



SOCIOECONOMIC REPORT 2002



NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

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NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
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Chapter 1

The Economy

In 2002, the Philippine economy showed its firmest growth in the post-Asian crisis period. Building on the strengths and resiliency established through various structural reforms in the past, all production sectors grew robustly in 2002. Industry and services surpassed the previous year's gains and agriculture bucked the effects of a mild El Niño. Growth of private investments persistently recovered throughout the year.

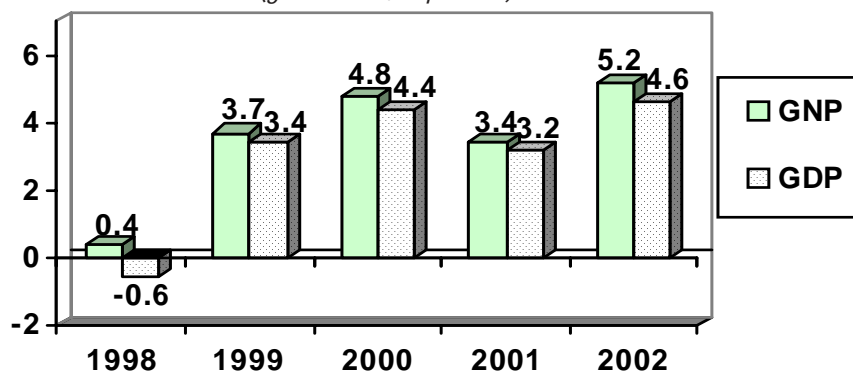
Growth was supported by policies that encouraged healthy domestic and foreign demand. A low inflationary environment, induced by prudent monetary policy operating under an inflation-targeting framework, boosted private consumption. Policies which have liberalized trade within the Association of South East Asian Nations (ASEAN), and with other Asian neighbors contributed to the rebound of exports.

The economy grew amidst the re-emergence of the national government deficit as a potential source of macroeconomic instability. The national government's deficit

exceeded the programmed level as the tax effort eased down while expenditures slipped above target. Notwithstanding, market interest rates were moderated by low inflation rates. Monetary policy played a key role, as it focused on stabilizing general price levels. In line with the economy's integration with the rest of world, the exchange rate remained flexible.

The growth performance in 2002 provides a solid foundation for a resilient economy in 2003 that is expected to confront global as well as domestic challenges. In the external front, prospects of the global economy is dimmed by growing geopolitical tensions. In the domestic front, the need to reaffirm fiscal discipline will put to test the government's resolve to improve the buoyancy of the tax system through administrative and legislative reforms, and to rein in expenditures through austerity measures. The banking system's nonperforming loans remain high, albeit it has recently tapered. Mitigating measures against the dampening effects of a mild El Niño on agricultural output are vital.

FIGURE 1.1
Annual GNP and GDP: 1998-2002
(growth rate, in percent)



Source: National Statistical Coordination Board (NSCB)

ECONOMIC PERFORMANCE IN 2002

The Philippine economy turned in its healthiest performance since 1998, with the gross domestic product (GDP) adjusted for inflation growing at 4.6 percent in 2002. This exceeded the MTPDP forecast of 4.0-4.5 percent and the 2001 growth of 3.2 percent.

Gross national product (GNP) expanded strongly at 5.2 percent, outstripping the 4.1-4.6 percent official forecast and the 2001 growth of 3.4 percent. This is also the highest GNP growth in the post-Asian crisis period. GNP grew on the back of a 15.5 percent rise in net factor income from abroad (NFIA), comprising largely of compensation income of overseas Filipino workers. Growth in 2002 accelerated mainly on account of the fourth quarter GDP growth of 5.8 percent, and GNP growth of 7.2 percent.

Sector Growth

All production sectors responded positively to the stable environment as well as sector-specific programs, as they grew at rates close to or slightly higher than the MTPDP forecasts. The agricultural modernization program improved the resiliency of the sector to the vagaries of weather. Industry and services continued to benefit from the implementation of structural reforms. As in previous years, the service sectors contributed the largest share (2.5 percentage points (ppts)) to GDP growth, with trade on top (0.9 ppts) followed by transport, communications and storage (0.7 ppts). Industry submitted 1.4 percentage points, bannered by manufacturing (0.8 ppts) and mining (0.5 ppts). Notwithstanding the El Niño, agriculture, fisheries and forestry had a stable share (0.7 ppts.) Across all subsectors, construction and forestry did not have any significant dent on GDP growth.

TABLE 1.1 Aggregate Economic Indicators
(growth rate, in percent)

	2001	2002	
	Actual	Actual	MTPDP
Gross National Product	3.4	5.2	4.1 – 4.6
Gross Domestic Product	3.2	4.6	4.0 – 4.5
Net Factor Income from Abroad	7.2	15.5	6.0 – 7.0
Production			
Agriculture, fishery & forestry	3.7	3.5	2.7 – 3.6
Industry	1.3	4.1	4.0 – 4.3
Services	4.4	5.4	4.5 – 5.0
Demand			
Personal Consumption	3.6	3.9	3.4 – 3.7
Government Consumption	0.3	1.8	2.3 – 2.8
Investments	1.3	-0.6	4.5 – 5.0
Fixed Investments	-2.2	2.1	-
Exports	-5.2	3.3	1.2 – 1.7
Imports	-0.8	4.9	2.3 – 2.8

Sources: NSCB

National Economic and Development Authority

TABLE 1.2 GDP By Gross Value Added and Contribution to GDP Growth
(in percent)

	Growth Rate of GVA		Percentage Contribution to GDP Growth (percentage points)	
	2001	2002	2001	2002
Agriculture, fishery & forestry	3.7	3.5	0.7	0.7
Agriculture	3.5	2.8	0.6	0.5
Fishery	6.1	6.4	0.2	0.2
Forestry	-33.5	9.1	0.0	0.0
Industry	1.3	4.1	0.5	1.4
Mining and quarrying	-6.6	49.2	-0.1	0.5
Manufacturing	2.9	3.3	0.7	0.8
Construction	-3.6	0.0	-0.2	0.0
Utilities	0.7	2.1	0.0	0.1
Services	4.4	5.4	2.0	2.5
Trans., Comm. and Storage	8.8	8.9	0.6	0.7
Trade	5.6	5.7	0.9	0.9
Finance	1.2	3.2	0.1	0.2
O. Dwellings and R. Estate	-0.5	1.6	0.0	0.1
Private Services	4.4	5.5	0.3	0.4
Government Services	2.7	4.6	0.1	0.2

Source: NSCB

On the whole, GDP growth in 2002 was fuelled by growth in labor employment (3.1%) as well as an increase in productivity (1.5%). Estimated productivity improvement was highest in industry (4.5%); this is in large part traced to the continuing consolidation of manufacturing firms in general, which in 2002 resulted in loss of employment (see also Chapter 2). Productivity growth in mining (37.3%) was also impressive, driven mainly by the faster growth in crude oil production which can be attributed to the opening of the Malampaya project. Productivity improvement in agriculture (1.0%) and services (0.6%) also contributed to sectoral gross value added (GVA).

Agriculture. Growth in agriculture, forestry, and fishery in 2002 was within the MTPDP forecast, albeit easing slightly to 3.5 percent from 3.7 percent in 2001 due to the adverse impact of El Niño, particularly on corn. The growth in agriculture was the result of

fortuitous weather conditions in some areas, and government measures that were put in place to boost productivity in the sector as well as mitigate the impact of El Niño. These included the use of high-yielding and certified seeds, rehabilitation of irrigation facilities, distribution of fingerlings, plantation of drought-resistant crops and credit support to the sector (see Chapter 5).

Agriculture alone rose 2.8 percent, slower than the 3.5 percent growth in 2001. The impact of the El Niño on palay production was tempered by the timely implementation of the Quick Turn Around planting scheme which enabled production to rebound in the fourth quarter. On the other hand, corn production dropped 4.5 percent as the dry spell in the second quarter encouraged farmers to shift to drought-resistant crops; total area planted with corn thus fell 1.1 percent from a year ago. Vigorous support from the *Ginintuang Masaganang Ani* (GMA) Livestock Program

TABLE 1.3 Sectoral GVA and Productivity Growth

(in percent)

	GVA Growth	Employment Growth	Implied Productivity Growth
GDP	4.6	3.1	1.5
Agriculture, Fishery & Forestry	3.5	2.5	1.0
Industry	4.1	-0.4	4.5
Service	5.4	4.8	0.6

Sources: NSCB for gross value added

National Statistics Office (NSO) for employment

NEDA for estimates of implied productivity growth

under the Agriculture and Fisheries Modernization Act bolstered livestock growth which accelerated to 4.1 percent in 2002 compared to 2.9 percent in 2001. Under the program, activities such as maintenance of cattle breeders, vaccination of animals and disinfection of abattoirs, benefited the livestock sector. Poultry reflected a slower growth of 6.2 percent compared to previous year's 7.8 percent increase.

