and increased citizen's participation in good governance; ii) improving the quality, verifiability, and reliability of Government data; iii) further harmonizing and aligning

development assistance in the areas of organizational performance indicators, budget strategy, and rationalization.

62. On anti-corruption, Assistant Ombudsman Mark Jalandoni first reported on the investigation and prosecution of tax and graft cases. He mentioned accomplishments in terms of i) strengthening of the Office of the Ombudsman through increase in budget and personnel which have led to increases in graft cases and asset forfeitures filed; ii) speedy disposition of cases in regular courts; iii) lifestyle checks and implementation of the Revenue Integrity Protection Service (RIPS) initiative of the of the DOF; and iv) proposal of bills on anti-corruption and law-enforcement. He also discussed improvements leading to the speedy disposition of cases in regular courts through the strengthening of the Sandigang Bayan and related measures. On procurement reforms, he noted the following initiatives under the Procurement Reform Act to include: i) strengthening of internal audit units for corruption prevention; ii) preparation of Integrity Development Action Plans; and iii) simplification and computerization of procurement processes. Finally, he mentioned that the Government's anti-corruption initiatives were highlighted by the development of the National Anti-corruption Program of Action, which will serve as the overall framework for convergence of efforts by different stakeholders.

63. On this topic, comments from the development partners focused on the need for: i) effective monitoring systems and greater transparency within Government; ii) communications on progress of anti-corruption efforts to regain public trust and confidence; and iii) capacity-building for prosecutors and further support to the judiciary to handle cases and preserve the integrity of the reform process.

64. The final presentation during the session was on Judicial Reform. Ms. Evelyn Dum Dum of the Supreme Court provided a status report on the implementation of the Supreme Court's Judicial Reform Program, wherein she mentioned that major reform initiatives to attain the goals of the program's six components: i) reforms on judicial management procedures; ii) institutional development; iii) human resource development; iv) integrity infrastructure development; and v) empowerment of the poor through and access to justice; and vi) reform support systems. These would include projects such as: i) "Justice on Wheels" project, ii) the Sandiganbayan Case Management Information Systems; iii) establishment of model Halls of Justice; iv) capacity-building for judicial personnel; v) jail decongestion project; and vi) public education on the rule of law.

### Sustainable Rural Development

65. The break-out session on Sustainable Rural Development was jointly led and convened by the Department of Agriculture (DA); Department of Environment and Natural Resources (DENR); and the Department of Agrarian Reform (DAR). DA Assistant Secretary Romeo Recide, on behalf of the joint lead convenors, gave his opening remarks citing that the central output of the collaboration among DA, DAR, and DENR was a Policy Note on Sustainable Rural Development which covered i) an assessment of the current situation in the sector; ii) gap analysis and identification of other policy and institutional constraints; and iii) recommended priority actions. He also expressed hope that the session would lead to identifying a common agenda for the year for all development partners.

66. Mr. Peter Keller of the German Technical Cooperation, Co-Chair of the Working Group, noted the need for further collaboration in order to forge policies, organize and coordinate allocation of funds, and improve performance in the sector.

67. Secretary Domingo Panganiban presented the Policy Note on Rural Development. He noted that over the medium-term, the agriculture sector posted relatively stable and modest growth, however the impact of such on rural employment and poverty levels remained limited, while competitiveness in the sector continued to deteriorate. In the area of environment and natural resources, he also relayed that movements were characterized by degradation in watersheds and disruption of coastal and marine ecosystems. On the agrarian front, he mentioned that DAR had been able to accomplish 83% of its distribution targets or 4.42 million hectares to approximately 5 million farmers. In view of this performance, the Policy Note identified the following gaps and challenges on policy: i) overlapping mandates of the DA, DAR, and DENR in areas such as land titling and distribution, spatial development; and provision of support services to the rural sector; ii) the need for full funding and implementation of the Agriculture and Fisheries Modernization Act (AFMA); iii) outdated laws on natural resource management and absence of a law on coastal resource management; iv) the need to overhaul the country's land administration system; v) conflict on the policies and implementation of the Comprehensive Agrarian Reform Law (CARL); vi) need to improve disaster management and preparation; and vii) need to promote the use of renewable energy. The Policy note recommended the crafting of an integrated environmental, agribusiness, agrarian reform, and rural development action plan. It further noted that public investment policy and programs should not crowd out private sector investment in agribusiness and agricultural development while continuing the judicious management of regulatory systems in order to maintain the sustainable use of resources.

