

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **MARGARITO B. TEVES**,
Governor of the Bank for the **PHILIPPINES**,
at the Joint Annual Discussion

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Chairman Karim Djoudi, distinguished officials and guests, ladies and gentlemen.

First, please allow me to welcome the new President of the World Bank, Mr. Robert Zoellick and assure him of our confidence in his leadership and support for his stewardship of the Bank.

Fellow Governors, at a time when its constituents are seeking to reexamine the Bank's role and relevance, the Philippines welcomes the Bank's strategic framework to seize opportunities from globalization and achieve inclusive and sustainable globalization. We highlight the thrust to develop an appropriate business model for middle income countries (MICs) that would be more responsive to its diverse development challenges. In particular, we support the approach which envisions to provide financial support and customized services to MICs designed to cater to specific country needs and conditions. Learning from the past, there is no "one size fits all" formula in the Bank's engagement with its developing member countries.

Likewise, we very much welcome the Bank's recognition that there is a need for the World Bank Group to play a more active role in fostering regional and global public goods. The Bank must again refocus its resources and efforts on its core development roles. Accordingly, the Bank should continuously adapt and innovate in order for it to more effectively respond to new global as well as country specific challenges. The inventory of knowledge it has accumulated from its development work, if shared and harnessed effectively, can be a tremendous tool in enabling its developing members successfully overcome its challenges.

Mr. Chairman, the Bank has made the global challenge of reducing poverty, its challenge as well. We look forward for the Bank to face this challenge by increasing its relevance to the middle income countries. We note the continued strong growth of the global economy, driven to a large extent by the dynamism of emerging economies. Still 70 percent of the poor still live in India, China and

middle-income countries (MICs). The Bank, with its limited resources, would have to adopt new paradigms on how it can, effectively and efficiently serve as a catalyst in generating and mobilizing resources to address the development demands arising from the high poverty incidence in many middle income countries.

The move of the Bank to cut its lending cost to pre-1999 levels and adopt a simplified process is a positive signal on the Bank's engagement in the middle income countries. These are significant steps in the right direction. However, we still need to see how the Bank's articulated strategy, including streamlined procedures, are going to be implemented with indicative timeline, for more effective and timely response to the countries' demands.

We also await the specific innovative financial products and services of the Bank that will help enhance the capacity of middle income countries mobilize financial resources .

During the Annual Meeting in Singapore last year, we talked about promoting greater use of country systems given its importance in reducing the non-financial costs of doing business with the Bank and in strengthening the countries' institutional capacities. We acknowledge the efforts of the Bank in meeting this expectation with increased lending activities on national program support operations.

We welcome the Bank's active collaboration and harmonization with member countries and other development partners for aid effectiveness. However, we strongly advocate a more proactive harmonization process converging towards adoption of country systems so that recipient countries are not unduly burdened with varying conditions and practices imposed by development partners in availing of funding assistance.

We take this opportunity to echo our full support for stronger partnership and collaboration among the agencies of the World Bank Group. The strong economic growth of middle income countries during the past decade has brought with it greater demands to upgrade competitiveness and productivity. Growing requirements for infrastructure development and social service delivery call for better complementation among development agencies of the Bank in providing technical expertise, advisory services and financing. For the Philippines, more effective partnership between the IBRD and IFC in their engagement with the

country would optimize the benefits of their assistance. We appreciate IFC's engagement in the promotion of private sector participation in the country. However, we strongly believe that given increased allocation of resources to the country, IFC can do more beyond its advisory services, in the underserved areas and sectors, such as local power, water, health and education. A higher resource allocation to the country, complemented by a better balance between big volume and smaller but high impact transactions will be more effective in enabling the Philippines face its challenge in providing more and better infrastructure and social services. We believe the IFC remains well equipped to meet the increasing requirements of the private sector and local government in contributing to infrastructure development and provision of social services.

A key factor in sustaining economic growth is a well developed financial system. The World Bank Group is well positioned to share its expertise in developing the financial sector of the country, particularly in deepening the domestic capital market and the insurance industry. We would welcome the World Bank to be forthcoming in this effort.

In closing Mr. Chairman and Governors, allow me to update you on the recent performance of the Philippine economy which have been encouraging.

Our macroeconomic environment has been improving. This is providing a strong platform for the economy to move to a higher growth path in the near term. In the first half of the year, GDP accelerated by an average of 7.4%, the highest in 20 years and outperforming the high-end of our projections. Inflation has been benign at 2.6% and interest rates remain at relatively low levels. The national currency continues to strengthen as a result of sustained capital inflows and foreign remittances. We are on track with our fiscal consolidation program and the fiscal deficit is projected to go down to 0.9% of GDP this year from 1.1% of GDP in 2006. While most macroeconomic indicators register healthy levels, our main challenge is to improve tax effort to which Government is committed to vigorously pursue through tax administration reforms.

As the Philippines implements key reforms to enhance productivity and competitiveness, boost the investment climate, sustain macroeconomic stability and ensure increasing growth over the medium term, we look forward to the World Bank Group's active engagement in pursuing its mission of poverty reduction and sustained growth for the developing countries.

Thank you.