Growth of fishery stepped up to 6.4 percent owing to improvements in commercial and municipal fishing as well as significant gains in aquaculture. The robust growth in aquaculture was attributed to the intensive distribution of good quality fingerlings, expansion of seaweed areas, improvement of management practices, and rehabilitation of fishponds through the GMA Fisheries Program.

Forestry rebounded from a 33.5 percent reduction in 2001, growing 9.1 percent in 2002. Greater harvests from both natural forests and industrial plantations in some areas of the country underpinned the sector's recovery.

Industry. All major industrial subsectors improved on their performances a year ago, pushing the growth of industry (4.1%) within the MTPDP forecast.

Mining and quarrying which accelerated 49.2 percent was boosted by the ramped up production from the Malampaya gas fields and from expansions in copper and gold mines, the

latter due to the unclogging of bottlenecks in the issuance of environmental clearances, as well as the impetus from higher global prices. The rebound in private construction for housing and trade establishments (e.g., malls) halted the slump in construction. As envisioned in the MTPDP, housing finance reforms have started to impact positively on the construction sector. Among these are the expansion of the *Bangko Sentral ng Pilipinas (BSP)* rediscounting facility to, among others, socialized and low cost housing and the issuance of bonds by the Home Guaranty Corporation to support guarantee operations.

On the other hand, manufacturing barely improved on its performance in 2001, growing 3.3 percent compared to 2.9 percent a year ago. Only 12 out of the 20 sectors expanded in 2002; these include export-oriented sectors like electrical machinery (17.9%), leather and leather products (15.4%), footwear wearing apparel (8.0%), textile (7.6%); and domestic-oriented industries such as food manufacturing (7.7%), publishing and printing (6.9%), and metal industries (13.7%). Most intermediate goods sectors remained in negative territory, including nonelectric machinery, petroleum and coal, paper and paper products, basic metal industries, chemicals and chemical products, rubber products, and miscellaneous manufactures.

Services. Services surged by 5.4 percent in 2002, outstripping the 4.5 – 5.0 percent forecast and 2001 growth of 4.4 percent. Upbeat performance was seen across service sectors which all grew better than a year ago: transport, communication and storage (8.9%), trade (5.7%), and private services (5.5%). Finance (3.2%) and ownership of dwellings and real estate (1.6%) also strengthened in 2002, although these have yet to regain their pre-1997 performance.

Liberalization continued to drive the expansion of the major service sectors. Responding to the retail trade liberalization program, giant local retailers opened up new malls in regions outside Metro Manila. Services also continued to reap from robust demand especially in communication, trade and private services which benefited from the liberalization of the telecommunications industry almost a decade earlier.

Aggregate Demand

Growth in 2002 was underpinned by a vigorous rise in personal consumption spending and the recovery in exports which grew better than expected. Growth in government spending, albeit higher than a year ago, was lower than forecasted. Nonetheless, the exercise of fiscal prudence which led to this clipped performance was in line with the Plan's thrust.

On the other hand, investments did not accelerate during the year as forecasted. Unforeseen events in the latter part of 2001 such as the September 11 attack, tensions in the Middle East, slow growth of credit to the private sector and the higher-than-expected deficit challenged business confidence. Drawdowns in inventory pulled down overall investments in 2002, but fixed investments in construction and durable equipment rebounded indicating improved investment climate during the period, albeit not as bright as originally envisioned in 2001.

Consumption. Personal consumption expenditures rose at a healthy pace of 3.9 percent in 2002, boosted by higher per capita income, along with low inflation. Per capita GDP and GNP increased by 2.4 percent and 3.0 percent, respectively. Higher net factor income from abroad (15.5%) also helped finance higher consumer spending.

Consumer spending strengthened across both basic and nonbasic consumer items such as transportation/communication (13.6%), household furnishings (4.8%), food (3.1%), beverage (3.0%), clothing and footwear (2.7%).

Government consumption rose 1.8 percent from 0.3 percent growth in 2001, on account of higher personal services expenditures. The rise in government spending was due to the lifting of the hiring ban, which facilitated the hiring of more teachers and government personnel, in addition to the salary increases of military personnel.

Investments. Investments slipped anew in 2002 due to inventory drawdown of over 100 percent. However, fixed investments rebounded 2.1 percent from a 2.2 percent fall in 2001, with investments in construction (2.4%), durable equipment (1.4%) and breeding stock (4.4%) picking up.

The decline in capital formation in 2002 saw the overall investments-to-GDP ratio sliding down to 19.8 percent, from 20.9 percent in 2001. (The 2002 level is significantly lower than the average ratio of 24.8 percent in 1995-1997).

Net exports. Net exports contracted 15.9 percent, although less steeply than that in 2001 (-45.9%). Exports recovered in 2002, growing 3.3 percent from -5.2 percent in 2001. The global IT recovery in 2002 contributed to the expansion of semiconductors and electronic microcircuits exports (20.2%) from last year's contraction (-27.8%). Garments exports grew 4.4 percent from -1.4 percent in 2001 while agriculture exports such as desiccated coconut (36.7%) and centrifugal sugar (62.8%) also continued to fare well.

One reason for the recovery of exports in 2002 is the country's growing reliance on East and Southeast Asian markets (see Box 1.1). The Asia group, excluding Japan, accounted for 33.1 percent of Philippine exports from 28.0 percent in 2001. China is increasingly becoming an important destination following its accession to the World Trade Organization (WTO). Meanwhile, Philippine trade with other Association of Southeast Asian Nation (ASEAN) countries continues to be boosted by ASEAN Free Trade Area – Common Effective Preferential Tariff agreement (see Chapter 3).

Meanwhile, robust domestic production in 2002 pushed imports growth to 4.9 percent from last year's -0.8 percent. The recovery of exports increased imports of electrical machinery (25.1%), and machinery except electrical (16.0%). Imports of mineral fuels, lubricants and related materials notably declined by 14 percent as the country decreased its dependency on oil imports with the utilization of additional capacity from the Malampaya projects.

Inflation

Growth in 2002 was supported by low inflation. From 6.1 percent in 2001, the average inflation rate of the consumer price

index (CPI) slowed to 3.1 percent in 2002. This is the lowest since 1987, and is much lower than the 2002 monetary policy target of 4.5-5.5 percent. Prudent monetary policy anchored the tame inflation environment.

On the supply side, ample food supply from domestic production and timely importation of key food items like rice were vital. The cost of domestic production of manufactured goods was also tempered by the reduction in tariff rate from an average of 7.7 percent in 2001 to 6.0 percent in 2002. Moreover, the liberalization of retail trade and deregulation of domestic oil industry heightened competition in the market and weakened price-setting powers.

Decelerating annual inflation rates were observed in all major commodity groups. In particular, the inflation rate of fuel, light and water (FLW) slowed down from 12.2 percent in 2001 to 4.9 percent in 2002. Notwithstanding the pressure from higher global oil prices and higher peso-dollar exchange rate, average domestic oil price in 2002 was slightly lower than in 2001 probably due to the positive impact of increasing competition among market players.

Interest rates

The lower inflation rate in 2002 pushed down market interest rates, led by the benchmark 91-day T-bill rate. The latter trended downwards to an average of 5.4 percent in 2002 from 9.9 percent in 2001. This is well below the government's expected interest rate of 8 percent in 2002.