68. The convenors then invited reactions from the civil society and the academe. The reactions mainly included the need for long-term planning horizons in the sector and cited the Philippine Agriculture (PA) 2020 as the main vehicle long-term for rural development. The salient points of PA 2020 included: i) organizing and managing agriculture as a business; ii) alleviating poverty through asset reform to ensure equity and income distribution; and iii) nurturing the values of nature and community. The Plan's enabling strategies for the sector would include technology development, increased public and private investments, and governance and institutional reforms. In this regard, they called on all stakeholders to continue building alliances and mobilize the political will to work together and rise beyond narrow personal and business interests. The more specific recommendations included: i) promotion of market-driven, private sector-led yet broad-based growth; promotion of cost-reducing technologies; iii) developing a critical mass of infrastructure to support agricultural productivity; and iv) improving the investment climate to attract foreign and domestic capital into the countryside. On environment and natural resources, civil society representatives focused on the need to address issues regarding: i) widening the devolution of natural resource management to LGUs and building related capacities; ii) the sustainability and conservation aspect of community-based forest management through better social preparation of target communities; and iii) rationalization of the National Land Use Act through more scientific approaches; iv) sustainable forest management; and v) awareness-raising on biodiversity conservation.

69. At this juncture, Mr. Peter Keller thanked all the reactors for their contributions, then opened the floor for discussions. Forming spontaneous "buzz groups", the participants focused their

comments on: i) agreed salient points of the policy paper; ii) perceived challenges; and iii) proposed priority actions. The participants generally agreed and congratulated the Government for their efforts towards the unique convergence of the three rural development agencies and they particularly noted the honest diagnosis of the sector presented in the policy paper. They further urged the Government to look into specific issues of: i) convergence in implementation and financing for sustainable rural development, ii) further rationalization of the three agencies; iii) passage and implementation of a scientifically-based Land Use Act; iv) promotion of private sector involvement in agribusiness; v) a paradigm shift from a land-based to an archipelagic approach to sustainable development ; and vi) increasing technical and financial capability of LGUs in natural resource management towards full decentralization of related functions.

70. The DENR acknowledged the limited capacities of the Department and the need for scientific approaches to sustainable development. DENR Undersecretary Manuel Gerochi also noted the need for incentives not only for investors but also for farmers to improve productivity. He agreed that the CBFM was the right way to go but there was a need to improve its implementation and address the lack of support services. He further agreed to pursue watershed development however he stressed the need for political will especially among LGUs to harmonize plans for watershed approaches. DAR on the other hand, expressed confidence in its focused approach on Agrarian Reform Community Development which provides agrarian reform beneficiaries with basic rural infrastructure and capacity-building support, and further invited international development partners to further support pilot projects for agro-industrial projects.

71. The development partners expressed their support to Government in further improving the sector. They indicated their intention to push for further convergence and sector-wide approaches while moving to harmonize their own efforts in sustainable rural development. They stressed the need for simple, high-impact interventions, improving the market system, and integration of local best practices into environmental management.

72. Finally, Undersecretary Segfredo Serrano of DA provided a synthesis of the discussions noting the Group's agreement to pursue priority issues on: i) financing; ii) coordination of functions of DA, DAR, and DENR; iv) the human dimension of development by addressing capability gaps; iv) accountability; and v) devolved functions. He further noted the need for an indicative plan for the short-term to continue the dialogue and identify milestones and targets.

