



Socioeconomic Report

The first two years of the Aquino administration

2010-2012



Chapter 1. In Pursuit of Inclusive Growth

Faced with a mediocre growth performance, a population growth rate of more than two percent a year, and with its resiliency challenged by the double-dip global financial crisis, the Philippines through its new administration in June 2010 committed itself to achieving inclusive growth through transparent and responsive governance, massive infrastructure investment, increased competitiveness, improved access to financing, improved social services, a stable macroeconomic environment, ecological integrity, quality education, appropriate science and technology applications, and advanced peace process alongside improved national security. From the second half of 2010 to the end of 2011, the Philippines sought to meet these targets despite unexpected external shocks that threatened its economic growth. However, by the first semester of 2012, indicators significantly improved, thus bringing the country's development path closer to the targets set by the Philippine Development Plan (PDP) 2011-2016.

Assesment

Macroeconomic performance is on-track

The Philippine economy recorded a growth of 6.7 percent in the second half of 2010, which slightly dampened full year growth to 7.6 percent. At the beginning of 2011, growth fell short of the target due to a series of external shocks and finally closed the year with at 3.9 percent. Recovery, however, was well on its way in the first half of 2012, with gross domestic product (GDP) expanding by 6.2 percent.

Growth in 2010 was fuelled primarily by the Economic Resiliency Plan (ERP), which pumpprimed the economy through upgrades in infrastructure and capital stock and expanding social safety nets. This was further complemented

by strong domestic demand, sustained growth in overseas Filipino remittances, and low inflation. External events weakened the economy in 2011, affecting trade, foreign direct investments, and other financial channels. Disruptions in the global supply chain due to the disaster in Japan in the first quarter and the flooding in Thailand in the third quarter had a negative impact on the industry and manufacturing sectors. Moreover, the social unrest in the Middle East and the African regions, due to its influence on the supply and price of oil in the international market, partly contributed to the economic slowdown. These events, alongside the Euro debt crisis and the sluggish recovery of the US economy from the financial crisis, resulted in a noticeable decline in investments. The delay in spending for public construction in 2011 further dampened growth. The first half of 2012 showed a more aggressive stance for the Philippine economy as real GDP expanded by 6.2 percent, driven by services and industry on the supply side and by household consumption, government consumption, and net exports on the demand side.

Headline inflation remained well within the government's target range of 3.0 to 5.0 percent for 2010 until the first half of 2012. With a benign inflation outlook, the Bangko Sentral ng Pilipinas (BSP) reduced its policy rates to support domestic economic activity and reinforce investor confidence. The lower domestic interest rates supported the upbeat lending activities of banks during the period under review. The sustained inflow of remittances from migrant Filipino workers, net portfolio investments, and foreign direct investments (FDI) contributed to further strengthen the peso. To some extent however, the peso lost external price competitiveness against competitor currencies and major trade partners (MTPs) due to its real appreciation against the US Dollar in recent periods.

Fiscal performance is generally commendable but still has ample room for improvement given the path of revenues and spending. Revenue collection performance was still below programmed targets for 2011, as well as for the first half of 2012. The underperformance comes mainly from tax collection shortfalls particularly for BIR and BOC. To be able to catch up with planned levels of revenues, the usual resolve of accelerating non-tax revenue collections still appeared to be the solution to reach targets. Actual primary expenditure or spending net of interest payments, mainly used for spending on different sectors of the economy had been on a gradual decline with respect to the size of the economy. As of 2011, primary spending as a share of GDP stood at 13.1, down from 13.6 percent in 2010. The ratio for the first half of 2012 is about 12.8 percent. While this may imply that the government is slowly closing the fiscal gap, the public spending figures are still far from the 16.2 ratio that the Plan wishes to achieve for 2016.

Rising competitiveness spurs more employment

Improvements in the ranking of the Philippines in global competitiveness reports were noted, however still falling short of the end-of-plan targets. The Philippines ranked 65th out of 144 countries, advancing 22 places from its lowest rank in 2009, according to the WEF Global Competitiveness Report 2012-2013. The country also performed better in the 2011-2012 IFC/WB Doing Business Report, ranking 136th out of 183 countries and moving 12 notches higher from 148th place in 2010. By the end of the Plan period, the country hopes to land at the top 30 percent or at least rank 61 globally in the IFC/WB rating.

Competitiveness has cascaded to the local government units (LGUs). The LGUs have reduced the number of procedures to process business permits and licenses to five steps or less. It now only takes five days for business renewals and not more than 10 days for new business permits to be processed under the streamlined Business Permits and Licensing System (BPLS). As of June 30, 2012, 421 or 87 percent of the 480 target LGUs have implemented the streamlined process and by 2016, it is expected that 100 percent of the identified LGUs would have already streamlined their permits and licensing procedures.

These developments translate to an average employment generation for the first two years of the current administration at 997,000 per year which is close to the PDP target of 1 million annually. All three broad sectors recorded gains, with services posting the strongest average growth, followed by industry and agriculture, fishery and forestry. However, key weaknesses remain in terms of high underemployment rate and the rise in part-time employment.

Infrastructure needs further bolstering to facilitate inclusiveness

Infrastructure contributed to the achievement of the following higher-level objectives toward inclusive growth due to the following: (a) improved tourism, agriculture and industry performance; (b) improved access to social goods and services; (c) improved environmental quality; and (d) increased resilience to climate change and natural disasters. Particularly, the development program of the transport subsector provided and enhanced access to major airports, seaports/roll-on roll-off (RORO) ports, markets, production areas, strategic tourist destinations, and economic centers throughout the country.

In particular, the government responded to the need for adequate, accessible, and quality infrastructure and services, as evidenced by the following accomplishments: (a) additional 428,445 and 211,908 households (HHs) electrified by Electric Cooperatives (ECs) and Private Investor-Owned Utilities (PIOUs), respectively, from 2010 to 2011; (b) increased in families with access to safe drinking water from 84.8 percent in 2010 to 85.5 percent in 2011 (c) increased cellular mobile telephone services (CMTS) and broadband coverage in cities/municipalities from 94.7 percent in 2010 to 99.2 percent in 2011 and from 46.6 percent in 2010 to 54.53 percent in 2011, respectively; (d) increased number of public health facilities from 267 Barangay Health Stations (BHS), 106 Rural Health Units (RHU), and 149 Government Hospitals (GH) in 2010 to 546 BHS, 973 RHU, and 301 GH in 2011; and (e) increased number of classrooms by 14,149 from 2010 to May 2012, which contributed to the improvement of the classroom to student ratio in the secondary level.

Great strides have been achieved in increasing access to financing

The MSME Development Plan 2011-2016 launched on July 7, 2011, identifies the cluster-based approach as the mechanism for delivering SME interventions such as shared service facilities, product development and market promotion, equity financing/credit assistance, and micro enterprise development.

To bring the services of the government and the private sector to the regions, the SME Caravan and the Rural Micro Enterprise Program was established. In 2011, 2,034 overseas Filipino workers (OFWs) were also provided training by the Overseas Workers Welfare Administration (OWWA) and the Philippine Trade Training Center to encourage them to become entrepreneurs.

Meanwhile, ASENSO (Access of Small Enterprises to Sound Lending Opportunities) formerly known as SULONG, has released financial assistance which translated into 3,649,428 jobs supported, starting from its inception in 2004 until June 2012. Similarly, the Rural Micro Enterprise Promotion Program (RuMEPP) also continues to provide financial (microfinance) as well as technical assistance to promote the development of microenterprises. In support of the MSMEs, DOST established the Small Enterprise Technology Upgrading Program (SETUP) to provide services/assistance such as training, technical assistance and consultancy; design of product packages and labels; product standards including testing and calibration; database management; and technology acquisition.

In addition, an array of reforms in the banking, corporate and capital market, insurance, and cooperatives sectors were instituted. In addition, during the 15th congress, the following laws were enacted and implementing rules issued in support to improving access to finance: Credit Information System Act (RA 9510), Real Estate Investment Trust Law (RA 9856), Personal Equity Retirement Account or PERA (RA 9505), Revised Agri-Agra Law (RA 10000), and Anti-Money Laundering Law Amendment (RA 10167).

Good governance and rule of law are drastically reshaping the landscape of public institutions

As the overarching strategy of the PDP, good governance deserves a special highlight. For the past two years, the Aquino Administration put in place critical reforms to operationalize the Plan's strategies and lay the foundation for effective and honest governance. The government's firm commitment to transformational leadership has gained support from different sectors of the society and effectively harnessed this to deepen citizen participation in governance. This has enabled the Aquino Administration to attain initial gains in improving the government's responsiveness to public needs, strengthening democratic institutions, rebuilding people's trust in government, and enhancing the poor's access to justice.

Under his watch, President Aquino was the first Chief Executive to handle corruption charges for government officials across all branches of government. Before 2010, corruption costs amounted to hundreds of billion pesos a year. With below target revenue collection and weak expenditure performance challenged mainly by cases of corruption, poor families not only received less assistance from the government, but also had to bear mediocre public services and infrastructure.

In its December 2011 report, the International Task Force on Financial Integrity and Economic Development observed that the Philippines was in the top 15 of countries with the highest illicit outflows from 2000 to 2009. About US\$113.7 billion of the US\$142 billion illicit money was due to the mispricing of imported and exported goods to evade taxes. Thus, while outflows linked to corruption from bribery and kickbacks remain big sources of illegal capital flight, trade-related tax evasion by unscrupulous firms and businessmen should also be penalized first and foremost. The report concludes that massive losses from such tax evasion cases can equate to the cost of human suffering and loss of life because of the opportunity costs incurred as exemplified by teachers that should have been hired, hospitals that should have been fully staffed, and the cost of the burden of additional taxes levied to those already paying their fair share.

Through the Run after Tax Evaders (RATE), 115 tax evasion cases have been filed by the BIR before the DOJ, with an estimated total tax liability of PHP40.2 billion, compared to the 127 cases filed in five years during the previous Administration (from 2005 to March 2010). The Run After The Smugglers (RATS) dragnet has also been effective. Eighty-six cases have been filed under this Administration against suspected smugglers, including officers and brokers of oil industry players. Estimated dutiable value amounts to around PHP52 billion, while duties and taxes amount to around PHP25.9 billion. Under this Administration, efforts of the Revenue Integrity Protection Service (RIPS) led to 42 cases being filed with the Office of the Ombudsman and two cases with the Civil Service Commission (CSC) against suspected corrupt collection officials and employees. This is already more than half the 74 cases filed in more than six years (May 2003 to December 2009) under the previous Administration.

The exceptionally high, unmatched public trust and approval ratings, as measured by regular Ulat ng Bayan surveys of Pulse Asia, over the last two years also showed that President Aquino is in the right track. Such unprecedented trust and approval results are required to carry out hard governance reforms.

For example, part of efficiency savings from anti-corruption measures and financing cutbacks for non-performing government programs had been plowed back into vital education, health and food support programs for the poorest families. The increased spending for 2011-2012 on classrooms and teachers alone was the biggest in more than ten years. Savings are also realized through public transparency and examination. DBM started posting all lump-sum disbursements like those for the Priority Development Assistance Fund (PDAF), the Calamity Fund, the DepEd School Building Fund/Educational Facilities Fund, and the Internal Revenue Allotment (IRA) on its website. Lump-sum funds have breached the PHP 150 billion level. The vital Multi-Year Obligational Authorities (MYOA) is now in place to prevent the annual budget authorization process from being part of the problem rather than the solution. The MYOA will encourage private participation in the construction, operation and maintenance of school buildings, health centers

and other basic government infrastructure most needed by poor families. With the MYOA, projects can continuously proceed without being politicized and very expensively paused by yearly budget quarrels.

The remaining operational savings from the fiscal restraint required to achieve investment-grade credit rating, or a rating higher than the present BB+ of Standard & Poor's by 2013 and beyond, stays high. The BB+ rating achieved this year was last achieved in 2002. The fiscal position is healthy enough that it is already possible to achieve a national debt level that is less than half of GDP within two years. This prospective performance was last achieved about three decades ago. A high credit rating signals to watchers that economic and governance uncertainties are well within very reasonable levels. It also lowers the costs of debt and investment financing, and thus lowers the costs of economic growth and governance services to the poor. Work has started on enacting the Fiscal Responsibility Bill to reduce the country's debt to sustainable levels. A government that spends irresponsibly is sure to create massive jobs losses and wasting of manufacturing and service strengths once the painful structural and fiscal adjustments to pay the bills kick in. The proposed Bill and improved tax collection efficiency will help reduce the budget deficit from 3.9 percent to 2.0 percent of GDP by 2013.

The CSC is assisting agencies in their compliance with the Anti-Red Tape Act (ARTA) of 2007 and conducting the ARTA Report Card Survey (RCS) to enhance the efficiency and transparency of frontline services. The CSC also gave more emphasis on providing a more honest reporting of the true state of Philippine public services. This is extremely important as hiding public service problems prevents timely resolution of unsatisfactory services to ordinary citizens.

A very strong country will also require exceptionally strong local government institutions. A total budget of PHP3.314 billion for 2011 and PHP3.823 billion for 2012 was devoted to the Local Government Capacity Building Program of the DILG. Over 1,700 LGUs are receiving technical assistance in public financial management, risk management, and mapping. The DILG-BLGPMS reports show that administrative, economic, environmental

and social governance in all classes of LGUs have been improving over the last two years. These improvements are vital as LGUs are the last line of defense in helping the most vulnerable families.

To address court decongestion, the Supreme Court in 2010 and 2011 continued the implementation of its Action Program on Judicial Reforms (APJR) on docket decongestion. The Supreme Court also actively promotes mediation of court cases as it significantly contributes to declogging of court dockets. Other centerpiece programs such as the Enhanced Justice on Wheels (EJOW) Program had been successful, in that in 2011 alone, it made 22 stops all over the country. Since EJOW's launch in 2008, the following were attained: release of 6,470 detainees; grant of free medical and dental attention to 13,385 inmates and of free legal aid to 3,680; successful mobile court-annexed mediation of 6,970 cases; and legal information dissemination on Barangay Protection Order (BPO) under Anti-Violence against Women and their Children Act (VAWC); Diversion under the Juvenile Justice Act; Anti-Trafficking in Persons Act of 2003; and the Rules of Procedure for Small Claims Cases to 18,472 Barangay officials. As a complement to the program, on 21 January 2011, the Supreme Court launched the EJOW Judgement Day which features same activities of EJOW without the mobile court bus.

In 2011, the rule of law sector fully implemented several programs which directly provide frontline services to its clients. In terms of infrastructure, the DOJ through the NBI finished the construction of their NBI Clearance Building and implemented the Bio Metrics Clearance Processing System, which provides speedy facilitation of the NBI clearance processing. The Supreme Court also finished the construction of the Model Courts in Angeles and Cebu, which shall serve as model for future courthouses in the Philippines. Bar reforms were also implemented in the 2011 bar exams which resulted to the early and speedy release of the 2011 Bar exam results on February 29, 2012, at least three months after the exams were held.

The Judiciary implemented innovations to declog court dockets and ensure that ordinary Filipinos are heard and given access to justice. The Supreme Court implemented the Rule of Procedure for

Small Claims Cases, another showcase program which ensure speedy disposal of cases, ultimately contributing to the declogging of court dockets. Under the Small Claims Court, ordinary Filipinos can litigate on their own money claims of PhP100,000 or less by providing them an inexpensive, informal, and simple procedure before the Metropolitan Trial Courts, Municipal Trial Courts in Cities, Municipal Trial Courts and Municipal Circuit Trial Courts, which dispenses the need for a legal counsel. Tourist Courts or night courts in Pasay and Makati City were also created under Administrative Order No. 19-2011, to expedite the resolution of cases involving tourists. Continuous operation of "special drugs courts" across the country was also ensured. The Supreme Court as the Implementing Partner to the Project "Support to Environmental Justice and Enhancing Access to the Pillars of Justice" continues to build on the strategic initiatives and gains in the previous years. With emphasis on increasing access to justice by the poor and the marginalized under the context of gender equality, human rights, and environmental protection. This is integrated through the conduct of extensive capacity building in promoting environmental justice to ensure that the project can contribute to the CPAP Governance Outcome of the poor especially the disadvantaged women and indigenous peoples, so that these marginalized groups may exercise their human rights, engage in governance processes, be empowered to have greater access to justice, and enjoy basic services through more transparent, accountable and rights-based democratic institutions.

For the DOJ, in 2010 and 2011, reforms toward improving and strengthening its prosecutorial service was prioritized. Noteworthy is the DOJ Department Circular No. 25, which terminates the imposition of filing fees for criminal complaints. Furthermore, the length of time for resolving appeals for drug cases are shortened as automatic appeals are now limited with the Office of the Secretary of Justice. Appeals on drug cases to the Office of the President are now prohibited.

The National Prosecution Service Rules and the Code of Conduct for the National Prosecution Service were also developed. The Office of the Alternative Resolution is now in place with the DOJ, which actively disseminate information on the ADR Mechanisms as an alternative mode

of avoidance of litigation/court cases. The DOJ also commenced the creation/establishment of the National Justice Information System (NJIS) which shall interconnect the justice sector system across several layers for an enhanced and harmonized coordination to speedily share information for results. Commitment from the city government of Cebu to provide the NBI the site was also given to the DOJ. The Building for the crime laboratory and initial/partial funding was released from the President's Social Fund for acquisition of its equipment. This facility will augment the lone crime/forensic laboratory in Manila. This is seen to improve investigative efficiency and decrease response time and logistical cost.

Finally, the strengthening of the oversight bodies, one of the primary concern, has been undertaken. Currently, amendments to RA 6770 (Ombudsman Act of 1989) and the creation of the Charter of the Commission of Human Rights of the Philippines, are currently before the 15th Congress of the Philippines.

Ecological integrity remains a challenge

The state of the environment and natural resources considerably improved during the first two years of the Aquino Administration, evidenced by the rise of the Philippines' global ranking in the 2012 Environmental Performance Index (EPI) (now 42nd among the 132 countries as compared to 50th in 2010). The strong environmental performance of the Philippines can be attributed to the appropriateness and sustainability of environmental policies, programs, and reforms being implemented by the government. The "strong performer" category of the Philippines in the 2012 EPI masks the relatively weak performance of some subsectors based on the indicators and targets set under the PDP 2011-2012.

Foundation activities have been continuously implemented to improve the ecosystem and services in the forestry, biodiversity, coastal and marine, land and mineral resources subsectors. Significant enhancement in air and water quality has been noted as a result of proper water management, better enforcement of regulatory policies, improved monitoring, and awareness-

raising activities. Preparatory activities to facilitate groundwork have started to enhance the resilience of vulnerable natural systems and communities and cope with climate-related risks.

Laudable improvements on social services have been attained

Government spending for the social sector increased from 2010 to 2011. With a real GDP share of 5.0 percent in 2010, it went up to 6.0 percent in 2011. This is expected to increase to 6.1 percent by the end of 2012. Real per capita spending for the sector improved from 2010 to 2011, and further increased in 2012, resulting in improved access and quality of social services and protection.

On improving access to quality health care, the subsector has shown improvements in achieving financial risk protection and the MDGs. The challenges, however, are in sustaining enrollment of the poor and informal sector to social health insurance, improving maternal health, sustaining the gains made on tuberculosis and malaria, and halting the increasing number of new HIV/AIDS cases. Achieving Universal Health Care (UHC) or *Kalusugan Pangkalahatan* (KP) has been the overall health agenda to ensure quality health care for all Filipinos and achieve universal health coverage by 2013. Towards this end, the subsector shall continue to pursue the following: (a) expansion of the no-balance billing policy of the Sponsored Program under PhilHealth; (b) closing the gap for upgrading government health facilities to improve access to modern health facilities; and (c) making accessible public health services and improving health outcomes to attain health-related MDGs.

On improving access to quality education and training as well as enriching the culture, arts and sports, the subsector has recorded increasing enrollment rates in all levels of education from kindergarten to tertiary. However, despite efforts to improve the subsector's performance, there are still major challenges that it has to contend with. The main challenge for basic education is on how to deliver basic education services to diverse clientele, while the continuing challenge for technical vocational education and training (TVET) and higher education is the need to enhance the quality, productivity, and

global competitiveness of the Filipino workforce. Thus, the subsector shall ensure the provision of education for all, implement TVET policies and strategies that are in line with the goal of rationalizing the governance of middle-level skills development and policies, pursue more aggressive efforts in implementing the Higher Education Reform Agenda (HERA), and create greater awareness about issues and perspectives on culture.

Efforts in the housing sector have been directed towards addressing the housing need, including the increasing number of informal settler families (ISFs). Focus is on relocating the ISFs particularly those situated in danger areas, improving the implementation of critical laws and guidelines, and strengthening of reforms in asset development, housing finance, and institutional arrangements.

On improving access to quality social protection (SP), the subsector fared well in terms of enhancing the SP operational framework, expanding the Pantawid Pamilyang Pilipino Program, initially implementing a convergence strategy, improving the targeting of the poor through the National Household Targeting System for Poverty Reduction (NHTS-PR), and taking preliminary steps in generating social protection statistics. There is still a need however to expand labor market interventions, increase coverage of social insurance, strengthen response in social welfare, and expand safety nets. The subsector shall address identified gaps through the following: (a) ensure sustainability of SP programs; (b) formulate and fully implement the medium-term SP action plan to provide direction to SP initiatives; (c) implement a reliable and responsive monitoring and evaluation system; (d) maintain the NHTS-PR database and make it available to stakeholders; and (e) improve availability and quality of SP statistics/data. These policies shall be tied up with increased and sustained funding for the sector and strong institutional mechanisms to ensure effectiveness of implementation.

On improving access to asset reform, efforts are being pursued to accelerate the acquisition and distribution of lands for agrarian reform, issuance of the certificates of ancestral domain titles (CADTs) and certificate of ancestral land titles

(CALTs), and delineation of municipal waters. The subsector will thus work to fasttrack agrarian reform-related cases, intensify information, education and communication (IEC) drive on the Indigenous Peoples' Rights Act (IPRA) and National Commission on Indigenous Peoples' (NCIP) delineation and titling program, and fasttrack the validation of the proposed municipal water boundaries.

A promising and lasting peace remains partially fulfilled; a need to beef-up the concerns on national security

For the period being assessed, the peace process focused on the pursuit of negotiated political settlement of all armed conflicts and the implementation of a complementary track to address the root causes of armed conflict and other issues affecting the peace process, notably through the implementation of the Payapa at Masaganang Pamayanan (PAMANA) Program. To date, 33 percent of the total 4,906 targeted barangays in 36 provinces were already covered by the PAMANA program.

The government has been engaging in the following peace processes on the table since 2000: (a) Peace Negotiations with the Moro Islamic Liberation Front and the Communist Party of the Philippines/New People's Army/National Democratic Front; (b) Full Implementation of the GPH-Moro National Liberation Front 1996 Final Peace Agreement; (c) Closure Track with the Cordillera Bodong Administration-Cordillera People's Liberation Army and the Rebolusyonaryong Partido ng Manggagawa-Revolutionary Proletarian Army-Alex Boncayao Brigade; and (d) the reduction in the level of armed hostilities and other forms of violence arising from insurgencies.

In addition, a complementary track was pursued to address causes of conflict and other related issues affecting the peace process. These are the following: (a) focused development in conflict-affected areas through the PAMANA program; (b) implementation of policy instruments for good and transparent governance towards reforming the ARMM; (c) strengthened peace and social cohesion and conflict sensitivity of communities in conflict-affected areas; (d)

increased participation of women in peace building and ensuring protection of women against all forms of gender-based violence; and (e) ensured protection of children in armed conflict against grave child rights violation.

Prospects, challenges and policy direction

The performance of the economy in 2011 undoubtedly serves as a springboard for the next five years and this can be gleaned in the vibrant performance of the economy in the first half of 2012. Nonetheless, challenges can be hurdled with appropriate policy prescriptions.

Thus, the country will pursue a balanced growth policy that would harness both the services and industry sectors, the former being the country's largest contributor to the economy at present and the latter having untapped potentials and with substantial room for improvement. To catch up with the targets in the PDP, the government will continue to partner with the private sector in developing the industry and services sectors. The Comprehensive Investment Plan (CIP) will provide the direction of industrial development in the country. The government will continue to boost the competitiveness of the production sectors. The innovation policy, programs, projects and activities under Filipinnovation program will continue to be pursued. The government will also help manufacturers to be kept abreast with information on good manufacturing practices and internationally accepted standards such as hazard analysis critical control points or HACCP, and clean production technologies among others. The government will likewise support the private sector in the adoption of standards and obtaining certification or accreditation for product processes, safety and quality; packaging design and development; and provision of improved analysis and testing services.

In addition to the product, market, and promotion strategies under the Philippine Export Development Plan (PEDP) 2011-2013, strategies to manage the risks in export sales associated with the global crisis as well as vulnerabilities connected with dependency on exports of electronic products will be pursued to make inroads in the goal to increase exports. Identifying and anticipating the demands of

trading partners, particularly new and alternative markets such as South America, and the BRICS (Brazil, Russia, India, China and South Africa), and implementing measures to meet these will be encouraged in order to expand or gain access to these markets.

Likewise, the sustained development of the agricultural sector remains critical to achieve the overarching goal of inclusive growth and poverty reduction particularly in the rural sector. The crop subsector will continue to be a major contributor with further improvement in the crops productivity, access to domestic and international markets, expanded area. This will be supported by responsive, effective and efficient agricultural services. The fisheries sector, on the other hand, will adopt a triple strategy of regeneration, protection, and sustainable production. Establishment of mariculture parks, nurseries, and hatcheries will also be pursued. Coastal Resource Management will likewise be promoted, together with the replanting of mangroves. Moreover, the livestock and poultry industry will sustain the reputation of holding the FMD-free status without vaccination and an Avian Flu-Free status to further expand the local and global markets for the industry.

In terms of competitiveness, the high cost of doing business remains a major concern for investors. This has been a major deterrent in attracting investments in the industry and service sector and in making Philippine products competitive. This has also affected the development of SMEs. Philippine exports likewise remain vulnerable to fluctuations in market demand due to over dependence on existing export products, particularly electronics and traditional markets. Diversification remains an issue insofar as the issue of lack of human resources with proper education and right set of skills is concerned. The agriculture sector, in particular, is bogged with the high cost of production, vulnerability to climate change and disaster risks, inadequate support services, and unsustainable resource utilization

Looking closely at the fiscal situation tell that achieving the revenue targets of the government is heavily dependent on several factors such as the attainment of macroeconomic goals as discussed above. Any developments in these targets would mean a consequent impact on the fiscal targets,

and vice versa in succeeding periods. Losses due to deficiencies in income tax collection on account of tax leakage problems needs to be addressed. Meanwhile, expenditures have to be dealt with greater efficiency to optimize their use and facilitate their effectiveness in achieving the critical outcomes. Key fiscal reforms are thus aimed at complementing the efforts to improve tax administration, including calls for urgent legislative action. Reforms are also underway to address the inefficiencies in spending which calls for the institutionalization of the Medium-Term Expenditure Framework. With regard to debt management, the government will continue to pursue its medium term objectives with emphasis on greater transparency and accountability of public sector entities.

Underpinning infrastructure development which is crucial for effecting a responsive growth policy lies mainly on project preparation, development, implementation and provision of a stable, consistent, and transparent policy environment. To be able to achieve this, NEDA introduced the Value Engineering/Value Analysis (VE/VA) in the project development cycle and the BOT IRR Committee. The NEDA Board Committee on Infrastructure (INFRACOM) revisited and reviewed the Implementing Rules and Regulations (IRR) of Republic Act RA 6957 as amended by RA 7718, otherwise known as the BOT Law, and the Guidelines and Procedures for Entering into Joint Venture (JV) Agreements between Government and Private Entities (or known as the JV Guidelines) to further streamline existing procedures and processes. Although some challenges can be found in the various sub-areas of infrastructure such as transport, water, power, ICT, and social infrastructure, the policy directions in those areas are clearly spelled out.

Turning to the social sector, its challenges remain to be on the improvement of access and quality of social services and protection. Geared towards accelerating and completing the targets for the sector, 34.8 percent is allocated for social services in the proposed Php2.006 trillion government budget for 2013. Real per capita spending for social services will therefore increase in 2013. These increases will mainly go to the implementation of Kindergarten to 12 Years Basic Education Program (K to 12), Pantawid Pamilya, completion of the land distribution

under the Comprehensive Agrarian Reform Program Extension with Reforms (CARPER) in 2014, and housing resettlement program, among others.

Challenges also remain in establishing a fully resilient and inclusive financial system. First, a more regionally responsive financial system should be fostered to mobilize the savings and deploy resources as needed throughout the archipelago. Second is to build a long-term funds market to finance economic projects, given that most savings are deposited in short term accounts. Third, a thriving capital market has to be established. Fourth, the financial governance framework must be improved to cater to the rapidly changing market conditions and the public's evolving requirements. Fifth, the issue of financial institutions' concentration on urban areas that leave some municipalities unserved or underserved must be solved. And lastly is the need for legislative support to pursue critical reform areas. In the next four years of the Aquino administration, the financial sector is seen to take on the following policy directions in line with the over-all goal of a more inclusive and resilient financial system: (a) develop a more innovative service delivery channels for financial services to expand client reach in the countryside; (b) develop financial products that aims to promote long-term savings for Filipinos; (c) harmonize corporate governance standards of all regulated or supervised institutions in the country to promote a deeper culture of corporate governance; and (d) push for crucial legislative support for the timely passage of financial sector reform bills to strengthen the institutional support needed to attain an inclusive and more developed Financial System.

While the country currently enjoys a low inflation environment, monetary authorities remain vigilant of the possible shocks that could derail price stability. On the external front, policymakers ensure that programs and projects will remain supportive to help cushion the economy from external shocks. A market-determined exchange rate and a comfortable level of international reserves will be maintained. External debt sustainability will be promoted by keeping the country's outstanding external debt manageable and within the economy's capacity to service it. Moreover, key reforms that will strengthen

the regulatory and supervisory framework and enhancement of responsible risk management by banks will be sustained in order to maintain the stability of the financial system. Policy initiatives will continue to focus on aligning prudential standards with international norms, and enhancing the implementation of existing banking rules and regulations.

When it comes to good governance, the observance of due process for corruption cases and investigation of possible acts of graft are still relatively slow. Formally targeting a one-year start-to-finish closure period for a corruption case, as Malaysia did in its latest government plan should be reasonable benchmark. For large-scale and notorious cases of corruption, the Sandiganbayan, which is the country's anti-graft court is estimated to require a dedicated budget of over Php250 million per year. Given this limitation, Most of the governance effort will thus be devoted to continuing the good work in facilitating an efficient transaction in all government offices, stopping corruption, and working for meaningful participation in government affairs. Further reducing wastage from bad financial decisions would also be pursued.

Concerning the rule of law, the most common challenge is the prevailing insufficiency of government lawyers. Recruitment and hiring are hindered as there is the observed fast turnover of lawyers, lack of takers for certain low-salary positions in the provinces, and inadequate positions. Most of the prosecution offices nationwide also heavily relies on the local government for resources, which undermine their independence as quasi-judicial bodies. Heavy workload and case congestion are also a perennial problem in the prosecutorial service. For 2013, Justice Sector agencies, through the Justice Sector Coordinating Council (JSCC) shall pursue reforms for the justice system which shall contribute to the accelerated realization of inclusive national development and reduced poverty through greater public trust and confidence that leads to a stronger rule of law and improved investment climate. This reform will be manifested by good governance in the justice sector and a strengthened coordination and collaboration among justice sector agencies. For the prosecution, the DOJ shall continue

to improve the investigative abilities of its law enforcement agencies and conduct the following programs, projects and activities: a) enhance database of law enforcement agencies; b) intensify recruitment of personnel; c) Capacity Buildings/ Skills Updating; and, d) strengthen OADR.

Finally, the continuous pursuit of a sustained internal security and a secured territorial integrity is among the government's major thrust to create an enabling environment for development. Though the intensified police operations, the country's crime incidence decreased, although criminalities including organized crime groups still remain a major concern. The realization of PNP's capability enhancement program still needs to be addressed to strengthen capabilities in carrying out police operations and intelligence works. The institutionalization of the ITP-PGS still remains a challenge for the PNP towards the professionalization of the entire police force. Although protracted characteristics of internal security concerns were addressed by focused military operations, strengthening the institutional framework for coordination, cooperation and collaboration is also critical to the successful implementation of IPSP Bayanihan.

The continued territorial disputes in the West Philippine Sea has undermined not only the Philippine's sovereignty in the Kalayaan Group of Island and the Scarborough Shoal but also threatened peace and stability in the region. The urgency to strengthen AFP's capabilities to protect national interests in the area is crucial to asserting our sovereignty and upholding territorial integrity. The present and future outlook of the country's defense and security will depend on the government's support to its armed forces. The upgrading and modernization of AFP's capability defense system will be given priority providing funds and resources to address the much needed equipment and weaponry to secure the country's territorial integrity and protect its people and its resources. The continued implementation of the Defense System of Management (DSOM) will effectively address capability gaps and critical deficiencies of the AFP and Bureaus particularly on capability development initiatives, proposed equipment acquisitions and resource management priorities.

Maintenance of peace and stability depends on constructive and peaceful relations between and among nations in the region, and the adherence to the rules of international law and stronger dialogue and cooperation. The Philippines is advocating for a rules-based approach for the peaceful resolution of maritime disputes and conflicting territorial claims in the West Philippine Sea.

The DOJ shall also pursue the passage of the modernization bills for the National Bureau of Investigation, Bureau of Immigration and Bureau of Corrections. To reduce the big number of potential human trafficking victims, the Department shall institute a policy on the issuance of departure formalities in all ports and pursue investment in the acquisition of biometrics machine. Although the country has made “significant efforts” in terms of combating human trafficking as reported by the US Trafficking in Persons Report 2012, the government still has to intensify its commitment to prosecute labor recruitment companies involved in the trafficking of migrant workers abroad, and in the identification and protection of the victims where it showed no progress.

Surmounting the weaknesses of the organization and building on the strengths of the institutional framework must be the pivotal elements of the key strategies of the economy in the succeeding years. These strategies must however be founded in good governance, accountability, and transparency which are the overarching framework of the national government.

Chapter 2. Macroeconomic Policy

Assessment

Output and Employment

Output

In the first half of 2010, the country's real gross domestic product (GDP) growth was at 6.7 percent, which contributed to the full year growth of 7.6 percent owing largely to brisk domestic demand and partly due to restocking of global inventories as the economy recovered from the 2008-2009 global financial crisis. In 2011, the Philippine economy withstood the shocks generated by the combined impacts of the slow recovery of the US economy, the ongoing fiscal crisis in the Euro area, the tsunami-related disasters in Japan, the conflict in the Middle East and North African (MENA) region, as well

as the flooding in Thailand. On the domestic front, the series of typhoons had negative impacts on agriculture and slowed down economic activities. Growth was also hampered by the decline in overall public spending as the government implemented reforms to improve budget execution. The economy, however, strongly picked up in the first half of 2012 with GDP expanding by 6.1 percent, buoyed by industry and services.

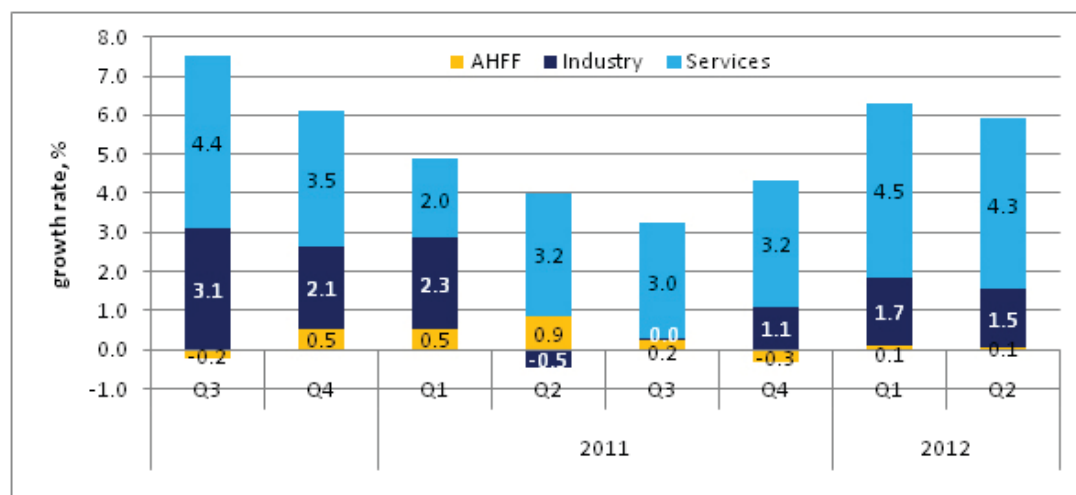
The relatively good economic performance of the economy amidst global economic challenges has been largely due to a consistent set of policies aimed at maintaining macroeconomic stability. The results, thus far, have been notable: sustained positive output growth, within-target inflation rate, a manageable balance of payments, a strong fiscal position, and an improved labor and employment situation.

Table 2-1. National Income Accounts, Growth Rates (in %)

	2010		2011			2012
	Sem 2	FY	Sem 1	Sem 2	FY	Sem 1
By Industrial Origin (supply)						
1. Agri., hunting, forestry & fishing	1.4	(0.2)	6.3	(0.5)	2.7	0.8
2. Industry	8.0	11.6	2.7	1.9	2.3	4.9
3. Services	7.1	7.2	4.7	5.6	5.1	7.8
By Expenditure (demand)						
1. Household Final Consumption Expenditure	3.7	3.4	5.7	6.8	6.3	5.4
2. Government Final Consumption Expenditure	(6.5)	4.0	(4.6)	8.3	1.0	12.3
3. Capital Formation	28.8	31.6	11.0	5.7	8.1	(13.2)
4. Exports	20.4	21.0	1.9	(10.4)	(4.2)	9.5
5. Less : Imports	22.0	22.5	4.6	(4.0)	0.2	0.6
Gross Domestic Product	6.7	7.6	4.2	3.6	3.9	6.1
Gross National Income	6.2	8.2	3.0	3.4	3.2	5.4

Source: National Statistical Coordination Board

Figure 2-1. Contribution to Growth: By Industrial Origin (in percentage points)



Source: National Statistical Coordination Board

Except for 2011, economic growth in the second half of 2010 and in the first half of 2012 was respectable, although still below the low-end of the target GDP growth of 7.0 percent to 8.0 percent. For 2010, expansion was supported by the recovery of the global economy from the global financial crisis, strong domestic demand, low inflation and sustained growth in overseas Filipino remittances, as household spending and capital formation surged. In part, the Economic Resiliency Plan¹ (ERP) implemented in 2009 also provided additional boost to spending. Meanwhile, the agriculture sector slightly contracted due to the impact of El Niño.

In 2011, full year economic growth slowed down to 3.9 percent, which was 3.1 percentage points below the low-end growth target mainly due to the drop in industry production given the slack in manufacturing and the contraction in construction. Manufacturing was heavily affected by the disruptions in the global supply chain as a result of the disaster in Japan in the first quarter and the flooding in Thailand in the third quarter. Damaged factories in these areas resulted in stoppage of operations, thereby disrupting the global supply chain operations of key industries, particularly electronics and automobiles. Meanwhile, the conflict in the

MENA region in the second quarter led to further concerns on the global economic recovery. The political crisis arising from prodemocracy movements which started in Egypt and Tunisia spread to neighboring countries Bahrain, Libya, Syria and Yemen², resulting in increased market volatilities and raising concerns on oil prices. These events, including the continued crisis in the Euro area, dampened investor sentiments and led to tightened credits and lower investments. Developing countries were affected particularly through trade and financial channels as many developed economies experienced recession which pulled down global growth. Feeling the brunt of these events, Philippine industry growth went down from 8.0 percent in the second half of 2010 to only 1.9 percent in the same period of 2011.

Notwithstanding, services buoyed economic growth mainly on the back of strong growth in transport and communications, real estate and business activities, and other services. Business process outsourcing continued to be a major growth driver, sustaining its momentum despite the global crisis. The outsourcing business provides a lower cost alternative to foreign firms planning to establish onshore operations in their own countries. Hence, even with the global crisis,

1 The Economic Resiliency Plan was the country's fiscal stimulus package and response to the global crisis, implemented to pump prime the economy by upgrading infrastructure and capital stock, and by expanding social safety nets.

2 <http://siteresources.worldbank.org/INTMENA/Resources/MENAFacingChallengestextjuly13.pdf>

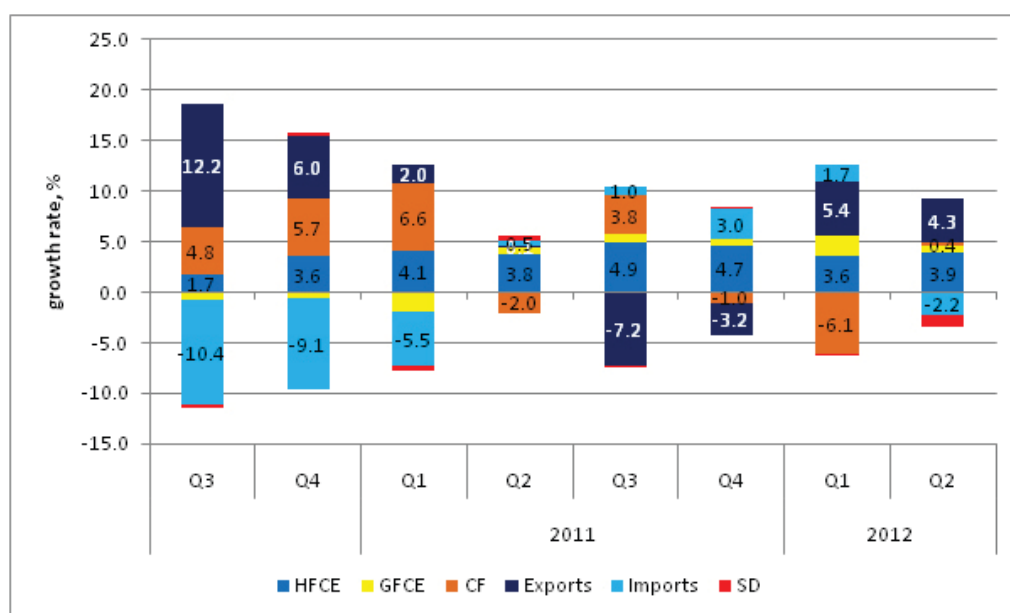
these offshore/outourcing operations were not readily affected. Transport and communications posted strong growths fuelled by the expansion of mobile technology coverage, innovations in telecommunications services, and new communications technologies. Other services such as recreation and hotel and restaurant activities were fuelled by the growth in tourism. In contrast, finance was not able to absorb the impact of the global crisis given the sector's limited exposure to international financial markets but was eventually caught up by the crisis in the second half of 2011 as overall economic activity slowed down. The financial sector grew by only 1.5 percent, compared to 13.4 percent in the second half of 2010 and 9.0 percent in the first half of 2011.

Agriculture, hunting, fisheries and forestry recovered from the production losses caused by the onset of the El Nino in 2010. Providing impetus for agriculture growth was the implementation of the Food Staples Self-Sufficiency Program (FSPP) 2011-2016 which targeted rice self-sufficiency by 2013. This includes interventions for construction and rehabilitation of irrigation systems, postharvest infrastructure, farm-to-market roads, credit facilities, and provision of high quality seeds. In

the fourth quarter of 2011, typhoons Pedring, Quiel and Sendong caused heavy damages and losses to crops and infrastructure, and led to a contraction in agriculture production. Still, full year 2011 growth reached 2.7 percent, despite the contraction of 0.5 percent in the second half of the year.

On the demand side, growth was pulled down by the contraction in exports and the deceleration in capital formation. Coming from a 20.4 percent growth in the second half of 2010, exports plunged to a 10.4 percent contraction in the second half of 2011, resulting in a full year 2011 growth of -4.0 percent. The global economic slowdown dampened demand in the global market and caused a decline in the exports sector. The semiconductor and electronics sector was also on a downtrend, contracting by 14.4 percent, further affecting exports. Meanwhile, capital formation grew by 30.1 percent in the second half of 2010, but dropped to 11.0 percent in 2011. Public construction was affected by the underspending in infrastructure and other capital outlays of key government agencies. It must be noted however, that part of the underspending was attributed to delays in the execution of key infrastructure projects caused by reforms in budget implementation and the

Figure 2-2. Contribution to Growth: By Expenditure (in percentage points)



Source: National Statistical Coordination Board

conduct of due diligence in project selection as part of the government efforts to institutionalize transparency in transactions and procurement.

To accelerate spending, the government implemented the Disbursement Acceleration Plan (DAP) in the fourth quarter of 2011 focusing on high impact, pro-poor, and fast disbursing programs and projects. The DAP included infrastructure projects such as irrigation facilities and farm-to-market roads including access roads to tourist sites, electrification programs, relocation of informal settlers, and funding for the Training-for-Work Scholarship Program of TESDA.

Driven by low inflation and the continuous inflow of remittances, private consumption remained stable, expanding from 3.7 percent in the second half of 2010 to 6.8 percent in the same period in 2011. The government's goal of inclusive growth led to higher spending for social programs such as conditional cash transfers. The implementation of the second and third tranches of the Salary Standardization Law III (SSL) also resulted in higher government spending.

In the first half of 2012, GDP growth reached 6.1 percent, driven by services and industry on the supply side and by household and government consumption and net exports on the demand side. The services sector grew by 7.8 percent compared with 4.7 percent in the same period in 2011, driven by transport, communications, and storage; trade and repair of motor vehicles, personal and household goods; and other services. Industry recorded a growth of 4.9 percent due to the recovery in the construction subsector which grew by 7.1 percent from a contraction of 13.4 percent for the same period in 2011, primarily driven by the surge in public construction. The manufacturing subsector also contributed with a 5.0 percent growth. On the demand side, notable improvement came from the government final consumption expenditures with a growth of 12.3 percent, from a contraction of 4.6 percent in the first half of 2011. Exports grew by 9.5 percent while imports increased by 0.6 percent, resulting in growth in net exports.

Improvements in the global outlook increased demand and resulted in better exports performance. This also strengthened investor and

consumer confidence, supporting growth. The economy remained resilient, supported by strong macroeconomic fundamentals. Inflation rates remained stable at 3.0 percent. The deficit-to-GDP ratio was much lower than target at only 0.7 percent of GDP.

Employment

The labor market during the first two years of the Aquino Administration was marked by improvements in employment generation alongside the declining unemployment rate. However, key weaknesses remained in terms of the high underemployment rate and the rise in part-time employment.

The size of the country's labor force continued to expand at an average rate between 2.0 percent to 3.0 percent a year since 2010. In absolute terms, the labor force breached the 40.0 million mark in October 2011 when it registered its fastest growth at 4.9 percent year-on-year. As of July 2012, the labor force was estimated at 40.427 million, up by 1.481 million from 38.946 million reported in July 2010. The labor force participation rate (%) remained at around 64.0 percent except for a spike in October 2011 at 66.3 percent. The size of the country's labor force continued to expand at an average rate between 2.0 percent to 3.0 percent a year since 2010. In absolute terms, the labor force breached the 40.0 million mark in October 2011 when it registered its fastest growth at 4.9 percent year-on-year. As of July 2012, the labor force was estimated at 40.427 million, up by 1.481 million from 38.946 million reported in July 2010. The labor force participation rate, however, remained at around 64.0 percent except for the spike in October 2011 at 66.3 percent.

From July 2010 to July 2012, employment continued its growth momentum with net employment generation exceeding the PDP target of one million average per year, except in January 2011 and all July survey rounds. On the average, employment generation for the first two years of the current administration was placed at almost a million or 997,000 per year which is close to the PDP target. All three broad sectors recorded employment gains, with services posting the strongest average growth (3.2%) followed by industry (3.6%), and agriculture, fishery and forestry (1.7%).

The unemployment rate is on the downtrend since July 2010 with rates fluctuating within 6.4 percent to 7.4 percent, still within the PDP annual target of 6.8 percent to 7.2 percent. The number of unemployed persons remained at an average of 2.8 million persons where the bulk of the unemployed persons are college educated youth with relatively high reservation wage.

A more serious problem than unemployment is that of underemployment which remains high and stagnant at around one-fifth of total employed. This means that one in every five employed expressed the desire for additional hours of work or additional/another job largely because they were in low-paid employment or due to job mismatch. In July 2012, the magnitude

Table 2-2. Selected Labor Market Indicators

Indicator	2010		2011				2012		
	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul
Labor force ('000)	38,946	39,287	39,210	39,691	39,928	41,194	40,316	40,644	40,427
growth rate (%)	1.3	2.9	1.0	3.1	2.5	4.9	2.8	2.4	1.2
Labor force participation rate	63.9	64.2	63.7	64.2	64.3	66.3	64.3	64.7	64.0
Full-time Employment ('000)	23,379	23,276	22,636	22,480	24,075	23,841	23,231	20,836	24,638
growth rate (%)	1.4	5.5	-2.6	3.5	3.0	2.4	2.6	-7.3	2.3
Part-time Employment ('000)	12,574	12,773	13,167	13,677	12,671	14,279	13,726	16,192	12,663
growth rate (%)	3.8	-0.9	7.0	5.5	0.8	11.8	4.2	18.4	-0.1
Unemployment ('000)	2,709	2,799	2,917	2,871	2,822	2,644	2,922	2,803	2,842
Unemployment Rate (%)	7.0	7.1	7.4	7.2	7.1	6.4	7.2	6.9	7.0
Underemployment ('000)	6,502	7,141	7,050	7,127	7,095	7,381	7,030	7,312	8,546
Underemployment rate (%)	17.9	19.6	19.4	19.4	19.1	19.1	18.8	19.3	22.7

Source: National Statistics Office, Labor Force Survey

Table 2-3. Employment by major industry group

Indicator	2010		2011				2012		
	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul
Total Employed ('000)	36,237	36,488	36,293	36,820	37,106	38,550	37,394	37,841	37,584
growth rate (%)	2.1	2.8	0.8	4.0	2.4	5.7	3.0	2.8	1.3
Agriculture, Fishery and Forestry	12,244	12,265	11,952	12,155	12,100	12,861	12,185	12,470	11,604
growth rate (%)	2.5	1.6	1.2	5.6	(1.2)	4.9	1.9	2.6	-4.1
Share to total (%)	33.8	33.6	32.9	33.0	32.6	33.4	32.6	33.0	30.9
Industry	5,409	5,375	5,264	5,619	5,629	5,608	5,515	5,913	5,933
growth rate (%)	2.6	4.3	(1.1)	2.4	4.1	4.3	4.8	5.2	5.4
Share to total (%)	14.9	14.7	14.5	15.3	15.2	14.5	14.7	15.6	15.8
Services	18,585	18,850	19,076	19,045	19,376	20,080	19,694	19,457	20,047
growth rate (%)	1.6	3.3	1.1	3.4	4.3	6.5	3.2	2.2	3.5
Share to total (%)	51.3	51.7	52.6	51.7	52.2	52.1	52.7	51.4	53.3

Source: National Statistics Office, Labor Force Survey

Table 2-4. Employment by class of worker

Indicator ('000)	2010		2011				2012		
	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul
Wage and Salary Workers	19,366	19,773	19,849	20,250	20,897	21,151	20,506	20,998	22,211
Employer in own family-operated farm or business	1,388	1,400	1,318	1,297	1,301	1,506	1,336	1,259	1,485
Self-employed	11,138	11,035	11,030	10,904	10,941	11,101	11,254	11,071	10,347
Unpaid Family Workers	4,346	4,280	4,096	4,369	3,966	4,795	4,298	4,511	3,541
Percent share of total self-employed and unpaid family workers to total employed (%)	42.7	42.0	41.7	41.5	40.2	41.2	41.6	41.1	37.0

Source: Bureau of Labor and Employment Statistics

of underemployment (8.546 million) was more than three times the number of unemployed (2.842 million). Unlike unemployment which mainly affects the youth and the educated workforce, underemployment cuts across age and sex groups and is particularly pronounced among the less educated workforce and in regions where agriculture is the dominant sector.

The quality of employment remains a major challenge. The expansion in employment in recent years was accompanied by periods of large increases in part-time employment which was particularly pronounced in January 2011 (7.0%), April 2011 (5.5%), October 2011 (11.8%) and April 2012 (18.4%). On the average, part-time employment comprised more than one-third of total employed persons over the last two years.

In terms of employment by major production sector, services remained the dominant source of employment, accounting for more than one-half of the total employed. Employment in industry also grew at a respectable rate particularly in the past four quarters - although its share to total employment remained low and stagnant at less than one-sixth of the total employed workforce. Roughly one-third of the employed was engaged in the agriculture, fishery and forestry sector which exhibited year-on-year volatility due to the effects of droughts and destructive typhoons.

On a positive note, an improvement in wage and salary employment was noted, from a share of 53.4 percent in July 2010 to 59.1 percent in July 2012. Employed wage workers increased to 22.211 million in July 2012 from 19.366 million in July 2010. Complementing the increasing share in wage and salary employment in total

employment was the decline in the proportion of self-employed persons and unpaid family workers. An MDG indicator on employment, this proportion indicates the extent of informalization of the labor market as these workers are less likely to have formal work arrangements and are prone to a higher degree of economic risk. While the trend in the proportion has been declining over time, it moved at a very slow pace, year-on-year, from July 2010 to April 2012. Employees in own family-operated farm or business at less than 5.0 percent made up the rest of the total employed.

Fiscal Sector

The fiscal sector's overall strategy is to increase tax effort through higher revenue take along with the reduction of deficit as a share of GDP. At the outset, data indicate revenue and deficit target in terms of ratio to GDP to be on track as articulated in the PDP. For instance, collection effort of Bureau of Internal Revenue (BIR) rose from 9.1 percent in 2010 to 9.5 percent

³ The PDP programmed BIR collection effort to increase annually by 0.3 ppt while BOC's collection effort is targeted to rise by 0.1 ppt while nontax revenue collection would be increasing equivalent to an average of 1.2 percent of GDP.

in 2011 and 10.3 percent in the first half of 2012, exceeding expectations while Bureau of Customs (BOC) tax effort performance needs improvement.³ Nontax revenue collection rose from 1.3 percent share to GDP in 2010 to 1.6 percent and 1.8 percent in 2011 and first semester 2012 respectively. The deficit to GDP ratio target of 2.0 percent beginning 2013 was achieved

in 2011 and in the first semester of 2012, the national government (NG) deficit was recorded at 0.7 percent of GDP. Despite the positive fiscal indicators however, actual government revenue levels continue to remain short of the program. Actual government spending for 2011 was 1.2 percentage points lower than the budget amount mainly due to underspending for infrastructure and other capital outlays.

Table 2-5. Planned Against Actual Fiscal Indicators

INDICATOR	Baseline FY 2010*	Baseline FY 2010**	Actual FY 2010*	Target FY 2011	Actual FY 2011	Target FY 2012	Actual S1 2012	End of Plan Target 2016
Sector Outcome – Stable Macroeconomy Achieved								
Deficit to GDP	3.5	3.7	3.5	3.2	2.0	2.0	0.7	2.0
Primary Balance to GDP	-0.2	-0.2	-0.2	na	0.8	na	2.3	0.4
Revenue to GDP	13.4	14.2	13.4	na	14	na	15.1	16.6
Tax Revenue to GDP	12.1	12.8	12.2	13.8	12.3	14.1	13.3	15.6
Non-Tax Revenue to GDP	1.3	1.3	1.3	na	1.6	na	1.8	1.0
Primary Expenditure to GDP	13.6	14.4	13.6	na	13.1	na	12.8	16.2
NG Debt to GDP	52.4	55.4	50.9	na	50.9	na	47.5	42.8
Interest Payment to Total Budget	19.3	19.3	19.3	na	17.9	na	18.9	13.1

*Computed using 2000-based GDP

** Computed using 1985-based GDP

Table 2-6. Actual indicators, by semester

INDICATOR	Actual by Semester			
	S2 2010	S2 2011	S1 2011	S1 2012
Deficit to GDP	2.5	3.6	(0.4)	0.7
Primary Balance to GDP	0.6	(0.7)	2.5	2.3
Revenue to GDP	13.1	13.4	14.6	15.1
Tax Revenue to GDP	11.8	12.0	12.7	13.3
Non-Tax Revenue to GDP	1.3	1.4	1.9	1.8
Primary Expenditure to GDP	12.4	14.1	12.1	12.8
NG Debt to GDP	52.4	50.9	49.4	47.5
Interest Payment to Total Budget	20.1	16.8	19.2	18.9

Table 2-7. National Government Deficit

In Billion Pesos	2011			2011 Actual (Jan-Jun)	2012 Program*	2012 (Jan-Jun)	
	Program	Actual	Growth Rate (%)			Actual	Growth Rate (%)
Surplus/ (Deficit)	(300.0)	(197.8)	(-37.1)	(17.2)	(279.1)	(34.5)	100.1
% of GDP	(3.0)	(2.0)		(0.4)	(2.6)	(0.7)	
Primary Balance as % of GDP	0.8	0.8		2.5	0.3	2.3	

Source: Department of Budget and Management

Deficit and Primary Balance

Deficit targets were achieved for the period under assessment, albeit individual medium-term fiscal targets continue to be a challenge particularly in the areas of revenues and spending. For instance, the difficulty to reach annual tax collection targets of the BIR and the BOC as well as the lower disbursement compared to programmed outcome has allowed the targeted deficit of 2.0 percent of GDP in 2011 from 3.5 percent in 2010 to be conservatively achieved. The same story of high fiscal space due to below programmed revenues and spending prevailed in 2012. As of June 2012, the NG registered a fiscal deficit of PhP34.5 billion (0.68% of GDP), 100.1 percent higher than the PhP17.2 billion deficit posted in the same period last year. This brings the primary balance to GDP ratio (netting out the interest annual obligations) to 0.8 percent in 2011, and 2.3 percent in the first half of 2012, exceeding the 0.4 target for 2016.

Although the achievement of the target is not consistent with the ideal environment of higher revenues and spending as required by Plan, it is worth mentioning that the share of actual interest payments to total actual obligations declined to 17.7 percent from 20 percent in 2010 as a result of the appreciation of the peso and the restructuring of the domestic and foreign borrowing mix (this improvement however is still far from end of Plan target of 13.1%).

Revenues

Overall revenue was highest for the past decade despite the absence of new taxes and significant asset sales in 2011. Although there had been an improvement year on year from the assessment

period, revenue collection performance was still below programmed levels for 2011, as well as for the first half of 2012. The underperformance comes mainly from BIR and BOC tax collection shortfalls. To be able to catch up to planned levels of revenues, accelerating nontax revenue collections still appears to be the solution, as this revenue item consistently exceed programmed levels.

In terms of tax effort, the Philippine's performance is mediocre within the Asian region, and seems to have no major improvement from the last two decades. Its gap with the leaders is quite large, especially with Vietnam, Thailand, and Brunei (1988 to 2011).⁴ Tax effort performance is still far from the targeted 15.6 percent by 2016. In 2011, tax effort inched slightly to 12.3 percent from 12.2 percent for 2010. Although an improvement, this is still way below the planned targets. This annual improvement was due to the rise in corporate income tax and individual income tax. Excise taxes registered an 11 percent growth, with tobacco products posting the highest improvement in collections of PhP7.5 billion. The increase in excise taxes on tobacco reflected the usual frontloading of excisable goods prior to a tax rate increase due in 2012. However, BOC's collections growth was smaller than usual at only 2.3 percent, which was backed by higher nondutiable imports, coupled with a stronger peso.

From January to June 2012, the BIR and the BOC were behind their respective tax revenue collection targets compared to the same period in 2011. First half shortfall is about PhP15 billion. As early as April of 2012, shortfalls from

⁴ ADB Database.

the BIR in Income Taxes and Percentage taxes amounted to PhP13.28 billion, and PhP1.54 billion respectively, almost equal to the first half reported shortfall. The shortfall was attributed to the non-recurring payments in March 2011 by two government institutions due to deficiencies in income taxes for 2006 to 2007⁵. In addition, compromised settlement of unrealized trading gains on gold transactions also contributed to this shortfall. The BOC, on the other hand, reported that due to the ongoing agreement on tariffs especially on petroleum products, customs collections had been dropping by PhP5 billion per month. Assumptions for BOC regarding the tariff reduction was averaged across different goods, but actual applicable rates across goods due to the several Free Trade Agreements with ASEAN countries, China, Japan, Korea, Australia-New Zealand were not calculated, hence resulting in deviations in the forecast, mainly lower collections.

Anti taxevasion efforts bore fruit and aided in funding the gap for the eroding tax revenues of

government. BIR's revenues benefitted from the RATES program, where 71 out of the 129 cases filed from 2010 to the first half of 2012 had been resolved. The liabilities value of all cases filed within this period for RATES is PhP43 billion. On the other hand, the forceful implementation of the Run After the Smugglers (RATS) program of the BOC from the second semester of 2010 to year end 2012 resulted in the resolution of 19 out of the 55 cases filed, where the value of total tax liabilities for all filed cases is at PhP23 billion.

Nontax revenues totalled PhP20 billion more than target in 2011, mainly due to the rise in fees and charges, attributed to a one-time huge payment of Malampaya proceeds of about PhP30 billion. The Bureau of the Treasury (BTr) income was at a high of PhP75.2 billion, reflecting major proceeds from investments income and dividend payments from government corporations. These improvements in the nontax portion of revenues was seen until the first half. As of June 2012, nontax revenue collections improved by 1.4 percent from fees and charges

Table 2-8. Revenue Performance

In Billion Pesos	2011			2011 Actual (Jan-Jun)	2012 (Jan-Jun)		
	Program	Actual	Growth Rate (%)		Program	Actual	Growth Rate (%)
Total Revenues	1,411.3	1,359.9	12.6	681.6	776.0	760.9	11.6
Tax Revenues	1,273.2	1,202.1	9.9	593.4	710.1	671.5	13.1
% of GDP	12.8	12.3		12.7		13.3	
BIR	940.0	924.1	12.3	458.0	535.4	521.2	13.8
% of GDP	9.5	14.2		9.8		10.3	
BOC	320.0	265.1	2.3	128.6	167.2	143.4	11.6
% of GDP	3.2	4.0		2.7		2.8	
Other Offices	13.2	12.8	8.8	6.9	7.5	6.9	(0.1)
Non-tax Revenues	138.1	157.9	38.1	88.2	65.9	89.4	1.4
% of GDP	1.4	1.6		1.9		1.8	
BTR Income	70.0	75.2	38.5	50.8	31.9	50.2	(1.1)
Fees and Charges	62.1	81.5	38.9	36.7	34.0	39.2	6.6
Grants	0.0	0.26	-37.2	0.0	na	0.07	2,100.0
Privatization	6.0	0.93	0.93	0.68	na	0.01	-99.1

Source: Department of Finance

5 Deficiencies here means arrears of the assessed tax (ITR) and the actual tax paid.

of PhP39.2 billion and BTR income of PhP50.2 billion which exceeded the collection targets. The BTR collection exceeded its programmed collection targets by PhP18.4 billion, the largest contribution from the 89 percent increase in the GOCC dividends and a 61 percent increase in income from investments on bond sinking fund. The higher proceeds than planned from the nontax portion partly resulted in achieving the desired deficit to GDP ratio for 2012.

Expenditures

Primary spending, or expenditure items without the interest payments of the government, is very important as its difference with revenues leads to the true fiscal gap. Actual primary expenditure, which is mainly used for spending on different sectors of the economy, had been on a gradual decline with respect to the size of the economy. As of 2011, primary spending to GDP stood at 13.1 percent, down from 13.6 percent in 2010, and the ratio for the first half of 2012 is about 12.8. These figures are still far from the 16.2 ratio being targeted for 2016.

Disbursements for 2011 increased year on year by 2.3 percent, or PhP1.6 billion. This is supported by the higher spending for Personal Services

(PS), and Maintenance and Other Operating Expenditures (MOOE). Infrastructure and Other Capital Outlays (IOCO), however, was lower by 28.7 percent at PhP159.0 billion, reflecting the low absorptive capacities of key infrastructure agencies. Actual expenditures are lower than the program due to underspending in key areas such as – IOCO, PS, and MOOE. Nonetheless, better debt management strategy of the DOF resulted in interest payment that beats the programmed PhP321.6 billion (to only PhP279.0 billion). These developments conclude the primary spending to GDP ratio to stand at 13.3 percent in 2011.

Total disbursements for the first half of 2012 amounted to PhP795.4 billion, 13.8 percent higher than the disbursements in the same period of 2011. PS increased by 8.2 percent driven mostly by salary adjustments under the SSL III, as well as the increase in the claims for retirement and leave benefits for government employees. MOOE increased by 41.4 percent. IOCO also increased significantly by 66.1 percent to PhP88.5 billion, due to the increased budgets for infrastructure projects, including irrigation facilities, as well as the impact of disbursements made from capital outlays funded in the previous year's Disbursement Acceleration Plan (DAP).

Table 2-9. Expenditure Performance

In Billion Pesos	2011			2011 Actual (Jan-Jun)	2012 (Jan-Jun)		
	Program	Actual	Growth Rate (%)		Program	Actual	Growth Rate (%)
Primary Spending	1389.7	1278.7	5.7	564.4	729.3	645.4	29.2
Expenditure	1,711.3	1,577.7	2.3	698.9	885.3	795.4	13.8
A. Current Operating Expenditures	1,368.7	1,289.5	4.9	595.8	695.2	659.4	10.7
1. Personal Services	542.4	500.4	6.6	236.1	270.6	255.3	8.2
2. MOOE	215.2	201.2	10.5	81.5	132.6	115.2	41.4
3. Others*	611.1	587.9	90.3	278.3	292.1	288.8	9.8
B. Capital Outlays	319.6	250.1	(11.7)	90.7	172.8	124.3	37.0
1. Infrastructure and Other Capital Outlays	241.7	159.1	(28.7)	53.3	134.0	88.5	66.1
2. Others**	78.0	91.0	520.6	37.4	38.8	35.9	669.5

*includes allotment to LGUs, interest payments, subsidies, tax expenditures

**includes equity, capital transfers to LGUs, CARP land acquisition and credit

Source: Department of Budget and Management

However, PS, MOOE and IOCO disbursements were still below programmed in the first half.

National Government Debt

Against the backdrop of a sluggish US economic recovery and escalation of the debt crisis in Europe, the Philippines gained significant ground toward a more favorable debt position. Sustainability consistent debt continued to improve behind modest deficit levels, moderate economic growth, and the strengthening of the peso. NG debt-to-GDP ratio fell from 52.4 percent in 2010 to 50.9 percent in 2011, continuing its downward trajectory but still shying from the targeted ratio of 42.8 percent by 2016. Such a trend continued until the first half of 2012, as NG outstanding debt/GDP ratio further declined to 47.1 percent owing to fiscal restraint and prudent debt management.

Debt management strategy of the government involved the minimization of exposure to foreign exchange shocks as well as making most out of the favorable domestic interest rates. Under this thrust, efforts have been made in the rebalancing of debt towards domestic obligations. By targeting a borrowing mix that heavily favors domestic debt, the share of foreign debt to total NG debt has been reduced from 42.4 percent in 2010 to 42 percent in 2011. Debt issued offshore totaled PhP194.3 billion while that from domestic sources reached PhP364.7 billion. Global bond issuances made up the balance of foreign borrowings. The swift execution of two benchmark bond offerings early

in 2011 also reaffirmed the strong confidence of the international investor community.

A better measure of exposure to foreign exchange swings is the foreign currency denominated debt. Further reductions in the foreign currency component of debt mean less exposure to foreign exchange fluctuations. The issuance of the new 25-year Global Peso Notes (GPN) doubled the peso component of external debt. Stripping off this peso component, the share of foreign currency denominated debt is reduced to 40 percent from 41.5 percent. The ratio of fixed rate-to-floating rate debt moved to 86:14 in 2011, from the 84:16 in 2010, limiting interest risk to only 14 percent of foreign debt from 16 percent in 2010. In recognition of the government's fiscal consolidation efforts and proactive liability management, Moody's and Fitch Ratings Services upgraded the country's sovereign credit rating from Ba3 to Ba2 (2 steps below investment grade) and from BB to BB+ (one notch below investment grade), respectively, on June 2011.

The NG raised PhP559 billion from borrowing activities in 2011. Of this amount, PhP443.8 billion was used to refinance maturing debt while the remaining PhP115.3 billion financed the deficit. In hindsight, the decision to frontload commercial borrowings paid off as market jitters from the ensuing debt crisis would later tighten liquidity and send sovereign spreads soaring. An additional US\$50 million was also raised via

Table 2-10. Expenditure Program by Sector (in Billions of Pesos)

Particulars	2010 Actual	2011 Actual		2012 Adjusted		Share to Total	
	P billion	P billion	q.r. (%)	P billion	q.r. (%)	2011 Actual	2012 Adjusted
Economic Services	380.7	366.1	-3.8	439.0	19.9	23.2	24.2
Social Services	447.3	544.9	21.8	613.4	12.6	34.5	33.8
Defense	72.2	71.0	-1.6	87.2	22.8	4.5	4.8
General Public Services	269.3	301.0	11.8	320.3	6.4	19.0	17.6
Net Lending	9.3	18.1	95.5	23.0	27.1	1.1	1.3
Debt Service	294.2	279.0	-5.2	333.1	19.4	17.7	18.3
Total (Net of Debt Amortization)	1,473.0	1,580.0	7.3	1,816.0	-	100.0	100.0

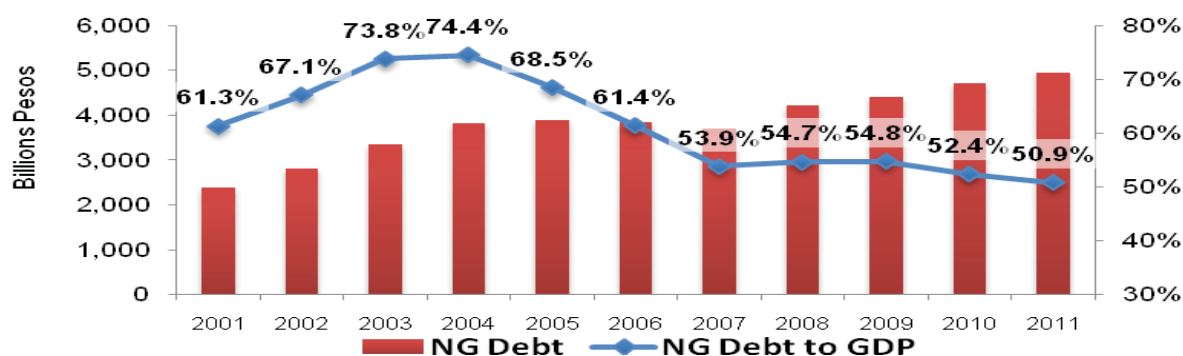
Source: Budget Expenditures and Sources of Financing 2012 and 2013

tap of the 2034 ROP to facilitate the liability management exercise in October 2011.

Such efficient debt management strategy was reflected in the ratio of interest payments to total budget, as this indicator declined to 17.9 percent from 19.3 percent. Even as nominal debt levels have risen, interest payments for 2011 fell by PhP15.3 billion compared to the previous year. The government targets to further reduce

this to 13.1 percent by 2016, which appears to be achievable given the rate that the debt management strategy is affecting the portion of interest payment annually. For January to June 2012, interest payment to budget ratio is high at 18.9 percent, but lower than the 19.2 percent posted in the same period in 2011. Improved market confidence as a result of material progress in debt management helped NG reduce its borrowing costs. Apart from the strengthening

Figure 2-3. NG Debt and Debt to GDP Ratio (2001-2011)
NG Debt and Debt-to-GDP Ratio



Source: Department of Finance

Table 2-11. Outstanding Public Sector Debt (as of December 1, 2011) (in billions of PhP)

	2010	1H2011	2011
Total Consolidated General Government Debt	3,913.10	3,741.40	4,079.20
% of GDP	43.5	38.4	41.9
Domestic	1,912.40	1,691.00	2,001.10
% of GDP	21.2	17.4	20.6
Foreign	2,000.70	2,050.50	2,078.10
% of GDP	22.2	21.1	21.3
Total Consolidated Nonfinancial Public Sector Debt	4,933.20	4,802.80	5,426
% of GDP	54.8	49.3	55.7
Domestic	2,265.60	2,107.80	2,743.4
% of GDP	25.2	21.7	28.2
Foreign	2,664.60	2,695.00	2,682.60
% of GDP	29.6	27.7	27.6

peso, increased investor appetite for Philippine debt allowed the government to refinance its maturing debt at lower interest rates, hence, the reduction in borrowing costs. Likewise, the improvement of the utilization of available Overseas Development Assistance (ODA) funds of PhP13.4 billion over 2010 efforts also serve as signal for the further easing of the debt burden in the medium term.

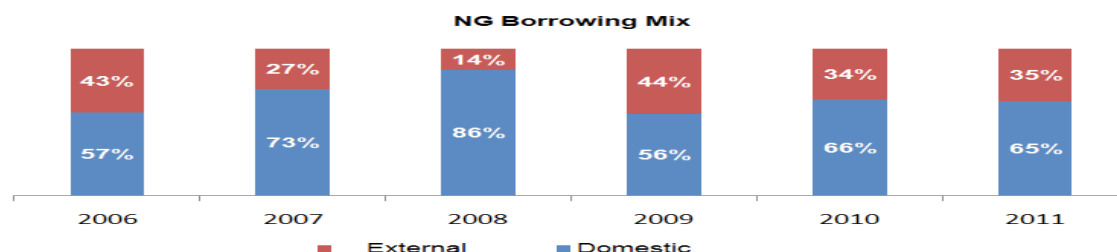
Monetary and External Sectors

For the last two years, overall macroeconomic stability was maintained, despite pressures from the ongoing global financial crisis. Notwithstanding the sluggish external demand in advanced economies which hampered trade activity during the period, the Bangko Sentral ng Pilipinas' (BSP) monetary policy stance remained committed to a stable and low inflation

environment conducive to achieving sustainable economic growth. Table 2-17 presents the Results Matrix of Macroeconomic Policy which summarizes the performance of trade activity and inflation in 2011 and first six months of 2012. Export receipts and import payments in 2011 achieved approximately 85.0 percent and 87.0 percent of its target, respectively. Meanwhile, headline inflation settled within the target in 2011 at 4.6 percent and at the low-end of the target in 2012 at 3.0 percent.

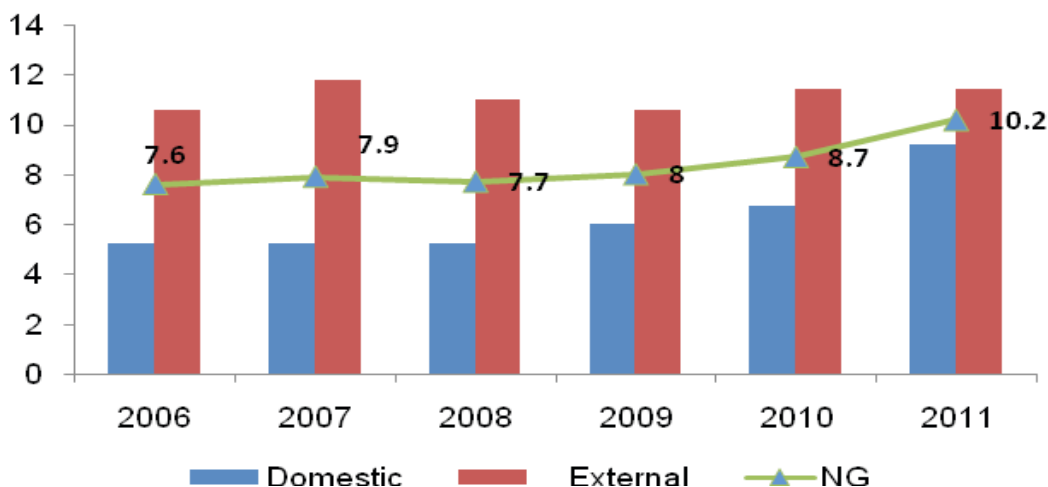
In the succeeding sections of this Socioeconomic report, performance and accomplishments for the period 2010 to the first six months of 2012 of some of the most important components of the monetary and external sectors will be discussed along with the ongoing challenges, prospects and the policy directions for the sector.

Figure 2-4. NG Borrowing Mix



Source: DOF

Figure 2-5. Global Peso Notes (2006-2011)



Source: DOF

Table 2-12.Total Interest Payments

	Target		Actual			
	S2 2010	FY 2011	S1 2011	S2 2011	2011	S1 2012
Interest Payments (in Billion Pesos)	147.5	na	134.5	144.5	279	150
Ratio to Total Budget	20.1	na	19.2	16.8	17.9	18.9

Table 2-13.Performance of the Monetary and External Sectors: 2010 – January to June 2012

Indicators	Baseline FY 2010	Target FY 2011	Actual FY 2011	Accom- plishment	Target FY 2012	Actual H1 2012	Accom- plishment	End of Plan Target 2016	Accom- plishment
Inflation rate (%)	3.9%	3.0-5.0%	4.6%	within	3.0-5.0%	3.0	n.a.	3.0-5.0% (2011-2014)	n.a.
Exports, BOP (US bn)	50.7	55.3-55.8	47.2p/	85.4-84.6%	62.5	12.7 (Q1 2012)	n.a.	109.4	n.a.
Imports, BOP (US bn)	61.7	71.5-72.1	62.7p/	87.7-87.0%	85.1	16.7 (Q1 2012)	n.a.	167.8	n.a.
ER (P/US\$)	45.11	n.a.	43.31	n.a.	n.a.	42.91	n.a.	n.a.	n.a.

Inflation Rate

Since 2010, the annual average headline inflation rate has remained within the 3.0 to 5.0 percent target range set in the Philippine Development Plan (PDP) (Table 2-18). The year-on-year headline inflation rate for the years 2010 and 2011 were at 3.9 percent and 4.6 percent, respectively. In 2011, inflation rose primarily due to higher inflation outturns for food and oil prices. Most food commodity items and oil posted higher prices due to supply constraints brought about by adverse weather conditions and protracted tensions in the Middle East and North Africa (MENA). On the other hand, the average headline inflation for the period January to June 2012 decelerated to 3.0 percent compared to 4.7 percent for the same period last year. The relatively slower increments in the prices of food and transport-related commodities as well as weak price pressures from the international commodities market because of subdued global growth prospects supported the decline of inflation pressures during the period.

In the course of these developments concerning commodity prices, the monetary policy setting remained consistent with price stability and supportive of noninflationary economic growth. In 2010, the overnight borrowing or reverse

repurchase (RRP) rate was kept at 4.0 percent and 6.0 percent for the overnight lending or repurchase (RP) facility due to relatively benign outturn in commodity prices, within target range inflation outlook, and well-anchored inflation expectations. However, stronger signs of and broadening inflation pressures in 2011 has tilted the balance of risks to the upside which eventually warranted the upward adjustment in policy rates to safeguard price stability. Policy rates on March 24 and May 5, 2011 were raised by a total of 50 basis points to 4.5 percent for the overnight borrowing or RRP facility and to 6.5 percent for the overnight lending or RP facility. The BSP also increased reserve requirements (RR) on deposits and deposit substitutes of all banks and nonbanks with quasi-banking functions by one percentage point each during its policy meetings on June 16 and July 28, 2011 to better manage liquidity in the system. This preemptive move was deemed essential to counter negative feedback from continued strong capital inflows, which were driven by positive market sentiment on the Philippine economy, that could fuel domestic liquidity growth and contribute to upside risks to the inflation outlook. On the other hand, on January 19 and March 1, 2012, when assessment of future direction of inflation indicated that the

rate will most likely settle within the lower half of the 3.0 to 5.0 percent target range in 2012 and 2013, the BSP reduced its key policy rates by a total of 50 basis points, bringing RRP and RP rates to 4.0 percent and 6.0 percent, respectively. Meanwhile, an operational adjustment in banks' RR was effected on April 6, 2012 to increase the effectiveness of RR as a monetary tool, simplify its implementation, and ensure adequate liquidity in the system (Circular No. 753 dated 29 March 2012).⁶ The BSP likewise implemented a reduction in the RR ratios to take into account the possible impact of said operational adjustments on banks' intermediation cost.

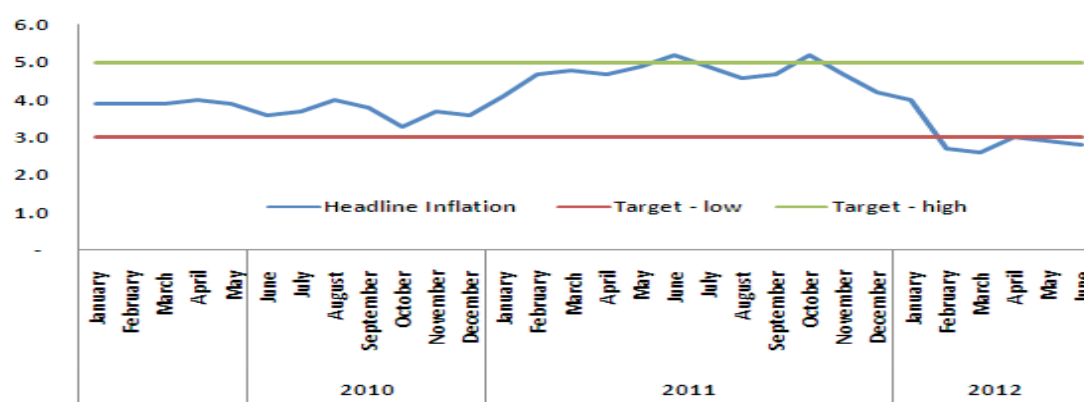
In order to articulate its support for the NG's use of nonmonetary measures to address supply-side risks, particularly those related to food supply and oil prices, the BSP participated actively in interagency meetings of the Development Budget Coordination Committee (DBCC) and other government bodies, such as the National Price Coordinating Council (NPCC) and the National Food Authority (NFA). To institutionalize fully the management of risks involved in the conduct of monetary policy and to ensure that risks to the attainment of the inflation target are incorporated

in the formulation of monetary policy, the BSP continued to improve upon its suite of inflation forecasting models as well as employ its Early Warning Systems (EWS) on Business Cycles, Currency Crisis, and Debt Sustainability. Going forward, the BSP will continue to monitor emerging price and output conditions to ensure that monetary policy remains in line with price stability while being supportive of economic growth.