Against a backdrop of benign inflation, the BSP reduced its policy rates three times for a cumulative 75 basis points in the first quarter of 2002 to 7.0 percent for its overnight borrowing rate and 9.25 percent for its overnight lending rates. Thereafter, these have been kept steady throughout the year to foster a low market interest rate environment that is supportive of the economy's growth objectives while ensuring that price pressures are

TABLE 1.4 Philippine Export Diversification
(in percent)

	Share to RP's Exports		Growth Rate ^{1/}	
	2001	2002	2001	2002
Asia minus Japan	28.0	33.1	-19.3	29.5
China	2.5	3.9	19.5	70.6
South Korea	3.3	3.8	-10.9	27.8
Singapore	7.2	7.0	-26.1	6.4
Malaysia	3.5	4.7	-19.3	48.6
Taiwan	6.6	7.0	-25.6	16.1
Hong Kong	4.9	6.7	-17.2	48.2
US	27.9	24.7	-21.0	-3.4
Japan	15.7	15.0	-9.8	4.3
Europe ^{2/}	13.4	12.7	-0.3	3.2

^{1/} Growth rate of dollar value of exports

^{2/} Germany and Netherlands only

Source: NSO

Box 1.1

DIVERSIFICATION OF PHILIPPINE TRADE SINCE THE 1990s

The United States and Japan have been the country's top trading partners for so long. In 1991, the combined share of the two countries to total Philippine exports was more than half of the total while the countries in Europe, mostly members of the European Union (EU) have their share at 19.9 percent. Asia excluding Japan, on the other hand, had a modest share of 14.8 percent.

Since then, however, there has been a marked decline in the share of exports to US and Japan while the share of East and Southeast Asian countries particularly those of the ASEAN increased steadily. The share of the EU has been stable and that of Australia remain minimal.

While the share of direct exports to the US and Japan moderated, imports from the two countries remained stable. On the other hand, the country's demand for European-made merchandise went down by half. Imports from Australia also weakened. The share of ASEAN to the country's imports almost doubled.

The diversification of trade could be traced to the policies and programs implemented by the government during the past decades. These include policies that liberalized investments, such as the Omnibus Investment Code of 1987, the Export Development Act of 1994, and the Foreign Investments Act of 1991, which helped set up the infrastructure for global trade.

Freer and more diversified trade within the ASEAN region could also be attributed to the government's adherence to the ASEAN Free Trade Area (AFTA). The country's trade with ASEAN members, particularly Singapore and Malaysia has been growing over the years with tariff liberalization. Under the AFTA, the Common Effective Preferential Tariff (CEPT) Scheme implemented starting in 1993 called for the application of effective preferential tariff on goods originating from ASEAN member-states. It aims to lower tariffs to a range of 0 to 5 percent among member-countries by 2003.

In 1993, the average CEPT tariff rate was about 12.76 percent. It went down to 5.4 percent in 1998 and will approximately be 2.7 percent by 2003. Among the ASEAN members, Brunei Darussalam, Singapore, and Malaysia have the lowest CEPT tariff rates.

Philippine Trade, 1991-2002
(in percent)

	EXPORTS								IMPORTS							
	Growth Rate (%)				% Share to Total*				Growth Rate (%)				% Share to Total*			
	1991	1996	2001	2002	1991	1996	2001	2002	1991	1996	2001	2002	1991	1996	2001	2002
Total	8.00	15.55	-15.57	9.05	100.00	100.00	100.00	100.00	-1.30	22.19	-5.85	13.27	100.00	100.00	100.00	100.00
United States	1.59	8.04	-20.99	-3.35	35.56	33.01	27.93	24.75	2.57	26.88	-6.28	27.92	20.13	19.62	16.88	19.07
Japan	9.21	33.49	-9.83	4.36	20.04	18.19	15.73	15.05	5.06	19.68	1.18	14.08	19.69	21.98	20.64	20.79
Asia excluding Japan	9.38	22.92	-19.29	6.15	14.82	20.49	27.88	27.14	8.93	15.71	-10.99	22.87	24.94	24.20	28.74	31.17
China	106.87	53.26	19.53	70.65	1.45	1.63	2.47	3.86	37.88	16.92	24.12	29.18	1.85	2.09	3.23	3.68
Hongkong	18.50	5.36	-17.17	-84.20	4.43	4.31	4.91	0.71	7.47	6.70	3.48	24.69	4.95	4.19	4.26	4.69
South Korea	-0.69	-16.50	-10.93	27.81	2.58	1.84	3.25	3.81	27.33	22.45	-17.04	32.27	5.05	5.16	6.60	7.71
Taiwan	0.22	16.32	-25.65	16.11	2.37	3.28	6.62	7.04	2.36	11.25	-17.50	1.82	6.84	4.93	5.44	4.89
Malaysia	-2.79	115.72	-19.25	48.54	1.39	3.37	3.46	4.71	9.34	39.62	-18.72	28.43	2.47	2.47	3.14	3.56
Singapore	-4.25	22.88	-26.14	6.42	2.60	6.07	7.18	7.00	-6.45	12.04	-15.18	23.99	3.78	5.37	6.07	6.65
Germany	28.60	21.15	-0.42	4.65	5.68	4.20	4.12	3.95	-13.53	30.13	0.05	-6.71	3.86	3.73	2.49	2.05
Netherlands	-5.23	38.44	-0.20	2.62	3.83	5.53	9.26	8.71	-15.30	3.95	-26.11	-3.06	1.20	1.02	0.81	0.69

* Total of % shares to total is not equal to 100% because of exclusion of other countries in the tables.

Source: National Statistics Office

TABLE 1.5 Consumer Price Index Inflation Rates
(in percent)

	January - December 2002		January - December 2001	
	2002	2001	2002	2001
All Items	3.1	6.1	3.8	2.6
Food, beverage and tobacco	1.9	4.1	1.8	1.6
o/w: Food	1.8	3.9	1.6	1.6
Non-food	4.3	8.5	5.9	3.7
Clothing	2.6	3.7	2.8	2.4
Housing and repairs	4.9	6.8	6.9	3.6
Fuel, light, and water	4.9	12.2	10.8	2.6
Services	4.9	11.5	5.7	5.5
Miscellaneous	1.9	5.3	2.7	1.6
By region:				
NCR	3.8	7.1	5.2	2.9
Areas Outside NCR	2.3	4.0	2.4	1.6
Memo items:				
Dubai oil prices (\$/barrel)	23.8	22.8	18.5	25.7
Domestic oil price, (P/liter)	15.0	15.2	13.7	15.8
Peso-dollar rate	51.6	51.0	51.4	53.5
Domestic oil price, (P/liter)	15.0	15.2	13.7	15.8
Year-on-year depreciation rate	-1.2	-13.3	0.9	-3.2

Source: NSO, BSP, Department of Energy (DOE)

contained. This policy also took account of the US Federal Reserve's decision to cut its own policy rates by 50 basis points.

Subsequently, the signal sent by the monetary authorities effectively made its way to commercial banks. Bank lending rates declined to a range of 8.1-10.0 percent in December 2002 from 12.7-14.2 percent in December 2001.

Market rates were also dampened by a move of the BSP in January 2002 to reduce by two percentage points the liquidity reserve requirement on peso demand, savings, and time deposits and deposit substitute liabilities of universal banks, commercial banks and nonbank financial intermediaries with quasi-banking functions. This restored the liquidity reserves to its pre-July 2001 level of 7.0 percent.

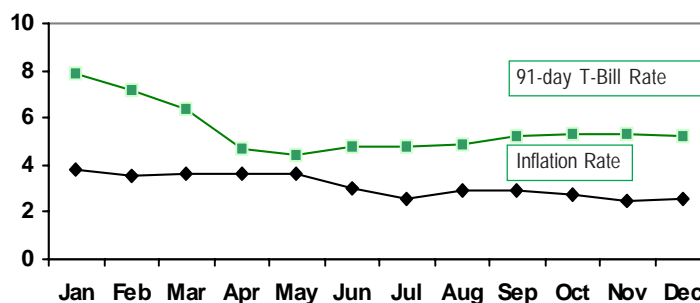
Furthermore, the BSP reduced the regular reserve requirement to 6.0 percent for demand deposits, deposit substitutes, and negotiable order of withdrawal (NOW) accounts of thrift banks, and for demand deposits and NOW accounts of rural cooperative banks.

The BSP rediscounting policy was also liberalized by opening up access to its regular rediscounting window from a selective credit instrument to a monetary policy instrument that complements the BSP's open market operations in managing liquidity in the system. Moreover, in October 2003, the rediscount rate will be adjusted to reflect actual market rates on comparable maturities.

Fiscal Performance

The MTPDP espouses fiscal discipline as a core strategy to achieving macroeconomic

FIGURE 1.2
Inflation rate and 91-day T-Bill rate, 2002



Source: NSO
Bureau of the Treasury (BTr)

TABLE 1.6 Yields on Treasury Bills and Other Interest Rates
(in percent)

	2001	2002
91-day T-bill rate	9.86	5.43
182-day T-bill rate	11.18	6.50
364-day T-bill rate	11.98	6.84
All maturities – weighted average	11.06	6.06
Bank average lending rate	12.40	8.90
BSP overnight borrowing rate*	7.75	7.00
BSP overnight lending rate*	10.00	9.25
US Federal funds rate*	1.75	1.25

*end-period rates

Sources: Bureau of the Treasury, Bangko Sentral ng Pilipinas, US Federal Reserve

stability. A large fiscal imbalance distorts resource allocation and capital investment decisions. As the government competes for funds, interest rate rises. A widening fiscal deficit also results in higher levels of debt, making the country more vulnerable to speculative attacks.

