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WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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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 Andre-Philippe Futa, World Bank President Paul Wolfowitz, IMF Managing Director Rodrigo Rato, honorable members of the Board of Governors, distinguished officials of the delegations of this Annual Meeting, ladies and gentlemen.

First, I would like to welcome the new President of the World Bank, Mr. Paul Wolfowitz and assure him of the Philippines' support. Let me also express my appreciation for Mr. James Wolfensohn under whose leadership the Bank radically changed the way it conducted business – emphasizing social sectors, the knowledge bank, and decentralization.

Our meeting comes on the heels of a series of high-level meetings in this "Year of Development", most recently the United Nations 2005 World Summit in New York. These meetings have significantly built and deepened consensus on the development agenda at a time when the global economy is threatened by major risks – persistent global imbalances, high and volatile oil prices, and a possible tightening of financial market conditions. Mitigating these risks would require urgent policy coordination among systemically important countries.

The Philippines reiterates its support for the achievement of the Millennium Development Goals (MDGs). We welcome the G-8 Debt Relief Proposal as a major concrete step towards this, particularly for those eligible highly indebted poor countries (HIPCs) in Africa. We look forward to its early implementation, giving due consideration to issues of additionality, fair burden sharing, and the financial sustainability of the IDA. We also welcome the Africa Action Plan developed by the Bank.

While understanding the attention given to the world's poorest countries, we would like the Bank to address more vigorously the needs of Middle Income Countries (MICs). MICs too need assistance to achieve the MDGs. As the 2004 Annual Review of Development Effectiveness (ARDE) observes, "Most MICs, even though they have pockets of poverty and large numbers of near poor, have development goals that do not center on poverty reduction." The ARDE then goes to say that "the Bank should further articulate its mission of poverty reduction and progress on the MDGs in ways that align with these visions." Clearly, the Bank must deepen its engagement with MICs.

One way to do this is to offer innovative and flexible financial products. The lending products it presently offers are not flexible enough for the needs of MICs. The Bank has no refinancing windows where MICs can qualify for more liberal re-financing terms and conditions premised on its commitment to reforms. This is particularly important for MICs with high debt service such as the Philippines. A proposed refinancing window would enable a MIC to refinance expensive debts with lower cost Bank funds. The interest savings from the refinancing would then be channeled to MDG projects. To address the risk of moral hazard and policy reversal, the Bank could incorporate a penalty rate that the MIC would have to pay, should the reforms not materialize.

We can also come up with creative ways to provide infrastructure for MICs. The MDGs cannot be achieved without growth. However, for countries to grow, they need to increase infrastructure spending. Many MICs have "fiscal space" problems that prevent them from providing the necessary public investment in pursuit of the MDGs. Under this situation, expanding public investment in infrastructure, even if economically justified, will increase fiscal stresses in MICs. Private investment is also not picking up the slack. The Bank, together with MIGA and IFC, should work together more closely to address this issue. In addition, the Bank can scale up its local currency financing for infrastructure projects.

Finally, the Bank must listen more closely to MICs. The needs of MICs are more diverse and require a more tailored approach to development assistance. We need to pay more attention to implementation issues, including the removal of policy and operational aspects that impede decentralization. The Bank needs to be ready to discuss the full range of policy options and the trade-offs involved, with due consideration to a realistic assessment of the political economy and the implementation capacity for reform.

The fates of the low-income countries and MICs are closely intertwined with the Bank. MICs provide valuable lessons to the Bank in its role as a knowledge bank. They also generate income for the Bank, allowing it to sustain its assistance to low income countries. Both share a common interest in economic growth with equity as a way to achieve the MDGs. Both will surely benefit from a successful conclusion of the Doha Round. Indeed, the gains that can be generated from the Doha Round could readily offset the 0.7% GNP target of developed countries as official development assistance to developing countries.

In closing, I would like to reiterate the Philippine commitment to reaching the MDGs by 2015. We are committed to pursuing responsible reforms that will provide us with the fiscal space to achieve this. By steadfastly implementing our reform program, we hope to engender a virtuous cycle of fiscal improvement, more MDG investments and growth.

Thank you.