Bank Lending

The reduction in the BSP policy rates fed into lower bank lending rates. From 2010 to June 2012, bank lending, net of banks' RRP placements with the BSP, continued to expand at a slightly faster pace of 14.9 percent relative to the previous month's growth of 14.7 percent (Figure 2-7). The net increase in demand for loans by businesses and households can be traced to the improved economic outlook, relatively low interest rates, and increased working capital needs for businesses while for households, the attractive terms of financing and low interest rates offered by banks were the main factors for higher loan demand.

Figure 2-6. Inflation Rate (2006=100)



Source of Data: National Statistics Office (NSO)

6 The adjustments consisted of: (a) the unification of the existing statutory and liquidity RR into a single set of RR; (b) the nonremuneration of the unified RR; and (c) the exclusion of vault cash (for banks) and demand deposits (for nonbank financial institutions with quasi-banking functions) as eligible forms of RR compliance. These adjustments in the RR took effect on 6 April 2012.

Balance of Payments

The country enjoyed a healthy external payments position during the past two years despite uncertainties in the global environment and heightened risk aversion of investors following weak growth prospects of advanced economies.

The Balance of Payments (BOP) yielded surpluses of US\$14.3 billion in 2010 and US\$10.2 billion in 2011. The lower level in 2011 reflected the weak performance of both the current and the capital and financial accounts. The current account was pulled down by the contraction in the exports of goods in 2011. Nonetheless, the current account remained in surplus at US\$7.1 billion (or 3.1% of GDP) in 2011, compared with US\$8.9 billion (or 4.5% of GDP) in 2010, on the back of resilient remittances, strong revenues from business process outsourcing (BPO) services, and higher income receipts. Lower net inflows were recorded in the capital and financial account at US\$5.2 billion in 2011, compared with US\$7.4 billion in 2010, as a result of dampened investor sentiment, following renewed concerns over a deepening European financial crisis towards the end of 2011 and slower growth of the Philippine economy in the third quarter.

For the first quarter of 2012, the current account posted a surplus of US\$882 million (or 1.6% of GDP) as merchandise trading activity slowly rebounded, with both exports and imports of goods registering growth of 5.5 percent and 4.7 percent, respectively. This was, however, 8.1 percent lower than the current account surplus of US\$960 million (or 1.9% of GDP) for the same period last year. The surplus was sustained by net receipts in current transfers and services, which offset the higher payments in the income accounts and widening trade-in-goods deficit. Rising global demand for professional and skilled Filipino workers and the continuous growth in the BPO industry boosted current transfers and receipts in services. The country's IT-BPO industry got a major boost after President Aquino's approval of a PhP500 million fund for the Technical Education and Skills Development

Authority (TESDA) which will provide short-term training for "near-hire" applicants who require remedial training.⁷ Meanwhile, the capital and financial account also yielded a net inflow in the first three months of 2012 of US\$962 million, although lower than the recorded US\$3.7 billion net inflows in the same period last year, as higher net inflows in the direct investments and capital accounts failed to cover the lower net inflows in portfolio investments and financial derivatives and net outflows in other investments. This reflects the more cautious stance of investors in the face of continuing financial woes in some European countries.⁸

This surplus in the BOP implies that the economy has earned more than spent externally, allowing for the steady build-up of international reserves, fortifying the country's resilience against external shocks. The external debt ratio or outstanding external debt as a percentage of GDP improved from 30.1 percent as of end-2010 to 27.5 percent as of end-2011.⁹ As of end-May 2012, the same trend was observed with the ratio registering at 27.4 percent compared to 29.5 percent in 2011. On the other hand, the external debt service ratio (DSR)¹⁰ slightly increased to 8.9 percent by end-2011 from 8.7 percent in the previous year due to a decline in exports receipts as the Eurozone and the US crises sapped global demand. Nevertheless, DSR improved in end-May 2012 to 7.1 percent from 9.2 percent recorded for the same period last year. The ratio has remained well below the 20 to 25 percent IMF benchmark, indicating that the country has sufficient foreign exchange earnings to service maturing principal and interest payments during the year.

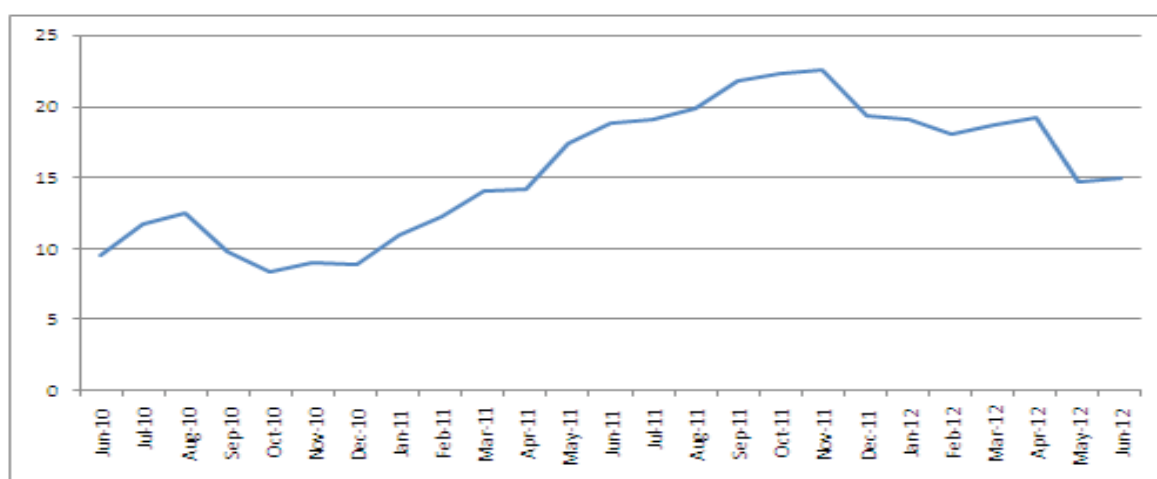
Gross International Reserves

The GIR reached US\$75.3 billion by end-December 2011, or 20.7 percent higher than the end-2010 GIR level of US\$62.4 billion (Figure 2-9). At these levels, reserves could sufficiently cover 11.3 months' worth of imports of goods and payments of services and income in 2011, and 9.5 months in 2010. These are also equivalent to 10.7 times in 2011 and 9.9 times in 2010

the country's short-term external debt based on original maturity and 7.0 times in 2011 and 5.6 times in 2010 based on residual maturity.¹¹ In addition, GIR as of the end-June 2012 rose to US\$76.3 billion, higher by US\$0.2 billion than the end-May 2012 level of US\$76.1 billion. The end-June 2012 GIR level could adequately cover 11.2 months worth of imports of goods and payments of services and income. It is also equivalent to 10.3 times the country's short-term external debt based on original maturity and 6.0

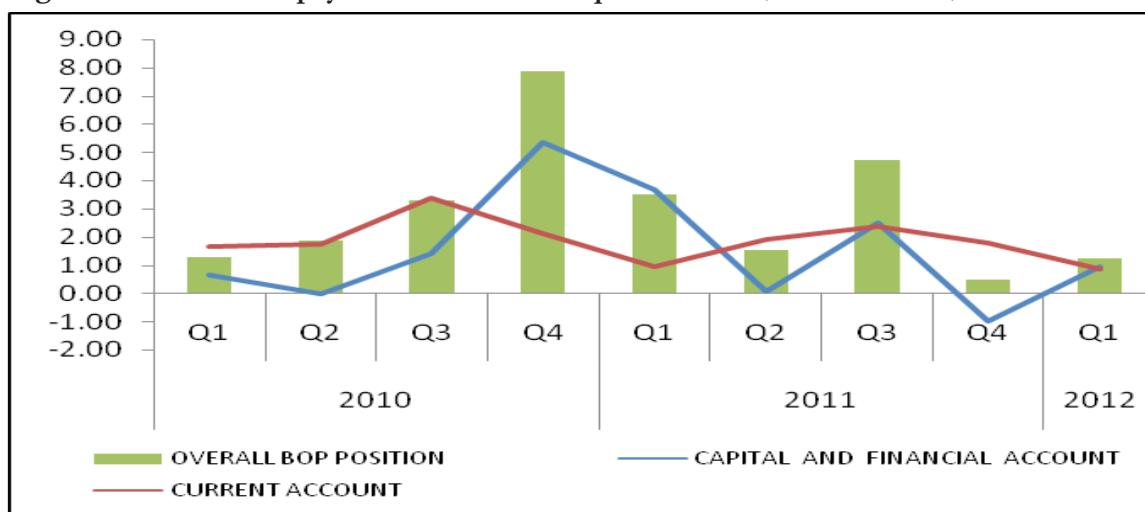
times based on residual maturity. The increase in the end-June 2012 GIR level was due mainly to foreign exchange inflows from investment income abroad of the BSP, foreign currency deposits by banks as well as revaluation gains on the BSP's gold holdings arising from the increase in the price of gold in the international market. These were partially offset, however, by outflows from the payments by the NG and the BSP for their maturing foreign exchange obligations.

Figure 2-7. Annual Growth Rates of Total Loans Outstanding Net of RRP (in percent)



Source of Data: Bangko Sentral ng Pilipinas (BSP)

Figure 2-8. Balance of payments: 2010 to 1st quarter 2012 (in US\$ billion)



Source of Data: Bangko Sentral ng Pilipinas (BSP)

7 Sourced from <http://dti.gov.ph/uploads/DownloadableForms/Upbeat%20No.%202012-Canada%20keen%20on%20PHL.pdf>.

8 Sourced from http://www.bsp.gov.ph/downloads/Publications/2012/BOP_1qtr2012.pdf.

Exchange Rate

The peso continued to strengthen from PhP45.11/US\$1 in 2010 to PhP43.31/US\$1 in 2011 on the back of sustained inflow of overseas Filipino remittances, portfolio investments and foreign direct investments (FDIs). For the first six months of 2012, the peso-dollar rate averaged stronger at PhP42.78/US\$ compared with PhP43.37/US\$ in the same period of the previous year despite fiscal and banking concerns in the Euro area. The continued inflow of foreign exchange remained the fundamental driver of the peso's strength as improved manufacturing data of US and China buoyed market sentiment and spurred foreign exchange inflows to Asia, including the Philippines.¹²

Philippine Sovereign Debt Credit Rating

Since the Aquino Administration assumed office in June 2010, the country has earned seven positive sovereign credit rating actions as of end-June 2012 (four positive and three rating upgrades) on account of sustained economic growth, strengthening external payments

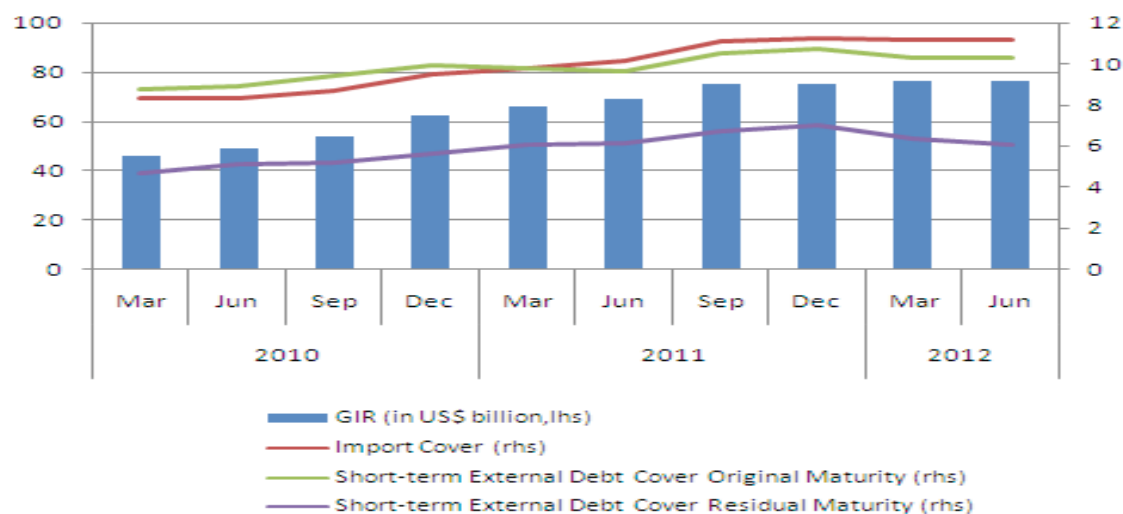
position, improving fiscal dynamics, and implementation of governance reforms. On May 29, 2012, New York-based Moody's Investors Service upgraded the credit rating outlook of the Philippines to positive from stable. On June 23, 2011, Fitch likewise upgraded the country's foreign currency long-term bond credit rating to BB+ from BB with a stable outlook, one notch closer to investment grade. Meanwhile, S&P revised its rating outlook for the Philippines to positive from stable on December 16, 2011.¹³ Table 2-18 provides the current credit rating of the Philippines along with the date of the latest upgrade.

Challenges

Fiscal Sector

Achieving the revenue targets of the government is heavily dependent on several factors including the attainment of macroeconomic targets such as GDP growth, inflation, exchange rate, merchandise imports growth, treasury bill rates, efficient tax administration, and approval of tax reform laws. Therefore, any development involving

Figure 2-9. Gross international reserves and reserve adequacy measures: 2010 to June 2012



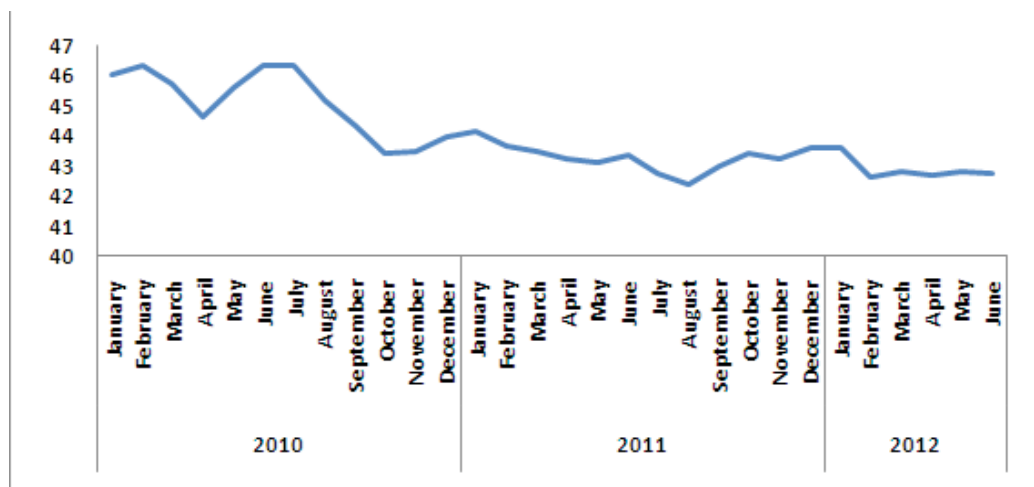
Source of Data: Bangko Sentral ng Pilipinas (BSP)

9 As of this writing, 28 June 2012, there is no available data yet for 2012.

10 Proportion of total principal and interest payments to total export of goods and receipts from services and income

11 Short-term debt based on residual maturity refers to outstanding external debt with original maturity of one year or less, plus principal payments on medium- and long-term loans of the public and private sectors falling due within the next 12 months.

Figure 2-10. Peso-USD Average Exchange Rate: January 2010 – June 2012



Source: Bangko Sentral ng Pilipinas

Table 2-14. Philippine sovereign credit ratings (As of June 2012)

Rating Agency	Rating Period	Local Currency (LT/ST)	Foreign Currency (LT/ST)	Outlook
Moody's	May 2012	Ba2/n.a.	Ba2/n.a.	Positive
S&P	December 2011	BB+/B	BB/B	Positive
Fitch	June 2011	BBB-/n.a.	BB+/B	Stable

Source: Standard & Poor's; Fitch Ratings

these variables would consequently impact on the fiscal targets. Most recent challenges include the slowing down of merchandise imports particularly in the electronics sector, as well as tariff reduction agreements resulting in a lower tax base for import duties of the BOC. These factors have not been effectively taken into account when the assumptions for the Plan were made. In addition, significant losses due to deficiencies on the income tax collection such as tax leakage problems still persist, and must be continuously addressed.

On the expenditure side, the government has achieved significant results from the reforms executed in the previous year. Building on these results, the government has a clearer direction for

its good governance and development agenda. Given that the national budget is instrumental to economic growth, the spending strategy was even strengthened with the reallocation of the budget towards social services in order to create deeper impact in the lives of many people, within the theme of rapid, inclusive and sustainable growth through poverty reduction and empowerment of the poor. The government has introduced measures to review and assess existing project cost structures, quality standards and procurement process to improve quality and delivery of ongoing programs/projects, particularly for the infrastructure sector. Sustainability of these reforms continues to be a challenge, especially the improvement of the absorptive capacities of government agencies.

12 US Purchasing Managers Index (PMI) registered 54.8 percent, an increase of 1.4 percentage points from March's reading of 53.4 percent, indicating expansion in the manufacturing sector for the 33rd consecutive month. (Source: Institute of Supply Management). Meanwhile, China's PMI climbed to 53.3 percent in April 2012, 0.2 percentage point higher from a month ago (Source: the China Federation of Logistics and Purchasing).

As the country is still within the framework of deficit spending, the debt outlook must continuously be monitored to ensure that it is on track of financing the Plan at the least cost. The medium-term debt strategy of the government covers three main objectives: first, to meet the financing requirement of government given the moderate level of risk at the lowest cost; second, to restructure the mix towards less foreign currency denominated debt and third, to support a healthy domestic capital and debt market environment. Challenges in meeting these objectives range from many factors. Foreign exchange risk exposure and roll over risk due to the global crises can burden the cost of borrowing and leave the country with less control on its long-horizon debt path, and pose considerable amount of risk to the resulting annual interest payouts. Vulnerabilities of the domestic capital and securities market, on the other hand, require government support in developing a favorable environment to ensure that any shocks to the domestic economy will cushion its capacity to finance any ensuing crisis-related deficit. Information asymmetry in terms of the issuance of debt can dampen the efforts of the government to predict financing needs as well as speculation problems. Contingent liabilities arising from GOCCs and PPPs from the public sector on the other hand continue to post significant cost to the budget and to long term debt which requires strict monitoring and surveillance.

Monetary and External Sectors

While Philippine macroeconomic conditions remained relatively resilient amidst the ongoing global financial crisis, the economy nonetheless faces a number of challenges that requires constant vigilance over emerging risks, as well as careful mapping of strategic policy actions and choices.

Downside Risk from Weak Demand From Advanced Economies May Continue

After suffering a major setback in 2011, global prospects for 2012 are gradually strengthening again, but downside risks remain elevated. The International Monetary Fund (IMF) in its

April 2012 World Economic Outlook Update projected that global growth could drop from about 4 percent in 2011 to about 3½ percent in 2012 because of weak activity during the second half of 2011 and the first half of 2012. The January 2012 WEO Update has already marked down the projections of the September 2011 World Economic Outlook, mainly due to the effects of the deteriorating sovereign and banking sector developments in the Euro area. For most economies, including the Euro area, growth is now expected to be modestly stronger than predicted in the January 2012 WEO Update.

Capital Flows Are Expected To Be Volatile

Capital inflows could be beneficial to recipient countries because they provide funding for much-needed investment. However, the sustained surge of foreign capital could complicate liquidity management, create pressures for currencies to appreciate, and lead to financial systemic stresses. The risks become starker because of the possibility of sudden stops and capital flow reversals, as global shifts in sentiment can cause significant volatility even in countries that have strong fundamentals.

The recent sovereign and banking crises in the Euro area led to weaker external environment. In turn, several emerging market economies have also been hit by increases in investor risk aversion and perceived growth uncertainty. With the unfavorable outlook on Euro area economies, capital flows are likely to stay volatile, complicating policymaking (Figure 2-11).¹⁴

Volatility In Asset Prices May Ensur

Several studies suggest that rapid credit growth accompanied by strong asset price growth is a good leading indicator and powerful signal of a developing financial crisis.¹⁵ Increases in asset prices that are not backed by fundamental measures and/or reforms may lead to risk build-up that may eventually lead to a collapse and can have devastating effects on the economy. For the Philippines, however, indicators or measures of asset price bubbles point to a contained state.¹⁶

¹³ It may be useful to note that on 4 July 2012, S&P raised the country's credit rating by a notch, citing lower debt burden and other positive developments.

- For the nominal exchange rate, the bubble estimates for 2010 and 2011 increased following a decline in 2009, but the sizes are still smaller than those of past episodes and are not irrational bubbles;¹⁷
- For the composite price index, financial stock price, and property stock prices, the risk of having bubbles is declining; and
- For housing prices, there is no significant bubble episode since the one experienced in the 1980s.

Prospects and Policy Directions

Fiscal Sector

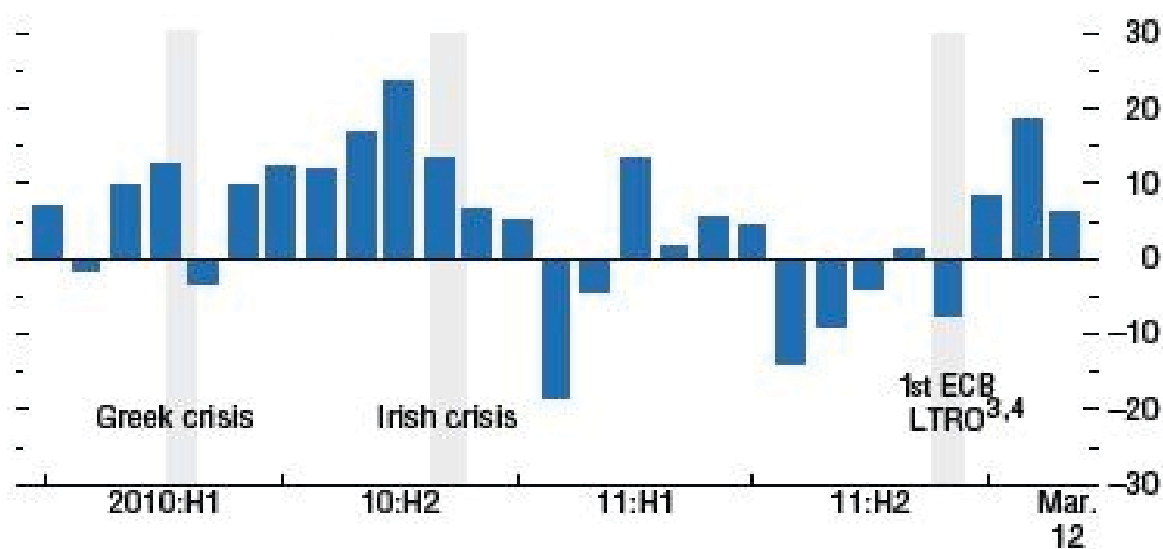
In the medium term, the government remains committed to bring down the deficit and debt to manageable levels. Reforms in tax administration implemented during the past years provided the ground work to support the government's thrust in fiscal sustainability and strong anticorruption advocacy. Several programs were instituted and are being rigorously implemented to run after

corrupt officials, tax evaders and smugglers. Enhancement of revenue and collection efforts of the BIR include programs that eradicate avoidance and improve collection efficiency and audit through better computer assisted systems and investigative tracking that aim to penalize the erring. The BOC, on the other hand, plan to continuously operate its automation innovations for faster valuation data exchange, facilitate computerized operations-related information, and the ensure greater involvement of the private sector in combating smuggling.

To better improve the tax structure, key reforms aimed at complementing the efforts to improve tax administration call for urgent legislative action. These laws are aimed to simplify the tax system, remove unnecessary incentives, and close loopholes causing avoidance, evasion, and smuggling. These priority bills include the Simplified Net Income Taxation Scheme, Strengthening the Anti-Smuggling Provisions of the Tariff and Customs Code Customs and Tariff Modernization Act, the Fiscal Incentives Rationalization and the Excise Tax Reform on Alcohol and Tobacco Products.

The recent underspending compared to programmed levels and the inefficiencies and

Figure 2-11. Net capital flows to emerging markets (in US\$ billion, monthly flows)



Source of Data: IMF WEO Update, April 2012

14 From the April 2012 World Economic Outlook Update of the International Monetary Fund, page 6.

inconsistencies in the procurement system has led the government to undertake several measures. Resource usage is planned to become more effective through appropriate disbursement report assessments. Transfer of resources from slow to fast moving programs allows the government to better achieve its objectives as espoused in the budget and plan. Procurement reforms will now allow agencies to see available resources and orders in real time, through a common portal for government procurement. The government will continue to increase spending, particularly for priority sectors, which simultaneously allowing it us meet the Millennium Development Goals and bring the spending levels for infrastructure, education and health to more respectable levels, comparable with other Asian countries.

The historically irreconcilable linkage between planning and budgeting has now become better intertwined with the institutionalization of the Medium-Term Expenditure Framework. In this connection, improved budgeting schedules allowed the government to have the national budget approved in time for the annual targets of different segments of the government. The Personal Services spending which used to reflect an oversized government may now be streamlined by the rationalization program which aims to remove institutional inefficiencies. Compensation of GOCCs/GFIs may also now be rationalized to reduce the liabilities inherited by the NG in the Public Sector scale. The intelligent use of technology to improve transparency as well as to unify the budgeting, accounting, and audit system has also been put in place. Internal audit also augments this thrust by guiding agencies through a manual intended to serve as guide for the road to better governance.

Towards bringing down the debt to manageable level, the government will continue to pursue its three medium term objectives. These are: (a) to meet the government's financing requirement at minimal costs consistent with an acceptable level of risk; (b) to reduce NG foreign currency denominated debt; and (c) to further support the

development of the domestic and capital market. In order to minimize foreign exchange risks, the government will reduce its dependence on foreign currency denominated debt. The maturity profile of NG debt will be lengthened through bond exchange to mitigate risks associated with refinancing or roll-over issues. The government will also adopt greater transparency and predictability in debt issuances and management, and will consolidate debt management in order to include other public sector entities. Lastly, the debt management functions and existing capacities in the newly established Debt and Risk Management Division of the DOF will be institutionalized and developed.

Monetary and External Sectors

While baseline inflation forecasts point to the lower end of the 3.0 to 5.0 percent target range for both 2012 and 2013, monetary authorities will continue to monitor emerging price and output conditions to ensure that monetary policy remains supportive of sustained noninflationary economic growth.

On the external front, policymakers will ensure that programs and projects will remain supportive of efforts to cushion the economy from external shocks. A market-determined exchange rate and a comfortable level of international reserves will be maintained. External debt sustainability will be promoted by keeping the country's outstanding external debt manageable and within the economy's capacity to service in an orderly manner. Moreover, key reforms that will strengthen the regulatory and supervisory framework and enhancement of responsible risk management by banks will be sustained in order to maintain the stability of the financial system. Policy initiatives will continue to focus on aligning prudential standards with international norms, and enhancing the implementation of existing banking rules and regulations.

The recent financial crisis has highlighted the increasingly interconnected global financial

15 See for instance IMF Global Financial Stability Report (2011), Bioxham et al. (2011), Gerdesmeier et al. (2009), Borio and Lowe (2004)

16 Estimates provided by the BSP-Department of Economic Research BSP-DER).

17 The BSP-DER model assumed 10 percent as a reasonable threshold size for an irrational bubble. An irrational bubble is defined as the component of an asset price that cannot be explained by long-term fundamentals and by market imperfections.

markets that cut across national boundaries. For this reason, monetary authorities shall actively participate in regional and international cooperation programs, recognizing the opportunity and benefits of collaborative engagement. Specifically, the BSP will continue its active participation in ASEAN meetings, the Chiang Mai Initiative Multilateralization, Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Monetary and Financial Stability Committee, and other regional cooperation undertakings.

Moreover, the BSP's commitment of US\$1 billion to the IMF's crisis-fighting fund pool and its pledge contribution of US\$500 million to the IMF's expanded New Arrangements to Borrow (NAB)¹⁸ program supports the global efforts in stabilizing the world economy and maintaining its growth path. As a member of the global community of nations, the Philippines also benefits from economic and financial stability across the globe. Europe is an important trading

and financial partner of the Philippines. If this region deteriorates and its financial markets become dysfunctional, exports receipts, OF remittances and investments to the Philippines will be reduced.

The BSP will also continue to mainstream financial inclusion in its domestic policy agenda. The BSP's proactive stance in microfinance has been evident in the continued implementation of various initiatives in areas of policy and regulation, advocacy, and training and capacity building to support the development of a sustainable microfinance business environment in the country.

Finally, through its Economic and Financial Learning Program, the BSP will continue to promote greater public awareness of economic and financial issues and provide information to enable households and businesses to make well-informed economic and financial decisions.

18 The pledge from the Philippines to the NAB program of the IMF is on top of the country's contribution of \$251.5-million to the Financial Transactions Plan (FTP), another lending facility of the IMF. The FTP is the mechanism by which the Fund finances its lending and repayment operations through a transfer of foreign exchange from members with strong external position to borrowing members. The Philippines holds a creditor (or reserve) position in the IMF through its participation in the Fund's FTP. By virtue of their participation in the FTP, emerging market economies like the Philippines have joined international cooperation efforts to mitigate the spillover effects of Europe's sovereign debt crisis by enhancing global financial safety nets. Most important, the country's continued participation in the FTP will pave the way for the BSP's admission in the New Arrangements to Borrow (NAB) facility of the IMF, a credit (lending) arrangement between the IMF and member countries or institutions which aims to forestall or cope with difficult situations that could impair the international monetary system. The participation in the NAB would be a significant step in strengthening international cooperation. This would also demonstrate the BSP's strong commitment to global efforts to help address threats to the international monetary system.

Chapter 3. Competitive Industry and Services Sectors

Assessment

Industry and services grew moderately in 2011 but picked up considerably in the first half of 2012 due to policies and programs that were put in place. The growth posted by industry in the first half of 2012, however, is below the target set in the Philippine Development Plan 2011-2016, while that of services is within the target. Appropriate program and policy interventions allowed the Philippines to enjoy greater investors' confidence and better competitiveness rankings in 2012.

Industry and Services Sectors' Performance

The industry and services (I&S) sectors grew by 2.3 percent and 5.1 percent, respectively, in 2011. Improved performance was posted in the first half of 2012 with industry growing by 5.4 percent and services by 7.7 percent from the same period in 2011. Industry growth in the first half of 2012 is below the annual average growth target in the PDP of 8.1-9.1 percent while services growth is within the 7.1-8.0 percent target.¹

Table 3-1. Table of Key Indicators

Key Indicator	Baseline	Actual		End of Plan Target
	FY 2010	FY 2011	HI 2012	2016
GVA growth rate (%)				
Industry	4.9 a	2.3	5.4 b	8.1-9.1 c
Manufacturing		4.7	5.2	
Construction		(7.3)	9.2	
Mining & Quarrying		7.0	(8.2)	
Elec., Gas & Water Supply		0.6	7.2	7.1-8.0 c
Services	6.0 a	5.1	7.7	
Employment in industry and services sectors (In million)	24.1	24.9 5.5	25.3 d	28.8 e
Industry	5.4	19.4	5.7g	n.a.
Services	18.7		19.6 g	n.a.

a Average GVA growth rate for period 2004-2010 based on constant prices, 2000=100

b Growth rate in 1st half of 2012 from the same period in 2011

c End-of-Plan average annual growth rate targets

d Average employment as of January and April 2012 Labor Force Surveys (LFS)

e End-of-Plan employment target is additional of 4.67 million by 2016.

f Total employment (Agriculture, Industry and Services) is 36.0 million in 2010; 37.2 million in 2011; and 37.6 in Jan-Jun 2012.

g There was a change of industry classification beginning 2012 and some activities/divisions from the industry sector were transferred to the services sector, and vice versa. In 2012, Employment data are based on the 2009 Philippine Standard Industry Classification (PSIC). Prior to that, 2004 PSIC was used.

¹ From the baseline values of 4.9 and 6.0 percent average GVA growth rates (at 2000 constant prices) for the period 2004-2010

The weak performance of industry in 2011 was due to the decline in construction (-7.3%), particularly public construction, owing to the review and realignment of government projects during the year. Lower than expected performance was also noted in the electricity, gas and water supply subsectors (Annex 1). The improved performance of industry in the 1st half of 2012 is due to the rebound in construction (9.2%), manufacturing (5.2%), and the electricity, gas and water supply (7.2%) subsectors.

The services sector's growth in 2011 was propelled by real estate, renting and business activities; financial intermediation; and other services which grew by 9.3 percent, 5.2 percent and 6.6 percent respectively (Annex 2). Transport, storage and communication; trade and repair of motor vehicles, motorcycles, personal and household goods; as well as public administration, defence and compulsory social security also recorded positive growth for the year. For the 1st half of 2012, the services sector grew by 7.7 percent from the same period in 2011. Transport, communication and storage; real estate, renting and business activities; and other services continued to lead the growth of the sector. The growth in real estate, renting and business activities is due to the steady demand for real properties from overseas Filipinos and their beneficiaries.²

Employment in the I&S sectors totalled 24.1 million in 2010. By 2016, the government targets an employment level of 28.8 million in these sectors, or an additional 4.67 million jobs generated for an annual average of around 788,000 from 2011 to 2016 (Annex 1).

From 2010 to 2011, I&S generated 847,000 additional employment, 715,000 (84%) of which were in the services sector. Industry employed an additional 132,000 (16%) of which 49,000 were in manufacturing. In the 1st half of 2012,

I&S generated around 791,000³ additional employment. The I&S sectors' actual employment performance is within the country's medium-term target. As of the first half of 2012, additional employment in I&S totalled 1.6 million or 35 percent⁴ of the targeted 4.67 million additional employment.

Global Competitiveness Ranking

Improvements in the ranking of the Philippines in global competitiveness reports were noted. The Philippines ranked 65th out of 144 countries and advanced 22 places from its lowest rank in 2009, according to the WEF Global Competitiveness Report 2012-2013. The report attributed the improved ranking to progress made in the following factors: public institutions (94th, up by 23 places), trust in politicians (95th, up by 33), corruption (108th, up by 11) and red tape (108, up by 18). The macroeconomic environment (36th, up by 18) and financial sector (58th, up by 13) also improved significantly. However, the report indicated that the country's infrastructure is still in a dire state, particularly with respect to sea (120th) and air transport (112th), with little or no progress achieved to date. Furthermore, various market inefficiencies and rigidities continue, most notably in the labor market (103rd).

The country also showed better performance in the 2011-2012 IFC/WB Doing Business Report, ranking 136th place out of 183 countries and moving 12 notches higher from 148th place in 2010. However, the country's 2012 ranking is lower than in 2011 where it ranked 134th. The lower ranking in 2012 was largely due to the decline in the following areas: getting credit (126th, down by 10 places from 2011), paying taxes (136th, down by 9), registering property (117th, down by 8), dealing with construction permits (102nd, down by 4) and starting a business (158th, down by 3), among others. Improvement was shown in trading across

² BSP Annual Report 2011

³ Additional employment as of 1st half of 2012 (January and April LFS) compared to the same period last year. Breakdown of employment is not available and computable since it is not comparable with the 2010 and 2011 figures. In 2012, employment data are based on the 2009 Philippine Standard Industry Classification (PSIC). Some activities/divisions from the industry sector were transferred to the services sector, and vice versa. Prior to that, 2004 PSIC was used.

⁴ This would hold true with the assumption that 2nd half of 2012 (July and October LFS) maintains the same employment level in the 1st half of the year.

borders (51st, up by 3), getting electricity (54th, up by 3), and enforcing contracts (112th, up by 2).

While the competitiveness ranking of the Philippines improved in 2012 compared to 2010, the country is still far from its end-of-plan target of landing at the top 30 percent or at least rank 61 globally in the IFC/WB rating. It has to double its efforts to address the areas where the country ranked low and continue its reforms in the areas where it showed improvement.

Strategic Framework

Following the I&S framework in the PDP, a number of programs, projects and activities were implemented to improve the business environment, increase productivity and efficiency, and promote consumer welfare.

Creating a Better Business Environment

Streamlining bureaucratic procedures and fostering transparency

Local government units have reduced the number of procedures to process business permits and licenses to five steps or less. It now only takes five days for business renewals and not more than ten days for new business permits to be processed under the streamlined Business Permits and Licensing System (BPLS). The BPLS, a joint undertaking of the Department of Trade and Industry (DTI) and Department of the Interior and Local Government (DILG) in collaboration with the private sector and development partners, was officially launched on Aug. 6, 2010. As of June 30, 2012, 421 or 87 percent of the 480 target LGUs have implemented the streamlined process. On top of this, 327 nontarget LGUs have also streamlined their systems. It is expected that by 2016, 480 LGUs or 100 percent of identified LGUs would have already streamlined their permits and licensing procedures.

With simpler procedures in place, applications for permits and licenses increased in participating LGUs, resulting in higher revenues for most of these LGUs. Key cities such as San Fernando (Pampanga), Iloilo, Bacolod, Cebu, Davao, General Santos, Calapan, Lapu-Lapu, Butuan, and Cagayan de Oro reported revenue increases

ranging from 12 to 40 percent due to the streamlined BPLS. The Client Satisfaction Survey conducted by the National Competitiveness Council found that 529 or 63 percent of 838 respondents from 15 regions were satisfied with the streamlined BPLS. For the next phase of the project, the BPLS shall be automated for faster and more efficient processing of business permits and licenses.

Anyone wanting to put up a business can now go to any DTI office nationwide to register their business name, obtain their Tax Identification Number, and SSS, PhilHealth, as well as Pag-IBIG Employer Registration Numbers (ERN) using the Philippine Business Registry (PBR). Starting March 12, 2012, SEC-registered companies could get their ERNs through the PBR kiosk at the SEC-Head Office. The PBR is expected to be linked to LGUs, with Quezon City being the first LGU to be fully connected on March 19, 2012.

The processing time for business name registration nationwide has been reduced from 4-8 hours to 15 minutes with the implementation of the Enhanced Business Name Registration System (EBNRS). A four-tiered registration fee system, based on territorial jurisdiction, namely, barangay, city/municipal, regional, and national registration, was adopted to encourage MSMEs to register their business names. In 2011, a total of 318,920 business names were registered, the highest since 2004, 86 percent of which were new and 14 percent were renewals. Meanwhile, a total of 230,745 business names were registered from January to April 2012.

The National Single Window (NSW) now links 30 government agencies issuing and/or processing import documents. The NSW allows parties involved in trade to lodge information and documents online with a single entry point to fulfill all import, export, and transit-related regulatory requirements. The NSW shall be linked to the Customs e2m system which is already in place in all seaports nationwide. Payment through ATM is being arranged with the Bureau of Treasury.

The release of shipments of PEZA enterprises from the Ninoy Aquino International Airport and Diosdado Macapagal International Airport is

now faster with the Enhanced Automated Cargo Transfer System (EACTS). The EACTS allows PEZA to process documents prior to arrival of the shipments. Other measures to facilitate the processing of documents of PEZA enterprises include the implementation of the PEZA E-Payment System, the Electronic Import Permit System, and the Expanded Automated Export Documentation System.

Promoting a consistent, coherent, cohesive, predictable, and responsive policy environment

The formulation of the Comprehensive Industrial Plan (CIP), which shall define the country's industrial policy, is set to be completed in the first quarter of 2013. Industry roadmaps, prepared by the private sector, shall be used in the preparation of the CIP. As of September 2012, 19 of the 25 roadmaps have already been completed and submitted to BOI.

Increasing the frequency of flights of foreign airlines in selected international airports except the Ninoy Aquino International Airport (NAIA) was made possible with the implementation of Executive Order (EO) 29 s. 2011. The EO aims to encourage tourist arrivals to other parts of the country by allowing international carriers to service secondary gateways like Cebu and Davao International Airports.

The legal and institutional framework to combat unfair trade practices and prohibit cartels and monopolies was strengthened with the issuance of EO 45 on June 9, 2011. The EO designated the Department of Justice (DOJ) as the Philippines Competition Authority and gave the DOJ the responsibility to investigate all cases involving violations of competition laws and prosecute violators as well as enforce competition policies and laws to protect consumers from abusive, fraudulent or harmful corrupt business practices, among others.

The Philippines now has the legal basis for ensuring the integrity, security and confidentiality of personal data collected by government and private entities in their operations with the enactment of Republic Act (RA) 10173 or the Data Privacy Act of 2012 on Aug. 15, 2012. The requirements under the new law are in line with international data security standards.

b. Improving Productivity and Efficiency

Investments

Total foreign and local investments approved by investment promotion agencies (IPAs) in 2011 reached PhP746.8 billion or 37.6 percent higher than that in 2010. This is 78.8 percent of the end of plan (2016) investment target of PhP947.2 billion. As of the first half of 2012, total approved investments reached PhP246.7 billion. Of the total approved investments from January 2010 to June 2012, 66.1 percent are local while the rest are foreign (Annex 3). Foreign direct investments (FDI) approved by IPAs is shown in Annex 4.

Japan is the largest source of approved FDI from January 2010 to June 2012 with PhP158 billion or 30.7 percent share of the total. The United States ranked second with PhP89.9 billion or 17.5 percent, followed by The Netherlands with PhP77.2 billion or 15 percent (Annex 5).

In terms of subsectoral distribution, manufacturing, electricity, gas, steam and air conditioning supply, and real estate accounted for the bulk of total approved investments (local and foreign) during the period (Annex 6). Manufacturing consistently topped the list of sectors with the highest approved FDI averaging 71.5 percent during the period. Majority of approved local investments are distributed across these sectors with electricity, gas, steam and air conditioning supply garnering the highest average share of 44.9 percent of the total (Annex 7).

Exports of Goods and Services

Total exports of goods and services declined by 3.3 percent in 2011. Goods exports declined by 6.9 percent while services exports increased by 9.6 percent in 2011. Goods exports recovered in the first half of 2012 while services exports significantly increased during the same period. Exports of goods in 2011 (Annex 8) was US\$8.7 billion short of the 2011 target of US\$56.6 billion set under the Philippine Export Development Plan (PEDP) 2011-2013. On the other hand, the value of services exports was almost within the 2011 PEDP target (US\$15.5 billion).

Table 3-2. Total exports of goods and services (in million US\$)

	2010	2011	Growth rates (%)	2012 ^P (First sem.)	Growth Rates (%)
Goods	51,498	47,967	-6.86	26,753	7.68
Services	14,095	15,448	9.60	8,077	11.88
Total	65,593	63,415	-3.32	34,830	8.62

Source: National Statistics Office for goods; Bangko Sentral ng Pilipinas for services

Exports of goods was affected by external factors such as the Middle East and North Africa crisis and the resulting high oil prices as well as the overall weakness of the world economy that pulled down global demand and eventually, local industrial production. Export performance was similarly affected by the supply chain disruptions as a result of the disasters in Japan and Thailand.

Exports of electronic products, which comprise about 49.5 percent of total goods exports, declined by 23.7 percent from US\$31.1 billion in 2010 to US\$23.7 billion in 2011. Exports of electronic products continued to decline by 3.9 percent in the first half of 2012 compared with the same period in 2011. The decline is largely due to the decrease in international demand for semiconductors and electronic data processing equipment which accounts for more than 75 percent of total electronic exports of the Philippines.

Exports of agrobased products, on the other hand, increased due to the growth in exports of fresh and processed food and beverages, marine and aquaculture as well as coconut products, as the country is becoming more competitive in exporting these products. Total exports of coconut products increased by 18.3 percent in 2011. Higher export performance of these goods could be attributed to the efforts to promote coco water and coco coir products in the international market which increased the value of coco water exports from US\$1.84 million in 2010 to US\$15.11 million in 2011, and more than doubled the value of coco coir exports from US\$974,586 in 2010 to US\$2.01 million in the same period. Exports of minerals, ships and products with high growth potential under the PDP particularly motor vehicle parts, garments/textile, and homestyle, posted higher export earnings in 2011 (Annex 8).

Exports showed signs of recovery in 2012 as total goods export earnings for the first six months grew by 7.7 percent to US\$26.7 billion from US\$24.8 billion in the same period in 2011. Total exports of key sectors with high growth potential increased by 17.3 percent. Likewise, double digit growth rates were recorded for fresh and processed food and beverages, as well as marine and aquaculture products which offset the decline in exports of electronic, mineral, and coconut products in the first half of 2012 (Annex 8).

Japan continued to be the Philippines' largest export market from 2010 up to the first half of 2012. Exports to Japan increased by 13 percent, from US\$7.8 billion in 2010 to US\$8.9 billion in 2011 and accounted for 18.5 percent of total Philippine exports in 2011. The United States (US) is the second largest export market with earnings amounting to US\$7.1 billion or 14.8 percent of total Philippine exports in 2011. While US and Japan have remained the country's largest export markets, exports to China and ASEAN have grown. Exports to China increased by 6.5 percent from US\$5.7 billion in 2010 to US\$6.1 billion in 2011, and accounted for 12.7 percent of total exports in 2011. Meanwhile, Philippine exports to ASEAN countries slightly increased to US\$4.9 billion in the first half of 2012. Singapore and Thailand are among the Philippines' top ten export markets during the period (Annex 9).

The Philippines is moving towards diversification of its export product mix. From 7 percent in 2010, the share of agrobased products to total goods exports rose to 9.1 percent in 2011 and 8 percent during the first half of 2012. Earnings from exports of ships have been increasing its share to total goods exports from 5 percent in 2010 to 5.8 percent in 2011 and 9.7 percent during the first

half of 2012. The share of mineral products to total Philippine goods exports increased from 3.7 percent in 2010 to 5.5 percent in 2011 and 3.9 percent in the first half of 2012.

The DTI adopted the “It’s more fun in the Philippines” slogan in its overseas export promotion projects in Japan, United Arab Emirates, Hong Kong, Malaysia, Singapore, among others. This effort, leveraged on visual branding, is geared towards achieving a strong Philippine identity in the global market through synchronized promotional activities of “Brand Philippines” for fashion, home, design and food. Moreover, the initiative links trade and tourism for a unified country branding initiative and cohesive projection of the Philippines to target markets.

The DTI also continues to conduct inbound and outbound missions, and overseas and local trade fairs to promote the country’s export industry and help exporters penetrate foreign markets. While overseas trade promotion activities from January to September 2011 were fewer by 59 percent, total sales generated reached US\$158.5 million. The Philippines participated in various trade promotion activities including the Gulf Food, Hotel and Equipment Exhibition and Salon Culinaire which target the escalating population and high concentration of Overseas Filipinos in the Middle East and North Africa. These activities generated US\$37.2 million in sales with fresh tropical/dried fruits, seafood products, Philippine ethnic foods, and tropical fruit juices and purees as top selling products. The Philippines also participated in Foodex Japan and Tokyo International Gift Show, Anuga World Food Market, and China-ASEAN Expo, among others.

Programs to promote the homestyle sector, particularly the Manila FAME International held in April and October 2011, generated export sales amounting to US\$13.7 million and US\$31.29 million, respectively. The level of sales in 2011 was 56 percent higher than in 2010. Most of the buyers came from the US, Japan, China, Australia, Hong Kong, United Kingdom and South Korea.

The Center for International Trade Expositions and Missions implemented the Trade Opportunities Program and the Partner Region Program. The former facilitates one-on-one business meetings between exporters and prospective business partners visiting the Philippines. On the other hand, the latter is a developmental program where companies receive interventions such as one-on-one consultations on packaging and labelling requirements as well as seminars on maximizing trade fair participation, food safety, among others.

In addition, the Philippines continued export and investment promotion efforts through seminars, roundtable discussions, road shows, one-on-one company calls, matching suppliers/manufacturers with foreign buyers, among others, through the Foreign Trade Service Corps. These activities generated US\$2.16 billion in export sales and US\$17.09 billion in committed and negotiated investments in 2011.

The value of exports of services reached US\$15.45 billion in 2011 from US\$14.105 billion in 2010. Business process outsourcing (BPO)-related transactions (i.e. computer and information services; and miscellaneous business, professional and technical services) accounted for 66.96 percent of total exports of services in 2011 followed by travel services (20.4 percent). For the first half of 2012, exports of services were recorded at US\$8.1 billion, an increase of 11.9 percent from the same period in 2011. BPO-related transactions which earned US\$5.1 billion⁶ remained to be the main contributor to the exports of services in the first half of 2012 (Annex 10).

Intensifying Culture of Competitiveness

Measures were implemented to help enhance the competitiveness of workers and industries. The implementation of the K +12 Program addresses the issue of the quality of education in the country. By adding two years in basic education and enhancing the curriculum, the Department of Education (DepEd) hopes to produce holistically developed learners with 21st century skills who are prepared for higher education, middle-level skills development, employment and entrepreneurship.

Table 3-3. ASTHRD and ERDT Scholars for 2010-2013

Scholarship Program	2010-2011		2011-2012		2012-2013 (Targets)	
	No. of Scholars	No. of Graduates	No. of Scholars	No. of Graduates	No. of Scholars	No. of Graduates
ASTHRD						
MS	1,300	169	1,176	195	804	772
PhD	293	21	286	20	211	48
Total	1,593	190	1,462	215	1,015	920
ERDT						
MS	542	35	548	73	663	146
PhD	93	1	108	6	139	24
Total	635	36	656	79	802	170

Source: Department of Science and Technology

The Department of Science and Technology (DOST), through the Philippine Science High School (PSHS) System, implements a specialized science secondary education program to attract the best and brightest young Filipinos to take up careers in S&T. From 2010 to 2012, 3,500 to 4,300 scholars were enrolled in each school year in 11 PSHS campuses nationwide. In 2011, 688 PSHS graduates were awarded undergraduate S&T scholarships by the DOST-Science Education Institute.

The DOST also implements the Accelerated Science and Technology Human Resource Development (ASTHRD) and the Engineering Research and Development for Technology (ERDT) programs. ASTHRD aims to accelerate the development of high level S&T human resources through MS and PhD scholarship grants. On the other hand, ERDT, which is being implemented by DOST jointly with eight universities, aims to develop the critical mass of MS and PhD graduates in engineering needed for industrial development.

Heightened collaboration among industry, academe and trifocal education agencies (DepEd, Commission on Higher Education (CHED) and Technical Education and Skills Development

Authority (TESDA)) resulted in curriculum change, development of competency standards for graduates of Service Management (for the services sector), benchmarking compliance with international accords on education and Mutual Recognition Arrangements (MRAs) e.g., Washington Accord, Seoul Accord, Sydney Accord, APEC Engineering Registry, etc.

The Business Processing Association of the Philippines (BPAP) worked closely with CHED in the formulation of the curriculum for the Service Management Program for BPO (SMP-BPO). CHED Memorandum Order No. 6 allows higher education institutions to include the SMP-BPO Specialization Track among the electives in bachelor of science courses in business administration or business management starting school year 2012-2013. The development of competency in the specialization track will equip students with skills necessary for a career in the BPO industry.

The DOST launched the “Makibayan” or Makina at Teknolohiya Para sa Bayan program in April 2012 to improve the competitiveness of the local metal and electronics industries. The program unites the government, the private sector, and the academe in advancing a more enabling

⁵ Based on BSP revised data

⁶ BSP Quarterly Report on Balance of Payments Developments

Table 3-4. Tourism Performance

	2010	2011	2012 (First sem.)
Tourist arrivals (no.)	3,520,471	3,917,454	2,143,506
Growth rate (%)	16.68	11.28	11.68
Tourism receipts (US millions)	2,490.23	2,993.97	n.a.
Growth rate	11.4	20.2	n.a.
Average Daily Expenditure (US\$)	83.93	91.88	n.a.
Growth rate (%)	10.8	9.5	n.a.
Average length of stay (days)	8.01	8.04	n.a.

Source: Department of Tourism

environment for the metalworking, machinery and electronics industries through sharing technologies, expertise, skills, manpower and facilities among them. MakiBayan is expected to result in earnings and wealth for Filipinos through job creation, efficient production, and quality outputs.

Focusing interventions to increase exports/ investments/tourism

Tourism

Tourism promotion efforts began to bear fruit as visitor arrivals increased by 11.28 percent in 2011, reaching 3.9 million visitors. This is more than half of the target of 6.3 million arrivals in 2016. In the first half of 2012, arrivals reached 2.1 million or 11.68 percent higher over last year's total of 1.9 million for the same period. The Philippines ranked only 6th among ASEAN member states in attracting foreign tourists in 2011, the same ranking since 2004. Malaysia continues to dominate in attracting foreign tourists to the region, followed by Thailand, Singapore, Indonesia, and Vietnam (Annex 11).

Tourism receipts increased by 20.2 percent to US\$2.99 billion in 2011 bringing the country closer to the end-of-plan target of US\$4.5 billion. The growth in tourism receipts may be attributed to higher average daily expenditure and slightly longer stay of tourists. Average daily expenditure per tourist increased from US\$83.93 in 2010 to US\$91.88 in 2011. Major expenditure items include shopping, accommodation, and food and beverages.

The positive growth in tourist arrivals spurred hotels and resort owners to build new facilities. The National Tourism Development Plan (NTDP) estimates a total room demand of 163,788 by 2016. An additional room capacity of 16,869 is expected to be completed by 2016. The NTDP prepared in coordination with other government agencies and the private sector provides the framework for the identification and development of tourist destinations and products, domestic and international markets and marketing promotions as well as key infrastructure in support of tourism.

The new Philippine tourism brand "It's More Fun in the Philippines" was launched in January 2012 as the new campaign slogan to promote the country as a tourist destination. The DOT, in partnership with the private sector, intensified promotions through continued participation in leading travel fairs and events such as the Internationale Tourismus Bourse (Berlin), World Travel Mart (London), JATA Travel Mart (Tokyo), China Incentive and Business Travel Mart (Beijing), Outbound Travel Mart (India), Arabian Travel Mart (Dubai), ASEAN Tourism Forum and the PATA Travel Mart.

The guidelines for the designation and supervision of tourism enterprise zones (TEZs) and administration of incentives was implemented in August 2011 to facilitate applications for TEZs. To date, two TEZs have been approved by TIEZA, Ciudad de Victoria which will house a 50,000 multipurpose structure/arena located in Sta. Maria, Bulacan and Resorts World Manila.

ii. Business Process Outsourcing

The Philippine IT-BPO industry earned US\$11 billion in 2011 posting a 24 percent increase from 2010. It employed 638,000 in 2011 or 22 percent more than that in 2010. Contact centers account for 65 percent of the total employment and US\$7.4 billion of revenues in the IT-BPO industry⁷. Meanwhile, nonvoice BPO/KPO earned US\$2.1 billion in 2011 registering a 24 percent growth from 2010. The BPO industry is projected to grow at 20 percent annually to reach about 1.3 million employees by 2016.

RA 10151 or “An Act Allowing the Employment of Night Workers” was passed in June 2011 to repeal Article 130 and 131 of the Labor Code. Article 130 prohibits the employment of women in industrial undertakings between 10 p.m. to 6 a.m. of the following day, and in commercial or nonindustrial undertaking between 12 midnight to 6 a.m. Article 131 provides certain exceptions to the general prohibition.

Capability development, as well as improving the ecosystem (talent, infrastructure, cost) and business environment are being conducted under the New Wave Cities Program which aims to develop ICT hubs all over the country.

iii. Mining

EO 79 (Institutionalizing and Implementing Reforms in the Philippine Mining Sector, Providing Policies and Guidelines to Ensure Environmental Protection and Responsible Mining in the Utilization of Mineral Resources), which spells out the government’s policy on mining, was issued on July 6, 2012. The EO provides for the creation of the Mining Industry Coordinating Council (MICC), among other provisions. To operationalize the provisions under EO 79 and assist it in its task, the MICC has created four technical working groups (TWGs). The TWG on Extractive Industries Transparency Initiative (EITI) is currently working on the country’s application for EITI membership. On the other hand, the TWG on Economic Concerns is conducting a study on mining revenue sharing while the TWGs on Small Scale Mining and Environmental Protection and Legislation are currently addressing the concerns assigned to them.

With the EO, it is envisioned that the processing of minerals will be promoted in the country alongside the resolution of persistent issues and problems in mining areas. The successful implementation of the EO will redound to more economic benefits for the country. Department Administrative Order (DAO) 2012-07 (The Implementing Rules and Regulations of EO 79) was signed on Sept. 10, 2012.

Provide firm-level support to potential, new and existing micro, small and medium enterprises

The MSME Development Plan 2011-2016, which was launched on July 7, 2011, identifies the cluster-based approach as the mechanism for delivering SME interventions such as shared service facilities, product development and market promotion, equity financing/credit assistance, and micro enterprise development.

The SME Caravan and the Rural Micro Enterprise Program are bringing the services of the government and the private sector to the regions. As of June 2012, 19,403 participants were trained in weaving, bamboo processing, making handmade papers, branding, management and values formation to help them increase productivity and efficiency, access credit and markets, among others. In 2011, 2,034 overseas Filipino workers (OFWs) were also provided training by the Overseas Workers Welfare Administration and the Philippine Trade Training Center to encourage them to become entrepreneurs.

The DTI and DOT signed an agreement to craft marketing strategies for SME products and making these accessible for tourists. These include agreements with resorts and hotels for selling and promoting Philippine products particularly fresh and processed food, and gifts and holiday decor.

A package of policy measures for SMEs in the 43rd ASEAN Economic Ministers Meeting was also advocated to make SMEs a primary consideration in international trade engagements, particularly on measures that will ease processes and procedures when availing the preferential tariffs granted under the various ASEAN trade agreements.

⁷ BPO factsheet submitted by DTI

ASENSO (Access of Small Enterprises to Sound Lending Opportunities) formerly known as SULONG has released a total of PHP254,366 million worth of financial assistance, equivalent to 251,920 accounts and translating into 3,649,428 jobs supported since its inception in 2004 until June 2012. Similarly, the Rural Micro Enterprise Promotion Program (RuMEPP) also continues to provide financial (microfinance) as well as technical assistance to promote the development of microenterprises. As of June 2012, 44,061 microenterprises have been provided microfinancing (126% of target) while 22,073 (or 147% of target) had been provided business development services which include capacity building, product development, market linkages, among others.

The DOST's Small Enterprise Technology Upgrading Program (SETUP) continued to provide MSMEs with services/assistance such as training, technical assistance and consultancy; design of product packages and labels; product standards including testing and calibration; database management; and technology acquisition. From 2010 to 2011, SETUP has provided assistance to 5,936 MSMEs (Annex 12).

MSMEs provided a total of 3.5 million jobs⁸ in 2010 or 62.3 percent of the total jobs generated by all types of business establishments. Microenterprises created 1.7 million jobs while small and medium enterprises generated 1.4 million (25 percent) and 0.3 million (6.8 percent) jobs, respectively. Majority of jobs in MSMEs are in wholesale and retail trade (1.2 million jobs in 2010) followed by 0.6 million jobs in manufacturing, and 0.5 million jobs in hotels and restaurants (Annex 13).

Promote Entrepreneurship among OFs

The Department of Labor and Employment (DOLE) and the Commission on Filipinos Overseas (CFO) are working on the Diaspora for Development (D2D) to harness the experience and expertise of Filipinos overseas in contributing to the country's socioeconomic development. The reintegration of overseas Filipinos into Philippine society plays an integral part in the development of human capital.

The CFO and the DTI have also put up the BALinkBayan, or "Business Advisory Link para sa Bayan" website to help OFWs do business and invest in the Philippines. The website will provide the link to the One-Town-One-Product (OTOP) program of the DTI and to the DA-DAR-DENR convergence program, which are both rural based. Certain civil society groups also provided assistance to OFWs through provision of financial literacy training for returning OFWs and their families.

Global and Regional Integration (Increase Market Access)

The Philippines continues to liberalize trade with ASEAN member states with the reduction of tariffs to zero on 98.7 percent of the lines under the ASEAN Trade in Goods Agreement in 2010. Significant progress has been made in the ASEAN-China (ACFTA) and ASEAN-Korea Trade in Goods Agreements (AKFTA), having realized the elimination of tariffs classified under the Philippines' Normal Tracks of these agreements in 2012. In addition, the Philippines started implementing commitments under the Sensitive Tracks of the ACFTA and AKFTA in 2012. The Philippines has also implemented commitments under the agreed timelines under the ASEAN-Australia-New Zealand Free Trade Agreement, the ASEAN-Japan Comprehensive Economic Partnership Agreement, and ASEAN Trade in Goods Agreement with India. The Philippines to date has completed the 8th package of commitments under the ASEAN Framework Agreement on Services. An agreement on the movement of natural persons is set to be signed at the ASEAN Summit in November 2012. Meanwhile, the ASEAN Comprehensive Investment Agreement (ACIA) entered into force in March 2012. ACIA is envisioned to transform ASEAN into an investment hub that would be able to compete with other emerging economies. The Philippines has also been implementing its commitments under the Philippines-Japan Economic Partnership Agreement, a review of which is set this year.

The Philippines continues to implement measures to facilitate trade and encourage greater FTA utilization. The Doing Business in Free Trade

⁸ Jobs refer to actual total employment of establishments included in NSO's 2010 List of Establishments; and is different from the employment statistics generated from the Labor Force Survey.

Areas (DBFTA) consultation forums have resulted in increased use of the preferences provided in the various FTAs by local producers. The DBFTA forums provide data, guidance and direction on how businesses can avail of preferential tariffs, gain access to timely and relevant market information on partner economies, and procedures on breaking into these markets or expanding their share. As of September 2012, a total of 175 information campaigns have been conducted and attended by some 18,905 participants, mostly from the private sector and business support organizations from the food, motor vehicles/parts, coconut, garments/wearables/homestyle, and services sectors.

In further deepen economic integration in the ASEAN region, the Philippines continues to participate in discussions on the ASEAN Regional Comprehensive Economic Partnership (RCEP). RCEP aims to enhance economic cooperation and integration with ASEAN Dialogue Partners based on mutual interest, transparency and best practices. The Philippines also participates in ASEAN initiatives designed to facilitate trade including the ASEAN Single Window and the 2nd Pilot Project on ASEAN Self Certification Project, among others. In addition, the Philippines is involved in the feasibility study for the ASEAN Roll-on/Roll-off (RORO) to support initiatives to boost shipping, rail and air networks in the region.

Interagency coordination in the formulation and implementation of Philippine policy towards enhancing relations with regional and inter-regional organizations was strengthened. Administrative Order (AO) No. 20 issued on Sept. 6, 2011, reorganized and renamed the Philippine Council on ASEAN and APEC Cooperation into the Philippine Council for Regional Cooperation (PCRC). PCRC discusses all matters related to Philippines positions under the ASEAN, Asia Pacific Economic Cooperation, Asia-Europe Meeting, Forum for East Asia and Latin America Cooperation and similar regional initiatives.

Enhancing Consumer Welfare

Consumers continued to be made aware of their rights and responsibilities, and guided on the prevailing market prices of basic commodities. The DTI, through Pulse Asia, initiated a survey in 2012 to measure the level of public awareness towards

consumer rights including their perception on prices as well as safety of products available in the market. The results of the February-March 2012 Pulse Asia Survey show a relatively high level of consumer awareness towards basic consumer rights, as follows:

Consumer awareness of basic consumer rights	76%
Prices are reasonable	27%
Products are safe in the Philippines	67%

Infomercials on Consumer Rights and Responsibilities which were shown in 10 selected cinemas in Metro Manila, Cities of Bacolod, Cebu and Davao from Dec. 25, 2010 to Jan. 25, 2011 as well as the establishment of consumer welfare desks in SM and Robinsons malls nationwide contributed to the favorable perception of consumers on government advocacy for consumer welfare.

The suggested retail prices of selected basic necessities and prime commodities are regularly updated and published in newspapers and in government websites to further guide consumers in their purchases. The DTI and the DA coordinated with LGUs in monitoring prices of basic goods in their respective areas through regular updating or installing price billboards, inspecting weighing scales for proper calibration through Timbangang Bayan, and checking if retail stores and wet markets adhere to the price tag law.

The DTI granted licenses to both foreign and local manufacturers, through the Philippine Standards (PS) Quality and Safety Certification Scheme, as part of its effort to ensure product quality and safety. The PS license guarantees that products manufactured by license holders are in accordance with a specific Philippine National Standards (PNS) or an internationally accepted standard. Among the licensed companies are manufacturers of ceramic tiles, fire extinguishers, lamps, home appliances, construction materials, fireworks and monobloc chairs and stools. As of December 2011, there are 1,066 PS license holders. Moreover, 444 new standards were developed or adopted for consumer protection from January to December 2011.

B. Challenges

The high cost of doing business in the country (due to high power cost, inadequate infrastructure, graft and corruption, among others) remains a major concern. It is not only a major deterrent to attracting investments especially in MSMEs and in improving the competitiveness of Philippine products; it is also a major concern in attaining inclusive growth and reducing poverty.

The potential of the country to manufacture products competitively has not been fully tapped. The manufacturing sector remains a potential instead of an actual source of better paying jobs for the country's less skilled workers.

The mining sector's contribution to the economy remains limited. It continues to be plagued by economic and political issues including differences in national and local laws and ordinances.

Total tourist arrivals in the Philippines only accounts for 4.8 percent of the total tourist arrivals in ASEAN. Poor infrastructure and uncompetitive tourism products still remain the key challenges in attracting tourists.

The diversification of the IT-BPO sector to nonvoice business processing and high value services is still faced with the limited supply of human resources with proper education and the right set of skills.

Philippine exports are still dependent on a few export products, particularly electronics, and traditional markets (e.g. US and Japan). The country has not been able to penetrate other export markets due to, among others, weaknesses in meeting international standards. Constraints related to full implementation of programs designed to facilitate trade such as the full implementation of the NSW also remain.

C. Policy Outlook/Directions

The country will continue to rely on the I&S sectors to drive economic growth. To achieve the targets in the PDP, the government will continue to support the private sector in developing these sectors. The CIP will provide the direction of industrial development in the country with the government providing the environment that will boost the productivity and growth of the production sectors.

The innovation policy as well as programs, projects and activities under Filipinovation program will be pursued more vigorously.

Manufacturers and consumers shall be kept informed on good manufacturing practices, internationally accepted standards such as hazard analysis critical control points or HACCP, clean production technologies, among others. Government will continue to provide metrology, calibration and accreditation services as well as product safety standards. The use of such standards and best practices will not only facilitate the entry of local products in more export markets but also assure domestic consumers of the safety and sustainability of locally made products.

In addition to the product, market and promotion strategies under the PEDP 2011-2013, strategies to manage the risks in export sales associated with the global crisis as well as vulnerabilities connected with dependency on exports of electronic products will be pursued to increase exports. Identifying and anticipating the demands of trading partners, particularly new and alternative markets such as South America and the BRICS (Brazil, Russia, India, China and South Africa), and implementing measures to meet these will be encouraged in order to expand or gain access to these markets.

The government will continue to prioritize the generation of more decent, productive and quality employment that provides adequate income for Filipino workers. It shall continue to implement employment-related policies and frequently monitor and ensure closer coordination among government agencies that implement the Community-Based Employment Program. Skills matching will be pursued by enhancing coordination among employers, the academe and government. The use of online labor market information systems by public and private offices to expand the reach to job searchers will be intensified. The government will likewise support advocacy campaigns for the tourism plan and promote employment-intensive interventions, intensify implementation of Public Private Partnership (PPP) projects and provide financing and marketing assistance to MSMEs.

Annex 3-1. Philippine Development Plan Chapter 3: Competitive Industry and Services Sectors Results Matrix 2011-2016

Indicators	Baseline FY 2010	Target FY 2011	Actual FY 2011	Accomplish- ment %	Target FY 2012	Actual HI 2012	Accomplish- ment %	End of Plan Target 2016	Accomplish- ment %
Sectoral Outcome - Industry and services sectors made globally competitive and innovative									
Global competitiveness ranking (rank)	148th ¹		134th ¹			136th ¹		61st ¹ (upper third)	☹️ (bottom third)
GVA growth rate (%)									
A. Industry	4.9 ²	8.1-9.1	2.3	n. a.	8.1-9.1	4.9 ³	n. a.	8.1-9.1	☹️
Manufacturing	4.1		4.7			5.0			(-5.8 ppt deviation from target based on 2011 actual)
Construction	8.7		-7.3			7.1			
Mining & Quarrying	8.0		7			-8.4			
Elec., Gas & Water Supply	4.7		0.6			7.3			
B. Services	6.0 ²	7.1-8.0	5.1	n. a.	7.1-8.0	7.8 ^c	n. a.	7.1-8.0	☹️ (-2.0 ppt deviation from target based on 2011 actual)
Total Employment (Agri, Industry & Services)	36	n. a.	37.2	n. a.		37.6	n. a.	n. a.	n. a.
In million									
Employment in Industry and Services Sectors	24.1	n. a.	24.9	n. a.		25.3	n. a.	28.8 ⁴	35.1% ⁵
In million									
A. Industry	5.4	n. a.	5.5 ⁶	n. a.		5.7 ⁶	n. a.	n. a.	n. a.
B. Services	18.7	n. a.	19.4 ⁶	n. a.		19.6 ⁶	n. a.	n. a.	n. a.
Intermediate Outcome 1- Improved Business Environment									
LGUs that have adopted streamlined BPLS	No baseline	n. a.	266 ⁷	55%	n. a.	421 ⁸	87% ⁹	480 ¹⁰	☺️
			+56 (outside target)			+271 (outside target)			

Indicators	Baseline FY 2010	Target FY 2011	Actual FY 2011	Accomplish- ment %	Target FY 2012	Actual H1 2012	Accomplish- ment %	End of Plan Target 2016	Accomplish- ment %
PBR fully operationalized	No baseline	n. a.	Business name registration with DTI, Tax Identification Number (TIN) from BIR; and Employer Registration Numbers (ERN) from SSS, PhilHealth, and Pag-IBIG obtained through single application in PBR/ kiosks in selected DTI-Offices		n. a.	Business name registration with DTI-TIN from BIR; and ERN from SSS, PhilHealth, and Pag-IBIG obtained through single application in PBR/ kiosks in DTI Offices nationwide and selected LGUs, i.e., Quezon City		PBR fully operationalized ¹¹	
Intermediate Outcome 2- Productivity Increased									
Merchandise Exports Increased (US\$ B)	51.4	n. a.	47.9	52%	n. a.	26.8	29%	92.2	☹
Services Exports (US\$ B)	12.27 B	n. a.	15.4	53.2%	n. a.	8.1	n. a.	28.9	☺
Total Approved Investments (PhP B)	542.6	n. a.	746.8	78.8%	n. a.	246.7	26.00%	947.2	☺
MSMEs GVA (% to total)	35.7% ¹²	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	40%	n. a.
Visitor Arrivals (million)	3.5	n. a.	3.9	61.9%	n. a.	2.1	33%	6.3	☺
Visitor Receipts (US\$ B)	2.49 ¹³	n. a.	2.99	n. a.	n. a.	n. a.	n. a.	4.5	66.4%

1 Out of 183 countries

2 Average GVA growth rate for period 2004–2010 based on constant prices, 2000=100

3 Growth rate in 1st half of 2012 from same period in 2011

4 End-of-Plan employment target in the Result Matrix is additional of 4.67 million by 2016.

5 As of 1st half of 2012, I&S generated a total of 1.64 million (847,000 in 2011 and 791,000 in 2012 H1) additional employment or 35.1% of the targeted 4.67 million. This would hold true on the assumption that 2nd half of 2012 (July and October LFS) maintains the same employment level reported in the 1st half of the year.

6 Actual breakdown of employment for the Industry and Services sectors are not comparable with the baseline values. In 2012, employment data

7 As of December 2011. Additional 56 LGUs (outside the target) also streamlined.

8 As of June 2012. Additional 271 LGUs (outside the target) were also streamlined.

9 Accomplishment has exceeded 100% (more than 480 LGUs streamline) if non-targeted LGUs will be accounted.

10 End-of-plan target is for 480 identified LGUs to have streamlined BPLS for new and business renewal.

11 Fully operationalized PBR means DTI, SEC, BIR, PhilHealth, Pag-IBIG and SSS and E-ready LGUs and other E-ready licensing agencies linked to PBR.

12 As of 2006

13 Based on DOT website, visitor receipts totalled US\$ 2.49 billion in 2010. Chapter 3 RM reflected the 2009 data which is US\$2.23 billion

Annex 3-2. Gross Value Added, Share to Gross Domestic Product and Growth Rates of the Industry and Services Sector (at Constant 2000 Prices)

	GVA (PhP T) 2010	SHARE (%)	GVA (PhP T) 2011	SHARE (%)	GROWTH (%)	GVA (PhP T) H1 2012	SHARE (%)	GROWTH (%)
INDUSTRY SECTOR	1.86	32.6	1.90	32.1	2.3	0.99	32.0	4.9
Mining and Quarrying	0.07	1.2	0.07	1.1	7.0	0.04	1.3	-8.4
Manufacturing	1.26	22.2	1.32	22.4	4.7	0.68	22.1	5.0
Construction	0.33	5.7	0.30	5.1	-7.3	0.16	5.2	7.1
Electricity, Gas and Water	0.20	3.6	0.20	3.5	0.6	0.11	3.5	7.3
SERVICES SECTOR	3.18	55.8	3.34	56.4	5.1	1.76	57.1	7.8
Transport, Storage and Communication	0.43	7.5	0.45	7.5	4.3	0.25	8.1	9.6
Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	0.95	16.6	0.98	16.6	3.4	0.48	15.5	7.5
Financial Intermediation	0.37	6.6	0.39	6.7	5.3	0.22	7.1	7.9
Real Estate, Renting and Business Activities	0.59	10.3	0.64	10.9	9.3	0.34	11.0	8.2
Public Administration and Defense; Compulsory Social Security	0.26	4.5	0.26	4.3	0.3	0.13	4.4	1.8
Other Services	0.58	10.2	0.62	10.5	6.6	0.34	11.0	9.1

Source of Basic Data: National Statistics Coordination Board

Annex 3-3. Total approved local and Foreign direct investments (2010 To 2nd quarter 2012, in billion php)

	2010	2011	2012Q1	2012Q2	TOTAL	% SHARE of Filipino/Foreign TO TOTAL (2010- 2012Q2)
FILIPINO	346.6	490.7	25.5	158.7	1,021.5	66.1
FOREIGN	196.1	256.1	18.4	44.1	514.7	33.9
TOTAL (annual/ quarter)	542.7	746.8	43.9	202.8	1,536.2	100.0
% SHARE OF ANNUAL/ QUARTER TO TOTAL (2010- 2012Q2)	35.3	48.6	2.8	13.2	100.0	

Source of basic data: National Statistics Coordination Board

Annex 3-4. Approved Foreign Direct Investments by Investment Promotion Agency (2010 To 2nd Quarter 2012, in Million Php)

AGENCY	2010	2011	Q1 2012	Q2 2012	TOTAL (2010-2Q 2012)	PERCENT SHARE PER IPA TO TOTAL (2010-Q 2012)
AFAB*	-	86.00	165.90	12.60	264.50	0.05
BOI	22,328.50	23,324.90	3,733.40	6,688.80	56,075.90	10.90
CDC	26,249.80	18,805.90	1,604.50	532.60	47,192.80	9.20
CEZA**	-	-	-	15.70	15.70	0.003
PEZA	142,167.60	193,649.70	12,787.10	36,689.90	385,294.30	74.80
SBMA	5,317.70	20,336.90	144.10	128.90	25,927.60	5.03
TOTAL (ANNUAL/ QUARTER)	196,063.50	256,201.60	18,435.10	44,068.50	514,770.80	100.00

*AFAB was only included starting 4Q 2011

**CEZA was only included starting 2Q2012

Source: National Statistics Coordination Board

Annex 3-5. Foreign Direct Investments by Top 10 Country of Investors (2010 to 1st Quarter 2012, in Billion Php and Percent Share to Total)

COUNTRY	2010 PHP	%	2011 PHP	%	2012 Q1 PHP	%	2012 Q2 PHP	%	TOTAL (2010-2012Q2)	%
Japan	58.3	29.8	77.4	30.2	4.9	26.7	17.4	39.6	158	30.7
USA	13.1	6.7	70.4	27.5	2.1	11.5	4.2	9.7	89.9	17.5
Netherlands	36.8	18.8	28.3	11.1	2.3	12.6	9.8	22.3	77.2	15.0
Korea	31.2	15.9	14.1	5.5	1.3	7.1	3.5	8.1	50.1	9.8
China, PR	5.7	2.9	20.7	8.1	.23	1.2	.14	0.3	26.7	5.2
Singapore	7.3	3.7	14.9	5.8	.25	1.3	.70	1.6	23.2	4.5
Switzerland	13.6	6.9	2.1	0.8	.13	0.7	.20	0.5	15.9	3.1
Cayman I.	10.7	5.4	3.3	1.3	.15	0.8	.20	0.5	14.3	2.8
British V.I.	7.7	3.9	2.3	0.9	.009	0.05	.02	0.04	9.9	1.9
Taiwan	1.5	0.8	3.1	1.2	1.5	8.4	.09	0.2	6.3	1.2
TOTAL	185.9	100.0	236.6	100.0	12.9	100.0	36.3	100.0	514.7	100.0

Source of basic data: National Statistics Coordination Board

Annex 3-6.Total Approved Local and Foreign Direct Investments Industry/Sector (2010 to June 2012, in Million Pesos)

INDUSTRY CLASSIFICATION	2010			2011							
	Filipino	Foreign	Total	Filipino	Foreign	Not Classified	Total	Filipino	Foreign	Not classified	Total
A. Agriculture, forestry and fishing	1,428.76	1,217.74	2,646.50	511.3	1,264.50		1,775.80	1,466.6	1,489.4		2,956.0
B. Mining and quarrying	2,072.96	6,074.54	8,147.50	52,741.18	544.72		53,285.90	1,714.0	-		1,714.0
C. Manufacturing	52,411.39	162,908.31	215,319.70	114,741.24	142,249.96		256,991.20	6,334.5	47,457.4		53,791.8
D. Electricity, gas, steam and air conditioning supply	181,508.30	8,467.20	189,975.50	135,571.48	30,467.42		166,038.90	96,908.8	171.3		97,080.1
E. Water supply; sewerage, waste management and remediation activities	7.50	-	7.50	2,090.71	398.89		2,489.60	3,606.2	737.4		4,343.6
F. Construction	1,542.43	181.87	1,724.30	122.58	34.82		157.40	2,236.9	977.1		3,214.0
G. Wholesale and retail trade; repair of motor vehicles and motorcycles	702.72	202.18	904.90	1,439.86	36.64		1,476.50	409.8	66.7		476.5
H. Transportation and storage	11,876.55	812.55	12,689.10	25,399.11	1,220.39		26,619.50	14,721.7	2,542.1		17,263.8
I. Accommodation and food service activities	19,215.10	2,180.00	21,395.10	14,047.50	205		11,252.50	7,795.0	1,600.7		9,395.7
J. Information and communication	2,570.28	1,174.52	3,744.80	1,772.58	2,646.52		4,419.10	74.0	525.4		599.4
K. Financial and insurance activities	11.35	692.55	703.90	140.93	90.97		231.90	2.2	55.5		57.7
L. Real estate activities	71,035.74	4,273.66	75,309.40	131,550.90	56,149.50		187,700.40	41,043.4	3,551.7		44,595.2
M. Professional, scientific and technical activities	12.56	437.74	450.30	1,133.92	2,169.58		3,303.50	10.6	0.4		10.9
N. Administrative and support service activities	1,215.26	7,316.04	8,531.30	5,788.99	12,724.73		18,513.10	373.1	3,189.2		3,562.2
O. Public administration and defense; compulsory social security	-	-	-	0.04	202.76		202.80	-	98.8		98.8
P. Education	47.02	10.08	57.10	78.5	22.91		104.40	60.2	89.8		150.0
Q. Human health and social work activities	21.70	80.00	101.70	3,315.58	3.72		2,319.30	10.9	-		10.9
R. Arts, entertainment and recreation	829.43	17.37	846.80	138.46	1,668.34		1,817.80	9.6	4.5		14.1
S. Other service activities	118.15	22.25	140.40	8.73	11.97		20.70	8.1	16.3		24.4
Not Classified						4,112.63		-	-	7,492.4	7,492.4
GRAND TOTAL	346,627.18	196,068.62	542,695.80	490,593.59	252,113.34	4,112.63	746,819.30	176,785.6	62,573.5	7,492.4	246,851.5

Source of basic data: National Statistics Coordination Board

Annex 3-7. Total Approved Local and Foreign Direct Investments Industry/Sector (Percent Share)

INDUSTRY CLASSIFICATION	2010			2011			2012		
	FILIPINO	FOREIGN	TOTAL	FILIPINO	FOREIGN	TOTAL	FILIPINO	FOREIGN	TOTAL
A. Agriculture, forestry and fishing	0.41	0.62	0.49	0.10	0.49	0.24	0.83	2.38	1.20
B. Mining and quarrying	0.60	3.10	1.50	10.75	0.21	8.47	0.97	0.00	0.69
C. Manufacturing	15.12	83.09	39.68	23.38	55.54	34.41	3.58	75.84	21.79
D. Electricity, gas, steam and air conditioning supply	52.36	4.32	35.01	27.63	11.90	22.23	54.82	0.27	39.33
E. Water supply; sewerage, waste management and remediation activities	0.00	0.00	0.00	0.43	0.16	0.33	2.04	1.18	1.76
F. Construction	0.44	0.09	0.32	0.02	0.01	0.02	1.27	1.56	1.30
G. Wholesale and retail trade; repair of motor vehicles and motorcycles	0.20	0.10	0.17	0.29	0.01	0.20	0.23	0.11	0.19
H. Transportation and storage	3.43	0.41	2.34	5.18	0.48	3.56	8.33	4.06	6.99
I. Accommodation and food service activities	5.54	1.11	3.94	2.86	0.08	1.51	4.41	2.56	3.81
J. Information and communication	0.74	0.60	0.69	0.36	1.03	0.59	0.04	0.84	0.24
K. Financial and insurance activities	0.00	0.35	0.13	0.03	0.04	0.03	0.00	0.09	0.02
L. Real estate activities	20.49	2.18	13.88	26.81	21.92	25.67	23.22	5.68	18.07
M. Professional, scientific and technical activities	0.00	0.22	0.08	0.23	0.85	0.44	0.01	0.00	0.00
N. Administrative and support service activities	0.35	3.73	1.57	1.18	6.53	1.69	0.21	5.10	1.44
O. Public administration and defense; compulsory social security	0.00	0.00	0.00	0.00	0.08	0.03	0.00	0.16	0.04
P. Education	0.01	0.01	0.01	0.02	0.01	0.01	0.03	0.14	0.06
Q. Human health and social work activities	0.01	0.04	0.02	0.68	0.00	0.31	0.01	0.00	0.00
R. Arts, entertainment and recreation	0.24	0.01	0.16	0.03	0.65	0.24	0.01	0.01	0.01
S. Other service activities	0.03	0.01	0.03	0.00	0.00	0.00	0.00	0.03	0.01
Not Classified						0.55			3.04
Grand Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source of basic data: National Statistics Coordination Board

Annex 3-8. Goods Export Performance (FOB Value in Million US Dollars)

KEY EXPORT SECTOR/ COMMODITIES	2010	2011	2012 Jan- Jun	Growth Rates (%)		Share to Total Exports (%)		
				2010- 2011	2011- 2012 Jan- Jun	2010	2011	2012 Jan to Jun
TOTAL	51,497.5	47,967.0	26,753.3	(6.9)	7.7	100.0	100.0	100.0
ELECTRONICS	31,079.6	23,722.4	12,144.6	(23.7)	(3.9)	60.4	49.5	50.9
AGRIBUSINESS	3,629.6	4,356.7	2,143.5	20.0	(4.7)	7.0	9.1	9.1
FOOD: Processed & Beverages	931.8	1,033.3	561.4	10.9	12.3	1.8	2.2	2.0
FOOD: Fresh	651.4	978.5	555.7	50.2	22.4	1.3	2.0	1.8
FOOD: Marine & Aquaculture	538.0	560.7	321.1	4.2	15.5	1.0	1.2	1.1
COCONUT PRODUCTS	1,508.5	1,784.2	705.3	18.3	(30.7)	2.9	3.7	4.1
MINERALS	1,929.4	2,657.5	1,066.3	37.7	(24.3)	3.7	5.5	5.7
SHIPBUILDING	2,568.3	2,773.8	2,591.2	8.0	75.7	5.0	5.8	5.9
HIGH GROWTH POTENTIAL SECTORS:	3,322.1	3,526.4	1,900.5	6.1	17.3	6.5	7.4	6.5
MOTOR VEHICLE PARTS	1,107.2	1,109.8	708.8	0.2	50.0	2.2	2.3	1.9
GARMENTS/TEXTILE	1,870.9	2,078.7	1,010.8	11.1	1.0	3.6	4.3	4.0
HOMESTYLE: Furniture/ Decors/ Giftware	225.4	246.1	128.4	9.2	13.3	0.4	0.5	0.5
WEARABLES: Fashion Accessories/Bags/ Shoes/ Jewelry	118.7	91.7	52.5	(22.7)	55.3	0.2	0.2	0.1
OTHER PRODUCTS	8,968.5	10,930.3	6,907.2	21.9	26.6	17.4	22.8	22.0

Source of basic data: National Statistics Office

Annex 3-9. Philippine Exports Performance by Country (F.O.B Value in Million US Dollars)

	2010	2011	2012p JAN-JUN	GROWTH RATES (%)		SHARE TO TOTAL EXPORTS (%)		
				2010-2011	2011-2012 JAN-JUN	2010	2011	2012 JAN-JUN
TOTAL	51,497.5	47,967.0	26,753.3	7.7	-6.9	100.0	100.0	100.0
TOP 10 COUNTRIES	43,644.0	39,552.4	22,578.7	9.4	-9.4	84.7	82.5	84.4
Japan	7,841.3	8,860.9	4,765.7	11.0	13.0	15.2	18.5	17.8
United States Of America	7,559.1	7,091.3	4,084.6	11.2	-6.2	14.7	14.8	15.3
China, People's Republic of	5,724.5	6,094.5	3,415.3	17.0	6.5	11.1	12.7	12.8
Singapore	7,318.9	4,277.4	2,202.0	-14.9	-41.6	14.2	8.9	8.2
Hong Kong	4,335.7	3,697.7	2,343.3	15.0	-14.7	8.4	7.7	8.8
Germany	2,657.3	1,685.2	1,189.5	29.3	-36.6	5.2	3.5	4.4
Korea, Republic of	2,243.1	2,195.4	1,465.3	22.7	-2.1	4.4	4.6	5.5
Taiwan	1,752.0	2,002.7	946.8	-13.2	14.3	3.4	4.2	3.5
Thailand	1,782.6	1,903.6	1,387.4	35.7	6.8	3.5	4.0	5.2
Netherlands	2,429.5	1,743.7	779.0	-13.8	-28.2	4.7	3.6	2.9
Others	7,853.5	8,414.6	4,174.7	-0.6	7.1	15.3	17.5	15.6

Source: National Statistics Office

Annex 3-10.Exports of Services (In Million US \$)

	2010r	2011p	2012p JAN-JUN	GROWTH RATES (%)		SHARE TO TOTAL EXPORTS (%)		
				2010-2011	2011-2012 JAN-JUN	2010	2011	2012 JAN-JUN
SERVICES	14,095	15,450	8,077	9.6	11.9	100.0	100.0	100.0
Transportation	1,351	1,322	805	-2.1	18.7	9.6	8.6	10.0
Travel	2,630	3,152	1,782	19.8	17.5	18.7	20.4	22.1
Communication services	305	391	241	28.2	49.7	2.2	2.5	3.0
Construction services	121	45	51	-62.8	142.9	0.9	0.3	0.6
Insurance services	77	78	38	1.3	-2.6	0.5	0.5	0.5
Financial services	38	38	22	0	100	0.3	0.2	0.3
Computer and Information services	1,928	2,062	1,030	7	8.4	13.7	13.3	12.8
Royalties and license fees	4	5	4	25	100	0.0	0.0	0.0
Other business services	7,600	8,306	4,065	9.3	6.7	53.9	53.8	50.3
Merchanting and other trade-related services	22	5	14	-77.3	366.7	0.2	0.0	0.2
Operational leasing services	7	17	10	142.9	25	0.0	0.1	0.1
Misc. business, professional and technical services	7,571	8,284	4,041	9.4	6.3	53.7	53.6	50.0
Personal, cultural and recreational services	41	51	39	24.4	34.5	0.3	0.3	0.5
Audio-Visual and related services	27	24	24	-11.1	41.2	0.2	0.2	0.3
Other personal, cultural and recreational services	14	27	15	92.9	25	0.1	0.2	0.2
Government services n.i.e	0	0	0	0	0	0.0	0.0	0.0

Source: Bangko Sentral ng Pilipinas

p – preliminary

r– Revised to reflect updated estimates based on the final trade in goods data from the National Statistics Office.