***Working groups report on specific recommendations, and development partners express their continued support to the country's development agenda.***

*Session III: Reporting Back of Break-Out Groups to the Plenary*

#### Economic and Fiscal Reforms

73. The summary of discussions of the Group was presented by Undersecretary Gil Beltran of DOF. He reported that the development partners identified the key issues constraints in the sector and expressed their support for: i) the Government's fiscal consolidation strategy and its efforts to frontload fiscal deficit reduction; ii) the sustained implementation of reforms within the BIR and the BOC; iii) the immediate passage of the 2006 budget and coming up with a well-defined budget

to support the revenue program; iv) the objective of achieving a balanced budget by 2008; v) monitoring the progress of reforms and increasing transparency in the infrastructure sector; vi) efforts to restructure the power sector; and vii) removal of caps on input VAT use. He also relayed that in response, Government had committed to: i) improve the quality of expenditures; ii) closely monitor RVAT collections and responses to the issues raised particularly; iii) ensure that the delay in budget would not impair the ability to absorb ODA; iv) focus on tax administration to build on the momentum of fiscal reforms; v) enhance its communication strategy on government infrastructure programs; and vi) continue reforms in the power sector.

### MDGs and Social Progress

74. On behalf of the break-out group on MDGs and Social Progress, Secretary Cabral noted the Group's appreciation of the progress in the sector over the past year and presented the group's recommendations to pursue measures to attain MDGs. The Group agreed to abide by these principles for 2006: i) to build on 2005 accomplishments; ii) to focus on MDGs less likely to be achieved on maternal health, nutrition, elementary participation and cohort survival; iii) to go beyond policy towards concrete actions and measurable results; iv) to accelerate reform with commensurate budgets in the social sector; v) to strike a balance between economic growth and equity in social benefits especially among vulnerable groups; and vi) to establish mutual accountability of the Working Group members. In this regard, the Working group would advocate for i) a stronger national population management policy and ii) further increases in budget and ODA support for social services. It would also work towards closing the financing gap for social services through securing the commitments from Government and International Development Partners to i) provide more resources and applying a multi-year budget framework; ii) support debt-for MDGs; iii) secure additional revenues from fiscal reforms and savings from debt-servicing; iv) engage the private sector in more active involvement in social projects. The Group would further enhance good governance through i) adopting a common framework for monitoring the impact of macroeconomic policies and performance; ii) addressing human resource development and management needs in the sector; and iii) strengthening partnerships with civil society and other stakeholders. It would pursue quick-wins in promoting breast-feeding and implementing the Milk code, which would seek to regulate the marketing of breastmilk substitutes, supplements, and related products. Meanwhile it will continue to strengthening its own capacities as a working group.

### Mindanao

75. Secretary Dureza reported on the results of the break-out session on Mindanao which focused on three clusters of concerns: i) peace, security, and public safety; ii) socioeconomic, environmental and indigenous peoples concerns; and iii) good governance and development coordination. On peace and security, the working Group had agreed to: i) sustain peace-building efforts through i) peace education, interfaith dialogues, and further contribution to the Mindanao Trust Fund; ii) design a disarmament and decommissioning program; and iii) ensuring public safety and security by ensuring LGU involvement in demobilization and reintegration activities for ex-combatants. On socio-economic concerns the Working Group will work on: i) increasing amount of grants for conflict-affected communities; ii) waiving sovereign guarantee to LGUs capable of repaying ODA loans; iii) accepting goods and services from LGUs as counterpart; iv) conducting an environmental mapping; and v) ensuring compliance with environmental and social safeguards and conducting stakeholder consultations, especially on proposed projects in indigenous people's areas. To further

good governance and enhance development coordination, the Group will increase efforts to i) basic services, social protection, and institutional strengthening; ii) other underdeveloped areas such as Sulu, CARAGA, Zamboanga, and Basilan among others; and iii) developing a workplan and the completion of an ODA for Mindanao database.

