

**2005 Philippines Development Forum:
A Meeting of the Consultative Group of the Philippines and Other Stakeholders
Davao City, Philippines, 7-8 March 2005**

REPORT OF PROCEEDINGS BY THE CHAIRMAN

I. The 2005 Philippines Development Forum carries the theme “Working Together for Sustainable Economic and Social Progress”.

Introduction

1. The twenty-sixth meeting of the Consultative Group (CG) of the Philippines was held from March 7-8, 2005 in Davao City, Philippines. This CG meeting was designed as a forum where different stakeholders participated, and was called the “2005 Philippines Development Forum” or PDF. The Government of the Philippines, led by the Department of Finance, organized and chaired the meeting. The World Bank served as co-chair for the meeting.
2. The PDF carried the theme “Working Together for Sustainable Economic and Social Progress” and was attended by approximately 220 participants from national and local government units, the executive, legislative and judicial branches, civil society, private sector, and the international development partners community. This year’s theme brought to the forefront the importance of building support and consensus among various stakeholders, and signified the opening of doors and windows of opportunities for convergence in the pursuit of the more urgent and critical areas of the country’s development agenda.
3. As agreed by Government and the international development partners, this CG 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 five separate break-out groups especially designed to provide an opportunity to delve into more detail on the key issues, as well allow meaningful among the various stakeholders on five inter-related themes: social progress; growth and investment climate; economic and fiscal reform; governance and anti-corruption; and decentralization and local government.
4. The bases for the break-out group discussions were background papers that had been prepared by working groups created for the PDF. Since January, these groups (members drawn from ODA and other partners based in Manila as well as Government) had met several times to identify the key issues and propose specific points for discussion at the PDF, including follow-up actions for the five themes in the agenda. This process of consultation established a mechanism for continued interaction and follow-up to be led by the various working groups.
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 Sentral 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. The Philippine Judiciary was also represented. Her Excellency Gloria Macapagal-Arroyo delivered the keynote address, which served as highlight of the Forum.

6. The Official Development Assistance (ODA) community was represented by delegations from Austria, Australia, Belgium, Czech Republic, Finland, France, Germany, Italy, Japan, Korea, Kuwait, Malaysia, the Netherlands, New Zealand, Spain, Sweden, Saudi Arabia, United Kingdom, and the United States of America. Multilateral organizations that participated in the meeting included the Asian Development Bank, European Commission, International Fund for Agricultural Development, International Finance Corporation, International Monetary Fund, 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.

II. Going the Distance: More participatory dialogue towards consensus building

Opening Session

8. The Chairman, Secretary Cesar Purisima of the Department of Finance, opened the Forum by welcoming the international development partners and other participants, and the Davao City Government for hosting the event. The Chair noted that this year's theme "Working Together for Sustainable Economic and Social Progress" captured the thrust of the country's development agenda. He also mentioned that the format of the Forum would allow for a more dynamic interaction among participants, which would be conducive to the more important task of consensus building. He called for active participation among all participants in order to gather support for the Government's reform agenda and urged participants to share their views on how to build ownership and maximize contributions by all stakeholders. He proceeded to give a brief overview of the agenda for the two-day forum, and confirmed the participation of Her Excellency Gloria Macapagal-Arroyo to deliver the keynote address on the second day of the meeting.
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 thanked the Government for hosting and organizing the Philippine Development Forum. He said that it was most appropriate to hold the meeting in Mindanao as most of the programs and projects of the partners were concentrated in Mindanao and this choice reflects the increasing hope for lasting peace and development in the region. He also commended the PDF's innovative format, which responded to the clear desire in last year's Consultative Group (CG) meeting for more substantive interaction. He expressed gratitude to the Government for the openness to work with all partners reflected by the presence of the

many leaders of the country and the participation of various representatives from private sector, civil society, local government, and other groups. He mentioned that the PDF was an unusual opportunity yet a timely event as it comes at a time when both political and economic opportunities were available and the Government had laid out plans to make use of these. He, however, stressed that the window of opportunity may be short-lived, and appealed for urgent action. He also mentioned the need to focus on implementation. He stated the importance of discussing the five themes in the break-out sessions and emphasized that these themes were intimately connected and served one main objective that is to improve the quality of life, reduce poverty and increase opportunities for all Filipinos. He called for an open and constructive dialogue and indicated that the focus should be in solving problems in order to come up with concrete recommendations and actions. Finally, Mr. von Amsberg expressed the international development partners' support for the country and the Philippine reform agenda.

III. The Government takes urgent action to move forward on the country's development agenda.

Session I: Laying-out the Development Agenda

Overview of the Country's Fiscal and Financial Reform Agenda

10. Secretary Purisima presented the Government's fiscal and financial reform agenda. He mentioned that putting public finance on a sustainable track was at the core of the economic agenda of the Arroyo Administration. He said that the fiscal reform agenda was aimed at breaking free of the vicious cycle of a declining tax effort, chronic fiscal deficit and increasing recourse to debt financing and moving to a virtuous cycle of sustained increase in revenues, narrowed fiscal deficit, and reduced debt. He identified the medium-term fiscal program targets and emphasized that there would be a tighter squeeze on the budget. He, however, emphasized that for the program to be achieved, accompanying investments in infrastructure, services, and additional capital outlay were needed to create economic momentum.
11. According to Secretary Purisima, seven areas needed to be addressed to make the fiscal plan feasible. These areas were: i) reform of the tax structure; ii) tax administration reforms; iii) privatization; iv) improved management of government owned and controlled corporations (GOCCs); v) development of the capital market; vi) continued tight control over the budget; and vii) review of the liability portfolio. The Secretary went on to explain that the Government was pursuing measures to address these key areas of concern. Sec. Purisima reported that Congress was working on the passage of the VAT measure which proposed increase VAT from 10% to 12%, and the removal of exemptions in the VAT chain. On tax administration reform, initiatives would address inefficiencies in tax collection and customs collection processes. Government would also pursue aggressive privatization of NAPOCOR, TransCo and other government assets. The oversight of GOCCs would be improved by imposing performance standards and re-instituting performance contracts. Government would further look into developing and expanding the domestic debt market to allow for lower and more efficient cost of borrowing. Tighter control over the budget would be exercised by rationalizing the

bureaucracy and introducing performance benchmarking among agencies. Improving the liability portfolio would involve lengthening the maturity profile, pursuing innovative financial structures to reduce borrowing costs; diversifying the currency mix; and optimizing ODA financing. Through these reforms, the Government would ultimately aim to establish the credibility of the Philippines with the international financial market and build the confidence of the Filipino people.