Annex 3-11. Tourist Arrivals in ASEAN 2010-2011

Country	2010	2011
Malaysia	24,577.2	24,714.3
Thailand	15,936.4	19,098.3
Singapore	11,638.7	13,171.3
Indonesia	7,002.9	7,649.7
Viet Nam	5,049.9	6,014.0
Philippines	3,520.5	3,917.5
Cambodia	2,508.3	2,881.9
Lao PDR	2,513.0	2,723.6
Myanmar	791.5	816.4
Brunei	214.3	242.1
ASEAN	73,752.6	81,229.0

Source: ASEAN Tourism Statistics Database

Annex 3-12. Distribution of Setup Client Firms by Region

REGION	2010			2011		
	Existing Firms Assisted	Start-up Firms Assisted	Jobs Generated	Existing Firms Assisted	Start-Up Firms Assisted	Jobs Generated
NCR	13	1	2,472	24	1	-
CAR	99	5	2,611	97	6	817
I	53	2	399	78	-	705
II	86	38	1,322	108	68	1,510
III	20	15	15	17	22	-
IV-A	104	41	4,716	121	31	6,223
IV-B	85	9	1,049	71	-	6,176
V	26	7	1,908	20	8	2,399
VI	93	8	1,048	334	-	1,060
VII	211	1	4,364	216	3	6,532
VIII	202	85	3,740	247	225	7,695
IX	83	7	4,031	75	7	10,936
X	63	23	7,211	85	55	3,882
XI	183	16	9,241	162	-	56,270
XII	415	799	34,380	417	409	12,500
CARAGA	106	24	3,915	73	33	4,695
TOTAL	1,842	1,081	82,422	2,145	868	121,400
MSMEs assisted		2,923			3,013	

Source: Department of Science and Technology

Annex 3-13. Number of Employees by Industry and Firm Size, 2010

INDUSTRY	NO. OF EMPLOYEES			
	MICRO	SMALL	MEDIUM	MSMEs
Agriculture, Hunting and Forestry	9,855	31,213	16,515	57,583
Fishing	3,408	5,705	4,377	13,490
Mining and Quarrying	930	3,878	1,960	6,768
Manufacturing	259,204	244,156	114,274	617,634
Electricity, Gas and Water	2,608	20,924	17,086	40,618
Construction	5,305	27,781	17,391	50,477
Wholesale/Retail Trade; Repair Services	816,095	364,164	57,658	1,237,917
Hotels and Restaurants	233,525	224,963	21,180	479,668
Transport Storage and Communications	26,161	49,399	16,671	92,231
Financial Intermediation	80,706	85,395	12,377	178,478
Real Estate, Renting and Business Activities	109,214	122,428	46,104	277,746
Education	31,516	154,515	37,695	223,726
Health and Social Work	51,006	35,240	15,615	101,861
Other Community Social and Personal Service Activities	99,567	47,911	7,260	154,738
Total	1,729,100	1,417,672	386,163	3,532,935

Source of basic data: NSO 2010 List of Establishments

Chapter 4. Competitive and Sustainable Agriculture and Fisheries Sector

Assessment

The Philippine Development Plan (PDP) 2011-2016 is anchored on the overarching goal of inclusive growth and poverty reduction. The agriculture and fisheries sector is envisioned to be competitive, sustainable and technology-based, driven by productive and progressive farmers and fisherfolk, supported by efficient value chains and well integrated in the domestic and international markets, contributing to inclusive growth and poverty reduction.

The first two years of the Plan's implementation focused on the achievement of the following major outcomes: (a) improved food security and increased income; (b) increased resilience to climate change risks; which will be complemented by (c) enhanced policy environment and governance.

The full year 2011 Agriculture and Fisheries (A&F) sector performance registered gains and shortfalls from the sector targets (Table 4.1). In particular, the sector's growth of 2.5 percent which contributed a gross value added (GVA) of PhP676,209 million remained below the 4.3-5.3 percent growth target. The overall growth was pulled down by the negative performance of the fisheries sector (-4.1%) but which continued to contribute a substantial share of 19 percent to the sector's GVA. The steady growth rates of the crops (4.9%), livestock (2.0%) and poultry (4.4%) subsectors primarily accounted for the growth of the sector as a whole, albeit at slower rate. For the first half of 2012, the sector posted a 0.7 percent growth which contributed a GVA of PhP332.058 million.

Table 4-1. Summary of Key Sector Indicators and Accomplishments, 2010- 2012

SECTOR OUTCOME	KEY INDICATORS	BASELINE	TARGET	ACTUAL (GROWTH RATE)		END-OF-PLAN TARGET
		FY 2010	FY 2011	FY 2011	1S 2012	
Growth in agriculture and fishery sector increased	GVA increased (in Php million at 2000 constant prices) ¹	659,989	4.3 - 5.3	676,209 (2.5)	332,058 (0.7)	4.3 - 5.3
	Crops	317,479	4.9 - 5.9	333,059 (4.9)	164,163 (1.3)	4.9 - 5.9
	Livestock	90,478	1.6 - 2.6	92,255 (2.0)	44,777 (0.5)	1.6 - 2.6
	Poultry	68,256	4.2 - 5.2	71,262 (4.4)	35,335 (5.7)	4.2 - 5.2
	Fisheries	136,432	4.5 - 5.5	130,772 (-4.1)	64,914 (-3.1)	4.5 - 5.5
Food Security Improved	Rice self-sufficiency ratio increased (in percent)	80	84.43	87.88	NA	100.0
Sector resilience to climate change risks increased	Annual agriculture and fishery production loss due to weather and climate-related disasters reduced on the average (in Php billion)	13.8	decreasing per year	25.1	NA	decreasing per year

¹Value includes agricultural activities and services which amounted to PhP 47,345 million and PhP 48,860 million in 2010 and 2011, respectively.

Further contraction in the fisheries sector at -3.1 percent was recorded compared with the -2.7 percent contraction in the same period in 2011. The subsector's GVA in the first half of 2012 is slightly lower at PhP64,914 million compared to the PhP66,966 million gained in the same period in 2011.

Efforts of improving food security including the dissemination of technologies to farmers and implementation of the Food Staples Self-sufficiency Program (FSSP) translated to above-the-target rice self-sufficiency ratio at 87.88¹ percent for full year 2011. The Department of Agriculture (DA) targeted 100 percent food self-sufficiency for the country by 2013.

However, climate-related disasters had negative impacts on the sector with higher production losses that reached PhP25.2 billion in 2011 from PhP13.8 billion baseline in 2010. Damages brought about by typhoons Pedring and Quiel accounted for almost 65 percent of the total agricultural production losses in 2011. Continued priority is given in providing interventions to improve the sector's resiliency against the negative impact of climate change.

The A&F sector accounted for 11.4 percent of GDP in 2011. The sector also employed about 33 percent of the total labor force, second to the Services sector with its share of 52.1 percent. There are 2.6 percent or 310,000 more

Filipinos in 2011 who depended on agriculture and fisheries for their income compared with 11,956,750 registered in 2010.. Meanwhile, agriculture employment declined at 4.1 percent from 12,097,000 for July 2011 to 11,604,000 for July 2012.

Sector registers positive growth

Contribution of subsectors

Fisheries. Past records showed that the fisheries subsector had been a key driver of growth in the agriculture sector but annual growth rate has been on a steady decline. From 2004-2010, fisheries subsector annual average growth rate posted at 1.2 percent, slightly higher than average growth other subsectors including palay, corn, banana and poultry.

In 2011, fisheries performance contracted by 4.1 percent, the lowest in the last eight years (Figure 4.1). Despite gains of 2.4 percent in aquaculture production, commercial and municipal fisheries production declined by 16.3 percent and 2.9 percent, respectively. The drop in commercial fisheries production, in particular, was mainly attributed to the combined effect of decreased fishing efforts during rough seas and strong winds and the resource conservation policy implemented by the government during the year to arrest rapid depletion of fish supply in the open seas due to the exploitation of some fishing

Table 4-2. Agriculture and fishery contribution to economy, 2010- 2012

PARTICULARS	2010	2011	1S 2012
GDP – Agriculture and Fisheries Sector (in PhP M, constant 2000 prices)	659,989	676,209	332,058
% share to GDP	11.6	11.4	10.8
Agri Employment (in '000 persons) ¹	11,957	12,267	11,604
% growth	-0.7	2.6	-4.1 ²
% share to total employment	33.2	33.0	30.9

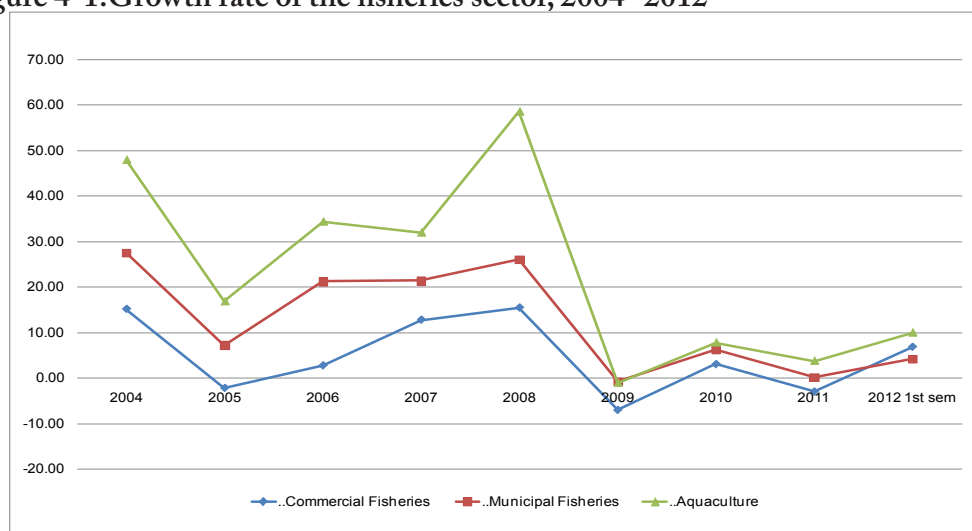
Source: NSO, NSCB and DA-BAS, 2012

/1Refers to persons employed in Agriculture, Fishery and Forestry (AFF)

/2Year on year (July 2012 against July 2011); 2011 and 2012 data are preliminary

1 Estimated using 2011 production, import and buffer stocks (BAS).

Figure 4-1. Growth rate of the fisheries sector, 2004- 2012



Source of basic data: BAS and NSCB, 2012

grounds including the harvesting of immature fish.

BFAR's conservation and resource management efforts to arrest rapid depletion of fish supply include the "closed season" for fishing of sardines from December 2011 to March 2012 and the closing of traditional fishing grounds of yellow fin and big-eye tuna in the high seas since 2010. These short-term policies have partly accounted for the decline in fish production during the review period but are nonetheless expected to help boost the production of the marine capture subsector in the subsequent years and improve the population against rapid depletion of the commercially important fish stocks.

Crops. Across commodities, sugarcane (59.7%), palay (5.9%) and corn (9.5%) were strong gainers in 2011 (Table 4.3). The expansion of harvested areas for sugarcane and increase in rates of fertilizer application raised productivity. The total production of palay and corn were significantly higher in 2011 than in 2010 as the subsector recovered from the effects of El Niño.

Other significant commodity gainers in 2011 were banana (0.7%) and pineapple (3.2%). The decreased yield in banana was due to the typhoons in Luzon and the disease infestation in Mindanao. This, nonetheless, was compensated by substantial increase in area harvested, thereby resulting in slightly higher production.

For pineapple, the increase in production was bolstered by both increase in yield and area planted. The production also responded positively to the growing demand for pineapple from both the local and international markets.

On the other hand, production of several major commodities such as coconut (-1.7%), mango (-4.9%), and coffee (-5.7%) contracted in 2011. Climate variability partly accounted for the relatively lower productivity performance of these crops. In addition, the shift from coffee to banana caused the former's lower production gain and the area expansion for the latter. Similarly for coconut, contraction in area planted due to land conversion contributed to the decline in production.

Meanwhile, the livestock and poultry subsectors attained the targeted 1.6-2.6 percent and 4.2-5.2 percent growth, respectively, contributing to the overall positive growth of the sector in 2011. Livestock growth was attributed to the increase in production due to better farm gate prices and higher demand for beef and pork. The increased productivity of commercial cattle dairy animals also accounted for the livestock subsector's relatively strong growth during the period. Growth in the poultry sector was propelled by the positive performance of chicken, duck and chicken eggs production. The growth was primarily attributed to expansion of broiler farms; and higher demand and market prices for

eggs and balut (fertilized duck embryo). For the first half of 2012, the poultry subsector grew by 5.6 percent primarily from egg production while the livestock subsector grew at a minimal rate of 0.5 percent as the number of animals slaughtered declined, pulling down carabao, cattle and goat production.

Contribution to global trade

Revenue from agriculture and fisheries product exports for 2011 was US\$5,388 million which was 69.4 percent higher than the baseline (2004-2010) value of US\$3,181 million (Table 4.4). This performance is significantly higher than target growth rate for 2011 and closer to the end-

of-plan target revenue of US\$5,483 – US\$5,791 million. In the first quarter of 2012, exports revenue decelerated by 9.1 percent with earnings posted at PhP1,154.89 from PhP1,271.08 million for the same quarter in 2011.

The laudable export performance of the sector in 2011 was contributed by the 33.6 percent increase in the export earnings of the top ten agricultural exports valued at US\$3,951.83 million (Table 4.5). Export earnings of the same export crops in 2010 were valued only at US\$2958.50 million.

The top agricultural export was coconut oil contributing 26 percent to the total agricultural export earnings of the country (Table 4.5).

Table 4-3. Table 4.3. Contribution, value and growth rates of agriculture and fisheries, by sub-sector, 2010-2011

	% SHARE TO 2011 GVA	GROSS VALUE ADDED (Php M, Constant Prices)		GROWTH RATE (%)	
		2010	2011	2010	2011
Agriculture & Fisheries	100.00	659,989	676,209	0.02	2.5
Agriculture	80.7	523,557	545,436	0.2	4.2
Palay	19.3	122,968	130,252	-2.4	5.9
Corn	5.6	34,589	37,876	-8.9	9.5
Coconut inc. copra	4.3	29,903	29,380	-0.6	-1.7
Sugarcane	2.7	11,408	18,221	-15.7	59.7
Banana	5.0	33,302	33,539	0.6	0.7
Mango	2.1	15,164	14,418	6.9	-4.9
Pineapple	2.1	13,860	14,299	-0.3	3.2
Coffee	0.5	3,493	3,293	-2.0	-5.7
Cassava	1.2	7,866	8,265	4.8	5.1
Rubber	0.5	2,996	3,219	1.3	7.5
Other crops	6.0	41,930	40,297	2.7	-3.9
Livestock	13.6	90,478	92,255	0.6	2.0
Poultry	10.5	68,256	71,262	7.7	4.4
Agricultural activities and services	7.2	47,345	48,860	3.3	3.2
Fisheries	19.3	136,432	130,772	-0.5	-4.1

Source of basic data: NSCB, 2012

Also quite notable in 2011 were the export performance of the coco water and coco coir, two coconut products that were relatively new in the export market. Government efforts to promote these coconut products yielded an increase of 832 percent in the volume of coco water exports as compared with the 2010 level which was valued at US\$15.11million; and 39.2 percent increase in the quantity of coco coir exports with a total value of US\$2.01million. For 2013, the government aims to further develop the industry through its investment amounting to about PhP1.75billion².

Another major contributor to agricultural exports was centrifugal sugar which grew more than ten

times in 2011 from the 2010 record. Its revenue of US\$29.62 million in 2010 went up to US\$351.45 million in 2011, making it ranked third of the top export commodities. Most commodities in the top 10 list registered increments in export revenues which ranged from 12.6 percent for coconut oil to 87.9 percent for desiccated coconut.

Other commodities in the top agricultural exports in 2011 are fresh banana (8.7%), pineapple and products (6.3%), tuna (5.8%) seaweeds and carrageenan (3.9%), tobacco manufactured (3.7%), fertilizer manufactured (3.3%), milk and cream and products (3.2%) and fresh mango (0.3%).

Table 4-4. Accomplishment for Sector Outcome: Growth in Agriculture and Fishery Exports, 2011

SECTOR OUTCOME	INDICATORS	BASELINE	TARGET	ACTUAL (GROWTH RATE)		END-OF PLAN TARGET (GROWTH RATE)
		2004-2010	FY 2011	FY 2011	1Q 2012	
Growth in agriculture and fishery sector increased	Value of agricultural exports increased (in million US\$)	3,181	9.5 - 10.5	5,388.17 (31.38)	1,154.89 (-9.1)	5,483-5,791 (9.5 - 10.5)

Source: Results Matrix, NSCB and BAS Updates on Agricultural Trade Performance, 2012

Table 4-5. Value of top agricultural exports, 2010-2011(FOB in million US\$)

AGRICULTURAL EXPORTS	2010	2011	GROWTH RATE (%)	% SHARE
Coco oil	1,265.9	1,425.5	12.6	26.5
Banana, fresh	319.3	471.0	47.5	8.7
Centrifugal sugar	29.6	351.5	1,086.5	6.5
Pineapple & products	242.6	341.3	40.7	6.3
Tuna	359.4	314.6	-12.5	5.8
Desiccated coco	152.6	286.8	87.9	5.3
Seaweeds & carrageenan	154.2	210.9	36.8	3.9
Tobacco manufactured	161.2	200.0	24.1	3.7
Fertilizer manufactured	120.3	176.9	47.1	3.3
Milk and cream & products	138.2	173.5	25.5	3.2
Mango, fresh	15.2	16.7	9.61	0.3
Top Agricultural Exports	2,958.5	3,951.8	33.58	47.0
Value of Total Agricultural Exports	4,101.1	5,388.2	31.38	100.0

Source: BAS, 2012

² Source: The 2012 SONA Technical Report

Market facilitation activities of the Department of Agriculture (DA) contributed to the expansion and opening of markets for domestic products which caused the positive performance of the agricultural export industry. The country's agricultural exports have penetrated the markets of the United States, Japan, China, Hong Kong, Singapore, Malaysia, South Korea, Middle East and the Gulf Region, and parts of the EU markets.

The DA has also maintained rigorous market linkages and market-matching activities in order to assist our agriculture and fishery producers in entering into lucrative agreements with different buyers. Export market linkages are currently under negotiation with buyers from Japan and Singapore (for vegetables) and Dubai (for frozen pork choice cuts).

In the livestock and poultry subsector, the country sustained its Avian Influenza (AI) and Foot and Mouth Disease (FMD) free status, thus opening opportunities to export poultry and processed meat to Japan, day-old chicks to Brunei, Nepal, and Vietnam, and processed meat products to Australia, Bahrain, Qatar, Kuwait, Saudi Arabia, and the UAE. A major program that maintained the AI free status of the country is the Avian Influenza Protection Program (AIPP), a national preparedness and prevention plan for AI and undertaken jointly by DA, Department of Health (DOH) and the poultry industry. To date, the following are the activities being implemented by the government: ban on importation from AI infected countries, surveillance of poultry in 20 priority areas, evaluation of preparedness from the national to local levels, information, education and communication campaign and upgrading of laboratory facilities. Government efforts to maintain the FMD freedom, on the other hand, include continuing surveillance and monitoring, provision of FMD vaccine buffer stock and issuances of the department orders pertaining to transport/shipment of livestock products.

Towards Realizing Food Security

Food inflation rate

The average inflation rate for all food items was recorded at 5.7 percent in 2011. This was 39 percent higher than the 2010 level of 4.1 percent. For the first semester of 2012, inflation rate was recorded at 1.8 percent. For basic food, the average inflation rate was 5.2 percent for the year 2011, which is 0.2 percentage points off the year's PDP Results Matrix target of 3.0-5.0 percent. The increase in the inflation rate was due to higher prices of most food items such as vegetables (12.8%), corn (7.7%), fish (7.2%) and fruit (6.7%) as a result of production losses brought by typhoons Pedring and Quiel and difficulties of transporting produce to key markets because of damages in road infrastructures. Performance in the first half of 2012 is 39 percentage points higher compared to the 2002-2011 first half average food inflation rate of 5.3 percent

Rice Sufficiency by 2013

For 2011, the country was estimated to achieve a rice self-sufficiency ratio of 87.88 percent³ surpassing its annual target (84.4%) by 3.48 percentage points. The SSR is a measure of the capacity of the country's domestic production to satisfy and meet its utilization requirements, including buffer stocks. The positive performance of rice production is attributed to the continued efforts of the Department of Agriculture, particularly in the implementation of the Food Staples Sufficiency Plan 2011-2016. Improving rice productivity through continued implementation of appropriate economic incentives and productivity-enhancing mechanisms; and more effective management of food staples consumption are necessary intervention areas that were operationalized by the DA in support to the national goal of rice self-sufficiency. Among the economic incentives and enabling mechanisms that are being pursued include (i) market reforms (e.g. strengthening price support and procurement policy); (ii) strengthening credit provision to

³ The rice self-sufficiency ratio (SSR) of 87.88% was computed using the formula: $[\text{Production} \div (\text{Production} + \text{Imports} - \text{Exports} + \text{Change in Stocks}) \times 100]$. Total utilization is represented by the sum of production, imports and buffer stock inventory. It is important to note that the 2011 official SSR of the DA-Bureau of Agricultural Statistics stands at 93.91% and does not account for the buffer stocks.

small farmers; and (iii) expansion of insurance coverage by strengthening institutional capacity and developing innovative products that better address farmers' needs.

The DA also strengthened the implementation of the PalayCheck⁴ and Palayamanan⁵ technologies to further improve rice productivity. The continued promotion of the use of certified seeds and hybrid seeds enhanced rice yield by 15 percent.

The 'Quick-Turn-Around' (QTA) Program was also pursued to ensure an advance cropping calendar among rice farmers and bump up rice production. The program was implemented in farm areas served by major irrigation systems in Luzon such as the National Irrigation System Upper Pampanga River Integrated Irrigation System (NIA-UPRIS) and the Magat River Irrigation System (NIA-MARIIS).

Complementary Planting of Tobacco in the Summer and Rice in the Wet Season Program through a PhP20 million-worth of production assistance for tobacco farmers was also implemented. Participating tobacco farmers, who agreed to plant rice during the wet season received production support from the National Tobacco Authority (NTA). With this scheme, tobacco farmers were encouraged to be more productive as they helped in attaining rice sufficiency while also generating additional income for their families during the wet season. The program covers 1,484 farmer-cooperators in the provinces in of La Union, Pangasinan, Ilocos Sur, Ilocos Norte, Abra, and Mindoro who are scheduled to plant rice in over 1,242 hectares of land previously planted to tobacco.

Raising productivity and incomes

In order for the A&F sector to achieve the goal of reducing rural poverty and ensure food security in the long term, increased productivity, production, and incomes shall be prioritized.

From 2010-2011, there were notable increases in the yield of major commodities such as palay,

corn (yellow and white), coconut (copra), mango, banana, and sugarcane (Table 4.6). Among these commodities, sugarcane posted the highest increase in yield from 49.9 metric tons/hectare in 2010 to 64.5 mt/hectare, about 19 percent higher than the 2011 target of 54.20 mt/hectare.

In addition to area expansion, the significant increase in sugarcane production was due to the adaption of ideal farming practices such as use of high-yielding varieties, farm mechanization, and the application of correct fertilization rate. However, the remarkable contraction (42.5%) in sugarcane production in second quarter translated to the negative first half 2012 sugarcane performance (-19.2%).

Slight decreases in the yields of rubber, coffee, and cacao were also reported. Rubber posted the most decrease in yield with about 13.7 percent decrease from 3.1 mt/hectare in 2009 to 2.6 mt/hectare in 2011. Although there was an increase in production of rubber at 7.7 percent, the rate of growth of harvested area was higher at 16.4 percent resulting to the decrease in yield per hectare.

Meanwhile, the net profit cost ratio (NPCR) of palay, mango, coffee and native onion decreased from 2010 records (Table 4.7). This could be attributed to escalation of total production cost due to rising prices of inputs (e.g. fuel, pesticides, fertilizers and seeds). On the other hand, pineapple and tomato NPCR increased by 25.4 percent and 20.9 percent, respectively due to increase in farmgate prices and higher yields. Substantial increase in the NPCR of coconut is attributed by about 52.5 percent increase in the farm gate price of copra from PhP21.3 in 2010 to PhP32.5 in 2011.

While production and farmgate prices increased in 2011, the net-profit of pork decreased. This was mainly due the high cost of production, particularly prices of basic inputs (i.e., feeds and stocks). Considering that farmgate prices was lower by 1.6 percent compared the previous year,

⁴ PalayCheck is an integrated crop management system for rice that adopts Good Agricultural Practices (GAP) on seed quality, land preparation, crop establishment, and proper management of nutrient, water, pest, and harvest

⁵ Palayamanan is a diversified integrated rice-based farming system

Table 4-6. Accomplishment for intermediate outcome: increased productivity and production –yield of major commodities

Intermediate Outcome	Indicator	Baseline	Target	Actual (Growth Rate of Actual versus Baseline)		End-of-Plan Target
Productivity and production increased		FY 2010	FY 2011	FY 2011	IS 2012	
Yield of major commodities increased (in metric ton per ha):						
	Palay	3.6	3.9	3.7 (1.6)	3.9	4.9
	Corn					
	White	1.6	1.7	1.7 (3.7)	1.8	2.0
	Yellow	3.6	3.8	3.8 (5.2)	4.2	4.6
	Banana	20.2 (2009)	21.3	20.4 (0.8)	10.5	24.6
	Coconut (copra)	0.8 (2009)	0.9	0.8 (4.0)	NA	1.0
	Pineapple	37.4 (2009)	39.6	38.4 (2.9)	19.9	45.7
	Mango	4.1 (2009)	4.4	4.2 (2.7)	3.6	5.1
	Sugarcane	49.9	54.2	64.5 (29.5)	55.2	75.0
	Coffee	0.8 (2009)	0.8	0.7 (-5.9)	0.3	0.9
	Cacao	0.5 (2009)	0.6	0.5 (-5.3)	0.3	0.7
	Rubber	3.1 (2009)	3.1	2.6 (-13.7)	1.1	3.6
	Vegetables					
	Eggplant	9.5 (2009)	10.1	9.7 (2.5)	11.3	11.6
	Tomato	11.3 (2009)	11.9	11.6 (3.0)	12.3	13.8
	Cabbage	14.7 (2009)	15.6	14.7 (-0.3)	15.9	18.0
	Cauliflower	10.6 (2009)	11.2	10.9 (2.5)	3.9	12.9

Source: Results Matrix, NSCB and BAS, 2012

demand for pork (average growth of 7%, 2001-2010) continues to drive domestic production.

For poultry, the decrease in the NPCR may have been due to the reduction in volume of sales of domestic products brought about by cheaper imports that flooded the market. It is important to note that the average farmgate price of broilers in commercial farms was PhP77.30 per kilogram or about 1.6 percent increase from the 2010 level.

The increase in NPCR of bangus (caged) is attributed to increase in farmgate price. However, bangus (pond) and tilapia net profits slid due to the high production losses from pond overflows during the typhoons in 2011.

To boost production and net profit cost ratio performance of the sector, the government shall focus on the production and dispersal of fingerlings, development and dissemination of

climate proof sea cages, improvement of seaweed and fish health management technologies; and enhanced aquaculture development. Implementation of integrated coastal and marine resource management activities and strict enforcement of laws, rehabilitation of fishery habitats shall be prioritized.

In support of the sector's goal of increasing income towards helping the sector further reduce poverty, the DA has undertaken interventions in partnership with the Department of Social Welfare and Development (DSWD) including:

Agrikulturang Pantawid Pamilyang Pilipino. This program, launched in December 2011 in Las Navas, Northern Samar, sought to engage landless farmers under the DSWD's Cash-for-Work Program in paddy diking (the building of "pilapil" around farms). The same farmers are trained and organized into service provider groups

who will eventually be hired to do other farm jobs – plowing, replanting, harvesting, irrigation canal repair and desilting, and other labor-intensive farm activities. Management and marketing will be important add-on components of the groups to enable them to solicit enough jobs for the group, sufficient income, and maintain a good track record in recognition of the quality of their job; and

Kasaganaan sa Niyugan at Kaunlaran ng Bayan (KAANIB). This is the coconut industry's farm development program wherein coconut farms in areas owned and/or operated by small coconut farmers and farm workers are organized into clusters. The project continues to serve as a platform for interventions that include the establishment of community-managed nurseries, planting of coconut seedlings, intercropping of

Table 4-7. Accomplishment for intermediate outcome: increased productivity and production – net profit-cost ratio of major commodities

Intermediate Outcome	Indicator	Baseline	Target	Actual (Figures in Parenthesis are Growth Rate of Actual versus Baseline)	End-of- Plan Target
Productivity and production increased		FY 2010	FY2011	FY 2011	
	Net profit-cost ratio for major commodities increased (net returns/total cost in pesos):				
	Palay	0.5 (2009)	0.5	0.4 (-20.5)	0.7
	Corn				
	<i>White</i>	0.2	0.2	0.2 (9.1)	0.4
	<i>Yellow</i>	0.6	0.7	0.3 (-47.5)	0.9
	Coconut (copra)	1.3	1.3	3.0 (134.0)	1.3
	Sugarcane	1.5	1.5	NA	0.7
	Mango	0.7 (2009)	0.8	0.5 (-28.8)	1.0
	Pineapple	2.1 (2009)	2.2	2.5 (17.6)	2.8
	Banana	1.2	1.3	1.3 (4.8)	1.6
	Vegetables				
	<i>Tomato</i>	0.7 (2009)	0.7	0.8 (15.7)	0.8
	<i>Eggplant</i>	0.4 (2009)	0.4	0.6 (54.1)	0.4
	<i>Cabbage</i>	0.9 (2009)	0.9	0.9 (5.8)	1.0
	<i>Cauliflower</i>	1.1 (2009)	1.1	1.7 (47.3)	1.3
	Livestock				
	<i>Hog</i>	0.1	0.1	0.1 (-54.1)	0.2
	<i>Chicken</i>	0.3	0.3	0.2 (-41.4)	0.3
	Fisheries				
	<i>Bangus</i>				
	Cage	0.4	0.5	0.5 (7.0)	0.6
	Pond	1.1	1.1	0.5 (-56.6)	1.4
	<i>Tilapia (pond)</i>	1.2	1.2	0.3 (-75.0)	1.6

Source: Results Matrix, NSCB and BAS, 2012

coconut with high value and cash crops, livestock integration, and production and marketing of village-level high value products and by-products. For 2011, 10 selected sites have been maintained and 20 livelihood projects were implemented, benefitting 1,216 farmer-participants. The project beneficiaries were included in the National Household Targeting System of the DSWD.

Provision of rural infrastructure and support services

Improvement of rural infrastructure and facilities, development of markets and enhancing regulatory competence, and improvement of credit access are also among the measures undertaken to help boost agricultural production and marketing. A total of 1,752.7 km of farm-to-market roads have been constructed and rehabilitated/repared from July 2010 to June 2012.

A major infrastructure development activity is the establishment and maintenance of the irrigation facilities which primarily support crop production. A total of 17,564 hectares of new areas have been irrigated, 81,468 hectares rehabilitated, and 16,043 hectares restored with irrigation facilities⁶. The NIA also operates and maintains 212 national irrigation systems (NIS) with a total service area of 783,457 hectares. These NIS has total effective irrigated area of 1,135,650 hectares broken down as follows: 566,006 hectares during the wet season; 553,396 hectares during the dry season; and 16,248 hectares for the third cropping/ratooning. These support facilities enabled cropping intensity to reach 170 percent.

Improving access to local and international markets

In terms of market support, the country, through the DA, participated in 17 international events and 26 locally-held food promotions aimed at increasing market for products of small and medium enterprises. Around PhP38.4 million were invested in these activities generating total sales of about PhP4,699.1 million. Of this amount, PhP4,634.2 million were actual sales

booked while about PhP65 million were sales under negotiation.

The country's agricultural exports including fruits/processed fruits (i.e., Cavendish, pineapples, mangoes, and papaya, dried fruits, fruit juices, desiccated coconut), and marine products (i.e. tuna and its by-products, squids, and mollusks) continue to penetrate the markets of the United States, Japan, China, Hong Kong, Singapore, Malaysia, South Korea, Middle East and the Gulf Region, and parts of the EU markets.

Moreover, new products catering to health-conscious consumers such as coconut water, muscovado sugar, and organic coffee were also promoted. Market access of Philippine products such as coco sugar, fruit juices (calamansi), processed peanut, fresh bananas, Cavendish chips, coco water and bagoong were developed.

Keeping the livestock and poultry sector free from the pandemic AI and the FMD has also helped the country in opening opportunities to market its products in several parts of the world such as to Japan, Brunei, Nepal, Vietnam, Australia, Bahrain, Qatar, Kuwait, Saudi Arabia, and UAE. Recently, Philippine chicken from triple A slaughterhouses has been cleared for export to South Korea.

Bolstering Agricultural Enterprises through Credit

Improving access among small farmers and fisherfolk to formal financial institutions is one of the sector's priority concerns to increase productivity and income. In 2011, loan granted for agricultural production increased by 8.2 percent from PhP214,322.3 million in 2010 to PhP231,794.7 million in 2011. Of the amount granted in 2011, the food commodities group was extended the highest proportion at about 36.6 percent or a total of PhP84,752.7 million. Palay received the bulk of the food commodity loans covering about 42 percent (PhP36,177.8 million) while livestock and poultry were granted 37.8 percent (PhP32,072.9 million) and fishery with 6.7 percent (PhP5,640.2 million).

⁶ Not inclusive of NIA's Carry-Over Projects from its CY 2010 Program: 3,362 ha (new areas generated); 49,634 rehabilitated areas; and 12,274 restored areas, NIA, Physical Status of Irrigation Projects CY 2011 Program (as of April 2012). 21 May 2012.

Other major commodity groups granted with loans are the export and commercial commodities which cover 8.2 percent (or PhP19,043 million) of the total loans in 2011. Among the list, coconut is the highest funded at 34 percent or about PhP6,469.9 million.

Credit to small farmers and fisherfolk (SFF) was facilitated through various financing windows including that of the: (a) Land Bank of the Philippines (LBP); (b) Department of Agrarian Reform-implemented Credit Programs; (c) Department of Agriculture – Agricultural Credit Policy Council (DA-ACPC) Agro-Industry Modernization Credit and Financing Program (AMCFP); and (d) Development Bank of the Philippines (DBP) (Table 4.8).

For the LBP, a total of PhP52,572.4 million loans were released from January 2011 to May 2012, assisting about 1,171,971 SFF. These loans were released through the following major programs: LBP's Rice Productivity Program and

Food Supply Chain, and LBP's partnership with the DA Sikat-Saka Program; and DAR Credit Assistance Program - Program Beneficiaries Development (CAP PBD) Window III and Agrarian Reform Communities Project (ARCP) II- Agri-Cash Project, among others. The bulk of these loans were utilized for crop production, particularly palay, corn, coconut, sugarcane and

high-value crops. Other commodities such as fishery, livestock production, marketing, manufacturing, trading and acquisition of fixed assets were also supported. LBP likewise caters to the financing needs of agribusiness.

Credit and microfinance assistance were also made accessible and available to ARB's through the DAR's Microfinance Capacity Development Program in Agrarian Reform Areas (MicroFin_Cap@ARAs) with total loan released of PhP690.2 million and outreach of 56,423 ARBs/ ARB households and rural women since January 2011.

Moreover, the ACPC's AMCFP programs further strengthened the lending to SFF, in which a total of PhP853.1 million was released to 33,506 SFF from January 2011 to June 2012. These programs include: (a) Cooperative Banks Agricultural Lending Program (CBAP); (b) Agricultural Microfinance Program (AMP); and (c) CALP.

From the side of the DBP, a total of PhP365,430.9 million was released to the sector nationwide from 2011 to June 2012. In terms of its wholesale accounts, DBP has released most loans to the livestock and poultry subsector with PhP264,885 million (73.9%) followed by agriculture with PhP85,347 million (32.2%), and aquaculture with PhP8,102 million (2.3%).

Table 4-8. Accomplishments for intermediate outcome: increased credit access- loans released, 2011-2012

	2011		2012 a/	
	LOAN RELEASED (in PhpM)	NO. OF BENEFICIARIESb/	LOAN RELEASED (in Php M)	NO. OF BENEFICIARIES
LBP	40,484.9	943,493	12,087.5	228,47800
DAR	484.9	51,881	205.4	4,542
DA-ACPC	401.9	23,248	451.2	10,258
DBP ^{c/}	101,742.0	8,219	17,266.0	877

Source: LBP, DAR, DA-ACPC and DBP Branch Banking Sector, 2012

a/ Except for LBP, 2012 data on loan released and no. of beneficiaries are from January to June 2012.

b/ For LBP and DA-ACPC, beneficiaries refer to small farmer and fisherfolk while the DAR beneficiaries refer to ARB's/ARB households and rural women.

c/ Only includes DBP wholesale accounts

Table 4-9. Department of agriculture and department of science and technology: PCAMRD and PCARRD, GAA budget (Php), 2008-2012

YEAR	R&D BUDGET		TOTAL	% GROWTH	
	Actual	% Share to total AFMP Budget			DOST PCAARRD and PCAMRD a/
2008	798,633	3.6	301,758,000	302,556,633	-
2009	1,030,246	2.4	307,449,000	308,479,246	2.0
2010	1,074,416	2.7	298,587,000	299,661,416	-2.9
2011	1,460,182	4.2	327,254,000	328,714,182	9.7
2012	1,915,793	3.6	339,145,000	341,060,793	3.8

Source: DA, PCARRD and PCAMRD Budget, 2012

a/ For FY 2012 GAA, PCARRD and PCAMRD budget was transferred to PCAARRD as a result of the approved Rationalization Plan.

Accelerating Research and Development

Accelerating research and development (R&D) remains a priority development strategy for the sector. From 2008 to 2012, the total R&D budget of the DA AFMP and DOST (PCARRD and PCAMRD) grew by 3.1 percent, on the average. Notably, the DA R&D budget has been increasing since 2008 while the PCARRD and PCAMRD R&D budget increased since 2011 from a significant reduction in 2010 (Table 4.9).

In terms of the DA-BAR budget, allocation for the implementation of various agricultural research projects increased by 1 percent from PhP462 million in 2011 to PhP467 million in 2012⁷. The DA-BAR has also emphasized on transforming subsistence agriculture to make farming a business in the implementation of its two banner programs, i.e., Community-based Participatory Action Research (CPAR) and National Technology Commercialization Program (NTCP). For 2011, BAR has funded 305 basic and applied researches, 60 CPAR projects and 122 NTCP projects which is reflective of the increase in the budget for R&D that the Bureaus managed in 2011.

PCAARRD (PCARRD and PCAMRD merged) on the other hand, has also implemented activities in support to programs of national agencies such as organic agriculture, led by the

DA; and the National Greening Program (NGP) of the Department of Environment and Natural Resources (DENR) alongside programs to address climate change adaptation and mitigation efforts.

For 2010-2012, PCAARRD has focused and maximized its limited financial and human resources on its umbrella program, the Agri-Aqua Technology Upgrading Program, which include priority programs ranging from crops (rice, corn, coconut, tomato, coffee, muscovado sugar, mango, Cavendish banana, jackfruit, etc.), fishery products (e.g. tilapia, milkfish, sea cucumber, seaweeds, sardine, tuna, shrimp), to industries (e.g. halal goat, swine, poultry).

As part of PCAARRD's major technology commercialization activities, its Science and Technology-based Farms (STBFs) has yielded success stories of farmers in various regions. PCAARRD also implemented the strengthening of selected Farmer's Information and Technology Services (FITS) Center program to improve the delivery of R&D results where it is needed the most.

To further contribute to the sector goals of food security, increased incomes and resilience to climate change, the DA-BAR (also in partnership with SUCs in the country) and PCAARRD for 2012 have included innovative research and

⁷ 2012 SONA Technical Report

initiatives on early warning system for freshwater fish kill, smart farming-based nutrient and water management for rice and corn production, risk analysis of climate variability, organic farming, and improvement of commodity-specific supply chain, among others.

Transforming agrarian reform beneficiaries (ARBs) into viable entrepreneurs

Alongside DAR's efforts to fasttrack land acquisition and distribution (see Chapter 8: Social Development), it has continued to strengthen the capacities of ARBs and ARB organizations on agriculture production and other off-farm endeavours, transforming them into profitable entrepreneurs.

The latest results of the ARC Level of Development Assessment or ALDA⁸ show that more organizations displayed higher maturity levels and increased productivity and incomes in agrarian reform areas. In particular, the average yield in irrigated rice (4.6 metric tons/hectare) and corn lands (3.9 MT/hectare) in agrarian reform communities (ARCs) are higher by 0.4 MT/hectare and 1.29 MT/hectare than the national average of 4.1 MT/hectare and 2.6 MT/hectare in irrigated rice and corn lands, respectively. In terms of 2011 income, the average ARB annual household income stands at PhP159,614.00⁹ or PhP58,568.00 higher than the rural poverty threshold for a family of six which is about PhP101,046.00¹⁰. These reflect that interventions are gradually translating into economic empowerment of the ARBs.

The DAR has pursued Social Infrastructure and Capability Building in to strengthen the organizational capacity of ARBs and the ARB Organization to develop and manage agri-enterprises:

a. Institutional Development Intervention. A total of 69 ARCs were organized during the period under review. These communities involve 48,799 ARBs that are now in the position to have access to and avail of development interventions from DAR and other CARP implementing agencies (CIAs);

b. Gender-Responsive Capacity Development of ARBs and ARB Organizations and ARCs. DAR continues to conduct trainings on capacity and entrepreneurial skills development. These trainings were participated in by 255,500 ARBs, including rural women¹¹. The trainings are expected to build the capacity of the ARBs to improve their productivity and increase their incomes; and

c. ARB Membership in Organizations. A total of 88,330 ARBs became members in organizations bringing to 482,605 the total number of ARB-members in 11,316 organizations.

To scale up microenterprises into formal and viable SMEs, the DAR has pursued clustering of ARCs to jumpstart the coverage of a wider ARB reach, improve and sustain farm production and achieve food security, tap agribusiness potentials and intensify development interventions in agrarian reform areas. The DAR has also started to implement the Agrarian Reform Community Connectivity and Economic Support Services or ARCESS program which intends to achieve economies of scale in agricultural production and increase productivity and incomes of ARBs.

The following subprograms of Sustainable Agribusiness and Rural Enterprises Development program were undertaken during the period under review:

8 2011 ARC Level of Development Assessment (ALDA) Report. ALDA is a tool that determines, among others, the levels of development of ARCs on land tenure and other equally important areas, i.e., economic and physical infrastructures, etc., and the maturity levels of ARB organizations. Levels of development and maturity for ARCs and organizations, respectively, are from scales of 1 to 5. With level 1 as the lowest and level 5 as the highest.

9 2011 ALDA Report

10 National Statistics Coordination Board-Philippine Poverty Statistics.

11 Service count

a. Promotion of New Lands for Agribusiness Development. A total of 49 ARC clusters were confirmed covering 1,725 barangays. Agribusiness plans for these clusters have been prepared to establish agribusiness ventures and develop an aggregate of 101,424 hectares; and

b. Development of Agri and Non-Agri Enterprises. A total of 917 products and services¹² were developed nationwide. Of these, a total of 464 products and services (51%) were launched in commercial markets.

The DAR, in collaboration with other CARP implementing agencies (CIAs), also facilitated the provision of physical infrastructures in ARCs. These include development of rural road networks and bridges and culverts, construction and/or rehabilitation of irrigation systems and construction and/or improvement of postharvest facilities. From July 2010 to March 2012, a total of 2,139 physical infrastructure projects in the ARCs were constructed and rehabilitated through the facilitation efforts of DAR. These projects are either foreign-assisted (FAPs) or locally funded. These projects are: (a) 351 irrigation systems servicing an aggregate area of 72,076 hectares; (b) 1,498 farm-to-market roads with a total length of 5,734 kilometers; (c) 165 bridges with a length of 3,568 linear meters; and (d) 125 projects on pre- and post-harvest facilities.

Improving the A&F sector's resiliency to climate change

In 2011, the sector sustained massive damage due to typhoons Pedring and Quiela amounting to PhP16 billion. About PhP13.4 billion of the damages were attributed to the rice sector. Further emphasizing the vulnerability of the sector to the negative impacts of climate change and natural disasters, the destruction created by the twin typhoons accounted for almost 64 percent of the total damages to agricultural production (PhP25.1 billion) for the year.

In response, the farmers were given indemnity payments to help them recover from crops losses due to natural calamities such as typhoons,

floods, drought and other natural disasters, as well as plant diseases and pest infestation. About PhP213.8 million of crop insurance claims to 23,144 rice and corn farmers covering 35,236.9 hectares were paid by the DA. Overall, insurance protection to a total of PhP6,592,804,000-worth of farm investments was provided and claims amounting to PhP62,401,346,000 were paid.

The year 2011 also saw the renewed efforts by the government to foster innovations to address poverty and climate change (see Chapter 5: Accelerating Infrastructure Development for infrastructures addressing CC and DRR, and Chapter 10: Conservation, Protection and Rehabilitation of the Environment and Natural Resources for measures undertaken to enhance resilience of natural systems and improve communities' adaptive capacities to cope with climate-related risks), while further cultivating sustainable farming practices. These include implementation of community-based resource management projects, promotion of Organic Agriculture (OA), and conversion of coconut waste to environment-friendly by-products.

Towards mainstreaming climate change in sectoral planning, project development and policy formulation, the DA has forged partnerships with different agencies and development organizations in the implementation of climate change adaptation projects, namely:

a. MDG-F 1656 Joint Programme: Strengthening the Philippines Institutional Capacity to Adapt to Climate Change Project with the National Economic and Development Authority (NEDA). Through this project, measures on climate change adaptation (CCA) and climate risk reduction (CRR) have been integrated in the updating of the Agricultural and Fisheries Modernization Plan, 2011-2016 and operationalized through a planning toolkit on vulnerability assessment, identification and prioritization of CRR measures and M&E. The CCA/CRR planning toolkit has been used in the formulation of the National AFMP and Regional AFMPs.

12 Involve generic products/services and their variants. This explains the unusual high number of products developed

This program has also contributed to the downscaling and generation of provincial climate scenarios by PAGASA. This data are widely used in the planning activities of DA. The project has also installed automatic weather stations (AWS) in four project sites that have benefitted LGUs in monitoring rainfall which were translated as early warning system for the community. The AWS are already used in the weather-based insurance index being implemented by International Labour Organization (ILO) and Philippine Crop Insurance Corporation (PCIC); and

b. Philippine - Climate Change Adaptation Project, Phase 1 with the DA/DENR/PAGASA. This project aims to develop and demonstrate the systematic diagnosis of climate-related problems and the design and implementation of cost-effective adaptation measures in agriculture and natural resources management. It, therefore, supports activities for competitive and sustainable agriculture and fisheries sector. PAGASA's role in the project is focused on the Project's third component – enhance provision of scientific information for climate risk management.

Policy Environment and Governance Enhanced

To complement the goal of improved food security, increased incomes, and increased sector resilience to climate change risks, the policy environment and governance is being enhanced through convergence initiatives, forging of public-private partnerships, and improving delivery of services to target beneficiaries.

Supporting Local Development through Convergence Initiatives and Public-Private Partnerships (PPPs)

For 2011, the convergence initiatives took up more concrete actions towards joint planning and implementation among the three rural development agencies and the LGUs. The DENR-led National Greening Program is strongly supported by the DA. A total of 89.6 million seedlings of various species were planted in 128,558.1 hectares under the NGP. Of these, a total of 1.5 million coffee seedlings were planted in 2,476 hectares and 527,470 cacao seedlings

in 1,433 hectares. The DAR, on the other hand, has conducted an orientation and hands-on training on banana production and distributed banana plantlets to farmer-beneficiaries of DA, while DENR's NGP produced thousands of fruit trees and premium tree species to be planted in identified mountains and idle lands.

In terms of land investments and agribusiness, the DA has partnered with PEZA, DTI, and the BOI in crafting a Unified Guidelines on Agribusiness Investment. The guidelines is expected to provide avenues for the processing of applications for joint-venture agreements and other agribusiness partnership schemes geared towards optimizing economies of scale in agricultural production, capacity development, as well as opening doors for marketing and agricultural produce, while also promoting security of tenure and income of farmers.

For the fisheries sector, a Joint Administrative Order has also been issued by the four agencies on the reversion of abandoned, underdeveloped, and underutilized areas (AUUs) released to BFAR into mangroves for fishpond development.

To further advocate the efficient implementation of government initiatives, alongside the economical use of limited funds, collaborations with the private sector under the PPP scheme have begun to take off. This projects mainly focus on infrastructure development (i.e., cold chain, postharvest, trading and transshipment centers, rail transport, and irrigation), commodity development (i.e., coffee, fiber, high-value crops, and hatchery establishment).

Improving Delivery of Services to Target Beneficiaries

Service to the people necessitates not only carrying out interventions but ensuring that these are delivered to the right beneficiaries as warranted by their needs. Improved targeting of agricultural services shall be undertaken through the following initiatives:

a. Unified and Enterprise Geospatial Information Systems (UEGIS). Spatial and nonspatial information such as bio-physical resources, infrastructure, investments, and farmer information shall be generated by

the UEGIS, which shall serve as inputs to decision-making. The availability and ease of access to such information is expected to improve the equitable and timely distribution of interventions, improve the allocation and efficacy of resources from DA and partner institutions, address the challenges of climate change, increase our response time in providing emergency assistance to farmers and fisherfolk, and provide more accurate forecasting and markets for agriculture and fisheries production.

b. Registry System for Basic Sectors in Agriculture (RSBSA). This project is spearheaded by the Department of Budget and Management (DBM) in collaboration with DILG, DA, DAR, and the National Statistics Office (NSO). The role of DA in this activity is to assist the NSO in the technical aspects of the registration, as well as provide technical resource persons during training activities.

Challenges

High cost of production

Production decisions of farmers and fishing efforts of fisherfolk continue to be influenced by the price movements of key factors of production, primarily fuel. In 2011, prices of fertilizers and pesticides were higher by an average of 6 percent compared with the previous year. In relation to this, net profit cost ratio (NPCR) of some crops decreased from 2010 records which could be attributed to escalation of total production cost due to rising prices of inputs (e.g. fuel, pesticides, fertilizers and seeds).

The spikes in fuel prices in 2011 and early 2012 greatly hurt the sector since this is a key input to production and postharvest activities. Apart from inclement weather and short-run impacts of conservation policies, the increasing prices of gas and oil resulted in the decline in fishing efforts of commercial and municipal fisherfolk.

Climate Change and Disaster Risks

The sector remains vulnerable to the negative impacts of climate change and shall always be at risk, especially from agro-climatic disasters. After the drought experienced in 2010, below normal to excessive rainfall in 2011 heralded the onset of La Niña, with regions all over the country made vulnerable to unpredictable weather patterns. Varying rainfall distributions led to massive flooding and crops destruction in some provinces. Farmlands in other regions, however, benefitted from adequate moisture supply. For 2011, the total cost of damages due to typhoons and floods was estimated at PhP24.0 billion, accounting for almost 3.6 percent of total GVA for agriculture and fisheries.

Inadequate support services

Postharvest losses continue to pose substantive stumbling block in meeting production targets. For rice and corn alone, about 14.8 percent and 7.2 percent of the total production are lost during postharvest operations, respectively. Losses are even higher in horticultural crops: losses in fruits range from 5 to 48 percent, while losses in vegetables range from 16 to 40 percent. These postharvest losses, when translated into monetary values, sizeably reduce the income of farmers and their households (Philmech formerly BPRE, 2010).

Access to key agricultural areas, especially those in remotes areas of the Northern Luzon and Mindanao, as well as island provinces remain difficult. Efforts to fast track the construction of farm-to-market roads (FMRs), tramlines, and other logistics-related infrastructure, including the expansion of RORO route should be prioritized. Likewise, the imposition and collection of pass through fees and toll fees by some LGU on vehicles carrying agricultural products has also contributed to an increase in transport and marketing costs.

Notwithstanding the increase in agricultural production loans in 2011, ***the annual proportion of agricultural loans to total loans granted by banks remains low at 1.8 percent***¹³

13 Based on BAS Selected Statistics on Agriculture 2012

. Issues relating to limited access to credit by small farmers and fisherfolk have been identified in many studies and raised in various consultations (e.g. Credit Summit, National Food Summit). Formal lenders, particularly banks, have pointed to the following as among the important considerations affecting their decision to lend to smallholders in agriculture: (a) viability and profitability of agricultural projects, in general (e.g. marketability, available infrastructure such as farm-to-market roads, post-harvest facilities, etc.); (b) repayment capacity or cash flow of borrower; (c) inherent risks to agriculture (calamities, pests, diseases); (d) high cost of administering small loans/lending to small farmers; and (e) lack of borrowing experience and/or poor credit track record of farmers. On the other hand, small farmer borrowers often cite the following reasons for their inability to access credit from banks: (a) lack of knowledge on how to access formal or bank financing; (b) stringent documentary requirements by banks; (c) lack of acceptable collateral; and (d) delayed release of loans.

There is a *need to accelerate the development of irrigation systems* in the country given that, as of end-2011, irrigation development¹⁴ stood at only 50 percent, which means that out of the 3.126 million hectares of potentially irrigable lands up to 3 percent slope, only 1.566 million hectares have irrigation facilities and 1.6 million hectares have yet to be developed. By major island group, the bulk of the remaining undeveloped area is still in Luzon (801,673 hectares), while Mindanao and Visayas still need to provide irrigation to 594,542 hectares and 163,534 hectares, respectively. Mindanao, however, holds the highest potential given that it has the lowest irrigation development at 38 percent, compared to Luzon's 56 percent and Visayas' 51 percent. Moreover, aside from developing new areas, it is also important to protect irrigated lands from conversion to land use other than agricultural. Latest data show that the firm-up service¹⁵ area is only 83 percent, which means

259,617 hectares out of the 1.6 million hectares of irrigated lands are considered permanently nonrestorable areas¹⁶.

In addition, management of the irrigation sector continues to be beset by institutional challenges particularly on the rationalization of the National Irrigation Administration. The need to downsize the agency but at the same time improve and sustain its operation as a viable corporation and service-oriented agency will be critical for the years to come. Part of NIA's current thrusts is to turn over the operation and management (O&M) of national irrigation systems (whole or portions) to Irrigator's Associations (IAs). The success of this initiative lies in the capability of IAs to assume this new role, thus, they must be provided with adequate capacity building programs. On the other hand, for communal irrigation systems (CIS), LGUs must also be capacitated considering that RA 7160 and 8435 mandates that management functions of CISs be devolved to LGUs.

Limited markets and poor quality control continue to hold back revenue potentials of agricultural exports. One emerging challenge that the sector faces is the concentration of markets on a few trading partners for agricultural export commodities like Cavendish banana. The refusal of China to accept Philippine bananas allegedly due to the presence of a type of insect widely known to affect coconut re-emphasizes the need to diversify export markets to minimize risks and losses of our export sector.

The import restriction on banana translated to an annual loss in export earnings of US\$138.3 million or PhP6 billion. Likewise, in the event that the situation will not improve, about 14,000 hectares of banana plantations/farms will be affected with about 3,500 workers going idle. Rigorous inspection of agricultural exports to the international markets should be undertaken to

14 Irrigation Development = Service Area / Potential Irrigable Area

15 Firm-up Service Area = Service Area – Permanently Non-Restorable Areas; the updated service area of an irrigation system wherein the areas converted for other purposes (residential, commercial, industrial, etc.) and those areas that can no longer be served have been excluded.

16 Permanently Non-Restorable Areas – Includes land conversion to other land use other than agricultural land use (residential, commercial, industrial, highland, low-lying, etc.)

avoid suspension could result in multiple effects such as loss of foreign exchange earnings and loss of livelihoods of the people in the sector.

Continued inefficiencies in the production systems of key commodities such as rice and sugar remain a challenge under a liberalizing world market.

The efficiency in the movement across the supply chains remains low as reflected by the high transport costs and market prices. Comparatively, domestic prices of these products are higher than the landed cost of their equivalent or, in some cases, better-quality imports. Domestic retail price of rice (PhP34.7/kg versus PhP25.9/kg) and refined sugar (PhP59/kg vs. PhP50/kg) in 2011 was about 34 percent and 16 percent higher as compared with the imported products. With the impending lifting of the quantitative restrictions for rice and sugar in 2012 and 2015, respectively, the influx of cheap imported agricultural products may ease out the supply of domestic produce in the market.

Unsustainable resource utilization and management practices

Exploitation of fishing grounds and excessive fishing. In the recent years, the exploitation of some fishing grounds and excessive fishing have also resulted in the declining volume of fish catch in the country. According to the DA-BFAR, the increasing number of fishers, harvesting of immature fish, illegal fishing activities in prohibited fishing grounds and the rising demand for fish products have contributed to excessive fishing. Unsustainable fishing practices and economic activities have also been caused degradation fishery habitat. Destructive fishing practices, such as cyanide and dynamite fishing, have caused the degradation of fishing grounds and more importantly coral reefs. Further, injudicious conversion of fisheries habitat, such as mangroves, into residential areas or eco-tourism sites has also placed additional pressure on the ecosystem¹⁷

Competing Uses of Agricultural Lands. In 2011, 17,684 applications for land conversion covering 63,536 hectares were approved. Indeed, the sector, remains affected by shifts towards

competing uses. Particularly sensitive for its implication for food security is the conversion of prime agricultural lands to nonagricultural uses (i.e., residential, commercial and institutional) and the rising demand for industrial crops (e.g., biofuel). Alternative land use activities have also encroached upon ecologically fragile lands. This indicates the need for a national land use policy that will rationalize the optimal allocation of land among competing uses.

Prospects and Policy Directions for 2013

For 2013, the sustained development of the sector remains critical to achieve the overarching goal of inclusive growth and poverty reduction particularly in the rural sector. The sector is expected to grow in gross value added terms by 4.3 to 5.3 percent. The crop subsector will continue to be a major contributor through further improvement of productivity and broader access to domestic and international markets, expanded area and supported by responsive, effective and efficient agricultural services.

The fisheries sector, on the other hand, will aim to adopt a triple strategy of regeneration, protection and sustainable production. Establishment of mariculture parks, nurseries and hatcheries will be pursued. Coastal Resource Management will also be promoted, alongside the replanting of mangroves. Moreover, the livestock and poultry industry will sustain its FMD- and Avian Flu-free status to further expand the local and global markets for the industry.

Towards these ends, the government shall embark on strategic reforms and more definitive efforts in the following areas:

Strengthen implementation of FSSP

In 2013, the country is expected to rely on its own rice production to meet the domestic requirements of the populace. The government shall strengthen the implementation of the Food Staples Sufficiency Program (FSSP) that prescribes three program strategies: (a) raising productivity and competitiveness; (b) enhancing

17 DA-BFAR, Comprehensive National Fisheries Industry Development Plan, 2005

economic incentives and enabling mechanisms; and (c) and managing food staples consumption. The government shall also focus on longer-term and longer-lasting real productivity-enhancing measures such as irrigation, postharvest facilities, research and development and extension, education and training (Box 1).

Strengthening irrigators' associations and other groups and establishing close collaboration with LGUs and other organizations are essential elements of the FSSP and will therefore be aggressively pursued. Various interventions such as farm mechanization, community seed banking, credit and extension are designed to

be implemented with strong participation from these groups.

Conservation and management of fishery resources

The DA-Bureau of Fisheries and Aquatic Resources (BFAR) imposed a "closed season" for fishing of sardines from December 2011 to March 2012 off the waters of Zamboanga and ARMM to give time for sardines to spawn and multiply and save the dwindling sardines population. For tuna, the Western and Central Pacific Fisheries Commission (WCPFC) imposed conservation

Box 4-1. Food Staples Sufficiency Program 2011-2016

Food security, as defined by FAO, exists "when all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and health life". The DA has crafted the Food Staples Self-Sufficiency Plan 2011-2016, which aims to achieve self-sufficiency in food staples, especially in rice, by 2013. To ensure that rice domestic production is adequate to meet domestic requirement, the following interventions shall be prioritized by the DA:

- i. Raise productivity and competitiveness. This strategy is expected to expand harvest area, bolster yields, reduce post harvest losses, and boost total production, which involves the following interventions: (a) expansion of irrigation services; (b) adoption of suitable high quality seeds, fertilizers, and other integrated crop management practices; (c) research and development (R&D); (d) promote mechanization of onfarm and post harvest operation; (e) strengthen the delivery of extension services; (f) boost yield growth in rainfed areas; and (g) harness the potential of the upland rice ecosystem.
- ii. Enhance economic incentives and enabling mechanisms. This will encourage farmers to boost production by providing adequate economic incentives and improving access to credit and crop insurance. This will provide price support, procurement, distribution, and trade policy that will create powerful incentives to rice producers and remove obstacles to the adoption of new technology.
- iii. Manage food staples consumption. The strategy involves demand side interventions of managing food staples consumption. This includes advocacy on the reduction in rice wastage. It will also encourage rice eaters to consume unpolished rice or other alternative staples (white corn, root and plantain).

Targets of the FSSP 2011-2016.

PARTICULARS	2011	2012	2013	2014	2015	2016
Scenario 1: High prod, Low cons.	89.6	95.8	102.0	107.3	108.4	109.2
Scenario 2: CC, High Cons.	83.4	89.3	95.3	100.5	101.6	102.4

and management measures to protect the remaining population of yellow fin and big-eye tuna by closing traditional fishing grounds in the high seas beginning January 2010. While the impact is not immediate, the lifting of the ban in the high seas for Filipino fishermen, and the successful implementation of the “closed season” for sardines are expected to boost production of the marine capture subsector in the near future while improving resilience of these commercially important fish stocks.

The government is determined to eradicate illegal fisheries activities through the intensified implementation of resource conservation and protection measures. These shall be operationalized through the creation of Fisheries Resource Protection and Quick Response Unit that address the issues of illegal fishing and other emergency situations. Furthermore, collaborative efforts between and among the coastal and marine resource agencies, particularly with the DENR units, shall be strengthened. In terms of infrastructure support, facilities such as multispecies hatcheries, nurseries to supply the necessary inputs like blue crabs, abalone sea cucumber and sea urchins to aqua-silvi farmers and also to fish cage operators in mariculture parks shall also be prioritized.

Pursue aggressive promotion of organic agriculture

As the current administration keenly intends to shift Philippine agriculture from conventional to more ecologically-sound food production practices, RA 10068 (or the Organic Agriculture Act of 2010) was crafted with its implementing rules and regulations (IRR), which promotes organic agriculture as a framework strategy that would guide the principles of the Philippine Development Plan. Implementation of this law not only contributes to the goal of food security by increasing rice production and other crop yield but also to the goals on the rehabilitation and conservation of natural resources. The shift to organic agriculture improves the quality and fertility of the soil and provides positive direction to sustainable management and utilization of the natural resource.

Increase sector resilience to climate change risks

With the updating of the National and Regional Agricultural and Fisheries Modernization Plan, climate change adaptation has been identified as major development issue that may hinder the growth and development of the sector. Beyond this, the full integration of climate change adaptation measures in all programs and projects of the sector should continuously be carried out.

This entails designing a climate information system for agriculture and fisheries, research and development for adaptive tools, technologies, and practices, climate-resilient agriculture and fishery infrastructures, implementing regulations to ensure effectiveness and safety, and providing windows for financing and instruments for risk transfer (e.g. weather-based insurance). Also, the continued conduct of vulnerability and adaptation assessment as an input to decision-making, planning and policy formulation shall be carried out.

Acquire and distribute 260,000 hectares and sustain post-LAD tenurial security of ARBs

The DAR intends to acquire and distribute 260,000 hectares of various agricultural landholdings nationwide in accordance with the land types prescribed under the CARPER law. Leasehold operation in retained areas and/or in areas awaiting distribution shall also be implemented to protect the status of the tenant-farmers. Aside from tenure security, a benefit from the leasehold arrangement is the fixing of rent over the land which enables the lessee ARB to get a fairer share of the produce of the land he tills.

Transform the ARBs into highly productive and enterprising farmers

The DAR shall continue to implement programs and projects that would lead to the transformation of the ARBs and ARB organizations into highly productive and enterprising individuals and groups. For 2013, the DAR shall continue to implement the Agrarian Reform Community

Connectivity and Economic Support Services (ARCESS) to enable ARB organizations to consolidate production, logistics, processing and marketing and achieve economies of scale.

Increase investments and employment across an efficient value chain

As part of the country's integrated supply chain, the first state-of-the-art Trading Center in Benguet called the Benguet Agricultural Trading Center (or Benguet Agri-Pinoy Trading Center [APTC]) was unveiled on April 13, 2011¹⁸. This center will benefit 5,000 farmer-families and will create around 3,000 jobs. It is envisioned to make the trading operations of vegetables and fruits faster, from unloading until payment of goods delivered, thus minimizing spoilage and wastage. The DA will establish similar agricultural and fishery trading and processing centers in other major provinces. Initial sites targeted for 2012 include: Pangasinan; Quezon Corn and Cassava Processing and Trading Center, Nueva Ecija APTC, Bohol APTC, USM Halal Development and Training Center and Negros Occidental APTC.

Explore other potential markets for agricultural exports

Strong market-linkages and market-matching activities facilitate entry of agriculture and fishery producers into lucrative agreement with different buyers. Tapping export markets for organic products such vegetables, HVCC crops, frozen pork, among others needs to be worked out to encourage production by local producers.

To realize the full potential of high-value crops, efforts to increase production of traditional export commodities like coconut, sugar, abaca, banana, and pineapple will be undertaken coupled with R&D geared towards improving these commodities competitiveness.

Sustain public-private partnerships especially for infrastructure and value chain development

The private sector will be tapped to participate in the government's efforts to quickly deliver the needed infrastructure and services in the agricultural and fisheries sectors. The projects that are eligible under the PPP include irrigation infrastructure, food supply chain and postharvest services (i.e., bulk handling facilities, food/grains terminals and processing, storage, handling and port/transport facilities), production centers for various farm inputs, fish farming infrastructure, and market and trading centers.

A value chain approach is key in designing the appropriate set and mix of interventions for making agriculture an entry point for overall inclusive growth. For example, such an approach would lead to a better understanding of the enabling transport logistics which can effectively support key value chains through the establishment of a wider transport network linking farms or production areas to markets and rural communities to the mainstream economy.

Expand and strengthen convergence initiatives

Concerned rural development and oversight agencies should exert efforts to ensure systematic management of sector agency performance and initiatives. In addition with the existing convergence among the DENR, DAR and DA, the DPWH and DSWD are among the other government agencies that need to foster partner-relationships to realize a more holistic approach in serving farmers and fisherfolk as well as to maximize a more efficient use of resources. The DPWH is tapped in the implementation of flood control and water impounding projects and the DSWD in farm development and rural employment programs. In line with this, the involved agencies may need to undertake joint planning, programming and budgeting as well as monitoring and evaluation in the achievement of the sectoral goals and targets of the plan.

¹⁸ A joint project of the DA, Provincial Government of Benguet, Municipal Government of La Trinidad, Benguet Congressional District, Benguet State University, and Benguet Farmers Marketing Cooperative, with the signing of an MOU done at the unveiling ceremony, DA-AMAS Annual Report 2011, 18 January 2012. To date, we are awaiting the DA-BAC's resolution to issue the Notice to Proceed to the winning bidder. Construction to start thereafter.

Endeavours to expand the local and global markets for our livestock and poultry industry stand at an advantageous position the Philippines currently holds an FMD- and an Avian Flu-free status. It should build on this reputation to further enhance the local livestock and poultry industry.

Relatedly, sharpening regulatory competence will be continued through the provision of technical and legal, improvements in laboratories and equipment, and alignment of domestic with internationally accepted standards, including those for organic inputs, food, and Halal certification.

Priority legislations to accelerate development

The following shall remain priority legislations and shall be actively pursued in support of the development of the A&F sector: Accelerated Irrigation Act. Under this law, the NIA shall undertake a six-year accelerated irrigation program to construct irrigation projects in the remaining unproductive but potentially irrigable lands nationwide to an extent to be determined in a full inventory of potential areas for irrigation, and of potential irrigation projects in accordance with technical, economic, and environmental criteria.

Food Safety and Food Labelling Law. This measure: (a) puts in place a coordinated food

safety and certification system, clearly defining the functions and mandates of the agencies concerned; (b) establishes a system for public laboratories to ensure the credibility of test results; and (c) strengthens the participation of food supply industries in the global food trade, among others. Consumers' right to information should also be protected through proper labelling of raw materials and ingredients of processed food products, including those sourced from genetically-modified organisms (GMOs).

National Land Use Law. The passage of the bill remains an important legislative agenda. It is expected to provide legal and other mechanisms not only for land reform areas, but also zoned areas for water and water uses, especially for agriculture. Further, it is envisioned that the policy shall serve as guide to the optimum allocation of land among competing uses within the framework of sustainable development. Notably, there are 13 versions of the National Land Use Act bill filed in the current Congress, eight in the House of Representatives and five in the Senate.

Review critical legislation (i.e. AFMA, Fisheries Code) and policy issuances on trade. A review of laws and policies shall be a continuing activity to ensure the responsiveness of such issuances to current developments in the sector. The AFMA of 1997 and Fisheries Code of 1998, mandates a mandatory review every five years. Corn and

Annex 4-1.2011-2016 Philippine development plan results matrix Chapter 4: competitive and sustainable agriculture and fisheries sector
sugar trade policies will also be reviewed, to take into account the latest global trends and market forces, and to ensure supply adequacy supply, price stability, and affordability.

Objectives/ Re- sults	Indicators/ Unit	Baseline		Target	Actual	Accomplish- ment	Target	Actual	Accomplish- ment	End- of-Plan Target	Accom- plishment %
		Year	Value	2011	2011	% (deviation)	2012	IS 2012	% (deviation)	2016	(deviation)
Societal Goal: (Inclusive growth and poverty reduction)											
Sector Outcomes											
Sector Outcome 4a: Food security improved	Food subsistence incidence decreased (in percent of population)	2009	10.8	NA	NA	NA	9.8	NA	NA	NA	NA
	Rice self-sufficiency ratio increased (in percent)	2010	80	84.4	93.9	9.5	91.87	NA	NA	100.0	-6.1
	Stable average inflation rates among basic food commodities achieved (in percent)	2004- 2010	6.4	3.0 - 5.0	5.2	-2.2	3.0 - 5.0	2.2	0.8	3.0 - 5.0	0.8
Sector Outcome 4b: Incomes in agriculture and fishery sector increased	Average income of families in the agriculture and fishery sector increased (in pesos in constant 2000 prices)	2009	17,582	NA	NA	NA	2.0-4.0	NA	NA	NA	NA
Sector Outcome 4c: Sector resilience to climate change risks increased	Annual agriculture and fishery production loss due to weather and climate- related disasters reduced on the average (in Php billion)	2005- 2010	13.8	decreas- ing per year	25.2	-11.4	decreas- ing per year	NA	NA	decreasing per year	increas- ing as of FY2011

Objectives/ Re-sults	Indicators/ Unit	Baseline		Target	Actual	Accomplish-ment % (deviation)	Target	Actual	Accomplish-ment % (deviation)	End-of-Plan Target 2016	Accom- plishment % (deviation)
		Year	Value		2011		2012	IS 2012			
Sector Outcome 4d: Growth in agriculture and fishery sector increased	Agriculture and fishery gross value added (GVA) increased (in Php million at 2000 constant prices)	2010	659,989	4.3 - 5.3	676,209 (2.5)	-1.8	4.3 - 5.3	332,336 (0.81)	-3.5	4.3 - 5.3	-3.5
	Crops	2010	317,479	4.9 - 5.9	333,059 (4.9)	0.01	4.9 - 5.9	187,284 (1.41)	-3.5	4.9 - 5.9	-3.5
	Livestock	2010	90,478	1.6 - 2.6	92,255 (2.0)	0.4	1.6 - 2.6	44,777 (0.52)	-1.1	1.6 - 2.6	-1.1
	Poultry	2010	68,256	4.2 - 5.2	71,262 (4.4)	0.2	4.2 - 5.2	35,327 (5.63)	1.4	4.2 - 5.2	1.4
	Fisheries	2010	136,432	4.5 - 5.5	130,772 (-4.2)	-8.7	4.5 - 5.5	64,948 (-3.06)	-7.6	4.5 - 5.5	-7.6
	Value of agricultural exports increased (%)	2004- 2010	3,181	9.5 - 10.5	5,388.17 (69.4)	59.9	9.5 - 10.5	1,154.89 (-9.14) 1Q	-18.6	9.5 - 10.5	-18.6
Intermediate Outcomes											
Productivity and production increased	Yield of major commodities increased (in metric ton per ha):										
	Palay	2010	3.6	3.9	3.7	95.6	4.2	3.9	93.5	4.9	79.4
	Corn										
	White	2010	1.6	1.7	1.7	101.8	1.7	1.8	103.5	2.0	90.8
	Yellow	2010	3.6	3.8	3.8	100.0	4.0	4.2	107.1	4.6	92.6
	Banana	2009	20.2	21.3	20.4	95.6	21.9	10.5	47.8	24.6	42.7
	Coconut (copra)	2009	0.8	0.9	0.8	96.7	0.9	NA	NA	1.0	NA
	Pineapple	2009	37.4	39.6	38.4	97.1	40.7	19.9	49.0	45.7	43.7
	Mango	2009	4.1	4.4	4.2	96.0	4.5	3.6	80.2	5.1	71.5
	Sugarcane	2010	49.9	54.2	64.5	119.1	58.1	55.2	95.1	75.0	73.6

Objectives/ Re- sults	Indicators/ Unit	Baseline		Target		Actual		Accomplish- ment		Target		Actual		Accomplish- ment		End- of-Plan Target		Accom- plishment %	
		Year	Value	2011	2011	2011	2011	% (deviation)	% (deviation)	2012	2012	IS 2012	IS 2012	% (deviation)	% (deviation)	2016	2016	(deviation)	(deviation)
Productivity and production increased	Coffee	2009	0.8	0.8	0.7	0.7	0.7	92.7	92.7	0.8	0.8	0.3	0.3	42.3	42.3	0.9	0.9	38.6	38.6
	Cacao	2009	0.5	0.6	0.5	0.5	0.5	93.6	93.6	0.6	0.6	0.3	0.3	44.0	44.0	0.7	0.7	35.6	35.6
	Rubber	2009	3.1	3.1	2.6	2.6	2.6	84.3	84.3	3.3	3.3	1.1	1.1	33.7	33.7	3.6	3.6	30.4	30.4
	Vegetables																		
Volume of production increased (in '000 metric ton)	Eggplant	2009	9.5	10.1	9.7	9.7	9.7	96.7	96.7	10.4	10.4	11.3	11.3	108.9	108.9	11.6	11.6	97.1	97.1
	Tomato	2009	11.3	11.9	11.6	11.6	11.6	97.3	97.3	12.3	12.3	12.3	12.3	100.6	100.6	13.8	13.8	89.7	89.7
	Cabbage	2009	14.7	15.6	14.7	14.7	14.7	94.2	94.2	16.0	16.0	15.9	15.9	99.5	99.5	18.0	18.0	88.7	88.7
	Cauliflower	2009	10.6	11.2	10.9	10.9	10.9	96.9	96.9	11.5	11.5	50.9	50.9	440.8	440.8	12.9	12.9	393.2	393.2
	Volume of production increased (in '000 metric ton)																		
Livestock	Livestock																		
	Hog	2010	1,898	1,927	1,940	1,940	1,940	100.7	100.7	1,961	1,961	934	934	47.6	47.6	2,159	2,159	43.27	43.27
	Chicken	2010	1,353	1,410	1,414	1,414	1,414	100.3	100.3	1,472	1,472	722	722	49.1	49.1	1,765	1,765	40.90	40.90
	Fisheries																		
Net profit-cost ratio for major commodities increased (net returns/total cost in pesos):	Commercial	2010	1,242	1,273	1,033	1,033	1,033	81.2	81.2	1,298	1,298	539	539	41.5	41.5	1,447	1,447	37.3	37.3
	Municipal	2010	1,371	1,412	1,333	1,333	1,333	94.4	94.4	1,454	1,454	650	650	44.7	44.7	1,636	1,636	39.7	39.7
	Aquaculture	2010	2,546	2,671	2,608	2,608	2,608	97.6	97.6	2,804	2,804	1,231	1,231	43.9	43.9	3,541	3,541	34.8	34.8
	Net profit-cost ratio for major commodities increased (net returns/total cost in pesos):																		
Palay Corn White Yellow	Palay	2009	0.4	0.5	0.4	0.4	0.4	-0.1	-0.1	0.6	0.6	NA	NA	NA	NA	0.7	0.7	-0.4	-0.4
	Corn																		
	White	2010	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.2	0.2	NA	NA	NA	NA	0.2	0.2	0.0	0.0
	Yellow	2010	0.6	0.7	0.3	0.3	0.3	-0.4	-0.4	0.7	0.7	NA	NA	NA	NA	0.7	0.7	-0.4	-0.4

Objectives/ Re- sults	Indicators/ Unit	Baseline		Target	Actual	Accomplish- ment	Target	Actual	Accomplish- ment	End- of-Plan Target	Accom- plishment %	
		Year	Value	2011	2011	% (deviation)	2012	IS 2012	% (deviation)	2016	(deviation)	
Productivity and production increased	Coconut (copra)	2010	1.3	1.3	3.0	1.7	1.3	NA	NA	1.3	1.7	
	Sugarcane	2010	1.5	1.5	NA	NA	1.6	NA	NA	0.7	NA	
	Mango	2009	0.7	0.8	0.5	-0.3	0.8	NA	NA	1.0	-0.5	
	Pineapple	2009	2.1	2.2	2.5	0.3	2.3	NA	NA	2.8	-0.3	
	Banana	2010	1.2	1.3	1.3	0.0	1.4	NA	NA	1.6	-0.4	
	Vegetables											
	Tomato	2009	0.7	0.7	0.8	0.1	0.7	NA	NA	0.8	0.02	
	Eggplant	2009	0.4	0.4	0.6	0.2	0.4	NA	NA	0.4	0.2	
	Cabbage	2009	0.9	0.9	0.9	0.03	0.9	NA	NA	1.0	-0.1	
	Cauliflower	2009	1.1	1.1	1.7	0.5	1.2	NA	NA	1.3	0.4	
	Livestock											
	Hog	2010	0.1	0.1	0.1	-0.1	0.1	NA	NA	0.2	-0.1	
	Chicken	2010	0.3	0.3	0.2	-0.1	0.3	NA	NA	0.3	-0.1	
	Fisheries											
	Bangus											
	Cage	2010	0.4	0.5	0.5	0.01	0.5	NA	NA	0.5	0.01	
	Pond	2010	1.1	1.1	0.5	-0.7	1.1	NA	NA	1.1	-0.7	
	Tilapia (pond)	2010	1.2	1.2	0.3	-0.9	1.2	NA	NA	1.2	-0.9	
	Level of post harvest losses reduced (in percent):											
	Rice	2008	14.8	NA	NA	NA	NA	NA	NA	NA	12.4	NA
	Corn	2009	7.2	NA	NA	NA	NA	NA	NA	NA	6.6	NA
	Fisheries	2008	25.0	NA	NA	NA	NA	NA	NA	NA	18.0	NA

Objectives/ Re-sults	Indicators/ Unit	Baseline		Target		Actual		Accomplish-ment		Target		Actual		Accomplish-ment		End-of-Plan Target 2016		Accomplish-ment % (deviation)	
		Year	Value	2011	2011	2011	2011	% (deviation)	% (deviation)	2012	2012	IS 2012	IS 2012	% (deviation)	% (deviation)	2016	2016	% (deviation)	% (deviation)
Productivity and production increased	Banana	2009	16.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	13.0	13.0	NA	NA
	Mango	2009	30.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	24.0	24.0	NA	NA
	Eggplant	2002	39.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	31.0	31.0	NA	NA
Credit access increased	Proportion of farmer/ fisherfolk borrowers obtaining loans from formal sources increased (in percent)	2008	52	56.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	61	61	NA	NA

/1 For target expressed in GR: GR Actual- GR Target;
For target expressed in levels: Actual level/Target level*100

Chapter 5. Accelerating Infrastructure Development

Guided by strategies and programs laid out in the 2011-2016 Philippine Development Plan (PDP), the government responded to the need for adequate, accessible, and quality infrastructure and services with the following accomplishments: (a) electrification of additional 428,445 and 211,908 households (HHs) by Electric Cooperatives (ECs) and Private Investor-Owned Utilities (PIOUs), respectively, from 2010 to 2011; (b) increased percentage of families with access to safe drinking water from 84.8 percent in 2010 to 85.5 percent in 2011, adding up to a total of 17.44 million families with access to potable water; (c) increased cellular mobile telephone services (CMTS) and broadband coverage in cities/municipalities from 94.7 percent in 2010 to 99.2 percent in 2011 and from 46.6 percent in 2010 to 54.53 percent in 2011, respectively; (d) increased number of public health facilities from 267 Barangay Health Stations (BHS), 106 Rural Health Units (RHU) and 149 Government Hospitals (GH) in 2010 to 546 BHS, 973 RHU and 301 GH in 2011; and (e) increased number of classrooms by 14,149 from 2010 to May 2012, which contributed to the improvement of the classroom to student ratio in the secondary level.

