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PRESS STATEMENT

by

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MARCH 8, 2005, DAVAO CITY – Ladies and gentlemen, friends from the media here in Davao and there in Metro Manila, good afternoon and Happy Women’s Day to all. We have just concluded the 26th Meeting of the Philippines Consultative Group and other stakeholders, the first time to be held in Mindanao. Dubbed, “2005 Philippines Development Forum,” this is also the first time that we have adopted a more participatory and inclusive process which has allowed a more dynamic exchange of views and interaction among national and local government units, the executive, legislative and judicial branches, civil society, private sector, and the international development partners. Five critical areas high on the government’s agenda and all intertwined under the broader theme, “Working Together for Sustainable Social and Economic Progress, were discussed. These areas were: fiscal and economic reforms, governance, growth and investments, decentralization, and social progress, especially the pursuit of the Millenium Development Goals.

The international development partners deeply appreciate the strong substantive commitment of the Government to this process and these meetings—demonstrated by the very high level of participation and commitment by Government leaders, led by Her Excellency, Gloria Macapagal-Arroyo.

The Government’s choice of Davao as location for this event was very fortunate. Many of us have been able to see for ourselves that Mindanao is a place of dynamic economic development despite the long-lasting social conflicts on the Island. We have learned about the encouraging progress of the peace process but also gained additional understanding of the complexity of the issues involved. While we are anxious to see further progress towards the conclusion of peace talks, and more broadly, lasting

peace and development for Mindanao, we, the development partners, pledge to continue to support programs that promote social progress, investment, and jobs in Mindanao.

Before I discuss the results of the remarkable two-day meeting, I would like to emphasize that the discussions were driven by a single desire to support the Philippines. The international development community, or what we call the “Friends of the Philippines,” care about this country and her people. We are here because we want the Philippines to do well.

The dominant theme of our discussions was the narrow **window of opportunity** that the Philippines can seize to address long-standing issues and move the country out of fiscal vulnerability and into a **virtuous cycle**. This would reduce fiscal deficits, lower poverty, increase employment and growth, and allow for increased social and investment spending. The political opportunity following the past elections means that difficult but necessary reforms are more feasible *now* than they will be later. The economic opportunity created by high growth of above 6% and by a very favorable international environment means that difficult reforms are more feasible *now* because they occur in the context of a growing economy and rising incomes and are thus far less painful than they would be under more adverse circumstances.

Many participants emphasized that implementation of critical reforms, in particular fiscal reforms, is indeed most urgent to capture the window of opportunity that may close rapidly with slower global growth and/or higher interest rates. The discussions focused on how we could help accelerate progress on these reforms.

Social Progress

We discussed five closely interlinked themes of the country’s reform agenda. With regard to social progress, the development partners acknowledged that some progress has been made. However, better targeting of programs and resources, improved data collection and analysis for monitoring and targeting are still needed. Development partners urged the Government to develop and pledged to support fiscally affordable programs at the national and local government levels to support the Millenium Development Goals.

Decentralization and Local Government Units

Development partners supported the government's initiatives to make decentralization work better through the following measures: (a) harmonization of capacity building activities under Department of Interior and Local Government (DILG) leadership; (b) speeding up the development of LGU performance systems to be used as a basis for assistance to LGUs; (c) adoption of a consistent framework for government credit and grant programs, including well targeted performance based capital grants, (d) consistent ODA financing terms and involvement of private banks in lending to LGUs; and (e) review of revisions to the Local Government Code.

Governance & Anti Corruption

Participants recognized that reducing corruption and improving the performance of public administration are critical to better economic performance and poverty reduction. Participants recognized several steps initiated by the Government. Increased resources have been directed to the Office of the Ombudsman. Procurement reform has been initiated, as have reforms to strengthen and streamline the bureaucracy, and establish a framework to monitor and evaluate performance of public agencies.

The Working Group considered in particular, three areas for future support. First, the prosecution of tax and graft cases. Second, the disposition of cases in the court system. And third, the implementation of procurement reforms, specifically transparency in the bidding and awards process.

Growth and Investment Climate

In regard to growth and investment climate, participants welcomed recent actions to improve fairness and integrity issues in BOTs, to streamline business processes, to uphold the mining investment law, and to establish the Philippines infrastructure corporation to jumpstart key infrastructure projects.

Participants agreed that DTI/PIC would start implementing one or two infrastructure projects within 60 days and complete critical projects by 2006. International Financial Institutions will explore more aggressive use of guarantee instruments in the infrastructure sector. The fixed income exchange and credit bureaus will be made operational by end 2005.