Overview of the Medium-Term Philippine Development Plan (MTPDP)

12. Socioeconomic Secretary and NEDA Director-General Romulo Neri presented the salient points of the MTPDP which puts into perspective the Administration's 10-point agenda. Looking at the country's fiscal situation, Secretary Neri noted that problems in resource mobilization exist and stem from the underdevelopment of the capital market and low saving rates. To uplift the weak financial sector Secretary Neri said that Government would: i) manage inflation through inflation targeting and supply-side measures; ii) prevent and minimize systemic risks and strengthen the regulatory framework and create an environment of transparency and accountability; iii) improve liquidity by enhancing fixed income exchange, encouraging new listings of equities in the Philippine Stock Exchange; iv) encourage immediate securitization of housing loan portfolios of government agencies; v) tap savings through new products; vi) rationalize government pension and retirement schemes and design pension fund regulators; and vii) increase small and medium enterprises (SME) access to financing. The Government also laid out plans to improve infrastructure and capital outlay performance, which had fared lowest among other Asian countries. The Government therefore planned to increase spending on public infrastructure by Php100 billion (B) and finance it through project-based financing and the creation of an infrastructure corporation.
13. Secretary Neri reported that the Government adopted strategies that would lower the cost of doing business in the country to promote global competitiveness and exports and create 10 million jobs primarily in key employment generating industries which are tourism, agribusiness, housing, ICT, exports, and mining. Entrepreneurship would also be promoted through measures that will provide credit, technology, and marketing support to micro-, small, and medium enterprises. Government also recognized the vulnerability of the rural sector and put forth plans to intensify support to agribusiness particularly to i) expand the production base by developing two million hectares of lands for agribusiness and ii) raise agricultural productivity by increasing and diversifying marketable farm surplus. Transport and logistics would also be given importance to bring down costs of food and labor, and to make local products competitive in the international market.
14. At the core of Government's social agenda, would be the fight against poverty. Government would pursue five core strategies: i) acceleration of asset reform; ii) provision of human development services; iii) livelihood and employment; iv) social protection and security from violence; and v) participation and empowerment of the poor. Furthermore, the deteriorating quality in basic education and the decline in real spending per student will be reversed by stop-gap measures that i) upgrade the quality of early childhood and basic education; and ii) close the classroom gap by ensuring greater

involvement of local units and other stakeholders. The Government also identified priority policies and measures in other areas. In science and technology, knowledge creation and technology transfer would be imperative. Science and technology would henceforth focus on encouraging entrepreneurship; linking knowledge generation and business development; promoting research and development; mobilizing and disseminating knowledge to the rural and urban poor; and improving the educational system to meet industry requirements. With regards to environment and natural resources, the Government would maximize physical planning as a development tool for job creation.

15. Moving forward, Secretary Neri said the Government remained committed to pursue good governance. It instituted punitive and preventive anti-corruption measures and continued to promote zero tolerance for corruption in the bureaucracy. Government would continue to pursue re-engineering the bureaucracy by rationalizing the salary structure and promoting meritocracy.
16. Secretary Neri reported that the full implementation of the MTPDP would require a total budget of Php2.3 trillion (T). Based on its thematic targets, the breakdown of resource requirements were as follows: Php 1.63 T for economic growth and job creation; Php 262 B for energy Php 214 B for social justice and basic needs; Php133 B for education and youth opportunity; and Php 27.8 B for anti-corruption and good governance. Furthermore, Php1.7 T worth of investments would be needed to respond to fulfill the requirements of the Administration's 10-point agenda; meanwhile Php 1.25 T of the investment requirements indicated in the Medium-Term Public Investment Plan would respond to the Millennium Development Goals.

Comments/Reactions to Government Presentations

17. In response to the presentations, Congressman Joey S. Salceda noted that the country had performed well in terms of policy reform particularly fiscal reform, financial reform, wealth creation, and constitutional change. He also emphasized that the time is ripe for an opportunistic sequencing of a market-added fiscal strategy characterized by realistic deficit reduction targets backed by deliverable substantial measures that were essentially front-loaded. He mentioned that the entire fiscal program should be seen in a comprehensive manner based on the hierarchy of fiscal resources and added that the Government's credible fiscal program had led to the strengthening of the peso and improved credit confidence.
18. International development partners expressed support for the development agenda of the national government. They urged the Government to seize the prevailing window of opportunity to front-load implementation of reforms. Several partners shared their views on these topics:
 - Japan mentioned that it was a critical time for the Philippines to seize political and economic opportunities. It expressed concern over the seriousness of the country's fiscal situation and stressed the importance of addressing issues that pertain not only to the roadmap for development but also to critical issues in implementation. It

stressed the need for constant monitoring and more concretely regular reviews every six months, if not quarterly, involving fairly high-level participation.

- Australia agreed with the others that the timing of reforms was critical and that the Philippines would need to uplift its development performance in order to realize its true potential. It also expressed its commitment to support the development efforts of the Philippines in pursuit of three main objectives: i) reduce impediments to growth through stronger economic governance particularly public financial management; ii) improve stability and security by supporting the fight against terrorism and supporting efforts to bring peace and stability in Mindanao; and iii) improve the living standards of the rural poor particularly in the Southern Philippines.
- ADB called for urgent action. It stressed that it was imperative to collectively demonstrate real progress on development issues within a relatively short period of time. In this regard, it announced its readiness to move ahead with a more robust program of support in the short and medium terms for the Philippine Government.
- The European Commission shared the others' view that addressing the fiscal situation should be the Government's priority concern and added that it was also equally important to address the social inequalities that exist in the country. The EC mentioned its own policy changes towards sectoral reforms and that it would be focusing its assistance in health and education, among others, to help the Government achieve its Millennium Development Goals.