Moreover, the sector contributed to the achievement of the following higher-level objectives toward inclusive growth: (a) improved tourism, agriculture and industry performance (Chapters 3 and 4); (b) improved access to social goods and services (Chapter 8); (c) improved environmental quality (Chapter 10); and (d) increased resilience to climate change and natural disasters (Chapter 10). Particularly, the development program of the transport subsector provided and enhanced access to major airports, seaports/roll-on roll-off (RORO) ports, markets,

production areas, strategic tourist destinations and economic centers throughout the country.

Cross-Cutting Strategies

To optimize the available resources and investments and encourage private sector participation in generating additional financing for infrastructure development, the improvement of project preparation, development, and implementation and provision of a stable, consistent, and transparent policy environment has been the main concern of the infrastructure sector. Toward these ends, the following policy reforms were pursued by the government:

To Optimize Resources and Investments

o introduce Value Engineering/Value Analysis (VE/VA) in the project development cycle, the National Economic and Development Authority (NEDA) requested the Department of Public Works and Highways (DPWH) to subject the Pasig-Marikina River Channel Improvement Project (Phase III) to a VE/VA study in 2011. In April 2012, a consultancy firm was engaged by NEDA to undertake the VE/VA study for said project. The findings and recommendations of the study are being reviewed and shall be presented to the NEDA Board Committee on Infrastructure (INFRACOM) and the ICC.

NEDA has also distributed to relevant government agencies, for their guidance/reference, copies of the VE/VA Handbook and Structuring Public-Private Partnerships (PPP) Handbook which were part of the outputs of Reform Agenda 006-07¹.

¹ Reform Agenda 006-07 entitled “Institution Strengthening of NEDA and Other Oversight Agencies on Value Engineering, Contract Preparation and Performance Monitoring of Infrastructure Project” were conducted by the Philippines-Australia Partnership for Economic Governance Reforms (PEGR) facility of the Australian Agency for International Development (AusAID).

To further pursue the VE/VA activities, NEDA requested the implementing agencies to identify potential projects that may need to undertake VE/VA. Eleven agencies had so far endorsed to NEDA a total of 60 projects for possible VE/VA study. The Guidelines for the processing of projects lined-up for VE/VA study, including the project information/data for the purpose, are currently being formulated by NEDA.

In addition, preparation is underway for capacity building/training on VE/VA and Risk Analysis in the 4th Quarter of 2012 for technical staffs from the various implementing agencies and NEDA Central and Regional offices. The training/capacity building will focus on case studies and actual development of a VE report which include life cycle cost analysis, among others.

To Foster Transparency and Accountability and Attract Investments in Infrastructure Development

In line with the thrusts of the national government (NG) on transparency, competitiveness, impartiality and mobilization of the private sector as partner for infrastructure development, the current policies and legal frameworks for PPP, specifically the Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 6957 as amended by RA 7718, otherwise known as the BOT Law, and the Guidelines and Procedures for Entering into Joint Venture (JV) Agreements between Government and Private Entities (or known as the JV Guidelines) were revisited/reviewed by the BOT IRR Committee and the NEDA Board Committee on Infrastructure (INFRACOM) to further streamline existing procedures and processes.

Deliberations by the BOT-IRR Committee and two public hearing/consultations were conducted in April 2011 and May 2011. Amendments to the IRR of the BOT Law are targeted for republication in October 2012.

Meanwhile, the proposed amendments to the JV Guidelines are being finalized by NEDA in collaboration with the Government Procurement Policy Board (GPPB) and the Office of the Government Corporate Counsel (OGCC).

It is targeted to be published by October 2012 and become effective 15 calendar days after its publication.

Transport Assessment

The 2011-2016 PDP laid out the strategies, focus, and development objectives for the transport subsector while envisioning a “safe, secure, efficient, viable, competitive, dependable, integrated, environmentally sustainable and people-oriented Philippine transport system”. This vision stems from the intermediate outcome of enhanced quality, adequacy and accessibility of facilities and services under the infrastructure sector. For the transport subsector, the main objective is to ensure an integrated and coordinated transport network.

To Ensure an Integrated and Coordinated Transport Network

a. Adopt a comprehensive long-term National Transport Policy (NTP)

A comprehensive long-term NTP has been crafted to guide the accomplishment of transport objectives and goals and to improve governance in the subsector such that the regulatory and operation functions of transport and other concerned agencies will be separated. The draft Executive Order (EO) on “Adopting a National Transportation Policy for an Integrated Development and Regulation of the System in the Philippines”, which is the interim target for the operationalization of the NTP, is currently being reviewed by the Department of Transportation and Communication (DOTC) Legal Department.

b. Develop strategic transport infrastructure and maintain/manage transport infrastructure assets

Road Transport. The development program for the road transport subsector hinges on the construction and proper maintenance of the country’s national roads, bridges and public works to provide and enhance access to major airports, seaports/RORO ports, markets, production areas, strategic tourist destinations and economic

Table 5-1. Roads and Bridges Accomplishment for 2011

Indicator	Baseline 2010	Target 2011	Actual 2011	Performance in %	End-of-plan Target	Performance in %
Increase percentage of paved road length	77% [out of the total 31,242 kilometers (km)]	79% (out of the total 31,242 km)	78.87% (out of the total 31,242 km)	93.41%	93% (out of the total 31,242 km)	11.68%
Increase percentage of length of permanent bridges along national arterial roads	94% (out of the of the total 330,089 lm)	95% (out of the of the total 330,089 lm)	94.63% (out of the of the total 330,089 lm)	62.80%	100% (out of the of the total 330,089 lm)	10.47%

centers throughout the country. As a result of the completed projects in 2011, the accomplished improvements for the quality of roads and bridges are as follows:

While the state of our national roads and bridges from 2010 improved, the actual accomplishments concerning the output indicators are actually below the respective targets for 2011. To achieve the targets for 2016, DPWH and other concerned agencies should double their efforts.

Water Transport. The critical role of the water transport subsector in ensuring an integrated and coordinated transport network is incontestable for an archipelagic country like the Philippines. The continuous capacity expansion of seaports and sea links is one of the major thrusts of concerned agencies in the medium term. With Philippine Ports Authority's (PPA) construction and rehabilitation of various Passenger Terminal Buildings (PTBs) in selected ports nationwide, an additional seating capacity of 1,166 was generated in 2011, which is 126.05 percent over the year's target. However, partly due to economic downturn and competing transport modes like air transport, the expected passenger volume in PPA ports for 2011 did not materialize, leading to the subsector's recorded negative performance.

PPA also completed port infrastructure projects in selected ports resulting in an additional berth length of 672 meters in 2011 thereby providing more berthing space to accommodate vessels. The underperformance of PPA ports against the 2011 targeted increase in volume of foreign and local

vessels was compensated by the observed increase in vessel sizes. A total of 154,940sq.m of back-up area was also added to provide more space for the projected growth in cargo volume.

PPA also completed its 2011 dredging program for Batangas Baseport which can now accommodate vessels requiring 13-meter design depth. The same will be done for the Zamboanga, South Harbor Piers 13 and 15, South Harbor Piers 3 and 5, and Cagayan de Oro in the next four years. These efforts translate to improved accessibility to major seaports and shipping services. In 2011, cargo throughput in PPA ports surpassed the targeted increase in volume for the same year with the traditional high yielding ports such as the Manila International Container Terminal (MICT), North and South Harbors, and Port of Cagayan de Oro, among others, maintaining their foothold in terms of cargo tonnage share.

Air Transport. The performance of the air transport subsector is attributed to the expansion of both airport facilities and air services and the introduction of low cost fares by airlines and cheaper tourist destinations. In 2011, the country's major gateways exceeded their targets in terms of increasing the annual international and domestic passenger volume versus their targets for the same year: 129.55 percent for airports under the Civil Aviation Authority of the Philippines (CAAP); 295.75 percent for Mactan Cebu International Airport (MCIA); and 207.93 percent for Ninoy Aquino International Airport (NAIA) despite the current congestion in the NAIA runway. Only the Clark International Airport (CIA) fell

below its targeted increase in passenger volume posting a performance rate of 26.25 percent in 2011.

On the flow of goods, only CAAP airports achieved their 2011 target of increasing the consolidated annual international and domestic cargo traffic with a collective performance rate of 265.67 percent. MCIA posted a negative performance in both the achievement of its 2011 target and its end-of-plan target for 2016. The performance of the other two major gateways: NAIA and Clark, in generating cargo traffic cannot be assessed as of yet due to insufficient information.

Urban Transport. The installation of nonmotorized transport facilities aims to ensure safety and security in the streets of Metro Manila, including the reduction of pedestrian-related accidents and pedestrian-vehicle conflicts, and the improvement of traffic flow and mobility. The Metropolitan Manila Development Authority (MMDA) constructed footbridges and installed rotundas and intersections, complete with LED traffic lights and road signs. The number of locations with pedestrian-vehicle conflict in 2011 has decreased the same year against its target by 378.72 percent, or almost three-fold.

MMDA's program of reducing the number of buses in Metro Manila for 2011, however, had mixed results. This program aims to alleviate traffic, thereby increasing travel speed (or reduce travel time), and to maximize the utilization of public transportation. For air conditioned buses, the aim of increasing occupancy rate was below the 2011 target, mainly due to fare increase. In contrast, target for nonairconditioned buses in terms of occupancy rate has been achieved in 2011 at 45 passengers per bus. It should be maintained at said level until the end of the medium term to avoid over-occupancy or to avoid increasing the number of buses which could congest traffic.. In terms of traffic flow and mobility in Metro Manila, the 2011 actual increase in travel speed (km/hr) exceeded targets by 121.64 percent.

Rail Transport. The Light Rail Transit (LRT) system in Metro Manila, Lines 1 & 2, was not able to meet its 2011 target for the actual increase in the consolidated passenger volume, despite posting a performance of 11.41 percent.

Its performance in terms of increasing the consolidated farebox ratio or the ratio of revenue to operations and maintenance cost (O&M) also failed to meet its target.

In 2010, the Light Rail Transit Authority (LRTA) completed the Capacity Expansion Project Phase II for Line 1, involving the procurement of 48 light rail vehicles, which increased the capacity of the existing line of 27,000 passengers per peak hour per direction (pphpd) to 40,000 pphpd. However, the operations were challenged by technical problems in signalling, condition of tracks, shortened operations, and suspension of classes and work. The train derailment which occurred near the Roosevelt station in February 2011 also affected revenues for almost two months.

i. Provide access to major and strategic tourism destinations and production areas

Through the convergence program of DPWH, the road transport subsector contributes to the Department of Tourism's (DOT) National Tourism Development Plan (NTDP) by providing good road access to designated priority tourism destinations. These tourism road projects that support the NTDP were jointly selected by DOT and DPWH from Regional Consultations based on the Tourism Road Infrastructure Program Criteria.

The DOTC also supports the NTDP through the issuance of franchises to qualified tourist transport service operators to meet the expected increase in tourist arrivals. The legalization of motorbancas servicing tourism areas and the improvement of airports in major tourism destinations with direct commercial flights have also been prioritized.

ii. Provide environmentally sustainable and people-oriented transport

In May 2011, DOTC launched the National Environmentally Sustainable Transport (NEST) Strategy for the Philippines. This aims to reduce the annual growth rate of energy consumption and associated greenhouse gases (GHG) and air pollutant emissions from the transport sector as well as to promote transportation systems of low carbon intensity and shift towards the use of more environmentally sustainable modes. Under the NEST program, the Land Transportation Franchising and Regulatory Board (LTFRB)

implemented the Public Utility Vehicle (PUV) Modernization Plan granting Certificates of Public Convenience (CPCs) to 33 units of compressed national gas (CNG) and 10 units of liquefied petroleum gas (LPG)- propelled public buses.

For the water transport subsector, three marine environment-related Conventions were subjected to National Workshops² in 2011 under the International Maritime Organization (IMO)-approved technical assistance/cooperation program for the Philippines. The Maritime Industry Authority (MARINA) pursued the Legalization of Unregistered Motorbancas Operating in the Philippine Waters, or the adoption of simplified procedures and documentary requirements and propoor vessel fees.

c. Develop an integrated multimodal logistics and transport system

i. Identify and develop strategic logistics corridors based on a National Logistics Master Plan

The extension of Subic-Clark-Manila-Batangas (SCMB) Corridor farther to the north and to the south is pursued to attain a seamless intermodal and strategic “economic corridor”, which shall reduce travel time and cost for both passengers and goods. The following toll expressways were completed by partly using private sector resources to help fund the huge financial requirements: (a) Manila-Cavite Toll Expressway/R-1 Expressway Extension, Segment 4; (b) South Metro Manila Skyway, Stage 2; and (c) North Luzon Expressway (NLEX), Phase 2, Segment 8.1.

On the development of the rail transport network for this purpose, among others, the operations of the Philippine National Railways’ (PNR) long distance trains were resumed with the January 2012 regular operation of the Naga,

Camarines Sur bound Bicol Express and the March 2012 launch of Mayon Limited, running from Tutuban, Manila to Ligao, Albay. However, service interruptions were encountered due to spot repairs and restoration of line portions that were damaged by typhoons. For North Luzon, a proposed Manila-Clark Airport Express Rail Link project is currently being explored.

ii. Improve the Road-RORO Terminal System (RRTS)

To complement the expansion of port facilities, the Road-RORO Terminal System (RRTS) was expanded with the opening of 18 out of the total 32 identified lateral routes and RRTS routes in the Western, Central, and Eastern Nautical Highway. Further, there has been a continuous effort to realize the Central RORO Spine Project that would provide an efficient “spine” to facilitate the seamless, safe, expeditious, effective and economical movement of passengers, vehicles and goods along the Luzon Island-Panay-Negros-Cebu-Bohol-Mindanao route.

iii. Explore ASEAN connectivity through sea linkages

With regard to the adoption of the Master Plan on ASEAN Connectivity (MPAC), the call for the conduct of feasibility studies on potential RORO routes was made to establish a RORO shipping network as one of the key strategies to enhance the physical connectivity in the region. Site surveys have been conducted for Brooke’s Point, Palawan, Zamboanga City, Davao City and General Santos City. The same will be done for the rest of the eight identified RORO routes³ under the MPAC.

iv. Expand the Air Services

The Civil Aeronautics Board (CAB) reported the participation of the Philippine Air Negotiating

2 National Workshop on the International Convention on the Control of Harmful Anti-fouling Systems (AFS) on Ships, April 2011; National Workshop on the Growth of an International Ship Recycling Industry in the Philippines Based on Compliance to International Safety and Environmental Standards, November 2011; National Seminar/Workshop on Greenhouse Gas Emissions (GHG) for International Shipping

3 Zamboanga City (Philippines)-Muara (Brunei Darussalam); Davao City-General Santos City (Philippines)-Bitung (Indonesia); Johor (Malaysia)-Sintete (Indonesia); Tawasau (Sabah)-Tarakan (Indonesia)-Pantoloan (Sulawesi, Indonesia); Brooke’s Point (Palawan, Philippines)-Labuan (Malaysia)-Muara (Brunei, Darussalam); Dumai (Indonesia)-Malacca (Malaysia); Belawan (Indonesia)-Penang (Malaysia); and Phuket (Thailand)-Belawan (Sumatra, Indonesia).

Panel in air consultations which resulted in an additional 700,000 seats in view of the increase in Philippine Air Traffic Rights/Entitlements (excluding unlimited entitlements in ASEAN countries by 2016). Regarding the Open Skies Policy, EO 29⁴ was issued on March 14, 2011 to allow foreign carriers to operate unilateral and unlimited traffic rights to secondary gateways other than the NAIA to declog Manila and promote direct flights to tourist destinations at reduced cost. However, it is worth noting that neither open skies nor more flights automatically translate to increased tourist arrivals. Infrastructure limitations, peace and order issues, and connectivity problems, among others, are also primary factors in encouraging tourists to come to the Philippines.

To ensure transport safety and security

d. Comply with safety and security standards

To ensure road safety, DPWH's Safer Roads Program is continuously implemented by using the Traffic Accident Recording and Analysis System (TARAS) and the International Road Assessment Program (iRAP), under which about 3,000 km of national roads were considered "high risk roads". Loading and unloading bays were constructed, the antioverloading provisions of the law were enforced, and road hazards were cleared. Retrofitting/strengthening was done for national bridges according to international seismic standards. New construction designs and specifications were adopted to upgrade drainage, ensure slope protection and control soil erosion. LTFRB issued Safety Compliance Orders (SCOs) to operators of PUVs that were involved in vehicular accidents to have their drivers drug tested and trained under the University of the Philippines (UP)-National College of Transportation Studies (NCTS) and to have their units inspected for roadworthiness. In coordination with the Land Transportation Office (LTO), the PUV Maintenance Program was also implemented to prevent vehicular accidents. The Bantay Lansangan Road Sector Report Card Rating procedures are also in place

for continuous monitoring of road safety measures with the participation of the civil society.

Compliance with safety and security standards has also been a priority of the water transport subsector. Of the four targeted ports to obtain International Organization for Standardization (ISO) Quality Management System (QMS) certification by 2012, the Batangas Port has maintained its certification since 2011 while the Port of Cagayan de Oro received its recommendation in May 2012.

The Coast Guard Action Center (CGAC) Quality Management System (QMS) was certified as compliant with the ISO 9001:2008 Standards in 2010. In 2012, the Scope of Certification was expanded to cover the entire Headquarters Philippine Coast Guard (HPCG), a first among other Coast Guard and Maritime Safety Agencies in the world. The PCG continues to pursue its functions to ensure safe, clean and secure maritime environment in support to national development, to safeguard the working and living conditions on seafarers onboard ships and to undertake counter-terrorist actions with the cooperation of both government and private security agencies. PCG also maintains and operates 561 light stations all over the country and Field Maintenance Inspection Teams (FMIT) are deployed to ensure 95 percent operational level is met. The repair and rehabilitation of 166 lighthouses is beneficial for the safe navigation of domestic and international vessels plying the Philippine seas through increased number of sea lanes safeguarded with improved aids to navigation facilities.

To reduce the number of maritime accidents in the country, MARINA collaborated with the Japan International Cooperation Agency (JICA) and the National Mapping and Resource Information Agency (NAMRIA) in 2011 for the Project on Categorization of Navigational Areas in the Philippines using Geographical Information System (GIS), which would determine the type of ships that could use specific navigational areas.

4 "Authorizing the Civil Aeronautics Board and the Philippine Air Panels to Pursue More Aggressively the International Civil Aviation Liberalization Policy"

To promote development of conflict-affected and highly impoverished areas

e. Provide linkages to bring communities into the mainstream of progress and development

To promote the development of conflict-affected and highly impoverished areas, a total of PhP42.09 billion or an annual average of 26 percent of the total DPWH Capital Outlay for 2011 and 2012 was allocated for Mindanao to help in its infrastructure development and economic growth. Of this total, PhP6.19 billion was allocated for the Investment Support Program (ISP) for Autonomous Region for Muslim Mindanao (ARMM). The Stimulus Development Plan (SDP) for ARMM was prepared as a reform roadmap towards economic recovery and development through priority and strategic projects promoting basic services, livelihood, and basic infrastructure particularly national roads. Foreign-assisted projects for roads and bridges are also ongoing or programmed for immediate roll-out.

Challenges

Despite the efforts of transport agencies to meet the targets of the subsector as enunciated in the PDP, critical issues continue to challenge subsector performance. Addressing these concerns should help achieve the remaining annual targets for the medium term, make up for the shortcomings in the past years and ultimately attain the end-of-plan targets for 2016. An integrated and coordinated transport planning and monitoring effort is very important to identify, collect and analyze more relevant and quantifiable outcome indicators that would show how the subsector is performing at the local and national levels. Examples include measurements for improved safety and security and actual data on reduced travel time and transport costs for both passenger and cargo, e.g., impact of the RRTS and SCMB corridor. Impact analysis and comprehensive transport network studies to determine the most appropriate outcome indicators are also necessary.

The assessment also highlighted the need to expand the capacity of existing transport facilities to accommodate the projected demand for

transport services. Furthermore, the expansion should be supported by better service, enhanced safety features, strict enforcement of relevant laws and strategic marketing to broaden public awareness especially among targeted stakeholders such as tourists, investors and commuters. The huge investment requirements to develop, operate and maintain infrastructure facilities calls for alternative ways to generate resources.

Prospects and Policy Directions

The objectives of the sector for the intermediate term include enhanced quality, adequacy and accessibility of transport facilities and services.. The strategic plans and focus indicated in the 2011-2016 PDP involve accelerating the approval and adoption of the NTP that will ensure coordination among transport agencies to bring about a more integrated transport network and centralize collection, monitoring and evaluation of much needed information and statistics to track the development of the subsector.

Several expansion programs are planned for existing transport infrastructure facilities across all modes. For instance, the Capacity Expansion (CAPEX) program for the Metro Rail Transit 3 (MRT3) shall be pursued to help alleviate traffic congestion in Metro Manila. The secondary networks of ports and airports will be improved to provide alternative routes to tourist, traders, and regular commuters. The completion of the RORO Spine Project shall provide quality and adequate multimodal transport services through a combination of quality superhighway systems and modern, fast and safe RORO ferry services with matching port/terminal facilities. Policies geared towards enhancing the level of transport services will also be implemented. For the domestic shipping sector, the overseas shipping sector and shipbuilding/ship repair industry will undergo major improvements.. (Further discussed in Chapter 3: Competitive Industry and Services Sectors). For the air transport subsector, continuous decongestion efforts in NAIA will include, among others, airline time slotting in coordination with CAAP, CAB, and local carriers; transfer of General Aviation Flights to other airports to relieve the runway; and provision of Rapid Exit Taxiways (RETs) to lessen runway occupancy time. The continuous implementation of the Open Skies Policy shall

boost tourism and commercial activities especially in regions where international gateways are located. A strategy should be formulated to adopt the order of priority for air negotiations, given that such negotiations are driven by: (a) requests from local airlines on account of capacity or route expansion; (b) requests from foreign governments for new/additional air services or routes; and/or (c) the modernization of existing agreements. Prospects for the roads and bridges subsector will also involve PPP Programs to augment regular General Appropriations Act (GAA) budget allocations, including the development of long-term road maintenance programs for national roads and PPP Bridge Programs, and the implementation of the High Standard Highway Master Plan for Metro Manila and 200 km radius where priority expressway projects will be developed. In response to the growing traffic congestion in Metro Manila, the Metro Manila Sky Bridge Project should be studied/explored. An improved road-based transit system and information technology (IT)-enabled regulatory and enforcement system will also be pursued.

Water Assessment

By and large, fragmentation continues to dampen effective management of water resources. Efforts in the last two years consist of necessary policy studies and advocacy campaigns to address fundamental institutional issues including the establishment of an apex body. In the interim, collaboration among concerned national agencies to develop relevant sector master plans guided by the Integrated Water Resources Management (IWRM) framework is ongoing. Also hindering planning and development efforts is the lack of updated data and statistics due to weaknesses in monitoring and information sharing within the sector.

For actual infrastructure provision, mixed achievements were seen in the last two years of the plan implementation. Notably, the

provision of potable water supply has seen the most improvement given the combined efforts of government and the private sector. Equally critical, however, is sustainability of the water systems provided. On the other hand, observable outcomes have not yet been clearly manifested for irrigation and flood management.

For irrigation, infrastructure provision is negated by the combined effects of typhoons, insufficient operation and maintenance, fast rate of land conversion and weak capacities.

While flood control management is constantly being provided and improved throughout the country, challenges are being brought by rapid urbanization, watershed degradation and changes in weather. A shifting to river basin flood management is being undertaken, with master plans to guide the roll-out of projects and programs in the latter part of the plan period are being completed.

Falling behind is the provision of sanitation and sewerage. Attaining the MDG target on increasing access to basic sanitation (sanitary toilets) is immaterial if adequate wastewater management is not provided. Sanitary toilets must be supplemented with septic tanks, sewage management and wastewater treatment to improve health outcomes and ensure water resources sustainability, none of which have been adequately provided thus far.

To address issues on equity and efficiency of access to water

Integrated Water Resources Management (IWRM) has long been identified as one of the main strategies to help address issues on equity and efficiency of access to water. Integral to IWRM is the river basin approach and in line with this, initiatives have been undertaken to institutionalize integrated River Basin Organizations (RBOs) and develop River Basin Masterplans for the 18 identified priority river basins⁵ (out of 421 principal river basins). In addition to the Laguna Lake Development

⁵ The priority river basins have been adopted as described under Cabinet Cluster on Climate Change Adaptation and Mitigation Resolution No. 2012-001 dated May 02, 2012. The identified priority river basins include the following: Cagayan RB, Mindanao RB, Agusan RB, Pampana RB, Agno RB, Abra RB, Pasig-Marikina-Laguna RB, Bicol RB, Abulug RB, Tagum-Libuganon RB, Ilog-Hilabangan RB, Panay RB, Tagoloan RB, Agus RB, Davao RB, Cagayan de Oro RB, Jalauro RB and Buayan-Malungon RB

Authority (LLDA) created through RA 4850, two RBOs were institutionalized in 2011: the Pampanga River Basin Management Committee and Cagayan de Oro River Basin Management Council. The master plans for the Cagayan and Mindanao River Basins were formulated.

As part of the IWRM approach and climate change adaptation initiatives, NEDA is currently preparing a strategic roadmap to integrate eco-efficient water infrastructure (EEWIN) in the development and operational phases of water resource development and management.

To address fragmentation and the lack of leadership in the sector, NEDA and DPWH spearheaded a study on the development of a Philippine Water Resources Sector Development Plan (PWRSDP) to provide a comprehensive framework on the integration of all development plans in the water sector. This study reaffirmed the need for a central agency to govern management of the country's water resources to be called the National Water Resources Management Office (NWRMO). The next step includes executive approval and adoption.

To address equitable provision of water supply and ensure timely provision of water to key growth centers

Based on reports from the Metropolitan Waterworks and Sewerage System (MWSS), the Local Water Utilities Administration (LWUA), and the Department of the Interior and Local Government (DILG), the proportion of the total number of families with access to safe drinking

water increased from 82.9 percent in 2007 to 84.8 percent⁶ in 2010. By 2011, potable water access has reached 85.5 percent translating to an additional 0.33 million families, adding up to a total of 17.44 million families with access to potable water. Given the current trend, there is medium probability that the end-of-plan target of ensuring that 86.9 percent⁷ of total number of households in the country will have access to potable water will be achieved.

In line with the thrust of improving access to water supply, the Sagana at Ligtas na Tubig Sa Lahat (SALINTUBIG) Program was jointly implemented by the DILG, the Department of Health (DOH), and the National Anti-Poverty Commission (NAPC) in 2010. Under the program, 455 identified waterless municipalities⁸ across the country, with an estimated population of 4.3 million, are to be provided with capacity building and infrastructure investment. By the end of 2016, these municipalities are expected to have improved service coverage (i.e., graduating from the waterless classification) from both WSPs and LGUs. Implementation-wise, 115 waterless municipalities⁹ were originally targeted in 2011. However, due to the untimely release of funds,¹⁰ completion of proposed activities may be obtained by the end of 2012. As of August 2012, programs for only seven municipalities were completed benefitting an estimated 7,347 families (36,733 population).¹¹ Albeit, completion of said programs does not necessarily translate to a municipality graduating from being waterless, considering that service coverage may still not have reached 50 percent.¹²

6 Figure based on the country's 2010 Millennium Development Goal (MDG) Progress Report and NSCB's MDG Watch (NSCB Resolution No. 10-2004).

7 Updated based on the country's Millennium Development Goal (MDG) Progress Report 2010. Per original RM, end-of-plan target is 86.6 percent.

8 "Waterless municipalities is defined as municipalities with less than 50 percent service coverage. Number of waterless municipalities updated based on latest data from NAPC.

9 One municipality was forced to withdraw from the project, as it was unable to submit the complete requirements to qualify for the infrastructure component of SALINTUBIG. Nonetheless, capacity building activities were still undertaken in said area.

10 Special Allotment Release Order (SARO) for P1.03 billion was released for the 100 waterless municipalities was released only on May 2011 and the remaining P150 million for the 15 waterless municipalities was released on December 2011.

11 Seven municipalities include the following: Aguilan, Bolinao, and Urbiztondo in Pangasinan; Sta. Fe, Nueva Vizcaya; Basud, Camarines Norte; Placer, Masbate; and Bien Unido, Bohol.

12 For a municipality to be considered graduated from being waterless needs deliberation between NAPC and DILG with the formal announcement to be issued by NAPC.

While an increase in coverage was attained, disproportionate access to safe drinking water still remains a problem. Difficulties lie in the provision of water systems in hard-to-reach rural areas where there are no economies of scale for larger water systems. Verification on the extent of coverage is also challenging given the lack of monitoring of water service providers (WSPs), Kapit-Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) programs, and LGU-run systems. Nonetheless, gains have also been achieved in terms of increased service coverage, as well as improved services through the provision of 24/7 water supply and the further reduction of non-revenue water (NRW) in Metro Manila and areas covered by Water Districts.

To improve health outcomes and effect a sustainable environment through improved sanitation, septage, and sewerage provision

Low demand for sanitation continues to be a predicament in the country, largely due to a general lack of understanding on the risks of open defecation and open sewers. Consequently, sanitation remains the least priority among the LGUs, considering the minimal budgets allocated for this concern. Similar to the water supply subsector, statistics on sanitation, sewerage, and septage remain uncoordinated and are, at times, conflicting.¹³ This situation notwithstanding, the proportion of households with access to basic sanitation increased from 76.0 percent in 2008 to 92.5 percent in 2010 alone.¹⁴ Although the medium-term target of 83.8 percent access to basic sanitation has already been realized, achieving 100 percent coverage for the remaining 7.5 percent remains a challenge. Moreover, it is important to note that basic sanitation refers only to access to sanitary toilets¹⁵ without accounting for septic tank connections.

In addition to sanitation, other relevant areas such as sewerage and wastewater treatment still need to be addressed. In 2011, based on MWSS concession areas and other highly urbanized cities (HUCs) outside Metro Manila¹⁶, the percentage of households covered with sewerage systems stood at 4.59 percent or 211,000 households. This percentage represents a very small portion of the estimated 4.7 million households in 2011. As raised earlier, the low performance in areas outside Metro Manila can be attributed to non-prioritization of sewerage management and the lack of expected investments.

To provide basic support services and infrastructure as well as critical governance reforms in shaping a sector responsive to the challenge of ensuring food security for Filipinos across generations

Public investments in irrigation have stagnated over the past decade thereby contributing to insufficient agricultural productivity. Existing irrigated areas continued to deteriorate, in effect negating the impact of newly developed areas.¹⁷ While more resources are needed in the irrigation sector, this should be accompanied by improved capacities and service delivery. The Department of Agriculture (DA) and the National Irrigation Administration (NIA) have underscored the importance of establishing and maintaining irrigation facilities to sustain increased agricultural productivity to cope with the food demand of the population. On the other hand, the Department of Agrarian Reform (DAR) has provided basic support services and infrastructure in shaping the sector's responsiveness to the challenge of ensuring food security for Filipinos through rehabilitation of existing irrigation systems as well as construction of new small-scale irrigation systems.

13 To cite, sanitation achievements as reported through the 2010 DOH Field Health Service Information System (FHSIS) report shows a mere 77 percent access to sanitary toilets which is contrary to the Annual Poverty Indicators Survey (APIS) figure of 92.5 percent.

14 Per the Annual Poverty Indicators Survey (APIS), 2008 figure reported as 89.0 percent. 2010 figure also consistent with the APIS and the Philippines 2010 MDG Progress Report.

15 Sanitary toilet refers to flush (owned or shared) and closed pit type toilet facility.

16 This includes Angeles, Bacolod, Baguio, Butuan, Cagayan de Oro, Cebu, Cotabato, Davao, General Santos, Iligan, Iloilo, Lapu-Lapu, Lucena, Mandaue, Olongapo, Puerto Prinsesa, and Zamboanga.

17 NIA 2010 Corporate Plan.

The DA-NIA targets rice self-sufficiency by 2013, with a targeted local production of 21.1 million tons (MT). In 2011, palay production only reached 16.7 MT against a target of 17.5 MT, translating to a performance shortfall of 18.4 percent.¹⁸ Further, this is still short of 4.4 MT to reach the 2013 goal and 5.8 MT to achieve the end-of-plan target of 22.5 MT. Palay yield per hectare increased from 3.62 metric tons per hectare (mT/hectare) in 2010 to 3.68 mT/hectare in 2011. This translates to yield increase of 72.4 cavans/hectare to 73.6 cavans/hectare. Although the annual target has been surpassed, current level of production only represents a 4.72 percent accomplishment versus the end-of-plan target of 4.89 mT/hectare or 97.8 cavans/hectare. Underperformance in the sector has been traced to the combined effects of typhoons that devastated the country, land conversion, and inefficient farming techniques.

For irrigation development, NIA has estimated a potential irrigable area of 3.126 million hectares (based on the criteria of up to three percent slope and those primarily devoted to rice and corn) out of the 10.3 million hectares classified as agricultural land. By 2011, actual irrigable land reached 1.78 million hectares or 57 percent out of the total potential irrigable area.

To reduce adverse effects of flooding occurrences by maintaining watersheds and providing efficient and adequate infrastructure

The IWRM and river basin approaches to flood management and water resource utilization have been used by DPWH as strategies to manage and control flooding in the country. In line with this, master plans and feasibility studies for flood control and drainage projects for major and principal rivers (per the Nationwide Flood Risk Assessment Study) were formulated to establish an integrated and more systematic flood risk management. DPWH has selected and prioritized 56 river basins, with which master plans are to be formulated from 2009 until 2034.

In addition, initiatives to desilt and increase protected areas in the prioritized river basins are being implemented. As of 2011, six or 50 percent of targeted 12 river basins have been desilted. Likewise, DPWH has provided flood control infrastructure against floods with a 25-year return period to protect 3,822 hectares out of the 32,618 hectares deemed vulnerable to flooding. This translates to an estimated savings from avoided damages of about PhP3.10 billion.¹⁹

Challenges

Lack of adequate monitoring and data issues. Effective planning, target-setting and implementation continue to be impeded by the lack of updated, harmonized, and comprehensive data in the sector. This further aggravates the difficulties for implementation and coordination among related water sector agencies. Furthermore, the absence of a clear monitoring system, particularly on the initiatives being done by the LGUs, makes it difficult to assess and address the sustainability of developed infrastructure. The lack of information on sector performance and baseline data, as reflected by conflicting reported statistics, poses difficulties in tracking improvements undertaken by agencies vis-à-vis the national targets. In addition, various data issues include: different and conflicting sources of data, lack of adequate disaggregation, and definitions, different parameters and methodologies used, among others.

Inadequate infrastructure and maintenance. Physical infrastructure still need to be provided for and maintained. In the case of the Department of Agrarian Reform (DAR), provision of infrastructure will still be continued to improve the lives of the people living within the agrarian reform communities (ARCs). The provision of such infrastructure should also be extended to farming communities outside of the ARCs to enable the farmers to have access to other facilities and extension services provided by government.

¹⁸ Data does not include contribution from DAR, rainfed harvested areas, private sector irrigated areas, and those from varietal development.

¹⁹ Estimated cost of damages per hectare at PhP 0.812 million. Figure based on DPWH study on Flood Risk Assessment and Flood Mitigation Plan. Still to be validated by DPWH.

Limited funds and delays in implementation.

Ensuring availability of funds by the national government to sustain the development of water resources sector remains the critical issue in achieving the national targets. Funding problems can be in the form of: (a) limited funds to support LGUs' requests for interventions; (b) late delivery of local counterpart contributions by some LGU partners; and even (c) the untimely release of funds by the national government. In addition, budgeting between national government and LGUs particularly for project implementation must be appropriately scheduled to reduce difficulties in securing local counterpart funding. Also, long procurement processes contribute to delays in the implementation of much needed water sector projects.

Institutional inefficiency/Limited manpower and capacity.

The impending rationalization plan of some government agencies impedes efficient and effective formulation, implementation, and monitoring and evaluation of programs and projects. Furthermore, the sector requires specific technical capacities (i.e., hydrologists, engineers, scientists, etc.) in the development of water resources and infrastructure. The limited manpower at the national and regional levels significantly reduces effectiveness of planned programs and projects. This is further aggravated by difficulties in hiring experienced staff, high turn-over rates, and the additional time to familiarize new staff on project operations, all of which can affect sustainability of the projects.

Climate change risks.

As climate change adaptation measures are integrated into programs and projects, threats of massive damages brought by natural phenomena like typhoons remain. The full integration of climate changes adaptation measures need to be continuously carried out in all programs and projects to ensure resiliency to the effects of changing weather patterns. This entails enhancing the climate-resilient technical designs of irrigation facilities, which factors in climate risks and extreme climate events as well as the adoption of an integrated soil and water resources framework in the design of communal irrigation systems, among others.

Prospects and Policy Directions

IWRM and Eco-efficient approach. The government shall continue to pursue the integrated water resources management (IWRM) approach as the overall strategy in the water resources sector. IWRM promotes the coordinated development and management of water, land, and related resources to optimize economic and social welfare without compromising the sustainability of vital ecosystems. Likewise, various initiatives are underway to integrate the eco-efficient approach in implementing government programs and projects.

Installing leadership. Fragmentation in the sector is the primary impediment in the effective management of the sector. Thus, the government must aggressively address this fundamental issue. It must continue its efforts on the formulation of the PWRSDP and the framework for the creation of the apex body.

Increasing investments in infrastructure.

Providing adequate infrastructure facilities shall remain a necessary objective to promote equitable development in the water sector. Capacity development requirements/initiatives will continue to be pursued. Furthermore, there is a need for proper and ample project preparation to ensure the efficient utilization of funds.

Strengthening linkages. Strategic convergence and strengthened partnerships among government agencies is seen as a strategy to improve efficient delivery of basic services. Consultations and technical assistance among various stakeholders shall be continue to be advocated.

Power

Assessment

The energy sector's contribution to the PDP's goal of inclusive growth and poverty reduction is to ensure energy security, achieve a reliable and adequate supply of electric power, and expand rural electrification in the country. Government efforts in promoting production of energy from indigenous resources resulted in an increase in the country's energy self-sufficiency level to 60 percent. As such, the country's

energy savings increased from 2,652 kilo tons of oil equivalent (KTOE) in 2010 to 4,100 KTOE in 2011. Dependable capacity also increased by 4 percent to 14,477 megawatt (mW) despite the presence of natural calamities in 2011 and the effect of climate change. As such, the government was able to provide reliable and secure power supply in Luzon and Visayas with an increase of about 3.11 percent (326 mW) and 17.73 percent (292 mW), respectively. The challenge remains in Mindanao which reported a decrease in dependable capacity by 2.53 percent (42 mW). Nonetheless, total dependable capacity as a percentage of total installed capacity in the country increased from 84.97 percent in 2010 to 89.57 percent in 2011. Amidst the power situation in Mindanao, electrification throughout the country in 2011 has reached 70.20 percent level by ECs while PIOUs reached 77.19 percent. Moreover, nationwide 2011 distribution system loss (DSL) for ECs decreased to 11.87 percent and 7.36 for Manila Electric Company (Meralco). Specific assessment on the strategies and focus on the energy sector are discussed in detail below.

To Ensure Energy Security

In 2011, the country achieved 60 percent energy security from the 59.61 percent level in 2010 as a result of increased contributions from renewable energy (RE) and natural gas. Specifically, majority of the country's energy supply was sourced from indigenous resources translated to 23.64 million tons of oil equivalent (MTOE), including Malampaya's production (3.27 MTOE), vis-a-vis imported energy at 15.76 MTOE.

a. Accelerate exploration and development of energy resources

For 2010-2011, the total production of oil reached 11.14 percent of its end-of-plan target (5.43 million barrels) and 26.79 percent for gas (270.37 billion cubic feet). The underperformance in oil and gas production has been compensated by a 102.96 percent achievement in the acquisition of two dimensional geophysical data equivalent to 15,933 line kms. On the other hand, 66.85 percent or 5,566.50 square kms of three dimensional geophysical data was acquired. Furthermore, two out of five wells were drilled through the 4th Philippine Energy Contracting Round while nine out of 12 coal operating contracts target were awarded in 2011.

b. Intensify development and utilization of RE and environment-friendly alternative energy sources/technologies

RE accounted for 40.36 percent of the 39.4 MTOE total primary energy mix with geothermal energy being the highest contributor in 2011. On the other hand, generation of RE in the same year is equivalent to 19,587.30 gigawatt-hour or 28.4 percent of the power generation mix. The National Renewable Energy Program (NREP) was launched to increase the country's RE based capacity from 5,439 mW in 2010 to 15,304.3 mW in 2030. As of July 2, 2012, 230 Service Contracts were awarded with a total potential capacity of 4,525.66 mW. Also, the Energy Regulatory Commission (ERC) approved the initial Feed-in Tariffs (FITs) that shall apply to generation from RE sources, particularly, run-of-river hydro, biomass, wind, and solar on July 27, 2012.

c. Increase utilization of alternative fuels

DOE issued Department Circulars (DC) on the *Mandatory Use of Biofuels Blend* (DC 2011-02-0001) to increase the blend of bioethanol to 10 percent and *Utilization of Locally Produced Bioethanol* (DC 2011-12-0013) in the production of E-gasoline. The first DC resulted in a nationwide use of B2 (2.0% biodiesel blend) which resulted in a total volume sales of 115.5 KTOE of biodiesel and 107.48 KTOE of bioethanol in 2011. Total volume sales for biodiesel decreased by 1.2 KTOE while that of bioethanol increased by 9.85 KTOE from 2010. The latter DC saw the accreditation of 15 biofuel producers (12 biodiesel and 3 bioethanol) by DOE to ensure the supply of biofuel in the country.

The Natural Gas Bill was presented to the House of Representatives (HOR) for its first reading in 2011 after refiling five versions to HOR in 2010. Moreover, natural gas use in the industrial sector will be promoted in 44 ecozones. As a result, 353 survey returns on market profiling were completed. Of the 495 kms transmission pipeline, 390 kms of transmission pipeline were installed to strengthen gas pipeline networks reaching commercial establishment and households.

Forty-one compressed natural gas (CNG)-powered buses are now commercially operating along the Batangas-Laguna-Metro Manila

route. As of April 2012, DOE accredited a total of 19,052 auto-liquefied petroleum gas taxis, a hundred percent target achievement for 2011, and 229 refilling stations for commercial operations as well as renewed accreditation of six CNG bus companies. Moreover, 630 electric vehicles were distributed to key cities and municipalities in the country. Consequently, the country displaced 3.3 million liters of diesel and 136.79 million liters of gasoline equivalent to 142,115 metric tons of carbon dioxide (CO₂) reduction or 55.71 percent of its end-of-plan target.

In 2010, DOE was able to validate one project for auto-LPG conversion technology for dual fuel jeepneys and other motorized diesel/gas engines and another project for the conduct of capability building for regulators and implementers of technology validation of auto-LPG with the Technical Education and Skills Development Authority (TESDA). Two projects that include the conduct of Information, Education and Communications Campaigns in the use of auto-LPG in public transport were also validated.

d. Pursue energy efficiency and conservation (EE&C) activities

Energy savings in the country increased from 2,652 (KTOE) in 2010 to 4,100 KTOE in 2011 through the various programs under the National Energy Efficiency and Conservation Program.

DOE is drafting the Energy Efficiency and Conservation Bill through the Development Study on EE&C for the Philippines. The bill aims to institutionalize energy efficiency and conservation as a “Way of Life” in all the economic sectors namely residential, commercial, agricultural, transport and industrial sectors.

To Achieve a Reliable and Secure Supply of Electric Power

a. Diversify the country's power sources, especially in Mindanao, to address the susceptibility of hydro power plants to climate change

The Luzon grid with a dependable capacity of 10,824 mW (92.21% of installed capacity) was able to meet the demand of the grid in 2011 at 7,552 mW²⁰ with the recommissioning of Ambuklao (3 x 35 mW), 116 mW diesel power plant in Subic and 4 mW San Pedro Landfill Methane Recovery and Electricity even with the nonavailability of diesel-run power plants such as the 242.38 mW power plant in Navotas.

The Visayas grid with an available capacity of 2,037 mW (84.80% of installed capacity) was able to meet the demand of the grid in 2011 at 1,481 mW with the addition of 590 mW from coal-fired power plants: (a) 3 x 82 mW in Cebu; (b) 2 x 72 mW in Panay; and (c) 2 x 100 mW in Cebu despite the decommissioned 49 MW power plant in Negros. The 15 mW biomass plant of Central Azucarera de San Antonio also contributed to said increase. The total addition was higher than the expected 2011 committed capacity of 200 mW.

The Mindanao grid's dependable capacity went down by 2.53 percent (from 1,658 mW to 1,616 mW). Said capacity is 79.92 percent of the installed capacity in 2011. The scheduled maintenance and the unexpected shutdown or reduced capability of some power plants resulted to said decrease in generation even if the hydro power plants (54.4% of the area's power generation mix) are running in full capacity. The hydropower generation improved its share in the area by 28.1 percent or equivalent to 1,054 gigawatt hours (gWh) from 2010 to 2011.

Although there is no mechanism for transmission system loss (TSL) and DSL targeting, DOE closely monitored the country's TSL which decreased to 2.86 percent in 2011 from 6.61 percent in 2009. On the other hand, the national average DSL in 2011 is 11.87 percent for ECs, down from 13.08 percent; and 7.36 percent for Meralco, down from 7.90 percent, respectively. Said performances were compliant with the ERC approved DSL cap of 13.0 percent for ECs and 8.5 percent for private investor-owned utilities.

²⁰ System Peak Demand (SPD) based on 2011 aggregate generation output of Grid-connected power plants and embedded power plants monitored by NGCP.

b. Study alternative technologies in power generation

DOE's study, in partnership with the World Bank, has identified Cagayan de Oro as the site with the most potential for an LNG terminal in Mindanao. On the other hand, even without a definite set of policy on nuclear power generation, DOE is undertaking the human resource capacity building with the following considerations: (a) government in the future must have the expertise for deciding and implementing nuclear power program; (b) in the event of possible accidents in neighboring countries, the Philippines must have well crafted plans/programs for dealing with such contingencies; and (c) the power sector in both public and private domains can be helped by increased knowledge in nuclear power generation.

c. Conduct a comparative study of similar or related energy policies in the Association of Southeast Asian Nations (ASEAN)

DOE has undertaken a study entitled "Challenges in Pricing Electric Power Services in Selected ASEAN Countries" which aims to: (a) analyze the structure and individual components of electricity prices and compare electricity tariffs in the Philippines with those of selected ASEAN countries (Thailand, Indonesia, Malaysia and Singapore); (b) approximate supply costs from tariffs and benchmark Philippine electricity supply costs against those of selected economies; and (c) identify policy interventions to lower the costs of supplying electricity in the Philippines.

The government was able to establish wholesale electricity spot market, approve unbundled transmission and distribution wheeling charges, implement and distribute wheeling charges, privatize 79.56 percent or 3,370.31mW of the total capacity of 4,236.18mW generating assets of NPC in Luzon and Visayas, and privatize 3,593.91mW of 4,676.41 mW independent power plants. The first four are prerequisites for the open access and retail competition (OARC) which is envisioned to create a market wherein the end-users will be able to choose their supplier resulting in lower electricity rates.

d. Implement the Transmission Development Plan (TDP)

Transmission projects were completed to ensure reliable supply of electricity namely: 2 90-megavolt ampere reactor Power Shunt Reactors at Kadampat, Pangasinan and San Jose, Pampanga substations; Tower 159, 160 and 161 of the San Manuel-Concepcion 230 kilovolt (kV) transmission line; and Dona Imelda (Araneta) and Dolores, Quezon substations. Moreover, the transmission line towers of the 230-kV Bauang-BPPC-Labrador; 230-kV Botolan-Olongapo and 230-kV Botolan-Labrador; 230-kV Bauang-Bakun, and 230-kV Malaya-Kalayaan; and the old 138-kV Naga-Suba and Package 3-8 projects were rehabilitated and energized.

e. Revisit the EPIRA and its IRR

RA 10150 was passed to amend Section 73 of the EPIRA which provides another 10 years of lifeline subsidy implementation amounting to PhP370,143,527.11²¹ benefitting 3,313,831 lifeline customers.

To Expand the Government's Electrification Program

a. Pursue higher household electrification

As of 2011, the country's electrification levels provided by ECs stand at 66.09 percent of 12,964,878 potential households while PIOUs achieved about 77.19 percent of 7,574,150 potential households. In a record-breaking implementation time of 90 days, NEA's Sitio Electrification Program (SEP) provided electricity access to 30,200 equivalent households. Also, DOE's Household Electrification Program (HEP) energized 2,750 households using renewable energy while PIOUs energized about 110,976 households.

²¹ Data as of November 2011.

b. Rationalize the Universal Charge for Missionary Electrification (UCME) rates approved by ERC in order to cover missionary electrification

Pursuant to Section 34 of the EPIRA, Power Sector Assets and Liabilities Management Corporation (PSALM) was able to collect universal charges for missionary electrification and environmental charges amounting to PhP9,019.00 million²² of which PhP8,755.00 million was transferred to the National Power Corporation-Small Power Utilities Group (NPC-SPUG).

Out of the EPIRA-prescribed PhP18 billion, PSALM paid PhP14.291 billion to NEA for loan condonation of 120 ECs as of June 2012. Consequently, ECs' rates were reduced ranging from PhP0.0578/kWh to PhP1.3507/kWh. Currently, 11 ECs have completed the corresponding electricity rate reduction period.

Pursuant to Section 70 of the EPIRA, NPC-SPUG has disbursed PhP7,044.27 million²³ for power reforms program and PhP136.67 million for watershed management. Moreover, NPC-SPUG implemented various projects including the procurement of diesel generating units to upgrade the existing diesel power plants (DPP); provision of a small diesel power plant to Batag Island, Laoang, Northern Samar; electrification of 48 barangays in Masbate, Cagayan. Antique, Samar and Isabela; and addition of capacities for existing power plants namely: Polilio Diesel Power Plant (2 x 500 kW), Dinagat Diesel Power Plant (2 x 500 kW), and Mapun DPP (1 x 500 kW). NPC's watershed rehabilitation program, on the other hand, resulted in 483.5 hectares in open and denuded watershed areas.

c. Strengthen LGU capacity in power project development and in accessing available funds

DOE approved the Electrification Fund (EF) Projects (PhP254.94 million), the Development and Livelihood Fund (DLF, PhP77.01 million) and the Reforestation, Watershed Management, Health, and/or Environment Enhancement Fund (RWMHEEF, PhP87.10 million) or a total of PhP419.05 million

in 2011, out of which 20 EF projects (PhP34.95 million), 22 DLF projects (PhP111.99 million), and 12 RWMHEEF projects (PhP37.34 million) were implemented in 2012.

Challenges

The low reserve level of power supply in Mindanao remains the major challenge in the country. In addition, there is a need for an integrated set of laws/regulations on natural gas and energy efficiency, and a review of taxes affecting energy prices. Aside from high costs of power, limited local manufacturers, fabricators and suppliers of RE equipment and components comprise another impediment to the country's goal of tripling its RE energy source. Thus, it is vital to harmonize policies and guidelines among concerned agencies on the exploration, development, utilization and conservation of natural resources for energy projects. In ensuring energy security, the sector was faced with issues such as social acceptability related to energy projects/infrastructures (specifically on coal), the need to increase investments in putting up additional energy infrastructures, and lack of financial and technical access to new and emerging technology.

In terms of electrification, the hurdles encountered include shortage of distribution system poles and line materials, right-of-way issues with some absentee land-owners, delayed construction work due to intermittent weather conditions and issues regarding electric connections (i.e., payment of LGU fees and submission of land/house ownership documents prior to connection). Another concern is PSALM's need to fill in the funding gaps brought about by huge losses incurred in operating the remaining power plants, particularly the independent power producer (IPP) plants and PSALM's diesel-powered plants.

Prospects and Policy Directions

On Ensuring Energy Security. The sector intends to build up the image of coal energy projects to promote social acceptability and determine the applicability of other potential technologies

22 Based on DOE data from July 2010 to May 2012

23 Based on NPC data from July 2010 to May 2012

like carbon capture and storage. Research and development activities will be pursued to improve existing technologies for pollution control in the use of coal and institutionalize the application of clean coal technologies while encouraging the adoption of local coal quality upgrading technologies such as coal washing/preparation and blending. Moreover, a policy on the use of indigenous low-rank coal including the corresponding program to enhance its quality and compliance with environmental standards will be formulated and implemented.

Energy legislative agenda will continue to be advocated, such as the passage of the Natural Gas Bill and the Energy Efficiency and Conservation Bill. On the other hand, national and local taxes imposed on energy development activities will be harmonized. Technology/technical support will be provided to boost local manufacturing capability and capacity development while DOE's coordination with its attached agencies and stakeholders will be strengthened for planning and program implementation. With regard to energy infrastructure, the private sector participation will be enhanced. PSALM, on the other hand, would need to refinance in order to address the losses incurred by the operations of the remaining owned power plants and IPP plants.

On Achieving a Reliable and Secure Supply of Electric Power. As preparation for the critical period in 2015, a total of 721.5 mW committed power projects and 2,584.3 mW indicative power projects for 2012 to 2015 are expected for the Luzon grid.

For Visayas, 32 mW committed power plant projects and 512 mW indicative power projects are expected from 2012 to 2015 to further strengthen the grid's capacity especially during the critical periods starting 2015.

To address the power situation in Mindanao, about 300.5 mW committed power projects and 767.5 mW indicative power projects are expected from 2012 to 2016. Furthermore, the government has undertaken several measures such as: implementation of grid-wide power load curtailment to maintain the supply-demand balance, dredging of Pulangui IV; repair of Agus VII Unit 2; and the implementation of the

Upgrading of Units 1 & 2 of Agus VI by 2012. Several DCs were also issued, including *Directing Compliance with the Electric Power Industry Reform Act of 2001 (EPIRA) to Address the Power Supply Situation including the Rationalization of the Available Capacities in the Mindanao Grid, Mandating the Rational Utilization of Available Generation Capacity in Mindanao and Directing DOE Attached Agencies, the National Grid Corporation of the Philippines and all Industry Stakeholders to Address the Power Situation in Mindanao* and *Directing All Power Generation Companies, the Transmission Service Providers and all Distribution Utilities to Ensure Adequate and Reliable Electric Power Supply in the Country*. Moreover, initiatives in Mindanao to consolidate the electric power demand of ECs and for the private sector to engage in other power-related business are ongoing.

On Expanding Government's Electrification Program. NEA will institutionalize the Accelerated Total Electrification Office and tap regional evaluators from well-performing electric cooperatives. The agency will also enhance project implementation and ensure availability of quality and reasonably priced construction materials. Also, a Memorandum of Agreement with civil society organizations will be made to monitor and validate projects as well as create an impact study on the agency's programs. For a more focused consumer connection, NEA will develop and implement livelihood program for consumers; forge partnerships with LGU, Institute of Integrated Electrical Engineers of the Philippines, Inc. and other concerned government agencies; and provide free house wiring material up to PhP2,500 per house connection for a maximum of 40 consumers.

ICT Infrastructure Assessment

While private sector investments have expanded growth opportunities in the ICT sector, the government, through the strategies and development objectives laid out in the 2011-2016 PDP, must promote the spread of ICT as a means to interconnect the country, even out social opportunities, raise overall living standards, attain global competitiveness, and, ultimately,

promote sustainable and inclusive growth. Interconnection of the archipelago continues to increase with the CMTS coverage in cities/municipalities increasing from 94.7 percent in 2010 to 99.2 percent in 2011, and broadband coverage in cities/municipalities increasing from 46.6 percent in 2010 to 54.53 percent in 2011. Nevertheless, to achieve the goal of closing the digital divide, the government must strengthen its partnership with the private sector for universal coverage and increased transparency and improve efficiency in government transactions.

To provide fast, reliable and affordable access to communications services and information

To complement its existing facilities offering ICT services to the public²⁴ and achieve its target broadband coverage²⁵, the Information and Communications Technology Office (ICTO) under the Department of Science and Technology (DOST), together with the National Telecommunications Commission (NTC) under the Office of the President (OP) and the Department of Education (DepEd), spearheaded: (a) the expansion of Community e-Centers (CECs)²⁶, which provides ICT service centers to unserved and underserved communities; and (b) the pilot implementation in three public elementary schools of the Cloud Top Project – an e-learning project that aims to deploy broadband technology to far-flung public multigrade schools in order to provide students and teachers access to digital information and teaching materials, and hence, effective digital content for instructions. These initiatives are still a long way from the targeted 100 percent of barangays with at least one CEC and 8,550 public elementary schools (representing 22.23%

of the 38,464 schools in 2010) with broadband connection by 2016.

To ensure safety, security and privacy of data in a network and the transmission infrastructure, given the number extensive users and uses of the Internet, the government is formulating the National Cybersecurity Plan. This will provide the policy that would direct the government and private sector in ensuring that threats against the country's ICT infrastructure are adequately addressed. In addition, the Networked Government Computer Emergency Readiness Team (NG-CERT) was established and tasked to design the networking of government agencies and formulation of CERT Manuals to immediately respond to any computer incidents to improve the government's capacity to effectively address cyber threats and manage cyber risks.

To cultivate an enabling environment to further attract and sustain private sector investment in ICT infrastructure development

While developments in the ICT sector is primarily private sector-driven, the government has strived to provide the general policy directions by laying out major plans and policy frameworks for the provision of ICT services such as: (a) the National Broadband Plan which would analyze the existing and planned government and private sector broadband deployment with the objective of addressing the current gaps and recommending appropriate policy initiatives; and (b) the Digital Terrestrial Television Broadcasting (DTTB) Migration Plan in preparation for the Philippines' switchover from analog to digital television broadcasting. The Technical Working Group (TWG) for the DTTB migration headed by NTC and DOST/ICTO is also currently undertaking the preparation of the corresponding IRR to guide the Philippine broadcast networks

24 As of March 2011, the following facilities offering ICT services to the public are operated and maintained by the ICTO: (i) 84 eSkwela centers; (ii) 835 Electronic Messaging Service (EMS) Stations; (iii) 99 Telephone Exchanges Stations, with a total capacity of 81,031 lines; and (iv) 1,960 Public Calling Offices (PCOs) and Teleponosa Barangay (TSB) Stations.

25 Following are the end-of-plan targets contained the 2011-2016 Results Matrix (RM) reflecting broadband coverage in the country: (i) 100 percent of municipalities; (ii) 100 percent of public high schools; (iii) 22.23 percent of public elementary schools; and (iv) 25.80 percent of households.

26 Based on the Strategic Roadmap of the Philippine Community eCenter Program 2011-2016, there are now 1,416 CeCs in the Philippines, set up by at least 15 government and non-government initiatives, growing from 755 in 2007 until last count in August 2011.

for the introduction and provision of DTTB services in the country.

To achieve increased transparency, efficiency and trust in government through enhancement of e-government systems

To update the existing Government Information Systems Plan (GSIP), part of the ICTO's initiative is to strengthen e-Government nationwide through the implementation of the Integrated Government Philippines (iGovPhil) Project. The iGovPhil aims to enhance government efficiency by developing and putting relevant mechanisms to provide interactive, interconnected and interoperable government applications and online services for improved government communications and collaboration systems. The project also involves setting-up a government shared network and build-up of data centers to host government applications.

To promote transparency within the ICT sector, the ICTO created the Philippine ICT Statistics Portal, a web-based system that reports the performance of the sector. The Portal, which is accessible to the public, consolidates all ICT-related statistics in the Philippines and serves as reference for sector policymaking, planning and implementation.

Challenges

Despite the evident growth in the ICT sector, the sector challenges laid out in the 2011-2016 PDP are yet to be addressed. Particularly, the absence of an integrated spectrum management database and radio monitoring system due to lack of funds for system development continues to delay the application process for frequency allocation. Moreover, the ineffective monitoring and management of this finite resource affect its reallocation for new uses²⁷ that are financially and economically higher-value and, ultimately, results to low financial returns for NTC, as the sector's regulator.

In addition, the pending approval of crucial policy reforms, such as the institutional

strengthening of NTC and the competition policy for the ICT sector, remains a hindrance to the government's goal of providing a legal and regulatory environment that is more transparent and conducive for investment. Also, the country's decentralized ICT statistical system in which several line agencies collect and monitor ICT indicators limits the sector's planning, policymaking and governance.

Further to the sector challenges detailed in the 2011-2016 PDP, the ICTO has identified the following: (a) absence of an implementing guidelines for the Philippine Digital Strategy (PDS) 2011-2016; (b) absence of an interoperability framework for e-Government projects; and (c) low average internet download and upload speed.

Prospects and Policy Directions

A consistent and transparent regulatory environment conducive to private sector investments is critical in sustaining the current efforts to promote ICTs for economic growth. As such, the ICT sector continues to pursue the following institutional, regulatory and policy reforms: (a) identification of a lead agency with adequate resources to coordinate and implement the national ICT development agenda, policies, programs and projects; (b) reassessment of RA 7925 or the "Public Telecommunications Policy Act of the Philippines, 1995" to respond to the rapid and continuing technological changes in the sector; (c) passage of a Convergence Bill to rationalize all pertinent laws and provide a technology-neutral basis to encourage investment into the ICT sector, among others; (d) reinforcement of the Intellectual Property Rights (IPR) to increase protection for intellectual property through antipiracy campaigns and amendments to the Copyright Law and the IP code; and (e) formulation and implementation of the National Broadband Plan and creation of a Universal Access and Service Fund (USAF) by utilizing spectrum user fees (SUF) to fund the provision of ICT infrastructure and services to unserved and underserved areas, among others.

²⁷ Freed up frequencies may be reallocated for commercial use or for the implementation of the proposed super WiFi, which will provide free internet access to the public.

In addition, the ICT sector proposes the passage of an Anti-Trust Law to combat unfair competition in the ICT industry. In order for the said competition policy to be successful, the capacity of NTC to perform its mandated function as the independent regulator of the sector needs to be strengthened. Moreover, to ensure that service and performance targets are achieved, NTC's authority to obligate the accurate and timely submission of industry players' information and performance reports must be reinforced. Moreover, the monitoring and evaluation of the sector's performance indicators need to be centralized for the effective planning and implementation of government initiatives and interventions.

Further to the sector strategies laid out in the 2011-2016 PDP and adopted in the PDS 2011-2016, the ICTO also stresses the need for the development and application of an interoperability framework for all government

systems and establishment of an e-Government data center.

Social Infrastructure

Assessment

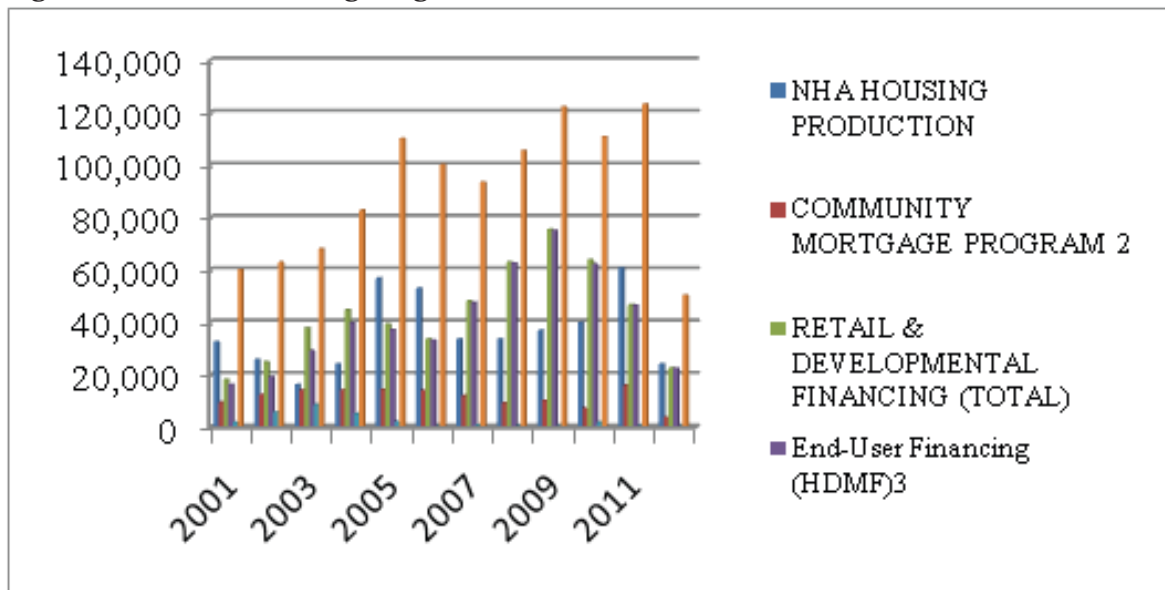
To ensure suitable/sustainable Solid Waste Management (SWM)

For the Solid Waste Management (SWM) subsector, LGUs served by Sanitary Landfill (SLF) increased from 30 operating SLFs (or a base value of 2.70%) in 2010 to 34 operating SLFs (or a value of 3.44%) serving 55 LGUs in 2011. In June 2012, 10 additional SLFs were constructed increasing the total number of SLFs to 44 serving 86 LGUs for a compliance rate of 5.34 percent.

Table 5-2. Housing and Urban Development Accomplishments vs. Targets

PROGRAM (In Households Assisted)	BASELINE 2010	TARGET		ACTUAL		ACCOMPLISH-MENT (%)	
		2011	2012	2011	2012 (Jan-June)	2011	2012
I. Direct Housing Provision							
1. NHA Housing Production	20,003	70,000	70,000	45,258	24,054	64.6	34.3
2. SHFC Community Mortgage Program (CMP)	5,402	20,000	25,000	15,875	3,719	79.3	14.8
3. HDMF Retail & Developmental Financing	62,041	100,000	150,000	46,642	22,466	46.6	14.9
TOTAL DIRECT HOUSING PROVISION (original)	87,446	190,000	245,000	107,775	50,239	56.7	20.5
II. Indirect Housing Provision							
1. HGC (Retail guaranty, developmental guaranty, securitization and public corporate borrowings)	8,994	50,500	57,065	25,006	3,144	49.5	5.5
2. HLURB							
License to Sell	174,025	166,500	167,000	167,000	111,791	100.0	66.9
CLUP Assistance (LGUs)	110	111	111	195	698	175.7	629.83
3. NHMFC Purchase of Mortgages		930	820	1,693	2,821	182.0	344.0
4. HUDCC Pre-Proclamations		5,000	5,000	300			

Figure 5-1.NHA's Housing Programs



Source:HUDCC

To improve access to shelter security

Despite the inadequate national budget allocation for the housing sector, the shelter agencies have boldly set targets in the PDP to improve access to shelter security. Given the significant concerns in the sector such as the need for affordable, decent housing and availability of basic services for the urban poor, the target is to assist about 1.5 million households or one-fourth of the estimated 5.8 million housing need for the period 2011-2016. The main housing indicator which pertains to the total provision of direct housing units (HUs) declares a baseline of 87,446 direct HUs. For 2011, only 195,221 HUs (12.23%) were produced vis-a-vis the target of 277,446 HUs (17.38%) resulting in a performance of 30.18 percent.

As of June 2012, an additional 50,239 households were provided assistance. Taken as a whole, the housing subsector has achieved moderate success with several programs showing an improvement compared with the previous years.

In order to capture the overall efforts of the sector, there is a need to include those that were started and have a gestation period of one year or more to be completed. Detailed accomplishment of the KSAs is shown in Table 2 below.

NHA's housing programs. Almost 45,248 housing units were completed under the NHA housing programs in 2011. While this falls short of the 70,000 target (64.6% accomplishment), this was more than double the 2010 output of 20,003 housing units. NHA's performance was affected by the slow-down on the relocation of ISFs following the instruction of the President to assess the concerns affecting the ISFs and to come up with a comprehensive housing program for said families. To guide the efforts of national government and LGUs in upgrading the informal settlements and improving the living conditions of informal settlers in the urban areas, the Housing and Urban Development Coordinating Council (HUDCC), in cooperation with Cities Alliance, launched the National Informal Settlements Upgrading Strategy (NISUS) in 2011.

Community Mortgage Program (CMP). On the other hand, 15,875 units of the 2011 housing production were provided through the CMP. This covers 79 percent of the 20,000 target and is more than double the 7,109 housing assistance provided in 2010. The increase may be attributed to the implementation of the localized CMP. In 2011, the program has likewise registered 86.4 percent collection efficiency rate. The CMP is a mortgage financing program which assists legally

organized associations of residents of blighted or depressed areas to own the lots they occupy, providing them security of tenure and eventually improve their neighbourhood and homes to the extent of their affordability.

Funding Facilities of Different Government Institutions to Finance Housing Projects.

In 2011, there were 46,642 housing units provided through the end-user financing of Home Development Mutual Fund (HDMF), Land Bank of the Philippines (LBP) and Social Security System (SSS), of which 46,296 were provided by HDMF. This was however less than half or 46.6 percent of the 100,000 target for the year. This shortfall was due to: (a) the stringent policies and procedures for housing loan applications; (b) the temporary delay of the take-out mechanism caused by the computerization of titles by Land Registration Authority (LRA); (c) new instituted policies by Bureau of Internal Revenue (BIR) in line with the processing and granting of tax incentives; (d) the Fund's initiative to focus more on increasing membership and other system changes; and (e) the increase in the average loanable amount for housing loans. It is expected that the availment of HDMF loans will increase with the decrease in its housing loan subsidized interest rate to 4.5 percent for a maximum loanable amount of PhP 400,000. The increase in the average loanable amounts was launched in June 2012 and is expected to benefit an initial 10,000 beneficiaries from June 2012 to May 2013. A partnership between HDMF and Government Service Insurance System (GSIS) has also been forged to allow HDMF to administer GSIS funds for housing.

DSWD and LGU Housing Units Partnership Program.

In addition to the production of shelter agencies, DSWD committed to provide housing units to about 18,700 families in 99 LGUs all over the country from July 2010 to May 2012. To date, they have completed 3,215 housing units, with another 1,992 under construction, and 4,482 units committed for funding. These housing units were made in partnership with the LGUs, with DSWD providing funding for house construction and the LGUs providing the land. Per DSWD Report, Region II has the highest number of targeted family-beneficiaries with 7,181, followed by Region X with 6,360—

units, and CAR with 1,107 units. On the other hand, ARMM reported the highest number of completions at 1,010 units, followed by Region X at 995 housing units.

To improve access to and quality of health services

The National Center for Health Facility Development (NCHFD) has been given the responsibility for the implementation of the Health Facilities Enhancement Program (HFEP) that defines a unified and rationalized health facility blueprint covering both public and private health facilities. However, the budget for executing the program had been unpredictable and projects were planned depending on the committed budget for each year. From 2007 to 2010, for example, no budget was released for HFEP. The budget, instead, was allocated to different regional offices and Centers for Health Development (CHDs).

The 2011 HFEP budget, on the other hand, was used to establish Basic and Comprehensive Emergency Obstetrics and Neonatal Care (B/CEmONC) facilities in GH, RHU and BHS to reduce maternal and infant mortalities, and to finance the implementation of laws to upgrade or expand DOH hospitals. The number of BHS, RHU and GH that needs upgrading may be a contributing factor on attaining health-related MDGs such as child mortality reduction and maternal health improvement. The 267 BHSs, 106 RHUs and 149 GHs in 2010 increased to 546 BHSs, 973 RHUs and 301 GHs in 2011. Likewise, the 2011 Family Health Survey (FHS) showed that from 25 per 1,000 live births in 2008, the infant mortality rate (IMR) decreased to 22 per 1,000 live births in 2011. In contrast, the maternal mortality ratio (MMR), increased from 162 per 100,000 live births in 2006 to 221 per 100,000 live births in 2011. It may be noted that while the provided health facilities has improved the IMR, it did not have the exact same effect on the MMR. The latter's case could possibly be attributed to other factors such as the number of stationed care providers in the health unit facilities and maternal complications. As of July 2012, there are 61 BHS, 296 RHU and 380 GH projects funded for upgrading.²⁸

For 2012, the priorities for funding were: (a) upgrading of licensing classification and PhilHealth accreditation of GH; and (b) expansion of services

²⁸ Upgrading consists of installing facilities for Basic and Comprehensive Emergency Obstetric and Neonatal Care (B/CEmONC)

in tertiary hospitals to provide higher quality care as training and end-referral hospitals. Despite hiring additional personnel to assist CHDs in implementing and monitoring HFEP infrastructure projects, the rate of completion of these projects has been slower than hoped for. It could be interpreted as either operational inefficiencies or managerial adaptability depending on the terms of contract entered into by HFEP contracting authorities, and on the outputs being generated from such procurement arrangements. But overall, funding for HFEP projects is a great enabler providing the basic capital investments necessary to provide health services to population groups.

To ensure adequate and equitable provision of quality educational facilities

During the first two years of the Aquino Administration (June 2010 to May 2012), around 14,149 classrooms were built nationwide. Schools experiencing acute shortage in classrooms were prioritized in the classroom construction programs of the national and local government.

Pending the complete submission of reports, the DepEd reported that the total target of 15,879 classrooms for 2010 and 2011 is around 88 percent complete. In addition, 30,011 more classrooms are targeted to be built in 2012. If completed along with the past two years' targets, the classroom shortage of more than 60,000 in 2010 would be reduced by nearly 70 percent by the end of 2012. Meanwhile, the total number of classrooms in relation to the total number of pupils in the primary level declined from the 2010 baseline ratio of 1:39 to a ratio of 1:40 in 2011. This decline is due to the increase in the number of pupils in the already congested classroom situations nationwide. Moreover, compared with the EOP target ratio of 1:30, the total number of classrooms in the primary level still lags behind in terms of total demand due to large enrolment. On the other hand, the classroom to student ratio in the secondary level improved from the 2010 baseline ratio of 1:54 to 1:52 in 2011. This initial progress when continued through the medium term could lead to achieving the EOP target ratio of 1:45.

More new classrooms will be built by the DepEd through its Public-Private Partnership for School Infrastructure Project (PSIP). The first phase of

the PSIP, which is under bidding, involves the construction and lease of 9,300 classrooms in selected regions in Luzon. The contract for the first phase is expected to be awarded within 2012. The next phase of the PSIP, which is expected to be approved within 2012, will involve construction of about 10,000 classrooms covering regions in Visayas and Mindanao.

Challenges

Limited financial capacity of LGUs and institutional concerns. Upfront capital costs of SWM are high, thus limiting the financial capacity of LGUs to invest in such projects. The limited investment capacity of LGUs and the perceived low willingness of LGU constituents to pay for SWM services have been considered as the main reasons for the underperformance in achieving the ESWMA targets.

Notwithstanding various initiatives in ESWMA, the following issues and challenges still remain to be addressed:

- a. Unclear Legal Mandate and Institutional Arrangements;
- b. Inadequate Institutional Support Mechanisms;
- c. Lack of Sustainable Financing;
- d. Inefficient Solid Waste Management System (Segregation at Source, Segregated Collection, Waste Transfer, Processing and Recovery and Disposal); and
- e. Cross Cutting Issues (Good Governance, Climate Change Adaptation, Disaster Risk Reduction, and Caring for Vulnerable Groups).

Outdated data on housing targets. With the release of the 2010 census, the estimated housing need of 5.7 million units may need to be recomputed. The targets set in the PDP were based on the 2.34 percent annual population growth rate in 1990 – 2000. However, the 2010 Census showed an annual growth rate of 1.9 percent from 2000–2010 which would likely result in a lower housing need.

In view of the fast rate of urbanization coupled by climate change concerns, there is a compelling need to update the housing targets under the PDP.

Difficulty in land acquisition. The main problem common across all agencies was the availability and quality of the land that was offered as project sites. In many areas, the lands offered have technical difficulties, lack documentation, or are simply unsuitable for settlements. Policies and programs need to be updated to adapt to developments in the environment. Likewise, existing partnerships of the government with housing stakeholders such as NGOs, formal lending companies, and private developers need to be enhanced.

Untimely classroom project delivery. The main challenge is to fast-track the construction and delivery of classrooms to meet the targets. Out of the 8,275 targeted classrooms in 2012 under GAA funding; only 19 have been constructed as of May 2012. Moreover, the construction for the first batch of the PSIP has yet to commence. Also, the construction of classrooms funded through the Philippine Amusement and Gaming Corporation (PAGCOR) donations has yet to be implemented.

