

PHILIPPINES
2007 Philippines Development Forum
Cebu, Philippines
March 8-9, 2007

Report to the World Bank's Board of Executive Directors

Background

1. The 2007 Philippines Development Forum (PDF) was held in Cebu, Philippines from March 8 to 9, 2007. The PDF evolved from the Consultative Group (CG) process, and was initially positioned in 2005 as a meeting of the CG group with a few additional representations from other groups of stakeholders (private sector and civil society). Since then, the PDF participation has broadened and deepened, transforming into a multi-stakeholder forum that facilitates substantive policy dialogue among participants from national and local government units, the executive, judicial and legislative branches, civil society, academe, private sector, and the international development partners on the country's reform agenda.
2. As in past PDFs, the Government of the Philippines, led by the Department of Finance, organized and chaired the 2007 PDF. The World Bank served as co-chair for the meeting. Vice-President Noli de Castro delivered a speech on the first day, and President Gloria Macapagal-Arroyo attended the closing session on the second day and delivered the keynote address. Government representatives at the meeting included 11 Cabinet secretaries and other high-level officials from various Government agencies. Twenty-six delegations from multilateral and bilateral agencies/teams were represented; representatives from other stakeholder groups totaled approximately 40. The total number of participants was about 250.
3. Similar to previous PDFs, this particular meeting did not include a pledging session, and instead focused on substantive policy dialogue among the various stakeholders, with the objective of developing consensus and generating commitments toward a limited set of critical actionable items of the reform agenda. The format of the meeting included plenary and parallel break-out sessions; the break-out sessions were especially designed to provide an opportunity to delve into more detail on the key issues, as well as allow meaningful dialogue among the various stakeholders on selected high-priority areas.

Summary of Agenda and Discussion

4. The overall theme of the 2007 PDF was "**Achieving Broad-Based Growth through Sustained Reforms and Higher Investments.**" The four break-out sessions were organized along the following themes: (i) Achieving broad-based growth; (ii) Sustaining fiscal progress; (iii) Enhancing competitiveness; and (iv) Nurturing regional and local growth.
5. This meeting acknowledged the past year's major progress in fiscal management. The successful implementation of the Expanded Value Added Tax (EVAT) in 2006 was noted to have raised the tax effort significantly for the first time in a decade, and highlighted that the ongoing turnaround in public finance has opened a credible path to fiscal sustainability. The meeting cautioned, however, that the initial success of fiscal and economic management *could* lead to dangerous complacency. At the plenary session, Government laid out significant plans to address three challenges: (i) First, an overall investment rate in the Philippines, which, at 15% of GDP, represents an extraordinarily low level, raising questions about sustainability and achievability of

higher growth; (ii) Second, unemployment and poverty that remain high despite growth; and (iii) Third, growth whose benefits are not yet sufficiently shared across sectors, regions and communities.

6. At the break-out sessions, the participants discussed specific actions needed to respond to these challenges, by addressing the following issues: (i) How to sustain and deepen fiscal reforms and improve the efficiency and governance of public spending; (ii) How to Increase the Country's Competitiveness; (iii) How to Nurture Growth at the Regional and Local Levels; and, (iv) How to share the benefits of growth and achieve the Millennium Development Goals (MDGs) through investment in people and social policies. Representatives from each break-out session reported back to the plenary the specific action plans recommended by the each break-out group, and plenary discussions focused on implementation of these recommendations. (Please see the attached Co-Chairman's Closing Statement for more details on the discussions. Statements, presentations and other documentation on the PDF are also being posted in the PDF website: pdf.ph)

Closing Session

7. In the Co-Chairman's closing statement delivered in the presence of President Gloria Macapagal-Arroyo, it was noted that the single overall message at the meeting was that fiscal reforms and the favorable international environment have created a window of opportunity for taking actions that can translate recent financial improvements into higher investments, more jobs, increased incomes and more rapid poverty reduction. The one measure of success that the participants expect for these actions would be an increase in the investment rate from the low 15% of GDP to rates more typical of comparable economies of 20% of GDP or higher.

8. The Co-Chairman noted that the Government had laid out clear and credible plans for using the current window of opportunity and translating financial improvements into higher investments and poverty reduction. It was emphasized that if these plans are implemented and actions taken, at the next PDF participants should be able to acknowledge that the investment rate has indeed begun to rise, jobs have been created, income has risen, and poverty has fallen.

9. On behalf of the international development partners, Mr. Joachim von Amsberg, World Bank Country Director for the Philippines and Co-Chairman of the PDF, assured the Government and other participants that the international development partners care about these outcomes, and that they stand ready to support the country on the actions discussed at the Forum.