Updates/Comments on Mindanao Peace and Development

19. Secretary Teresita Quintos-Deles, Presidential Adviser on the Peace Process provided her insights and assessment of the peace situation in Sulu to illustrate the difficulties in pushing for peace on several multi-level and complex fronts. She noted that the prospects for peace in Mindanao were good given that the Government had been able to establish crucial building blocks in the pursuit of a just and lasting peace, specifically: i) the high-level of consensus among stakeholders and the institutionalization of the peace process in the national development agenda; ii) the legacy agenda of peace-making and peace-keeping; iii) the institutionalization of a comprehensive and multi-track peace process; iv) strengthened capacity of government and human rights institutions to respond to calamities; and 5) a brave, vibrant, creative and dedicated peace constituency; and vi) the stability and gains in the peace process made between Government and the MILF.
20. Secretary Deles further maintained that the peace process with the MILF had shown its capacity to withstand challenges and threats from many sources as trust and confidence began to grow between both parties. Furthermore, rehabilitation and development efforts had been operationalized with the participation of the BangsaMoro Development Agency and the coordination of various international development partners while preparations for a Mindanao Trust Fund were put in place. Meanwhile, negotiations on the ancestral domains aspect were expected to continue in Kuala Lumpur, Malaysia to address aspects of concept, territory, and governance.

21. Secretary Deles also expressed her confidence in the peace process and in the Government's ability to meaningfully respond to the issues of peace. She noted the need to close the gap between the finalization of agreements and implementation and recommended setting-up a rigorous monitoring mechanism with the participation of civil society and third-party monitors. She urged all stakeholders to seek new knowledge and new ways to accelerate negotiations and identify creative alternatives to address conflict.
22. Secretary Jesus Dureza of the Mindanao Economic Development Council presented an economic situationer of Mindanao emphasizing that despite economic setbacks in the past, Mindanao's economy has remained resilient. Nonetheless, he noted that Government must continue to address the challenges to lasting peace and development in Mindanao, including the need to address chronic poverty particularly in the top poor provinces of Sulu, Lanao del Sur, North Cotabato, Surigao del Norte and Davao Oriental. He pointed out that priority areas for assistance include education, human resource development, and health, especially in the ARMM. Secretary Dureza noted that the Government had organized top-level initiatives to include a reformulated "Mindanao Natin" program and a hard-line policy against terrorists and criminal groups.
23. Secretary Dureza encouraged the international development partners to tap the Regional Peace and Order Councils (RPOCs) as avenues for information sharing regarding security concerns. He further proposed the establishment of a system that would facilitate sharing of accurate and updated information between and among donor with the RPOC. He informed the body that at the sub-regional level, members of the BIMP-EAGA had already agreed to strengthen regional security cooperation through regular information sharing on concerns related to customs, quarantine, immigration, and security.
24. The Secretary then stressed the need to ensure the sustainability of programs and projects in Mindanao. In order to achieve this, he remarked, LGUs and local institutions should be capacitated and communities empowered. Thanking the international development partners for their continuing support to peace and development in Mindanao, Secretary Dureza assured the Partners of the Government's continued commitment to the task at hand, mindful of critical indicators that determine the effectiveness of various assistance programs such as: i) greater cohesion among recipient communities; ii) focus on critical infrastructure projects; and iii) special attention to social and community-based infrastructure.
25. Ms. Amina Rasul, Lead Convener of the Philippine Council for Islam and Democracy, provided a non-Government perspective to peace and development in Mindanao. She cited excerpts from the Millennium Development Report, which recommended that strategies to attain the Millennium Development Goals should include a focus on conflict prevention. The Report identified five specific actions: i) conflict early warning systems should be integrated with the work of Government; ii) conflict prevention strategies should be integrated with poverty alleviation programs; and iii) stakeholders should be involved not only in implementation but also the planning process as well; iv) transparency and accountability of funds flows; and v) poverty alleviation strategies should include programs and investments to enhance peace and security.

26. Ms. Rasul thanked the international development partners for supporting Mindanao and acknowledged the assistance they extended in areas of poverty alleviation, education, and infrastructure development. She stressed, however, the need to address other areas of peace and development particularly: i) the war on terror; ii) the rule of law; and iii) socioeconomic dimensions of the peace. She emphasized that it was imperative that the deep-seated grievances that instigate conflict such as debilitating poverty, festering issues on land and ancestral domain, and discrimination were addressed. While conflict and the war on terror negatively affected the rule of law, the administration of justice in Mindanao was perceived to remain weak. Lack of funds was seen to have hampered the establishment of Shari-ah courts in Muslim Mindanao; regional and local governments specifically the ARMM government had been generally viewed by the public as ineffective. It would therefore be important, according to Ms. Rasul, to improve the ARMM's administrative capacity, accountability and transparency in governance. Mechanisms also need to be installed to allow communities to participate in processes which would foster peace and development with the involvement of civil society, people's organizations, and others.

27. Some international development partners commented on the issues regarding peace and development in Mindanao.

- Japan mentioned its strong commitment to peace building and that it had allocated US \$400 million package for peace and development in the region of which 40% had been disbursed.
- USAID stated that more than half of its total development assistance goes to Mindanao. It declared that peace and development in Mindanao was extraordinarily important, and agreed to support the areas of education, and local and regional capacity building. It further expressed interest in providing further assistance in the administration of justice; supporting the role of women in planning and implementation; and promoting the social inclusion of minorities towards richer democratic pluralism.