Prospects and Policy Directions

Strict implementation of the NSWMF. The key issues, needs and problems facing the Philippine National Solid Waste Management Strategy (NSWMS) following the National Solid Waste Management Framework (NSWMF) adopted in 2004 deals with the management of solid waste. The NSWMF serves as a road map to achieve an improved environmental quality for a cleaner and healthier environment. The strategy provides an avenue for more concrete initiatives to achieve the objectives of the Ecological Solid Waste Management Act (ESWMA). It is envisioned that 50 percent diversion of solid wastes from

waste disposal facilities through reuse, recycling and composting activities and other resource recovery activities will be achieved by 2016.

Completion and adoption of the NISUS and National Resettlement Framework. The implementation of the program under the PhP50 billion fund for some 104,000 ISFs in danger areas in Metro Manila shall be accelerated. To date, the bidding for the design and construction of two incity medium-rise building (MRB) projects which will benefit about 1,450 families is ongoing.

Revision of the CMP Guidelines. The CMP guidelines for both onsite land acquisition projects and offsite projects, and the local community mortgage program (LCMP) shall be revised while the policies on emergency conditions such as CMP financing for ISFs under threat of eviction, policy guidelines on the accreditation of CMP implementation partners, and the CMP-Mobilizers shall be strengthened to improve capacities and collaborative efforts with SHFC.

Address classroom shortage. The next batch or phase of the PSIP will involve construction of about 10,000 classrooms covering regions in Visayas and Mindanao. The PSIP, along with the Regular Schoolbuilding Program and classroom construction programs of Adopt-A-School partners and the Bayanihang Pampaaralan, is expected to wipe out the shortage in classrooms by 2013.

The provision of new classrooms in 2013 will not only wipe out the existing shortage in classrooms but also support the DepEd's efforts to gear up the implementation of the K to 12 Reform. Classroom construction programs of the national government in the succeeding years will focus on addressing the needs of new enrolment in schools, except in 2015, when a significant number of new classrooms will be built to support the implementation of the Senior High School Program in 2016.

Chapter 6. Financial Sector

From 2010–2012¹, the Financial Sector already tallied considerable achievements in terms of reaching the targets set in the 2011-2016 Philippine Development Plan (PDP). Some of the major indicators for the Financial Sector as listed in the Results Matrix, including their corresponding end-of-plan targets, have already been accomplished. Among these key indicators are the following: (a) nationwide bank branch/other banking offices density ratio, which is currently tallied at six per city/municipality; (b) the notional amount of derivatives with a target set at PhP90 billion and is now recorded at PhP4.1 trillion; and (c) microfinance services delivery with end-of-plan target of more than PhP7 billion and currently sums to PhP7.6 billion.

However, more efforts are needed to increase the number of people with deposit accounts, as the 750 out of 100,000 population end-of-plan target is still far from the 41.3 achieved in the first half of 2012.

To thoroughly assess the performance of the Financial Sector for the first two years of the Aquino Administration, the Socioeconomic report will discuss in its succeeding sections the key performance and major reforms instituted on the various components of the Financial Sector along with the ongoing challenges, prospects and the policy directions.

Key Accomplishments and Performance Highlights

Macroeconomic Developments Affecting the Financial System

The linkage between the Philippine's macroeconomic performance and the stability of the financial sector can be characterized as two-way. On the one hand, financial sector policies that strengthen oversight of financial institutions have weakened the impact of the global financial crisis and have significantly contributed to the improvement of financial institutions' risk

Table 6-1. Summary of Key Indicators and Accomplishments, 2010–2012

Indicators	Baseline FY 2010	Actual FY 2011	Actual HI 2012	End of Plan Target 2016
1. Financial System's Total assets	9.80%	8.90%	n.a	>10%
2. National saving rate (Gross National Saving to GDP ratio)	26.60%	29.50%	not yet available	> 30%
3. Nationwide bank branch/other banking offices density ratio	5 per city/municipality	6 per city/municipality	6 per city/municipality	6 per city/municipality
4. Deposit accounts per 100,000 population	37.6	45.9	41.3	750
5. Notional amount of derivatives	PhP82.6 billion	PhP3.4 trillion	PhP4.1 trillion	> PhP90 billion
6. Public education campaigns on investment opportunities in the financial market	Proposal	n.a.	n.a.	Two seminars per semester beginning 2011
7. Microfinance services delivery	PhP6.9 billion microfinance loans	PhP7.2 billion	PhP7.6 billion	> PhP7 billion

¹ Unless otherwise specified, refers to June 2010 to June 2012

management practices and facilitated the smooth intermediation of financial transactions, which spared the economy from further economic downturn. On the other hand, the achievement of monetary policy objectives such as the low and stable movements of domestic prices and interest rates, aided by the firm domestic currency, provided the macroeconomic setting conducive to financial sector stability.

During the period under review, headline inflation was within the government's target range of 3.0 to 5.0 percent for both 2010 (3.9%) and 2011 (4.6%). Food inflation was relatively steady given favorable supply conditions and was kept firm amidst upward price pressures in 2011 brought about by weather disturbances. To a large extent, food inflation outweighed higher nonfood inflation which included volatile items such as electricity and petroleum. In the first half of 2012, further easing of year-on-year headline inflation was recorded, bringing the year-to-date (ytd) average inflation rate to 3.0 percent, traced mainly to the slower price increases of nonfood items, particularly the observed reductions in gasoline and diesel prices.

With a benign inflation outlook and well-anchored inflation expectations, the Bangko Sentral ng Pilipinas (BSP) reduced its policy rates to support domestic economic activity and reinforce confidence amid weak global growth prospects. The downtrend in key domestic interest rates supported the upbeat lending activities of banks during the review period.

Meanwhile, the peso remained resilient amid escalating strains in the Euro area and prevailing fragilities elsewhere in the global economy. The sustained inflow of remittances from migrant Filipino workers, net portfolio investments, and foreign direct investments (FDI) remained the fundamental drivers of the peso's resilience. In recent periods however, the peso lost external price competitiveness against competitor currencies in both narrow and broad series, as well as major trade partners (MTPs) as the nominal appreciation of the peso more than offsets the narrowing inflation differential relative to these currency baskets, leading to a real appreciation

of the peso by 2.3 percent, 1.6 percent, and 2.8 percent, respectively². Nonetheless, the strong rally of the domestic currency against the US dollar boosted banks' and other supervised financial institutions noninterest income arising from foreign exchange-related transactions.

Banking Sector

Condition and Performance

The Philippine banking system remains on its growth trajectory despite the global economic slowdown on sustained implementation of financial sector reforms and prudent risk-taking activities of banks. Key performance indicators on the first two years of the Aquino administration showed:

Stronger bank balance sheets. The Philippine banking system continued its remarkable performance amidst the lingering global uncertainties on the first semester of 2012. Key performance showed steady year-on-year growth in resources (5.6%), core lending (15.1%), deposit liabilities (4.0%) and capital accounts (12.1%). Asset quality continued to improve with both nonperforming loan and non-performing asset ratios easing to 2.8 percent (vs. 3.3% a year ago) and 3.2 percent (vs. 3.6%), respectively, during the same period. Banks remained adequately capitalized as solvency ratios under the Basel II framework remained well-above regulatory and international standards. As of end-2011, the capital adequacy ratio on a solo basis was at 16.6 percent and on consolidated basis at 17.6 percent. Net Tier 1 ratio likewise remained strong at 14.4 percent. Banks also remained comfortably liquid as liquid assets-to-deposits ratio stood at 56.2 percent from year ago's 57.7 percent.

Higher core earnings. Meanwhile, banks managed to register a positive bottom line for the first semester of 2012 despite the prevailing difficult global financial environment. Net profit grew by 17.1 percent to PhP60.8 billion from PhP51.9 billion for the same period in 2011. Annualized return on equity stood at 12.7 percent for the first semester of 2012 (down from 13.0% same period in 2011) and annualized return on assets ratio at 1.6 percent (slightly up from 1.5%).

² Six-month moving average was used to compute for the year-to-date changes in the REER indices (i.e., January-June 2012 relative to July-December 2011)

Leaner Bank Structure, Wider Service Network. As of end-June 2012, there were 712 banks (vs. 739 banks as of end-June 2011) operating in the Philippines with 8,495 branches (vs. 8,176 branches). These consisted of 37 universal and commercial banks (U/KBs) with 4,928 branches (vs. 38 U/KBs with 4,726 branches), 69 thrift banks (TBs) with 1,453 branches (vs. 72 TBs with 1,309 branches) and 606 rural and cooperative banks (R/CBs) with 2,114 branches (vs. 629 R/CBs with 2,141 branches). Meanwhile, density ratio nationwide was maintained at 5 offices per city/municipality in the last decade.

Corporate Sector

Condition and Performance

Local Stock Market Remains Upbeat. The local stock index trended upwards to average 4,820.7 index points as of end-March 2012, higher by 13.7 percent than the 4,239.2-index point average at end-2011 and by 9.6 percent from the 4,397.3-index point average at end-2010. Optimism on the recovery of the US economy, combined with favorable manufacturing data from Germany and China, raised investors' risk appetite during the period. On the domestic front, the BSP's policy rate cuts due to favorable inflation outlook, the national government's (NG's) plans to increase its spending to spur growth, and optimistic outlook on local corporate earnings also spurred market sentiment.

Insurance Sector

Condition and Performance

Insurance industry remains profitable. As of end-March 2012, the insurance industry recorded a net income of PhP3.5 billion with 74.8 percent contribution from life insurance products and 25.2 percent income from nonlife insurance products. During the same period, the industry's total assets reached PhP638.3 billion, with life insurance accounting for the bulk at 82.5 percent or PhP518.2 billion, and nonlife insurance accounting for 17.5 percent or PhP110.2 billion.

Meanwhile, the Government Service Insurance System (GSIS) reported growth in asset value for the past two years. GSIS has increased its assets by 12 percent in 2011, surpassing the government's target of 10 percent. The assets growth of GSIS

resulted from the returns on investments from fixed income bonds and listed equity security and drew from premium and loans receivables from its members and pensioners.

Cooperatives

Condition and Performance

Strong asset growth. As of end-2011, there were 20,792 cooperatives in the Philippines with micro cooperatives (cooperatives with an asset size of PhP3 million and below) cornering the largest market share of 75.5 percent or 15,694 cooperatives. This represents an additional 7,565 cooperatives established from end-2010's level of 13,227 cooperatives in the country.

During the same period, total resources reached PhP209.8 billion and more than doubled the end-2010 level of PhP72.6 billion. Large cooperatives (asset size of more than PhP100 million) have the lion's share of the cooperative industry's total resources at 60.7 percent or PhP127.3 billion.

Updates on Financial Inclusion Advocacy

The country's concerted efforts to promote the financial inclusion agenda continue to gain third-party recognition. In the 2010 study of the Economic Intelligence Unit (EIU) involving 54 countries, the Philippines was adjudged as the best in overall regulatory environment for microfinance, and ranked first across three categories: regulatory framework, general investment climate, and institutional development. The study notes that "since the adoption of a National Strategy for Microfinance in 1997, the government has promoted a regulatory and policy framework that is conducive to microfinance activity".

In 2011, the Philippines continued to top the regional rankings for Microfinance in East and South East Asia. The EIU ranked the Philippines' Microfinance as first in Regulatory Framework and Practices category, suggesting strong regulatory regimes and good prospects for microfinance institutions (MFIs) to enter the sector and perform effectively.

In support to the Asia-Pacific Economic' (APEC) initiative to promote inclusive finance among APEC economies, the Department of Finance (DOF) served as a Project Overseer in the APEC Operational Dialogue on Financial Inclusion Policies with the theme "Accelerating Financial Inclusion in Asia and the Pacific" that was held on September 15, 2011 at Waikiki Resort Hotel, Hawaii. The said Dialogue provided international financial inclusion experts, senior regulators and policy-makers from APEC economies and representatives from microfinance networks across Asia to put across certain best practices for promoting financial inclusion within the MSME sector.

Among the highlights of the Dialogue were the presentations on: Crafting Frameworks For Effective Financial Inclusion: The Philippine Experience; Infrastructure to Enhance Financial Inclusion: Peruvian Credit Information Registry (CIR) and Financial Inclusion; Registry for Movable Assets: Easing SME Access to Credit; Risk Protection: Financial Inclusion and Microinsurance; Financial Transparency and Client Protection: The Case of the Philippines; Financial Inclusion in Asia-Pacific: The Role of ADFIAP and Its Member-Development Finance Institutions.

Also, a workshop was conducted to gauge participants' understanding of financial inclusion and solicit their views on how to advocate and advance financial inclusion in their respective economies. The outcome of the workshop was an Action Plan that will serve as the participants' "Back Home Plan" to promote the financial inclusion advocacy and initiatives in their respective APEC economies. The degree of commitment to the implementation of this plan will serve as an indicator on how APEC's new inclusive growth is moving forward and at what pace.

As of end-June 2012, the outstanding microfinance portfolio of the banking system reached PhP7.6 billion, serving more than a

million micro borrowers from 181 microfinance oriented/engaged thrift, rural and cooperative banks. The expansion resulted to a savings component of PhP4.3 billion.

Moreover, the Land Bank of the Philippines (LBP) has been continuously providing wholesale microfinancing services for Microfinance Institution Retailers. This started with LBP's Microfinance Program for Microfinance Institution (MFI) Retailers as mandated by the Social Reform and Poverty Alleviation Act (RA 8425) in 2005³. The program was a special wholesale lending window to microentrepreneurs that provides short-term and-term loan facilities under rediscounting and working capital windows to various MFIs retailers which include cooperatives, countryside financial institutions (CFIs), and nongovernment organizations (NGOs). It also supports the CFIs' needs to meet the mandatory allocation of credit resources for micro, small, and medium enterprises (MSMEs), as provided under BSP Circular No. 625, series of 2008 and Magna Carta for MSMEs that 8 percent of its loan portfolio shall be allocated for micro and small enterprises and 2 percent for medium-sized enterprises.

Key Banking Reforms

Strengthening of Capital Adequacy Requirements

To effectively determine the extent to which foreign bank branches assess their capital requirements in relation to operations in the Philippines and the strength of foreign banks' parent-bank support, the BSP has expanded the scope of ICAAP⁴ program and its supervisory review process to include foreign bank branches in the framework (Circular No. 731 dated 28 July 2011).

Parallel to this, the BSP has signaled its intention to adopt higher capital standards for universal and commercial banks and their subsidiary banks/quasi-banks under Basel III with the adoption of the definition of eligible capital instruments

3 From January to May 2012, total loan releases of LBP reached P3.6 billion which financed 181 MFI conduits and assisted 95,170 micro borrowers nationwide. As of 31 May 2012, LBP's outstanding loans to micro-entrepreneurs amounted to P4.1 billion. For the review period of June 2010 to May 2012, total loan releases of LBP to micro entrepreneurs reached P18.8 billion.

4 Refers to internal capital adequacy assessment processes of banks

5 Basel Committee on Banking Supervision

based on the BCBS⁵ prescribed eligibility criteria (Circular No. 709 dated January 10, 2011, as amended).

In the local front, the BSP amended the guidelines on minimum capital requirement for thrift banks and rural banks to ensure the stability of these institutions for rural financing (Circular No. 696 dated October 29, 2010, as amended).

Liberalization of Bank Branching

To promote effective competition in the delivery of banking services and increase access to financial services of rural clientele, particularly those in underbanked and unbanked areas, the BSP further liberalized its branching rules in 2012 to remove the limit on the number of branches that banks may apply so long as their existing capital can support such expansion (Circular No. 759 dated May 30, 2012).

Parallel to this, the BSP has earlier implemented the phased lifting of branching restriction in eight restricted areas of Metro Manila to promote a competitive environment and improve the delivery of financial services (Circular No. 728 dated June 23, 2011). These restricted areas include the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig, Quezon, and San Juan.

Liberalization of Single Borrower's Limits (SBL)

While recognizing the need to effectively manage the concentration risks of banks, the BSP similarly noted the importance of supporting the development program of the economy. Toward this end, it has allowed a separate SBL of 25 percent of the banks' net worth for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership Program (PPP) of the government (Circular No. 700 dated December 6, 2010) and an additional 15 percent SBL for the purpose financing of oil importation (Circular No. 712 dated February 9, 2011).

Enhancement of Existing Corporate Governance Framework

As part of ongoing initiatives to further align the current corporate governance framework with international standards, the BSP has issued new corporate governance rules to further strengthen the corporate governance framework of its supervised financial institutions (Circular No. 749 dated February 27, 2012, as amended). The new guidelines outlined the pivotal role of independent directors in corporate decision-making and expanded the scope of duties and responsibilities of the Board of Directors.

The BSP similarly revised the overall compliance framework of banks (Circular No. 747 dated February 6, 2012) which calls for the appointment of a full-time chief compliance officer (CCO) to oversee the overall compliance system of a bank in line with the overarching goal of continually promoting the general soundness and stability of the banking system.

On the country's compliance with international financial reporting standards, the BSP has issued the necessary guidelines (Circular No. 708 dated January 10, 2011, as amended) for banks' early adoption of Philippine Financial Reporting Standards 9 (PFRS 9), which embody specific rules and regulations on the classification and measurement of financial assets and liabilities.

Promotion of Greater Financial Inclusion

In order to expand the menu of available microfinance products in the market, the BSP strengthened its existing guidelines on the provision of micro-agri loans by banks that include basic product characteristics, regulatory treatment, risk management, and the qualification criteria of banks to be authorized to offer micro-agri loans (Circular No. 748 dated February 13, 2012). Moreover, the BSP extended the concept of microfinance loans with the inclusion of Microfinance Loans Plus for lending to microborrowers ranging from PhP150,001 to PhP300,000 (Circular No. 744 dated December 28, 2011). This completes the suite of microfinance products that banks can now offer their clients. These products include housing microfinance (Circular No. 678 dated January 6, 2010), microinsurance (Circular No.

683 dated February 23, 2010) and microdeposits (Circular No. 694 dated October 14, 2010).

The BSP has also increased financial service access points, especially in underserved or unserved areas through regulations aiming to expand the physical network of banking offices. Circular No. 694 enabled banks to establish presence in areas where setting-up of full branches may not be immediately and economically feasible by allowing a “stripped-down” or simple branch called a microbanking office (MBO). This addresses the problems of cost and branch viability. Through an MBO, a bank can provide various services designed for the low-income segments of the population— microfinance loans, microdeposits, remittances, e-money conversion to/from cash, bills payment, pay out services and limited foreign exchange purchases.

In addition to the availability of the above-mentioned micro finance products that could be tapped by overseas Filipinos (OFs) and their beneficiaries as productive investments, the BSP adopted other initiatives to promote savings and investments among OFs and their families. The BSP together with Overseas Workers Welfare Association (OWWA) had been conducting financial learning campaigns in key cities and regions since February 2006 to raise financial awareness and promote investment and savings among OFs and their dependents. Moreover, the BSP granted authority to two specialized government banks to offer investment products to OFs and their families that will help mobilize savings and allow them to hedge against foreign exchange risks. The Development Bank of the Philippines (DBP) launched its OFW Hedging Program in January 2008 to trade, hedge, and sell derivatives products to OFs. The LBP has offered tax-free, long-term negotiable certificates of deposits (LTNCDs) with higher yields in March 2008. The BSP likewise approved the domestic issuance of up to US\$1 billion multicurrency retail treasury bonds (MC RTBs), designed to enable the small investors, particularly OFs including their beneficiaries to invest in foreign-currency denominated government securities at an affordable minimum denomination of US\$100 or €100.

Parallel to these, market infrastructures are continually being developed to promote strategic partnerships with bank and nonbank service providers for various e-banking platforms. In particular, the BSP recognizes that efficient and effective delivery of financial services may necessitate existing Electronic Money Issuers (EMI) to explore outsourcing arrangements for their own development of business models considering the specialized and sensitivity to technological advancements of e-money operations (Circular No. 704 dated December 22, 2010). Such may be outsourced to qualified third party Electronic Money Network Service Providers (EMNSP). Technological innovation is recognized as a tool that could significantly improve financial accessibility in the country. Specifically, Circular No. 649 and Circular No. 704 were issued not only to create a clear framework for electronic money (e-money) issuance but to provide an efficient retail payments platform for banks to efficiently and cost-effectively transact with their clients.

The BSP also sought to lower the barriers to customer acquisition by updating the regulations on antimoney laundering (AML) through Circular No. 706. The said issuance allows risk-based customer acquisition due diligence as well as outsourcing and relying on third parties for the required ‘Know Your Customer’ (KYC) mechanism in opening accounts. Circular No. 706 also allows reduced due diligence requirements and record keeping for clients profiled as low-risk, in consonance with a proportionate and risk-based approach to AML/CFT⁶ concerns. This approach expands financial inclusion as financial service providers are able to extend their products to low-income clients in a timely manner since they already gained considerable familiarity with these clients who usually transact in low values. Moreover, this may also help financial institutions to undertake commensurate safeguards and to focus resources on more risky clients and prospects.

In the area of disclosure and transparency requirements, the BSP has issued various implementing circulars for the Truth in Lending Act or RA 3765 (Circular No. 730 dated July 20, 2011, Circular No. 754 dated April 17, 2012

6 Refers to Combating the Financing of Terrorism

and Circular No. 755 dated April 20, 2012) to enhance loan transaction transparency and consumer protection by banks, nonbank financial institutions under the BSP, as well as other credit granting entities. The BSP intends to enhance the implementation of regulations that promotes true and transparent lending and to improve the disclosure of the true cost of credit, thereby ensuring better consumer protection and allowing consumers to make informed decisions when they borrow. The enhanced rules are simultaneously put in place by the other government regulators including the Securities and Exchange Commission (SEC), Insurance Commission (IC) and the Cooperative Development Authority (CDA) to cover all credit granting institutions.

The BSP also recognizes the importance of educating clients to enable them to make informed financial decisions, protect them from undesirable practices, and fully integrate them into the financial system. To this end, the BSP institutionalized a consumer assistance mechanism to address grievances of financial consumers against BSP supervised institutions as well as to facilitate resolution. It also undertakes comprehensive Economic and Financial Learning Program to enhance financial and economic awareness of the general public and targeted sectors like students, the employed, the overseas Filipinos and their beneficiaries and the microfinance clients and the unbanked.

Support of Private Sector-led Capital Market Reforms

Consistent with private-sector led initiatives to accelerate the development of the domestic capital market, the BSP expressed active support through continuing enhancements of existing regulations to promote capital market development. The BSP also issued the implementing guideline governing the securities custodian operations of banks (Circular No. 714 dated March 10, 2011) to promote greater client protection in the safekeeping and custodianship of securities in the market.

Major Reforms in the Corporate Sector and Capital Markets

Participation in the ASEAN+3 Bonds Market Forum (ABMF)⁷

The ASEAN+3 Bonds Market Forum (ABMF) was established in September 2010 as an avenue for the standardization and harmonization of market practices and regulations for cross-border bond transactions. The Philippines is actively involved in this effort and a Philippine Working Group composed of the BSP, SEC, Bureau of Treasury (BTr), DOF, and the Philippine Dealing and Exchange Corporation (PDEx) acting as Secretariat, was created for the purpose. For the first semester of 2012, the SEC responded to the ABMF questionnaire on the functions and competencies of the Commission's Corporation Finance Department, Office of the General Accountant and the Market Regulation Department relating to investor protection.

Development of Risk-based Capital Adequacy (RBCA) Framework for the Corporate Sector

An effective risk management system is a significant component of a company's management and serves as foundation for its safe and sound operations. It ensures that the goals and objectives of the company are met, that it achieves long-term profitability targets and preserves its capital resources. Toward this end, the SEC drafted the Guidelines on the Adoption of the Risk-Based Capital Adequacy Requirement/Ratio for Financing and Lending Companies which shall cover the following risks: credit, liquidity, and market risks.

Under the proposed RBCA Framework, institutions are expected to meet certain minimum risk-based capital requirements for exposure to credit risk, liquidity risk, and where they have exposure on trading activity, market risk. Total risk-weighted assets are determined by adding the resulting figures of all risk weighted assets. Risk-weighted assets are products of the amount of balance sheet item and the individual risk weights (standardized approach).

⁷ A subinitiative under the ASEAN Bond Market Initiative (ABMI) organized in 2003.

a/ The number of MFIs financed and micro-borrowers assisted cannot be totaled as the same may have been financed in other years.

Failure to meet these requirements will be sanctioned through revocation of Certificate of Authorization, fine or other sanctions within the power of the Commission.

The draft guidelines are currently undergoing review before the intended exposure for public comments which is targeted for completion by the third quarter of 2012. By December 31, 2012, it is expected that the RBCA Rules for Financing and Lending Companies shall have been presented for approval by the Commission En Banc.

Enhancement of Corporate Governance Framework of Corporations

As part of its continuing efforts to implement reforms in corporate governance, the SEC has drafted its proposed amendments to the Corporation Code. Some of the salient amendatory provisions relating to corporate governance are:

- Section 27—it adds to the list of persons who are disqualified from being elected as director, trustee, or officer of any corporation, those who are convicted or found administratively liable, including that by foreign court or other equivalent regulator, for offenses involving moral turpitude and other fraudulent acts;
- Section 35—it authorizes the Commission to order the formation of other board committees in order to promote good corporate governance;
- Section 47—it includes a system that will monitor compliance with the rules and regulations on good corporate governance in the by-laws; and
- Section 50—it provides for the notice requirement in case of postponement of regular and special meetings of stockholders or members, and the requirement that the stock and transfer book or the membership book shall be closed at least 20 days before the scheduled date of meeting.

These provisions, among the other proposed amendments, shall be published for stakeholders' comments until September 2012 before the

SEC-proposed amendatory provisions to the Corporation Code will be submitted to the 15th Congress.

Earlier, the Commission issued SEC Memorandum Circular (MC) No. 9 s.2011, which sets the rules on the term limits applicable to Independent Directors in all listed, public, and mutual fund companies, as follows:

- There shall be no limit in the number of covered companies that a person may be elected as Independent Director, except in business conglomerates where he/she can be elected to only five companies of the conglomerate, i.e., parent company, subsidiary or affiliate;
- An Independent Director can only serve for five consecutive years; he/she can be re-elected as such in the same company after a two-year "cooling off" period; thereafter, he/she can serve for another five consecutive years; and
- After serving for 10 years, he/she shall be perpetually barred from being re-elected as an Independent Director in the same company, without prejudice to being elected as such in other companies outside of the business conglomerate.

These rules took effect on January 2, 2012. All previous terms served by existing Independent Directors shall not be included in the application of the term limits subject of the Circular.

The SEC drafted a proposal for the submission of a Corporate Governance Report by all listed companies and mutual fund companies to promote company disclosure and system of governance. For this purpose, an exposure draft was posted at the SEC website for public comments. A copy of said exposure draft was also circulated to various capital market industry institutions and organizations for comments, with the comment period ending on May 30, 2012. The SEC is consolidating all the comments received, and the final proposal, along with the issuance of the corresponding Memorandum Circular will be submitted to the Commission for approval by end of August 2012.

In connection with the Revised Rules on Corporate Governance issued in 2009 which provides for the creation of an Audit Committee (AudCom), among others, the Commission issued SEC MC No. 4, series of 2012, on the guidelines for the assessment of the performance of audit committees of companies listed in the Philippine Stock Exchange (PSE). The guidelines took effect on June 30, 2012. It also encouraged all other corporations to conduct similar assessment activities. A transition clause is provided for companies in the process of registering their securities for public offering and listing. The salient provisions include::

- Oversight responsibilities under the Revised Code on Corporate Governance, which discusses the Audit Committee (AudCom) composition and their functions;
- Charter of an AudCom which discusses the purpose, membership, structure, reporting process, resources, and other relevant information;
- Reference guides which may be consulted or considered by the AudCom in the preparation of its Charter;
- Assessment on performance, transition, and reporting obligations. On performance, the AudCom shall assess company performance using a self-assessment worksheet that contains information regarding the setting of committee structure and operation; oversight on financial reporting and disclosures; oversight on risk management and internal controls; oversight on management and internal as well as external audit. During the transition period, companies in the process of registering their securities for public offering and listing shall be required to disclose in their prospectus plans the creation and operation of an AudCom including intention to prepare a charter. AudCom performance shall be conducted by the company within one year from the date of listing on Philippine Stock Exchange (PSE); and
- On reporting obligations, all firms listed at the PSE shall disclose in SEC Form 17-C within five days from September 30, 2012 or from anniversary date of listing date, the

information on whether or not a firm has an AudCom or has plans of complying with the SEC guidelines. If the company has no AudCom Charter, it shall disclose the reason for not having one and discuss its plan to address such deficiency.

Issuance of New Trading Rules for Corporate Issuances

Among the PSE-proposed rules approved by the Commission relate to the extension of trading hours, amendments to the listing rules by way of introduction, and the supplemental listing and disclosure requirements for petroleum and renewable energy companies.

Extension of Trading Hours

The SEC approved the proposal of the PSE to extend its trading hours not only to boost trading volumes but also to match the trading hours of other Southeast Asian exchanges for purposes of the envisaged linkage of stock exchanges in the region. The extension came in two phases. Starting October 3, 2011, trading was extended from the current 9:30 a.m. to 12:00 noon schedule to 9:30 a.m. to 1:00 p.m. On the first trading day of January 2012, trading was further extended up to 3:30 p.m. with market recess from 12:00 noon to 1:30 p.m.

Amendments to the Listing Rules by Way of Introduction

In March 2011, the SEC approved the amendments to the PSE Listing Rules by Way of Introduction. Apart from requiring the submission of a Fairness Opinion and Valuation Report(s) from an independent firm, it is now mandatory for the company to indicate the listing price.

Supplemental Listing and Disclosure Requirements for Petroleum and Renewable Energy Companies

In August 2011, the SEC approved the PSE Supplemental Listing and Disclosure Requirements for Petroleum and Renewable Energy Companies. The supplemental rules relaxed the “operating history” requirements for listing for the Second Board, which requires that a company must have an “operating history of at least one year” prior to listing application.

Moreover, the SEC approved the proposed trading rules of the Philippine Dealing and Exchange Corporation (PDEx) on the listing rules and admission criteria for issuers and securities to be traded.

Amendments to PDEx Listing Rules

The SEC approved the amendments to PDEx listing rules on May 3, 2011 which allow “broker participants” to sponsor the enrollment of securities. Previously, only issuers and dealers may sponsor the enrollment of securities in PDEx. In addition, the SEC allowed the enrollment of “restricted securities” or those securities of which distribution is restricted to a certain number of qualified investors. The restricted board will provide a separate enrollment platform for the trading of restricted securities.

Amendments to PDEx Admission Criteria for Issuers and Securities

The amendments allow the transfer of securities across different tax categories. Previously, the trading framework limits the trading and settlement of corporate fixed-income securities by holders across two types of tax categories: tax-withheld and tax-exempt categories.

Drafting of Capital Market Development Plan (CMDP) Blueprint 2011-2016

In keeping with the government’s efforts to shore up investments in the capital market, raise the level of competitiveness of the business community and protect the interests of the investing public, the SEC has undertaken preparatory activities relative to the formulation of the Capital Market Development Plan (CMDP Blueprint) 2011–2016 in cooperation with other government agencies, private sector institutions, and various capital market industry associations.

In August 2011, a Blueprint Steering Committee was created to oversee the formulation of the Blueprint and four Technical Working Groups (TWGs) whose tasks include the drafting of specific chapters on taxes, equities, fixed income, and alternative products in the plan.

Since October 2011, a series of meetings have been conducted by the Steering Committee and the various TWGs. As of April 30, 2012,

key reform strategies including the proposed Blueprint Objectives have been identified by the various TWGs. An exposure draft of the Blueprint will be circulated for inputs and comments by the stakeholders concerned by the fourth quarter of 2012.

Currently, the various TWGs are fast tracking discussions on tax-related concerns regarding capital market transactions, including multilateral proposals for amending the Real Estate Investment Trust (REIT) Law. These, among others, are considered as significant components of the CMDP Blueprint.

Drafting of Rules and Regulations Governing Exchange Traded Funds (ETF)

The SEC drafted the rules and regulations to govern the trading of Exchange-Traded Funds (ETFs). The ETF is an open-end investment company that continuously issues and redeems its shares of stocks in creation unit or in redemption unit in exchange for basket of securities listed in a registered securities exchange and representing an index whose performance the ETF endeavors to mimic provided that the terms and conditions relative to the offer and redemption in creation or redemption unit shall be prescribed in its Registration Statement. Once approved by the Commission En Banc, an exposure draft will be posted at the SEC website for public comments in the third quarter of 2012 and the final version of the rules and regulations is targeted for release by December 2012. Salient provisions of the draft rules and regulations on ETFs are as follows:

Classification of ETFs

There is a need to classify ETF as a type of open-end investment company having distinct characteristics, thereby necessitating the promulgation of rules and regulations on the issuance and redemption as well as the trading and settlement of ETF shares, among others. This will ensure that the objectives of the Investment Company Act (ICA) are met, taking into consideration the said distinct characteristics of ETFs.

Registration Requirements

Pursuant to the requirements of Sections 8 and 12 of the Securities Regulation Code (SRC), ETF shares are required to be registered.

Application and Other Operational Guidelines

The proposed rules and regulations shall apply only to passively-managed ETFs. Amendments shall be introduced accordingly to address the issues affecting other forms of ETF, including actively-managed ETF, upon determination by the Commission that such other forms of ETF are necessary for the development of the capital market.

The draft rules and regulations stipulate that no person shall sell or offer for sale or distribute the shares of stocks of ETF unless such shares of stocks have been registered in accordance with the requirements of the SRC. Securities covered by a previously rendered effective Registration Statement may continue to be offered or sold under the same terms and conditions as long as the ETF complies with the above requirements.

Likewise, the ETF proposed rules and regulations prescribe the manner of: (a) Offering of the ETF Shares; (b) Listing of the ETF Shares in an Exchange; (c) In-Kind Issuance and Redemption of ETF Shares; and (d) Issuance or Redemption of ETF Shares in Exchange for Cash.

Finally, the rules require the submission of periodic reports including the administrative sanctions for violations committed.

Major Reforms in the Insurance Sector

Establishment of cooperative arrangements with other financial regulators

The IC, together with other financial regulators such as the BSP, SEC and PDIC, is one of the founding members of the Financial Sector Forum (FSF) aimed at facilitating the efficient and effective regulation of the financial system. Recently, emphasis was placed on establishing regulatory and supervisory procedures for financial conglomerates to minimize systemic risks. Likewise, IC collaborated with the aforementioned FSF members in the establishment of the Financial Stability Coordination Council to include the DOF for easy coordination with respect to financial stability issues.

Introduction of risk-based capital framework for insurance companies and mutual benefit associations

In step with the move of other domestic regulators to introduce the risk-based capital adequacy framework, the IC likewise introduced the risk-based capital framework for insurance companies and mutual benefit associations as a tool for monitoring solvency and capital adequacy as well as to ensure that claims are paid promptly. A risk-based capital ratio of at least 125 percent⁸ has been prescribed to be maintained by insurance companies and those unable to attain the ratio were required to make adjustments in their asset-liability matching or make the necessary fund infusion into the company.

Institution of the code of corporate governance for IC-regulated entities

In order to develop a deeper culture of corporate governance in the insurance industry, the IC instituted a code of good corporate governance for IC-regulated entities and formulated the respective corporate governance scorecards to determine levels and quality of compliance.

Moreover, the IC worked for the amendment of the Insurance Code to enhance regulatory policies and procedures that will be in accordance with global best practices. The bill has been passed in the Lower House and is currently under consideration by the Senate. The challenge is how to fastrack the approval of the bill with the IC-proposed amendments retained.

Development of microinsurance regulatory framework

Together with the DOF and other partner agencies, the IC developed a regulatory framework for microinsurance to make it sustainable with benefits immediately delivered; hence, it shall be readily appreciated by the target clientele as a tool for financial protection. A prototype microinsurance policy known as the “Bahay, Buhay, Kabuhayan” (BBK) policy has been formulated, which can be adapted or customized according to the needs of an insurance entity wishing to offer microinsurance coverage.

⁸ Refers to the ratio of net worth over risk-based capital required

To promote microinsurance as a form of savings and financial protection, IC along with its partner agencies and organizations has also been conducting financial literacy programs around the country. Of the country's 16 regions, the financial literacy sessions have been conducted in 13 regions in coordination with local government units. The other three regions will be covered in the next two months.

To date, a total of 33 life microinsurance policy forms have been approved for 16 insurance companies and 16 mutual benefit associations while 13 nonlife microinsurance forms were approved for 10 nonlife companies. All in all, about 7 million individuals, who are members of cooperatives, mutual benefit associations and clients of microfinance institutions, have microinsurance coverage.

Implementation of a capital buildup program for insurance companies and insurance brokers

The IC implemented a continuous capital build-up program for insurance companies and insurance brokers to boost underwriting capacities and further improve insurance services. Since year-end 2011 up to the present, the minimum paid-up capital required is PhP175 million for domestic companies to become PhP250 million by year-end 2012 and shall be increased further to a higher level to make the industry more competitive in time for the ASEAN Economic Community come 2015.

Implementation of the OFW Compulsory Insurance Coverage Program

The IC implemented the OFW Compulsory Insurance Coverage Program for agency-hired migrant workers through the insurance companies accredited by the Commission to participate in the program. The policy forms used have been approved to reflect the benefits prescribed by law and the methods of doing business strictly monitored. Since November 2010, a total of 483,306 agency-hired migrant workers have been covered by compulsory insurance by the nine participating insurance companies. To date, a total of 1,669 OFWs have filed claims against their respective policies of which, a total of PhP39.5 million in benefits have been paid.

Installation of an automated system for the licensing of insurance agents

To improve frontline services, the IC took the lead in installing an automated system of licensing insurance agents which to date numbers about 40,000 and still increasing. This is the first of the series of automated processes toward this end.

Implemented the on-site/off-site examination of insurance companies

To facilitate the continuous monitoring of the financial condition and methods of doing business of insurance companies and intermediaries to determine their solvency, underwriting, rating, and claims payment practices, the IC has undertaken the onsite and/or offsite examination of its supervised entities. Examined were the 117 actively operating insurance companies; 26 mutual benefit associations; and 86 insurance and reinsurance brokers.

Insurance companies whose licenses have been revoked or who have voluntarily ceased operations are still subject to supervision by IC either through conservatorship, receivership or liquidation. With the transfer of regulation and supervision of preneed companies from the SEC to IC in 2009, a total 21 preneed companies have been licensed together with 48,000 sales counselors or agents. Some 30 preneed companies that are no longer operating for reason of insolvency are, likewise, still being monitored by IC through their respective conservators, receivers and liquidators.

Adoption of a roadmap for financial literacy on microinsurance

The IC actively participated in developing a catastrophe insurance model as a means for disaster risk reduction and financing with the assistance of multilateral agencies. The immediate objective is to be able to set up a catastrophe insurance pool for residential buildings and small and medium enterprises (SMEs) in view of the high vulnerability of the country to catastrophic risks.

Moreover, the insurance coverage in the country is low particularly among the low-income and informal sectors. To spur accessibility

of these sectors to simple and affordable insurance products, the DOF and the IC launched the Roadmap to Financial Literacy on Microinsurance. The Roadmap aims to promote financial literacy and encourage behavior change conducive to the provision of microinsurance among all stakeholders from both the government and the private sector. It is founded on two pillars: The National Strategy on Microinsurance and the Regulatory Framework for Microinsurance launched in January 2010. These two milestone documents were crafted in close consultations with other government regulatory bodies and agencies, including major private sector stakeholders in the insurance sector.

The National Strategy for Microinsurance lays out the general direction of the national government in providing the low-income and informal sectors with increased access to microinsurance products and services. It includes, among others, the mainstreaming of informal insurance, insurance-like, and other similar activities/schemes. Financial literacy shall be institutionalized to inform the general public of the importance of microinsurance for risk protection, the current applicable rules and regulations on insurance, the duties and responsibilities of insurance providers towards their clients, and the rights and privileges of the insured.

In 2010, the DOF National Credit Council (DOF-NCC), in partnership with the German International Cooperation (GIZ), implemented the Product Development Program of the Microinsurance Innovations Programme for Social Security (MIPSS). There are already several prototype microinsurance products for life and nonlife insurance that have been approved by IC.

Meanwhile, the Regulatory Framework for Microinsurance provides a policy and regulatory environment that will facilitate the participation of the private sector in providing risk protection for the low-income sector, and ensure that the rights and privileges of the insured will be protected. The framework also gives insurance providers flexibility to put in place the necessary safeguards against fraudulent and scrupulous claims.

The Regulatory Framework was piloted on February 7, 2011 and included an information campaign to promote microinsurance awareness all over the country. The DOF-NCC, in collaboration with other stakeholders, already conducted 14 regional roadshows to promote and provide risk protection to the country's low income earners.

Major Reforms for Cooperatives

Improved supervision of cooperatives

In the light of the constitutional mandate to develop cooperatives as instruments of equity, economic and social justice, the CDA rationalized its regulatory functions and development framework to ensure that only genuine cooperatives are registered and provided with due incentives and privileges. Furthermore, this upholds the primordial duty of the state to protect the interest of the general public and thereby avoid the use of the cooperative system to benefit a few. Toward this end, the CDA issued Memorandum Circular (MC) No. 2012-08 to support this objective, which took effect on June 15, 2012. This MC provided for the Temporary Recall of the Delegated Function to Register Selected Types of Primary Cooperatives. Furthermore, it was issued for the orderly registration of proposed primary cooperatives in compliance with the requirements of Philippine Cooperative Code of 2008 or RA 9520⁹ and its Implementing Rules and Regulations and more importantly, to ensure that cooperatives are not used as tax shield of some “vested interest groups”.

Parallel to this, a bill is currently under the consideration of the House of Representatives seeking to amend the two- decades old CDA Charter or RA 6939. A bill has been filed with the House of Representatives for this purpose. The parallel effort to amend the CDA Charter aims to ensure that the agency tasked to develop cooperatives will be given corollary power to effectively carry out the provisions of the RA 9520.

9 RA 9520 is an amendment to the Cooperative Code or RA 6938

Performance audit standards for cooperatives

CDA's involvement in direct intervention in training and other capability-building initiatives is taking a backseat and it is focusing on strengthening its indirect interventions such as policy/rule-making, standards-setting and regulation. The agency is at the height of developing a Social Audit System and the Performance Audit Standards for Cooperatives. Those systems are currently being subjected to pilot testing.

Enhanced reportorial requirements

The CDA is working to calibrate its regulatory/reportorial requirement and is seeking to effectively validate the legitimacy of existing cooperatives. Towards this end, the Agency undertook a re-classification of all cooperatives nationwide in accordance with the types of cooperatives identified in the new Philippine Cooperatives Code of 2008 (RA 9520) and is presently enhancing information systems to make those responsive to the calls of the time.

Major Legislative Reforms: Some Updates

Laws Enacted and Related Implementing Rules Issued During the 15th Congress

Credit Information System Act (RA 9510)

The Centralized Credit Information Corporation (CCIC), whose Board of Directors is headed by the SEC Chairperson, is predominantly government-controlled. As provided by the law, 60 percent of its equity has to be owned by the government, and the remaining 40 percent shall be owned by the private sector. In May 2011, Baltazar Endriga was appointed as CIC President and Chief Executive Officer. The Corporation is expected to commence commercial operations by 2013.

Real Estate Investment Trust Law (RA 9856)

In order to create a middle ground for government and private sector to agree on the minimum public ownership (MPO) requirement and the 12 percent value-added tax (VAT) on the initial transfer of property assets in REITs, the SEC took the lead in amending the implementing rules and regulations of the REIT Law on April 27, 2011. The Rules now provide that the minimum public float be at least 40 percent¹⁰ of the outstanding capital stock of the REIT during the initial year, which shall be increased to 67 percent within three years from its listing. Further, the property manager shall be independent from the REIT, its promoter(s) or sponsor(s). Aiming to enhance the attractiveness of the REIT, the Commission amended Section 1, Rule 7 of the IRR to allow exemptions to the requirement for a Property Manager, for justifiable reasons (SEC MC No. 2, series of 2011).

To date, implementation of the law is still saddled with some tax and other implementing issues, such as the extent of public ownership of REITs¹¹.

Personal Equity Retirement Account or PERA (RA 9505)

The revenue regulations component of the PERA law were issued on October 27, 2011 to iron out issues on the administration of tax privileges and incentives including the accreditation of administrators of PERA with concerned agencies. To date, the law still has to be implemented pending the issuance of specific guidelines by the regulatory authorities concerned (BSP, SEC and IC) governing accreditation of the targeted industry participants such as the administrators of PERA accounts, investment managers and custodians. These regulatory agencies agreed to issue uniform regulations to ensure a level playing field for the PERA industry players.

¹⁰ There are companies which expressed interest in setting up REITs; however, they want the MPO requirement to be brought down to 33%. The SEC continuously meets with stakeholders to resolve the related issues.

¹¹ DOF position is 51% or majority stake.

Revised Agri-Agra Law (RA 10000)

The implementing rules and regulations (IRR) of RA 10000 were drafted and finalized by the BSP in close coordination with the Department of Agriculture (DA) and Department of Agrarian Reform (DAR) on July 14, 2011. The corresponding BSP circular (Circular No. 736) was issued on July 20, 2011.

Anti-Money Laundering Law Amendment (RA 10167)

President Benigno S. Aquino III signed into law the strengthened Anti-Money Laundering Law on June 18, 2012. This law aims to address the noted deficiencies in the Philippines' legal framework with regard to anti-money laundering. This should make the State fully compliant with the international standards recommended by the Financial Action Task Force (FATF) as well as with the directives under the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention), the 2011 United Nations Convention Against Transnational Organized Crime (the Palermo Convention), the 2003 United Nations Convention Against Corruption (the Merida Convention) and other international standards in combating money laundering.

Challenges, Prospects and Policy Directions

Ongoing Challenges

- **Institutionalized generation of savings and mobilization of resources.** The Philippines is an archipelago that is demographically diverse across regions¹². To nurture a thriving financial system, the challenge is to mobilize local savings and deploy the resources as may be needed throughout the archipelago. This requires a regionally responsive, development oriented financial system that nurtures savings at its source while recognizing that some regions have greater credit needs than others. Further strengthening the financial inclusion framework and its infrastructure support are key elements in providing

necessary financial services and in bridging the spatial gaps between regions.

- **Available savings is primarily lodged in short-term instruments.** Economic priorities and projects normally require long-term funds but available savings are placed mostly in short-term instruments such as savings deposits¹³ and treasury bills. This tenor gap cannot be simply addressed by a pricing solution. There is a need to develop an outright long-term funds market. Stated differently, there is a pressing need to provide savers the opportunity to become investors. This requires an enabling environment which includes prudential guidelines, infrastructure support, a robust capital market and a national financial education program.
- **Lack of a thriving capital market.** The business of finance will not be possible without the dynamics of trading. To be able to institutionalize an outright long-term funds market, the capital market must undergo fundamental changes. This includes defining a credible valuation benchmark, providing for forward markets, strengthening the cash market and addressing the fragmentation of the government securities (GS) market. The latter raises the inherent tension between the market development function of GS versus the cost-minimizing mandate of the government debt financing strategy.
- **Improving the financial governance framework.** As market conditions rapidly change and the public's requirements evolve, the pressure on the governance structure of the market increases. There is a clear need for the supervisory framework to proactively stay ahead of these market pressures. To achieve this, regulatory and supervisory authorities must ensure that their mandates are aligned with international best practices and standards that are applicable in the local context. Furthermore, starting from a regime of multiple regulators, the authorities must likewise ensure consistency and comparability across their respective governance frameworks. Some of these

12 Attachment 2

13 Attachment 3

require legislative intervention while the rest depend heavily on the working relationship between regulators and regulated entities.

- **FIs concentrated in urban areas.** The uneven distribution of regional income and savings led to the concentration of financial institutions and delivery of financial services in high income and urbanized areas of the archipelago. Bank density ratio, for instance, stayed at five banking offices per city/municipality for the last decade which leaves about 37 percent¹⁴ of the country's municipalities either unserved or underserved.
- **Need for legislative support on critical reform areas.** The pursuit of some critical financial sector reforms does not rest on financial supervisors alone. For the most part, legislative support is necessary to provide for the required legal and regulatory environment for these reform objectives. In this regard, close coordination with Congress as well as active participation in the legislative process remain pivotal.

Prospects and Policy Directions

- **Development of more innovative service delivery channels for financial services.** In order to further expand client reach in the countryside, market participants and regulators alike have to innovate and foster strategic partnerships in harnessing available advancements in technology such as digital platforms, cloud computing and point-of-sale technology to improve financial access.

- **Development of more financial products that promote long-term savings for Filipinos.** The current savings behavior can be further improved with the development of more financial products, improvement of existing market infrastructures and partnerships among financial regulators, private corporations, non-government organizations and the academe for greater financial literacy and consumer education.
- **Harmonization of corporate governance standards of all regulated/supervised institutions in the Philippines.** In order to promote a deeper culture of corporate governance among regulated/supervised institutions in the Philippines, existing corporate governance standards and frameworks need to be harmonized among the three main financial regulators of the financial system through increased cooperative arrangements, benchmarking exercises and information sharing.
- **Timely passage of financial sector reform bills.** Some of the critical reforms of the financial system require legislative support to provide an adequate legal framework and organizational structure for these reforms. A coordinated and targeted approach in soliciting the legislative prioritization of these reforms is crucial in the nearterm.

¹⁴ Exclusive of client reach of non-bank MFIs and NGO/CSO-oriented cooperatives.

Annex 6-1. Chapter 6 2011-2016 Philippine Development Plan Results Matrix

Indicators	Baseline FY 2010	Actual FY 2011	Actual HI 2012	End of Plan Target 2016
1. Sector Outcome : Resilient and inclusive financial system				
1. Financial System's Total assets	9.80%	8.90%	n.a	>10%
2. National saving rate (Gross National Saving to GDP ratio)	26.60%	29.50%	not yet available	> 30%
3. Nationwide bank branch/other banking offices density ratio	5 per city/municipality	6 per city/municipality	6 per city/municipality	6 per city/municipality
4. Deposit accounts per 100,000 population	37.6	45.9	41.3	750
1.1. Sub-Sector Outcome 1: Mobilization of Financial Resources Made More Efficient				
1.1.1. Notional amount of derivatives	PhP82.6 billion	PhP3.4 trillion	PhP4.1 trillion	> PhP90 billion
1.1.2. Public education campaigns on investment opportunities in the financial market	Proposal	n.a.	n.a.	Two seminars per semester beginning 2011
1.1.3. Microfinance services delivery	PhP6.9 billion microfinance loans	PhP7.2 billion	PhP7.6 billion	> PhP7 billion
1.1.4. Financing the credit needs of micro-entrepreneurs for Microfinance Institutions	PhP186.35 million as of year 2005	n.a.	PhP9,394.79 million	PhP49,500 million
1.1.5. Approved loans under the Credit Surety Fund (CSF) Program	PhP134.4 million	PhP238.43 million	n.a.	PhP1.0 billion for the year 2012
1.2. Sub-Sector Outcome 2: Enabling Environment for the Financial System Strengthened and Improved				
1.2.1. Harmonization of cooperative arrangements with domestic and international financial regulators	Multilateral arrangement under Financial Sector Forum (FSF), bilateral arrangements under cross border supervision	n.a.	Creation of Financial Stability Coordinating Council (FSCC)	More multilateral and bilateral arrangements on a per need basis
1.2.1.A. Participation in the ASEAN Bond Markets Initiative (ABMI)	ASEAN+3 Bonds Market Forum was established	n.a.	The SEC responded to the ABMF questionnaire on the functions and competencies of the Commission's Corporation Finance Department, Office of the General Accountant and the Market Regulation Department relating to investor protection.	Standardization and harmonization of market practices/regulations for cross-border bond transactions.

Indicators	Baseline FY 2010	Actual FY 2011	Actual HI 2012	End of Plan Target 2016
1.2.2. Implementation of Risk Based Capital Adequacy (RBCA)	Proposal	n.a.	Guidelines drafted as of end-June 2012	Other supervised FIs of SEC and IC to use RBCA* starting January 2013
1.2.3. Continuous alignment of internationally accepted principles for enhancing corporate governance of supervised and regulated financial institutions	Proposal	SEC Memorandum Circular No. 9, series of 2011 was issued last 05 December 2011	n.a.	Continuing adoption of new/revised rules and regulations during the Plan period
1.2.3. A. Draft corporate governance provisions of the Corporation Code	n.a.	n.a.	Draft out as of end-June 2012	SEC to draft the proposal for amendment of the Corporation Code
1.2.3. B. Corporate governance report for listed companies and mutual fund companies	n.a.	n.a.	The SEC is in the process of consolidating all the comments received from the public and various capital market industry associations and institutions. The final draft/proposal for institutionalization will be submitted for approval by end of August 2012.	SEC to draft the proposal for all listed companies and mutual funds
1.2.3.C. SEC guidelines for the assessment of the performance of audit committees of companies listed on the PSE	n.a.	n.a.	SEC Memorandum Circular No. 4, series of 2012 was issued last 31 May 2012	SEC to issue the revised rules on corporate governance
1.2.4. Adoption of merit system in the appointment of the Board of government pension funds	Proposal	n.a.	n.a.	Issuance of revised rules and regulations including the institutionalization of required systems and processes in place by 2016.
1.2.5. New trading rules for corporate issuances	Proposal	n.a.	n.a.	Exposure draft by June 2012, new trading rules promulgated by March 2013

Indicators	Baseline FY 2010	Actual FY 2011	Actual H1 2012	End of Plan Target 2016
1.2.5. A. 1. SEC Approved Rules of the PSE on extension of trading hours	n.a.	Starting October 3, 2011, trading hours were extended from the current 9:30 a.m. to noon schedule to 9:30 a.m. to 1:00 p.m.	On the first trading day of January 2012, trading was further extended up to 3:30 p.m. with market recess from 12:00 noon to 1:30 p.m.	New trading hours
1.2.5. A. 2. SEC Approved Rules of the PSE on Revised Listing Rules by Way of Introduction	n.a.	SEC approved the PSE proposal last March 2011 on the revised listing rules by way of introduction	n.a.	SEC approval of the PSE proposal
1.2.5. A. 3. SEC Approved Rules of the PSE on Supplementary Listing and Disclosure Requirements for Petroleum and Renewable Energy Companies	n.a.	SEC approved the PSE proposal last August 2011	n.a.	SEC approval of the PSE proposal
1.2.5. B. 1. SEC Approved Amendments to PDEX listing rules	n.a.	n.a.	SEC approved the amendments last 03 May 2012	SEC approval of the proposed amendments of PDEX on its listing rules
1.2.5. B. 2. SEC Approved Amendments to PDEX Admission Criteria for Issuers and Securities	n.a.	n.a.	SEC approved the amendments last 03 May 2012	SEC approval of the proposed amendments of PDEX admission criteria for issuers and securities
1.2.5. C Drafting of the Capital Market Development Plan (CMDP) Blueprint 2011-2016	Preliminary inter-agency discussions	The Steering Committee and four Technical Working Groups of the CMDP Blueprint were formed last August 2011.	As of end-April 2012, the Blueprint objectives have been identified.	Formulation of the Capital Market Development Plan (CMDP Blueprint) 2011-2016
1.2.6. Enabling environment for the trading of financial instruments	Proposal	n.a.	n.a.	Regulatory framework completed by March 2012
1.2.6. A. Draft rules and regulations governing the trading of Exchange Traded Funds or ETFs	n.a.	n.a.	Draft prepared last June 2012. Exposure draft shall be circulated at the SEC website in Q3 2012 with the finalized version of the said rules and regulations released by December 2012.	Rules and Regulations on ETFs finalized and released by December 2012
1.2.7. Implementation of Cooperative Code, CISA, PERA, REIT, MSME, Agri-Agra and FRIA	Enactment of various bills	n.a.	Various implementation milestones in the SER	Completion of implementation program/initiatives by 2012

Indicators	Baseline FY 2010	Actual FY 2011	Actual HI 2012	End of Plan Target 2016
1.2.7. A. 1. CISA Implementation	Finalization of Implementation Rules	CIC President and CEO was appointed last May 2011	n.a.	CIC to commence commercial operations by 2013
1.2.7. B. 1 REIT IRR	IRR was issued last 24 May 2010	SEC Memorandum Circular No.2, series of 2011	n.a.	Completion of implementation program/initiatives by 2013
1.2.8. Enactment of priority bills such as BSP Charter, Securities Regulation Code, IC Charter and Corporation Code	Draft/sponsored bills filed before the 15th Congress	n.a	n.a	Enactment of these priority financial sector reform bills by 2014
1.2.9. Establishment of the legal framework for the Financial Stability Framework, Financial Sector Neutrality Act, Payment System Act, Collective Investment Schemes Law, Chattel Registry and Mortgage Law	Draft/sponsored bills filed/to be filed before the 15th Congress	n.a	Various bills filed	Enactment of required legislation and implementation by 2016

Chapter 7. Good Governance and the Rule of Law

On Good Governance

Assessment

This chapter adopts the UNDP definition of governance: “The exercise of economic, political, and administrative authority to manage a country’s affairs at all levels. It comprises mechanisms, processes, and institutions, through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences.” The World Bank, for its part, believes that good governance is “... epitomized by predictable, open and enlightened policy making; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; and a strong civil society participating in public affairs; and all behaving under the rule of law.”

The Philippine Development Plan (PDP) 2011-2016 aims to institute effective and honest governance to create an enabling environment for inclusive growth and poverty reduction. Four strategies were put into place to achieve this goal: (a) improve public service delivery; (b) curb corruption decisively; (c) enhance citizens’ access to information and participation in governance; and (d) strengthen the rule of law. The following table summarizes the governance plan up to 2016.

For the past two years, the Aquino Administration put into place critical reforms to implement these strategies that served as the foundation for effective and honest governance. The government’s firm commitment to transformational leadership has gained support from different sectors of the society, and has been effectively harnessed to deepen citizen participation in governance.

Table 7-1. Summary of Key Sector Indicators and Accomplishments, 2010-2012

KEY INDICATORS	BASELINE	LATEST ACOMPLISHMENTS	END OF PLAN TARGETS
Chapter 7: Governance and the Rule of Law	FY 2009-2010	FY 2011-FY2012	2016
Government justly serves rich and poor	Low trust in government officials and agencies	High trust in President and other officials by ordinary families and corporations	Continuing high trust in President and other officials by corporations and ordinary families
Looting of public offices stopped	Billions of pesos lost to plundering and costly legal loopholes	Big fish looters are being fried	Majority of over 1,700 corruption cases as of 2011 are closed in favor of the public
Public services cost no more than comparable private services	Billions of pesos lost to inefficiencies and clueless work	Billions of pesos saved through efficiencies in scale, scope and synergies	Quality to price ratios of public services begin to be comparable to developed countries
True public participation in governance when and where it matters	Public participation do not fully meet the Constitutional intent of participation	Billion-peso piloting of direct CSO participation in planning, budgeting and purchasing	All phases of government service which finance services to both rich and poor are openly evaluated and jointly monitored with CSOs
Quality of LGU services meet or exceed national standards	Services, particularly corporate-type services, were not uniformly well administered	Improvements in the state of local administrative, economic and social governance	Steady improvements in quality of public services for all classes of LGUs

This commitment and corresponding efforts to institute effective and honest governance enabled the Administration to achieve initial gains in terms of improving the government's responsiveness to public needs, strengthening democratic institutions, rebuilding people's trust in government and enhancing their access to justice.

Under his watch, President Aquino was the first Chief Executive to initiate the filing of corruption charges against government officials across all branches of government for perceived corruption. A highlight case involved a Chief Justice who could not explain the source of his wealth, and alleged nonpayment of taxes corresponding to such wealth and was subsequently disciplined by Congress. The Sandiganbayan also ordered the arrest of former President Gloria Macapagal-Arroyo for plundering the funds of the Philippine Charity Sweepstakes Office, aside from having been charged with other serious crimes like electoral sabotage.

In its December 2011 report, the international Task Force on Financial Integrity and Economic Development observed that the Philippines was in the top 15 of countries with the highest illicit capital outflows from 2000 to 2009. About US\$113.7 billion of the US\$142 billion illicit money was due to the mispricing of imported and exported goods to evade taxes. Outflows from corruption, bribery and kickbacks are big sources of illegal capital flight and this is exacerbated by trade-related tax evasion by large corporations and wealthy individuals who manipulate the price and quantity of traded goods. Usually, the proceeds from these activities are deposited in tax havens or secrecy jurisdictions. As the report directly puts it, the massive losses from the tax evading wealthy corporations and individuals should be a higher priority concern since these represent "very real cost in human suffering and loss of life" because of "teachers that are not hired, hospitals that are understaffed, and additional taxes levied on those already paying their fair share."

Through the Run after Tax Evaders (RATE), 115 tax evasion cases have been filed by the Bureau of Internal Revenue (BIR) before the Department of Justice (DOJ), involving an estimated total tax liability of PhP40.2 billion,

compared to the 127 cases filed in five years during the previous Administration (from 2005 to March 2010). The Run After The Smugglers (RATS) dragnet has also been effective with 86 cases filed under against suspected smugglers, including officers and brokers of oil industry players. Estimated dutiable value amounts to around PhP52 billion, while duties and taxes amount to around PhP25.9 billion. Efforts of the Revenue Integrity Protection Service (RIPS) led to 42 cases being filed with the Office of the Ombudsman and two cases filed with the Civil Service Commission against suspected corrupt collection officials and employees. This is already more than half the 74 cases filed in more than six years (May 2003 to December 2009) under the previous Administration.

COA, on the other hand, has rendered 1,104 decisions in 2010, 2,533 in 2011 and 415 cases in the first quarter of 2012. It was also able to settle disallowances on various government transactions amounting to PhP2.4 billion in CY 2011 and PhP219 million in the first quarter of 2012

The high, unmatched public trust and approval ratings, as measured by regular Ulat ng Bayan surveys of Pulse Asia over the last two years also show that President Aquino is on the right track. In September 2012, the Social Weather Stations (SWS) confirmed the survey results with 77 percent of the public approving his performance, and a reduced 10 percent who were not satisfied with his work. Furthermore, the 2012 SWS Survey of Enterprises on Corruption established record lows – not seen since 2000 – in bribery statistics. This situation has led 74 percent of executives to believe that business prospects range from good to excellent, with 70 percent satisfied with the national government's efforts in building a good business climate.

The unprecedented trust and approval results helped facilitate in carrying out hard governance reforms. Experts have estimated that the Philippine economy must grow by at least 7 to 8 percent annually to support 100 million Filipinos starting 2013. With about 1.7 million babies born a year, a completely emptied Metro Manila can be repopulated in about seven years. The high economic growth rate is required for sustained governance solutions to persistent problems like

poverty, inequitable growth, scarcity of good-paying jobs, and boom-bust growth cycles.

President Aquino is the first Chief Executive to demand – and get – substantial savings from infrastructure projects, nonperforming public programs, and common supplies purchases. Savings from 2011 to the first half of the year include PhP10.6 billion by the DPWH. Savings are made also from correcting operating inefficiencies, terminating programs that no longer work, and reducing funding for badly designed programs that do not reach the poor as intended. Badly designed programs which led to billions of pesos in losses include, for example, the food and input subsidies of the National Food Authority (NFA) and the Department of Agriculture (DA), respectively. The PhP728 million Fertilizer Fund scam was a classic abuse of the lack of judicious planning involving most lump-sum funds. From its 2010 levels, equity and subsidy contribution and net lending to GOCCs decreased by more than 40 percent, as weak corporate programs failed DBM reviews. Nonetheless, extra subsidies for the rice self-sufficiency program are not optional as the large population and climate disasters heavily strain local production capacity, aside from preventing neighboring countries from offering rice at predatory pricing levels during local supply shortages.

Part of the mentioned efficiency savings are plowed back into vital education and health programs for the poorest families. The spending increase for 2011-2012 on classrooms and teachers alone was the biggest in more than ten years.

The remaining operational savings from the fiscal restraint should help the country achieve investment-grade credit rating, or a rating higher than the present BB+ of Standard & Poor's, by 2013 and beyond. The BB+ rating achieved in 2012 was last achieved in 2002. The fiscal position is healthy enough that it is already possible to achieve a national debt level that is less than half of GDP within two years. The last time such performance was last achieved was about three decades ago. A high credit rating signals to watchers that economic and governance uncertainties are well within very manageable levels. It also lowers the costs of

debt and investment financing, and thus lowers the costs of economic growth and governance services to the poor.

Work has started on enacting the Fiscal Responsibility Bill to reduce the country's debt to sustainable levels. The proposed Bill and improved tax collection efficiency will help reduce the budget deficit from 3.9 percent to 2.0 percent of GDP by 2013. Without this law, the accumulation of unfunded laws will also continue to exceed PhP104.0 billion.

Savings are also realized through public transparency and examination. DBM started posting on its website all lump sum disbursements such as the Priority Development Assistance Fund (PDAF), the Calamity Fund, the DepEd School Building Fund/Educational Facilities Fund, and the Internal Revenue Allotment (IRA). Lump-sum funds have breached the PhP150 billion level.

To compensate for the heavy restraints on public spending, the government started work on Public-Private Partnership (PPP) projects. PPP projects allow the private sector to finance not only traditional infrastructure projects, such as power generation, airport, roads, railways, and water supply, but also nontraditional infrastructure and development projects, such as hospitals and school buildings. PPP project costs may even be better than the equivalent government capital outlay and maintenance costs for the same effort. Today, there are eight PPP projects worth approximately PhP3.1 billion with firm implementation commitments.

The vital Multi-Year Obligational Authorities (MYOA) is now in place to prevent the annual budget authorization process from being part of the problem rather than the solution. The MYOA encourages private participation because construction, operation and maintenance of school buildings, health centers and other basic government infrastructure can continuously proceed without being politicized and be expensively paused by yearly budget quarrels.

With diligent administrative reforms, the tax effort of the Department of Finance (DOF) improved by at least 0.2 percentage points of GDP. The tax effort, which dropped down to as

low as 13.9 percent, is expected to be closer to 17 percent by 2016. Two huge projects, the BIR's Tax Administration Project and the Millennium Compact Corporation-assisted Revenue Administration Reform Project, are expected to further improve revenue collection and reduce corruption through automation. Additional revenues of at least PhP60 billion annually will continue to be realized through user fees and charges that should better reflect the true cost of modernized efficient services.

The government has relied on other independent external and internal appraisal of governance performance to minimize self-serving assessments of Philippine governance. The Philippines, according to the World Bank's Governance Index and Ease of Business Index both substantially improved its standings during President Aquino's administration. The improvements have also been confirmed by the Heritage Foundation-Wall Street Journal's Index of Economic Freedom. Data from the World Economic Forum (Weforum) also showed the positive impacts of administration's actions and integrity stand on the country's international competitiveness.

Figure 1, drawn from Weforum data, shows global competitiveness of the Philippines having risen to the highest level in more than five years. The main factors dragging down competitiveness -- the factor lines below the fat

red line in the middle are: (a) low levels in labor market efficiency; (b) infrastructure, health and education; (c) technological readiness; (d) goods market efficiency; and (e) the quality of public and private institutions. Institutional quality, which happen to be the lowest performing factor, had actually been on the decline from 2006-2007 and reached its lowest in 2010-2011 until President Aquino came in. Reforms to strengthen institutional quality, which also happen to be the one pillar among the 12 in which the President has reasonable influence, showed positive results in 2011-2012 and further improved in 2012-2013..

On Strategy One: Ensure high-quality, efficient, transparent, accountable, financially and physically accessible and nondiscriminatory delivery of public service

Most of the target reforms to integrate and enhance the transparency of transactions and to standardize service quality are already being implemented. These include the following:

- a. The Civil Service Commission (CSC) has assisted agencies in complying with the Anti-Red Tape Act (ARTA) of 2007 and conducting the ARTA Report Card Survey (RCS) to enhance the efficiency and transparency of frontline services. The CSC also gave

Figure 7-1.Weforum Global Competitiveness Index, 2006-2012

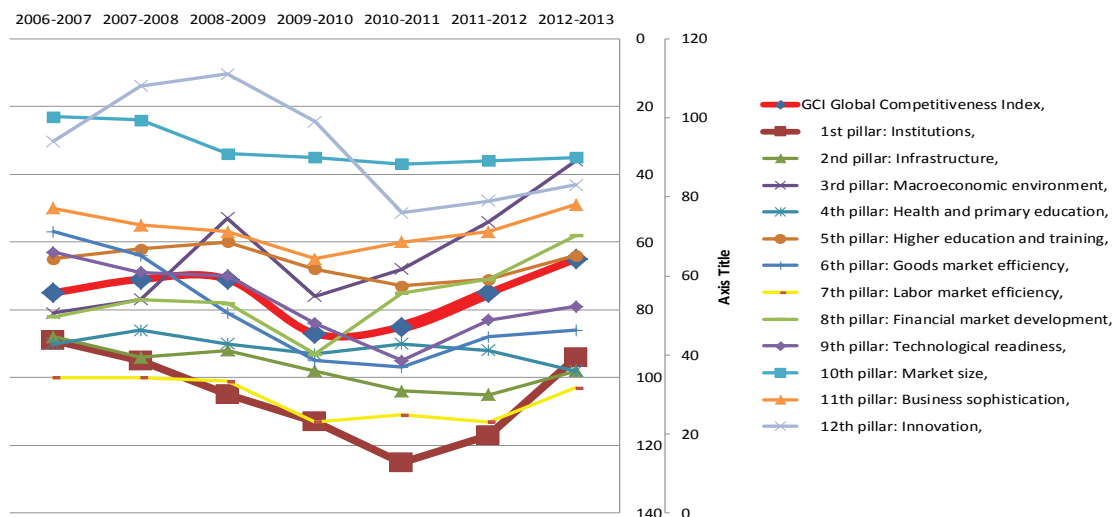


Table 7-2. Adjectival rating of agencies

	2010	2011	2012 (Jan-Aug)	Total
Excellent	1	22	20	43
Very good	10	-	-	10
Good	7	133	183	323
Adequate	17	-	-	17
Acceptable	4	206	81	291
Failed	11	136	106	253
Total	50	497	390	937

more emphasis on providing a more honest reporting of the true state of Philippine public services. From 2010-2012, 937 government bodies have been subjected to the ARTA RCS. Of those agencies surveyed, 253 garnered “Failed” ratings. The CSC through its Service Delivery Excellence Program (SDEP) assists agencies that failed. Nonetheless, the following summary table shows that a good number of subnational agencies were able to make a good account of themselves during the same period with ratings ranging from Acceptable to Excellent. As a result, 11 government bodies received the Citizen’s Satisfaction Center Seal of Excellence Award (CSC-SEA) in 2010. Twelve received the same award in 2011 and another six during the early months of 2012..

b. Implementation of the zero-based budgeting (ZBB) approach began in 2011 as a tool to focus fiscal resources on core programs and projects, alongside the ISO 9001:2008 Quality Management System (QMS) to standardize public service quality.

c. The government is carrying out the Bottom-Up Budgeting and Planning, Performance Challenge Fund (PCF) and Seal of Good Housekeeping (SGH) interventions. The PCF is a facility to help local governments to put a premium on transparency and accountability, and to enable them to avail of financial support to jumpstart and sustain local socioeconomic development initiatives. About PhP750 million was set aside in 2012 for the PCF. This amount will be used to augment the resources of at least 516 LGUs with Seals of Good Housekeeping.

d. The “Public Sector HRD Plan” will enable the government to realize the Aquino administration’s vision to transform and professionalize the bureaucracy. Hence, the National Government Career Executive Service Development Program (NGCESDP) was revived this year with a budget of PhP45 million for the Development Academy of the Philippines (DAP) as its main implementing agency. The NGCESDP will train non-CESOs and non-CES eligibles occupying CESO or third level positions (CESB concern) and high-performing or high-potential middle managers in the Second Level (CSC concern).

Other major administrative process reforms have been undertaken to speed up implementation, empower government offices, and have enforceable accountability.

Budgetary allocations are now being released directly to the smallest, even farthest, implementing units whenever possible. This is accompanied by stronger DBM oversight to avert potential avenues for abuse of savings through the realignment of funds across allotment classes, within capital outlays, and over their use for allowances and other benefits. Such abuses include the infamous conversion of soldiers’ salaries to the “pabaons” of retiring generals and unauthorized purchases. Instead of cash advances, the AFP will use purchase cards -- Cashless Purchase Cards. The abuse in the use of savings from unfilled positions has also been stopped this year.

A very strong country will require strong local government institutions. A total of PhP3.314 billion for 2011 and budget of PhP3.823 billion for 2012 was devoted to the Local Government Capacity Building Program of the DILG. Over 1,700 LGUs are receiving technical assistance in public financial management, risk management, and mapping. Appendix 3 from the DILG-BLGPMS reports show that administrative, economic, environmental and social governance have been improving over the last two years, as a result.

Meanwhile, key reforms in professionalizing the bureaucracy such as the government-wide Results-Based Performance Management System (RBPMS) and Performance-Based Bonus (PBB) are in their pilot stages. The RBPMS incorporates common performance scorecards that shall be used as basis for determining entitlements to allowances, incentives, or compensation of government personnel. The PBB, on the other hand, aims to drive higher performance and accountability in the public sector by conferring adequate recognition and additional compensation to government employees based on performance results. Other performance-enhancing programs like the Citizens' Feedback and Public Financial Management and the Citizen Satisfaction Index System (CSIS) are still being developed.

Shared information systems that accelerate and make more accurate government-wide information were started during the review period.

The Government Integrated Financial Management Information System (GIFMIS) seeks to integrate, make consistent, and reduce errors in the financial management processes and databases of the DBM, DOF-BTr and COA. Key projects of the Information and Communications Technology Office of the Department of Science and Technology (DoST-ICTO) will support GIFMIS, such as the national Public Key Infrastructure (PKI) system. The PKI is required for secure and legally binding Internet-based financial transactions. It is complemented by the e-Serbisyo, a web-based gateway providing convenient access to government information and services, and the e-Bayad's online mode of government electronic payment.

The Government Manpower Information System (GMIS) of DBM is being upgraded to capture the Philippine Government's complete manpower roster and eliminate payroll systems that include ghost employees. Once completed, the GMIS will become the National Paymaster System (NPS). Through the NPS, the BTr can directly control and pay personnel compensation and benefits -- the largest component of the budget.

Another initiative is the Tax Administration Computerization Project (TACP). This project is essential in improving tax collections and taxpayer services.

The Philippine Government Electronic Procurement System (PhilGEPS) will continue to be developed to provide additional functions such as electronic payment, electronic submission of bids, and the electronic tender of government procurement.

Participatory budget preparation continues to be required for line agencies like the DepEd, DoH, DSWD, DPWH, DA and DAR, as well as the National Food Authority (NFA), National Housing Authority (NHA) and the National Home Mortgage and Finance Corporation (NHMFC). These agencies are required to partner with civil society organizations to come up with practical programs that work as advertised.

On Strategy Two: Curb corruption decisively

Intensifying corruption prevention is being carried out through stronger coordination among anticorruption agencies, support of private sector integrity initiatives and conduct of advocacy campaigns. Faster resolution of corruption cases was strongly pursued as exemplified by the adjudication of high profile corruption cases as well as those filed under the programs of revenue-generating agencies. The adoption of a comprehensive anticorruption program was also attained through the approval and implementation of the Cabinet Cluster on Good Governance and Anti-Corruption Action Plan. Target reforms in public procurement are underway, starting with the launch of the Virtual Store. Integrity and control mechanisms were strengthened through the continued conduct of

Integrity Development Reviews. To broaden international linkages, the Philippines joined the Open Government Partnership (OGP) as one of its founding members.

Due to the Aquino Administration's efforts to curb corruption and institute good governance, the government was able to regain people's trust. The Aquino Administration's net satisfaction rating as surveyed by both the Social Weather Station and Pulse Asia has been positive. In the First Quarter 2012 Social Weather Survey, it received high net satisfaction ratings for transparency in government activities and having clear policies, among others. Business confidence continues to rise. Based on the Business Expectations Survey, the business confidence index improved during the past three consecutive quarters. Among the factors cited for the continued optimism is political stability.

In pursuing corruption cases, the DOJ constituted teams of officials, prosecutors and/or lawyers to investigate alleged anomalies and corruption cases involving high profile government officials. A joint investigation was conducted by the DOJ-Commission on Elections panel on alleged electoral sabotage by former President Arroyo, former COMELEC Chair Benjamin Abalos and other COMELEC officials. An electoral sabotage case was filed against them with no bail recommended. While currently on trial, the former President and former COMELEC Chair are currently detained. Plunder cases were also lodged with the Ombudsman against Armed Forces of the Philippines (AFP) generals based on the testimony of whistleblower George Rabusa.

The Directors of NBI and BUCOR together with other officials were expeditiously and thoroughly investigated. In 2011 one prosecutor from Sarangani was charged before the Sandiganbayan for Direct Bribery and another prosecutor was charged before the Sandiganbayan in 2012 for violation of Republic Act (RA) No. 3019. Also, a former government corporate counsel was investigated and dismissed from the service for grave misconduct and gross neglect of duty, among other violations.

The Aquino Administration also filed the following high-profile cases:

a. An impeachment case against former Ombudsman Merceditas Gutierrez for alleged betrayal of public trust in connection with the complaints against the public officials and employees implicated in the fertilizer fund scam, Euro Generals scandal, Mega-Pacific deal and NBN-ZTE deal, among others.

Supreme Court Chief Justice Renato Corona was convicted and removed from office by the Senate Impeachment Court for betrayal of public trust and culpable violation of the Constitution, specifically for dishonesty and failure to lawfully disclose his assets. He was the first Philippine government official to be convicted, with a vote of 20-3, by an impeachment court;

b. Plunder and graft charges before the OMB against former PAGCOR officials, including Chairman Efraim Genuino, in relation to the excessively priced coffee products that were sold in at least five Casino Filipino branches during the term of the previous administration; and

c. The Ombudsman filed with the Sandiganbayan in June 2012 a graft case against former PNP Director General Jesus Verzosa, other PNP officers and personnel, and private individuals, including former First Gentleman Jose Miguel Arroyo for their alleged roles in the controversial procurement of PNP helicopters. Fourteen PNP officials and personnel have been dismissed from the service, and six were suspended for six months without pay, for their involvement in the said transaction.

COA, on the other hand, has rendered 1,104 decisions in 2010, 2,533 in 2011 and 415 cases in the first quarter of 2012. It was also able to settle disallowances on various government transactions amounting to Php2.4 billion in CY 2011 and Php219 million in the first quarter of 2012

Through the Run After Tax Evaders (RATE), 115 tax evasion cases have been filed by the BIR before the DOJ, with an estimated total tax liability of PhP40.2 billion, compared to the 127 cases filed in five years during the previous Administration (from 2005 to March 2010).

The Run After The Smugglers (RATS) dragnet has also been effective. Eighty-six cases have been filed under this Administration against suspected smugglers, including officers and brokers of oil industry players. Estimated dutiable value amounts to around PhP52 billion, while duties and taxes amount to around PhP25.9 billion.

Under this Administration, the Revenue Integrity Protection Service (RIPS) led to 42 cases being filed with the Office of the Ombudsman and two cases with the Civil Service Commission against suspected corrupt collection officials and employees. This is already more than half the 74 cases filed in more than six years (May 2003 to December 2009) under the previous Administration.

The DOJ has commenced the establishment of the National Justice Information System (NJIS) starting with multisectoral consultations, high level design and planning, and internal systems mapping in order to implement the case tracking monitoring system. The NJIS is envisioned to provide efficient reporting and recording of incidents and cases, track and monitor cases in the justice system from end-to-end to include related events, and enable improved capacities for individual and institutional performance management. Justice sector agency systems shall be interconnected across several layers for enhanced, harmonized coordination to speedily share information for results.

On Strategy Three: Strengthen Citizens' Access to Information and Participation in Governance

The Aquino Administration worked towards creating spaces for free, active, voluntary and genuine participation in policy making, decision making and development planning.

The administration submitted a proposed draft of the Freedom of Information (FOI) Bill to the House of Representatives on February 3, 2012.

The proposed bill mandates the publication and posting of relevant information, and the translation of key information into major Filipino languages. To further ease public access to information, the government enforced the Transparency Seal for national government agencies, the Full Disclosure Policy for LGUs, and the development of the Official Gazette (www.gov.ph) as the main information portal of the government.

The implementation of mandatory publication of agency budgets through the Internet had been mandated in the 2011 and 2012 General Appropriations Act. All agencies are required to maintain a Transparency Seal on their websites, which provide link to the following information: (a) The agency's mandates and functions of its officials with their respective positions and designations; (b) Annual reports, as required under National Budget Circular Nos. 507 and 507-A dated January 31, 2007 and June 12, 2007, respectively for the last three years; (c) Approved budgets and corresponding targets; (d) Major programs and projects categorized in accordance with the five key results areas under EO 43 s.2011; (e) Programs/projects beneficiaries as identified in the applicable special provisions; (f) Status of implementation and program/project evaluation and/or assessment reports; and (g) Annual procurement plan, contracts awarded, and the name of contractors/suppliers/ consultants.

To ensure transparency in the selection of Presidential Appointees, the Judicial and Bar Council recently approved the deletion of the second and third paragraphs of Section 5 of JBC-Rule 10, thereby allowing live media coverage of interviews of candidates applying for judicial positions in appellate courts, Ombudsman, Deputy Ombudsmen, Special Prosecutor, and Chairperson and Members of the Legal Education Board.

To promote transparency in the government service, the DBM launched in 2011 the Electronic Transparency and Accountability Initiative for Lump Sum Funds (eTAILS). The eTAILS aims to facilitate the budget execution and accountability tracking of selected lump-sum appropriations, specifically, those related to Congressional Initiatives and IRA Allocations, including the DepEd School Building Program.

Through this system, the list of projects funded by these lump-sum funds is posted on the DBM website, together with the date of release of these projects. The Priority Development Assistance Fund was made transparent and posted on the DBM website in 2011. The Internal Revenue Allotment for local government units were posted in 2012. Within the year, the school building program will also be included in eTAILS.