The 2007 Philippines Development Forum or PDF 2007, was held on March 8-9, 2007 in Cebu City, Philippines under the chairmanship of the Government of the Philippines (represented by Finance Secretary Margarito Teves), with the World Bank as co-chair (represented by Philippines Country Director Joachim von Amsberg). The theme for the PDF 2007 was "Achieving Broad-Based Growth through Sustained Reforms and Higher Investments." The PDF is 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, discuss possible actions and agree on specific outcomes to the main reform challenges of the country. The PDF 2007 Meeting was attended by delegations from Australia, Austria, Canada, China, Czech Republic, Finland, France, Germany, Indonesia, Italy, Japan, Korea, Netherlands, New Zealand, Spain, Sweden, United Kingdom, and the United States of America. The international organizations participating in the meeting includes the Asian Development Bank, European Commission, International Monetary Fund, Kuwait Fund, OPEC Fund for International Development, Saudi Fund for Development, various United Nations Agencies and the World Bank Group. The last PDF meeting for the Philippines was held on March 30-31, 2006 in Tagaytay City, Philippines.

2007 PHILIPPINES DEVELOPMENT FORUM
March 8-9, 2007
Marco Polo Hotel, Cebu, Philippines

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

Her Excellency, President Gloria Macapagal Arroyo
Honorable Secretary Margarito Teves and Chairman
Honorable National and Local Government Officials
Honorable Ambassadors and Representatives from the International Development Community
Distinguished Representatives from the Private Sector and Civil Society Ladies and Gentlemen

Introduction

We are coming to the end of two days of extraordinary rich and productive discussions that brought us, who I call the Friends of the Philippines together with leaders of the country—the leaders of Government as well as representatives of private sector, civil society and academe. The spirit of this meeting has been one of open exchange of ideas and of practical support for the implementation of policies and programs that would improve the lives of Filipinos.

On behalf of the international development partners, I wish to express the most sincere appreciation to the Government of the Philippines, particularly the Department of Finance, for its outstanding organization of this event and to Secretary Teves personally for the leadership of the Philippine Development Forum. I would like to express thanks for the participation and commitment of the Vice President Noli de Castro, the members of the Cabinet, and all participants of this event. We deeply value the honor of your presence, Madam President, and your willingness to listen and to speak to us today.

Please allow me to share with you, very selectively, due to constraints in time, and from the perspective of the international development partners, some of the highlights of our discussion.

Recent Progress

This meeting acknowledged the past year's major progress in fiscal management. The successful implementation of the Expanded Value Added Tax (EVAT) in 2006 has raised the tax effort significantly for the first time in a decade. The ongoing turnaround in public finance has opened a credible path to fiscal sustainability.

Madam President, we congratulate you for the economic management and performance of this Government under your leadership!

The benefits of fiscal reforms are clearly apparent from the lower interest costs and borrowing spreads, the strength of financial markets, lower inflation, and the surge in foreign direct investment. The global equity sell-off of last week indeed highlights the importance of the Philippine fiscal adjustment. Without the impressive reduction of the public sector deficit and debt over the past two years, there would have been far more cause for concern about damage to the Philippine economy from events such as those currently affecting global markets.

This initial success of fiscal and economic management *could* lead to dangerous complacency. However, based on the presentations and contributions of the Cabinet members, we perceive that success inspires this government to be more ambitious and determined to pursue further reforms with renewed energy for better results.

This is most welcome. Government laid out significant plans to address three challenges: First, an overall investment rate in the Philippines, which, at 15% of GDP, represents an extraordinarily low level, raising questions about sustainability and achievability of higher growth. Second, unemployment and poverty that remain high despite growth. Third, growth whose benefits are not yet sufficiently shared across sectors, regions and communities.

All our discussions can be summarized in a single message in response to these challenges: And that is, fiscal reforms and the favorable international environment have created a window of opportunity for actions that can translate recent financial improvements into higher investments, more jobs, increased incomes and more rapid poverty reduction. The one measure of success that we expect for these actions will be an increase in the investment rate from the low 15% of GDP to rates more typical of comparable economies of 20% of GDP or higher.

We discussed specific actions needed to grasp this window of opportunity. Given the richness of the discussions and the limited time, I will only be able to highlight a few key illustrative issues and actions, most of which represent plans presented to us by the Government leaders. We see these selected actions as both doable and having the potential to achieve significant impact. Madam President, we will send you the full records of the discussions and reports from the breakout groups.

(i) How to sustain and deepen fiscal reforms and improve the efficiency and governance of public spending?

Fiscal stability has laid the foundation that allows more investment in the Philippine economy.