In 2002, however, the MTPDP fiscal targets and policy directions were severely strained due in large part to the national government's cash operations.

National Government (NG) Cash Operations. After achieving a close-to-target deficit in 2001, the deterioration in the fiscal performance of the national government (NG) reemerged as the most critical threat to macroeconomic stability and long-term growth. The NG deficit in 2002 stood at P210.7 billion (5.3% of GDP) or 62 percent higher than the original target of P130 billion (3.3% of GDP).

Total revenues in 2002 grew by a mere 0.6 percent to reach P567 billion, 9.2 percent below the original program mainly due to slippages in tax collection. Relative to their respective targets, the P394.5 billion revenue intake of the Bureau of Internal Revenue (BIR) was below-target by P53 billion while the Bureau of Customs (BOC) collection of

P96.3 billion was lower by P18.9 billion. Meanwhile, the Bureau of the Treasury (BTr) outperformed its program by P25.0 billion because of higher income from its investments. Privatization yielded only P0.6 billion vis-à-vis the target of P5.0 billion. Due to a generally tepid stock market, privatization of big ticket items such as MERALCO, Philippine National Construction Corporation and Philippine Postal Corporation was postponed until more favorable condition obtains.

The year 2002 had been a difficult year for BIR and BOC as they were persistently beset with collection shortfalls. Tax collection has not kept pace with economic growth because of structural defects in the tax system

TABLE 1.7 National Government Cash Operations
(In billion pesos)

	ACTUAL		PROGRAM	GROWTH
	2001	2002	2002	RATE (%)
REVENUES	563.7	567.1	624.3	0.6
(% of GDP)	15.5	14.3	15.8	
Tax Revenues	489.9	496.4	571.3	1.3
(% of GDP)	13.5	12.5	14.5	
Bureau of Internal Revenue	388.7	394.5	447.6	1.5
Bureau of Customs	96.2	96.3	115.1	0.0
Other Offices	4.9	5.6	8.6	12.6
Non-Tax Revenues	73.9	70.8	53.0	-4.2
BTr income	46.4	47.2	22.2	1.7
Fees and charges	24.3	21.9	25.6	-9.7
Privatization	1.2	0.6	5.0	-49.6
Grants	2.0	1.1	0.3	-47.2
EXPENDITURES	710.8	771.9	754.3	9.4
(% of GDP)	19.5	19.6	19.1	
Current Operating Expenditures	601.7	650.7	645.2	8.1
o.w. Interest payments	174.8	185.9	204.3	6.3
Capital Outlays	105.1	124.6	103.0	18.6
Net Lending	3.9	2.6	6.1	-32.7
DEFICIT	-147.0	-210.7	-130.0	43.3
(% of GDP)	-4.0	-5.3	-3.3	
NET FINANCING				
Net external borrowings	22.9	109.1	48.5	376.2
Net domestic borrowings	152.3	155.0	63.3	1.8
Less: Change in cash	-22.2	-1.7	-2.4	-92.3
Non-budgetary accounts	50.4	55.1	-15.8	9.3

Source: Cash Operations Report, Bureau of the Treasury
as of January 2003

TABLE 1.8 BIR Collection from Large Taxpayers by Industry
(In million pesos)

	COLLECTIONS		% SHARE TO GVA	
	2001	2002	2001	2002
I. Agriculture, Fishery & Forestry	22.7	30.7	0.0	0.0
A. Agriculture & Fishery	22.7	30.7	0.0	0.0
B. Forestry	0.0	0.0	0.0	0.0
II. Industry Sector	128,363.6	127,340.9	11.1	10.1
A. Mining & Quarrying	2,584.2	1,146.2	12.2	3.5
B. Manufacturing	115,678.9	117,015.5	13.9	12.9
C. Construction	1,667.6	1,392.4	0.9	0.7
D. Electricity, Gas & Water	8,432.9	7,786.9	7.2	6.4
III. Service Sector	98,732.3	89,698.2	5.1	4.2
A. Transportation, Communication & Storage	16,532.0	16,199.9	6.7	5.9
B. Trade	9,021.3	10,093.8	1.7	1.8
C. Finance	57,070.9	46,528.0	35.7	27.4
D. Ownership Dwellings & Real Estate	3,124.2	3,694.9	1.3	1.5
E. Private Services	12,111.8	12,281.9	2.9	2.6
F. Government Services	872.1	899.6	0.3	0.2
GRAND TOTAL	227,118.5	217,069.9	6.3	5.5

Source: BIR, as of January 2003

(Table 1.8). For instance, collections from the Large Taxpayers Unit (LTU) of the BIR, which account for 55.0 percent of its total collection, registered declining share to gross value added for almost all sectors, except for the trade sector. Overall tax effort, thus, slipped to 12.5 percent of GDP in 2002 from 13.5 percent in 2001.

A number of factors contributed to the slippage in tax collection. Lower-than-expected domestic production of oil, decline in collections of taxes from banks due to falling lending rates, and underpayment of VAT and excise taxes weighed heavily on BIR's collection performance (Table 1.9). Excise taxes are not linked to inflation. The rates of present excise

TABLE 1.9 Bureau of Internal Revenue Collections
(In million pesos)

	COLLECTIONS		PROGRAM 2002	GROWTH RATE (%)
	2001	2002		
TOTAL	388,679	394,549	447,557	1.5
Net Income & Profits	223,417	226,503	246,066	1.4
o.w. Corporate Income Tax	98,533	100,758	113,938	2.3
Indiv. Income Tax	77,057	82,281	95,302	6.8
Bank Deposits	20,560	14,812	12,982	-28.0
Excise Tax	58,698	57,000	70,138	-2.9
o.w. Fuels & Oils	24,688	21,957	32,511	-11.1
Sales Taxes, VAT & License	87,046	89,950	107,498	3.3
o.w. Banks/Financial Inst.	12,103	9,646	10,983	-20.3
Other Domestic Tax	19,519	21,096	23,855	8.1

Source: BIR, as of January 2003

taxes on cigarettes and alcohol were last adjusted in 2000. Growing sectors such as agriculture and exports are also not captured in the tax net because of various incentives.

Meanwhile, BOC's collections were buffeted by tariff restructuring under the WTO and AFTA; tariff privileges under the Agriculture and Fisheries Modernization Act; and the increasing share of nondutiable imports, which contributed an estimated P9.16 billion revenue shortfall for the whole year. Average tariff rate went down to 6.0 percent from 7.7 percent in the previous year.

To arrest the deterioration in the fiscal balance, the BIR undertook various administrative reforms, including the intensification of the audit system. Through an IT-based Reconciliation of Listings for Enforcement (RELIEF) system that started in July 2002, the Bureau was able to automatically verify the authenticity of tax declarations submitted by taxpayers. Although the system is still in its initial stage, the RELIEF project has already uncovered underdeclarations estimated at P58.7 billion. The system has also greatly aided detection of tax evasion. To date, 11 tax evasion cases were already filed at the Office of Government Corporate Counsel for criminal prosecution. Two business establishments in Bulacan and Malabon were closed for underdeclaring their sales by as much as 50 percent.

The Bureau also actively promoted voluntary compliance by making the process of filing and paying taxes more efficient, thereby, preventing future incidence of anomalies like the LBP tax diversion scam. Since August 1, 2002, large taxpayers were required to e-file and e-pay their income tax returns through the Electronic Filing and Payment System (EFPS). The DST metering machine system was expanded to make

collection procedures simple and transparent. Moreover, the BIR imposed mitigating penalties under the Voluntary Assessment and Abatement Program (VAAP) to taxpayers, who voluntarily settled any deficiencies in their tax payments.

The Bureau also implemented the following administrative measures, which were instrumental in the improvement of revenue collections towards the last quarter of 2002:

- 1 Strict monitoring of LGU remittances by establishing a proactive information exchange between LGUs and the taxpaying public to ensure that internal revenue tax laws are being implemented;
- 1 Clarification of the tax treatment of income earned from unregistered activities by enterprises registered under Philippine Economic Zone Authority (PEZA), Subic Bay Metropolitan Authority (SBMA), and Clark Development Authority (CDA);¹
- 1 Improvement of excise tax administration system with the establishment of a computer linkage with the country's top 20 excise taxpayers; and
- 1 Expansion of the Large Taxpayers Administration to two major revenue regions (Manila and Cebu).