At the local government level, the DILG implemented the Full Disclosure Policy requiring LGUs to fully disclose pertinent financial information to keep constituents informed as to how the LGU budget is managed, disbursed and used. Ninety-nine percent of provinces, cities and municipalities¹ complied with the policy as of June 2012, alongside 89 percent of the barangays. Show cause orders were issued to LGUs that failed to do so, and they may be sanctioned if their explanation proves to be inadequate. Complying LGUs included those in the ARMM, such as the provinces of Basilan, Lanao del Sur, Maguindanao and Tawi-Tawi and the municipalities of Calanogas, Malabang and Wao (Lanao del Sur); Parang (Sultan Kudarat); Sultan Mastura, Talitay and Upi (Maguindanao) and Parang (Sulu), as well as 99 others, proving that good governance is possible in the region.

With respect to the civil society organizations participation, the number of government agencies that conducted budget consultations increased from six NGAs and three GOCCs for the 2012 budget preparation to 12 NGAs and six GOCCs for the 2013 budget preparation. During the latter exercise, 773 organizations were consulted while 161 forged Budget Partnership Agreements with government agencies.

Full citizen participation in budgeting is the next big thing. To further enable the civil society organizations to participate meaningfully in governance, an Empowerment Fund has been established to support LGUs in engaging the organizations in Bottom-up Budgeting and Planning and in other participatory mechanisms. The pilot stage of Bottom-Up Budgeting saw 609 of the poorest municipalities coming up with Php8.37 billion for possible inclusion in

the national budget for 2013. They proposed anti-poverty interventions such as agriculture and fisheries support, potable water supply, public healthcare, and basic education. The DBM reported that fourteen agencies have signed Budget Partnership Agreements (BPAs) with various organizations. Another two had consultations even without signed BPAs. Eleven agencies, including two GOCCs participated in the bottom-up budgeting initiative.

Challenges

The speed of legislation must match the speed of executive policy-making. Vital organizational improvements can be effected with the enactment of, among others, the Career Executive System (CES) Act to reorganize the handling of professional government managers; measures to comply with the United Nations Convention against Corruption (UNCAC), the first legally-binding global anti-corruption agreement; campaign finance reform to track the sources and uses of funds raised by candidates; amendment to the COA Charter to allow recovery of illegally disbursed funds; Whistleblower Protection Law to help informants who expose wrongdoing; Freedom of Information (FOI) Bill to allow easier public access to government records, and; Commission on Human Rights of the Philippines (CHRP) Charter to strengthen its investigative powers.

The observance of due process for corruption cases and investigation of possible acts of graft take the kind of time and resources that the public may sense as too slow. Formally targeting a one-year start-to-finish closure period for a corruption case, as Malaysia did in its latest medium-term government plan, also seems reasonable. Deciding with finality on the large-scale and notorious cases of corruption may require a dedicated budget of over Php250 million per year for the antigraft court, the Sandiganbayan. There were 1,742 pending cases of corruption as of December 31, 2011.

Ethically expecting taxpayers to honestly pay taxes mean the Government should also honestly and quickly return overpayments by citizens. Some

1 1,696 (79 provinces, 137 cities and 1,180 municipalities) of the total 1,713

PhP10 billion in tax refunds should be cashed out in favor of taxpayers as soon as possible. In good governance, honesty and integrity cut both ways.

The debt burden share in the 2012 budget has been reduced from 22.6 percent to 19.6 percent. With improving revenue collection and sustained economic growth, this share should come down nearer to 15 percent or better by 2016. Debt payments can crowd out desirable social service allocations. Bringing down outstanding debt closer to 40 percent of GDP, instead of the over half today, will mean the Philippine Government comes nearer to its optimal institutional size for growing the economy without being a burden.

The tradeoffs between incentives and tax collections must be firmly measured and stopped if unfair levels are reached. The more than PhP130 billion in tax reductions and fiscal incentives given away between 2005 and 2010, for example, would have paid for the hiring of more public school teachers and more textbooks.

It will also make more sense to ensure that the General Appropriations Act serves as the only release justification document. The processing of allotments is one of the most cited reasons of delays in requesting for budget releases and contracting for services and goods. This will require the discipline also for zero-carryover appropriations. Budget milestones and deliverables should be made effective for only one-year to ensure that government agencies start and complete activities in time.

Finally, deciding with finality on the large-scale and notorious cases of corruption may require a dedicated budget of over PhP250 million per year for the anti-graft court, the Sandiganbayan, considering that there are over three thousand pending cases of corruption.

Prospects and Policy Directions for 2013

Most of the governance effort will be devoted to continuing the good work in effecting savings, stopping corruption and working for meaningful participation in government affairs.

Further reducing wastes from bad financial decisions would be most welcome. In its September 2012 report to the President, the COA stated that up to PhP101.8 billion was lost, mostly from 2007 to 2009.

Besides PPP arrangements, alternative shared-financing schemes between national government agencies and LGUs are being explored in the implementation of social development projects like the construction of schoolhouses.

With greater prudence now in the use of subsidies for GOCCs, the DBM beginning October 2012 will work for the reduction of financial losses of LGUs that subsidize public utilities and local economic enterprises. Utilities include waterworks, electricity, transportation, and hospital institutions. Markets, slaughterhouses, bus terminals, cemeteries and sports centers are among common LGU-supported enterprises. Mandatory, conservative feasibility studies for establishing such utilities and enterprises were not required in earlier years.

Meaningful public participation has to be restored. The COMELEC has already disqualified 37 party-list groups allegedly for fronting for wealthy representatives, thereby abusing the intent of the Constitution to provide spokespersons for marginalized and underrepresented sectors.

The Department of Tourism, Department of Labor and Employment and the DOF will pilot test the Regulatory Impact Assessment (RIA) this year. The RIA system includes a new Office of Best Regulatory Practice to propose and review regulations for effectiveness and efficiency.

What may turn out to be the “sleeper” success in governance reforms would be the depoliticization and maintenance of institutional independence processes for revenue-generating institutions. There are good arguments for fixing the budget of revenue collection agencies as a fixed percentage of targeted annual collections. Their performance incentives should also be a fixed rate based on collections beyond natural increases, e.g., increases in withholding taxes because the population of workers increased, and what independent experts would rate as degree of difficulty in collecting beyond natural increases. The central banking institution has

been successfully insulated from the political storms that have rocked the three branches of government. Insulating the main revenue generation institutions like the BIR and BoC from politics seems timely as solid anticorruption measures in these government bodies have already been embedded under President Aquino.

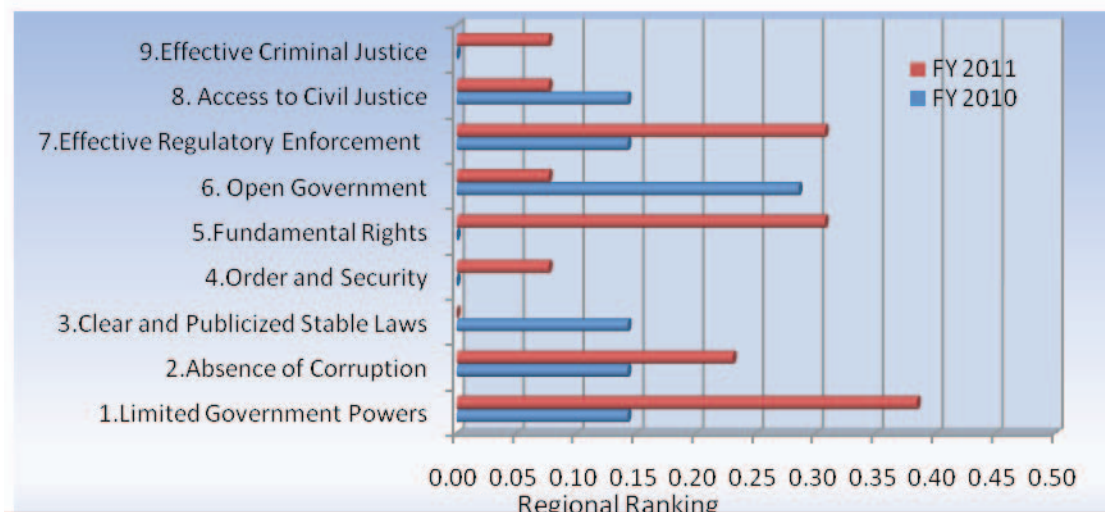
Greater attention though has to be given to turning economic weaknesses to strengths. There may be a lot of poor families. But these families have provided the kind of labor that propelled China, to unprecedented growth levels. The general governance agencies must ensure that the performance scorecards of line agencies, GOCCs and LGUs are designed to strengthen the productivity of all labor and natural resources used in the country, including high-technology-intensive entrepreneurship.

In his article “Finding the Keys to National Prosperity,” Prof. Jeffrey D. Sachs observed that nations have been learning from the policy successes of other countries. His fanciful model economy has the following features: “German labor-market policies, Swedish pensions, French low-carbon energy, Canadian health care, Swiss energy efficiency, American scientific curiosity, Brazilian anti-poverty programs, and Costa Rican tropical happiness.” Policy successes in Philippine governance in the next decade will also require the continuing search for, adoption, and Pinoy refinement of the best possible solutions that have evolved in other countries.

STRENGTHEN THE RULE OF LAW

The Philippines performs well relative to lower middle income countries on most dimensions, although it still requires further efforts in many areas. The country stands out for having reasonably effective checks and balances on the government’s power (ranking 3rd out of 16 income-group peers), including a vibrant civil society, a free media, and an independent judiciary. The Philippines also outperforms most lower-middle income countries in the area of effective regulatory enforcement, ranking 5th out of 16 countries. Nonetheless, civil conflict and political violence remain significant challenges (ranking 53rd). Of particular concern are shortcomings in the field of fundamental rights (ranking 40th), particularly in regard to violations against the right to life and security of the person (ranking 57th); police abuses; due process violations; harsh conditions in correctional facilities; as well as deficiencies in the electoral process. The civil court system also obtains poor scores (ranking 12th out of 13 in the region and 56th globally), attributable to deficient enforcement mechanisms, corruption among judges and law enforcement officers, and the lengthy duration of cases. These factors may explain why few people use the court system to solve disputes. According to a general population poll of 1,000 people in Manila, Davao, and Cebu, only five percent of the

Figure 7-2. Ranking of the Philippines in the World Justice Project Rule of Law Index.



people who had a debt collection dispute went to court. Out of those people, nobody had the conflict resolved in less than a year.² The 2016 end of plan target of the Rule of Sector is to be included in the upper 50 percent of the regional ranking under the World Justice Project Rule of Law Index. Generally, the regional ranking of the Philippines relatively increased in 2011 compared to its 2010 performance as presented in the following graph:

As such, the programs laid down in the Philippine Development Plan 2011-2016 should be continually and effectively implemented. The present report is an assessment of the progress in the implementation of the programs under the Rule of Law Chapter of the PDP under the Aquino Administration.

Assessment

Strengthen the Oversight Bodies

Expand the OMB Powers. House Bill No. 00846 and Senate Bill No. 2991 which propose amendments of several provisions of RA 6770 (Ombudsman Act of 1989) are currently pending with the 15th Congress. The proposed amendments include strengthening of the Office of the Ombudsman to include the powers to examine bank accounts, and establish witness protection and benefits program. To enhance the competitiveness of the compensation and benefits of its employees, the proposed law also provides for exemption from salary standardization law, survivorship rules and special allowances for lawyers.

Pursue the Passage of a Charter of the Commission on Human Rights. Both the Senate and House have pending bills which propose a stronger Commission on Human Rights. The Senate Committee on Justice and Human Rights has already conducted technical working group meetings to discuss the proposed CHRP Charter. As of date, the Senate has reported out that Senate Bill No. 2818 which is currently under deliberation at the plenary level. On the other hand, the House version is still pending with the Committee on Appropriations (Bill in substitution of House Bill Nos. 55, 1141 and 2974

authored by Reps. Lorenzo R. Tañada III, Karlo Alexei B. Nograles and Salvador H. Escudero III, respectively). The CHR continues to push for this measure as a way to strengthen its organizational and functional structures.

Effective and Speedy Resolution of Cases to Courts and other Quasi-Judicial Bodies

Improve investigative abilities of the law enforcement agencies. In July 2011, the National Bureau of Investigation (NBI) implemented the biometrics-based clearance processing system reducing the the time frame in the application, processing, and issuance of clearances. The NBI also completed the construction of the NBI Clearance Building inside the NBI Main Office compound, which features bigger space, better ventilation and sufficient chairs. Moreover, to address the increasing demand for NBI clearance which result to long lines at the clearance centers, the NBI introduced www.nbi-online.com, an online application, payment and validation of NBI clearances.

Rules for Preliminary Investigation Reviewed and Codified. The DOJ formulated and codified the National Prosecution Service (NPS) rules to address the various concerns not only on preliminary investigation but also of appeals and petitions for review of criminal cases. This set of rules clarified gray areas, updated old and outdated provisions and included relevant matters that could help improve the processes of preliminary investigation and inquest.

Establish policy and guidelines in the determination of probable cause. The Committee on Rules of the Supreme Court, with representation from the DOJ, is looking into the possibility of raising the threshold of probable cause to reduce clogged case dockets and allow the filing of information with airtight evidence. This will prevent the filing of frivolous complaints and focus the resources of both the prosecution and courts in the litigation of more significant cases that impact greatly on the country's development.

² World Justice Project Index Report, Series of 2011, p. 29.

Strictly implement the reglementary period provided for by the rules for the resolution of cases. To shorten the period for the resolution of drug cases, the DOJ, with approval from the Office of the President, limited the automatic appeal of drugs cases to the Office of the Secretary of Justice and prohibited appeals thereof with the Office of the President. Certain disciplinary mechanisms were also developed and implemented to ensure that periods provided for the resolution of cases are enforced to avoid unnecessary delay.

Establish a case-monitoring system covering the entire justice system. With the approval of the President through the Cabinet Cluster on Good Governance and Anti-Corruption and provision of initial CY 2012 appropriations, the DOJ commenced the establishment of the National Justice Information System (NJIS) starting with multisectoral consultations, high level design and planning, and internal systems mapping. The NJIS shall provide efficient reporting and recording of incidents and cases, track and monitor cases in the justice system from end-to-end to include related events and enable improved capacities for individual and institutional performance management. Through these efforts, the justice sector agency systems shall be interconnected across several layers for enhanced, harmonized coordination to speedily share information for results.

Complete APJR projects on docket decongestion and judicial systems and procedures. On the other hand, the Supreme Court has implemented its core programs under the Action Program for Judicial Reforms (APJR) on docket decongestion and judicial systems and procedures. To dispose of unnecessary court records, the Supreme Court through Administrative Order No. 103-2011 ordered all judges and clerks of court of all 138 Regional Trial Courts, and 53 Metropolitan Trial Courts and Municipal Trial Courts in the cities of Manila, Makati, Quezon, and Angeles to make an inventory of their dockets, sort and segregate inactive case records including archived and terminated cases, and those in the dead files, to identify records for immediate destruction through recycling and those for retention, scanning, and digitization.

Mediation is likewise actively promoted as it significantly contributes to the declogging of court dockets. Arising from its success, the Philippine Judicial Academy (PhilJa), in 2011, through its Philippine Mediation Center Office (PMCO), has established eight additional Mediation Centers in the provinces of Isabela, Western Samar, Eastern Samar, Northern Samar and Southern Leyte. As of date, there are 729 accredited mediators servicing 106 CAM units, 2 ACM units, 9 JDR units and 1 MCAM all over the country. To replicate its success, the Supreme Court, through PhilJa continue to explore, seek ways and means to expand the Court-Annexed Mediation (CAM) in other parts of the country. More so, the Enhanced Justice on Wheels (EJOW) Program, the Court's centerpiece program for increasing access to justice continue to showcase the use of a mobile court bus to bring courts of justice to mobile locations/places. In 2011 alone, the EJOW made 22 stops all over the country. Since its launch in 2008, the EJOW resulted in the release of 6,470 detainees; granted free medical and dental attention to 13,385 inmates and free legal aid to 3,680; completed successful mobile court-annexed mediation of 6,970 cases; and disseminated legal information on Barangay Protection Order (BPO) under Anti-Violence against Women and their Children Act (VAWC); Diversion under the Juvenile Justice Act; Anti-Trafficking in Persons Act of 2003; and the Rules of Procedure for Small Claims Cases to 18,472 Barangay officials. And, as an offshoot of EJOW, Judgement Day was launched on January 21, 2011 in Las Pinas. It features same activities of EJOW without the mobile court bus.

It is noted that the World Justice Project Index 2011 Report claims that conflict resolution before the Philippine Courts takes more than a year. Notably in 2010, the Supreme Court implemented the Rule of Procedure for Small Claims Cases where ordinary Filipinos may, on their own and even without the assistance of a lawyer litigate money claims of PhP100,000 or less. It is inexpensive, informal, and applies simple procedure which addresses the clamor to provide speedy resolution of cases in actions before the Metropolitan Trial Courts, Municipal Trial Courts in Cities, Municipal Trial Courts and Municipal Circuit Trial Courts for payment of money where the value of the claim does not exceed PhP100,000.00, exclusive of interest

and costs. On March 18, 2010, the Supreme Court effectively rolled out and designated all 1,137 first-level courts nationwide, except Shari'a courts, to hear small claims cases. PhilJa continuously conducted seminars for judges and court personnel in the performance of their duties under the Rule, since it was first introduced in 2008. In 2011 alone, PhilJa conducted five seminar-workshops covering Regions II, V, NCJR and Luzon as well as the Visayas and Mindanao Region and six Trainings on Small Claims Case Monitoring. The Philippine Judicial Academy also conducted a SC2MS Software Training for the first level courts of the NCJR, while trainings for Regions 1 to 7 was conducted from October-December 2011. The World Bank, in recognition of the success rate of the Small Claims Court Project at 89.3 percent, rated the project as "Excellent". The Supreme Court has also established the Tourist Courts or night courts in Pasay and Makati City created under Administrative Order (AM) No. 19-2011, to expedite the resolution of cases involving tourists. The Supreme Court also ordered the continuous operation of "special drugs courts" across the country. These innovations show the interest of the Judiciary to de clog court dockets and ensure that ordinary Filipinos are heard and given access to justice.

The Court also exercised its constitutional rule making power concerning pleading, practice, and procedure in all courts by promulgating the following:

- a. AM No. 11-3-6-SC, "Amendment of Section 12, Rule 14 of the Rules of Court on Service Upon Foreign Private Juridical Entity," March 15, 2011, which expanded the scope of the service of summons to foreign private juridical entities; and
- b. AM No. 10-3-10-SC, "Rules of Procedure for Intellectual Property Rights Cases," October 18, 2011. These Rules shall be observed by the Regional Trial Courts designated as Special Commercial Courts. (SC Report, p. 13).

The Court, through its Judiciary Case Management System (JCMS) also continued to enhance the computerization of the Judiciary by rolling out the eAssessment

and eCashiering System to selected courts located in major cities, after implementing this program in Metro Manila courts in 2010. The eCashiering system simplified the payment system and consolidated all legal fees under one receipt. Through these efforts, the Supreme Court shall be able to standardize the legal fees in all system-covered courts, and alleviate the inconsistencies in collection. The other components of the JCMS include Electronic Raffling to facilitate distribution of cases across the branches of the trial courts and Case Monitoring and Tracking to organize case events showing status, schedules, statistics, reports, and other case-related activities. Currently, the JCMS is being pilot-tested in the 21 courts in Lapu-Lapu City and Pasay City, while the eAssessment and eCashiering System has been implemented in the National Capital Region, Lapu-Lapu City, Iloilo City, Baguio City, Malolos City, Cagayan de Oro City, and Davao City. The JCMS is one of the Court's judicial reform projects aimed at declogging congested dockets and helping solve delays in case management and resolution through the use of information technology. In addition, the Supreme Court Electronic Library (eLibrary) Project has been revived and updated. The eLibrary now contains, in full text searchable format, all Supreme Court decisions from 1901 to the present, including Supreme Court Circulars and Manuals. Decisions of the Supreme Court are uploaded to the eLibrary within days from their promulgation.

With support from the World Bank, the Lapu-Lapu City Hall of Justice in Cebu is now operational, while the Angeles City Hall of Justice in Pampanga is set for completion in 2012. These courthouses will serve as the standard for the construction of all future halls of justice in the country. The Court is also finalizing the completion of the PhilJa Training Facilities in Tagaytay City. The Supreme Court as the Implementing Partner to the Project "Support to Environmental Justice and Enhancing Access to the Pillars of Justice" continues to build on the strategic initiatives and gains in the previous years, with emphasis on increasing access to justice by the poor and the marginalized with the elements of gender equality, human rights, and

environment protection integrated therein. To date, it has conducted extensive capacity building on promoting environmental justice to ensure that the project can contribute to the CPAP Governance Outcome of: “The poor especially the disadvantaged women and indigenous peoples are able to exercise their human rights, engage in governance processes, empowered to have greater access to justice, and enjoy the benefits of basic services through more transparent, accountable and rights-based democratic institutions.”

Reduce the Cost of Litigation

Study the reduction of filing fees for cases. The DOJ issued Department Circular No. 25 dated April 12, 2012 terminating the imposition of filing fees for filing criminal complaints with the National Prosecution Service, resulting in decreased costs of justice.

Avoid Law Suits Involving Government Contracts

Government contracts should be consistent with international instruments, existing laws and public interest. The DOJ-Legal Staff and the Office of the Government Corporate Counsel (OGCC) provides legal services to the government and its corporations, respectively. They ensure that contracts entered into by the government are consistent with international instruments and existing laws and are not disadvantageous to the government and the general public. From July 2010 to June 2012, the DOJ-Legal Staff rendered legal opinions on 34 foreign loan agreements, and on matters with high public interest and national significance that were referred to the Justice Secretary by the Office of the President. Among these were opinions rendered on vital mass transport projects including expressways and rail systems. Likewise, the OGCC has rendered significant legal opinions for government corporations effectively protecting/upholding state interests in contracts with the private sector. These include the Northrail project, IBC-13 asset disposition, and sale of LandBank shares in MERALCO.

Review and ensure that FTA's are consistent with national laws and public interest. The DOJ-Legal Staff participates in the negotiations of Free Trade Agreements (FTAs) and acts as legal adviser on certain legal issues that arise in FTA meetings and negotiations. There are currently two ongoing negotiations, the ASEAN-India and ASEAN-Japan. However, the latter's negotiation was suspended on call of economic ministries involved. The challenge now is ensuring the effective participation of DOJ lawyers in the negotiation and review of these FTAs. Using the funds provided for this purpose, the Department will sustain the attendance and capacity building of its lawyers in FTA negotiations and implementation abroad.

Enhance the Integrity and Competence of Justices, Judges, Court Personnel and all other Officers of the Judiciary and Quasi-Judicial Bodies

Weeding out the undesirables, both from the Bench and the Bar/Continuing the Court Cleansing Initiative. Under its constitutional power of administrative supervision over all court personnel, the Court has imposed disciplinary action on 59 judges and 162 lower court personnel and 45 Supreme Court employees. For 2011, it has disbarred four lawyers and imposed disciplinary action on 140 others.

Strengthening the integrity of the Judiciary and the Integrity Development Review. Taking off from the outputs developed under the Strengthening the Integrity of the Judiciary (SIJ) Project, the Sub Committee B of the Judicial Reform Support Project (JRSP) produced the draft Rule on Whistleblowing and the Human Resource (HR) Manual of the Supreme Court. The HR Manual has been approved by the Supreme Court En Banc last January 31, 2012 (AM No. 00-6-1-SC) while the Rule is pending for review. The PhilJa also continues to develop and enhance the competencies of members of the Bench through the conduct of various seminars and workshops. The Supreme Court, on September 12, 2011, launched the revised and expanded Benchbook for Trial Courts. The Benchbook is intended as primary reference for judges to enhance their efficiency, accountability, and transparency to enable them to become great

judges. The nationwide training of judges on the effective use of the Benchbook, with funding assistance from USAID through the American Bar Association – Rule of Law Initiative (ABA-ROLI), also commenced in September 2011.

Bar Reforms were also approved and implemented in the 2011 Bar examinations. One of the reforms include the use of Multiple Choice Questions (MCQ) which resulted in the early release of the 2011 Bar exams results on February 29, 2012, a mere three months after the exams were held, with a passing percentage of 31.95 percent or 1,913 out of 5,987 examinees, the highest in this millennium. (BM No. 2265, Re: Reforms in the 2011 Bar Examinations, January 18, 2011 and BM No. 1161, Re: Proposed Reforms in the Bar Examinations, February 1, 2011)

Strictly implement agency-specific Codes of Conduct for law enforcers, prosecutors and judges. The Codes of Conduct for the National Penal System (NPS) was developed in 2010 and have been implemented. IAU for different levels have been created to enforce the provisions of the said Codes. Violation of the provisions thereof carries the corresponding sanctions.

Increase Resources for Justice Sector Agencies and Quasi-Judicial Bodies

Renew efforts to address the human capital shortage. Since July 2010, the DOJ annual budget appropriations has authorized and funded the: (a) hiring of 100 investigation agents and several key positions in the NBI; (b) creation of 100 new immigration officer positions in 2011; (c) creation of 750 prison guard positions; and (d) creation of 488 lawyer and 223 support staff positions in the Public Attorney's Office (PAO).

The OSG, for its part, trains outstanding law students from several universities nationwide through its Legal Internship Program. The 7-week program offers legal training which most private firms do not provide, aimed at imparting to future lawyers a sense of patriotism and deeper appreciation of government service. Since 2010, the program was able to admit 197 out of 691 law student intern-applicants from 10 universities nationwide. However, due to limited number of available entry level positions, there is difficulty

in recruiting more interns especially top placers in the bar exams.

In the recruitment and hiring process, the DOJ and its agencies endeavors to ensure that qualified and competent people are employed by firmly implementing policies in hiring lawyers, correction officers, and staff based on academic qualifications and performance, and exhibiting qualities of good civil servants.

Implement continued capacity building and updating of skills of law enforcers, prosecutors, public defenders, judges and correction officers. DOJ and its attached agencies continually provide capacity building trainings which include basic training for new prosecutors, investigation agents, immigration officers, correctional personnel, and subsidized mandatory continuing legal education for public attorneys and solicitors, as well as specialized trainings for agency operations. To cope with resource constraints, partnerships with donor institutions and in house trainings will continue to be maximized.

Modernize and upgrade facilities for law enforcers such as the PNP and the NBI crime laboratories, forensic investigation facilities and equipment. The city government of Cebu has provided the NBI with the site and building for a crime laboratory, with initial/partial funding from the President's Social Fund for acquisition of its equipment. This facility will augment the lone crime/forensic laboratory in Manila. The DOJ has proposed to the Cabinet Clusters and DBM the provision of funds for establishment of crime laboratories in Davao and Baguio in addition to the Manila and Cebu facilities in order to improve investigative efficiency and decrease response time and logistical costs.

Improve Access to Justice of All Sectors of Society particularly the Vulnerable Groups.

Make full use of the services of government lawyers by deputizing them. The Solicitor General is empowered to delegate his authority or otherwise deputize other government lawyers, officials or employees to assist him in the handling of cases. However, such delegation/deputation is granted sparingly and for cogent reasons, especially when venues of cases/hearings/

conferences are outside the Metro Manila or upon special request for delegation of special attorneys from government agencies. These deputations are generally confined or limited to special proceedings outside Metro Manila, like adoption, correction of entry, change of name, and cover even naturalization and land cases.

One of the constraints in deputizing lawyers is the problem of sending communications especially in provinces wherein deliveries do not arrive on time or even get lost. There is also the lack of mechanisms to verify whether the communication was received properly by the appropriate court. By 2013, the OSG aims to improve its communication procedures to ensure that copies of delegation authority are sent to OSG deputies immediately on time.

Provide tax credits for lawyers representing the IP's and other vulnerable groups. No updates

Strengthen the Katarungang Pambarangay Law to resolve cases at the local level. During the last quarter of 2010 and early 2011, the Office for Alternative Dispute Resolution (OADR) in partnership with the Asian Development Bank (ADB) and DILG, conducted pilot trainings in Luzon, Visayas and Mindanao on Restorative Justice and the Katarungang Pambarangay System. The OADR by 2013 will increase such trainings at the barangay level and put in place an assessment mechanism. The OADR will maximize its available funds to cover as many of the about 40,000 barangays nationwide.

Conduct training among judges, court personnel, prosecutors, public defenders, and other duty bearers in the justice system in handling gender sensitive cases, especially involving violence against women. The DOJ, NBI, PAO and OSG regularly conduct trainings for prosecutors, investigators and lawyers in handling cases involving women and children. These are either part of capacity building activities or dedicated specialized trainings, through the general or gender and development funds.

Promote the use of Alternative Dispute Resolution

Disseminate information on ADR. In 2012 and pursuant to RA 9285, the Office for Alternative

Dispute Resolution (OADR), an attached agency of DOJ, has initially created and launched its own website to inform the public about ADR. The website serves to ensure that knowledge on ADR is tapped by a wider reach of audience. Social networking sites also promote the activities of the OADR. The major challenge faced by the OADR is staffing constraints. To resolve the same, the OADR expects to have its proposed regular staffing complement approved by the DBM.

Strengthen and support institutions involving ADR functions. The OADR, in partnership with private and public institutions, continues to encourage and conduct ADR trainings. In 2013, the Office will prepare an extensive budget proposal and enlist assistance from funding institutions to address the financial constraint in conducting ADR trainings and information dissemination.

Strengthen DOJ-ADR. An “Accreditation and Training Standards for ADR Provider Organizations and Practitioners in the Public and Private Sector” has been developed by the OADR. This accreditation and training standards has yet to be accepted by public and private ADR providers/practitioners. For 2013, information dissemination will be conducted to educate ADR providers/practitioners on the purpose and benefits of accreditation.

Establishment of the Prosecution Level Mediation. The OADR has developed the draft Rules Governing Mediation in the NPS of the DOJ. The effectiveness of the draft rules has yet to be tested through pilot projects that will be conducted by 2013. Assistance will be provided to the NPS in obtaining funds for the subsequent roll-out.

Institutionalize Existing Justice Sector Coordinating Mechanism. The Justice Sector Coordinating Council (JSCC), composed of the SC, DOJ and the DILG serves as a mechanism to effectively coordinate and share information on the planning and implementation of shared initiatives towards better administration of justice. A Joint Declaration creating the Council was signed by the heads of the said three institutions on April 30, 2010, which contains the JSSC's guiding principles, approaches to policy making, planning and operations, together

with the JSCC's composition, functions and implementation arrangements. Its activities included the: (a) 2011 JSCC meeting held on February 22, 2011; and (b) 2011 Anti-Illegal Drugs Forum at the Philippine International Convention Center, CCP Complex, Roxas Boulevard, Pasay City on November 14, 2011. Participants in the Forum identified the issues, problems, and gaps in the enforcement, trial, judgment, execution of penalty/corrections, and rehabilitation/prevention in handling illegal drugs cases as well as formulated strategies and action plans among key agencies to solve these problems.

On the other hand, the DOJ, since 2010, initiated joint activities of the JSCC by spearheading the development of an integrated justice sector strategic road map for 2012 to 2016 together with the Judiciary, DILG agencies and the Constitutional Commissions. The DOJ has also been the focal institution of the Rule of Law Working Group in the Philippine Development Forum and the US-Philippines Partnership for Growth development grant facility. In addition, DOJ mapped the engagements of its agencies with civil society organizations for possible inclusion in the said coordinating mechanisms. The challenge now is to sustain these institutional efforts in the face of organizational turfing and political movements, towards a more coordinated and integrated approach in strengthening the justice system and rule of law in the country.

Challenges

Prosecution

Insufficient number of government lawyers.

The common constraints in recruitment and hiring are the fast turnover of lawyers, lack of takers for certain low-salary positions in those in the provinces, and inadequate positions.

Heavy reliance on LGUs for resources. Due to inadequate support personnel positions and funding from the national government, most of the prosecution offices nationwide heavily rely on local government resources, thereby undermining their independence as quasi-judicial bodies.

Case Congestion and heavy workload. Clogged dockets impair social justice, hinder economic development, and erode the public's confidence in the Justice System. Insufficient financial resources also limit the replication of Case Decongestion initiatives nationwide.

Judiciary

Despite unprecedented challenges, the Supreme Court perseveres with its mandated duty of upholding the rule of law to ensure the preservation of the people's civil liberties and democratic way of life. On May 29, 2012, Chief Justice Renato C. Corona, was found guilty by the Senate of the charge under Article II of the three Articles of Impeachment charged against him by the House of Representatives. Thereafter, Senior Associate Justice Antonio T. Carpio assumed the duties and responsibilities of the Office of the Chief Justice based on Section 12 of RA 296 - The Judiciary Act of 1948.

In a speech before the Central Luzon Regional Convention of the Integrated Bar of the Philippines (IBP) in June 29, 2012, Justice Carpio presented his personal views on judicial reforms in the Philippines and identified docket congestion as the continuing perennial problem of the Judiciary. Notably, this analysis and view was supported by numerous independent diagnostic studies that shows that the clogging of court dockets is the result of several factors, which includes: (a) the disparity between the number of retirees and the member of new appointees to replace them, the constant transfer of judges from one station to another (usually from far-flung assignments to those closer to home); (b) the damage to court houses and court records caused by typhoons and other natural calamities, etc.; (c) the dizzying pace at which statutes are passed by Congress and rules issued by regulatory bodies; (d) the increase of relatively minor cases reaching the higher courts due to the relaxation of the rules on appeal; (e) the lack or insufficiency of court houses and court facilities; and (f) the burgeoning population and the deficiency of basic resources such as office equipment, computer and the like which affect all four levels of the integrated court system in the Philippines.

Prospects and Policy Director for 2013

For 2013, Justice Sector agencies, through the JSCC, will pursue reforms for the justice system which will contribute to the accelerated realization of inclusive national development and reduced poverty through greater public trust and confidence that leads to a strengthened rule of law and improved investment climate. The reform efforts shall be demonstrated through good governance in the justice sector and a strengthened coordination and collaboration among justice sector agencies.

For the Judiciary, and as proposed by Justice Antonio Carpio in his speech earlier mentioned, the reforms include the adoption of a combination of measures to address case management, procedural, case filtering, personnel, and judge-population.

- **On Implementing a Case Management System.** The Judiciary must adopt a computerized case management system (CMS) for all courts. The model can be seen at the CMS of the Court of Appeals which was supported by the USAID. If the CMS for trial courts which is being pilot tested in Quezon City is successful, it will be deployed nationwide.
- **On Simplifying Trial Procedures for all Trial Courts.** To eliminate clogged dockets, a simplified trial procedure patterned after the four existing special rules must be adopted. These are: (a) the Revised Rule on Summary Procedure which has been implemented by first level courts in certain cases for over the past ten years; (b) the Interim Rules of Procedure Governing Intra-Corporate Controversies which have been implemented by second level courts also for over the past ten years ; (c) the Rules of Procedure for Environmental Cases adopted two years ago; and (d) the Rules of Procedure for Intellectual Property Rights Cases adopted in

2011. Sufficient jurisprudence has developed for these existing simplified trial procedures and it is high time to expand these to all civil cases. The simplified trial procedure in these four existing special rules can be combined with the Guidelines for Litigation now being pilot-tested in Quezon City Trial Courts to further simplify the trial procedures.

In criminal cases, the simplified trial procedure in the Revised Rule on Summary Procedure, which already applies to crimes where the imposable penalty is *arresto mayor* or lower, can be applied to crimes where the imposable penalty is *prision correccional*.

- **On Strengthening and Expand Court-Annexed Mediation (CAM) and Judicial Dispute Resolution (JDR).** The Judiciary must strengthen and expand CAM and JDR to filter cases and ensure that only cases that cannot be amicably settled go to trial. This means setting up more mediation units and training more judges on judicial dispute resolution.³
- **On the Assignment and Reassignment of Judges by Level of Court.** The Court should be able to assign and reassign judges within the same court level based on the caseload of courts, and the lateral advancement of judges should be pursued without the need to be nominated again by the JBC and appointed by the President. This lessens accumulation of political debt and strengthens the independence of the judges. This initiative requires the Judiciary to work for legislation that makes appointment to trial courts by level of court, and not by specific branch.⁴
- **On Addressing the High Vacancy Rate and Reengineering of Courts Distribution in relation to Population.** The JBC shall have to find ways to reduce the vacancy rates in the first and second level courts. At present, the overall vacancy rate in first and second level courts is 26 percent. This includes unfunded and unopened trial courts. This naturally contributes to clogged dockets.⁵

³ As of May 2012, out of 209,165 civil cases mediated, the success rate was 64 percent, while out of 23,979 civil cases placed under judicial dispute resolution; the success rate was 40 percent.

⁴ In the Executive branch, a bureau or regional director can simply be assigned from one station or region to another by the department head without the need of a new appointment from the President.

There is also the need to reengineer the distribution of courts in relation to population to insure an equitable distribution of, and faster disposition of cases. This requires the Court to work again for legislation.⁶

- **On strengthening integrity, independence and accountability.** The JBC must develop strategies and policies to give greater weight to decisions of applicants who seek promotion to the Judiciary. A decision can reveal whether the judge or justice knows his law, favors a litigant, or whether a judge or justice has iron-clad independence. In constitutional cases, decisions or opinions of a justice can reveal whether the justice has decisional independence vis-à-vis the executive or legislative branches.

Once a person is appointed as judge or justice, the gatekeeper function is passed to the Supreme Court which has the constitutional mandate to discipline judges and justices of lower courts. The Court should create permanent administrative tribunals to handle administrative complaints against judges and justices, instead of the current ad hoc investigative bodies. This shall expedite the resolution of administrative complaints.

- **On providing adequate infrastructure and equipment.** Adequate courthouses are necessary for the administration of justice. The Supreme Court must strengthen its strategies and mechanisms to ensure that the annual GAA shall provide a budget for programmed construction, over the succeeding decades, of more courthouses in the country. All courthouses in the country should be patterned after the model courthouses in Lapu-Lapu City and Angeles City, which were constructed with funding support from the World Bank.
- **On administration of trial courts through decentralization.** First and second level courts nationwide are administered by the Office of the Court Administrator (OCA), which is under the Supreme Court. The

OCA is centralized in Manila and there are no decentralized offices in the regions, other than the now defunct pilot Regional Court Administration Office in Region VII. The Judiciary is probably the only government agency, with extensive operations in all regions nationwide, that has not yet regionalized. The Supreme Court should further explore decentralization, learning from the lessons and experience of RCAO VII.

- **On compensation and benefits.** The Judiciary's greatest asset is its human resource. It should continue to find ways to improve the compensation package of judges, justices and its personnel, notwithstanding the gains under the Salary Standardization Law and RA 9946. The practice of LGUs providing allowances directly to judges should be discouraged since it may give rise to a conflict of interest or weakened independence on the part of the judge, particularly when the LGU or its officials have cases before these judges. To remove this conflict of interest issue, a province has decided to give a monthly lump sum to the Supreme Court, for the Court to allocate to the judges in the province. This approach should be reviewed to serve as a possible model.

The DOJ, for its part shall continue to improve the investigative abilities of its law enforcement agencies and conduct the following programs, projects and activities:

- **Enhance database of law enforcement agencies.** The DOJ also intends to establish/enhance the databases of its law enforcement and corrections agencies and interconnect with other agencies. Further as part of the NJIS project, the DOJ shall work on merging the NBI clearance system with the PNP and the derogatory information system of the Bureau of Immigration (BI).
- **Intensify Recruitment.** The DOJ also continue to enhance its recruitment to ensure that qualified and competent people are employed by firmly implementing policies

⁵ In the United States, the vacancy rate in existing federal district courts is currently at 10 percent. They are already talking of a judicial crisis in this situation.

⁶ For example, Manila with a population of 1,652,171, has 30 first level courts, or a ratio of one first level judge for every 55,072 residents.

in hiring lawyers, correction officers, and staff based on academic qualifications and performance, and exhibiting qualities of good civil servants. To address the fast turnover of lawyers, lack of takers for certain low-salary positions, and inadequate positions, the passage of proposed bills to reorganize particular agencies/offices is being pursued. Notably, staffing improvements are also proposed.

- **Capacity Buildings/Skills Updating.** The DOJ shall conduct continued capacity building and updating of skills of law enforcers, prosecutors, public defenders and judges and correction officers. Trainings should also be extended for new prosecutors, investigation agents, immigration officers, correctional personnel, subsidized mandatory continuing legal education for public attorneys and solicitors, and specialized trainings for agency operations. Partnerships with donor institutions and in-house trainings will continue to be maximized to cope with resource constraints.
- **Strengthen OADR.** To strengthen and support the institutions involving Alternative Dispute Resolution, resources to create permanent plantilla positions in the Office of the Alternative Dispute Resolution shall be provided to advocate for an expanded use of ADR to help declog case dockets. It shall also continue to enlist assistance from development partners to address the financial gap that is a major factor that prevents the OADR from fully operating as an office mandated to promote the use of ADR as a peaceful means to resolve conflicts that need not be brought to court.

Successfully opening avenues for greater, equal and inclusive access to justice is a result of empowering people to assert their basic rights and improved capacities of justice institutions to provide accessible justice services.

Annex 7-1. Weforum Pillars of Competitiveness

	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008	2006-2007
GCI Global Competitiveness Index	65	75	85	87	71	71	75
Subindex A Basic requirements	80	100	99	95	85	93	87
1st pillar: Institutions	94	117	125	113	105	95	89
1.A Public institutions	99	121	124	116	111	101	92
1.01 Property rights	74	105	99	97	92	75	67
1.02 Intellectual property protection	87	102	103	98	89	90	85
1.03 Diversion of public funds	100	127	135	122	117	116	112
1.04 Public trust in politicians	95	128	134	130	123	119	111
1.05 Irregular payments and bribes	108	119	128				
1.06 Judicial independence	99	102	111	94	83	85	78
1.07 Favoritism in decisions of government officials	87	118	131	128	117	100	97
1.08 Wastefulness of government spending	86	109	118	119	120	109	107
1.09 Burden of government regulation	108	126	126	113	109	117	106
1.10 Efficiency of legal framework in settling disputes	107	115	122	123			
1.11 Efficiency of legal framework in challenging regs.	102	118	116	109			
1.12 Transparency of government policymaking	97	120	123	104	85	69	74
1.13 Gov't services for improved business performance	51						
1.14 Business costs of terrorism	126	130	126	124	125	127	118
1.15 Business costs of crime and violence	107	112	104	96	93	84	67
1.16 Organized crime	97	102	106	102	92	95	84
1.17 Reliability of police services	100	112	105	101	98	98	88
1.B Private institutions	81	104	114	91	67	84	74
1.18 Ethical behavior of firms	87	118	129	116	102	109	90
1.19 Strength of auditing and reporting standards	41	62	75	61	46	58	55
1.20 Efficacy of corporate boards	51	52	56	62	53	57	69
1.21 Protection of minority shareholders' interests	57	84	80	77	54	51	52
1.22 Strength of investor protection, 0–10 (best)	110	111	109	100	107	109	101

	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008	2006-2007
2nd pillar: Infrastructure	98	105	104	98	92	94	88
2.A Transport infrastructure	88	104	106				
2.01 Quality of overall infrastructure	98	113	113	98	94	101	89
2.02 Quality of roads	87	100	114	104	94	91	85
2.03 Quality of railroad infrastructure	94						
2.04 Quality of port infrastructure	120	123	131	112	100	102	87
2.05 Quality of air transport infrastructure	112	115	112	100	89	82	76
2.06 Available airline seat kms/week, millions	26	28	28	28	29	30	31
2.B Electricity and telephony infrastructure	99	101	99				
2.07 Quality of electricity supply	98	104	101	87	82	80	80
2.08 Mobile telephone subscriptions/100 pop.	95	92	88	83	84	73	58
2.09 Fixed telephone lines/100 pop.	103	103	106	102	105	104	96
3rd pillar: Macroeconomic environment	36	54	68	76	53	77	81
3.01 Government budget balance, %	36	71	63	60	64	67	78
3.02 Gross national savings, %	47	70	74	83	84	79	71
3.03 Inflation, annual %	70	69	73	79			
3.04 General government debt, %	72	89	102	101	96	95	89
3.05 Country credit rating, 0–100 (best)	60	63	75				
4th pillar: Health and primary education	98	92	90	93	90	86	90
4.A Health	102	97	98	93	97	95	89
4.01 Business impact of malaria	102	101	101	101	87	85	83
4.02 Malaria cases/100,000 pop.	95	95	96	90	91	91	83
4.03 Business impact of tuberculosis	116	107	106	109	102	95	93
4.04 Tuberculosis cases/100,000 pop.	126	119	117	113	115	116	104
4.05 Business impact of HIV/AIDS	83	80	83	69	61	74	74
4.06 HIV prevalence, %	12	1	1	1	1	1	1
4.07 Infant mortality, deaths/1,000 live births	91	95	89	82	83	81	74
4.08 Life expectancy, years	102	82	84	80	89	85	78
4.B Primary education	95	95	93	91	83	79	82
4.09 Quality of primary education	86	110	99	78	72	84	
4.10 Primary education enrollment, net %	101	81	82	81	76	56	52

	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008	2006-2007
Subindex B Efficiency enhancers	61	70	78	78	68	60	60
5th pillar: Higher education and training	64	71	73	68	60	62	65
5.A Quantity of education	82	83	84	85	86	74	70
5.01 Secondary education enrollment, gross %	81	81	82	83	79	69	60
5.02 Tertiary education enrollment, gross %	76	75	76	74	72	63	59
5.B Quality of education	60	77	78	62	59	69	69
5.03 Quality of the educational system	45	61	69	50	46	54	66
5.04 Quality of math and science education	98	115	112	94	100	109	111
5.05 Quality of management schools	39	55	61	39	31	35	37
5.06 Internet access in schools	73	73	76	66	56	58	61
5.C On-the-job training	39	45	57	55	39	39	50
5.07 Availability of research and training services	62	62	77	83	51	64	77
5.08 Extent of staff training	32	34	46	38	30	31	36
6th pillar: Goods market efficiency	86	88	97	95	81	64	57
6.A Competition	112	115	121	118	108	82	60
6.01 Intensity of local competition	50	47	65	81	74	57	50
6.02 Extent of market dominance	98	117	109	108	104	107	88
6.03 Effectiveness of anti-monopoly policy	84	98	92	87	77	78	78
6.04 Extent and effect of taxation	57	52	77	68	65	57	35
6.05 Total tax rate, %	102	93	99	93	99	88	150
6.06 No. procedures to start a business	137	134	128	120	120	85	68
6.07 No. days to start a business	112	112	120	113	107	95	79
6.08 Agricultural policy costs	76	89	95	97	76	48	46
6.09 Prevalence of trade barriers	76	89	89	98	95	63	48
6.10 Trade tariffs, %	53	47	52	50	52	39	39
6.11 Prevalence of foreign ownership	66	72	104	102	98	99	100
6.12 Business impact of rules on FDI	69	89	98	97	97	92	77
6.13 Burden of customs procedures	126	128	129	117	105	98	
6.14 Imports as a percentage of GDP	97	96	92	87	71	57	53
6.B Quality of demand conditions	36	50	47	50	44	46	44
6.15 Degree of customer orientation	27	46	42	35	37	51	47
6.16 Buyer sophistication	57	56	60	73	50	52	45

	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008	2006-2007
7th pillar: Labor market efficiency	103	113	111	113	101	100	100
7.A Flexibility	118	111	110	111	100	99	93
7.01 Cooperation in labor-employer relations	38	55	56	65	71	69	86
7.02 Flexibility of wage determination	117	102	96	96	108	109	99
7.03 Hiring and firing practices	108	113	116	110	101	84	95
7.04 Redundancy costs, weeks of salary	120	118	114	109	108	107	99
7.B Efficient use of talent	88	91	94	97	86	83	85
7.05 Pay and productivity	57	76	82	74	57	39	63
7.06 Reliance on professional management	38	50	47	48	40	37	44
7.07 Brain drain	71	91	85	104	116	118	111
7.08 Women in labor force, ratio to men	109	103	104	99	86	88	85
8th pillar: Financial market development	58	71	75	93	78	77	82
8.A Efficiency	39	47	51	75	73	72	71
8.01 Availability of financial services	50	50	49				
8.02 Affordability of financial services	34	42	37				
8.03 Financing through local equity market	36	44	56	54	54	43	37
8.04 Ease of access to loans	46	52	55	88	89	81	72
8.05 Venture capital availability	62	71	75	87	77	80	79
8.B Trustworthiness and confidence	76	97	98	104	86	84	99
8.06 Soundness of banks	41	46	38	58	72	77	78
8.07 Regulation of securities exchanges	46	64	73	77	66	58	88
8.08 Legal rights index, 0–10 (best)	99	105	103	98	93	94	
9th pillar: Technological readiness	79	83	95	84	70	69	63
9.A Technological adoption	51	61	66				
9.01 Availability of latest technologies	56	62	62	57	52	58	70
9.02 Firm-level technology absorption	46	52	59	54	49	52	53
9.03 FDI and technology transfer	40	66	88	72	50	57	42
9.B ICT use	95	93	106				
9.04 Individuals using Internet, %	90	88	112	106	101	98	83
9.05 Broadband Internet subscriptions/100 pop.	91	90	84	89	96	72	70
9.06 Int'l Internet bandwidth, kb/s per user	75	81					
9.07 Mobile broadband subscriptions/100 pop.	93						

	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008	2006-2007
10th pillar: Market size	35	36	37	35	34	24	23
10.A Domestic market size	29	31	33	31	33	24	25
10.01 Domestic market size index, 1–7 (best)	29	31	33	31	33	24	25
10.B Foreign market size	40	40	43	41	40	25	23
10.02 Foreign market size index, 1–7 (best)	40	40	43	41	40	25	23
10.03 GDP (PPP)	32	33	35	35	36	24	25
10.04 Exports as a percentage of GDP	96	77	80	78	71	55	46
Subindex C Innovation and sophistication factors	64	74	75	74	67	65	62
11th pillar: Business sophistication	49	57	60	65	57	55	50
11.01 Local supplier quantity	49	52	68	75	77	60	48
11.02 Local supplier quality	68	71	70	77	64	60	56
11.03 State of cluster development	38	54	55	59	56	52	47
11.04 Nature of competitive advantage	58	74	67	59	49	82	86
11.05 Value chain breadth	66	67	59	61	47	39	36
11.06 Control of international distribution	54	47	45	64	67	70	52
11.07 Production process sophistication	64	72	86	83	77	82	82
11.08 Extent of marketing	41	40	50	58	42	38	42
11.09 Willingness to delegate authority	27	33	38	37	31	34	32
12th pillar: Innovation	94	108	111	99	76	79	83
12.01 Capacity for innovation	86	95	80	70	63	60	67
12.02 Quality of scientific research institutions	102	106	108	102	86	85	79
12.03 Company spending on R&D	58	85	85	61	47	53	57
12.04 University-industry collaboration in R&D	79	83	85	89	63	67	73
12.05 Gov't purchase of advanced tech products	107	126	129	119	110	100	90
12.06 Availability of scientists and engineers	91	97	96	95	92	95	83
12.07 PCT patents, applications/million pop.	83						
0.01 GDP (US\$ billions)	47	47	49	47	46		
0.02 Population (millions)	12	12	12	12	13		
0.03 GDP per capita (US\$)	105	105	103	98	97		
0.04 GDP (PPP)	32	33	35	35	36		

Annex 7-2. Results Matrix: Chapter 7. Governance And Rule Of Law

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
Government justly serves rich and poor	Low trust in government officials and agencies, particularly for former President Arroyo March 2010 ex-Pres. Arroyo approval rating is 14 percent	Improved public trust and approval	High trust in President and other officials by ordinary families and corporations Aug. 20 to Sept. 2, 2011 Pres. Aquino approval rating is 77 percent and trust rating is 75 percent		Improved public trust and approval	As of September 2012, surveys of Pulse Asia and Social Weather Stations show unprecedented high trust and approval ratings of President and government agencies from both ordinary families and corporations September 2012 approval rating is 77 percent and a trust rating of 75 percent.		Continuing high trust in President and other officials by corporations and ordinary families

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
	Independent governance evaluations like the WeForum's Competitiveness Index, World Bank's Governance Index and Ease of Business Index, Heritage Foundation-WSJ Index of Economic Freedom, and Standard & Poor's Sovereign Rating show bad governance results under former President Arroyo	Improved independent evaluation results on Philippine governance	2010-2011 Governance ranking: Control of corruption 23.0; Rule of law 34.6; Regulatory quality 44.0; Govt effectiveness 51.2; Political stability 8.0; Voice & accountability 48.3			Independent governance evaluations like the WeForum's Competitiveness Index, World Bank's Governance Index and Ease of Business Index, Heritage Foundation-WSJ Index of Economic Freedom, and Standard & Poor's Sovereign Rating show strong governance improvements under President Aquino		Steady improvements in independent external ratings of the quality of Philippine governance
	2009-2010 WB Governance ranking: Control of corruption 23.0; Rule of law 36.0; Regulatory quality 50.2; Govt effectiveness 50.7; Political stability 7.1; Voice & accountability 48.3		Heritage Foundation and Wall Street Journal, Index of Economic Freedom, 2011 rating, 56.2, 115th			2011-2012 ranking: Control of corruption 22.7; Rule of law 34.7; Regulatory quality 43.6; Govt effectiveness 55.9; Political stability 9.0; Voice & accountability 48.8		
	World Bank Ease of Doing Business 2009-2010 ranking: 144th of 183 nations					World Bank Ease of Doing Business 2011-2012 ranking: 136th of 183 nations		
	Heritage Foundation and Wall Street Journal, Index of Economic Freedom, 2010 rating, 56.3, 109th of 174					Heritage Foundation and Wall Street Journal, Index of Economic Freedom, 2012 rating, 57.1, 107th		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
	The Civil Service Commission (CSC) is assisting agencies in their compliance with the Anti-Red Tape Act (ARTA) of 2007 and conducting the ARTA Report Card Survey (RCS) to enhance the efficiency and transparency of frontline services.		The CSC also gave more emphasis on providing a more honest reporting of the true state of Philippine public services. From 2010-2012, 937 National Government Agencies (NGAs) branches, State Universities and Colleges (SUCs), Government-Owned and Controlled Corporations, LGUs and Local Water Districts have been subjected to the ARTA RCS. Of those agencies surveyed, 253 garnered Failed ratings. Agencies which failed are assisted by the CS through its Service Delivery Excellence Program (SDEP).			Nonetheless, the following summary table shows that a good number of subnational agencies were able to make a good account of themselves during the same period with ratings ranging from Acceptable to Excellent. Eleven government bodies received the Citizen's Satisfaction Center Seal of Excellence Award (CSC-SEA) in 2010. Another 12 and six awardees, for 2011 and early months of 2012, respectively, received the same award.		
	Under the ZBB approach to budgeting, government departments will identify what programs needs to be continued or scrapped instead of merely providing a budget that is incrementally bigger than the previous year.		Implementation of the zero-based budgeting (ZBB) approach in 2011 as a tool to focus fiscal resources on core programs and projects, and the ISO 9001:2008 Quality Management System (QMS) to standardize public service quality.					

FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
		<p>The Government Manpower Information System (GMIS) of DBM is being upgraded to capture the Philippine Government's complete manpower roster. Past payroll systems included very dead employees as well as ghosts. The defective system did not include the military, police, Congress and the Judiciary.</p>					<p>Once completed, the GMIS will become the National Paymaster System (NPS). Through the NPS, the BTr can directly control and pay personnel compensation and benefits -- the largest component of the budget.</p>
		<p>To promote transparency in the government service, the DBM launched in 2011 the Electronic Transparency and Accountability Initiative for Lump Sum Funds (eTAILS). The eTAILS aims to facilitate the budget execution and accountability tracking of selected lump-sum appropriations, specifically, those related to Congressional Initiatives and IRA Allocations, including the DepEd School Building Program.</p>			<p>Through this system, the list of projects funded by these lump-sum funds is posted on the DBM website, together with the date of release of these projects.</p>		<p>All lump-sum funds are publicly monitored if not converted to regular projectized funds</p>

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
Looting of public offices stopped	Billions of pesos lost to plundering and costly legal loopholes	Reduced corruption activities in the government (No big-time crime is forgotten or forgiven)	Big fish looters are being tried		Reduced corruption activities in the government (No big-time crime is forgotten or forgiven)	<p>A Chief Justice was impeached, and a former President is being tried for plunder and election cheating cases. Other former government officials involved in headline scams and big-time looting were convicted or undergoing graft and corruption trials</p> <p>Chief Justice Renato Corona was convicted and removed from office by the Senate Impeachment Court for betrayal of public trust and culpable violation of the Constitution, specifically for dishonesty and failure to lawfully disclose his assets. He was the first Philippine government official to be convicted, with a vote of 20-3, by an impeachment court.</p>		Majority of over 1,700 corruption cases as of December 2011 are closed in favor of the public

FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
		An impeachment case was filed against former Ombudsman Mercedes Gutierrez for alleged betrayal of public trust in connection with the complaints against the public officials and employees implicated in the fertilizer fund scam, Euro Generals scandal, Mega-Pacific deal and NBN-ZTE deal, among others. Supreme Court			The DOJ constituted teams of officials, prosecutors and/or lawyers to investigate alleged anomalies and corruption cases involving high profile government officials. A joint investigation was conducted by the DOJ-COMELEC panel on the alleged electoral sabotage committed by former President Arroyo, former COMELEC Chair Benjamin Abalos and other COMELEC officials. Upon resolution, an electoral sabotage case was filed against them with no bail recommended. While on currently trial, the former President and former COMELEC Chair are currently detained. Plunder cases were also recommended to the Ombudsman against AFP generals relative to the testimony of whistleblower George Rabusa.		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
						<p>The Directors of NBI and BUCOR together with other officials were expeditiously and thoroughly investigated. In 2011 and 2012, at least two prosecutors were penalized by the Ombudsman for dishonesty and grave misconduct. Also, a government corporate lawyer was investigated and dismissed from the service for grave misconduct and gross neglect of duty, among other violations.</p>		
						<p>Plunder and graft charges were filed before the OMB against former PAGCOR officials, including Chairman Efraim Genuino, in relation to the excessively priced coffee products that were sold in at least five Casino Filipino branches during the term of the previous administration.</p>		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
						The Ombudsman filed with the Sandiganbayan in June 2012 a graft case against former PNP Director General Jesus Verzosa, other PNP officers and personnel, and private individuals, including former First Gentleman Jose Miguel Arroyo for their alleged roles in the controversial procurement of PNP helicopters. Fourteen PNP officials and personnel have been dismissed from the service, and six were suspended for six months without pay, for their involvement in the said transaction.		
	COA Malversation Cases It has also rendered 1,104 decisions in 2010,		COA was able to file 69 malversation cases with the OMB and other Courts in 2010, 182 in 2011 rendered 2,533 decisions in 2011 It was also able to settle disallowances on various government transactions amounting to Php 2.4 billion in CY 2011			and 46 in the first quarter of 2012. and 415 cases in the first quarter of 2012. Disallowances of Php219 million in the first quarter of 2012		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
	The Run after the Smugglers (RATS)					<p>The Run after the Smugglers (RATS) dragnet has also been effective. Eighty-six cases have been filed under this Administration against suspected smugglers, including officers and brokers of oil industry players. Estimated dutiable value amounts to around PhP52 billion, while duties and taxes amount to around PhP25.9 billion.</p>		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
	Revenue Integrity Protection Service (RIPS)					Under this Administration, the Revenue Integrity Protection Service (RIPS) led to 42 cases being filed with the Office of the Ombudsman and 2 cases filed with the Civil Service Commission against suspected corrupt collection officials and employees. This is already more than half the 74 cases filed in more than six years (May 2003 to December 2009) under the previous Administration.		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
	Run after Tax Evaders (RATE)					Through the Run after Tax Evaders (RATE), 115 tax evasion cases have been filed by the BIR before the DOJ, with an estimated total tax liability of PhP40.2 billion, compared to the 127 cases filed in five years during the previous Administration (from 2005 to March 2010)		
	National Justice Information System (NJIS) is envisioned to provide efficient reporting and recording of incidents and cases, track and monitor cases in the justice system from end-to-end to include related events and enable improved capacities for individual and institutional performance management.		The DOJ has commenced the establishment of the National Justice Information System (NJIS) starting with multi-sectoral consultations, high level design and planning, and internal systems mapping in order to implement the case tracking monitoring system.					

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
Public services cost no more than comparable private services	Billions of pesos lost to inefficiencies and clueless work	Established cost-saving government program & projects	Billions of pesos saved through efficiencies in scale, scope and synergies		Established cost-saving government program & projects	<p>An integral part of the PDP, the "Public Sector HRD Plan" will enable the government to realize the Aquino administration vision to transform and professionalize the bureaucracy. Hence, the National Government Career Executive Service Development Program (NGCESDP) was revived this year with a budget of PhP 45 million for the DAP. The NGCESDP will train non-CESOs and non-CES eligibles occupying CESO or third level position (CESB concern) and high-performing or high-potential middle managers in the Second Level .</p>		Quality to price ratios of public services begin to be comparable to developed countries

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
			<p>Key reforms in professionalizing the bureaucracy such as the Results-Based Performance Management System (RBPMS) and Performance-Based Bonus (PBB) are in their pilot stages. Administrative Order (AO) No. 25 (s. 2011) seeks to establish a unified and integrated RBPMS across all departments and agencies within the Executive Branch of Government, incorporating common-set performance scorecards, and creating an accurate, accessible, and up-to-date government-wide, sectoral, and organizational performance information system, which shall be used as basis for determining entitlement to performance-based allowances, incentives, or compensation of government personnel.</p>					

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
						<p>The PBB is being crafted to drive higher performance and accountability in the public sector by conferring adequate recognition and granting additional compensation to government employees based on performance results. Other performance-enhancing programs like the Citizens' Feedback and Public Financial Management and the Citizen Satisfaction Index System (CSIS) are still being developed. Shared information systems that accelerate and make more accurate government-wide information were started during the review period.</p>		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
			Another large project is the Tax Administration Computerization Project (TACP)			Another large project is the Tax Administration Computerization Project (TACP) which will cost at least PhP1.5 billion from 2011-2012. This project is essential in improving tax collections and taxpayer services.		
	Philippine Government Electronic Procurement System (PhilGEPS)					The Philippine Government Electronic Procurement System (PhilGEPS) will continue to be developed to provide additional functionalities such as electronic payment, electronic submission of bids, and the electronic tender of government procurement.		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
			<p>Implementation of the zero-based budgeting (ZBB) approach in 2011 as a tool to focus fiscal resources on core programs and projects, and the ISO 9001:2008 Quality Management System (QMS) to standardize public service quality. Under the ZBB approach to budgeting, government departments will identify what programs needs to be continued or scrapped instead of merely providing a budget that is incrementally bigger than the previous year.</p>					

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION ⁴	2016
						<p>The GIFMIS seeks to integrate, make consistent, and reduce errors in the financial management processes and databases of the DBM, DOF-BTr and COA. It will require about a billion pesos. Key projects of the Information and Communications Technology Office of the Department of Science and Technology (DoST-ICTO) will support GIFMIS, such as the National Public Key Infrastructure (PKI) system. The PKI is required for secure and legally-binding Internet-based financial transactions. It is complemented by the e-Serbisyo, a web-based gateway providing convenient access to government information and services; and the e-Bayad's online mode of government electronic payment.</p>		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
True public participation in governance when and where it matters	Public participation mostly for Kodakan or photo-ops purposes	Ensured citizens' access to information and participation in governance	Billion-peso piloting of direct CSO participation in planning, budgeting and purchasing		Ensured citizens' access to information and participation in governance	The administration submitted a proposed draft of the FOI Bill to the House of Representatives on February 3, 2012. The proposed bill mandates the publication and posting of relevant information, and the translation of key information into major Filipino languages. In substitution of House Bill (HB) 53, 11, 29, 59, 86, 133, 301, 830, 1773, 1968, 2128 and 2969, the Bill is pending with the Committee on Public Information in the House of Representatives while the same is pending on second reading in the Senate as Senate Bill (SB) No. 3208 per Committee Report No. 156.		All phases of government service which finance services to both rich and poor are openly evaluated and jointly monitored with CSOs

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
	Transparency Seal for national government agencies, the Full Disclosure Policy for LGUs,					The government has put in place measures to facilitate public access to information such as the Transparency Seal for national government agencies, the Full Disclosure Policy for LGUs, and the development of the Official Gazette as the main information portal of the government.		
						The Judicial and Bar Council recently approved the deletion of the second and third paragraphs of Section 5 of JBC-Rule 10, thereby allowing live media coverage of interviews of candidates applying for judicial positions in appellate courts, Ombudsman, Deputy Ombudsmen, Special Prosecutor, and Chairperson and Members of the Legal Education Board.		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
	The implementation of mandatory publication of agency budgets through the Internet has been mandated in the 2011 and 2012 General Appropriations Act.		<p>All agencies are required to maintain a Transparency Seal on their websites, which provide link to the following information: (a) The agency's mandates and functions of its officials with their position and designation; (b) Annual reports, as required under National Budget Circular Nos. 507 and 507-A dated Jan. 31, 2007 and June 12, 2007, respectively for the last three years; (c) Approved budgets and corresponding targets; (d) Major programs and projects categorized in accordance with the five key results areas under EO 43 s.2011; (e) Programs/projects beneficiaries as identified in the applicable special provisions; (f) Status of implementation and program/project evaluation and/or assessment reports; and (g) Annual procurement plan, contracts awarded, and the name of contractors/suppliers/consultants.</p>					

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
						<p>To promote transparency in the government service, the DBM launched in 2011 the Electronic Transparency and Accountability Initiative for Lump Sum Funds (eTAILS). The eTAILS aims to facilitate the budget execution and accountability tracking of selected lump-sum appropriations, specifically, those related to Congressional Initiatives and IRA Allocations, including the DepEd School Building Program. Through this system, the list of projects funded by these lump-sum funds is posted on the DBM website, together with the date of release of these projects.</p>		




	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
						The Priority Development Assistance Fund was made transparent and posted on the DBM website in 2011. The Internal Revenue Allotment for local government units were posted in 2012. Within the year, the school building program will also be included in eTAILS.		
	At the local government level, the DILG implemented the Full Disclosure Policy requiring LGUs to fully disclose pertinent financial information to keep constituents informed of how the LGU budget is managed, disbursed and used.					Ninety-nine percent of provinces, cities and municipalities ^[1] were compliant while 58 percent of the barangays complied with the Policy as of June 2012. Show cause orders were issued to LGUs that failed to do so, and they may be sanctioned if their explanation proves to be inadequate. LGUs in the ARMM, such as the provinces of Basilan, Lanao del Sur, Maguindanao and Tawi-Tawi and the municipalities of Calanogas, Malabang and Wao (Lanao del Sur); Parang (Sultan Kudarat); Sultan Mastura, Talitay and Upi (Maguindanao) and Parang (Sulu), complied with the Policy, proving that good governance is possible in the region.		






















FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
					With respect to the CSOs' participation, the number of government agencies which conducted budget consultations with them increased from 6 NGAs and 3 GOCCs for the 2012 budget preparation to 12 NGAs and 6 GOCCs for the 2013 budget preparation. During the latter exercise, 773 CSOs were consulted and 161 CSOs forged Budget Partnership Agreements with government agencies.		
Empowerment Fund		Full citizen participation in budgeting is the next big thing. To further enable the CSOs to participate meaningfully in governance, an Empowerment Fund has been established to support LGUs in engaging the CSOs in Bottom-up Budgeting and Planning and in other participatory mechanisms. The pilot stage of Bottom-Up Budgeting saw 609 of the poorest municipalities coming up with Php 8.37 billion for possible inclusion in the national budget for 2013			. They proposed anti-poverty interventions such as agriculture and fisheries support, potable water supply, public healthcare, and basic education. The DBM reported that fourteen agencies have signed Budget Partnership Agreements (BPAs) with various CSOs. Another two had CSO consultations even without signed BPAs. Eleven agencies, including two GOCCs participated in the bottom-up budgeting initiative.		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
						Participatory budget preparation continues to be required for line agencies like the DepEd, DoH, DSWD, DPWH, DA and DAR, as well as the National Food Authority (NFA), National Housing Authority (NHA) and the National Home Mortgage and Finance Corporation (NHMFC). These agencies are required to partner with CSOs to come up with practical programs that work as advertised.		

	FY 2010 Baseline	FY 2011 Target	FY 2011 Results	% DEVIATION	FY 2012 Target	FY 2012 Results	% DEVIATION4	2016
Quality of LGU services meet or exceed national standards	Services, particularly corporate-type services, were not uniformly well administered	Improved local governance	Improvements in the state of local administrative, economic and social governance The government is carrying out the Bottom-Up Budgeting and Planning, Performance Challenge Fund (PCF) and Seal of Good Housekeeping (SGH) interventions. The PCF is a facility envisioned to help stimulate local governments to put premium on transparency and accountability, and to enable them to avail themselves of financial support to jumpstart and sustain local socio-economic development initiatives supportive of national government goals and priorities.		Improved local governance	About Php 750 million was set aside in 2012 for the PCF. This amount will be used to augment the resources of at least 516 LGUs with Seals of Good Housekeeping in various areas of good governance. The SGH reflects the kind of leadership and quality of public service that LGUs possess and embody when dealing with their official transactions. The initiative was launched by the late DILG Secretary Jesse Robredo for the improvement of LGUs all over the country.		Steady improvements in quality of public services for all classes of LGUs
	Local Government Capacity Building Program					Several billion pesos were devoted to the Local Government Capacity Building Program of the DILG. Over 1,700 LGUs are receiving technical assistance in public financial management, risk management, and mapping.		

Annex 7-3.LGPMS National Performance Trend, CYs 2009-2011

Adjusted Performance Scale	
	Increasing Performance. Performance Index consistently increasing from 2009 to 2011.
	Skewed Performance. Performance index has no pattern. It may decrease at one point or increase at another point.
	Decreasing Performance. Performance index consistently decreasing from 2009 to 2011.

Performance Area	2009 Nat'l. Ave.	2010 Nat'l. Ave.	2011 Nat'l. Ave.	Trend	Ave., 3 Years
Overall Performance Index	4.19	4.22	4.31		4.24
<i>I. Administrative Governance</i>					
Local Legislation	3.66	3.69	3.81		3.72
Development Planning	4.47	4.50	4.58		4.52
Revenue Generation	3.69	3.66	3.70		3.68
Resource Allocation and Utilization	4.07	4.17	3.61		3.95
Customer Service – Civil Applications	4.50	4.55	4.60		4.55
HRMD	4.68	4.68	4.75		4.70
<i>II. Social Governance</i>					
Health Services	4.69	4.68	4.72		4.70
Support to Education Services	4.24	4.30	4.41		4.32
Support to Housing and Basic Utilities	3.45	3.75	4.00		3.73
Peace, Security and Disaster Risk Mgt'	4.33	4.31	4.41		4.35
<i>III. Economic Governance</i>					
Support to Agriculture Sector	3.96	3.99	4.15		4.03
Support to Fishery Services	3.71	3.75	3.92		3.79
Entrepreneurship, Business and Industry Promotion	3.74	3.74	3.95		3.81
<i>IV. Environmental Governance</i>					
Forest Management	4.46	4.47	4.66		4.53
Freshwater Mgt'	4.39	4.42	4.50		4.44
Coastal Management	4.61	4.53	4.74		4.63
Urban Ecosystems Management	3.79	3.83	3.97		3.86
<i>V. Valuing Fundamentals of Good Governance</i>					
Participation	41.9	4.23	4.34		4.25
Transparency	4.42	4.41	4.59		4.47
Financial Accountability	4.52	4.53	4.59		4.55

Chapter 8. Social Development

Government spending for the social sector increased from 2010 to 2011. With a real GDP share of 5.0 in 2010, it went up to 6.0 percent in 2011. This is expected to increase to 6.1 percent of GDP by the end of 2012. Real per capita spending for the sector improved from PhP3,086 in 2010 to PhP3,765 in 2011, and further increased to PhP3,955 in 2012. This increase in government spending resulted in improved access to quality social services and protection.

Anchored on the government's strategy to reduce poverty and empower the poor and vulnerable, this increase in government spending resulted in higher enrolment rates in the National Health Insurance Program (NHIP), and in all levels of education from kindergarten to tertiary, more than doubled the housing production of the Community Mortgage Program (CMP) and the National Housing Authority (NHA), and exceeded the target coverage of the Pantawid Pamilyang Pilipino Program.

In general, the challenges of the sector remain on improving access and quality of social services and protection. Specific challenges include sustaining enrolment of the poor and informal sector with social health insurance, improving maternal health, halting the increasing number of new HIV and AIDS cases, enhancing the quality of basic education, providing decent affordable housing to informal settler families (ISFs), sustaining benefits gained under the Pantawid Pamilya, and fast tracking the land acquisition and distribution under the Comprehensive Agrarian Reform Program Extension with Reforms (CARPER).

Assessment

Health, Nutrition and Population

The health sector's performance is anchored on the Universal Health Care (UHC) or *Kalusugan Pangkalahatan* (KP). This is the Aquino Administration's health agenda to ensure that all Filipinos, especially the poor, are able to have access to a reasonable level of health services at minimal cost by being enrolled in the NHIP; cared for in modern health care facilities; and prevented from falling ill by using public health services to improve health outcomes and attain health-related Millennium Development Goals (MDGs).

Expanding the NHIP coverage and benefit delivery

The NHIP enrolment¹ expanded from 69.9 million Filipinos (74.0% of the total population) in 2010 to 78.4 million (82.0%) in 2011. This further increased to around 81.6 million (85.0%) in May 2012. Under its Sponsored Program (SP), 38.4 million Filipinos were registered in 2011 which is 74.0 percent higher than the 22.1 million registered Filipinos in 2010. This likewise increased to 39.7 million in May 2012. The 5.2 million poor families identified under the National Household Targeting System-Poverty Reduction (NHTS-PR) had all been enrolled in the program through full national government subsidy.

¹ Registration of Filipinos aged 21 years old and above wherein members receive Philhealth ID containing the member's Personal Identification Number (PIN) (member should have only one PIN), name, picture and signature; and Member Data Record (MDR) containing the member's name, address and legal dependents (spouse if married, children below 21 y/o, or parents 60 y/o and above) as listed in the database.

² This payment scheme applies a fixed payment rate in 11 medical and 12 surgical cases (PHIC Circular No. 011-2011).

In September 2011, the new case rate² took effect in all accredited providers which covers all types of membership. Likewise, Philippine Health Insurance Corporation (Philhealth) implemented in September 2011 the no-balance-billing (NBB) policy for SP members wherein no other fees or expenses are charged or paid by the patient-member over and beyond the packaged rates. Relative to this, a total of PhP35 billion benefit payment was made in 2011 which is 16 percent higher than the PhP30.513 billion benefit payment in 2010.

To broaden the NHIP coverage³ and service, PhilHealth CARES (Customer Assistance Relations and Empowerment Staff) was launched in May 2012 to deploy and assign PhilHealth information officers in hospitals. The implementation of the Case Type Z Benefit Package (catastrophic care package) was also started in June 2012. It intends to provide substantial assistance to any member who contracts illnesses such as acute lymphocytic leukemia in children, early stage breast cancer, low to intermediate prostate cancer, and end stage renal disease requiring kidney transplant.

Improving access to quality health care facilities

In recognition of the Department of Health's (DOH) experience in exploring partnerships with the private sector to upgrade and modernize the DOH hospitals, the United Nations Economic Council for Europe has designated the Philippines as the site of its International Specialist Center for Public-Private Partnerships (PPP) in Health. In 2011, the Center for Excellence on PPPs for Health was established by DOH to oversee 30 PPPs that are scheduled for the coming years. Most of these projects aim to modernize the health infrastructure and improve the services of DOH hospitals. Two of these are the Modernization of the Philippine Orthopedic Center which has already been approved by the NEDA Board and the Vaccine Self-Sufficiency Project II which is still pending for approval.

On health facility improvement, from 2010 until June 2012, a total of 2,968 health facility projects are ongoing or have been completed (776 barangay health stations (BHS), 1,380 rural health units (RHUs); 812 hospitals). (Health infrastructure accomplishments are detailed in *Chapter 5: Accelerating Infrastructure Development*).

In order to increase access to quality drugs, the DOH introduced in 2011 the Complete Treatment Packages (ComPacks) to poor families in 1,020 municipalities covered by the *Pantawid Pamilya*. It is a nationwide free drug access program wherein identified municipalities were granted free medicines package (24 complete treatment regimens for the most common diseases in the country) for dispensing to sick members of the poorest families through their RHUs.

To address human resources for health, the RNHeals (Registered Nurses for Health Enhancement and Local Service) Project deployed a total of 20,801 nurses including 1,000 midwives in 2011. For 2012, 10,000 nurses were trained and deployed in 1,496 municipalities and 138 cities, including the *Pantawid Pamilya* areas and the focus municipalities identified by the National Anti-Poverty Commission (NAPC). The RNHeals is a learning and deployment project designed to mobilize registered nurses in the identified priority areas to improve the delivery of health care services.

Attaining the health-related MDGs

Of the eighth MDGs, four are geared toward improving health outcomes.

On eradicating extreme poverty and hunger (MDG1), the proportion of households with per capita intake below the 100 percent dietary energy requirement was 66.9 percent as of 2008. The prevalence of underweight children under five years of age decreased from 20.6 percent in 2008 to 20.2 percent in 2011 based on the 2011 National Nutrition Survey (NNS) Updates. However, the target prevalence for underweight was not met. The slight decrease in prevalence can be attributed to several factors such as long

3 Coverage does not stop at enrolling or registering families in Philhealth, they have to be informed and guided on the benefits and entitlements they can avail of along with the on-time payment of premiums and regular updating of records. Further, families should be able to access quality health care in accredited health centers and hospitals.

exposure to hunger and malnutrition due to either natural disasters, weak access to health services and unstable economic condition.

On reducing child mortality (MDG 4), the 2011 Family Health Survey (FHS) revealed improvements in the under-five mortality rate (U5MR) and infant mortality rate (IMR). From 34 per 1,000 livebirths in 2008, the U5MR decreased to 30 per 1,000 livebirths in 2011. From 25 per 1,000 livebirths in 2008, the IMR decreased to 22 per 1,000 livebirths in 2011. These are beyond the Philippine Development Plan (PDP) U5MR and IMR targets of 31.6 and 23 per 1,000 livebirths, respectively. These results likewise prove the high probability of achieving the 2015 MDG targets of 26.7 U5MR and 19 IMR. To reduce the number of children susceptible to measles and to prevent outbreaks, a nationwide door-to-door Measles-Rubella Supplemental Immunization Activity was conducted from April to May 2011 where 84 percent of the targeted population benefited from this program. Based on the 2011 FHS, child vaccination coverage increased to 85 percent in 2011 from 80 percent in 2008. Immunization is one of the health conditionalities for the *Pantawid Pamilya* of the Department of Social Welfare and Development (DSWD).

On improving maternal health (MDG 5), the maternal mortality ratio (MMR) in 2006 was 162 per 100,000 livebirths. Based on a study conducted in 2010, it was estimated at 95-163 deaths. It however increased to 221 per 100,000 livebirths in 2011, but the difference may not be statistically significant. It indicates that the country is not on track in meeting the MDG target on maternal mortality ratio despite the increase in the percentage of deliveries in health facilities from 44.2 percent in 2008 to 55.2 percent in 2011, and an increase in percentage of pregnant women with at least four antenatal care visits from 77 percent in 2008 to 78 percent in 2011.

Adolescent fertility also increased; the percentage who had begun childbearing rose to 10 percent in 2011 from 6 percent in 2006. The total fertility rate (TFR), on the other hand, slightly decreased from 3.2 in 2006 to 3.1 in 2011. This may be attributed to changes in family planning practices -- from traditional to modern FP methods as

well as programs initiated and instituted within the period. With the very limited government support for family planning program for the past six years, the contraceptive prevalence rate (CPR) even decreased from 51 percent in 2006 to 48.9 percent in 2011. The birth delivery assistance by health professionals go as high as 91.5 percent in the National Capital Region (NCR) to as low as 31.9 percent in the Autonomous Region in Muslim Mindanao (ARMM). The same is seen in the delivery in health facilities from as high as 77.4 percent in NCR to as low as 19.2 percent in ARMM.

On combating HIV and AIDS, malaria and other diseases (MDG 6), the achievement of the targets for HIV and AIDS, and malaria remained on track. Malaria mortality rate remained at 0.03 percent while its morbidity rate per 100,000 decreased from 22 in 2009 to 9.5 in 2011. The reduction of malaria morbidity was due to factors such as the following: (a) stratification of malaria endemic areas to provide focus in prioritization of intervention; (b) intensified vector control interventions to meet our universal access to provision of long – lasting insecticide nets, indoor – residual – spraying of houses in endemic areas; and (c) mobilization of volunteer microscopists to remote areas to provide early diagnosis and prompt treatment. Diagnosis and treatment are provided for free to suspected and diagnosed patients.

While the HIV and AIDS prevalence remained within the target of below one percent of the total population, the number of HIV cases continued to increased annually particularly among the most-at-risk populations (MARPs). In June 2012, bulk of the new HIV cases came from NCR, Regions 4A, 7, 3, and 11. The three highest reporting regions were NCR, Regions 4A, and 7. From 100 to 174 new HIV cases per month in 2010, this increased from 152 to 268 in 2011 and from 212 to 313 in 2012. This is due to very low program coverage of providing focused education and counselling for the key populations at higher risk because of insufficient funding, as well as difficulty in reaching the populations like males having sex with males (MSMs) and people who inject drugs (PWIDs). The tuberculosis (TB) case detection rate slightly increased to 75 percent, while the TB cure rate increased from 79 percent in 2008 to 85 percent in 2011. The TB

Table 8-1. Health, Nutrition and Population Actual Accomplishments, 2011-2012

KEY INDICATOR	BASELINE		ACTUAL		END OF PLAN TARGET
	YEAR	VALUE	2011	2012	2016
National Health Insurance Program enrolment rate increased (in %)	2010	74	82.0	85.0 (as of May)	100.0
Prevalence of underweight children under five years of age decreased (in %)	2008	20.6	20.2	NA	12.7
Underfive mortality rate (per 1,000 livebirths) decreased	2008	34	30	NA	25.5
Infant mortality rate (per 1,000 livebirths) decreased	2008	25	22	NA	17
Maternal mortality ratio (per 100,000 livebirths) decreased	2010	95-163	221	NA	50
Total fertility rate	2006	6.0	10.0	NA	NA
Contraceptive prevalence rate	2006	51.0	48.9	NA	NA
Malaria mortality rate (deaths per 100,000 population) decreased	2009	0.03	0.03	NA	<.03
Malaria morbidity rate (cases per 100,000 population) decreased	2009	22	9.5	NA	4
HIV Prevalence maintained (in %)	2009	<1%	<1%	NA	<1%
TB case detection rate (all forms) increased (in %)	2008	73	75.0	NA	85.0
TB cure rate (New Sm+) increased (in %)	2008	79	85.0	NA	85.0

Sources: DOH, NNC, POPCOM, PHIC, NSCB,
NA - not available

case detection rate is still below the target of 79 percent since it has still limited coverage for other high risk population such as children, urban poor, indigenous peoples, and prisoners.