Recent global market events have reaffirmed the importance of pressing ahead with the Government's target of balancing the budget in 2008—given still high levels of public debt. Sticking to such target will strengthen the credibility of fiscal policy. Credibility in turn reduces financing costs and thus allows more public investment. Credibility is hard earned over many years of reform but could be quickly lost if complacency, or even the perception of complacency, was to set in.

It is also critical that the fiscal consolidation be based on increasing revenues since further expenditure compression is neither desirable nor sustainable.

We acknowledge the plans to increase public investment while meeting the fiscal targets through further increases in the tax effort. To boost the administrative effort in the Bureau of Internal Revenue (BIR), (a) monitorable targets under the ongoing tax reform administration group (TRAG) have been identified and will be monitored; (b) high profile cases under the Run After Tax Evaders (RATE) and Run After The Smugglers (RATS) would be successfully prosecuted, and bottlenecks to prosecution identified; and (c) information sharing across agencies would be improved to limit the present substantial tax evasion—by linking the databases of BIR, Social Security System (SSS), Securities and Exchange Commission (SEC), Land Transportation Office

(LTO) among others. Auditing of tax assessments by the Department of Finance (DOF) or an independent agency was also highlighted.

Revenue enhancing measures under consideration to take effect from 2008 include the rationalization of fiscal incentives to phase out redundant incentives, measures to fight smuggling, and possibly other additional measures.

Ongoing reforms to **improve the quality of government spending** would be continued and deepened. These include government-wide rollout of the medium-term expenditure framework, organizational performance indicator framework, and the new national accounting system. In addition, the government would prioritize expenditure management reforms to contribute to the broader challenge of better governance and anti-corruption. Pushing ahead on procurement reforms and measures to enhance budget transparency—by disclosing greater details of budget execution data on the government website—are important examples. Strengthening governance and management in some of the large government-owned and -controlled corporations (GOCCs) such as the National Food Authority (NFA) would be a welcome related measure. NFA reform was seen by some participants as a possible source of fiscal savings that could be used elsewhere with stronger impacts on growth and poverty reduction.

We discussed how to intensify governance reform and address the perception that many good existing anti-corruption initiatives do not yet add up to a fully credible program of good governance. It would be useful to establish clear and monitorable indicators that can serve as a tool for gauging the effectiveness of the ongoing measures. A promising possibility is the use of the Integrity Development Reviews not only to assess selected agencies' vulnerability to corruption but also to monitor, over time, their progress in reducing the identified sources of vulnerabilities.

One effective way of signaling the government's serious commitment to governance reforms, and indeed enhancing its impact, would be to **prioritize allocation of budgetary resources to this area.** There was a call to increase the budget of the Office of the Ombudsman. In a similar vein, it would seem opportune to direct a portion of the recent fiscal gains to other equally important governance reform items, such as investment in critical information systems and capacity-building.

(ii) How to Increase the Country's Competitiveness?

With constraints such as infrastructure limitations and the high cost of inputs (for example, electricity), the Philippines still ranks poorly in international competitiveness surveys.

To meet these concerns, reforms would aim at: (a) **competitive and higher quality infrastructure, (b) more private investments in infrastructure, (c) lower costs of doing business, and (d) more competition in protected sectors.**

The government indicated that it will coordinate and align its Infrastructure and Competitiveness Agenda. **The Government presented 10 specific and significant infrastructure projects. The private sector also presented 20 projects. This clear prioritization of a small number of projects is considered most valuable for success.** Most of these projects are in the advanced stages of preparation, and discussion is ongoing with development partners present in this room for financing and implementation of these projects. Participants emphasized the importance of the

Investment Coordinating Committee (ICC) process to coordinate priorities and review soundness of public investment plans and their potential fiscal implications.

The working group proposed to identify five additional public-private partnership (PPP) projects to be developed together with a PPP policy and regulatory framework. As part of this PPP discussion, the working group highlighted the **urgency of a comprehensive policy and institutional framework for the water sector.**

High costs and low investments also stem from lack of competition which, in some cases, reflects capture of regulatory agencies. The lack of effective competition hurts consumers and small and medium enterprises (SMEs), and discourages entry and investment by domestic start-ups and foreign investors. The Forum identified **civil air transport, ports and shipping, and cement production as areas with substantial potential for reducing costs** by allowing increased effective competition. The creation of jobs in the Philippine information technology (IT) and business process outsourcing (BPO) industry, made possible by telecoms deregulation, demonstrates the most significant potential gains for sector such as tourism and agriculture that could arise from effective competition in the transport sectors.