BOC also undertook a number of tax-enhancement measures. These include: (a) intensifying enforcement of forfeitable bonds which are collectibles from insurance companies that guaranteed the payments of custom duties and taxes of temporary importations; (b) additional billings arising from warehousing audit and liquidation of import entries; (c) public auction sale of abandoned and forfeited importations acquired by the government; (d) settlement and redemption of seized/forfeited goods; (e) voluntary payment schemes for vehicles; and (f) collection from transferees of fraudulently-secured tax credit

¹ Revenue Regulation 20-2002 stipulates that registered activities under SBMA, PEZA, and CDA shall be subject to tax treatment specified in the terms of registration (i.e., 5 % preferential tax rate, income tax holiday, or regular taxes). However, income realized that is not related to registered activity shall be subject to regular taxes.

Box 1.2**TAX COLLECTION PERFORMANCE: 1994-2002**

The Comprehensive Tax Reform Program (CTRP) was intended to widen the tax base and simplify the tax structure to make it more efficient. Some of its important features include:

- Reduction in marginal tax rates both for individual and corporate taxes;
- Increase in personal exemption allowances;
- Imposition of fringe benefit tax based on grossed up monetary value;
- Income tax exemption of interest from long-term deposits;
- Preferential tax rate of 10 percent on hospitals;
- Provision of net operating loss carryover (NOLCO) for three years for all taxpayers;
- Taxation of all GOCCs except SSS, GSIS, PCSO, PHIC, and PAGCOR;
- Taxation of previously tax-exempt corporations such as clubs organized for pleasure, recreation, and other nonprofitable purposes; and corporations organized to hold title to property;
- Imposition of minimum corporate income tax of two percent of gross income;
- Reimposition of tax on improperly accumulated earnings; and
- Carry-forward provision of excess input tax credit.

The implementation of the income Tax-related reforms of CTRP started in 1998. However, some of the provisions of the CTRP like those pertaining to ceilings on business deductions were implemented only in 2002. Important administrative reforms (e.g., computerization projects for detection of tax misdeclaration/evasion) that should have ideally accompanied the implementation of the CTRP were also belatedly enforced. The provision on rationalization of fiscal incentives is yet to be implemented.

Relative to 1994-1997, tax effort (or ratio of total collected taxes to GDP) continuously dropped since 1998. Except for net income and profits, there has been a discernible decline in tax effort of all other major BIR tax categories. In the case of income tax, the increase came from individual income taxes, bulk of which is accounted for by compensation income. The excise tax losses stem largely from nonindexation to inflation of excisable products and nonreclassification according to current retail prices of excisable products. There was only a one-time adjustment in excise tax rates in 2000. The implementation of the VAT has been derailed by excessive claims on input tax credit.

Tax Effort			
<i>(Collections as % of GDP)</i>			
	1994-1997	1998	1999-2002
Bureau of Internal Revenue	11.78	12.65	10.74
Net Income & Profits	6.11	6.9	6.04
o.w. Corporate Income Tax	2.98	2.83	2.62
Individual Income Tax	1.96	2.3	2.21
Excise Tax	2.24	2.35	1.75
Sales Taxes, VAT and License	2.61	2.55	2.4
Other Domestic Taxes	0.82	0.85	0.56
Bureau of Customs	4.66	2.85	2.71
Total Tax Effort	16.56	15.63	13.56
<i>Source of basic data : NG Cash Operations Report</i>			

To partly arrest the downtrend in BIR tax effort, a number of essential tax administrative reforms have recently been implemented. The efforts include detection of leakages; stronger audit system; organizational reforms; closer linkage with private sector; stepped-up advocacy for revenue legislative measures; and continued adoption of productivity enhancing technology. Legislative reforms, however, are critical in stemming the erosion of the excise tax.

BOC tax effort also drastically went down from 4.66 percent in 1994-1997 to 2.71 percent in 1999-2002 due to continuous tariff restructuring, tariff privileges mandated in the Agricultural Fisheries and Modernization Act (AFMA), and increasing share of nondutiable imports. Several incentive laws granting tax and duty exemption on importations as well as proclamation of several areas as economic zones contributed to the marked decline in BOC collections. In 2002, tariffs have gone down to 6.02 percent from 7.26 percent in 2001. To partly offset the slide, BOC has begun implementing massive warehousing reforms and intensified its antimuggling campaign.

certificates. Given that these reforms were implemented in the last quarter, the target collection of P5.5 billion was not realized and only P357 million was raised in 2002.

Total expenditures of the NG reached P777.9 billion, P23.6 billion higher than programmed on account of unforeseen improvement in the rate of utilization of cash authorizations and unprogrammed increases in constructive cash². Disbursements in personal services (PS) and maintenance and other operating expenses (MOOE) surpassed targets due largely to salary adjustments of AFP and PNP personnel, new teaching positions, and increase in veterans' pension. Internal revenue allotment similarly went up as the NG adhered to the "no-lien-no-holdback" policy mandated

under the Local Government Code. Meanwhile, as a result of subdued interest rate environment, the NG realized savings in interest payments amounting to P18.4 billion. Capital outlays rose mainly due to faster implementation of foreign assisted projects (FAPs) as disbursement rate of foreign loans improved from 74 percent in 2001 to 80 percent in 2002 (see section on ODA).

Financing the Deficit. The NG continued to rely on the domestic market (54.1%) in financing the deficit and repaying its loans. Net domestic borrowings amounted to P155 billion, 1.8 percent higher than in 2001. However, the larger part of the unprogrammed deficit in 2002 was financed by foreign borrowings, thus, the rate of increase in foreign borrowings was significantly steeper (376.2%).

TABLE 1.10 Consolidated Public Sector Financial Position
January to September
(in billion pesos)

	ACTUAL		PROGRAM	GROWTH
	2001	2002	2002	RATE (%)
Surplus (+)/Deficit (-)	-126.7	-169.1	-105.9	33.5
National government	-122.2	-166.5	-106.3	36.3
CB restructuring	-19.6	-11.8	-1.6	-39.8
Monitored GOCCs	-15.4	-25.7	-15.8	66.9
Oil price stabilization fund	0.8	0.0	0.0	-
Adjustments of net lending and equity to GOCCs ^{1/}	4.6	4.4	2.6	-4.3
Other adjustments ^{2/}	0.0	0.0	0.0	-
Other public sector	25.0	30.5	15.2	22.0
Social security institutions	12.0	20.5	6.4	70.8
Bangko Sentral ng Pilipinas	4.7	2.0	2.6	-57.4
Government financial institutions	4.1	5.5	1.5	34.1
Local government units	3.2	3.6	3.6	12.5
Timing adjustment of interest payment to BSP ^{3/}	1.0	-1.2	1.2	-220.0

Source: Department of Finance (DOF)

^{1/} Advances by NG for servicing of GOCC debt during the year.

^{2/} Capital expenditures for the San Roque Multipurpose project and BSP dividends not reflected in NG and Central Bank Board of Liquidators

^{3/} Difference between estimated and actual interest expense on T-bill issuance of CB.

² Constructive cash refers to loans in kind (e.g. equipment) which is recorded as additional foreign borrowing. When contracted by NG, the increase in borrowing is accounted for by a corresponding increase in expenditures.

In terms of maturity profile, most of the issuances were long-term instruments such as global bonds, fixed-rate Treasury Bonds that mature from two to 25 years, and Retail Treasury Bonds that fetched for as low as P5,000 as the government capitalized on the relatively stable foreign exchange and low world interest rates.

The debt management program pursued by BTr in 2002 included lengthening of maturity profile, borrowing more during periods of low interest rates (e.g. the prefinancing in the first half of the year), and introduction of innovations to lower risks and to reduce spreads on RP bonds such as guarantee cover from multilaterals.

Consolidated Public Sector Financial Position. The consolidated public sector posted a deficit of P169.08 billion in the first three quarters of 2002 mainly on account of the higher-than-program deficits of NG. The 14 monitored nonfinancial government corporations (MNFGCs) had a deficit of P25.66 billion while CB restructuring with P11.77 billion. The CPSD as of September is 5.96 percent of GDP from 4.85 percent in 2001.