Fiscal Policy

Finally let me turn to fiscal policy as all groups recognized the need for fiscal reform as the critical cross-cutting theme. Positive recent actions were acknowledged including critical power tariff

adjustments, passage of sin taxes, and revenue integrity programs. Development partners applauded the government's recent structural reform measures in the energy sector and recognized that energy sector reform is a critical component of the overall fiscal reform agenda.

The participants emphasized that aggressive fiscal reforms were *the* critical prerequisite for growth since the present level of public debt and debt service limits development spending and represent a key source of vulnerability. Fiscal and macroeconomic uncertainties are also the main obstacles to investment cited by the business community. Strong fiscal reforms are therefore a key prerequisite for social progress. First, because they can help prevent crises that hit the poor the most. Second because they promote growth and employment, and third because they provide resources, in the medium term, for key public services to all citizens.

Participants considered as essential the passage of a high-quality VAT bill that would increase the rate as well as the tax base and keep VAT administration simple. There was a strong view that additional tax revenues would need to be saved to reduce the deficit and overperform on fiscal targets and that strong, additional, and ongoing efforts to increase tax revenues would be needed, beyond the VAT, to further reduce the deficit and to fund developmental priorities of the MTPDP. Those efforts would include further tax measures, improvements in tax administration, and possibly a fiscal responsibility act. Participants also emphasized the importance of policies for the medium term that underpins the Government's targets, including pension and GOCC reform and further progress on privatization.

The development partners welcomed useful clarifications from the Government on how the government's deficit targets, the expenditure plans under the MTPDP, and the revenue measures interacted and suggested further refinement of a clear and consistent fiscal framework.

Participants supported the Government's fiscal reform program and very strongly welcomed the intentions expressed by Government leaders to significantly overperform vis-à-vis the announced fiscal targets and to substantially front-load the needed fiscal adjustment. Several participants suggested that government consider a strengthening of the announced fiscal targets to cement this commitment. There was consensus that over performance on fiscal targets and front-loading were very significant intentions that could greatly enhance the probability of success and of moving the country into a virtuous circle.

The meeting also discussed how the international community could effectively support the fiscal reforms of the Government. Several of the larger ODA partners indicated their willingness to go beyond current programs and consider substantially increased financial commitments if and when the country

establishes a track record of significant and sustained fiscal actions and substantial fiscal improvements reflecting the Government's intention to over-perform on its fiscal targets and front-load its fiscal reform efforts.

International development partners discussed and supported harmonization of ODA programs with government priorities. One cabinet secretary put this very well: "in the past we sometimes had to choose between attending to ODA projects or national policies. With harmonization and sector wide approaches, ODA projects support these same priorities."

Closing

In closing, let me emphasize that many participants consider the current window of opportunity for reform is narrowing. With the implementation of urgent actions, the Philippines can be positioned to generate *sustained* growth; where the concerns of investors begin to diminish and productive investment would grow; where incomes and employment would rise; where the vulnerable are effectively protected; where economic opportunity is spread widely and access to quality education and health is widely available; where corruption and leakages are aggressively tackled; and where peace and order prevails.

Finally, we all recognize that if we deliver on the commitments made here, the Philippines can become the rapidly developing country that it could be and should be. I would like to end with the image of the eagle, the symbol of Davao. I think if we all get our act together, if the immediate and long-term reforms happen, the Philippines can soar like an eagle in the immediate future.

Salamat po and Mabuhay.

The 26th Consultative Group (CG) Meeting for the Philippines, called the "2005 Philippines Development Forum" or PDF, was held on March 7-8, 2005 in Davao City, Philippines under the chairmanship of the Government of the Philippines, with the World Bank as co-chair. It was an interactive and participatory forum where different stakeholders from the national and local governments, executive, legislative and judicial branches, civil society, academic, business groups, and the international development community, discussed possible actions and agree on specific outcomes to the main reform challenges of the country, such as those related to Social Progress, Decentralization and Local Government, Growth and Investment Climate, Economic and Fiscal Reforms, and Good Governance. The meeting was attended by delegations from Australia, Austria, Belgium, Canada, Czech Republic, Finland, France, Germany, Italy, Japan, Korea, Malaysia, Netherlands, New Zealand, Spain, Sweden, United Kingdom, and the United States of America. The international organizations participating in the meeting included the Asian Development Bank, European Commission, International Finance Corporation, International Fund for Agricultural Development, International Monetary Fund, Kuwait Fund, OPEC Fund, Saudi Fund for Development, various United Nations Agencies in the Philippines—International Labor Organization, Food and Agriculture Organization, UNAIDS, UN Children's Fund, UN Development Programme, UN High Commission for Refugees, UN Human Settlements Programme, UN Population Fund, World Health Organization—and the World Bank. The last CG meeting for the Philippines was held on November 7-8, 2003 in Cebu City, Philippines.###