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Statement by the Hon. **JUANITA D. AMATONG**,
Secretary of Finance of the Bank for the **PHILIPPINES**,
at the Joint Annual Discussion

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Enhancing the role and relevance of multilateral institutions remains one of the most important items in the current development agenda.

On the one side, the Bank and the Fund are both challenged to assist countries attain the objectives of the Monterrey Consensus. They must put their resources in activities that enable countries to meet the MDGs by 2015. Disturbing assessment is that many countries, at existing growth rates, will be unable to meet the MDGs. Multilateral institutions will need to scale up to move closer to the goals.

On the other hand, the sustainability of their operations has been put to question as both institutions have suffered from big declines in lending operations. Idle resources piled up even as sovereign middle-income country borrowers opt for private international banks and bond markets to satisfy their huge appetite for funding. Both the Bank and the Fund will need to reverse deteriorating income outlook to keep their topnotch credit ratings and sustain their roles as MDG movers.

In both of these issues, there is now increasing recognition that the middle-income countries hold the key in their resolution.

The middle-income countries are home to 2.7 billion people, almost a half (44%) of the world's population. Of these, over a third subsist below the poverty line.

The middle-income countries have the greatest need for resources and assistance. However, they have been borrowing less from multilateral institutions and have to access increasingly the international markets for funds. In 2001 and 2002, they issued, on a net basis, US$ 25.9 billion in international bonds while they, excluding two large Latin American countries that obtained emergency funding, were shut out of Bank and Fund financing, recording only US$ 8.5 billion in net borrowings from these two institutions during those two years. Why this development has escaped the notice of these two institutions, the knowledge banks, the repositories of economic information so vital to policy decision making, is somewhat perplexing.

However, winds are shifting directions after a period of denial. The Bank's study on middle-income countries early this year included some interesting findings. The main conclusions---The cost of borrowing from the Bank has increased tremendously. The Bank's financial products are inappropriate for middle-income countries' evolving needs. To stay relevant to their middle-income country clientele, the Bank must strengthen developing country voice in the formulation of country assistance strategies.

The Bank and the Fund should engage in a new type of partnership with middle-income countries----one that is more efficient, flexible and one that is more responsive to middle-income countries' needs. Reforms to use country systems are in the right direction. However, we are eager to see increased progress in decentralization, harmonization and streamlining of conditionalities and procedures.

In addition, we call for greater flexibility. Since a large number of middle-income countries are in dire fiscal straits, products should be tailored to avoid further fiscal deterioration. The Bank's SWAPs should be adopted in more countries and used more often. So is the blending of traditional grants and regular loans.

Likewise, infrastructure deserves a second look as many private sector participants have shunned from infrastructure provision and governments wean away from costly enhancements earlier provided. The infrastructure requirements of developing countries are huge at 7% of GDP but only a half of this has materialized. As of today, private infrastructure investment has dwindled to less than a third of its peak levels in the 1990s.

The Fund should pursue ways to redefine the public finance conditionality to avoid depriving developing countries of productive investments for future growth. We urge the Fund to remove expenditures on productive infrastructure from the definition of "fiscal deficit", use "primary surplus" as criterion and/or exclude the operations of commercially-run public enterprises from the coverage of fiscal conditionality.

Likewise, while the Fund and the Bank play an important role as knowledge disseminators, they have not played a more active role in assisting developing countries in coming up with policies steadfastly dedicated to growth and in ways that biases income gains towards the poor. The only way this can be done is for developing countries to be given more voice in the policymaking of these institutions. This will give true meaning to ownership in Bank and Fund operations.

We are living in tough, uncertain, volatile times. Exchange rates, interest rates, oil prices move frequently in directions that are difficult to predict. In a borderless world, imbalances could occur and recur, intensify and spill over into neighboring countries with all its dire effects on growth and poverty. In such times, the roles of the Bank and the IMF become even more profound. We look up to the Bank and the Fund to provide the financial cushion and the policy advice in critical times on a timely, substantive and efficient manner.

The fates of the multilaterals and middle-income countries are inextricably intertwined. Multilaterals help middle-income countries attain the MDGs by expanding and improving their lending and analytical services. The middle-income countries provide the clientele that enables the multilaterals to enhance their resource positions and the Bank, in particular--- can then allocate more funds at lower costs for the programs of low-income countries. It is this relationship that must be nurtured and sustained. It is this relationship that can bring meaning to development partnership.