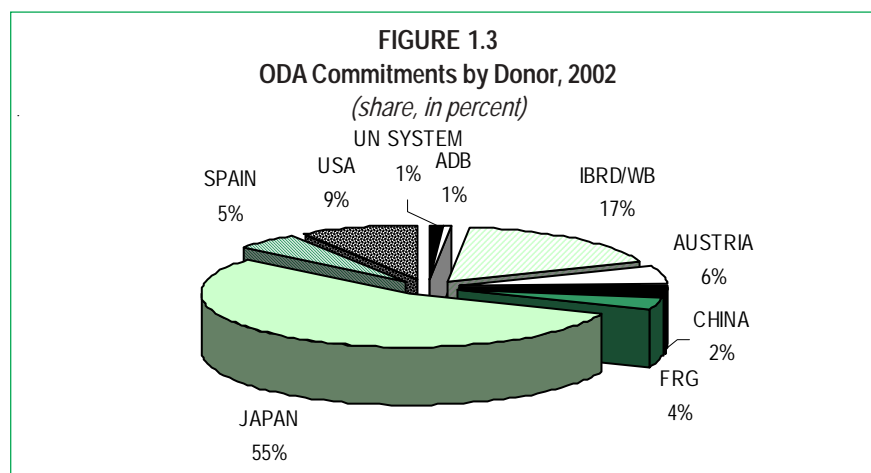
The MNFGCs' huge deficit was primarily due to NAPOCOR's lower revenues, the National Food Authority's higher importation, Home Guaranty Corporation's higher interest

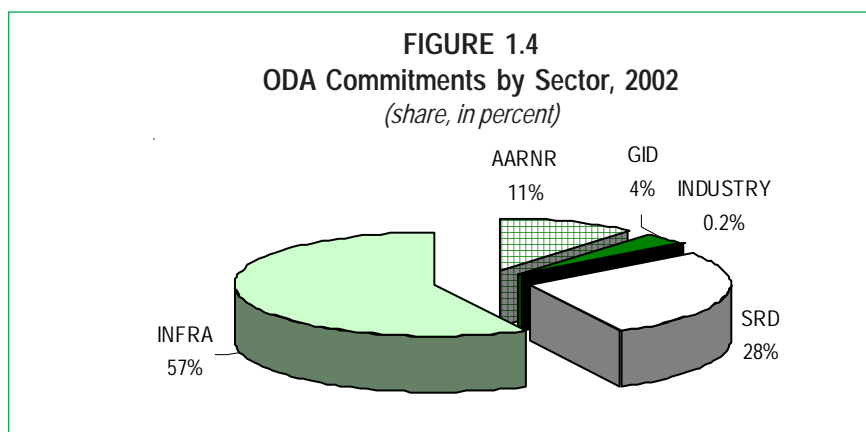
payments due to issuance of zero coupon bonds, Land Rail Transportation Authority's higher capital expenditures for LRT line 2 and the National Irrigation Administration's Casecanan-related interest payments for water and energy projects.

The surplus registered by social security institutions was attributed to savings from lower benefit payments because of stricter implementation of benefit claims documentation of the Philippine Health Insurance Corporation (PHIC) lower capital expenditures of Social Security System (SSS), and the low utilization of the budget on policy loans by Government Service Insurance System (GSIS).

Meanwhile, the postponement of capital expenditures and the shift of investible funds from low-yield T-bills to higher yield investment alternatives enabled government financial institutions like Development Bank of the Philippines and Land Bank of the Philippines to accumulate surpluses.

ODA Commitments. In support of the priorities of the Macapagal-Arroyo Administration, a total of US\$1,153.25 million of ODA loan and grant agreements were signed in 2002. The Government of Japan was the biggest source of ODA, accounting for 54.7 percent (or US\$631.21 million) of total commitments. Other major commitments





came from the World Bank (WB) (17.3% or US\$200 million) and the United States of America (9.1% or US\$104.67 million).

The bulk of ODA committed for the period was programmed for infrastructure development (57.4%). The rest were for social reform and development (27.6%), agriculture, agrarian reform and natural resources (11.0%), governance and institutions development (3.7%), and industry and services (0.2%).

ODA Portfolio Performance. ODA loans disbursement in 2002 reached US\$1.035 billion, an increase of 2.7 percent from US\$1.007 billion in 2001. (The 2002 disbursement figure does not yet include some projects funded by bilateral agencies, e.g. *Tulay ng Pangulo sa Barangay*, *Tulay ng Pangulo sa SZOPAD* and *Salam (Peace) Bridges* projects that comprise 4 percent of the total loan portfolio.)

Project loans, which constitute 91 percent of the ODA portfolio, registered a 12.1 percent increase in disbursement mainly due to improving and sustained performance of the WB and Japan Bank for International Cooperation (JBIC)-assisted projects, respectively. On the other hand, program loans disbursement decreased by 42 percent as a result of noncompliance with the

conditionalities for the release of the second tranche of the Grain Sector and Metro Manila Air Quality Program Loans.

Actual disbursements for programs and projects assisted by the three major funding agencies, (JBIC, ADB and WB) reached US\$938 million as against a disbursement target of US\$1,192 million. Disbursement for JBIC-assisted projects went up by 6 percent, WB-assisted projects by 49 percent, while ADB-assisted projects fell by 28 percent. ADB projects that suffered due to problems in implementation were: Third Airports Development Project (right of way (ROW) problems); Sixth Road Project (ROW and resettlement issues); Pasig River Environmental Management and Rehabilitation Project (proposed changes in project scope), Small Towns Water Supply Sector Project (delayed procurement of consultancy services and withdrawal of water districts from the project) and Secondary Education Development and Improvement Project (procurement of consultancy services and LGU financing issues). In terms of disbursement rates³, JBIC-assisted projects posted 91 percent, (73% in 2001), WB-assisted projects had 65 percent (52% in 2001), and ADB-assisted projects had 68 percent (137% in 2001).

³ The disbursement rate is actual disbursements as percentage of target disbursements for a given period.

Top implementing agencies based on disbursement rates were the Department of Agrarian Reform (155%), Philippine Tourism Authority (118%), Subic Bay Metropolitan Authority (115%), Department of Tourism (104%), National Irrigation Administration (97%), Philippine National Oil Company (96%), Department of Budget and Management (96%), Philippine Ports Authority (93%), Light Rail Transit Authority (86%) and Department of Public Works and Highways (86%). Across projects and agencies, however, a wide variance in actual versus target disbursements may be noted indicating the need to improve project planning and implementation by the Project Management Office.

Of the 20 new loans that were signed, 14 became effective. Meanwhile, 28 loans with total net commitment of US\$1,253 million were closed.⁴ Partial loan cancellations were reported in 28 projects amounting to US\$229 million. Sixty-six loans or 32 percent of the loan portfolio have already exceeded their original implementation schedule (8 from WB, 20 from ADB, 18 from JBIC and 20 from other bilateral sources).

Investment Programming within the Medium-Term Expenditure Framework (MTEF). With the adoption by oversight agencies of the Medium-Term Expenditure Framework (MTEF) to improve the linkage of the budget process to the MTPDP, a Sectoral Efficiency and Effectiveness Review (SEER) exercise was undertaken. In line with the public expenditure management (PEM) reforms, SEER seeks to improve the allocation of government resources towards strategic priorities within sectors. Through broader stakeholder participation, the SEER prioritization criteria were established and adopted to ordinaly rank the programs and projects (PAPs) of national government agencies (NGAs), taking into consideration the:

(a) appropriateness of government intervention; (b) appropriateness of the agency as implementor; (c) consistency with sectoral outcomes and agency major final output (MFOs); (d) regional equity and development; and (e) level of preparedness and prospects for sustainability.

The SEER process has identified selected bureaus and agencies that are proposed for deactivation or eventual abolition and PAPs that are no longer responsive to the MFOs/ MTPDP priorities. Following a preliminary list submitted on June 21, 2002, these selected agencies were given the opportunity to react to the recommendations before they are finally acted upon in the Presidential Committee on Effective Governance (PCEG).

The Investment Coordination Committee Project Evaluation and Approval Processes. In 2002, the NEDA Board approved 24 ICC-endorsed projects with a total investment cost of P66.32 billion. The ICC has made first-pass approval (project level) of the Department of Transportation and Communication (DOTC)'s EDSA MRT 3 Extension Phase II (Build-Transfer) Project worth P10.91 billion and Motor Vehicle Inspection System (Build-Operate-and-Own) worth P8.66 billion.⁵ Meanwhile, fourteen ongoing projects worth P32.77 billion were reevaluated by the ICC on account of cost and time overruns, major changes in scope, and extension of loan effectivity.