28. Secretary Purisima responded by re-affirming the Government's position that the peace and development agenda in Mindanao was a crucial part of the solution to the Philippines' fiscal and development issues, and would continue to be a priority of the Government.

Session II: Simultaneous Break-Out Sessions

Social Progress

29. The session on Social Progress was co-chaired by Secretary Dinky Soliman of the Department of Social Welfare and Development and Secretary Florencio Abad of the Department of Education. The Chair and Co-Chair each gave their presentations on their respective sectors. Mr. Zahidul Huque, Country Representative of the United Nations

Population Fund in the Philippines and Secretary Manuel Dayrit also gave related presentations on the Millenium Project Report and the health sector, respectively.

30. Secretary Soliman reported on the country's progress towards its MDGs. She reported that the country's performance in terms of raising the living standards of Filipino families vis-à-vis its MDGs have been encouraging. However, despite encouraging progress in some areas, Secretary Soliman still expressed concern on the slow progress in the pursuit of other MDGs particularly those involving child and maternal health, and primary education targets. She mentioned that the apparent lack of resources made available to implement MDG-related programs impeded progress, and corruption further aggravated the situation. The delay in the implementation of social contracts also posed threats to the prompt fulfillment of the MDGs. She also pointed out the need for: i) equitable distribution of the benefits of economic growth and the effective management of population growth; ii) the importance of localizing the MDG program and creating synergies among LGUs, national government and international development partners to maximize resources; and iii) the need to advocate MDGs as a roadmap to reduce poverty.
31. In that regard, Secretary Soliman noted the Government's efforts to pursue a two-pronged convergence strategy towards poverty reduction and achieving the MDGs. The two-pronged strategy involved geographic convergence and convergence in national program work focused on microfinance, creative economies, and supplementary feeding programs to address malnutrition issues. The convergence strategy was geared towards creating an empowered citizenry and sustainable communities.
32. Dr. Zahidul Huque in his report on the Millennium Development Project Report cited the recommendations of Dr. Jeffrey Sachs, expert resource of the Millennium Project, for the Philippines specifically to: i) address rural poverty and hunger particularly malnutrition; ii) improve maternal health care by increasing the availability of family planning services and obstetrical care, and ensuring that essential medicine would not be hampered by intellectual property rights; iii) institute an effective population management program; iv) identify practical steps to achieve MDGs; and v) match investment plans with resources. He further mentioned that the Project recommended that the Philippines needs: i) rapid, sustained and broad-based economic growth focused on agriculture and rural development and needs to resolve the fiscal crisis and fiscal deficit through a national poverty strategy; ii) to make local government accountable for every maternal death in their jurisdiction through the deployment of trained health professionals in the every barangay, and ensuring community involvement in maternal cases; iii) to set-up a network of functional emergency obstetrical health service in key health facilities nationwide should be set up; and iv) to establish community-based natural management systems. In general, the Millennium Project Report suggested that the Philippines make full investments in human capital, environment, infrastructure, and governance.
33. Secretary Florencio Abad of the Department of Education (DepEd) apprised the group of the current crisis which besets the education sector. In his presentation, he conveyed that the poor performance of the education sector was characterized by a self-perpetuating mediocrity at all levels of the educational system. In view of this crisis, Secretary Abad

recommended that Government efforts shift from merely capturing resources for education to demanding greater instructional effort and higher learning outcomes for all, and shift political support in favor of accountability for adequate instruction and attainment of learning. He called for support to the Government's "Schools First" Initiative, a major reform program designed to engage society to include communities and other development partners in attaining systemic education outcomes. He further mentioned that the "Schools First" Initiative will include three components, specifically: i) enhancement of learning; ii) more resources for learning; and iii) focused organization for learning.

34. Secretary Manuel Dayrit of the Department of Health provided a brief background on the country's health situation. He noted that although the Philippines seemed to be fairing well in terms of life expectancy, sector performance has been rather low addressing critical gaps. He mentioned that the Philippines posted higher infant mortality, child mortality and maternal mortality figures compared to other Asian countries. According to Secretary Dayrit, Government would have to bridge the "Know-Do" gap whereby information and plans should be translated into actual implementation in order to effectively utilize resources and manage change in the sector. Furthermore, Government would have to address two major challenges: i) make decentralization work; and ii) improve health services and outcomes in the face of diminishing resources. Moving forward, he stressed that strong leadership was important in the health sector in order to effect change, building on synergies among national and local government, and other partners.
35. After the three presentations, the participants gave their comments on the issues raised by Government on the topic of Social Progress. Some delegates emphasized the need for: i) a comprehensive health and population control program; ii) full implementation of Government's food fortification program and iii) programs in addressing, tuberculosis, HIV/AIDS, and other diseases. Among the business sector's foremost concerns were on human resource development, education, and health, noting that these were critical elements of ensuring a reliable and productive workforce. Some participants called for synergies and joint action partnerships between and among stakeholders to support the MDGs. Other issues that were discussed during the group interaction revolved around the following areas: i) chronic under-funding in social services particularly health; ii) the need to adopt MDGs at the local level; iii) institutionalization of good data management systems; iv) lack of political will or leadership to curb corruption; v) need to focus on the rural poor; vi) and the outflow of health sector workers from the country.

Growth and Investment Climate

36. Secretary Juan Santos of the DTI and Secretary Romulo Neri of NEDA co-chaired the session, while Mr. Vipul Bhagat of International Finance Corporation (IFC) and delegates from Japan Mr. Satoshi Ikeda, Mr. Hideaki Ishii, and Mr. Kensuke Saito provided additional inputs and served as resource persons.
37. Secretary Neri presented his views on the sector and remarked that the Philippines had to set the proper environment for growth and investment noting that investors would only

come if they perceived risks to be either low or manageable with the possibility of high or adequate returns. To achieve this, he said the following steps had to be taken: i) improving productivity through microeconomic reforms; ii) reducing the cost of doing business particularly by make the power sector more efficient, reducing red tape, and iii) reducing financing costs. Secretary Santos on the other hand, spoke of the need for action-oriented measures to meet investor expectations. He said it was critical for the Philippines to immediately show a course of action that would be perceptible and commonly understood as it capitalized on various windows of opportunity. He noted that a lot of programs had already been identified and it was now high time to put them into action. He stressed that the current situation called for the expediting of the implementation and monitoring of key projects particularly in infrastructure.