### Decentralization and Good Governance

76. Undersecretary Wencilito Andanar of DILG presented the prioritized activities that would be pursued by the Group on Governance and Anti-Corruption. The Group agreed to focus its efforts in four priority areas: i) capacity-building; ii) performance-benchmarking; iii) LGU finance; and iv) policy reforms. First, the Working Group would build on the momentum for harmonizing local capacity-building development programs and in the next twelve months focus on: i) adopting a conceptual and operational framework on capacity-building for LGUs; ii) developing a strategy for the harmonization of capacity-building programs; iii) forging agreements with all stakeholders on core competencies, common needs assessment tools, and delivery mechanisms; and iv) implementing mechanisms for enhancing information sharing among government agencies, International Development Partners and capacity-building service providers. Second, it would expand on performance monitoring systems to include: i) expand the use of LGU systems for various purposes; ii) sustain continued use of LGPMS by studying the possibility of providing incentives for use of the system and for good governance; and iii) protect the integrity and credibility of LGU systems. Next, the Group would build on the modest gains in critical areas of revenue mobilization, expenditure management, and financial management, in particular, it would: i) work towards providing flexibility in LGU access to financing and adopt an LGU financing framework; ii) study shifting to performance-based grants capitalizing on the LGPMS and LGFMS; iii) pursue institutional reforms such as reengineering the Bureau of Local Government Finance and support DOF in championing the creation of the Municipal Finance Corporation; iv) undertake studies on depository banks of LGUs and other innovative LGU-financing schemes; and v) improve the coordination between national and local government on fiscal and financial matters. Lastly, the Working Group would pursue policy reforms through review of the Local Government Code and the IRA formula expand sectoral studies on devolution to include GOCCs and GFIs, and support further the process of devolution through the institutional strengthening of oversight agencies, among others.

### Growth and Investment Climate

77. As reported by Secretary Favila, this year, the Working Group on Growth and Investment Climate agreed to come up with tangible and achievable action plans for infrastructure, business climate and SME development and remove deterrents to improving business climate in the country. Among their priority action points are: i) for government to come up with a coherent policy framework for infrastructure to attract more private involvement and foreign direct investments; ii) to take advantage of multilateral and bilateral relations for capacity-building especially on designing capacity-building projects; iii) to identify the appropriate forum for stakeholder dialogue on infrastructure; iv) to consider forming a Subcommittee on power sector and identify an appropriate champion for the water sector; v) to prioritize identifying key incentives particularly for the industry sectors; vi) to support the Government's SME development plan and focus on addressing issues on business registration; vii) for International Development Partners to provide capacity-building support for project preparation, financing and credit enhancement viii) to come up with a common communication plan to inform LGUs on best practices and benefits of formalization of informal businesses; ix) to continue harmonization and coordination efforts

particularly on the area of business registration; and finally, x) to further improve the investment climate in the Philippines through further cooperation and collaboration with the other sectoral Working Groups.

### Governance and Anticorruption

78. Ombudsman Merceditas Gutierrez stated that while the development partners congratulated the Government on the accomplishments achieved in good governance, anti-corruption, and judicial reform, there were still issues and concerns that needed to be addressed. In the area of governance, the Working Group proposed to focus efforts on: i) sustaining community participation in monitoring governance; ii) reorganization of agencies with substantial impact on growth and welfare; iii) provision of more revenues for social development; iv) increasing transparency and access to information; v) conduct of personnel audit; vi) improvement of knowledge transfer at the local level; and vii) link e-NGAS, e-Budget, and other related government systems to come up with an integrated financial system. Meanwhile, on anti-corruption it will pursue the following: i) further enhancement of the Government Procurement Reform Act and other reform initiatives; ii) development of an effective communication strategy to convey Government initiatives; iii) creation of key monitoring measures or indicators of success; iv) preservation of integrity of “integrity guardians”; v) assessment of impact of corruption and good governance on trade and investment, environment, and cross-cutting concerns; vi) legislation of laws to effectively recover “stolen moneys”; and vii) expedite the resolution of cases filed in the Supreme Court. For the next year therefore, the Working Group will prioritize: i) developing performance indicators and monitoring mechanisms to objectively measure the results of reform initiatives; ii) developing a public information campaign on Government reform efforts; iii) sustaining capacity-building initiatives; iv) promoting accountability through active participation of civil society; and v) mainstreaming and operationalizing the NACPA.