Following the provisions of NEDA Board Resolution No. 14, which incorporates results monitoring and evaluation into the ICC approval process, the ICC began requiring all proponent agencies to submit as part of the requirements for ICC review the Project Logical Framework (otherwise known as the ICC Project Evaluation Form No. 6). In this manner, the ICC and the NEDA Board were

⁴ Of these loans, 17 required extensions to complete project scope.

⁵ The second-pass approval (contract approval) will be pursued in 2003.

TABLE 1.11 Balance of Payments
(In million US\$)

	2001 January-September	2002 January-September	Growth Rate
Current account	2,070	3,929	89.8
Goods and services	-345	361	204.6
Export	25,786	27,748	7.6
Import	26,131	27,387	4.8
Capital and financial account	-2544	-3745	-47.2
Direct investments	1,793	684	-61.9
Portfolio investments	208	692	232.7
Other investments	-4539	-5109	-12.6
Overall BOP position	-1,308	751	157.4
Full Year			
Gross International Reserves	15,658	16,180	3.3
In months worth of imports of goods and payment of services	4.5	4.8	

Source: *Bangko Sentral ng Pilipinas (BSP)*

ably guided in evaluating how the project objectives and expected benefits contribute to the sector development objectives.

To facilitate the processing of region-based projects, the NEDA management designated the NEDA Regional Offices as lead in the evaluation of proposed projects located in, and whose impact is confined within, the region, for ICC deliberation or NEDA endorsement for national budgets/ODA/private sector participation.⁶

Balance of Payments

The balance of payments (BOP) reversed to a surplus of US\$751 million as of September 2002 from a deficit of US\$1.308 billion a year ago due to the strong performance of the current account, which surged by 89.8 percent year-on-year to US\$3.929 billion from US\$2.070 billion in 2001. Export of goods reached US\$25.422 billion, or 9.3 percent higher than the level a year ago, on account of successive months of double-digit growths starting April 2002 after more than a year of weak performance. In addition, Overseas Filipino Workers' (OFWs) remittances reached US\$5.365 billion. This is 21.2 percent higher than the year-ago level owing to the 3.5 percent rise in the number of OFWs deployed and the growing proportion of professional, technical and service workers which raised the average income of OFWs. However, the net capital and financial account in the first three quarters fell 47.2 percent due to a further drop in "other investments". The latter consists of trade credits, loans, currency and deposits, and other assets.

On the other hand, portfolio investment inflows rose due to greater nonresidents' investments in resident-issued foreign currency-denominated debt securities,

TABLE 1.12 External Debt Indicators
(In million US\$)

	2001 Level	% to Total	2002 Level	% to Total
External Debt	52,355		53,874	
o.w. Medium and Long-term (MLT)	46,306	88.4	48,315	89.9
Public sector ^a	33,691	64.4	35,746	66.4
Owed to official creditors ^b	24,084	46.0	24,591	45.6
Dollar-denominated	28,533	57.4	29,631	55.0

^a Public sector includes government banks and BSP

^b Official creditors include multilateral (IBRD, IMF, ADB) and bilateral sources (export agencies and others)

Source: BSP

⁶ "Impact" refers to the extent to which a project/program affects the specific region in terms of the socio-economic and environmental benefits and costs as a result of the implementation of the program/project.

particularly government-issued medium-term bonds. Direct investment inflows were also higher, benefitting manufacturing companies, financial institutions, mining corporations, and transport and storage services. Major sources of direct investments were Japan, the US, Singapore, the UK and the Netherlands.

On the whole, the country's gross international reserves (GIR) strengthened by 3.3 percent in 2002 to US\$16.18 billion covering 4.8 months worth of imports of goods and payment of services and income. The GIR translates to 2.8 times the amount of the country's short-term debt based on original maturity, and to 1.3 times short-term external obligations based on residual maturity. The annual rise in reserves was due mainly to the deposit by the National Power Corporation (NPC) of the proceeds of the flotation of its Zero Coupon Notes and the bond issuance by the Power Sector Assets and Liabilities Management Corporation (PSALM) in Japanese yen to prefund the National Power Corporation's (NPC) 2003 foreign exchange requirements. The increase in reserves was partly offset, however, by the debt service requirements of the national government and the BSP.

The country's external debt rose to US\$53.9 billion as of end-December 2002 from US\$52.4 billion in 2001 due to the increase in public sector borrowings from US\$33.7 billion in 2001 to US\$35.7 billion as of end-December 2002. However, new public sector borrowings largely supported the BSP's reserve management activities and the national government's general budgetary requirements including funding of infrastructure projects.

The BSP continued to maintain a comfortable level of international reserves in order to meet foreseeable demands on the BSP for foreign currencies as well as to foster

stability in the foreign exchange market. The country continued to have a healthy external debt maturity profile as most of the debt (89.4%) are medium- to long-term. The country's creditor profile remained diversified with official creditors accounting for 45.6 percent of total debt.

Financial Market

In 2002, the financial sector showed its strongest performance ever since the Asian financial crisis. Gross value added of the sector grew 3.2 percent in 2002 from 1.2 percent a year ago. All subsectors namely banks (2.4%), nonbanks (3.6%), and insurance (5.8%) accelerated from the previous year. Total resources of the whole financial sector widened 5.2 percent to reach P4,312.9 billion in December 2002 from year-end December 2001. Nonetheless, major weaknesses remain such as the banking sector's nonperforming loans and the stock market's declining capitalization.

Banking. The Philippine banking system's total resources continued to grow albeit modestly, even as nonperforming loans remained high. As of December 2002, the banking system's total resources rose 5.9 percent from end-2001 to reach P3.6 trillion underpinned by increased deposit mobilization and capital build-up.

Meanwhile, the risk-based capital adequacy ratio (CAR) of commercial banks as of June 2002 remained comfortable at 16.5 percent relative to the international norm of 8 percent and the statutory floor of 10 percent⁷.

The banking system's nonperforming loan (NPL) ratio eased significantly to 16.3 percent at end-2002 from 16.9 percent at end-December 2001. The NPL ratio of commercial banks likewise declined to 15 percent at end-

⁷ Starting July 2001, the BSP adopted changes in the formula for computing CAR as provided under BSP Circular No. 280 based on the risk-based capital adequacy framework instituted by the Bank for International Settlements. Using the previous framework, commercial banks' CAR was 16.8 percent in October 2001. The previous formula is based on the framework provided for under Section 22 of the old General Banking Act.

December 2002 from 17.4 percent at end-December 2001⁸.

Despite the high NPL, total outstanding commercial bank (KB) loans rose by 2.4 percent year-on-year as of end-December 2002 following three consecutive months of growth (1.4% in November, 1.1% in October and 1.2 % in September). This reversed the downtrend in KB loans during the period April-August 2002.

The BSP continued to implement policy reforms that focused on the stability of the banking system, improvement of banking services, enhancement of management capability and corporate governance within the banking system, promotion of the international campaign against money laundering, and support of the government's poverty reduction and housing programs by institutionalizing microfinance and realigning the definitions of socialized and low-cost housing consistent with those of the government.

Among the major policies implemented by the BSP in 2002 are the following:

- 1 Aligning the country's Tier 2 capital limits with international practice. (Tier 2 capital is defined as supplementary capital or additional internal resources available to the bank aside from shareholders' equity and retained earnings or Tier 1 core capital). Recently, the Monetary Board liberalized the Tier 2 limits to facilitate the increase in capital by banks in a difficult market. A number of Philippine banks are eyeing the issuance of unsecured subordinated debt that qualifies as Tier 2 capital;
- 1 Requiring bank directors and officers to attend corporate governance seminars to promote and enhance corporate governance and improve the quality of bank management;

- 1 Lowering of risk weight for banks' SME and microfinance loan portfolios that meet prudential standards from 100 percent to 75 percent. This move seeks to promote the expansion of SME and microfinance loans;
- 1 Allowing regular banks to establish microfinance-oriented branches as an exception to the general moratorium on the establishment of bank branches to further improve access of microenterprises to credit and other financial services; and
- 1 Revising the definitions of the housing packages under the socialized and low-cost housing prescribed under Circular Letter dated March 31 2001, following Memorandum Circular No. 02, Series of 2002, of the Housing and Urban Development Coordinating Council (HUDCC). Socialized housing packages shall refer to housing loans not exceeding P225,000 while low-cost housing shall consist of Level 1 (P225,000 to P500,000) and Level 2 (P500,000 to P2 million). Said redefinition aims to increase housing loans to be qualified as banks' alternative compliance to the Agri-Agra Law.