38. Following Secretary Santos' remarks, Mr. Bhagat apprised the group on the results of previous meetings of the Working Group on Growth and Investment Climate. The Working Group discussed the need to stimulate private sector investment. In the process, they agreed that the infrastructure and the financial sectors, were critical sectors with cross-cutting implications on improving the investment climate. They also agreed that improved governance was necessary for the success of macroeconomic measures and this would require: i) maintaining policy consistency; ii) strengthening of the legal system; and iii) streamlining the bureaucracy. Mr. Bhagat also mentioned the importance of developing human capital through education and technical training; improving the performance of sectors that are earners of foreign exchange; and managing natural resources. To improve the investment climate, the Working Group recommended: i) supporting reform champions and islands of excellence; and developing a communications strategy to manage the negative perception that affects credit ratings.
39. On infrastructure, Mr. Art Aguilar of the National Development Corporation (NDC) and Mr. Noel Quintanar of the Philippine Infrastructure Corporation (PIC) presented the Government's plans to boost the sector. Mr. Aguilar explained that the NDC has been mandated by the President to spot infrastructure bottlenecks and jumpstart infrastructure projects by providing seed funds for projects which were investment-grade and with a clearly identified source of financing to facilitate larger private sector involvement and participation. The PIC on the other hand, was a specialized corporation fully owned by NDC that would help develop commercial and bankable projects. Mr. Quintanar mentioned that the PIC would prioritize: i) toll roads projects; ii) the construction and improvement of airports; iii) developing a cold storage network; and iv) setting-up a power aggregator corporation.
40. Representatives from the business sector also gave their observations and recommendations. Mr. Stuart Hall, of the Canadian Chamber of Commerce, speaking on behalf of the Joint Chambers of Commerce, mentioned that the Chambers generally perceived the business environment as characterized by low foreign direct investments, while the Government and society in general was perceived to be plagued with corruption, policy inconsistencies, and issues on peace and order. Also from the business sector, Mr. Peter Wallace of the Wallace Business Forum, gave the following recommendations: i) for international development partners to be flexible given that there

would be difficulty in getting foreign firms to invest in build-operate-transfer (BOT) without government guarantee; ii) for Government to address the unavailability of counterpart funds that impede the completion of projects; and iii) for Government to shorten its bureaucratic processes to facilitate business.

41. Some of the issues raised at the session related to the need for: i) new approaches to accelerate the BOT processes; ii) transparency in the BOT process; and iii) increase in investments in agriculture. Some of the international development partners urged the Government to: i) immediately implement reforms in the infrastructure sector to jumpstart bankable projects and guarantee results; ii) address infrastructure issues suggesting that it was imperative for government to fulfill its contractual obligations and other commitments; iii) improve the image of the Philippines to attract more investments; iv) address human resource issues and improve labor conditions; v) take a proactive stance in tapping soft lending lines; vi) bring down its contingent liabilities; and called for prudence in the area of securitization. In response, the Government cited its current initiatives pertaining to the above issues. On the BOT process, Government upheld its commitment to be transparent and adopt clearly defined criteria for project selection and solicited bidding to ensure greater Government participation.
42. On the topic of capital market development, issues raised by the Working Group included the need to: i) develop the non-banking financial sector and ii) address the short-term nature of resources available to the banking sector versus the more long-term needs of the sector. The Working Group proposed to address these issues through: i) improved corporate governance and transparency; ii) widening the investor base to include more institutional investors; and iii) promotion of a sound market structure. On these issues, Secretary Neri agreed that there was a need to establish a well-functioning capital market but argued that there was a dearth in investible instruments in the market; he broached the prospects of SME stock exchange and suggested discussions between IFC and the Small Business Guarantee Corporation on the possibility of supporting such to jumpstart the market.
43. Secretary Santos then responded to some of the comments of the Joint Foreign Chambers of Commerce and other issues raised by the Development Partners. He informed the group that the Board of Investments (BOI) and Philippines Export Zone Authority (PEZA) reported Php 211 B worth of applied for and approved investments to emphasize improving investor confidence in the market. On a related matter, he agreed that an increase in number of projects should be matched with Government commitment to finish projects on time. On judicial reform, he encouraged the private sector to make a proactive effort to brief members of the judiciary on business concerns. On labor, he noted that the Government was currently addressing the issues on jurisdiction over labor disputes and on regularization of employees.

Economic and Fiscal Reforms

44. Secretary Cesar Purisima co-chaired the session with Secretary Vincent Perez of the Department of Energy (DOE). Secretary Purisima invited the participants to share their

views on how to address the challenge of mobilizing upfront public sector revenues to reduce debt and provide funding for urgent development priorities. Other government representatives also gave their inputs on the subject. Congressman Jesli Lapus called for action-oriented recommendations particularly in the area of management and administration of reforms. Undersecretary Laura Pascua of DBM, put emphasis on the need to reduce the deficit and provide for additional spending space while addressing the need to improve public spending, cut on red-tape, and allow for more capital spending. Assistant Director General Rolando Tungpalan of NEDA further stressed the need to link fiscal asset reforms with the MTPDP.