In terms of dengue, cases declined from 9,146 in June 2010 to 7,733 cases in May 2012. It however increased to 10,258 in June 2012. Most of the cases were from NCR (23.1%), and Regions 3 (15.06%) and 4A (13.3%). To reinforce the country's drive against dengue, public schools, churches, public markets, and communities were mobilized to conduct search-and-destroy activities in their areas.

To assist families with their health needs, provide them with necessary health information, and facilitate their linkages with appropriate health providers, the DOH trained a total of 26,658

CHTs by the end of 2011, and deployed 51,790 CHT members in the early part of 2012.

Education, Training and Culture

The performance of the subsector generally showed improvements towards improving access to quality basic education, expanding and making relevant the technical vocational education and training, investing in higher education, and enriching the culture, arts and sports.

Improving access to quality basic education

A significant milestone of the subsector is the massive reform in the curriculum and structure through the Kindergarten to 12 Years Basic Education Program (K to 12). The mandatory implementation of universal kindergarten

started in School Year (SY) 2011-2012 while the K to 12 curricula for Grade 1 and Grade 7 (1st year high school) was implemented in SY 2012-2013. The mandatory implementation of universal kindergarten significantly increased the kindergarten net enrolment rate from 54.6 percent in 2010 to 77.5 percent in 2011 which surpassed the PDP target of 58.6 percent. In January 2012, kindergarten was institutionalized through the enactment of Republic Act (RA) No. 10157 or Kindergarten Act of 2012.

In terms of other key performance indicators, the elementary net enrolment rate (NER) posted continuous but modest improvement from 89.9 percent in 2010 to 91.2 percent in 2011. The secondary NER minimally increased from 61.3 percent to 62.00 percent during the same period. The elementary NER figure was able to meet the 90.1 percent PDP 2011 target but not for the secondary level target of 65.2. Decreases were noted in the cohort survival rate (CSR) and completion rate (CompR) for both levels. At the elementary level, CSR decreased from 74.2 percent in 2010 to 73.8 percent in 2011 while CompR declined from 72.1 percent to 71.0 percent. In the same period, the secondary CSR declined from 79.4 percent to 78.8 percent and CompR went down slightly from 75.1 percent to 74.2 percent. The decrease in CSR and CompR may be attributed to increase in the number of students who left school during the year due to illness, family problems, distance between home and school, lack of interest and child labor, especially for high school students. The drop-out rate in elementary increased from 6.3 percent in 2010 to 6.4 percent in 2011 while in secondary, the rate slightly increased from 7.79 percent in 2010 to 7.82 percent in 2011.

The quality of formal basic education is below the desired level based on the results of the National Achievement Test (NAT)⁴ The NAT results expressed in mean percentage score (MPS) for elementary slightly declined from 68.2 percent in 2010 to 66.8 percent in 2011 while for the

secondary, the rate slightly increased by one percentage point from 47.9 percent to 48.9 percent in the same period. The students' performance in NAT fell short of the PDP targets for 2011 of 70.9 percent for elementary and 54.6 percent in secondary.

Expanding technical vocational education and training (TVET)

The TVET enrolment reached 1.56 million in 2010, slightly increasing to 1.57 million in 2011. Despite the modest improvement, this surpassed by 42.9 percent (472,131) the 1.1 million 2011 PDP target. TVET graduates, on the other hand, slightly decreased from 1.34 million in 2010 to 1.33 million in 2011. However, this is still more than the 2011 PDP target of one million. Also, as of June 2012, there were already 621,224 TVET graduates.

The number of skilled workers assessed by Technical Education and Skills Development Authority (TESDA) for competency increased by 17.0 percent from 716,220 in 2010 to 835,572 in 2011. This has significantly surpassed by 39.0 percent the 600,000 PDP target for 2011. Moreover, a total of 494,512 assessed workers have been recorded as of June 2012. Similarly, there was an upsurge in the number of certified workers. The number reached 703,360 in 2011 from only 594,323 in 2010 or an increase of 15.5 percent. Moreover, the number of certified workers in 2011 showed that the year's target of 510,000 was surpassed by about 38.0 percent which was equivalent to 193,360 additional workers. In addition, there were 416,239 certified workers as of June 2012. In terms of certification rate, the improvement was very modest at 1.3 percentage point from 82.9 percent in 2010 to 84.2 percent in 2011. Furthermore, the 2011 certification rate fell below the year's target of 85 percent. Despite not being able to meet the target, the latest certification rate still positively indicated that 8 out of every 10 persons subject to assessment ended being certified.

⁴ NAT for high school was administered to Year 2 students in SY 2010-2011 and to Year 4 students in SY 2011-2012

⁵ Partial data as of 10 July 2012

Investing in higher education

The country's performance in higher education for academic year (AY) 2011-2012 generally improved compared with the previous year. The total enrolment in higher education increased by 3.2 percent from 2.94 million students in AY 2010-2011 to 3.03 million in AY 2011-2012⁵. The same upward trend was seen in the number of graduates which increased by 3.8 percent from 498,418 in AY 2010-2011 to about 517,425 in AY 2011-2012. The actual turnout of higher education enrolment and graduates is well on track of the projected figures at the start of the planning period. The priority disciplines in higher education include: Agriculture and related fields, Maritime Education, Information Technology, Teacher Education, Engineering and Health Sciences. The country, however, registered poor performance in licensure examinations. The national passing percentage in 2011 was only 35.4 percent which is below the PDP target of 45.8 percent for the year.

Complementing the reforms to improve the quality of education were initiatives to upgrade the competencies of the teaching staff. An increase of 2.5 percentage points was seen in the number of higher education faculty with Master's degree (AY 2011-2012) from the AY 2010-2011 figure of 38.9 percent. Similarly, a modest increase of 1.6 percentage points was observed for those faculty with Doctorate degrees (AY 2011-2012) given the baseline figure of 11.1 percent.

Enriching the culture, arts and sports

The accomplishments in culture and the arts include efforts towards the development, preservation and promotion of Philippine arts and culture. Important policies were passed in pursuing culture and development. RA 10066 otherwise known as the National Cultural Heritage Act of 2009 was passed in 2010 and its Implementing Rules and Regulations (IRR) was finalized and adopted in 2012. Furthermore, RAs 10086 and 10087 were also enacted in 2010. RA 10086 changed the name of the National Historical Institute (NHI) to National Historical Commission of the Philippines (NHCP) while RA 10087 amended RA 3873 (An Act

changing the name of the Bureau of Public Libraries to National Library of the Philippines). The renaming of NHI to NHCP was made to strengthen the functions and powers of this cultural agency, giving it a broader authority on Philippine history while for the NLP, the rationale was to give an identifying element to its name that would make it distinctively Filipino.

High impact programs and activities that harnessed sports as a potent instrument in promoting human development and social integration were undertaken. These include the activation of two major national competition programs, the Philippine Sports Commission (PSC)-Philippine Olympics Committee (POC) National Games and the *Batang Pinoy* that paved way to more than 15,000 Filipino children and youth to engage in sporting competitions. For the last 24 months, the PSC extended discounts worth PhP10 million to schools for the usage of PSC-owned facilities, PhP80 million worth of indirect assistance for free use of sports facilities in Rizal Memorial Sports Complex, Philsports Pasig and Baguio Training Camp to 30 national sports associations, and around PhP10 million worth of equipment donation which benefited an estimated sporting crowd of 500,000 Filipinos nationwide. High-level trainings were also provided to almost 800 elite athletes and coaches with full subsidy from PSC for all its training requirements and international competitions. Moreover, more than a thousand inmates in various penitentiary facilities undertook regional fitness regimen to help them appreciate the value of a healthy lifestyle and to introduce them to worthwhile physical activities and help them bring back to the mainstream of society.

Table 8-2. Education, Training and Culture Actual Accomplishments, 2011-2012

KEY INDICATOR	BASELINE		ACTUAL		END OF PLAN TARGET 2016
	YEAR	VALUE	2011	2012	
Net enrolment rate in kindergarten (5 yrs old) increased (%) **	2010	54.6	77.5	NA	100.0
Net enrolment rate in elementary increased (in %) **	2010	89.9	91.2	NA	100.0
Net enrolment rate in secondary increased (in %) **	2010	61.3	62.0	NA	93.3
Cohort survival rate in elementary increased (in %) **	2010	74.2	73.8	NA	86.8
Cohort survival rate in secondary increased (in %) **	2010	79.4	78.8	NA	83.9
Completion rate in elementary increased (in %) **	2010	72.1	71.0	NA	82.5
Completion rate in secondary increased (in %) **	2010	75.1	74.2	NA	75.5
Drop-out rate in elementary (in %)	2010	6.3	6.4	NA	NA
Drop-out rate in secondary (in %)	2010	7.79	7.82	NA	NA
Achievement rate (NAT MPS) in elementary increased (in %) **	2010	68.2	66.8	NA	75.0
Achievement rate (NAT MPS) in secondary increased (in %) **	2010	47.9	48.9	NA	75.0
No. of TVET enrolees increased	2010	1,568,617	1,572,131	NA	1,771,560
No. of TVET graduates increased	2010	1,344,371	1,332,751	621,224 (as of June)	1,610,510
No. of workers assessed increased **	2010	716,220	835,572	494,512 (as of June)	966,306
No. of workers certified increased **	2010	594,323	703,360	416,239 (as of June)	845,518
Certification rate in TVET increased (in %) **	2010	82.9	84.2	NA	87.5
No. of higher education enrolees increased **	2010	2,937,847	3,033,967	NA	3,220,987
No. higher education graduates increased **	2010	498,418	517,425	NA	581,425
National passing percentage (across disciplines) in Licensure Exams increased (%) **	2010	33.9	35.4	NA	52.5
Higher education faculty with Master's degree increased (in %) **	2010	38.9	41.4	NA	65.0
Higher education faculty with Doctorate degree increased (in %) **	2010	11.1	12.7	NA	30.0

Sources: DepEd, TESDA, CHED

** updated baseline data

NA - not available

Housing and Urban Development

Providing adequate housing and financing

Toward improving access to shelter security, the PDP targets to assist about 1.47 million households or one-fourth of the estimated 5.8 million housing need for the 2011–2016 period. In 2011, housing assistance was extended to 107,775 families or 56.7 percent of the targeted 190,000 households through end-user financing, 43.3 percent; socialized housing production, 41.9 percent; and CMP, 14.7 percent. As of June 2012, an additional 50,239 families were provided assistance.

The below-target performance in socialized housing production was traced to the moratorium on the relocation of ISFs to give way to a more comprehensive plan for ISFs. Moreover, the shortfall in end-user financing of the Home Development Mutual Fund (HDMF) was due to internal factors such as: (a) the stringent policies and procedures for housing loan applications; (b) focus more on increasing membership and other system changes; and (c) increase in the average loanable amount for housing loans. External factors also contributed to the shortfall such as the temporary delay of the take-out mechanism caused by the computerization of titles by Land Registration Authority (LRA) and new instituted policies by the Bureau of Internal Revenue (BIR). In 2011, the CMP registered 86.4 percent collection efficiency rate.

In terms of indirect housing provision in 2011, guarantees were extended to only half of the target loan accounts due to the increase in the average housing loan size from PhP850,000 per account to PhP1.6 million. Licenses to Sell were issued for 167,000 units and assistance was extended to 195 LGUs in the preparation of their Comprehensive Land Use Plans (CLUPs), thereby exceeding targets. Likewise, the purchase of mortgages exceeded targets. The pre-proclamations accounted for only 6 percent of the target.

Strengthening institutions and forging partnerships

In 2011, the National Informal Settlements Upgrading Strategy (NISUS) was launched to

guide the efforts of national government agencies (NGAs) and LGUs in upgrading the slum communities and improving the living conditions of ISFs in urban areas. Likewise, the Pabahay Caravan was launched to raise awareness on the programs and services of the housing agencies and help LGUs perform their functions in the delivery of housing services, and increase the production base for housing. The regular coordination of the Presidential Commission for the Urban Poor (PCUP) with the Urban Poor Affairs Office (UPAO) at the LGUs benefited 3,234 Urban Poor Organizations (UPOs) representing 582,254 families with social preparation and technical assistance to facilitate their request for access to land and housing programs.

Strong public-private partnership is evident with the participation of the business sector, Gawad Kalinga/Habitat for Humanity and other nongovernment organizations (NGOs) in the implementation of a comprehensive and permanent housing program for the victims of typhoon Sendong in Cagayan de Oro, Iligan, and Dumaguete City. As of June 2012, 1,941 units have been completed and 1,494 are under construction.

The bill which aims to create the Department of Housing and Urban Development (DHUD) is pending for second reading in the House of Representatives while it has been passed on third reading by the Senate. The proposed DHUD shall be the primary agency of government that will prepare, integrate, coordinate and supervise plans, programs and projects of the government relative to urban planning, development, and renewal, including land use and zoning, housing provision, regulation and finance, and marginal settlement assistance and services specifically to the homeless and the underprivileged.

Social Protection

Policy and program reforms undertaken to improve access to quality social protection (SP) services include, among others, the enhancement of the SP operational framework and the four components of SP, intensified implementation of the *Pantawid Pamilya Program*, implementation of the convergence strategy, and better targeting of the poor.

Table 8-3. Housing and Urban Development Actual Accomplishments, 2011-2012

KEY INDICATOR	BASELINE		ACTUAL		END OF PLAN TARGET 2016
	YEAR	VALUE	2011	2012	
No. of direct housing provision	2010	147,577	107,775	50,239 (as of June)	1,475,000
No. of HGC guaranties increased*	2010	8,994	25,006	3,144 (as of June)	420,298
No. of license to sell issued	2010	174,025	167,000	111,791 (as of June)	1,006,500
No. of CLUP assistance (LGUSs)	2010	110	195	698 (as of June)	678
No. of annual target of pre-proclamation household beneficiaries met	NA	NA	300	NA	30,000

Sources: HUDCC, SHFC, HGC

*new baseline year

NA - not available

The SP Framework, which provides direction to the SP policies and programs, was further enhanced. The framework identifies appropriate responses to different types of risks and vulnerabilities. Based on the enhanced framework, the DSWD-led Subcommittee on SP of the NEDA Board's Social Development Committee (SDC) has initiated activities towards crafting the SP Five-Year Action Plan.

The *Pantawid Pamilya*, a major intervention of the national government under its poverty reduction and social protection agenda, has covered 3.01 million poor households as of June 2012, exceeding the 3 million cumulative Plan target for 2012. The average compliance rates for the programs' conditionalities have been high from January to December 2011 at 95.5 percent. With the health and education conditionalities of the program, it helped accelerate the implementation of health and education reforms to meet the demands of the beneficiaries.

As an initial step to address fragmentation and noncoordination of SP programs, the DSWD internally harmonized the implementation of its three major programs namely, *Kapit-Bisig Laban Sa Kahirapan* – Comprehensive and Integrated Delivery of Social Services (KALAHYI-CIDSS), *Pantawid Pamilya*, and Sustainable Livelihood Program in 54 municipalities. Government-

wide convergence of SP programs are also being undertaken. For example, the implementation of the *Pantawid Pamilya* by the DSWD necessitated institutional collaboration with the DOH, DepED and the LGUs in the delivery of package of health and education interventions to the target beneficiaries. Also, the DSWD partners with the Department of Public Works and Highways (DPWH), Department of Agriculture (DA) and Department of Environment and Natural Resources (DENR) for employment facilitation and livelihood opportunities for the *Pantawid Pamilya* beneficiaries.

The government has improved targeting through the use of the NHTS-PR which now serves as a common tool to identify and target the poor beneficiaries of social protection and antipoverty programs. Moreover, the NHTS-PR database has been able to provide data on the number of children with special needs, persons with disabilities, the elderly and the indigenous peoples from its list of poor households.

To support the monitoring of SP, the Philippine Statistical Development Program (PSDP) 2011-2017 has added a chapter on SP statistics. The Chapter outlines the conceptual underpinnings and gaps in social protection statistics.

Expanding labor market interventions

On domestic employment, the country's network of Public Employment Service Offices (PESOs) as frontline institutions in job facilitation and delivery of labor market information helped the placement of 1.4 million jobseekers or 156.4 percent of the total target of 923,000 for 2011 and 650,414 or 65.0 percent of the total target of 1 million for the first half of 2012.

In 2011, a total of 1.2 million jobs were generated out of the targeted 1 million jobs for the year under the Community-Based Employment Program (CBEP) through the implementation of various government infrastructure and noninfrastructure projects. In the first half of 2012, CBEP generated an additional 768,063 jobs or 20.7 percent of the 3,710,000 total target for the year.⁶ The total number of jobs generated is expected to significantly increase on the latter part of the year since bulk of the projects will be implemented on the third and fourth quarters of the year.

Meanwhile, 94,597 informal/disadvantaged and wage workers benefited from the implementation of 5,777 self-employment undertakings and 5,767 livelihood projects. During the first half of 2012, a total of 43,467 workers were provided with various livelihood assistance/services for additional income sources to augment their wages.

On overseas employment, from July 2010 to June 2012, the Philippine Overseas Employment Administration (POEA) reported that a total of 3.3 million overseas Filipino workers (OFWs) were deployed to various country destinations worldwide. Of these, 2.5 million or 77.7 percent were land-based and 730,376 or 22.3 percent were sea-based.

To give sustainable enterprise opportunities to OFWs and their families, the Department of Labor and Employment (DOLE) launched in June 2011 the Php2 billion Reintegration Program, a special loan fund of the Overseas Workers Welfare Administration (OWWA) and the National Reintegration Center for OFWs

(NRCO). The program offers interested returning OFWs loans amounting from Php200,000 up to Php2 million to venture into business enterprises. As of June 2012, 391 out of 412 loan applications were already approved by the LBP amounting to Php245.95 million.

In addition, various forms of assistance were also provided to Filipino migrant workers and/or their families/dependents. From July 2010 to June 2012, the membership (new and renewal) of a total of 2.626 million OFWs to OWWA was facilitated generating an aggregate amount of Php2.96 billion. Meanwhile, death and disability benefits of more than 6,235 members or their families were expedited amounting to Php456 million.

On child labor, the preliminary results of the 2011 Survey on Children (SOC) revealed that 5.49 million or 18.9 percent of the total 29.019 million children aged 5-17 years old were working, mostly in agriculture and service sectors. Of the total number of working children, 3.03 million or 55.1 percent was in child labor conditions of which, 2.99 million or 98.9 percent were in hazardous labor. The highest number of children in hazardous labor belonged to 15-17 years old at 1,479,000 while a total of 187,000 children aged 5-9 years old are working in hazardous conditions. For 2011 to first half of 2012, a total of 7,657 children were reported to have been prevented/removed from the worst forms of child and were provided with educational assistance and other benefits under the Child Labor Prevention and Elimination Program.

Increasing coverage of social insurance

On health insurance, the coverage of SP Component of the NHIP was expanded to include the 5.2 million poor households listed in the NHTS-PR.

To increase contributions and loans collection from OFWs, the Social Security System (SSS) expanded its payment channels abroad to facilitate the remittance of OFW-members' contribution and loan amortization payments. These included Overseas Collection Service with

⁶ The 3,710,000 total target for 2012 is the adjusted target based on actual accomplishment for 2011.

the Metropolitan and Trust Company and with I-Remit.

From 2008 to 2011, the number of SSS pensioners increased by 24.1 percent. Of the total 1,650,569 SSS pensioners in 2011, 49.9 percent received retirement pension, 46.2 percent received death pension, and 3.9 percent received disability pension. In 2011, 88.4 percent of SSS pensioners had monthly pensions ranging from PhP1,000.00 to PhP4,999.00 which is extremely less compared with the average monthly Government Service Insurance System (GSIS) pension in 2010.

The number of GSIS pensioners who were senior citizens increased by 4.9 percent between 2008 and 2009; and by 5.6 percent between 2009 and 2010. As of December 31, 2010, there were 199,579 GSIS pensioners who were senior citizens. The average monthly pension was PhP8,856 in 2010 which is slightly above the salary of a minimum wage earner working 26 days a month. Meanwhile, as of July 2011, there were a total of 225,020 veteran pensioners who received old age, death, and disability pensions from the Philippine Veterans Affairs Office (PVAO).

Strengthening response in social welfare

The *Pantawid Pamilya*, launched in 2008, reached 2.3 million (101.98%) and 3.01 million (100.48%) poor households in 2011 and 2012 respectively, exceeding the targets for those years. The four spot checks for *Pantawid Pamilya* conducted from 2010-2012 revealed that: (a) Program Spending, Updates System and Compliance Verification System worked adequately; (b) 85 percent attendance of school days, and health conditionalities of children aged 0 - 6 years old were achieved; and (c) grantees used the money responsibly, giving priority on spending for children and basic home expenses.

Initial findings on the impact evaluation of the *Pantawid Pamilya* conducted in 2011 showed, among others, the following significant differences between *Pantawid* and non-*Pantawid* households: (a) beneficiary households spent 36 percent more on their children's education, 33 percent higher on medical expenditures, and have 10 percent higher Philhealth coverage ; (b) beneficiary children had 10 percent higher enrolment rate (3-5 years old) in day care, and

5 percent higher enrolment rate (6-11 years old) in school; (c) children 6-11 years old from beneficiary households had a 4 percent higher rate of regular attendance while those aged 12-14 years old had a 5 percent higher rate of regular attendance; and (d) more beneficiary mothers (10% higher coverage rate) availed themselves of antenatal care services.

To sustain and expand the socioeconomic benefits gained by the *Pantawid Pamilya* beneficiaries, they were linked with livelihood activities such as the Self-Employment Assistance – Kaunlaran (SEA – K) scheme and Employment Facilitation. In 2011, a total of 38,016 *Pantawid Pamilya* beneficiaries were provided capital assistance for microenterprise amounting to PhP287.95 million, and 2,029 individuals were provided employment under the guaranteed employment provided through the DPWH and DA. There were also 6,612 non-*Pantawid Pamilya* beneficiaries who availed the SEA-K with a total capital assistance release of about PhP40.04 million on the same year. From January to June 2012, a total of PhP78.5 million was provided as capital seed fund and employment facilitation for 10,266 families. Of these, 3,668 were *Pantawid Pamilya* beneficiaries while 6,598 families were non-*Pantawid Pamilya* beneficiaries.

Meanwhile, the KALAHÍ-CIDSS served a total of 507,348 households in 2011 which fell short of the targeted 571,725 households due to: (a) noncompliance with enrolment requirements such as lack of local counterpart contribution; and (b) deferment or waiving of some target areas due to outstanding loans with financial institutions. Meanwhile, out of the 382,950 target households for 2012, a total of 165,842 households were served for the first half of the year. This figure is expected to significantly increase by the fourth quarter of 2012 as the government started its implementation in 129 new municipalities. With the demonstrated effectiveness of the KALAHÍ-CIDSS in promoting community empowerment and improving responsiveness of LGUs, the CDD will be scaled up as a national poverty reduction strategy through the National CDD Program (NCDDP). This program will cover 851 rural poor municipalities.

On protecting and promoting the rights of vulnerable groups, the number of women in

extremely difficult circumstances (WEDC) served by DSWD totalled to 94,401 cases for the period July 2010 to June 2012. There was an increase in the number of violence against women (VAW) cases reported by the Philippine National Police (PNP) from 10,482 in 2009 to 15,789 in 2010. Also, the National VAW Documentation System was pilot-tested by the Philippine Commission on Women (PCW) in 2010 to

2011 in 10 cities and provinces. In compliance with the Magna Carta of Women, the guidelines in the establishment of the VAW Desk in every barangay were issued. As of 2012, there are 27,000 VAW Desks throughout the country. This is over and above the 1,868 women and children protection desks in police stations nationwide staffed by 3,240 female police personnel.

Table 8-4. Social Protection Actual Accomplishments, 2011-2012

KEY INDICATOR	BASELINE		ACTUAL		END OF PLAN TARGET
	YEAR	VALUE	2011	2012	2016
Increase in number of poor households covered by conditional cash transfer	2010	1,000,000	2,345,639	3,014,586 (as of June)	4,200,000
Increase in number of jobseekers placed in local employment**	2010	7.4% unemployment rate (2.859 million unemployed Filipinos)	1,444,059	650,414 (as of June)	6,100,000
Increase in number of jobs generated in the government community-based employment program	2011 (first quarter)	168,083	1,238,000	768,063 (as of June)	6,000,000
Increase in number of informal sector workers, unemployed persons, minimum wage earners and OFWs and their families with capacity building services for livelihood**	2010	51,310	94,597	43,467 (as of June)	646,600
No. of families provided with capital seed fund (SEA-K)					
Level I	2009	151,454	44,628	10,266 (as of June)	125,580
Level II	2009	7,532	2,092	483 (as of June)	11,880
No. of KALAHI-CIDSS household beneficiaries reached	2009	1,197,720	507,348	165,842 (as of June)	1,875,600 (2015)
Increase in number of poor senior citizens covered by social pension (Senior Citizen's Law)	NA	NA	134,417	140,699 (as of June)	1,432,784
Proportion of poor senior citizens covered by social pension (Expanded Senior Citizens Act of 2010) (in %) ***	NA	NA	13.3	11.6 (as of June)	NA

Sources: DSWD, DOLE

** updated baseline data

*** proposed new indicator

NA - not available

Social pension was provided to the indigent elderly under the “Expanded Senior Citizens Act of 2010.” In 2011, out of the targeted 138,960 indigent senior citizens, 134,417 or 96.7 percent received their stipend amounting to about PhP788.2 million. In the first half of 2012, the program already served a total of 140,699 or 75.6 percent out of the targeted 185,914 indigent senior citizens for the whole year of 2012. The indigent senior citizens covered by the pension were 13.3 percent and 11.6 percent of the total number of poor senior citizens identified under the NHTS-PR in 2011 and 2012, respectively. Initially, it covered indigent Senior Citizens who were: (a) 77 years old and above; (b) not member of any pension plan; (c) with no regular source of income; (d) with no financial assistance from relatives; and (e) are frail, sickly, or with disability. Relatedly, the door-to-door cash payout system (DD-POS) was developed to accommodate the Senior Citizen Indigent Pay-out (SCIP).

Expanding social safety nets

In terms of disaster relief operations, DSWD extended a total of PhP295.6 million assistance to 1,403,886 family victims of various types of disasters through the LGUs, NGOs and other stakeholders/partners in 2011. From January to June 2012, DSWD served a total of 96,835 families and provided PhP40.1 million augmentation support consisting of food and nonfood items to affected families. Through this, resources of LGUs and other partner agencies were augmented and needs of internally displaced persons (IDPs), inside and outside evacuation centers were addressed.

As a continuing effort to provide temporary employment to distressed/displaced individuals, DSWD extended the Cash/Food for Work Program to 66,880 beneficiaries in 2011. From January to June 2012, a total of 139,846 individuals were assisted. The beneficiaries participated in preparedness, mitigation, relief, rehabilitation or risk reduction projects in their communities or in evacuation centers. Families affected by deaths of their members/relatives due to the devastating effects of Typhoon Sendong on Cagayan de

Oro and Iligan and the earthquakes on Negros Oriental were also provided psychosocial interventions.

Asset Reform⁷

Fast-tracking land acquisition and distribution

In compliance with RA 9700 or the CARPER Law, the Department of Agrarian Reform (DAR) and DENR were able to distribute 394,423⁸ hectares of land to 327,780 Agrarian Reform Beneficiaries (ARBs) from July 2010 to June 2012. DAR acquired and processed a total of 230,834 hectares. Of these, 14,290 hectares were found to be non-CARPable or landowners’ retained areas. This left DAR with a net area of 216,544 hectares of private and government lands found to be suited for agricultural use which were distributed to 115,185 Agrarian Reform Beneficiaries (ARBs). The DENR, on the other hand, processed and issued 212,595 Free Patents (FPs) covering an aggregate area of 177,879 hectares of public alienable and disposable (A&D) lands to 212,595 farmer-beneficiaries.

The additional provisions in the CARPER Law stretched the land acquisition process to 12 to 15 months. To speed up the process, the Revised Rules and Procedures Governing the Acquisition and Distribution of Private Agricultural Lands (AO 7 Series of 2011) which simplifies the LAD process was issued in October 2011.

In the adjudication of agrarian cases, the DAR Adjudication Board and its courts resolved 35,212 agrarian law implementation (ALI) cases. This covers 98 percent resolution rate against the funded target of 36,080 cases for the period July 2010 to March 2012. On the provision of agrarian legal assistance, a total of 90,637 ALI cases were administratively resolved by the DAR, exceeding the total funded target of 78,304 cases for the period July 2010-July 2012. In terms of ARB representation before judicial and quasi-judicial courts, the DAR lawyers represented ARBs before judicial and quasi-judicial bodies and were able to submit for resolution 2,328 cases and 25,643 cases, respectively from 2010 to 2012.

⁷ Urban asset reform is discussed under housing and urban development.

⁸ The breakdown of the number of hectares distributed are as follows: July-December 2010 (157,370), 2011 (204,035), January-June 2012 (33,018).

Protecting ancestral domains and lands

From June 2010 to June 2012, the NCIP handled a total of 118 CADT applications. Three of these applications, covering a total of 104,201 hectares, were already approved for issuance before June 2010 while one covering 2.06 hectares was approved in August 2010. The NCIP facilitated the registration of these four approved CADTs with the Registry of Deeds and awarded the titles to respective ICCs/IPs in 2011, benefiting a total of 13,530 right holders. In addition, one CADT application covering 19,523 hectares was approved for issuance in the first semester of 2012 and is now being processed for registration. The remaining 113 CADT applications are currently in various stages of the delineation process⁹. On the issuance of CALTs, NCIP currently processes 100 CALT applications. However, no CALTs were issued for the period June 2010 to June 2012. This is due to the fact that NCIP issued orders on the temporarily suspension of the processing and issuance of pending CALTs¹⁰ and the implementation of a 30-day moratorium on the processing of CALT and CADT among others in April 2011. The moratorium was anchored on the review of the Omnibus Rules on the Delineation and Recognition of Ancestral Domains/Lands, Free, Prior and Informed Consent (FPIC) and the Rules on Pleadings.

As a result of the review process, NCIP issued Revised Omnibus Rules on Delineation and Recognition of Ancestral Domains and Lands in April 2012 to provide for more efficient processes on the issuance of CADTs and CALTs. Also, to address the apparent conflict in the jurisdiction and operations of the NCIP, DAR, DENR and LRA, particularly on overlapping land claims and tenurial conflicts, Joint AO No.1, series of 2012 - Clarifying, Restating and Interfacing the

Respective Jurisdictions, Policies, Programs and Projects of DAR, DENR, LRA and the NCIP in order to Address Jurisdictional and Operational Issues between and Among the Agencies was issued.

On the formulation of Ancestral Domain Sustainable Development and Protection Plans (ADSDPPs)¹¹, NCIP facilitated formulation of 17¹² ADSDPPs from 2010 to June 2012. Formulation of ADSDPPs for 63 areas is still ongoing while 18 of the 105 ADSDPPs as of June 2012 ADSDPPs are being updated to provide enhancements on the ancestral domain plans.

With regard to the provision of legal assistance to enforce the rights of IPs to resolve conflicts in accordance with their customary laws, NCIP provided assistance to 13,115 walk-in clients for and in behalf of ICCs/IPs, conducted 711 investigations to validate complaints for violations and accepted and filed 860 cases before judicial and quasi-judicial bodies from June 2010 to June 2012. The NCIP Commission En Banc was also able to decide on 17 cases from June 2010 to June 2012. Currently, there are still a total of 85 pending cases¹³ before the Commission.

Basic social services for IPs within their ancestral domains were continually delivered in accordance with their rights and entitlements. Support systems in hard-to-reach areas were likewise put in place to improve access to food and water sources and other services. Social infrastructure projects such as the installation of potable water systems, irrigation systems, farm to market roads and similar projects were implemented. Thirty eight projects along these lines were implemented from June 2010 to June 2012.

9 Fifty one (51) are at the social preparation stage, 25 are ongoing/ready for survey activities and 34 have completed the survey process. Conduct of the survey has been temporarily suspended for 3 applications.

10 In April 7, 2010, NCIP issued an order temporarily suspending the processing and issuance of pending CALT applications in Regions X and XII due to legal issues and concerns. Likewise, on February 10, 2011, the NCIP Commission En Banc issued an order suspending the processing of CALT applications over the ancestral lands in Baguio City. Same order was reiterated on September 13, 2011. The suspension was lifted on January 10, 2012.

11 ADSDPP is a long term comprehensive spatial and development plan with identified programs and projects that strengthen self-governance, build lasting peace and genuine development within ancestral domains of particular ICCs or IP groups.

12 6 ADSDPPs were formulated in 2010, 8 in 2011 and 3 from January-June 2012.

13 Forty-one (41) appealed cases, 36 original jurisdiction cases, 6 cases of national significance concern and 2 elevated cases.

Table 8-5. Asset Reform Actual Accomplishments, 2011-2012

KEY INDICATOR	BASELINE		ACTUAL		END OF PLAN TARGET 2016
	YEAR	VALUE	2011	2012	
Increase in number of hectares of land distributed under CARP**	2010	202,084	204,035	33,018 (as of June)	1,185,296
Increase in the number of Agrarian Reform Beneficiaries (ARBs)	NA	NA	177,913	27,425 (as of June)	1,174,145
Increase in number of Certificate of ancestral domain title (CADTs)/ Certificate of ancestral land title (CALTs) issued**	July 2010 (CADT)	157	-	1 (as of June)	48
	July 2010 (CALT)	258	-	-	48
No. of ADSDPPs formulated	2010	94	8	3 (as of June)	6
Increase in number of coastal municipalities with delineated municipal waters	2010	919	6	5	NA

Sources: DAR, DENR, NCIP, NAMRIA

**updated baseline data

NA – not available

Addressing coastal and marine settlement

The National Mapping and Resource Information Authority (NAMRIA) completed preliminary delineation of the extent of municipal waters for 927 coastal LGUs based on available information on their coastal terminal points¹⁴ (CTPs). These preliminary delineations have to be validated by concerned LGUs. NAMRIA provides technical assistance to LGUs during the validation process as necessary and revises and certifies the technical descriptions in accordance with the agreements reached among LGUs. From 2001 to 2010, NAMRIA certified municipal waters of 265 LGUs. For 2011, certifications of municipal waters of six additional LGUs were issued. For 2012, NAMRIA is assisting 28 more municipalities.

On fisherfolk's settlements, the National Inter-Agency Task Force on Fisherfolk Settlement (NITFFS) was created under the Joint DA-NAPC Joint AO No. 1 in response to Section 108 of RA 8550 that also calls for the formulation of policy guidelines or IRR on the establishment and creation of fisherfolk settlement areas.

Moreover, the Bureau of Fisheries and Aquatic Resources (BFAR) is in the process of updating fisherfolk registration which aims to generate information on the number and type of fishing vessels and gears being used in fishing operations.

Financing the sector

The total social sector spending/appropriation of the government increased from 2010 to 2012. About 28.2 percent or PhP416 billion (or 5.0% of real GDP) of the PhP1.473 trillion actual expenditure in 2010 was spent to social services. This increased by almost 25 percent in 2011 getting 34.5 percent or PhP544 billion (or 6.0% of real GDP) of the PhP1.580 trillion actual expenditure. The sector has an appropriation of PhP613 billion (or 6.1% of GDP) in 2012. While it declined to 33.8 percent in terms of share to the total allocation, it increased by 10 percent in terms of level. Real per capita spending for the sector, on the other hand, improved from PhP3,086 in 2010 to PhP3,765 in 2011, and will further increase to PhP3,955 by the end of 2012.

¹⁴ The points at which land boundary lines intersect with the coastline.

Almost half of the expenditures of the sector remained to be allocated for education, culture and manpower development. It progressively increased from 2010 to 2012 together with health, social security and labor welfare, and other social services. The real per capita spending for education, culture and manpower development increased from PhP1,671 in 2010 to PhP1,934 in 2012. The real per capita spending for health also grew from PhP230 in 2010 to PhP326 in 2012. The real per capita spending for social security and labor welfare more than doubled from PhP362 in 2010 to PhP801 in 2011, and further increased to PhP970 in 2012.

Notable increases in spending were accounted for in housing and community development, and social security and labor welfare. The growth for spending in housing and community development soared by almost 213 percent from 2010 to 2011. Social security and labor welfare spending, on the other hand, increased by 138 percent on the same period. The allocation for social security and labor welfare subsector further grew by 30 percent in 2012, however, allocation for housing and community development declined by 68 percent.

Despite the priority given to the sector, it fell short from the international benchmarks for the following subsectors: education (6% of GDP), health (5% of GDP), and housing (5% of GDP). Though the real GDP share of the government's expenditures/appropriation for education increased from 2010 to 2012, it remained at 2.7 to 2.9 percent range. The GDP share for health and housing stayed below 1 percent.

Insofar as Official Development Assistance (ODA) is concerned, the loan amount for social reform and community development ranked next from Infrastructure sector comprising 25.7 percent (US\$2.206 billion) of the total ODA loans in 2011. It stood as the premier sector for grant assistance garnering a 42 percent share during the same period.

In terms of loans commitment by subsector, social welfare and community development took the bulk with 74.5 percent and 80.4 percent for 2010 and 2011, respectively. This was followed by health, population and nutrition with 13 percent and 10.5 percent. The education and manpower had 11.4 percent and 9 percent for 2010 and 2011.

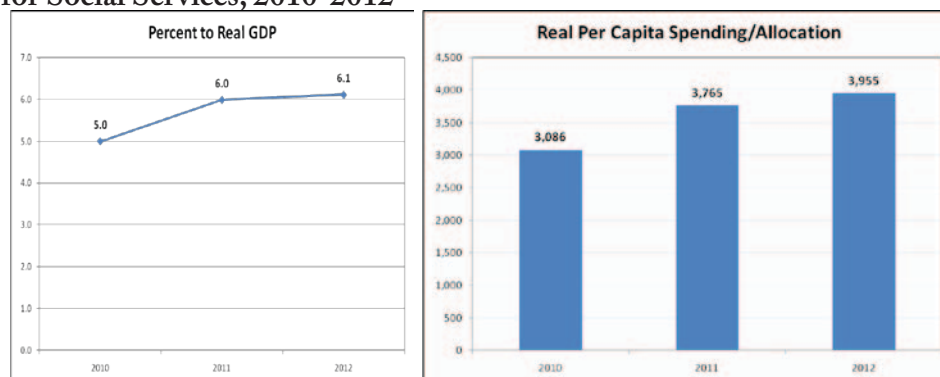
Challenges

Health, Nutrition and Population

Expanding the NHIP coverage and benefit delivery

Low utilization of NHIP benefits. While the DOH and Philhealth strive for the optimal financial risk protection especially to the most vulnerable groups (5.2 million indigent families identified through the NTHS-PR were enrolled), there was only 19 percent of the total claims paid for the SP, as of May 2012. This translates to a low utilization rate of 3 percent of the NHIP benefits among poor members. This therefore calls for more intensified awareness campaigns on the entitlements/benefits of the members.

Figure 8-1. National Government Expenditures/Appropriations for Social Services, 2010-2012



Source: BESF 2012/2013

Improving access to quality health care facilities

Poor implementation of the Health Facilities Enhancement Program (HFEP). Operational problems affected the implementation of the HFEP from 2010 to 2012, posing a major challenge in improving access to quality health care facilities. The implementation of the program was also hampered by: (a) the lack of a cohesive national medium-term infrastructure development and budgetary support plan; (b) lack of available health human resources; (c) the complexity of procurement of health infrastructure and equipments; and (d) the need for strengthening of LGU capacity in planning and implementing local HFEP projects.¹⁵

Attaining the health-related MDGs

Continuing food insecurity and undernutrition. The large increases in underweight and stunting prevalence as noted on the children's first year of life indicate problems in feeding practices at this early stage. Access to food is also a challenge among poor families since this perpetuates the twin problems of hunger and undernutrition in families and the already deteriorated nutrition of children. Risks from the increasing intensity and number of disasters further challenged poor families' access to adequate reasonably priced food and even resources for livelihood. The need for well-targeted safety nets in the form of cash for work or food for work and food rations is very well highlighted under these circumstances. A lot of scaling up still has to be done, in particular, in increasing coverage of good nutrition practices such as exclusive breastfeeding among the 0-6 months and the introduction of adequate and safe complementary foods to children starting at exactly 6 months.

Maternal deaths are still high. Improving maternal health remains a challenge. The high rate of maternal deaths from 2006 to 2011 is the result of several years of neglect and failure to address three problematic areas in attaining UHC. The first area is the ineffective implementation of the preventive/promotive family planning (FP) program. Second is the inadequate financial

risk protection from the NHIP due to limited enrolment, lack of information to effectively avail of benefits, poor access to PhilHealth-accredited FP service providers, and low (or zero) peso support for FP packages. And third is the limited access to clinics and hospitals that are often overcrowded, in poor physical state, and lacking in modern equipment - owing to nearly a decade of underinvestment. Furthermore, there is still large disparity among different regions in terms of fertility rates and unmet need for family planning.

Early pregnancy among the youth. The increasing percentage of adolescents who have begun childbearing indicates the need to address fertility and reproductive health concerns among this segment of population. Early pregnancy among the youth indicates the need to provide appropriate interventions for them to achieve their fertility goals. Adolescents become more exposed to undesirable consequences because of engaging too early in sexual activities.

Increasing HIV cases. For MDG6, the increase in the number of cases is mostly concentrated among MSMs and PWIDs in certain geographic areas. This calls for an effective prevention strategy especially at the local level and in institutions (workplace, schools).

Sustaining the gains made on tuberculosis and malaria. The low participation of the private sector in attaining Public Health goals and the inadequacy of funds and human resources affect the implementation of key program initiatives and hamper the efforts toward the control of TB and elimination of malaria. Thus, advocating for political commitment at all levels of the health care delivery system particularly the standard practice of Public Health and mobilizing additional human, financial and technical resources for TB and malaria control is imperative.

15 Challenges in the implementation of the HFEP are discussed in detail in Chapter 5: Accelerating Infrastructure Development.

Education, Training and Culture

Improving access to quality basic education

The main challenge in achieving the PDP goals and targets for basic education is on how to deliver basic education services to diverse clientele whose wide range of educational needs require efficient and effective initiatives and interventions. Completion and regular updating of the five-year old children mapping for advocacy among their parents about kindergarten education is among the primary initiatives. Ensuring that all school-aged children are participating in basic education also requires that the curriculum is relevant and effective for each clientele group. The implementation of the K to 12 is among the most challenging undertakings. The K to 12 is being implemented alongside the campaign for universal primary education for which provision of sufficient basic resources will require not only doubling the budget and investment in basic education but also spending available resources efficiently and effectively.

Similarly, the DepED's intervention to integrate technical-vocational skills in basic education is confronted with inadequate classrooms, workshops laboratories, and teacher items. The Guideline for the Provision and Utilization of the Strengthened Technical-Vocational Education Program (STVEP) Intervention Fund was crafted to help provide immediate response to these needs. On the PPP strategy, the challenge remains on how the Department can intensify partnership with the private sector to maximize its support of basic education.

Expanding technical vocational education and training (TVET)

The continuing challenge to TVET is the need to enhance the quality, productivity and global competitiveness of the Filipino workforce. While equipping the students with relevant competencies, TVET has to respond to increasing

demands for advanced technical skills required by rapid advances in technology and the need to train workers with "greening skills"¹⁶. Also, the lifting of trade barriers¹⁷ caused by globalization trends implies tremendous challenges for TVET since it needs to consider global labor requirements. These challenges necessitate sustainable TVET financing and resource mobilization, functional labor market information system, and more collaborative linkages with local and international partners.

Investing in higher education

A major challenge in higher education is the poor quality of higher education as indicated by the low performance of higher education graduates in the licensure examinations across disciplines. The national passing percentage in same examinations went down from 36.2 percent in 2009 to about 33.9 percent in 2010 and 35.4 percent in 2011. Hence, this entails more aggressive implementation of sector-wide reforms aimed at improving efficiency, relevance and quality of education in the country. More investment in human resource development is deemed very vital in scaling up the productivity of the country's manpower particularly in the science and technology (S&T) sector. The need to provide state-of-the-art equipment and facilities for engineering and science education especially at the DOST network institutions is seen also as crucial inputs to the enhancement of S&T education in the Philippines.

With the proposed 43.6 percent increase in the 2013 budget of state universities and colleges (SUCs), it is expected that research, development and extension (RDE) aimed at generating, adapting and transferring or applying new knowledge and technologies to improve productivity will be achieved¹⁸.

16 These include values and practices of sustainable development in education and training that will mitigate effects of climate change in work and workplaces.

17 This is part of the Philippines' commitment to the ASEAN Framework Agreement on Services (AFAS) that is aimed at substantially eliminating restrictions to trade in services among ASEAN countries, to improve the efficiency and competitiveness of ASEAN services suppliers.

18 SONA 2012 pronouncement/commitment

Enriching the culture, arts and sports

For culture and the arts, an immediate concern is the broadening and strengthening of institutional partnerships such as National Commission for Culture and the Arts' (NCCA) partnership with DepED's Regional High School for the Arts, and with other education institutions in integrating culture and arts in the education curriculum.

Housing and Urban Development

Providing adequate housing and financing

The estimated housing need of 5.8 million units by 2016 covers future needs – allowance for inventory losses and new households, as well as accumulated needs for households in unacceptable housing units and doubled-up households in acceptable housing units. The number of new households is expected to be revised downwards considering that the new 1.9 percent population growth rate based on the 2010 Census of Population and Housing (CPH) is lower than the 2.34 percent annual population growth rate from 1990 to 2000. Moreover, the number of unacceptable housing units of the urban poor and ISFs as well as inventory losses have to be revisited in view of flooding and typhoons. The revisit is aligned with the Philippine commitment to the attainment of the MDG 7 on ensuring environmental sustainability, particularly the global 2020 target of achieving a significant improvement in the lives of at least 100 million slum dwellers.

The challenge of housing the poor requires a revisit of conflicting legal provisions for socialized housing in light of family income and expenditures for housing. Moreover, the availability of nonflood prone land for socialized housing has to be evaluated to remove bottlenecks in land acquisition and development.

Strengthening institutions and forging partnerships

The thrust toward decent housing for the poor recognizes the role of corporate social responsibility like Gawad Kalinga and Habitat for Humanity, and bottom of the pyramid models like microfinance, cooperatives, NGOs, and the business sector. Banks and developers, however,

have reservations on granting loans for socialized housing as the venture has a higher risk of default compared with low-cost, medium cost or open housing. Banks with developmental guaranty lines have slowed down in lending developmental loans. Lending to developers was focused on purchase of receivables. Furthermore, most of the developmental loan applications failed to meet the requirements of the Home Guaranty Corporation (HGC) for guaranty coverage. Hence, while enrolment targets against retail lines were met, the targets for developmental lines were not.

Since the National Home Mortgage Finance Corporation (NHMFC) has been out of circulation for more than a decade due to the suspension of the Unified Home Lending Program (UHLP), it has to start all over again in making developers aware of its role of pooling together housing mortgages to be used as the underlying collaterals for the issuance of bonds. With the negative feedback from the market in its initial implementation of the Housing Loan Receivables Purchase Program (HLRPP), the interest rates has to be reduced to 8 percent for loans amounting to PhP1million and below, and 10 percent exceeding PhP1 million. The seasoning period of the amortizing borrowers was likewise reduced from 12 to six months. With these amendments, the housing developers will hopefully find the HLRPP as another venue to liquefy their housing loan receivables. The NHMFC likewise found difficulty in foreclosing defaulting borrowers due to high cost, lengthy and tedious process of foreclosure and disposal of acquired assets.

Social Protection

Although the subsector has achieved substantial progress in the first year of implementation of the strategies laid down in the PDP 2011-2016, much has to be done to effectively uplift the poor and protect the vulnerable sectors.

Expanding labor market interventions

High Incidence of child labor. The growing number of children in hazardous labor need to be looked into through an integrated and coordinated approach.

Growing need for workforce-focused occupational safety and health programs. The growing need for workforce-focused occupational safety and health programs and ensuring the welfare and protection of Filipinos who opt to work overseas remain a vital concern of the government.

Limited coverage of social security schemes. Social security schemes for the informal sector and OFWs remain limited.

Limited interventions for displaced and repatriated workers. There is a need to implement more appropriate programs to address the needs of displaced and repatriated workers.

Exclusion of OFW-domestic workers in social security laws. The long-time problem of exclusion of OFW-domestic workers in social security laws in top destination countries should be examined by the government.

Increasing coverage of social insurance

Limited social insurance measures for vulnerable groups. Vulnerable groups have limited access to social insurance schemes of the government due to their inability to pay. Most cannot cope with the impact of economic and natural shocks.

Inability of Pantawid Pamilya beneficiaries enrolled under the SP of Philhealth to fully utilize available health care services. Government spending for health insurance especially for indigent members is thus not maximized. The limited access to health services is due to the low level of awareness of most of the beneficiaries about the services available and their benefits. Poor health seeking behaviour is a bigger factor to consider. (Please refer to challenges under Health, Nutrition and Population on Expanding the NHIP coverage and benefit delivery).

Strengthening response in social welfare

KALAHI-CIDSS implementation concerns. Implementation of the project may be affected by compliance with enrolment requirements due to factors mentioned in the assessment.

Limited budget for Violence Against Women and Children (VAWC) at the local level. While the number of reported VAW cases is increasing, there is still a lack of family courts in provinces designated to hear and adjudicate VAWC cases. Court personnel handling VAWC cases should also be more gender-sensitive. Moreover, due to limitation in budget and capacities, barangays are not yet empowered to devise livelihood projects for victims-survivors resulting in lack of available support services.

Limited coverage of social pension for indigent senior citizens. There is a need for the full implementation of the RA 9994 social pension provision to cover all poor senior citizens as reflected in the NHTS-PR database. Moreover, the utilization of the allocated one percent of the total budget of government agencies for senior citizens and PWDs is still wanting.

Discrepancy in serving the PWDs. On responding to the needs of PWDs, data show a wide discrepancy in terms of the magnitude of PWDs vis-a-vis those served by the government. There is also a need to intensify the mobilization and organization of more self-help groups and women with disabilities groups through capacity building and skills training in order for PWDs to be more independent and empowered. The LGUs and local organizations should ensure that policies and programs on PWDs are effectively implemented.

Expanding social safety nets

Need to enhance the menu of “tested” safety nets programs. There is a need to increase the menu of “tested” safety nets programs such as the cash transfer, temporary job, early childhood and school feeding, emergency responses, cash/food for work, temporary and transitional shelters, and immediate financial/medical assistance that are readily available and can be easily scaled-up during financial and economic crisis, calamities, emergencies and disasters.

Asset Reform¹⁹

Fast-tracking land acquisition and distribution

The remaining lands under the DAR's jurisdiction are relatively more difficult to acquire compared to the lands that were already distributed, which were mostly government-owned lands, lands acquired through voluntary land transfers and through voluntary offers to sell. Around 93.6 percent of the remaining LAD balance are private agricultural lands, 85 percent are LBP-compensable and 62 percent will be covered through compulsory acquisition.

Moreover, DAR's LAD balance has to be distributed according to the scheduled phasing as stipulated in RA 9700. This connotes that 37 percent of the LAD balance can only be covered in the last year (July 1, 2013 to June 30, 2014) of CARPER implementation.²⁰ This also means that only 610,355 hectares of the total LAD balance can be covered from July 2012 until June 2013. Of this total area, 13,553 hectares are for reconstitution, 30,984 hectares are untitled private agricultural lands and 179,826 hectares are problematic landholdings.

Protecting ancestral domains and lands

Among the challenges in fast tracking efforts in the delineation of ancestral domains and lands is the difficulty in the resolution of existing conflicts among various stakeholders, including boundary conflicts among ICCs/IPs communities, conflicts between ancestral domain area claimants and private companies/individuals having existing resource use instruments and between ancestral domain area claimants and LGUs. Maintaining peace and order in conflict affected areas is also a challenge.

The implementation of the Joint AO No.1 series of 2012 issued by DAR, DENR, LRA and NCIP should also be ensured to address any jurisdictional issues that may arise between and among concerned agencies.

Moreover, most ICCs/IPs still lack adequate access to basic social services. The very slow pace of development in the IP areas is mainly due to their inaccessibility. Many IP communities are cut off from the mainstream due to their remoteness and distance from government centers. There is also a need for more ecologically sound and culturally appropriate programs that would efficiently provide for their development needs.

Addressing coastal and marine settlement

As the delineation of municipal waters takes off from land boundaries, it is also hampered by the decades old issues on land boundaries. LGUs have to find ways to resolve land disputes, or adopt temporary agreements with respect to their municipal waters. Also, guidelines for the delineation of municipal waters pertaining to offshore islands are yet to be issued.

Financing the sector

While the sector has been given more attention over all the other sectors, progressive and substantial increases should be maintained. Reaching for the international benchmarks of the government's expenditure to GDP for education, health and housing remain to be fulfilled. It should also be linked with efficient utilization of resources. Increasing the allocation for effective programs should be continued to reap the intended outcomes of these programs. On the other hand, there may be a need to realign budgets of low or nonperforming programs to other priority and high performing programs.

¹⁹ Urban asset reform discussed in housing and urban development.

²⁰ Phase 3A lands constitute 217,639 hectares of the LAD balance while Phase 3B lands constitute 187,959 hectares. As per the RA9700, Phase 3A lands can only be covered from July 2012 to June 2013 while Phase 3B lands can only be covered from July 2013 to June 2014. But, only Phase 3A lands in excess of 10 hectares can be covered during this period (as per RA 9700). This means that 163,660 hectares of Phase 3A lands can only be covered from July 2013 to June 2014. Thus 351,619 hectares of the LAD balance (37%) can only be covered in the last year (July 1, 2013 to June 30, 2014) of CARPER. Note also that as per CARPER provision, Phase 3B lands cannot be covered unless 90% of the provincial LAD balance had been accomplished. This is a problem in provinces where the Phase 3B balance is more than 10% of the provincial LAD balance.

Prospects and Policy Directions for 2013

Health, Nutrition and Population

Given limited resources, UHC implementation will initially focus on the poor and the informal sector and progressively include health benefits of all sectors.

Expanding the NHIP coverage and benefit delivery

On expanding NHIP coverage, PhilHealth is looking into the expansion of the NBB policy of Sponsored Program members to private hospitals. PhilHealth also aims to roll out a number of additional new case rates as well as benefit packages for inpatient, primary care or outpatient care, MDGs and special benefits. Also, in order for these benefits to be fully maximized, members will be consistently informed of their benefits by tapping community advocates for information, education and communication (IEC) along with the PhilHealth's battlecry: "Bawat Pilipino, miyembro. Bawat miyembro, protektado. Kalusugan natin, asegurado." This shall capture the agency's primary purpose of being, which is to ensure that all Filipinos, especially those who cannot afford the cost of health care, are given real financial risk protection.

Improving access to quality health care facilities

On health facility enhancement, the DOH aims to close the gap for upgrading government health facilities in order to improve access to modern health facilities and services. The upgrading will make these facilities compliant to UHC standards. Toward this end, the Health Facilities Enhancement Program shall: (a) closely link with licensing and accreditation of health facilities; (b) develop mechanisms to leverage for sound fiscal management and financial mechanisms to support operations (especially provision of health human resources) and maintenance of health services by local government units and agencies; (c) develop premier specialty and subspecialty facilities among the DOH hospitals that are strategically located and are with potential for expansion and with flexibilities to meet the requirements of emerging health needs, emergencies and rapid

technological advancement; (e) identify effective medical and information technology systems that facilitate patient care and referral, and reduce delays and transportation costs; and (f) optimize the use of information systems in program management to improve efficiency in planning, stakeholder participation and accountability.

Attaining the health-related MDGs

In terms of attaining the nutrition-related MDGs, priority shall be given to population groups and areas highly affected or at-risk to malnutrition, (e.g. pregnant women, 0-2 years old, and lactating women). Key interventions will be scaled up including prenatal care services for the pregnant woman with appropriate diet and iron supplementation, and promotion of infant and young child feeding (IYCF) practices such as exclusive breastfeeding up to six months. Moreover, food-based approach to address hunger and micronutrient malnutrition (promotion of increased food intake and food production) shall be strengthened.

To address the challenge on RH, the UHC or the Kalusugan Pangkalahatan emphasizes FP as one of its main components. There is a need to refocus efforts and resource on FP to the poor which also have been shown to have high unmet need for FP services. Likewise, there is a need to improve education counselling activities and ensuring adequate quality FP services to the poor. Parent education on adolescent and sexual reproductive health (ASRH) can be an effective strategy of educating the youth to exercise their reproductive rights. Moreover, AO 2012-0009 signed in June 2012 sought to reduce the unmet need for modern FP services. The Commission on Population (POPCOM), DOH and other partners will continue demand generation activities (i.e. Responsible Parenthood-FP classes, behavioural change communication, IEC) in 2013. These activities will help achieve improved maternal health.

To combat HIV, the coverage of prevention programs will have to be increased especially among MARPs. Furthermore, the implementation of PhilHealth's outpatient HIV/AIDS treatment (OHAT) package will have to be enforced in all HIV treatment hubs to increase

access to treatment among persons living with HIV (PLHIV) and patients.

To intensify public health programs in addressing pressing health needs, the DOH will continue to provide drugs (anti-TB, anti-malaria, antiretroviral, ComPacks), insecticide treated nets, laboratory supplies, and technical support to LGUs to support the implementation of local public health programs. The RN HEALS project will continue to deploy 22,500 nurses in 2013 while CHTs will be increased to 52,686.

In terms of priority legislation, achieving universal health care for all Filipinos, including its funding sources will require the following: (a) restructuring of Excise or Sin Taxes of Alcohol and Tobacco; (b) passage of the Responsible Parenthood Bill; (c) review and amendment of the National Health Insurance Act; (d) passage of laws for corporate governance of hospitals; and (e) amendment of selected laws governing practice of health professionals. Lastly, an alternative to passing specific pieces of legislation would be to pass an omnibus law on universal health care that shall contain specific provisions necessary to enact required policies or amend existing laws.

Lastly, an alternative to passing specific pieces of legislation would be to pass an omnibus law on universal health care that shall contain specific provisions necessary to enact required policies or amend existing laws.

Education, Training and Culture

The work ahead appears to be more challenging, but the stronger commitment to provide education for all supported by increasing finances, achieving the PDP targets and the MDG and Education for All (EFA) goals is still a possibility.

Improving access to quality basic education

The policy directions for basic education will still be the same as in the previous years but the commitment and political will that propel the identified strategies and interventions will make the difference. These include: (a) improving access to basic education; (b) improving quality

of learning and management; (c) strengthening the system of data collection and governance; and (d) strengthening partnerships. Among the specific targets that will be given priority in the basic education subsector are to achieve the 1:1 textbook ratio and close the chair shortage in public elementary and high schools before the end of 2012. Continuing efforts will likewise be pursued to finally close the classroom gap by 2013²¹. Also, to improve access to basic education and to help decongest public high schools, the government will increase provisions for the Government Assistance to Students and Teachers in Private Education (GASTPE) to almost PhP7.0 billion in 2013, from this year's PhP6.3 billion, to accommodate one million grantees. Each grantee in the NCR will receive PhP10,000, while those in other regions will receive PhP6,500.

Expanding technical vocational education and training (TVET)

TVET policies and strategies that are in line with the goal of rationalizing the governance of middle-level skills development by strengthening TESDA and focusing on development planning, resource allocation, standard-setting and quality assurance. LGUs and industries shall be encouraged to directly participate in the delivery of TVET skills development programs. Moreover, with the approval of the PQF, policies related to enhancing the cross-level mobility of students between higher education and middle-level skills development will be implemented through ladderization, the Expanded Tertiary Education Equivalency and Accreditation Program (ETEEAP), and other modalities.

Towards the goal of improving training responsiveness and relevance, the strategy on positive perpetual collaborations, which include expansion of enterprise-based training (EBT) will be continued. In implementing the EBT, measures such as strengthening of pre-employment modalities (e.g., dual training system, apprenticeship), encouraging training in the workplace, pushing for expansion of private sector investment incentives, expanding scholarship incentives, among others, will be pursued.

21 SONA 2012 pronouncements/commitments

Investing in higher education

In higher education, more aggressive efforts in line with the Higher Education Reform Agenda (HERA) will be pursued in 2013 and beyond. Among the key reform areas are: rationalization of the subsector by aligning higher education institution (HEI) programs with national development goals and industry needs; upgrading quality to international standards; and broadening access to quality higher education. The CHED's job-skills matching project will include: (a) formulation of master plans for priority disciplines; (b) review of curricula to fit the needs of the industries; (c) establishment of the labor market information system (LMIS); (d) identification of areas of mismatch and implementation of strategies to address such mismatches; (e) massive information dissemination on employment opportunities among students and HEIs; and (f) periodic conduct of graduate tracer studies. Moreover, a system of classifying HEIs is likewise being developed based on their institutional mandate and functions vis-a-vis national development goals. This typology of HEIs will be harmonized with quality assurance criteria to allow HEIs and programs to focus and excel within their respective classifications and be recognized for such excellence. A Geographic Information System (GIS)-based map of HEIs and programs is underway to serve as decision support system for the rationalization of HEIs and programs distribution in the country. The map will provide information on the current status of program offerings with demand or thrusts at the national and regional levels.

Significantly, initiatives toward the restructuring of public higher education institutions through amalgamation will be strengthened. The formulation of the National Development Blueprint on Amalgamation will serve as the roadmap for SUCs towards becoming a Regional University System (RUS). A draft blueprint has been prepared subject to regional/zonal consultations and is targeted to be completed by end of 2012.

Enriching the culture, arts and sports

Overall efforts to create greater awareness about issues and perspectives on culture, as a growing concern in human development and governance, will be pursued more aggressively to reach a wider audience among government agencies and the general public. Strategic campaigns for culture and the arts that is beyond entertainment will be intensified. The specific policy directions for culture and the arts are: (a) integrating a system for career service and status improvement for artists and cultural workers in terms of benefits such as health insurance through the Magna Carta for Artists and Cultural Workers; (b) continuing partnerships with the DepED schools, especially Regional High School for the Arts, tertiary education institutions for the training of teachers in the arts, among others, through programs developed by the NCCA through the Philippine Cultural Education Program (PCEP); (c) institutionalizing the National Artists (NA) Awards and similar honor systems, incentives and support program for artists and ensuring the integrity of the NA by allowing the artists themselves to define the categories and criteria of the awards and choose the foremost exemplars of their arts; and (d) supporting the representation of the culture and arts sector in the different Regional Development Councils (RDCs) and in the National Disaster Coordinating Council (NDCC).

In communication and development, the momentum that was built and established among different heads of communication offices and corporate affairs offices of NGAs, government financial institutions/government-owned and controlled corporations (GFIs/GOCCs) in the Development Communication Network (DEVCOMNET) will be strengthened as the Aquino leadership moves on to its mid-year in pursuance of its governance thrusts. Moreover, increased information awareness and engaging more people's support for the PDP for the next three years must be pursued. Sufficient budgetary support from government to enhance these development communication activities of government is necessary. A more creative resource generation must be undertaken in the implementation of more dynamic advocacy activities collaboration with the private sector and other partners

Towards the development of a sporting culture, the PSC-POC National Games, and the Batang Pinoy shall continue to be yearly national competition programs to give opportunities for the youth to engage in higher-level competitions, and eventually develop their world-class potentials.

Housing and Urban Development

Providing adequate housing and financing

The formulation of the NISUS is complemented by a comprehensive review of the resettlement policies and the preparation of a comprehensive shelter plan for ISFs in Metro Manila. The National Resettlement Development Framework will also be crafted to help in the identification of common procedures and guidelines among all infrastructure agencies, the housing agencies, the LGUs, and other government agencies in relocating families.

The five-year target of the PhP50 billion resettlement fund is to provide housing in safer communities to some 104,219 ISFs in danger areas in Metro Manila. To date, the bidding for the design and construction of two incity medium-rise building projects that will benefit about 1,450 families is ongoing..

The revisions on the implementation of the CMP is underway. This includes the guidelines for the onsite land acquisition projects and offsite projects, and the LCMP; the policies on emergency conditions such as CMP financing for ISFs under threat of eviction; policy guidelines on the accreditation of CMP implementation partners, the CMP-Mobilizers to strengthen their capacities and collaborative efforts with Social Housing Finance Corporation (SHFC).

Private banks shall be encouraged to assume a larger role through government guarantees that make housing loans practically risk-free. To help finance rural homeowners, guarantees shall be provided to housing loan accounts of rural banks and microfinance institutions which have shown capacity to service housing loans responsibly.

The NHMFC shall continue to buy seasoned mortgages and review its guidelines to maintain its viability. Bonds worth PhP1 billion shall be

issued by 2013 and shall offer its service for the issuance of HDMF bonds worth PhP10 billion.

Strengthening Institutions and Forging Partnerships

With the passage of the DHUD Bill, the housing sector, aside from the provision of housing units, shall provide a holistic approach to sustainable urban development. Passage of the DHUD may provide long-term solutions in designing and managing disaster-resilient, competitive, inclusive, and sustainable communities.

An integrated database on housing and urban development shall be developed and implemented as the tool to increase the capacity to plan, develop, analyze, monitor, and evaluate programs and projects that will aid in having climate sensitive urban development/land use plans, thereby promoting sustainable communities. In coordination with LGUs, the database shall contain significant baseline data and housing beneficiaries.

To further build the capacities of LGUs, the Housing and Land Use Regulatory Board (HLURB) is assisting 886 LGUs update their CLUPs in 2012 in order to attain 100 percent compliance by 2013. Climate change adaptation and disaster risk-reduction shall be considered and mainstreamed through the preparation of the CLUPs. The increased efforts in assisting LGUs with their CLUPs will lead to the identification of underutilized land. This will help address the dearth in land that limits the accomplishment of the housing subsector.

PPP shall be facilitated through tax incentives and the streamlining of processes for loans and issuances. To encourage private developers to participate in the socialized housing market, a support to legislation on the balanced housing requirement for condominium projects shall be pursued. Section 18 of the Urban Development and Housing Act (UDHA) requires developers of proposed condominium projects to develop socialized housing projects costing at least 20 percent of the total project cost. The support to legislation aims to provide better compliance and monitoring.

Social Protection

The subsector shall continue to improve the enabling environment to consolidate, harmonize and strengthen social protection policies and programs. The subsector shall: (a) develop timely and adequate impact evaluations and develop sustainability plan for all social protection programs; (b) formulate and fully implement the medium-term Social Protection Action Plan to provide direction to SP initiatives; (c) establish a reliable and responsive monitoring and evaluation system for social protection programs and projects; (d) consolidate, update and maintain the NHTS-PR database and make it available to all agencies and entities at the national and local level; and (e) provide funding in generating the needed social protection statistics.

Expanding labor market interventions

Intensified workforce-specific OSH interventions will be implemented by DOLE taking into account the varying needs of workers in the formal and informal economy and those taking the option of overseas employment. These interventions include the following: (a) OSH trainings and services will be provided to hazardous and highly hazardous industries; (b) dialogues with the tripartite and partners will be sustained to ensure compliance and promote OSH programs; (c) work with DepEd and CHED in including OSH in the secondary and tertiary curriculum to ensure a workforce equipped with the fundamentals of OSH; (d) continue working with LGUs to integrate OSH policies and programs in the local development plans for workers in the informal economy; (e) work with the OSH Networks (OSHNETs) to multiply efforts in providing the needed OSH training and services in the regions; (f) continue to develop online learning courses that are relevant and required by industry and improve reporting system of work-related accidents and illnesses nationwide in order to develop the necessary policy and program issuances; and (g) provide necessary capacity building requirements of labor inspectors in all regions.

With the country's goal of reducing by 75 percent all worst forms of child labor by 2015, DOLE is committed to make child labor-free every barangay in the country. In particular, DOLE's

Child-Labor Free Barangay Campaign together with the DSWD and DILG, shall seek to declare 80 barangays in 16 regions in 2012 as child-labor free. The Barangay Councils for the Protection of Children (BCPCs) shall be strengthened for this initiative.

The National Child Labor Committee (NCLC) is working to resolve the gap between the age of completion of compulsory education and the minimum age for work or admission to employment, which is 15 years old, for the country to fully comply with International Labour Organization (ILO) Convention 182. This matter needs legislative amendment and is also being studied by the NCLC. Furthermore, the NCLC, in collaboration with the ILO Manila, will formulate an interagency action plan for 2012-2016. One of the features of this plan is the institutionalization of child labor in the NSO's Labor Force Survey.

Increasing coverage of social insurance

Although there is an existing pension plan for poor senior citizens, most of the government social insurance schemes still covers only those who have the ability to pay. Sustainable social insurance mechanisms for the vulnerable groups should therefore be developed and implemented. Given the limited resources of the government, partnerships with the private sector and implementation of community-based social insurance mechanisms should be supported and encouraged. This is to ensure that the vulnerable are protected from the effects of disability, old age, sickness, calamities and economic shocks, among others.

To increase the level of utilization of available health care services of Pantawid Pamilya beneficiaries, there is a need to improve their health seeking behaviour. The existing modules under the Pantawid Pamilya Family Development Session (FDS) shall be reviewed and enhanced to include a topic on: (a) Philhealth services and benefits; (b) how to use the Philhealth card; and (c) importance of availing health services from the government and private health care providers.

Strengthening response in social welfare

As the core social protection and poverty alleviation strategy, the Pantawid Pamilya will be continuously expanded and partnerships with various agencies in terms of providing livelihood and employment opportunities to the beneficiaries will be strengthened. Convergence activities in the implementation of major social protection programs such as the Pantawid Pamilya, KALAHI-CIDSS, and Sustainable Livelihood Program shall likewise be strengthened.

The issues on the implementation and expansion of the KALAHI-CIDSS should be addressed by providing assistance to partner LGUs in meeting enrolment requirements. With the proposed scaling up of CDD as a national poverty reduction strategy by 2013, there should be intensified promotion of CDD for adoption of other NGAs and LGUs as well as the harmonization of their CDD initiatives.

To facilitate the implementation of the Magna Carta of Women, the Women's Empowerment and Development toward Gender Equality (WEDGE) Plan is being formulated. The WEDGE Plan will define goals, objectives, strategies and programs for the next five years (2012-2016) including monitoring mechanisms to ensure its implementation. To further empower women, there is also a need to strengthen the implementation of RA 9262 or the Anti-Violence Against Women and their Children Act by intensifying information campaigns at the barangay level and establishing a strong monitoring mechanism.

There is likewise a need to amend and repeal discriminatory laws on women and those related to VAWC such as on adultery and concubinage under the Revised Penal Code, the Family Code, and the law on sexual harassment and rape.

To address the risks and vulnerabilities of the elderly, the Philippine Plan of Action for Senior Citizens (PPASC) 2012-2016 adopts the following priority directions for the succeeding years: (a) providing social protection and security, educational and employment opportunities, access to capability building programs, and promotion of

active ageing; (b) ensuring access to and availability of quality and appropriate health care services; and (c) ensuring enabling environment through advocacy, policy and legislation, budget allocation, full compliance of RA 9994, among others.

Continuing efforts will be pursued to improve the structure, facilities and management of centers and institutions for the welfare, protection, rehabilitation, education, training and employment of the PWDs which is in line with the provisions of the Magna Carta for PWD (RA 7277). Stronger and sustained advocacy and awareness campaigns are vital in improving service delivery to PWDs.

Expanding social safety nets

Complementation and regularization of safety nets programs by enhancing the financing mechanism through catastrophe pooling, contingent financing option and prepositioning of fund and resources to regions that would allow build-up of reserves to manage risk will be pursued. Also, a joint memorandum circular defining the leadership and accountability in the set-up and management of evacuation centers in times of disaster shall be issued to recalibrate services of agencies involved in camp management.

Asset Reform²²

Fast-tracking land acquisition and distribution

For 2013, the DAR shall acquire and distribute 260,000 hectares of various agricultural landholdings nationwide in accordance with the land types prescribed under the CARPER law. To ensure timely distribution of the remaining landholdings, the documentation and survey of lands for distribution for 2014 shall be completed during the second semester of 2013. DAR shall work closely with LRA on the registration of titles (Emancipation Patent/Certificate of Land Ownership Awards) to beneficiaries; with DENR on the approval of surveys and issuance of certifications of lands to be covered as to its alienability and disposability; and with LBP on valuation and landowners' compensation.

The DAR shall also continue to sustain the speedy resolution of cases handled by the DAR

²² Urban asset reform discussed under housing and urban development.

Adjudication Board (DARAB). To sustain support for other key program activities, the DAR shall link the Legal Case Monitoring System with other program components. To ensure that orders and/or decisions are carried out, the implementation of the DAR-DILG-Department of National Defense (DND) Joint Circular on the Law Enforcement of Agrarian Reform Laws and Programs shall be vigorously pursued.

Protecting ancestral domains and lands

To address the challenges, the following strategies and interventions shall be undertaken: (a) intensify information, education and communication drive about Indigenous People's Rights Act (IPRA) and the NCIP's delineation and titling program in all levels of the government and further strengthen partnership among ICCs, LGUs, NGAs and CSOs to ensure synergy in activities for IPs; (b) continue policy dialogue and interfacing between and among government agencies such as NCIP, DAR, DENR and LRA on conflicting issues on land delineation; (c) continue the conduct of conflict resolution through customary laws and practices, organizational and cultural or traditional leadership systems and institutions shall be strengthened to promote effective governance of ancestral domains; (d) adopt cost-cutting measures on the delineation process and provide additional survey instruments and mapping equipment; (e) fully implement the Ancestral Domains and Database Information System (ADDIS) to develop a comprehensive database on ancestral domains to improve monitoring of related issues and concerns; and f) continue to technically capacitate all NCIP personnel to promote efficiency in the delivery of services to the ICCs/IPs. Financial and physical monitoring of related activities undertaken by NCIP field offices shall also be intensified.

Addressing coastal and marine settlement

In support of the national government's thrust to complete the delineation of municipal waters, the NAMRIA, LGUs and BFAR should fast track its efforts in validating the proposed municipal water boundaries. The BFAR shall continue to provide technical assistance and closely collaborate with LGUs in settling disputes on overlapping boundaries in the municipal waters. The LGUs

should expedite the process by prioritizing the delineation of municipal water boundaries based on the approved/validated maps or charts and technical descriptions and enactment of appropriate Municipal Fisheries Ordinances. The BFAR and NAMRIA should also establish appropriate coordination measures in maintaining an updated database of the validated delineated municipal waters. The issuance of a Joint Memorandum Circular among the DILG, DENR, NAMRIA and DA/BFAR advocating the swift implementation of the Fisheries Code, especially the delineation of municipal waters including provisions of incentive and awards for LGUs, shall likewise be pursued.

With regard to the fisherfolk settlement areas, NITFFS, shall pursue the formulation of policy guidelines or IRR on the establishment and creation of fisherfolk settlement areas. The NITFFS shall also develop a comprehensive fisherfolk settlement plan and program including the identification, prioritization and securing land tenure for municipal fisherfolk through different land acquisition modes as a primary strategy in providing tenurial rights for the underprivileged and landless municipal fisherfolk.

Financing the sector

With the government gearing towards the acceleration and completion of targets set forth in the Social Contract and fleshed out in the PDP, 34.8 percent or about PhP699 billion which is 6.3 percent of real GDP is allocated for social services in the proposed PhP2.006 trillion government budget for 2013. This is an increase of around 14 percent in terms of level from the PhP613 billion allocation in 2012. Real per capita spending for social services also increased from PhP3,955 in 2012 to PhP4,206 in 2013. These increases will mainly go to the implementation of K to 12, Pantawid Pamilya, completion of the land distribution under CARPER in 2014, and housing resettlement program, among others.

For 2013, education, culture and manpower development will get 47 percent of total appropriations; social security and labor welfare, 24 percent; health, 7 percent; land distribution, 1 percent; and housing and community development, 3 percent.

Annex 8-1.Social Development Results Matrix

Indicators	Baseline		Target	Actual	Accom- plishment (in %)	Target	Actual	Accom- plishment (in %)	End-of-Plan Target	Accom- plishment (in %)
	Year	Value								
Health, Nutrition and Population Outcome: Access to quality health and nutrition services improved										
Maternal mortality ratio (per 100,000 livebirths) decreased	2010	95-163	97	221	-27.8	84	NA		50	-242.0
Infant mortality rate (per 1,000 livebirths) decreased	2008	25	23	22	104.3	22	NA		17	70.6
Underfive mortality rate (per 1,000 livebirths) decreased	2008	34	31.6	30	105.1	30.4	NA		25.5	82.4
Prevalence of underweight children under five years of age decreased (in %)	2008	20.6	17.6	20.2	85.2	16.6	NA		12.7	40.9
Proportion of households with per capita intake below 100% dietary energy requirement decreased (in %)	2008	66.9	54.1	NA		49.9	NA		32.8	
Contraceptive prevalence rate (all methods) increased (in %)*	2006	51	56.2	48.9	87.0	57.9	NA		63 (2015)	77.6
HIV Prevalence maintained (in %)	2009	<1%	<1%	<1%		<1%	NA		<1%	
Malaria morbidity rate (cases per 100,000 population) decreased	2009	22	16.9	9.5	143.8	14.3	NA		4	-37.5
Malaria mortality rate (deaths per 100,000 population) decreased	2009	0.03	<.03	0.03		<.03	NA		<.03	
TB (all forms) prevalence rate (per 100,000 population) decreased**	2008	548	446	NA		434	NA		398	
TB (all forms) mortality rate (deaths per 100,000 population) decreased	2007	41	36	33	108.3	35	NA		33	100.0
TB case detection rate (all forms) increased (in %)	2008	73.0	79.0	75.0	94.9	81.0	NA		85.0	88.2
TB cure rate (New Sm+) increased (in %)	2008	79.0	82.0	85.0	103.7	83.0	NA		85.0	100.0

Indicators	Baseline		Target		Actual		Accomplishment (in %)		Target	Actual	Accomplishment (in %)	End-of-Plan Target 2016	Accomplishment (in %) 2016
	Year	Value	2011	2011	2011	2011	2011	2011	2012	2012	2012	2016	2016
Proportion of HH with access to safe water increased (in %)	2008	82.3	83.0	NA	NA	84.0	NA	88.0	NA	NA	88.0		
Proportion of HH with access to sanitary toilet facilities increased (in %)	2008	76.8	79.0	NA	NA	81.0	NA	88.0	NA	NA	88.0		
Population with access to affordable essential drugs increased (in %)	2009	73.0	NA	NA	NA	NA	NA	95.0	NA	NA	95.0		
Mean percentage essential drugs availability in rural health units/city health centers and level I to IV public hospitals***	2009	25.3	31.6	45.15	142.9	39.5	NA	NA	NA	NA	NA		
National Health Insurance Program coverage increased (in %)	2008	53.0	70.0	NA	NA	85	NA	100.0	NA	NA	100.0		
National Health Insurance Program enrolment rate increased (in %)	2010	74.0	85.0	82.0	96.5	90	85.0 (as of May)	100.0	94.4	85.0	100.0		85.0
Education, Training and Culture Outcome: Access to quality education, training and culture improved													
Simple literacy rate increased (in %)	2008	95.6	NA	NA	NA	NA	NA	NA	NA	NA	NA		
Functional literacy rate increased (in %)	2008	86.4	NA	NA	NA	NA	NA	NA	NA	NA	NA		
Net enrolment rate in kindergarten (5 yrs old) increased (%)**	2010	54.6	58.6	77.5	132.3	68.9	NA	100.0	77.5	NA	100.0		77.5
Net enrolment rate in elementary increased (in %)**	2010	89.9	90.1	91.2	101.2	92.1	NA	100.0	91.2	NA	100.0		91.2
Net enrolment rate in secondary increased (in %)**	2010	61.3	65.2	62.0	95.2	70.8	NA	93.3	66.4	NA	93.3		66.4
Completion rate in elementary increased (in %)**	2010	72.1	75.1	71.0	94.4	76.6	NA	82.5	86.0	NA	82.5		86.0
Completion rate in secondary increased (in %)**	2010	75.1	74.3	74.2	99.97	74.5	NA	75.5	98.3	NA	75.5		98.3

Indicators	Baseline		Target	Actual	Accom- plishment (in %)	Target	Actual	Accom- plishment (in %)	End-of-Plan Target	Accom- plishment (in %)
	Year	Value								
Cohort survival rate in elementary increased (in %)**	2010	74.2	76.5	73.8	96.5	78.5	NA		86.8	85.0
	2010	79.4	79.4	78.8	99.3	80.3	NA		83.9	93.9
Achievement rate (NAT MPS) in elementary increased (in %)**	2010	68.2	70.9	66.8	94.2	71.7	NA		75.0	89.1
Achievement rate (NAT MPS) in secondary increased (in %)**	2010	47.9	54.6	48.9	89.6	58.7	NA		75.0	65.2
No. of TVET enrollees increased	2010	1,568,617	1,100,000	1,572,131	142.9	1,210,000	NA		1,771,560	88.7
No. of TVET graduates increased	2010	1,344,371	1,000,000	1,332,751	133.3	1,100,000	621,224 (as of June)	56.5	1,610,510	121.3
No. of workers assessed increased**	2010	716,220	600,000	835,572	139.3	660,000	494,512 (as of June)	74.9	966,306	137.6
No. of workers certified increased**	2010	594,323	510,000	703,360	137.9	564,300	416,239 (as of June)	73.8	845,518	132.4
Certification rate in TVET increased (in %)**	2010	82.9	85.0	84.2	99.0	85.5	NA		87.5	96.2
No. of PESFA graduates increased**	2010	22,732	15,000	28,285	188.6	15,000	24,721 (as of June)	164.8	15,000	353.4
No. of TWSP scholar-beneficiaries increased***	2010	98,727	70,000	110,185	157.4	70,000	225,764 (as of June)	322.5	200,000	168.0
No. of higher education enrollees increased**	2010	2,937,847	2,881,352	3,033,967	105.3	2,955,949	NA		3,220,987	94.2
No. higher education graduates increased**	2010	498,418	509,707	517,425	101.5	524,054	NA		581,425	89.0

Indicators	Baseline		Target		Actual		Accomplishment (in %)		Target		Actual		Accomplishment (in %)		End-of-Plan Target		Accomplishment (in %)		2016	
	Year	Value	2011	2011	2011	2011	2011	2011	2012	2012	2012	2012	2012	2012	2016	2016	2016	2016	2016	2016
Higher education faculty with Master's degree increased (in %)**	2010	38.9	40.0	41.4	103.6	45.0	NA	65.0	63.8											
Higher education faculty with Doctorate degree increased (in %)**	2010	11.1	10.0	12.7	126.6	13.0	NA	30.0	42.2											
Higher education institutions with accredited programs increased (%)**	2010	19.9	20.0	21.5	107.7	23.0	NA	35.0	61.5											
No. of graduates of Expanded Tertiary Education Equivalency and Accreditation Program (ETEEAP) increased**	2010	2,587	800	1,552	194.0	800	NA	800	194.0											
No. of beneficiaries of Student Financial Assistance Programs (STUFAPs) in higher education increased**	2010	60,471	44,000	63,346	144.0	44,000	NA	44,000	144.0											
Higher education institutions with Ladderized Education Program (LEP) Increased (in %)	2008	34.0	30.0	NA		32.0	NA	40.0												
National passing percentage (across disciplines) in Licensure Exams increased (%)**	2010	33.9	45.8	35.4	77.2	47.0	NA	52.5	67.3											
Housing and Urban Development Outcome: Access to shelter security improved																				
Percentage of housing target met increased (in %)	2010	22.4	NA	NA		NA	NA	43.2												
Share of socialized housing to housing target increased (in %)	2010	18.6	NA	NA		NA	NA	43.4												
Share of end-user financing to housing target met (in %)	2010	81.4	NA	NA		NA	NA	56.6												
CLUP target met (in %)	2010	94.0	NA	NA		NA	NA	NA												
No. of HGC guaranties increased*	2010	8,994	50,500	25,006	49.5	57,065	3,144 (as of June)	420,298	5.5											

Indicators	Baseline		Target	Actual	Accomplishment (in %)	Target	Actual	Accomplishment (in %)	End-of-Plan Target	Accomplishment (in %)
	Year	Value								
Increase in percentage of poor families covered by PhilHealth as identified under the NHTS-PR (in %)	2010	21.0	NA	NA		NA	NA		100.0	
Increase in number of jobs generated in the government community-based employment program	2011 (first quarter)	168,083	1,000,000	1,238,000	123.8	1,000,000	768,063 (as of June)	76.8	6,000,000	33.4
Increase in number of OFWs covered by social security	2010	2,200,000	NA	NA		NA	NA		9,655,272	
Increase in number of membership to OWWA (covered by disability and death benefits)	2010	1,355,331	1,251,394	1,473,878	117.8	1,514,187	546,138 (as of May)	39.7	Depends on the number of OFWs	
Asset Reform Outcome: Access to asset reform improved										
Increase in number of hectares of land distributed under CARP**	2010	202,084	300,000	204,035	68.0	340,247	33,018 (as of June)	9.7	1,185,296	20.8
Increase in number of Certificate of ancestral domain title (CADTs)/Certificate of ancestral land title (CALTs) issued**	July 2010 (CADD)	157	12	0	0.0	12	1 (as of June)	8.3	48	2.1
	July 2010 (CALT)	258	12	0	0.0	12	0 (as of June)	0	48	0.0
Increase in number of coastal municipalities with delineated municipal waters	2010	919	NA	6		NA	5 (as of June)		to be provided	

Sources: DOH, NNC, POPCOM, PHIC, NSCB, DepEd, TESDA, CHED, HUDCC, SHFC, HGC, DSWD, DOLE, DAR, DENR, NCIP, NAMRIA

*new baseline year

**updated baseline data

***proposed new indicator

NA - not available

Chapter 9. Peace and Security

The Philippine Development Plan (PDP) 2011-2016 seeks to win the peace and ensure national security in support of national development. For the period being assessed, the peace process focused on the pursuit of negotiated political settlement of all armed conflicts and the implementation of a complementary track to address the root causes of armed conflict and other issues affecting the peace process, notably through the implementation of the *Payapa at Masaganang Pamayanan* (PAMANA) Program,

The government responded to various security challenges, both internal and external threats, to provide an enabling environment conducive to development. While decreased crime incidents and increased crime detection and investigative resolution rates were achieved, external threats to the country's territorial integrity remain a challenge for the government. Efforts have been made to reform and modernize the security sector through its capability upgrade and enhancement programs.