To sustain the power sector reform efforts under the Electric Power Industry Reform Act (EPIRA) framework, the working group welcomed plans to **accelerate the privatization of generation assets in 2007 and to continue to pursue TRANSCO privatization.** Such privatization can promote competition in Wholesale Electricity Spot Market (WESM), augmenting long-term power supply capacity, and yielding operational efficiencies and ultimately cost reduction.

(iii) How to Nurture Growth at the Regional and Local Levels?

Whether investments happen in a certain location depends not only on the national but equally on the local investment climate.

The perception of a still fragile peace and order situation in parts of Mindanao and other conflict-affected areas remains a major disincentive for investment. The breakout session thus reaffirmed the importance of **concluding a peace agreement with the Moro Islamic Liberation Front (MILF)** that would provide an environment conducive for growth. Growth and development in turn would reinforce peace. Last year, Madam President, you called on us for scaling up international support for peace and development in Mindanao. We are happy to report that new programs have been established and additional resources been invested by several development partners.

Across the country, the discussions confirmed **the importance of joint/consolidated capacity building program for Local Government Units (LGUs) and rollout of governance reforms at the local levels.** There was also recognition that economic growth is often constrained by inadequate access to financing and affordable credit for the development of infrastructure and services by LGUs. The meeting welcomes the emerging cooperation of LGUs in planning and financing their common needs for infrastructure in recognition of scale economies, and the need to span electoral cycles.

The need to **ensure competitiveness and profitability of agriculture**, as well as **ensuring the right strategic focus and direction for land use administration and distribution**, remain critical and urgent issues to address. As such, there was broad agreement for support to

rationalize public expenditures and investments in the sector, and carry out concrete programs which will expand agricultural market access, promote comprehensive convergence of support service delivery between national agencies and LGUs in sustainable rural development. Related to this, Government is strongly encouraged to provide the strategic direction and position to resolve the Comprehensive Agrarian Reform Program (CARP) extension issue.

(iv) How to share the benefits of growth and achieve the Millennium Development Goals (MDGs) through investment in people and social policies?

The economic and social policy agenda are intricately linked. For growth to benefit all Filipinos, growth itself must be broad-based and equitable, by segment, sector and location, so that jobs and incomes benefit all segments of the population. In addition, the improved fiscal revenues that result from growth provide the opportunity to enhance the delivery of services. At the same time, public policies that promote equality also allow more Filipinos to contribute to growth. They also improve the investment climate.

There was consensus for the need for enhanced financing for the social sectors. The increase in spending in education last year was a step in the right direction after years of fiscal compression. The next step would be a sustained increase in allocations to these sectors. Participants stressed the importance of developing and adhering to a multi-year financing framework. Improving budget execution would go a long way in improving service delivery. So would increased partnerships with the private sector. Government's intent to front-load investments for basic education was welcomed, while in the health sector it was noted that enhanced financing could be complemented with regulatory efforts to constrain the cost of drugs and health service provision and to enhance financial protection. Equally important for social economic progress would be to ensure better maternal health and to contain the threats of HIV/AIDS and Avian Influenza.

We stressed the importance of improved governance in service delivery and sustaining anti-corruption efforts. There is scope for more expenditure efficiency through improved economic governance. Channeling funds to front-line providers are steps in the right direction. Improved monitoring of data on key indicators, at a disaggregated level of local government, is an important aspect of the agenda for better governance.

Participants expressed concern that the country's high population growth rate was increasing the challenge of achieving broad based growth and poverty reduction. Currently, the burden of population management is on local governments. There needs to be more efforts for concrete solutions and partnerships to operationalize more effective population policies.

The meeting discussed the importance of effective design and implementation of social protection and risk mitigation strategies. Participants supported Government's intent to develop a social protection strategy that matches expenditure programs to address the actual risks faced by the vulnerable and the poor. A critical step is the development of an objective and accurate targeting system leading to the development of a national database of the poor. Furthermore, the meeting stressed the importance of preparedness and response to natural disasters. There is also a real threat and risk of pandemics including HIV/AIDS and Avian Influenza, not only to vulnerable populations but indeed to the entire country and its growth.

Closing

In summary, Madam President, the Government has laid out very clear and very credible plans for using the current window of opportunity and translating financial improvements into higher investments and poverty reduction

If these plans are implemented and actions taken, we can look forward to the PDF of 2008 where we will be able to recognize that the investment rate has begun to rise, jobs have been created, income has risen, and poverty has fallen.

We care about these outcomes, and we stand ready to support you and the country on the actions we discussed.

Thank you, Madam President, for your patience. And thank you to all participants of the PDF.

Mabuhay and have a good day.