45. Secretary Perez presented the current initiatives in the energy sector supportive of fiscal reform. Among these were: i) the proposed increase in power tariff rates; ii) cost-cutting and operational efficiency measures within the NAPOCOR; iii) privatization efforts; iv) improved performance of GOCCs; and v) the support for VAT on petroleum and power. Secretary Perez also reported on the proposals of the Working Group which were to: i) pursue strong upfront sustained deficit reduction; ii) complement fiscal reforms with structural reforms such as power sector reforms, financial sector reforms, and containing contingent liabilities.
46. Specific issues discussed included: i) the lack of investments to drive productivity and increase revenues; ii) the possibility of debt relief through debt swaps or condonation; iii) consistency of the fiscal reform program with the MTPDP and trade-offs between raising resources and managing expenditures; and iv) the urgency to implement reform measures. It was noted by some participants that it was necessary to pursue strong upfront fiscal adjustments, which have very definite dividends in terms of benefits for interest rates. The group then recommended measures that could be adopted by Government that would send clear signals to the market of progress in terms of fiscal and economic reforms. Some of the proposals were: i) moving ahead on the second tranche of the power sector reform; ii) capitalize on the positive perceptions and sentiment on recent privatization transactions; iii) improve tax administration; iv) implement a single VAT rate; v) encourage greater LGU involvement; vi) increase program loans; vii) increase contribution rates in pension institutions; viii) simplify tax payment procedures; ix) take inventory of contingent liabilities; and x) hold regular, preferably quarterly, discussions of the Working Group as a follow-through on the progress of fiscal reforms.
47. Secretary Purisima reacted to some of the issues and enumerated some key Government initiatives which responded to those issues such as: i) improvement of payment of income taxes by non-salaried taxpayers, estate taxes, and property taxes; ii) joint tax mapping by the BOC and the BIR; and iv) aggressive privatization. The Secretary also emphasized that the Government did not consider debt relief as an option and that the Government intended to pursue aggressive fiscal reforms to reduce debt.

Governance and Anti-Corruption

48. Secretary Merceditas Gutierrez, Chief Presidential Legal Counsel and Anti-Corruption Czar, reported the highlights of the Arroyo Administration's fight against corruption: i)

the President's declaration of war on corruption; ii) the signing of the instrument for ratification of the United Nation's Convention Against Corruption; and iii) the inclusion of measures of good governance and anti-corruption in the MTPDP. In this light, the Secretary called for collaboration among all stakeholders to create an action plan for good governance.

49. Other participants shared their views on the topic. Congressman Prospero Nograles, Majority Floor Leader of the House of Representatives, for his part, stressed the need for greater advocacy to pursue good governance and get rid of graft and corruption to change the public's perception of the Government's resolve to do so. He then cited specific legislative measures that have been initiated by Congress on governance: i) inquiries on acts of malfeasance among government officials; ii) measures that enhance the capability of the Ombudsman; iii) measures that allow private lawyers to volunteer and prosecute graft offenders; iv) moves to strengthen the Judiciary; v) acts that promote freedom of information and ensure accountability; v) the Lateral Attrition Law and the Performance Law; and vii) revenue reforms. Mr. Guillermo Luz of the Makati Business Club shared the business sector's perspective on the topic noting that governance and corruption had become a key consideration in investment decisions of both foreign and local investors. The business sector would recommend: i) investments in the Sandigang Bayan; ii) fast-tracking electoral reforms; and outsourcing of non-core businesses being carried out by Government.
50. Mr. Ayumi Konishi of ADB reported on the conclusions from the meetings of the Working Group on Governance. The group drew out the following conclusions: i) there is a need for Government and development partners to come up with an action plan to inform civil society of developments in the sector; ii) there are no clear benchmarks on performance or progress; and iii) there is a need for more active participation of civil society in coming up with a common understanding of action plans or benchmarks.
51. The group settled on prioritizing an action agenda which would include: i) projects which are already funded or ongoing or within the national budget; ii) projects which suggest greater collaboration among partners; iii) areas which are strategic to benchmark, monitor, and assess; and iv) areas which have been identified by Government where international development partners and civil society could participate. Based on the criteria, the group identified the following priority actions: i) investigation and prosecution of tax and graft cases which can be monitored by the number of cases investigated and filed, amounts forfeited and recovered, and reduction in case processing time, and increase in the number of civil society reports on graft and corruption; ii) speedy disposition of cases in regular courts indicated by the number of cases resolved, reduction in case processing time, and increased public perception of judicial efficiency; iii) implementation of procurement reforms which would be indicated by increased transparency in bidding and awards process, cost of procurement at the time awarded and upon completion, and quality of goods delivered, among others.

Decentralization and Local Government

52. Secretary Angelo Reyes of the Department of Interior and Local Government (DILG) laid out the expectation for the group to identify time-bound actionable recommendations to policy-makers that could be done in collaboration with other partners. The Secretary reported on the results of the Working Group discussion, focusing his report on the gains of decentralization, particularly: i) the transformation of LGUs from dependency to self-reliance; ii) the transformation from routines to innovations specifically in terms of service delivery; iii) shift from individualism to building alliance as LGUs became more open to seeking more partnerships with each other and with the private sector; and iv) reinventing governance characterized by creative methods to encourage participation from the poor and marginalized sectors and the private sector. Secretary Reyes noted that to a large measure, the promise of decentralization had been delivered if not yet completed; and improvements are still needed in: i) local governance; ii) local finance; and iii) the legal framework.
53. Mr. Chris Hoban of the World Bank, elaborated further on the recommendations on the Working Group. He noted that LGU access to financing was limited and therefore emphasized that assistance to LGUs should be made more effective through: i) harmonizing national government capacity building efforts for LGUs; ii) ensuring independent and robust performance measures that would monitor the progress of LGUs in achieving specific results; and iii) promoting policy reforms through debate, analysis and presentation of information to assist policy makers in decision-making.
54. Discussions during the session focused on the gaps identified and recommendations made by the Working Group. Among the items that were emphasized by some of the participants were: i) the need to review the local government code and its specific provisions on resource allocation; ii) issues on grant financing and resource mobilization for LGUs; and the iii) unclear delineation of local and national government roles in service delivery. The group then resolved to adopt and continue to work on the following recommendations: i) harmonize capacity building of LGUs; ii) promote performance monitoring at all levels of government; iii) clarify delineation of roles of the national government agencies and LGUs in devolved functions; iv) initiate moves within the Commission on Audit and the Bangko Sentral ng Pilipinas towards further accreditation of private bank as depository banks for LGUs; v) harmonize ODA; vi) adopt a consistent financing framework for LGUs and consider well-targeted and performance-based grants for LGUs; vii) explore land-based revenue resources and match the devolution of responsibilities with the devolution of national government human and monetary resources; and viii) review the Local Government Code and pursue omnibus amendment particularly on provisions regarding the Internal Revenue Allocation (IRA).