### Sustainable Rural Development

79. In his report back to plenary, Secretary Panganiban recalled the highlights of the Policy Note jointly prepared by DA, DAR and DENR, and the subsequent discussions among the “buzz groups”. He relayed that the Group noted major weakness in the implementation of Government programs for the sector particularly: i) lack of emphasis on the role of LGUs particularly for devolved services; ii) the apparent land-bias in planning despite the archipelagic nature of the Philippines; and iii) the lack of coordination, funding, and political will to effectively implement plans. After the brief backgrounder, he proceeded to mention the Group’s priority agenda for the coming year. On convergence, the Group will focus its resources and efforts on the harmonization of programs among the three agencies and pursue sector-wide decentralization. In the area of decentralization and local government, the Group will continue to improve coordination, implementation and performance. It will further seek to fully engage the involvement of all stakeholders in initiatives towards rationalization, pump-priming and identifying innovative financing schemes to address funding constraints. Finally, the Working Group aimed to work under the ambit of a more detailed action plan which would be fleshed out in its next meeting to be hosted by the Department of Agriculture.

### Comments on the Various Group Reports and Recommendations

80. Intermittently, after each presentation, the Chair invited the PDF participants to share their views on the various proposals mentioned.

- Japan noted the Philippine's commitment to various reforms and expressed full support to the comprehensive programs of BIR and BOC. It further urged the Philippine Government to attach the utmost priority to power sector reform. It also reaffirmed its continued support to assist the Philippines in attaining its MDGs and in achieving peace and stability in Mindanao.
- USAID thanked all the participants and noted the expanded partnerships in the PDF. It welcomed the President's focus on Mindanao and signified its continued support to Mindanao. Its other priority areas of assistance would include improving the business climate, education and health, and military and police reform. It mentioned that it would remain steadfast in its commitment to assist the Philippines in its effort to improve its global image through various reforms.
- Canada joined the other development partners in their thanks and congratulations to organizers of the PDF, and encouraged other international development partners to support the working mechanism of the PDF and the Working Groups. It also reinforced the call of the ODA-GAD network for all international development partners to support Government in promoting the utilization of the Harmonized Gender and Development Guidelines for project development, implementation and evaluation. Canada committed to align its efforts with government priorities.
- The United Nations encouraged all development partners to look into best practices to benefit from and be able to maximize resources. It further enjoined other international development partners to build on the (Mindanao) Trust Fund mechanism in order to provide coordinated assistance and avoid piece-meal efforts.
- Germany congratulated the Working Groups for presenting results and identifying priority areas shared by both the international and national development partners. It also expressed positive reaction to having a Working Group focused on Mindanao. It called for further interaction among Working Groups to define common points of action towards synergy of efforts and avoiding duplications. It then expressed its willingness to have more meetings in order to come up with a structure and conceptual framework, which could be shared by all development partners. On another topic, it also raised specific concern on population management.
- Kuwait mentioned the thrust of its programs and confirmed its support for Government efforts in Mindanao, and that it looked forward to enhancing Kuwait-Philippines cooperation.
- IMF congratulated the Government on its fiscal reforms. It also noted the need for further coordination among Working Groups particularly the groups on Investment Climate and Growth, and Anti-corruption in the implementation of Government's Run After Tax Evaders (RATES) program. It also mentioned its support for streamlining of the fiscal incentives system and stopping revenue leakages.
- ADB shared that its mandate included the promotion of regional cooperation among countries, and in this regard, encouraged the Philippines to take advantage of opportunities in developing regional markets by improving its national policies.