A. Permanent and peaceful closure of all armed conflicts reached

The PDP 2011-2016 translated the President's roadmap to winning peace into a two-track approach: (a) a negotiated political settlement of all armed conflict through peace negotiations; and (b) a complementary track, which aims to effectively address the root causes of all armed conflict and other issues that affect the peace process through focused development interventions in conflict-affected and vulnerable areas.

Assessment

Negotiated political settlement of all armed conflicts completed

The Government of the Philippines (GPH) aims to have peace agreements and closure instruments with rebel groups signed within the Plan period.

To date, the GPH is engaged in the following: (a) peace negotiations with the Moro Islamic Liberation Front (MILF) and with the Communist Party of the Philippines/New People's Army/National Democratic Front (CPP/NPA/NDF or CNN); (b) discussions with the Moro National Liberation Front (MNLF) and the Organization of Islamic Conference (OIC) toward the full implementation of the 1996 Final Peace Agreement with the MNLF; and (c) closure track with the Cordillera Bodong Administration-Cordillera People's Liberation Army (CBA-CPLA) which signed a peace agreement with the government in 1986, and with the Rebolusyonaryong Partido ng Manggagawa Pilipinas-Revolutionary Proletarian Army-Alex Boncayao Brigade (RPM-P/RPA/ABB) which signed a peace accord with the government in 2000.

Peace Negotiations with the Moro Islamic Liberation Front and the Communist Party of the Philippines/New People's Army/National Democratic Front

Peace negotiations with the MILF resumed in February 2011 with the conduct of the 20th formal exploratory talks. As of June 2012, nine formal exploratory talks have been conducted by the negotiating panels. A major breakthrough is the signing on April 24, 2012 of the Decision Points on Principles which further guides the discussions on the substantive agenda of the negotiations. Meanwhile, relative peace was sustained in communities affected by the GPH-MILF conflict with the implementation

of the ceasefire agreements through the Joint Coordinating Committee on Cessation of Hostilities, Local Monitoring Teams and International Monitoring Team (IMT). Violent encounters between government and MILF forces have been minimized. Since January 2012, no encounters have been reported.

Peace talks with the CPP/NPA/NDF resumed in February 2011, breaking a seven-year impasse (2004-2011). The declaration of unilateral suspension of military operations (SOMO) from December 2010 to January 2011 as well as during the conduct of the talks in February 2011 lowered the level of violence on the ground. However, the talks were disrupted from June 2011 to the present due to the NDF's series of unilateral postponement of the talks because of their demand for prisoner release, which are violations of the signed agreements.

In its continuing efforts to put the parties back to the negotiating table, the Royal Norwegian Government (RNG), as Third Party Facilitator for the talks, initiated the conduct of informal meeting last June 2012 in Oslo, Norway. During said meeting, the parties agreed to continue meaningful discussions of concerns and issues raised by both sides to pave the way for the resumption of the formal talks.

Full Implementation of the GPH-Moro National Liberation Front 1996 Final Peace Agreement

As of June 2012, a number of high-level tripartite meetings have been conducted by the Organization of the Islamic Cooperation (OIC), GPH and MNLF since 2007 to review the implementation of the 1996 Final Peace Agreement (FPA) and assess the progress made as well as the obstacles facing the full implementation of said accord. The last Tripartite Meeting was held in February 2011 in the Kingdom of Saudi Arabia.

The review process resulted in the following: (a) 42 consensus points to amend Republic Act (RA) 9054¹; (b) interim co-management arrangement on control and supervision over exploration, development and utilization of strategic minerals;

(c) GPH-MNLF Partnership in capacitating the ARMM as a complementary mechanism for the full implementation of the 1996 FPA; (d) proposed establishment of a peace and development fund mechanism called Bangsamoro Development Assistance Fund (BDAF); and (e) proposed establishment of a Tripartite Implementation Monitoring Committee.

Closure Track with the Cordillera Bodong Administration-Cordillera People's Liberation Army and the Rebolusyonaryong Partido ng Manggagawa-Pilipinas/Revolutionary Proletarian Army/Alex Boncayao Brigade

The CBA-CPLA signed in July 2011 the Closure Memorandum of Agreement (MOA) with the government toward the disposition of arms and forces and their transformation into a socioeconomic entity. The MOA also provides for the economic reintegration of CPLA members and the implementation of community, interbarangay and intermunicipal development projects.

To date, the CPLA has converted itself into an unarmed and SEC-registered socioeconomic organization called Cordillera Forum for Peace and Development, Inc. The national government has also established partnerships with the provincial governments of Abra, Apayao, Benguet, Ifugao, Kalinga and Mt. Province and 12 municipal government units for the implementation of 104 community development and livelihood projects worth PhP224 million, of which 35 projects are ongoing.

On the closure agreements with the RPM-P/RPA/ABB, the government has pursued discussions towards a negotiated political settlement with its two separate groups namely, the Tabara-Paduan Group (TPG) and the Nilo de la Cruz Group (NDLCG).

In November 2010, a consensus was reached with the Tabara-Paduan Group on the closure program where both parties agreed work on the interim measures setting the framework of the closure agreement. To date, initial steps were

¹ RA 9054 is the law to strengthen and expand the Organic Act for the Autonomous Region in Muslim Mindanao

already undertaken towards the final disposition of arms and forces such as profiling of 716 TPG members, validation of initial data on civil and criminal cases of profiled TPG members, and inventory of 485 firearms, 401 explosives and various ammunitions.

From 2010 to the present, the government and the TPG continued to work on a Closure Agreement with the following components: (a) Community Peace Dividends; (b) Socio and Economic Reintegration of RPM-P/RPA/ABB (TPG); (c) Disposition of Arms and Forces with Provisions for Joint Security Arrangement in the Interim; (d) provision for civil and political Rights; and (e) Institutional Transformation of the RPM-P/RPA/ABB (TPG).

On the other hand, discussions with the NDLCG, reached an impasse due to internal divisions within said group.

Causes of all armed conflict and other issues that affect the peace process effectively addressed

A complementary track was pursued to address causes of conflict and other related issues affecting the peace process.

Focused development in conflict-affected areas through the Payapa at Masaganang Pamayanan (PAMANA) program

The *Payapa at Masaganang Pamayanan* Program or PAMANA is the national government's peace and development framework to strengthen peacebuilding, reconstruction and development in conflict-affected and vulnerable areas.

For the past two years, the national government has been working to ensure that the PAMANA program would effectively carry out the following goals as outlined in the PDP 2011-2016: (a) reduce poverty and vulnerability in conflict-affected areas; (b) improve governance; and (c) empower communities and strengthen their capacity to address issues of conflict and peace through activities that promote social cohesion.

To date, 33 percent of the total 4,906 targeted barangays in 37 provinces have already been

covered by PAMANA. Following are the achievements of the program:

Established shelter assistance program for Internally Displaced Persons (IDPs). The PAMANA program aims to provide IDPs with a sense of security and normalcy in their lives back in their respective communities. The Program has constructed a total of 1,385 shelters or 49 percent out of the targeted 2,815 units costing PhP190 million. The remaining 1,430 shelters are targeted for completion by August 2012. The IDP Shelter Program is being implemented in Central Mindanao where massive displacement occurred because of armed hostilities related with the issue on the GPH-MILF MOA on Ancestral Domain in 2008.

In addition to PAMANA's IDP Shelter Assistance Program is the implementation of the Early Recovery and Rehabilitation for Central Mindanao (ERRCM) Project through the Mindanao Development Authority (MinDA). The ERRCM Project contributed to the efforts of national and local governments in facilitating the return or resettlement and early recovery of persons displaced by the armed conflict in Mindanao since 2008. To date, approximately 51 percent of the total 30 communities targeted by the end of the planning period were already supported in their transition from relief to recovery and development, restoration of socioeconomic life, and in the enhancement of their capacity to fully participate in long-term recovery and development.

Delivered community-driven development and livelihood projects. In its effort towards making government's presence felt by households and communities in conflict-affected areas, community projects in 184 barangays are supported through the DSWD-KALAHI-CIDSS-PAMANA and DAR's PAMANA Agrarian Reform Areas (ARA) projects. An estimated 55,713 indirect beneficiaries have benefitted from the projects.

The DSWD-KALAHI-CIDSS PAMANA program is supporting a total of 149 community-driven and livelihood projects in 149 barangays. To date, there are 31

completed projects (21%). Implementation is ongoing for 51 projects (34%), while the request for fund release is being processed for the remaining 67 projects (45%). Under the DAR-ARCDP, social preparation activities and project prioritization have been completed by the 1st quarter. To date, 17 project proposals have been finalized and submitted for funding with fund release being processed for 12 projects. LGU consultations and project guideline preparation activities were undertaken in the first half of 2012 for the expansion of coverage of DSWD and DAR to 1,489 barangays.

Established subregional economic projects towards economic integration through physical and economic connectivity. In support of the government's goal of providing household and communities in conflict-affected areas with opportunities for improved quality of life and participation in governance, various subregional socioeconomic projects are currently under different phases of implementation in four regions (ARMM, Regions IX, X and XII) affected by the Bangsamoro fronts and five regions (IV-B, V, VIII, XI and XIII) with communist insurgency.

Under PAMANA, 32 out of 125 subregional development projects were implemented in 80 municipalities of 18 provinces. To date, the projects have assisted 3,407 farmers through the provision of agricultural inputs to 689 hectares of farms; 47 kilometers of road infrastructure; and bridge construction. An estimated number of 212,142 persons have benefited from the projects and 3,607 persons were provided with direct employment.

Additional support provided to address the development needs of communities with MNLF presence. Following the signing by the GPH and the MNLF of the Final Peace Agreement in 1996, many MNLF-identified communities had been recipients of various development programs, both foreign-assisted and government-initiated. However, more than 15 years later, many of these communities are still underdeveloped and vulnerable to conflict.

Under the Disbursement Acceleration Program of 2011, the GPH earmarked PhP697 million in development grants for 131 communities with MNLF presence in 13 provinces and three chartered cities. Through this funding, PAMANA was able to provide MNLF-identified communities with additional support to help address their development needs.

As of June 30, 2012, a total of 183 community and infrastructure projects amounting to PhP 396 million for communities with MNLF presence have been identified with 20 completed and 38 currently ongoing. The projects were identified during barangay assemblies conducted in the 131 barangays that were facilitated by community peace and development advocates (PDAs).

The projects range from infrastructure support such as farm-to-market roads, bridges, school buildings or classrooms to provision of equipment and facilities for livelihood development and agricultural production with beneficiaries estimated at 68,175 persons.

Supported the Closure Track with the CBA-CPLA. PAMANA in the Cordillera supports the implementation of the 2011 GPH-CBA/CPLA Closure Agreement signed on July 4, 2011.

For the year 2011, a total of PhP219 million was allocated to support 90 community development projects with 43 projects being implemented and 47 projects in the preparatory stage. A MOA is being finalized for 14 projects amounting to PhP5 million.

A total of PhP50 Million in the PAMANA-DILG Fund and PhP17.1 Million in the PAMANA-DSWD Fund were allocated in 2012 to support infrastructure development programs requirements and community-driven enterprise development projects for identified 62 barangays. These projects are from the list identified by the CBA-CPLA, validated through a community-consultation process, and thereafter adopted by the Joint Committee of the GPH-CBA-CPLA Closure Process.

Supported the Closure Track with the RPM-P/RPA/ABB Tabara-Paduan Group. As part of the government commitment to fast-track the closure program with the RPM-P/RPA/ABB (TPG), PhP138.5 million was allocated through the Provincial Governments of Negros Occidental and Negros Oriental to support a range of socioeconomic project interventions for 543 TPG member-beneficiaries, including agri-based enterprise development projects or community peace dividends for 52 barangays. Implementation will commence upon the signing of the Closure Agreement, which is targeted for the fourth quarter of 2012.

For the year 2012, socioeconomic projects will also be implemented through the Poverty Reduction Programs Bureau of DSWD totaling to PhP56.1 million to cover TPG member-beneficiaries and community peace dividends in Region VI. The areas to be covered are those endorsed by the RPM-P/RPA/ABB and adopted by the GPH.

Under the PAMANA-DILG Fund for 2012, PhP50 million has been allocated for community peace dividends through agri-based development projects in 15 barangays in Antique, Bukidnon, Davao City and Ilocos Sur, development of settlement sites with accordant security arrangements, as well as a range of interventions covering the development of onsite areas, socioeconomic development assistance and the provision of modified shelters for 98 TPG member-beneficiaries and other enabling interventions in Regions VI and VII, Bukidnon, Misamis Oriental and NCR.

Implemented policy instruments for good and transparent governance towards reforming the ARMM

The government pushed for reforms in ARMM governance to promote the peace process towards the eventual signing of a peace agreement with the MILF. The Department of Interior and Local Government (DILG) has laid the groundwork for bureaucratic and governance reforms through the crafting of ARMM Roadmap for Reforms and Good Governance.

The Roadmap lays down the reforms to increase efficiency and accountability of local government officials and ensure compliance with laws, especially those pertaining to procurement processes. The Full Disclosure Policy has been operationalized to raise the service delivery standards of ARMM Regional Government Agencies to provide people with better access to education, health services, potable water, sanitation, and livelihood, among others.

As an offshoot of the Roadmap, the DILG implemented the Transition Investment Support Program (TISP) for ARMM which consists of development projects through a convergence of efforts of national agencies. The DILG will soon launch the Seal of Good Governance in the region, as a component of TISP which will advance accountability and transparency of ARMM LGUs.

Strengthening peace and social cohesion and conflict sensitivity of communities in conflict-affected areas

The government aims to establish and strengthen peace building structures and for healing and reconciliation. The Office of the Presidential Adviser on the Peace Process (OPAPP) and DILG, through the Mainstreaming Peace and Development in Local Governance Project have capacitated LGUs in 25 provinces, together with national agencies such as DAR and DILG on conflict-sensitive planning processes.

Moreover, the Action for Conflict Transformation (ACT) for Peace Programme implemented by the MinDA completed the transformation of 245 conflict-affected areas into peace and development communities exceeding its target areas by about 12 percent. The Program has also enhanced capacities in peace building and conflict sensitivity of 19 provinces and 144 municipalities.

To sustain an environment of trust, confidence, and collaboration for peace and development, the Program established around 19 provincial- and six regional-level LGU partnerships. Further, it initiated the establishment of 60 Schools of Peace to model the integration of the Culture of Peace and Peace Education.

Increased participation of women in peace building and ensuring protection of women against all forms of gender-based violence

The government aims to increase the participation of women in peace building and ensuring their protection against all forms of gender-based violence. For the past two years, the Philippine Commission on Women (PCW), as the lead agency has been providing technical assistance to various government agencies and nongovernmental organizations to promote the recognition of women's role in conflict prevention and peace-making.

The National Action Plan (NAP) on Women, Peace and Security for UN Security Council Resolutions (UNSCR) 1325² and 1820³ has been put into operation through the formation of the National Steering Committee on Women, Peace and Security. In addition, the localization of the NAP was done through capacity development programs for the key planning officers and GAD focal persons in ARMM Regional Government and provincial LGUs. As a result, gender and peace issues have been integrated in the Annual Investment Plans of ARMM provinces.

The government's recognition of the key role of women in peace processes has become more evident. Women are directly involved in the peace negotiations with MILF and CNN, review of the implementation of the GPH-MNLF 1996 Final Peace Agreement, and closure tracks with CPLA and RPMP/RPP/ABB.

Ensured protection of children in armed conflict against grave child rights violation

To ensure greater protection of children in armed conflict and in support of the implementation of UN Security Council Resolution Nos.

1539 and 1612, the Council for the Welfare of Children (CWC) spearheaded the establishment of a Monitoring, Response and Reporting Mechanism (MRRM) to address grave child rights violations in situations of armed conflict, particularly: (a) killing and maiming of children; (b) recruitment and use of children; (c) attacks on schools and hospitals; (d) abduction of children; (e) rape and other gender-based violence; and (f) denial of humanitarian access.

Meanwhile, on the legislative track, advocacy was the passage of a legislation that provides for greater protection and welfare of children in situations of armed conflict was vigorously pursued. The proposed bill has already passed the third reading in Congress.

Challenges

There are many factors for a peace process to either break through or break down. These include the ability to craft viable options and shared solutions, the flexibility afforded by parties in making a stand or position, the extent by which those that will be affected are ready to accept the possible changes in social and power relations, and the ownership and support of the vast majority of the people. The Filipino people can definitely determine the directions of the peace tracks by speaking out and making their voices heard.

Peace must be won not only on the peace tables but on the ground. There are clear commitments and mechanisms for inclusivity, participation, transparency and accountability. The challenge is in expanding the capabilities of the various stakeholders not only to voice criticisms, but also to help one another think through the problems and imagine what can be possible despite the difficulties and limitations.

2 UNSCR 1325 was adopted on October 31, 2000 that called on all actors involved in negotiating and implementing peace agreements to adopt a gender perspective that included the special needs of women and girls during repatriation and resettlement, rehabilitation, reintegration and post-conflict reconstruction. (*United Nations Press Release. 31 October 2000.*)

3 UNSCR 1820 was adopted on June 19, 2008 which specifically addresses the situation of women in armed conflict and calls for their participation at all levels of decision-making on conflict resolution and peacebuilding. (*United Nations Press Release. 19 June 2008.*)

Prospects and Policy Directions

The prospect for peace is better than it has ever been because of the converging motivations for peace, the continuing trust in the new political leadership, the willingness of groups and parties to approach the table with a problem-solving stance, and a common desire to find lasting and common solutions to address the roots of conflicts affecting the country.⁴

The President has given clear instructions to ensure that this government will implement agreements that it will sign. The goal is to reach agreements by midterm so that the remaining period can be devoted for implementation, as the current leadership does not want to turn over another unfinished business to the next administration. Thus, it will want to be faithful to the timeframes that it will commit to.

The government will continue to ensure that various sectors are on board, engaged and that there is collective interest, action, and concern to make certain that the process is not left to the parties at the negotiation tables alone. Much work will continue to be done toward forging peace on the peace tables and on ground, in the crafting of a genuine and lasting peace shared by all.

⁴ As an update, a major milestone was reached in the GPH-MILF peace negotiations with the signing on October 15, 2012 of the GPH-MILF Framework Agreement on the Bangsamoro.

B. Safer and more secured environment conducive to national development created and sustained

The government aims to respond to various security challenges both internal and external threats to provide an enabling environment conducive to development. The DILG, the Department of Justice (DOJ) and the Department of National Defense (DND) have responded effectively in terms of promoting internal stability as evidenced by decreasing crime incidents and increasing crime detection and investigative resolution rate.

External threats to the country's territorial integrity remain a challenge for the government. Nevertheless, greater efforts were exerted to safeguard the country's interests within the maritime areas.

Assessment

Internal stability promoted and sustained

Decreased crime incidents and improved crime solution efficiency

The Philippine National Police (PNP) has reported a 24 percent reduction in crime incidents across the country from 324,083 incidents in 2010 to 246,958 in 2011. The country's crime solution efficiency rate has likewise increased to 29 percent in 2011 from 18.9 percent in 2010.

These improvements in peace and order situation across the country were attributed to strengthened crime prevention efforts of PNP through the Police Integrated Patrol System (PIPS). The PIPS was designed to enhance crime prevention and solution through the conduct of high police visibility in crime prone areas and vital installations and conduct of night watch operations and installation of checkpoints in strategic areas. The PNP has also intensified its anticriminality campaigns by way of quick apprehensions and prosecution of criminals involved in illegal activities and law violations.

The PNP has also enhanced the capabilities of all municipal and city police stations through installation of communication system and

investigative equipment. Communication systems of all police stations in the National Capital Region were also upgraded to achieve the five-minute response time.

increased crime detection and investigation resolution rate

The DOJ reported an increased crime detection and investigation resolution rate of 73 percent as of June 2012 from 62 percent rate in 2010. The agency also reported a 3.2 percent increase in output performance in its termination of cases from 51,814 cases in 2010 to 53,484 cases terminated in 2011.

To further improve its crime investigation capacity, the DOJ has established one additional NBI crime laboratory in Cebu City to augment the sole facility in Metro Manila.

Weakened threats to internal security from armed groups through the Internal Peace and Security Plan

The Armed Forces of the Philippines (AFP) has implemented the Internal Peace and Security Plan or IPSP Oplan Bayanihan which reduced internal armed threats to a level at which the stability of the state and the safety of the people are ensured. The IPSP is a "whole of government approach" involving national and local government agencies, civil society organizations and community-based groups in addressing armed threat groups and other threats to national security focusing on effects-based operations.

The AFP focused its internal peace and security initiatives towards the defeat of terrorist groups such as Abu Sayyaf Group (ASG) and Jemiah Islamiyah (JI) consistent with the policy of non-negotiation with terrorists.

To date, 113 former insurgents have surrendered and are gradually returning into the mainstream of society since the conduct of peace and development activities in 2011. The weakened strength of 1,772 insurgents greatly reduced the enemies' capability to mount violent actions. As a result, 365 more barangays have been cleared and are ready for development.

Supported efforts to end impunity and extra-judicial killings

The government undertook decisive actions in dealing with grave human rights violations as well as political or election-related violence to end impunity and extra-judicial killings. The DOJ-PNP Operational Guidelines was drafted and finalized for the investigation and prosecution of political-activists and media killings. The implementing guidelines (DOJ-DILG Joint Department Order) will be issued within 2012.

The DOJ also drafted an administrative order creating high-level multiagency committee for the “Prevention and Investigation of Extralegal Killings, Harassment, Intimidation, Torture and Enforced Disappearances”. It also rendered assistance to the Department of Labor and Employment (DOLE) in taking a closer look at alleged cases involving labor-related killings, in connection with the US General System of Preference annual review.

The National Prosecution Service (NPS) has flagged and prioritized the trial of 10 high profile cases of extra-judicial killings under a Case Monitoring Project in partnership with a nongovernment organization. The project will ensure that the subject cases are prosecuted vigorously and resolved expeditiously.

The DOJ and the Commission on Human Rights (CHR) recently signed a Memorandum of Agreement that aims to achieve the following: (a) high level operational capacity in the investigation and prosecution of human rights cases; (b) enhanced effectiveness and maintained public confidence in the two institutions; and (c) provision of appropriate legal measures for human rights protection, including preventive measures and legal aid services for the underprivileged.

Full capability to uphold the sovereignty and territorial integrity of the state assured

Enhanced security relations with allies and neighbors

In pursuit of upholding the sovereignty and territorial integrity of the state, the government has strengthened and expanded its international defense and security relations and cooperation with its allies and neighbors. The government has further strengthened international partnerships aside from Mutual Legal Assistance Treaties in Criminal Matters with most ASEAN member states. It has forged bilateral engagements with allies and other Asian neighbors including, among others, joint patrol with Malaysia and Indonesia, defense cooperation with Vietnam, and bilateral consultations with Uzbekistan.

Following a series of strategic dialogues held in January and April 2012 between the Philippines and the US, both countries have committed to strengthen and upgrade the level of engagements in connection with the Mutual Defense Treaty. The US has further committed to support our Defense Capability Upgrade and Modernization towards building a Minimum Credible Defense Posture and initiated an increase in foreign military financing to at least US\$30 million for 2013 and substantive increases in the succeeding years.

In March 2011, the government has signed a Memorandum of Understanding (MOU) with Indonesia on preventing transnational crimes. It seeks the cooperation of both countries on preventing and combating of transnational crimes, particularly criminal acts related to illicit drug trafficking, terrorism, arms smuggling, human trafficking, cybercrime, illegal fishing, maritime fraud, and armed robbery at sea. The MOU builds on the existing cooperation between the two countries in the area of terrorism, notably in the exchange of intelligence information and capacity building.

As part of country’s commitment to the United Nations for peace keeping and humanitarian assistance operations, the DND maintains three peacekeeping battalions deployed to three places of conflict, namely, the Army Battalion to the Golan Heights, Air Force Battalion to

Liberia and a Navy-Marine Battalion to Haiti. The Philippines has also continuously provided international humanitarian assistance to other countries recently devastated by earthquakes such as Indonesia, New Zealand, Japan, and Haiti.

Since July of 2010, the DND has rationalized the force structure and training of these units as well-prepared forces. The equipage and mobility system of the Peacekeeping Forces were continuously developed. Moreover, a permanent representative at the UN Headquarters in New York was assigned. Other missions include those in Ivory Coast, East Timor, Sudan, India and Pakistan, including military observers to Syria.

Developed surveillance, communication and interdiction capabilities

To assure the territorial integrity and protection of the Philippine waters and resources, the government has intensified the AFP Modernization Program which strengthened AFP's surveillance, communication, and interdiction capabilities. For the past two years, the government has acquired over PhP28 billion worth of patrol and combat equipment such as Night Fighting Systems, Hamilton Class Cutters, helicopters, cannons, personnel carriers, frigates, ammunitions, and communication equipment.

The President also created the National Coast Watch System which established the National Coast Watch Center through the issuance of Executive Order (EO) No. 57 to expand the country's maritime security operations. The executive order expanded the maritime security operations scope of the Coast Watch South from Southern Philippines to the entire archipelago. It harmonizes the policies, programs and activities on intelligence work, border control, interdiction and law enforcement of several government agencies such as the Philippine Navy, the Philippine Coast Guard and the Philippine National Police-Maritime Group, among others. As of December 2010, two additional coast watch stations were established in Tawi-Tawi bringing the total number to 14.

A Joint Maritime Force (Sea-Air) was also restructured to carrying out missions to protect vital resources and sea exploration activities in the

West Philippine Sea. At the same time, initiatives are being made to revive the Air Defense System to intensify the monitoring and securing up to 250 nautical miles of the airspace.

The recent acquisition of naval patrol equipment further boosted the country's maritime security capability. Around 45,000 foreign vessels were monitored as of April 2012 and more fishing vessels poaching within the country's exclusive economic zone were apprehended. The strengthened patrol coverage and naval presence in the West Philippine Sea has established the country's position in securing the Scarborough Shoal from encroachment of Chinese maritime and fishing vessels.

Increased resolution rate of immigration fraud and deportation cases

The Bureau of Immigration (BI) has established new immigration field offices in areas with border-crossing concerns to raise the country's capability in protecting its borders from illegal entrants. The Border Crossing Coordinating Office was also created. Among its tasks is to coordinate with Indonesian and Malaysian Consulates on all border crossing matters on behalf of the Bureau.

In 2012, the new guidelines on departure formalities for international travelers was issued by the Inter-Agency Council Against Trafficking (IACAT). The new guidelines provides for definite parameters in enforcing measures to prevent the departure of suspected human trafficking and illegal recruitment victims. In addition, all BI officials and employees are undergoing a customized antihuman trafficking training module as part of its Continuing Education Program.

The Philippines ranking in the United States (US) State Department's human trafficking report for 2011 and 2012 was upgraded to Tier 2 ranking. This was an improvement from the Tier 2 Watch List ranking since 2009, which if not improved after two consecutive years would have downgraded the country's status to Tier 3 ranking. Classification as a Tier 3 country will have a negative impact on the Philippines with the possible termination by the Millennium Challenge Corporation of their US\$434

million Compact. Moreover, the US declared to not provide foreign military assistance, nonhumanitarian, and nontrade-related foreign assistance to Tier 3 countries.

Highest standard of capability and preparedness against natural calamities and disasters addressed

Enhanced disaster response and relief operations towards a timely and quick response to natural and manmade calamities

The PDP aims to achieve quick disaster response and relief operations during natural and manmade calamities. The Office of the Civil Defense (OCD) has facilitated effective management of emergency situations through the adoption of an Incident Command System throughout the country.

The National Security Adviser, on the other hand, has prepared a draft executive order on national crisis management operationalizing a core manual and establishes national and local crisis management organizations in the country.

In November 2011, the Philippine government signed the Agreement on the Establishment of the ASEAN Coordinating Center on Disaster Management (AHA Center) at the 19th ASEAN Summit in Bali, Indonesia. The AHA Center will serve as the regional hub for information and knowledge for disaster management and act as the coordination engine to ensure ASEAN's fast and collective response to disasters within the region.

Increased number of fire incidents investigated

The Bureau of Fire Protection (BFP) reported a decrease in the number of fire incidents by 18 percent (from 10,773 in 2010 to 8,824 in 2011), as well as in the number of fire casualties by 20 percent (from 275 in 2010 to 219 in 2011). These were achieved through the intensification of fire safety information campaign through the *Barangay Ugnayan* Program as well as the organization and training of fire brigades. In addition, the BFP also activated the fire station

clustering system wherein a central fire station provides the needed fire protection services of adjoining municipalities without fire stations.

Compliance with the safety provisions of the Fire Code by establishment owners showed a slight increase of 0.8 percent. Of the total 611,898 establishments inspected, 85.33 percent were compliant and were issued with Fire Safety Inspection Certificates.

Security sector reformed and modernized

Achieving the highest standards of personnel integrity, professional competence among officers, enlisted personnel and civilian employees through a transparent and accountable security sector

The PNP and DND have implemented programs that will adhere to and carry out a transparent and accountable security sector and will achieve the highest standards of personnel integrity, professional competence among officers, enlisted personnel and civilian employees and upgrade materiel capability and capacity.

On top of these is the implementation of the Philippine Defense Reform Program (PDRP) and the PNP's Integrated Transformation Program Performance Governance System (ITP-PGS). The PDRP has rationalized and institutionalized the AFP Capability Upgrade and Modernization List and completed the following programs: (a) Improvement of Logistics and Acquisition Capacity; (b) Information Management Development Programs; and (d) Improvement of Intelligence Capacity.

The DND also institutionalized the human rights-based operations through the establishment of Human Rights Offices in AFP units down to the battalion level. On the other hand, the PNP has institutionalized the Human Rights-Based Policing Committee, a high level policy and advisory body for addressing human rights issues and concerns in the PNP. Human Rights Desks were also established as conduit to the PNP Human Rights Affairs Office for prompt action against human rights violations.

Challenges

The continuous pursuit of a sustained internal security and a secured territorial integrity is among the government's major thrusts to create an enabling environment for development. Though intensified police operations decreased the country's crime incidence, criminalities including organized crime groups still remain a major concern. The realization of PNP's capability enhancement program still needs to be addressed to strengthen capabilities in carrying out police operations and intelligence works. The institutionalization of the ITP-PGS still remains a challenge for the PNP towards the professionalization of the entire police force.

Though the protracted characteristics of internal security concerns were addressed by focused military operations, strengthening the institutional framework for coordination, cooperation and collaboration is also critical to the successful implementation of IPSP Bayanihan.

The continued territorial disputes in the West Philippine Sea has undermined not only the Philippine's sovereignty in the Kalayaan Island Group and the Scarborough Shoal but also threatened peace and stability in the region. The urgency to strengthen AFP's capabilities to protect national interests in the area is crucial to asserting our sovereignty and upholding territorial integrity.

Although the country has made "significant efforts" in terms of combating human trafficking as reported by the US Trafficking in Persons Report 2012, the government still has to intensify its commitment to prosecute labor recruitment companies involved in the trafficking of migrant workers abroad, and in the identification and protection of the victims where it showed no progress.

Failure in the passage of several legislative agenda (e.g. AFP Modernization Bill, National Defense and Security Act, the PNP Reorganization Law, and the Comprehensive Law on Firearms, Light Weapons and Ammunition) should also be given attention as key to security sector reforms.

Prospects and Policy Directions

Surmounting the weaknesses of the organization and building on the strengths of the institutional framework must be the pivotal elements of the key strategies of the security sector in the succeeding years. These strategies must however be founded on good governance, accountability and transparency which are the overarching framework of the national government.

Along this line, the PNP will pursue substantive administrative and operational reforms which have been partially installed through the ITP-PGS. These will be done with the objective to infuse an "organizational culture" streaming for commitment and selfless service.

The DOJ shall also pursue the passage of the modernization bills for the NBI, BI and Bureau of Corrections. To reduce the big number of potential human trafficking victims, the Department shall institute a policy on the issuance of departure formalities in all ports and pursue investment in the acquisition of biometrics machine.

The present and future outlook of the country's defense and security will depend on the government's support to its armed forces. The upgrading and modernization of AFP's capability defense system will be given priority providing funds and resources to address the much needed equipment and weaponry to secure the country's territorial integrity and protect its people and its resources. The continued implementation of the Defense System of Management (DSOM) will effectively address capability gaps and critical deficiencies of the AFP and Bureaus particularly on capability development initiatives, proposed equipment acquisitions and resource management priorities.

Maintenance of peace and stability depends on constructive and peaceful relations between and among nations in the region, and the adherence to the rules of international law and stronger dialogue and cooperation. The Philippines is advocating for a rules-based approach for the peaceful resolution of maritime disputes and conflicting territorial claims in the West Philippine Sea.

Chapter 10. Conservation, Protection and Rehabilitation of the Environment and Natural Resources

Summary

Chapter 10 of the Philippine Development Plan 2011-2016 seeks to conserve, protect and rehabilitate the country's environment and natural resources in order to help achieve the country's inclusive economic growth and reduce poverty. The state of ecosystems and the benefits derived therefrom should be enhanced, alongside improving the quality of air and water and waste management, as well as sources of livelihood and

income, especially of the resource-dependent communities. The resilience of communities to climate-related risks and hazards should also be strengthened.

During the first two years of the Aquino Administration, the state of the environment and natural resources considerably improved, evidenced by the rise of the Philippines' global ranking in the 2012 Environmental Performance

Table 10-1. Summary of Key Sector Indicators and Accomplishments for 2011

Indicators	Baseline Year	Baseline Value	Target (FY 2011)	Actual (FY 2011)
Sector Outcome 1 : Natural resources, conserved, protected and rehabilitated				
Proportion of land area covered by forest increased	2003	23.8%	24.4%	24%
Number of abandoned mines rehabilitated	2004	1 priority abandoned minesite (Bagacay) rehabilitated	1 abandoned mine rehabilitated (Bagacay-70% rehabilitated)	1 abandoned mine rehabilitated (Bagacay-40% rehabilitated)
Sector Outcome 2 : Environmental quality for a cleaner and healthier environment improved				
Reduced Total Suspended Particulate (TSP) level in National Capital Region (NCR) and major urban centers with levels above 90 ug/Ncm.	2009	NCR: 130 ug/Ncm	123.5 ug/Ncm	118 ug/Ncm
Sustain BOD level of Laguna Lake within standard	2010	Laguna Lake: Average BOD loading is within standard BOD level of 7 mg/L	BOD loading is within standard BOD level of 7 mg/L	BOD loading is within standard BOD level of 7 mg/L (Class C waters)
Sector Outcome 3 : Resilience of natural systems enhanced with improved capacities of human communities				
Adaptive capacities of national and local governments for CCA and DRRM increased	N/A	N/A	Preparatory stage	N/A
Resilience of natural systems enhanced	N/A	N/A	Preparatory stage	N/A

Index (EPI)¹ (now 42nd among the 132 countries compared with 50th in 2010). The strong environmental performance of the Philippines can be attributed to the appropriateness and sustainability of environmental policies, programs and reforms being implemented by the government. The “strong performer” category of the Philippines in the 2012 EPI masks the relatively weak performance of some subsectors based on the indicators and targets set under the PDP 2011–2012.

Foundation activities have been continuously implemented to improve the ecosystem and services in the forestry, biodiversity, coastal and marine, land and mineral resources subsectors. Significant enhancements in air and water quality have been noted as a result of proper water management, better enforcement of regulatory policies, improved monitoring and awareness-raising activities. Preparatory activities to facilitate groundwork have started to enhance the resilience of vulnerable natural systems and communities to enable them to cope with climate-related risks. Table 1 shows the key indicators, targets and actual accomplishments of the ENR sector for 2011.

Notwithstanding the above achievements, policy (i.e., harmonization) and institutional (i.e., knowledge management, financing, capacity development) issues still remain that need to be addressed. There is also a need to shift from the usual policy and planning activities towards more action-oriented interventions, particularly at the local level.

To achieve the medium-term goals and targets for improved conservation, protection and rehabilitation of the environment and natural resources, environmental laws and policies and regulatory measures should be continuously enforced and more effective programs and projects implemented. Priority should be accorded to legislations which will facilitate sustainability of the environment and natural resources, such as the National Land Use Act.

Assessment

Goal 1: Improved Conservation, Protection, and Rehabilitation of Natural Resources

In order to attain inclusive economic growth and reduce poverty, conservation, protection and rehabilitation of the country’s natural resources should be improved. Enhancing the state of ecosystems and their services ensure sustained sources of livelihood and income especially among the resource-dependent communities. The improvement of the performance of the ENR sector for the first two years of the Aquino administration is attributed to the effective programs and activities being implemented by both government and nongovernment institutions.

Sustainably managed forests and watersheds

Preparatory activities to achieve the 30 percent forest cover by 2016 were conducted in the first two years of the Plan period. These include the imposition of a logging ban in all natural and residual forests in the country, implementation of the National Greening Program (NGP), delineation of forest boundaries and establishment of forest information systems. Continuing activities on the other hand include community-based forest management (CBFM) and the Upland Development Program (UDP) under the NGP, among others. A meager 3.23 percent forest cover was achieved by end of 2011, from the baseline of 7.2 million hectares based on satellite images taken in 2003. While past forest development activities of the government played a significant role on this achievement, the issuance in February 2011 of Executive Order (EO) 23 “Declaring a Moratorium on the Cutting and Harvesting of Timber in the Natural and Residual Forest and Creating the Anti-Illegal Logging Task Force” helped curb further degradation of the country’s remaining forests. With the additional issuance in February 2011 of

¹ The Environmental Performance Index (EPI) is a biennial study of how countries are doing on particular policy issues against environmental pressures. The assessment, prepared by the Yale and Columbia universities in collaboration with the World Economic Forum and the European Commission, ranks countries based on performance indicators across policy categories that cover both environmental public health and ecosystem vitality. These indicators provide a gauge at a national government scale of how close countries are to established environmental policy goals. It is also used to steer countries toward environmental sustainability.

Box 10-2.National Greening Program

Dubbed as the largest reforestation effort in history, the NGP is being implemented under a Convergence Initiative (CI) framework, composed of the Department of Environment and Natural Resources (DENR), Department of Agriculture (DA), and the Department of Agrarian Reform (DAR). It intends to mobilize all government agencies, local government units (LGUs), people's organizations (POs), nongovernment organizations (NGOs), the private sector, and civil society in greening the country. The NGP also seeks to pursue sustainable development for poverty reduction, food security, livelihood development, biodiversity conservation, and climate change mitigation and adaptation through social mobilization, harmonization of initiatives, provision of incentives and maximization of available science and technology.

As the lead agency, the DENR ensures that all the reforestation activities in the country are properly coordinated and harmonized. DENR also provides policy directions, technical assistance and capacity-building for the implementation of the NGP; conduct of site identification, survey, mapping and planning as well as monitoring and evaluation; and engage the community through People's Organizations for the planting and maintenance of the seedlings.

A total of 89.6 million seedlings have been planted in 128,558 hectares exceeding the 100,000 hectares target for 2011, the highest since 2001. There are also 335,078 jobs that were generated by the NGP through seedling production, surpassing the 2011 target of 216,000 jobs by 55 percent.

For 2013, 300,000 hectares of denuded forest lands are targeted to be planted with indigenous and fruit bearing trees. An allocation of PhP5.7 billion has been earmarked by the DENR to support NGP activities. The program also targets to hire 1,200 environment and natural resources extension officers to facilitate the implementation of the NGP.

EO 26 “The National Greening Program” (NGP), the end of plan target is expected to be achieved given that the NGP is the biggest reforestation program in the history of the country which aims to plant 1.5 billion trees in 1.5 million hectares in 6 years (from 2011-2016). To date, 139,816 hectares of forest area have been planted. About 364,088 jobs have been generated under the NGP.

Improved protection and conservation of biodiversity

Management of protected areas, protection and conservation of wildlife and their habitats are the priority activities for biodiversity protection and conservation for the first two years of the current administration. Activities to implement international commitments to protect national and global biodiversity were also continued as these are expected to contribute to improve the status of biodiversity in country and avert extinction of all threatened species.

Establishment and management of 113 existing proclaimed protected areas covering 3.57 million hectares, and conservation of wildlife are critical

activities to conserve, protect and manage wildlife and their habitats. In 2011, two protected areas (Upper Marikina River Basin Protected Landscape and Aliwagwag Protected Landscape) were proclaimed by the President under the National Integrated Protected Areas System (NIPAS) covering 36,617 hectares while three critical habitats in Baungan, Bukidnon; Cabusao, Camarines Sur; and Cabagan, Isabela have been established with a total area of 382.24 hectares to protect and conserve the threatened species.

Extinction of threatened flora and fauna has been continuously prevented as reported by the DENR. The reduction of fauna species from the Convention on the International Trade in Endangered Species (CITES) from 221 in 2007 to 207 as of 2011 was due to the taxonomic reclassification of some species (e.g., Philippine Serpent Eagle, Western Marsh Harrier, Luzon Hornbill and Mindanao Hornbill). There was also substantial improvement in the threatened population of tamaraw and Philippine cockatoo. Specifically, there was a marked increase of the Philippine cockatoo population in Rasa Island Wildlife Sanctuary while surveys undertaken revealed additional population in Dumaran, Culasian and Balabac Islands.

The DENR continues to implement programs and projects to conserve important critical Philippine wildlife, such as the Philippine Raptors Conservation Project (PRCP), Pawikan Conservation Project (PCP), Tamaraw Conservation Project (TCP) and the Palawan Wildlife Rescue and Conservation Center (PWRCC). Law enforcement activities to curb poaching and illegal trade of wildlife were also intensified which resulted in the apprehension of 12 Vietnamese nationals. The confiscated illegal wildlife in Hongkong were repatriated.

Enhanced coastal and marine resources management

Advocacy and development of guidelines and integrated coastal management plans are some of the initial activities conducted to enhance the management of coastal and marine resources. The Coral Triangle Initiative National Plan of Action was implemented, resulting in: (a) designation of two priority seascapes (Sulu-Sulawesi Marine Ecoregion and West Philippine Seas); (b) identification of capacity building activities to ensure sustainable management of the two seascapes; and (c) development and implementation of management plans for the live reef fish trade. Also, the guidelines on mangrove rehabilitation and reversion of abandoned, unproductive and unutilized Fishpond Lease Agreements into mangrove forests through Convergence Initiative were developed. Preliminary delineation of municipal waters for 927 coastal LGUs was completed. From 2010 to 2011, maps of municipal water boundaries of 25 LGUs have been certified by NAMRIA involving a total of 275 coastal municipalities.

Improved land administration and management

To improve land administration and management, the government is committed to strengthen its governance through sound policies, shared information and sustainable land management. Memorandum Order (MO) No. 2011-03, or Procedure for the Execution of Cadastral Survey Projects under the Philippine Reference System of 1992, was issued by the DENR to accelerate cadastral surveys to delineate municipal/city

boundaries that would facilitate land disposition and titling. To date, 460 cadastral survey projects have been awarded covering 451 municipalities nationwide.

To accelerate titling of agricultural and residential lands in order to provide security of tenure and improve socioeconomic conditions of beneficiaries, Department Administrative Order (DAO) No. 2011-06 was issued to prescribe the guidelines for the implementation of land titling in partnership with LGUs. About 174,117 hectares of alienable and disposable (A&D) and residential land titles were issued from 2010-2011 benefitting 290,203 families.

On sustainable land management (SLM), 16,479 hectares of degraded land have been covered under SLM program as of end 2011, which is just around 33 percent accomplishment against the target of 50,000 hectares. The low accomplishment is due to the focus given on preparatory activities during the first two years for SLM such as site surveys and establishment of identified technologies.

Managed a more equitable utilization of mineral resources

To ensure a more equitable utilization of the country's mineral resources, government continued with its rehabilitation of abandoned/inactive and closed minesites as well as activities to harmonize policies and rationalize extraction of mineral resources. Six abandoned mine sites are targeted to be rehabilitated by 2016. Bagacay Mines has accomplished only 22 percent of its target level of rehabilitation by 2011 (40%). On the other hand, the five other abandoned/inactive/closed mine sites, namely Antamok Mine, Black Mountain, Inc., Consolidated Mines Inc. (Mogpog, Marinduque), Dizon Cu-Aq Mines, Inc. (San Marcelino, Zambales) and Construction and Dev't. Corp. (Basay, Negros Oriental) are reported to have accomplished 100 percent of the 2011 rehabilitation target. As of 2011, rehabilitation activities conducted were mostly on reforestation and construction of limestone rock dams used to divert flow of contaminated waste water from the mine operation.

Goal 2. Improved environmental quality for a cleaner and healthier environment

Environmental management to address poor quality of air, water, and land is a shared task among the government, nongovernment and civil society organizations and the private business sector (industry groups). The 2011 targets under Goal 2 have been satisfactorily achieved with substantial improvements in the recorded baseline indicators. The accomplishments in reducing air pollution, improving water condition and providing healthier living space for people have been linked to the imposition and observance of regulatory instruments, conduct of intensive environmental campaigns and replacement and installation of more advance and accurate recording/monitoring equipment and facilities.

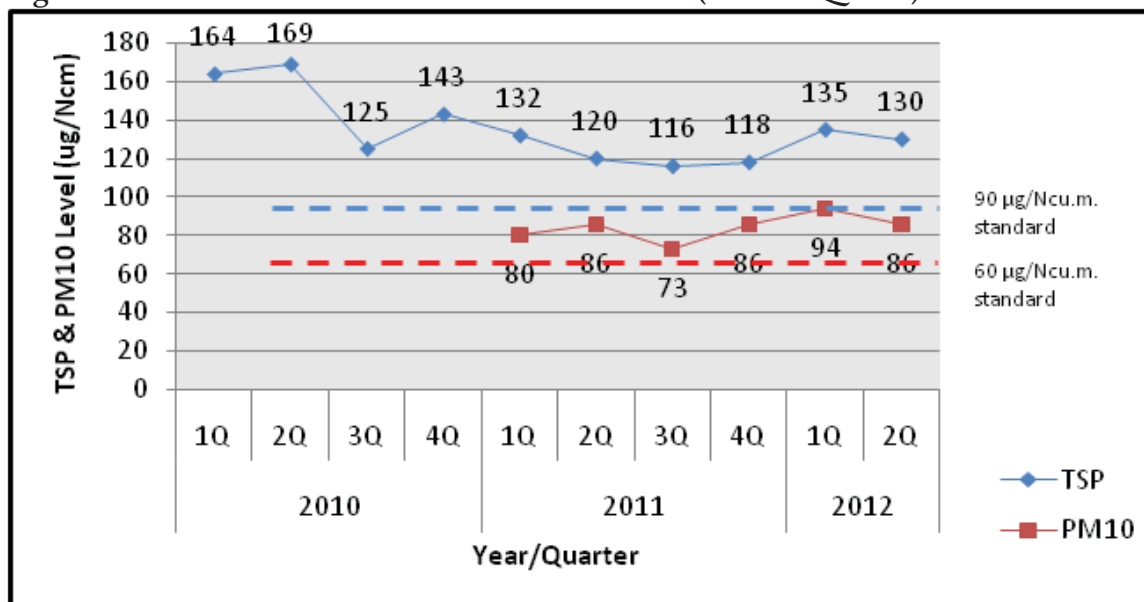
Reduced air pollution in Metro Manila and other major urban centers

A 9 percent reduction in pollution level in terms of Total Suspended Particulates (TSP) concentration in Metro Manila was achieved in 2011 (from 130 micrograms per normal cubic meters, ug/Ncm, in 2009 to 118 ug/Ncm in 2011). This is higher than the annual reduction target of 5 percent. However, these values still exceed the standard of 90 ug/Ncm. (Figure 10-1)

The average air quality data have been taken from 10 manually-operated roadside TSP monitoring stations in Metro Manila namely: EDSA-MRT, EDSA-NPO, EDSA-East, Makati, Valenzuela, Pasig, Rizal Avenue (Manila), Mandaluyong, Ateneo de Manila University and Marikina City. Seven stations reflected TSP reduction as high as 32 percent which was recorded in EDSA-NPO and two of these stations (EDSA East Ave. and Ateneo) reflected levels within the TSP guideline value (90ug/Ncm). The monitoring station in EDSA-MRT Pasay consistently registered the highest TSP concentration (219ug/Ncm) due to traffic congestion in the area. Of the 29 cities outside Metro Manila, 14 registered TSP levels within acceptable standards. These include the cities of: Meycauayan; Batangas; Lucena; Legazpi; Iriga; Lapas; Jaro; Mandaue; Cebu; Matina, Davao (Station 1); Tupi, South Cotabato; Koronadal; and Butuan. In Metro Manila, PM10 concentration results showed a decreasing trend but still above the normal level of 60ug/Ncm (See Figure 10-1).

Also, there has been an increase in travel speed and reduced travel time which may have contributed to the reduction of gas emissions in Metro Manila. In terms of traffic flow and mobility, both the actual travel speed (km/hr) and actual travel time (min/km) in Metro Manila in 2011 surpassed annual targets by 1 percent and 18.18 percent, respectively (refer to Transport Section of Chapter 5).

Figure 10-1. TSP and PM10 Levels in Metro Manila (2010 - 2Q 2012)



In line with the functions of the DENR-EMB, MMDA, DOTC-LTO and LGUs, monitoring of stationary and mobile sources of pollution was intensified, including the instilling of discipline among drivers and improving compliance with emission-testing and mandatory vehicle inspection and maintenance. Moreover, strengthened regulatory measures coupled with effective programs and projects together with the private and civil society sectors have been paving the way for an improved air quality in Metro Manila and other major urban centers in the country.

The positive performance of the air quality subsector can be attributed to the effective policies and programs of both the government and nongovernment institutions. These include the following: (a) issuance and implementation of higher emission standards for vehicles; (b) intensified anti-smoke belching operations through the Anti-Smoke Belching Units (ASBU); (c) establishment of three airsheds, each with governing board, in Metro Manila; (d) free emission testing, IEX on fuel efficiency and engine maintenance; (e) installation automatic real time air quality monitoring stations capable of measuring harmful pollutants such as with aerodynamic diameter of 10 and 2.5 microns and other criteria pollutants such as sulphur dioxide, nitrogen oxide, ozone, etc; and (f) intensive monitoring of major industries and stationary sources of pollution.

Reduced water pollution in Priority Rivers and other economically and ecologically important water bodies

Nineteen rivers have been prioritized for clean-up, rehabilitation and maintenance under the Sagip-Ilog Program. Bio-chemical Oxygen Demand (BOD) levels of eight Priority Rivers are still within the water quality criteria of less than 7mg/L from 2010 up to 2011 as targeted under the PDP. In terms of Priority Rivers with BOD level not within the water criteria in 2010, significant reductions were registered in Parañaque River (-23.26%), Meycauayan River (-23.56%), Marilao River (-23.83%), Bocaue River (-38.91%) and Iloilo River (-41.75%). Meanwhile, Pasig River, San Juan River, Calapan

River and Balili River registered an increase in BOD levels by 9.31 percent, 37.08 percent, 12.21 percent and 18.92 percent, respectively (Table 10-2).

The “Adopt-An-Estero/River” Program was initiated to undertake the massive clean-up of esteros and polluted rivers nationwide through public-private partnership. Water bodies covered include Tullahan River (Valenzuela City and Quezon City), Butuanon River (Mandaue City), Batiano River (Iloilo City), San Jose Guso Creek (Zamboanga City), Carangan Creek (Misamis Occidental), Bulok Creek (Koronadal City), Mawab River (Compostela Valley), Lagbas Creek (Misamis Occidental) and Matina River (Davao City). To date, 314 MOAs have been signed adopting 193 water bodies nationwide.

In view of the continuing mandamus by the Supreme Court to clean, rehabilitate and restore Manila Bay and maintain its waters to “SB” level that is fit for swimming, skin diving and other forms of contact recreation, regular, sustained and intensive clean-up operations along Manila Bay and major esteros were conducted. Also, a harmonized system for water quality monitoring among various agencies (PRRC, LLDA, MBCO and EMB) was developed. In Laguna Lake, all nine stations met the Class C water quality criteria for BOD, Dissolved Oxygen (DO) and Total Coliforms. In 2012, four additional sampling stations in San Pedro, Sta. Rosa, Fish Sanctuary and Pagsanjan were established to increase the accuracy of data being generated and to better assess impacts of development to the quality of the lake.

In 2011, about 95 of the 1,740 industries and commercial establishments monitored were issued Notice of Violation (NOV) for violating effluent standards. A total of 3,510 firms were monitored in 2011, of which 332 or 10 percent were issued NOV. Similarly, about 10 percent (157) of the 1,548 firms monitored during the first half of 2012 were found non-compliant with the standards. This shows that there are still micro, small and medium enterprises which do not invest in facilities to treat their wastewater prior to discharge to water bodies resulting in the degradation of rivers, lakes and marine waters.

Table 10-2. Change in BOD Levels of 19 Priority Rivers from 2010 to 2011

Region	Water Bodies	Class	Annual Average BOD (mg/L)		Percentage Change
			CY 2010	CY 2011	
NCR	Parañaque River	C	38.00	29.16	-23.26%
	Pasig River	C	29.01	31.71	9.31%
	Marikina River	C	10.29	9.89	-3.89%
	San Juan River	C	35.38	48.50	37.08%
III	Meycauayan River	C	59.00	45.10	-23.56%
	Marilao River	C	24.00	18.28	-23.83%
	Bocaue River *	C	11.00	6.72	-38.91%
IVA	Imus River	C	12.00	11.57	-3.58%
	Ylang-ylang River	C	119.00	ND	-
IVB	Calapan River	C	14.00	15.71	12.21%
	Mogpog River	C	ND	ND	-
V	Anayan River*	C	4.28	ND	-
	Malaguit River*	C	4.00	ND	-
	Paniqui River*	C	ND	ND	-
VI	Iloilo River *	C	12.00	6.99	-41.75%
VII	Luyang River*	C	4.00	4.00	0
	Sapangdaku River*	C	6.00	3.00	-50
X	Cagayan de Oro River*	A	ND	4.48	-
CAR	Balili River	C	37.00	44.00	18.92%

**Rivers with BOD level within WQ standard <7mg/L for Class C and <5mg/L for Class A waters
Source: EMB*

Reduced wastes generated and improved waste disposal

In 2011, the diversion rate of solid wastes in Metro Manila is at 34 percent or approximately 2,850 tons/day of 8,400 tons/day total waste generated. This accomplishment is a slight improvement (3%) of the 33 percent baseline as of 2010. While the compliance rate under RA 9003 is only at 25 percent, overall compliance is still low. The annual volume of solid wastes in Metro Manila has increased which is ground for the Metropolitan Manila Development Authority (MMDA) to raise the annual diversion rate target. There are more LGUs with no Solid Waste Management Plan (SWMPs). Only 414 LGUs have completed their SWMPs or 25.71 percent of the 1,610 cities and municipalities, as

of May 2012. In Metro Manila, only nine out of 16 cities and one municipality (52.94%) have submitted complete plans.

LGUs continue to dispose wastes at MMDA landfills over and above the imposed volume limit. This practice persists due to increased volume of waste from residents and business establishments which could not be brought anywhere else except the landfills.

Of the existing 990 disposal facilities in the country, 946 are open and controlled dumpsites, and only 44 are sanitary landfills (SLFs) serving 86 LGUs nationwide, or a compliance rate of only 5.3 percent. Nationwide, only 8,843 out of 42,000 barangays are covered by Materials

Recovery Facilities (MRFs) or a compliance rate of 21.05 percent. In Metro Manila, 956 out of 1,705 barangays are covered by MRFs or a compliance rate of 56 percent.

Goal 3. Enhanced Resilience of Natural Systems and Improved Adaptive Capacities of Human Communities to Cope with Environmental Hazards Including Climate- Related Risks

The Philippines is ranked as the 3rd most vulnerable country to natural hazards and impacts of climate change². In 2011, a total of 19 tropical storms (TS) hit the country, 10 of which were categorized as destructive which caused estimated damages to properties worth PHP26.5 billion³. The country's inherent geophysical characteristics as well as the projected scenarios on climate change have made the government to adopt a more active role to develop concrete strategies to strengthen the resiliency of the population and ecosystems to the negative impacts of disasters and climate change. The government undertook multistakeholder planning and decision-making processes to formulate policies and implement strategies that will address climate change and disaster risk concerns.

Increased Adaptive capacities of national and local governments for CCA and DRRM

The reported accomplishments by end of 2011 are largely on the cascading activities for the climate change framework strategy and action plan that aims to translate the provisions of the Climate Change Act (RA 9729) into strategic actions. The legal and institutional bases for mainstreaming DRR in development at all levels of governance have been given a boost with the passage of RA 10121 or the Disaster Risk Reduction and Management Act and the approval of its Implementing Rules and Regulations. With this legal framework, responsibilities and the authority for implementing DRR measures have been decentralized to local governments. With the

approval of the National Disaster Risk Reduction and Management Framework (NDRRMF) led to the formulation of the NDRRM Plan with its programs, projects and activities. On February 28, 2011, a Memorandum of Understanding between NDRRMC and CCC was issued for better collaborative actions towards integrating DRR and CCA.

Based on a recent inventory on DRRM structures, a total of 3,010 LGUs (69 provinces, 114 cities, 1,128 municipalities and 1,699 barangays) nationwide have reorganized their DRRM Councils and 2,432 LGUs (49 provinces, 91 cities, 834 municipalities and 1,458 barangays) already have functional DRRM plans. In terms of flood early warning system (EWS), a community-based flood EWS and Information Dissemination Network has been implemented by PAGASA as part of its regular program.

In response to President Aquino's instructions to put in place a responsive program for disaster prevention and mitigation that is able to provide a six hour lead-time warning to vulnerable communities against impending floods and which uses advanced technology to enhance current geo-hazard vulnerability maps, the Nationwide Operational Assessment of Hazards (NOAH) was launched by the Department of Science and Technology (DOST) in collaboration with the University of the Philippines.

The MDGF 1656 Joint Program "Strengthening the Philippines Institutional Capacity to Adapt to Climate Change" which ended in June 2012 has been instrumental in mainstreaming climate risk reduction into key national and local development plans and processes, enhance capacities of key national and local partners and communities to develop, manage and administer projects addressing climate change risks and improve coping mechanisms through CCA pilot demonstration sites.

Alternatively, the ongoing "Integrating DRR/CCA in Local Development Planning Project" gave rise to the "Guidelines on Mainstreaming

2 2010 World Meteorological Organization Report

3 Ten destructive Tropical Cyclones in 2011: Bebang (May 8-11); Chedeng (May 20-28); Falcon (June 21-25) Juaning, (July 25-28), Kabayan (July 28-Aug 5); Mina (Aug 21-29), Pedring (Sept 24-28), Quiel (Sept 29-Oct 2); Ramon (Oct 10-14); and Sendong (Dec 15-18), Source: 2010 NDRRMC

DRR and CCA into Subnational Development, Land Use and Physical Planning” which was officially adopted through the 1st Administrative Order issued by the President in 2010 entitled: *Directing the Local Government Units, Particularly Provinces, to Adopt and Use in their Planning Activities the Guidelines on Mainstreaming Disaster Risk Reduction (DRR) in Subnational Development and Land Use/Physical Planning.*

Enhanced resilience of natural systems

Vulnerability and natural resource assessments and mapping of different ecosystems have been conducted in selected municipalities as part of the Eco-town Framework which paved the way to declare around 2,000 hectares of forestland within Del Carmen, Surigao Del Norte as watershed reserve. A Memoranda of Agreement was made between the CCC and government agencies and LGUs (Surigao del Norte, San Vicente-Palawan) for the demonstration of Eco-town Framework. Preparatory activities, on the other hand, are initially underway in the other ecotown sites such as Borongan City, one of the four eco-town sites in Eastern Samar, and Batanes with full-blown implementation expected to commence in the second half of 2012.

Improved adaptive capacities of the communities

Geohazard mapping and assessment of all the 1,634 cities and municipalities was completed with a scale of 1:50,000 in 2010. A total of 85,000 map sheets have been distributed to all local governments up to barangay level. Corresponding training and capability-building to interpret the maps were also conducted. Information, Education and Communication (IEC) campaigns were carried out in priority municipalities and cities throughout the country in coordination with the OCD, NDRRMC and LGUs. Geohazard maps were posted in the DENR MGB, Philippine Information Agency (PIA) and Environmental Science for Social Change websites for wider public access.

Geohazard assessment and mapping of coastal communities were also undertaken to determine the impacts of sea level rise due to climate change. A total of 250 coastal municipalities and cities have been assessed and mapped.

The Department of Education is continuing the implementation of the project on “Prioritizing the Mainstreaming of Disaster Risk Reduction Management in the School System and Implementation of Programs and Projects as mandated by Department Order No. 55 series of 2007.” Various government agencies undertake their respective disaster awareness and advocacy programs nationwide. Through a Strategic Plan to Integrate Community-Based Disaster Risk Management (SP-CBDRM) for 2007-2011 with the help the Partnerships for Disaster Reduction in Southeast Asia (PDRSEA), the NDRRMC has adopted community-based disaster risk management (CBDRM) as a model to engage communities in DRR undertaking. Lastly, the role of the extensive and intensive information, education and communication (IEC) campaigns play a major role in building and increasing awareness of the populace to respond to the adverse impacts of climate change.

Challenges

Goal 1: Improved Conservation, Protection, and Rehabilitation of Natural Resources

Balancing the needs of the production and household sectors within the country’s ecological capacity is crucial in attaining sustainable development. While efforts were made toward this end, resource problems continue to prevail. The recent natural disasters such as flooding and landslide incidents in various areas in the country reveal that a balance has yet to be reached and this would remain to be a major challenge for the sector. There are still policy and institutional issues that needs to be addressed in order to realize the goals and targets for the medium term.

Harmonization of policies. Pending the passage of the National Land Use Act that will provide a rationalized land use planning in the country, conflicting provisions of various policies on land use and natural resource utilization and management continue to exist. While efforts have been made to harmonize several policies, these should be continued. Also, there is a need to pass appropriate policy instruments to ensure effective governance of the country’s natural resources.

Timely, accurate and updated science-based information. The availability of timely, accurate and updated science-based information on the status of the natural resources is critical to policy and plan formulation as well as in financial resource allocation. There is a need to expedite the updating of information in natural resource sector such as forest cover, biodiversity and coastal and marine resource status, among others. Thus, government agencies have to coordinate closely, to pool and share resources, and avoid duplication of expenses and efforts such as mapping activities. Protocols for sharing of and access to data have to be developed and implemented.

Adequate financing. Timely and effective implementation of natural resource management programs both at the national and local levels has been always constrained by inadequacy of financial resources. Ongoing programs and projects either rely on ODA financing and from national government budget. Financing beyond project life to sustain the gains of natural resource management effort is still wanting. There is a need to fast track the implementation of the identified strategies that will provide sustainable financing to the natural resource sector.

Improve capacity for natural resource management. Continuing capacity development of implementing agencies and LGUs is needed to ensure timely and effective implementation of plans and activities as well as its sustainability.

Changing leadership at the local level. Natural resource management has been one of the devolved functions of the LGUs, placing them at the forefront of conservation, protection and rehabilitation of the country's natural resources. Ensuring continuity of efforts beyond leadership change at the local level is a challenge to natural resources management given that leadership change is often accompanied by change in development priorities.

Stakeholders' participation. Genuine stakeholder participation in the decision-making process, from planning, implementation, monitoring and evaluation, continues to be a challenge in natural resources management.

Goal 2. Improved environmental quality for a cleaner and healthier environment

While significant efforts have been done to improve the quality of the environment, there were still remaining challenges that the sector has to address because these may affect the achievement of targets within the medium term. Enforcement of laws and regulations on air and water quality management and solid, toxic and hazardous chemicals waste disposal and treatment is inadequate and weak.

Poor implementation of laws. While the Environment Management sector is replete with environmental management laws (i.e., Clean Air Act, Clean Water Act and ESWM Act), their effective enforcement is very much constrained by institutional, financial and technological capacity limitation.

Need to improve the Motor Vehicle Inspection System (MVIS) and emission monitoring systems. For improved air quality, there is a need to improve the MVIS being implemented by DOTC. Moreover, mass transit may need to be prioritized specifically in highly urbanized areas. In terms of ambient monitoring, only the Philippines remained to have monitored TSP regularly while other ASEAN countries have shifted their monitoring to PM10 and other more harmful pollutants. However, there is still a lack in capability to monitor emissions from other hazardous air pollutants in highly urban cities from all sources. The lack of consensus among relevant stakeholders in setting up the emission fee charges both for stationary and mobile sources is also seen as a bottleneck.

Lack of sewerage and other waste water treatment facilities. In terms of water quality management, there is a lack of sewerage and other waste water treatment facilities as this requires huge investments and higher tariff rates on the part of MWSS and Maynilad. Enabling mechanisms for the industries and private companies to be able to self monitor and self regulate in compliance with relevant provisions of environmental laws are also lacking. There are also manpower constraints in the monitoring of esteros and water bodies nationwide.

Low compliance rate among LGUs in creating their own SWM Plans. This is a major issue that hampers the establishment of a suitable and sustainable SWM system. Upfront capital costs of SWM are high, thus limiting the financial capacity of LGUs to invest in SWM projects. The limited investment capacity of LGUs and the perceived low willingness of LGU constituents to pay for SWM services have been considered as the main reasons for the underperformance in achieving the ESWMA targets. Moreover, there is a lack of clear guidelines on the confiscation, impounding and disposal of toxic chemicals in the country and insufficient treatment, storage and disposal (TSD) facilities among regions for the increasing number of large companies that are considered hazardous wastes generators (HWGs).

Lack of waste management database. The database system that will aid the agency in coming up with effective projects and programs for waste management (as well as for tracking and monitoring purposes) is not available.

Goal 3. Enhanced Resilience of Natural Systems and Improved Adaptive Capacities of Human Communities to Cope with Environmental Hazards Including Climate- Related Risks

The government continues to face challenges in the mainstreaming of climate change adaptation and mitigation into national, sector and local planning and development activities, some of which are:

1. Seeming lack of common understanding among some important stakeholders (both in the government and nongovernment sectors) on how and in what magnitude the impacts of climate change may affect the country in its stance to climate change adaptation/disaster risk management and mitigation;
2. Lack of properly managed knowledge/data that will serve as baseline information to developing science based tools to aid decision making in planning and development activities;

3. Insufficient technical capacity in most of the government units (national and local) that deters them from creating an enabled environment for the implementation climate change relevant programs and plans; and
4. Budgetary concerns for laying the grounds for the implementation on the identified climate change adaptation/disaster risk management and mitigation strategies or programs.

PROSPECTS AND POLICY DIRECTIONS

Goal 1: Improved Conservation, Protection, and Rehabilitation of Natural Resources

The initial accomplishments provide the foundation to implement the succeeding and remaining activities that are crucial to the achievement of subsector goals/targets.

Forestry and Watershed. There is a need to expedite the updating of data on forest cover as this is important in monitoring progress particularly in achieving the target of 30 percent forest cover in 2016.

Biodiversity. Priority should be accorded in the preparation of DRR- and CCA-enhanced protected area management plans, as well as the institutionalization and operationalization of PES in protected areas.

Coastal and Marine. Activities on the following strategies need to be conducted together with LGUs immediately in order to ensure enhancement of the coastal and marine resources:

1. Application of ecosystem approach to the management of fisheries and other marine resources to address transboundary policy and regulatory concerns;
2. Updating nautical charts for safety at sea and protection of marine environment;
3. Pursuing claims for an extended continental shelf as well as delineating various maritime jurisdictions such as internal waters, archipelagic waters, territorial sea and exclusive economic zone;

4. Conducting inventory and status of foreshore lands to identify and clarify impacts of privatization and commercialization to the environment and fishing communities;
5. Integrating coastal and marine water use plans into the comprehensive land use plans of LGUs;
6. Improving the status of coastal and marine biodiversity by safeguarding coastal ecosystems, species and genetic diversity;
7. Delineation of municipal waters remain to be implemented; and
8. Formulation of guidelines for delineation of municipal waters for municipalities with offshore islands.
7. Soil Conservation Act – establish 1000 soil conservation-guided farms

Mineral Resources. To address the various issues and concerns confronting the minerals industry, EO 79 entitled “Institutionalizing and Implementing Reforms in the Philippine Mining Sector, Providing Policies and Guidelines to Ensure Environmental Protection and Responsible Mining in the Utilization of Mineral Resources” signed on July 6, 2012 should be strictly implemented. The EO provides the following:

1. Ensure mining’s contribution to the country’s sustainable development;
2. Adopt international best practices to promote good governance and integrity in the sector;
3. Ensure the protection of the environment by adopting technically and scientifically sound methods as well as indigenous best practices;
4. Affirm the primacy of national laws over local issuances and harmonize laws, policies, and regulations;
5. Guarantee optimal and equitable benefits from mining; and
6. Deliver efficient and effective management of the mining sector, both large and small scale.

Furthermore, to provide the direction and legal basis to further improve the conservation, protection and rehabilitation of the natural resources, the following proposed legislation should be immediately passed:

Land Resources Management. Priority must be placed on the following:

1. Provision of appropriate funds for the maintenance and security of the LAMS to facilitate management of land records;
2. Strict enforcement of RA 10023, DAO 2011-06 and DAO 2010-18, especially at the subnational level, to aid in sustaining initial efforts on land administration;
3. Capacity building and training of newly elected LCEs on ongoing programs, projects and activities to ensure their support and commitment to continue such initiatives during their term;
4. Encourage cooperation of title holders, local communities/IPs, farmers, and the private sector to ensure continuity of efforts beyond the medium term;
5. Continue to foster capacity/competence of professionals, practitioners and workers in the land sector, supported with modern technology and land resources information available at the national and local levels and in the private sector;
6. Environmental safeguards in the issuance of foreshore leases should take into account the effect of climate change; and

1. **National Land Use Act.** This proposes to establish a national land use framework that shall define the urban, rural and regional development in the country. Land Use Policy Administration shall be created to set national land use planning and zoning guidelines and standards.

2. **Land Administration Reform Act (LARA).** This seeks to reform the present land administration and management system of the country (through consolidation of the DENR’s Lands Management Bureau and its

Land Management Services in the regional offices, and the DOJ's Land Registration Authority and its Register of Deeds) within a single government agency responsible for survey, mapping, titling, registration, title transfer and public land management. This will prevent extensive delays in the disposition and titling of A&D lands, duplicate and fake titles, inaccurate and incomplete land records, overlap of activities between government agencies, and unnecessary cost to both the national and local governments and the users and clients of land administration services. A Land Administration Authority shall be established under the Office of the President as the single and autonomous agency solely responsible for delivery of land-related services, Land Adjudication Board that shall handle land-related cases administratively, and Stakeholder's Advisory Committee that shall empower stakeholders and LGUs in policy determination and monitoring of progress. Several versions of the proposed legislation have been referred to stakeholders for review by the House Committee on Natural Resources.

3. ***Sustainable Forest Management Act (SFMA).*** This aims to update and consolidate all laws, executive and policy issuances as well as consider all relevant provisions of international agreements related to forestry. It will replace PD 705, as amended, or the Revised Forestry Code of the Philippines for better enforcement, supply policy gaps, promote multiple sustainable uses, and cope with the changing times through climate change mitigation and adaptation measures, socioeconomic development and natural resources conservation.

It shall develop and adopt a sustainable forest management strategy based on the following: (a) rational allocation of forestland uses; (b) promotion of land-use practices that increase productivity and conserve soil, water and other forestland resources; (c) protection of existing forest resources, conservation of biodiversity, rehabilitation or development of deforested or denuded areas to expand the forest resource base and promote food production activities; and (d) delineation and demarcation of permanent forest lines

in the country. The version of the House of Representative, HB 5485, has been transmitted to the Senate.

4. ***Final Forest Limits Act.*** This seeks to implement Sec. 4, Article 12 of the 1987 Philippine Constitution mandating the Congress to determine by law the specific limits of forestlands and national parks, marking clearly their boundaries on the ground. It also aims to conserve, protect and develop the forest resources of the country to attain ecological balance, preserve valuable ecosystem, prevent environmental degradation and promote sustainable development.
5. ***Marine Protected Area.*** This bill mandates the LGUs to establish marine protected areas in their municipal waters has been approved in 3rd reading in the House of Congress and was transmitted to Senate on June 2, 2011.
6. ***Marine Pollution.*** This proposed bill responds to the pressing need to reduce risks and prevent disasters caused by trade and other economic activities in the marine environment and its resources has been approved in 3rd reading in the House of Congress and was transmitted to Senate on May 23, 2012.
7. ***Integrated Coastal Management.*** This seeks to institutionalize the ICM in the Philippines as a national strategy to ensure the sustainable development of the country's coastal and marine resources and establishing supporting mechanisms for its implementation is still for deliberation by the Committee on Natural Resources of the House of Congress.
8. Related bills that aim to protect KBAs which are globally significant and considered as actually manageable for biodiversity conservation have already been approved on 3rd reading by the Committee on the Natural Resources, (i.e. HBs 4705, 4758, 4828, 4829, 4830, 4975, 5116, 5432, 5462, 5463, 5861). There are 22 similar bills still at the Committee level.

Goal 2. Improved environmental quality for a cleaner and healthier environment

It is clear that more effective policy and regulatory measures should be employed and more effective programs and projects implemented. Thus, the following policy and program directions for the environment sector must be given priority.

Air Quality Management. By 2016, the air quality in Metro Manila and other major urban centers will have TSP level and PM10 within standards. To achieve this, each of the 17 Metro Manila cities and 16 Regions of the country will have at least one automatic PM10 and PM2.5 monitoring station to monitor harmful pollutants. The government will continue to monitor industries' compliance with environmental standards (10% annual increase in compliance of industries). A policy on emission fees and charges and implementation of stricter emission standards for motor vehicles equipped with Compression-Ignition and Spark-ignition Engines will be issued and be implemented. Also, a study on Market Based Instruments (MBI) for emission fees and emission trading within an airshed will be conducted. Use of alternative fuel will be promoted thru conversion to E-vehicles, CNG and LPG. Air pollution health impact studies will be conducted as well.

Water Quality Management. Water quality of the priority river systems under the Sagip Ilog Program and other priority bodies of water including Manila Bay will be improved through continuous massive cleanup of water bodies and strengthened partnerships with industries and other stakeholders, focusing more on mitigating pollution from domestic sources which is the major source of pollution. The "Adopt-An-Estero" Program implementation shall be expanded to cover full stretch coverage of major rivers in Metro Manila and other major urban cities. One Communal Septage Management Facilities will be established in every province. By 2016, 34 Water Quality Management Areas (WQMA) shall be designated and operationalized. Partnership and disclosure programs such as the Philippine Environmental Partnership Program, Beachwatch and Industrial Ecowatch Programs to increase compliance to environmental regulations will also be continuously implemented.

Waste Management. For 2013 onwards, the government plans to intensify the IEC campaign to effectively raise the awareness of the general public and consequently motivate them to observe waste avoidance and the 3Rs, which are keys to achieving the goals of ESWM. Financing options for LGUs shall be improved, developed and sustained. Sustainable markets for all recyclables and recycled products will be established. Also, support for knowledge management and technology, innovation and research will be provided to LGUs that do not have the means to access appropriate technologies on solid waste management.

For Metro Manila alone, the following programs and projects will be pursued: (a) formulation of 10-year Solid Waste Management Plan; (b) conduct of Waste Amount and Composition Survey (WACS) for 17 LGUs; (c) promotion of segregation at source and recycling; (d) provision of incentives to LGUs with successful waste reduction projects; and (e) establishment of onsite waste processing facilities.

Guidelines on confiscation, impounding and disposal of illegal toxic chemicals and hazardous wastes will be formulated. A centralized and regional network of databases for chemicals issued permits, clearances and subcontracts will be created to reflect a single national scenario. These databases will be sources of reliable data and be the bases for sound chemical management plans and programs. To better manage hazardous wastes, effective policies will be pursued such as amending the Procedural Manuals for Hazardous Waste Management and Contaminated Sites. A study on alternative technology for the treatment of healthcare wastes shall be conducted.

Goal 3.Enhanced Resilience of Natural Systems and Improved Adaptive Capacities of Human Communities to Cope with Environmental Hazards Including Climate- Related Risks

The policy and program directions with regards to CCA and DRRM are specifically contained in the NCCAP 2011-2028 whose ultimate outcome is “Enhanced adaptive capacity of communities, resilience of natural ecosystems, and sustainability of built environment to climate change.”The following will be pursued to achieve the expected outcomes and targets indicated in the PDP 2011-2016 and the NCCAP medium-term targets for the ENR sector:

1. Conduct a nationwide ecosystem vulnerability and risk assessment at the national and local levels;
2. Derive and implement mitigation and adaptation strategies for key ecosystems;
3. Pursue the conduct of an objective and transparent assessment and appraisal of projects related to climate change response and funding these projects under National Budget as well as from other sources (i.e. the People’s Survival Fund, the Green Climate Fund, Adaptation fund etc).;
4. Design innovative financing mechanisms and a bundle of CC adaptation assistance for vulnerable communities;
5. Mainstream and implement CCA-DRRM in the national and local plans based on information from the vulnerability and risk assessment;
6. Develop and implement knowledge management on CCA; and
7. Complete detailed mapping of all cities and municipalities by 2014. Risk analysis and vulnerability assessment on highly critical areas will also start in 2014 onward. These shall integrate climate change impact and establishment of community-based early warning systems.