IV. The international development partners commend the Government for its commitment to implement a comprehensive package of reforms, and renew their strong support for the country's development agenda.

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

Social Progress

55. On behalf of the break-out group of Social Progress, Mr. Mario Taguiwalo, Adviser to the DepEd, presented the group's recommendations to establish a financing framework for social services and the attainment of MDGs that: i) would provide more resources; ii) has the support of all stakeholders; and iii) would maintain a resource base for social services based on a 20-20 budget plan. To support this framework, the group identified the following action points: i) expand geographic convergence in the delivery of social services beyond the pilot provinces of Isabela, Bohol, and Saranggani; ii) improve use of Philhealth benefit spending to increase availability and access to health care; iii) develop better models for delivery of maternal and child health and infectious disease control services; iv) widen access to child assets, micro-credit, knowledge and services among the poor; v) address the continued depletion of human resources for health; vi) accelerate support to mobilize women for social service reforms; vii) scale up response to HIV/AIDS; viii) move on regulatory reforms in health and education; ix) adopt an effective population program and pass a reproduction health law; and x) identify and adopt possible "quick wins" contained in the Millennium Project Report. Furthermore, the group resolved to build the foundations of success to achieve social progress: i) poverty mapping down to the household level; ii) advocacy for commitment to MDGs; iii) annual targets and the conduct of regular reviews; iv) convergence among all stakeholders anchored on MDGs; and v) an informed leadership skilled to attain MDGs.

Growth and Investment

56. The summary of discussions of the Group was presented by Mr. Gerard Baldivia of the International Finance Corporation. He reported that the group noted the key constraints to growth as: i) perception of corruption, ii) government inconsistency with regard to policy and delivery on contracts; iii) peace and order, and security issues; and iv) the need to streamline the bureaucracy. The Group also recognized that infrastructure and the financial sector were key sectors that needed immediate intervention through these specific actions: i) international financial institutions to make use of more guarantee instruments in order to provide more meaningful support to government; ii) establish stronger links between government and the private sector; iii) for DTI to fast-track the implementation of major projects; iv) develop the Subic to Batangas growth corridor; v) continue reforming the judiciary; vi) for BSP to operationalize fixed income exchange by the end of the year; and 7) for BSP to encourage the formation of a viable credit bureau; and 8) to continue efforts to improve the investment climate particularly in agriculture; and to monitor progress on the above commitments on a semi-annual basis.

Economic and Fiscal Reforms

57. Secretary Vincent Perez emphasized the agreement of the Working Group on Economic and Fiscal Reforms that front-loading fiscal reform would be the primary consideration and the overall medium term strategy. Specific recommendations of the group were for Government to : i) support the passage of a simple VAT Law; ii) to aggressively increase revenues and reduce debt, and to continue to focus on structural reforms; iii) pursue

pension fund reform; iv) review the internal revenue allocation for LGUs; v) work towards a compact that would allow for a fiscal responsibility program based on Government's performance on its fiscal reform commitments; and vi) continue the dialogue with development partners and other stakeholders more frequently than once a year, preferably on a quarterly basis.

Governance and Anti-Corruption

58. Secretary Merceditas Gutierrez, Chief Presidential Legal Adviser and Anti-Corruption Czar, presented the prioritized activities that would be pursued by the Group on Governance and Anti-Corruption. The priority areas were chosen on the assumption that: i) those already working in the area of governance and anti-corruption will continue to do their work in their selected areas with greater involvement of civil society; and ii) that the support of concerned development partners will be closely coordinated and harmonized. The priority areas were strategically chosen for purposes of monitoring and evaluation, and will be monitored annually against benchmarks, while progress will be communicated to stakeholders. Priority activities include: i) investigation and prosecution of tax and graft cases; ii) speedy disposition of tax and graft case in regular courts; and iii) implementation of procurement reforms. The Secretary also reported that the Working Group recognized that much more would need to be done to flesh out indicators, develop and select monitoring mechanisms, and implement a communication and replication strategy, hence the group agreed to conduct a series of follow-up meetings for this purpose.

Decentralization and Local Government

59. DOF Sr. Adviser, Mrs. Juanita Amatong, presented the Group on Decentralization and Local Government's recommendations focused on key issues of: i) local governance; ii) local finance; and iii) the local government code. Based on these topics, the group identified the following actionable recommendations: i) for DILG to take the lead in harmonizing capacity-building programs for LGUs of all national government agencies; ii) for Government to institutionalize performance benchmarking systems and review two monitoring systems specifically, the Local Government Performance Monitoring System (LGPMS) of the DILG and the Local Government Financial Monitoring System (LGFMS) of the DOF; iii) for Government to clarify the roles of LGUs and National Government in the delivery of services; iv) for DOF to request the Commission on Audit and Bangko Sentral ng Pilipinas to liberalize the policy of accrediting private sector banks as depository banks of LGUs; v) for Government to harmonize on-lending terms of Government of ODA-sourced funds; vi) for the group to consider well-targeted and performance-based grants for LGUs; vi) for Government to adopt a consistent policy framework for government credit and grant programs; vii) for Government to explore hidden revenue bases, and conduct a review of the 1991 Local Government Code and the IRA for LGUs to make these more equitable and incentive-oriented. Secretary Amatong also mentioned that the group agreed to meet after six weeks to develop a work program and a timetable of activities.

Comments on the Various Group Reports and Recommendations

60. After the various presentations, the Chair invited the PDF participants to share their views on the various proposals mentioned.