81. In general, the Development Partners considered the 2006 Philippines Development Forum a success and congratulated Government and World Bank for organizing a substantive and highly interactive forum.

*The Government conveys a message of hope that the country is on the right track in moving towards a progressive future.*

Address by the Honorable Noli de Castro, Vice-President of the Republic of the Philippines

82. The Honorable Vice-President Noli “Kabayan” de Castro graced the closing session of the Philippine Development Forum. He conveyed a message of hope, stating that the recent performance of the Philippine economy had led to regaining market confidence. However, he stressed the need to ensure that the benefits of reform translate into real and concrete benefits to the Filipino people, and in this regard, he encouraged further support in education, housing and health. He also emphasized the role of good governance and the importance of a strong state to continue the national development effort, recognizing the necessary changes to ensure accountability and transparency in Government institutions. The Vice President took the opportunity to thank the development partners for their efforts to align support to the country’s development framework, and appealed for stronger partnerships in achieving efficient systems, effective and focused delivery of services, and optimum use of development resources. In conclusion, he expressed hope that the PDF would continue to serve as a mechanism to focus efforts on development needs and continue to enlist the support of more stakeholders towards changing the lives of Filipinos.

Closing Session

83. Mr. von Amsberg, on behalf of the development partners, expressed sincere appreciation to the Government for the outstanding arrangement of events and to the other stakeholders who had substantially engaged in the Philippine Development Forum discussions. He also expressed sincerest gratitude to Her Excellency Gloria Macapagal-Arroyo and the Honorable Noli de Castro for their presence and remarks during the two-day Forum. He then proceeded to mention the highlights of the Forum, noting that fiscal reforms have moved the country away from the acute risk of crisis towards a virtuous circle of fiscal reform and market confidence. He also noted that the extent of convergence and key policies was remarkable, and expressed hope that key policy actions would be held above and beyond a partisan political process.

84. Mr. von Amsberg reflected on a few basic points pertaining to the four key areas raised in the Forum. First, he noted the successful turn-around of public finance had created high expectations among development partners as the Forum has strongly welcomed Government’s plans to achieve front-loaded revenue adjustments and other revenue measures. He also welcomed Government’s efforts to develop an overall National Anti-Corruption Plan of Action, but was cognizant of the challenges that remained in regaining public confidence in the Government through breakthrough achievements in good governance and enhancing the performance and accountability of key government agencies. He further emphasized the role of infrastructure as a key path to growth, encouraging Government to prioritize the overall planning and coordination of infrastructure investments while ensuring protection of the country’s natural resources. He noted the pivotal role of public-private partnerships and called for unleashing the potential of small and medium

enterprises. Lastly, he emphasized the need for improving the quantity and quality of social spending to improve the delivery of social services and to reduce poverty and achieve the Millenium Development Goals.

85. In this light, Mr. von Amsberg noted that a lot of progress had been made in addressing the key concerns raised at the beginning of the Forum leading to a single message of a need for more, and more equitable tax collection and better public services for growth and poverty reduction. Thus, he mentioned, the development partners were prepared to support the Philippine Government in the critical policies discussed and were keen to harmonize their efforts and align these with the country's development agenda. Finally, he enjoined all partners to continue the work started during the PDF and through the Working Groups, and continue the process of engaging and involving more stakeholders to gain important consensus.

86. In conclusion, Secretary Teves thanked all the participants for their active participation in the Philippines Development Forum, which had been vibrant and fruitful, reflecting the strong desire and partnership in achieving the country's development objectives. He reconfirmed the solid support of the Philippine government to the PDF, and its renewed commitment to economic and fiscal reform. He noted that the reforms that have been started were already gradually delivering desired results. He then encouraged all to advance further towards a collective fate of rapid and substantive poverty reduction in the spirit of unity and cooperation .

87. A press briefing was held by Secretary Teves, Mr. von Amsberg and other Government officials after the closing of the Forum.