- Spain thanked the DOF and World Bank for organizing the PDF and commended the new format that proved to be very successful and conducive to interaction. It reiterated its commitment to supporting the reform programs of the Philippines. It also recommended the greater interaction among all national agencies and international development partners through NEDA's lead. On another matter, they requested the Government to clean the air in Metro Manila and address other pollution issues.
- DOE responded to Spain's comment regarding cleaning the air in Metro Manila by mentioning the involvement of some international development partners in the Clean Cities Program and the recent ground breaking of a station for compressed natural gas buses in Manila. He also mentioned the Government's plan to undertake initiatives to promote cleaner fuel and cleaner vehicles.
- The European Commission urged the Philippines to assume ownership of development activities and deliver on its commitments. It expressed its commitment to support the health sector reform agenda for which they would be prepared to contribute a minimum of Euro 33 M in the form of grant; and initiate work to include education in their program of assistance. It further committed to supporting development in Mindanao and the peace process.
- DepEd thanked the international development partners for their support to basic education and requested for further cooperation in: i) rationalizing the budget for education; ii) developing the sector-wide approach in education; and iii) creating a functional channel for dialogue and discussion on the Government's "Schools First" Initiative. The need for harmonization among Partners' programs as well with Government's priorities was emphasized, so that the Government's priorities become the Partner's priorities as well.
- Canada emphasized the need to monitor progress in various reform programs against clear short-term and achievable goals and suggested regular meetings among Government and the International Development Partners.
- Japan noted the Philippines' strong indication to aim for upfront fiscal consolidation, however, it stressed the need to deliver on actual results. Japan committed to actively support the Philippines attain their MDGs.
- Germany stressed the need to have a comprehensive policy on population. It also mentioned its readiness to support and fund development in Mindanao.

- IFAD emphasized the need to improve the quality of life of the rural poor and stated that it will focus its assistance on these areas: i) development of SMEs in rural areas; ii) agricultural development specially for upland farmers; iii) development of coastal communities; and iv) capacity-building of communities; and v) gender equality and environmental sustainability.
- USAID stressed the need for special emphasis on Mindanao. It also stressed the importance of performance-based assistance, such as that being negotiated between the Philippines and the Millennium challenge Corporation, which would hopefully allow the Philippines to apply for increasing higher levels of funding assistance based on progress in policy and other reforms.
- ADB mentioned its commitment to support the Philippines in the following areas: i) development of the power sector; ii) capacity building of local governments; and iii) improving the financial sector among others.
- Australia said it would continue to support the Philippines in: i) improving basic education; ii) technical and vocational education; iii) health; iv) governance and anti-corruption; v) improving the investment climate; vi) public financial management and fiscal reform; and vii) strengthening LGU service delivery. It would also put geographical focus on Mindanao and the southern Philippines, and would increase its contributions of Aus \$17M to the UNDP-Multi-donor Program.
- Secretary Soliman noted the commitments of the various break-out groups to reconvene and discuss in further detail the various proposals presented. She said that it was important that these proposals were translated into action and called upon the groups to follow-through on their plans. She then proposed that Government work on the institutionalization of all working groups.
- The World Bank called on the working groups to put into practice their commitments and to put into motion the process of continuing discussion. The co-Chair noted that their needs to be more discussion on operational dimension of the various issues and emphasized the need for harmonization of support among international development partners.

61. In general, the international development partners considered the 2005 Philippines Development Forum a success and congratulated the Government and the World Bank for organizing a substantive and highly interactive forum.

V. The Government reiterates strong commitment to pursue reforms to sustain growth and rapid poverty reduction to bring the country to the edge of prosperity for all Filipinos.

Closing Session

62. The Forum was honored by the participation of Her Excellency Gloria Macapagal-

Arroyo during the closing session of the Philippines Development Forum. Secretary Purisima welcomed the President and reported to Her Excellency that the PDF had been very interactive and that the Cabinet members had been able to present and gather support for the programs of the Macapagal-Arroyo Administration not only from the international development partners but also from the private sector and civil society who were able to join the consultative group meeting for the first time. He then gave the floor to his co-chair Mr. von Amsberg to give a joint report on the highlights and agreements reached at the PDF.

63. Mr. von Amsberg, on behalf of the international development partners, expressed sincerest gratitude to the Government for organizing the PDF and to Davao City for its hospitality in hosting the event. He then proceeded to mention the highlights of the Forum, noting the dominant theme of the narrowing window of opportunity that the Philippines could seize to address long-standing issues to remove the country out of vulnerability into the virtuous circle that reduces fiscal deficit, lowers poverty, increases employment and growth, and allows for increased social and investment spending. This narrowing window presented political and economic opportunities in cross-cutting and interlinked themes of the country's agenda—social progress, economic and fiscal reform, decentralization and local government, governance and anti-corruption, and growth and investment climate. Mr. von Amsberg then recapitulated the results of the break-out sessions. Finally, he expressed the desire of the international development partners to support the country and help implement the Government's plans while working together to advance the Philippines' development.
64. Her Excellency Gloria Macapagal-Arroyo addressed the international development partners, all the other participants for their determination to prioritize and harmonize ODA and the country's development agenda. The President emphasized that the Government was committed in its resolve to settle the country's fiscal problems within the year. The President highlighted the priorities of her Administration to: i) establish peace and order; ii) enhance local government; iii) adopt strong austerity measures; iv) revitalize revenue administration and privatization programs; v) pursue a pro-poor agenda; vi) implement tax reforms to reduce deficit; enhance education and knowledge-building; campaign against intellectual property piracy; vii) consolidate trade with the East Asian region; and viii) nurture international and regional partnerships.
65. In closing, the President assured the international development partners that the Government, in partnership with the private sector and other stakeholders, would continue to address the complex challenges facing the country, and requested everyone's support in resolving those challenges.
66. A press briefing held by Secretary Purisima and Mr. von Amsberg followed the closing of the Forum.