Moreover, the BSP has been supporting the disposition of banks' nonperforming assets via the creation of privately owned asset management companies (AMCs) or special purpose vehicles (SPVs). Creation of AMCs has not yet proceeded in earnest in 2002. With the signing into law of the Special Purpose Vehicle Act (SPVA) of 2002 on January 10, 2003, disposition of non-performing assets (NPAs) to the AMCs or SPVs should gradually gain momentum.

The BSP also strengthened its supervisory capability and regulatory powers, promoted transparency and facilitated the adoption of

⁸ Starting September 2002, the BSP allows banks to exclude from non-performing classification, loans classified as loss that are fully covered by allowance for probable losses. Using the previous formula, commercial banks' NPLs stood at 15.8 percent in December 2002.

TABLE 1.13 Philippine Stock Market Indicators

	Level		Growth rate (%)	
	2001	2002	2001	2002
Composite Price Index	1168.08	1018.41	-21.84	-12.81
All Shares Index	682.87	608.78	-17.72	-10.85
Banking and Financial Services	505.02	371.37	-8.85	-26.46
Commercial and Industrial	1579.39	1466.83	-24.95	-7.13
Property	501.3	417.52	-1.35	-16.71
Mining	1011.29	1204.57	-18.78	19.11
Oil	1.93	1.03	11.56	-46.63
Volume turnover (Billion Shares)	164	100	-75.06	-39.28
Value turnover (Billion Pesos)	159.56	159.73	-55.39	0.11
Market Capitalization (Billion Pesos)	2,142.61	2,083.16	-16.88	-2.77
Market Capitalization (% of GDP)	58.86	52.38	-24.45	-11.02

Source: Philippine Stock Exchange

National Economic and Development Authority

standards comparable with internationally accepted norms by:

- 1 Reorganizing its Supervision and Examination Sector (SES) to strengthen further its regulatory oversight functions. From an industry specialization-based set-up, the BSP's SES has shifted to a consolidated approach that would give the supervising departments a total perspective of the operations of banks under their supervision;
- 1 Launched Philippine Payment System or PhilPass, a real-time payments infrastructure system; and
- 1 Supported the proposed amendments to the

New Central Bank Act of 1993 to enhance the effectiveness of the BSP in conducting banking examinations and in implementing prompt corrective action in the case of distressed banks (However, Congress has yet to pass the proposed amendments).

Stock Market. The Philippine stock market opened in 2002 with the Philippine Composite Index posting its biggest monthly gain since April 1999, following optimism of a quick rebound of the US economy. The market index posted two consecutive monthly gains and hit an intrayear high of 1,469.07 on February 19, 2002.

However, the exuberance was short-lived. Despite the approval for longer trading hours,

TABLE 1.14 Number and Amount of Plans Sold
By Pre-Need Companies

	Level		Growth rate (%)	
	2001	2002	2001	2002
Number of Plans Sold	675,187	612,736	16.01	-9.25
Education	227,884	195,340	9.33	-14.28
Life	88,989	73,776	8.28	-17.10
Pension	358,314	343,620	22.97	-4.10
Amount of Plans Sold (P Mn)	38,671.39	37,785.96	7.20	-2.29
Education	15,013.45	13,314.37	-11.85	-11.32
Life	2,687.07	2,095.68	42.55	-22.01
Pension	20,970.87	22,375.91	22.24	6.70

Source: Securities and Exchange Commission

concerns about the budget deficit, the domestic security and growing geopolitical tensions spawned by the US-Iraq conflict, soured investors' appetite. By year-end, the 30-stock Composite Index had fallen by 12.8 percent or 149.67 points to 1,018.41, from its previous year's close of 1,168.08. The Index was at its lowest on December 19, 2002, when it breached the 1,000 level at 997.78. The broader All Shares Index also failed to finish higher as it dropped 10.85 percent or 74.09 points to 608.78 from 682.87. Market capitalization also fell to 52.4 percent of GDP in 2002, from 58.9 percent in 2001.

Pre-Need and Trust Fund. With the execution of new rules on the registration and sale of pre-need plans as specified under Section 16 of the implementing rules and regulation of the Securities Regulation Code, new and existing pre-need companies planning to sell all three types of preneed plans (education, life, pension) as well as traditional educational plans were forced to raise a minimum paid-up capital of P100 million before

the April 30, 2002 deadline after which non-complying companies are forced to offer limited plan types. Compliance with the requirements was high. Of the 46 pre-need companies with dealer's licenses in 2002, only two pre-need firms were unable to put up the P50 million minimum requirement for one plan type. (The Permits to Sell of the two firms were suspended for 2002, and both firms dealer's licenses will no longer be renewed in 2003).

As pre-need companies faced higher capital requirements from the SEC, prices of new plans went up. This explains the decrease in the total number and amount of plans sold in 2002 compared to 2001.

The pre-need industry contributed to the development of the Philippine capital market through trust fund investments in various instruments. As of September 30, 2002, the total trust fund resources of the pre-need industry amounted to P43.8 billion of which 45.7 percent were placed in government securities, 18.7 percent in equities, 17.3

TABLE 1.15 Existing and Newly Registered Domestic Corporations and Partnerships

	Level		Growth rate	
	2001	2002*	2001	2002*
Increases in the Amount of Capital Stock of Existing Domestic Corporations				
Authorized	87.54	196.27	-56.78	124.20
Subscribed	46.84	95.79	-58.56	104.52
Paid-up	38.11	77.32	-58.94	102.87
Number of New Domestic Corporations	12144.00	11435.00	0.88	-5.84
Amount of Authorized Capital Stock (P Bn)	67.95	67.81	-28.00	-0.21
- Filipino	49.35	60.48	-25.68	22.56
- With Foreign Equity	18.60	7.33	-33.52	-60.59
Number of New Domestic Partnerships	2505.00	2327.00	-9.63	-7.11
Amount of Contribution (P Bn)	1.11	1.10	-69.81	-1.54
- Filipino	1.03	1.06	-30.85	2.38
- Foreign	0.08	0.04	-96.23	-50.33
Total Authorized Capital (increases in existing and new)				
Total Authorized Capital	156.6	265.2	-46.9	66.1

*preliminary

Source: Securities and Exchange Commission

TABLE 1.16 Registered Securities
(In Million Pesos)

	2001	2002	Growth rate (%)
Equity Securities	3537.05	15397.58	335.32
Commercial Papers	2500.00	5200.00	108.00
Proprietary/Non-proprietary Shares	5257.27	8051.49	53.15
TOTAL	11294.32	28649.07	153.66
<i>Source: Securities and Exchange Commission</i>			

percent in real estate and the rest of the portfolio were in the form of cash, foreign accounts, time deposits, common trust funds, commercial papers and promissory notes, and mutual funds.

Corporate Sector

In 2002, the robust growth of the real sector was generally mirrored in the expansion of the Philippine corporate sector. Existing domestic corporations registered higher equity investments during the year. In addition to the impetus for growth, policies of the Securities and Exchange Commission (SEC) also played a role in injecting vigor among the corporates. In particular, SEC stepped up the implementation of regulations to protect and promote the interests of plan holders and investors in pre-need and financing

corporations. On June 7, 2002, following the provisions of the E-Commerce Act, SEC officially launched the SEC-iRegister. With the implementation of SEC-iRegister, SEC's website is now capable of business-to-government transactions. SEC-iRegister allows clients to do the following online: (a) verify and reserve their proposed company name; (b) file their application for registration; (c) pay the appropriate registration fees; and (d) receive same-day approval on-line.

However, the formation of new corporations and new partnerships stalled in 2002. Specifically, new entities with foreign equity dropped steeply as the series of corporate accounting scandals in the US threatened to undermine the credibility of bookkeeping practices worldwide. The aversion of foreign investors was moderated by renewed optimism of new all-Filipino

TABLE 1.17 Macroeconomic Projections

	2002	2003 forecast	
	Actual	MTPDP	Latest DBCC*
Real sector (growth rate in %)			
Gross National Product	5.2	5.5 - 6.0	4.5 - 5.4
Gross Domestic Product	4.6	5.4 - 5.9	4.2 - 5.2
Agriculture, fishery & forestry	3.5	3.4 - 4.3	3.0 - 4.0
Industry	4.1	5.8 - 6.2	3.4 - 4.4
Services	5.4	5.8 - 6.3	5.2 - 6.2
Inflation Rate	3.1	4.5-5.5	4.5 - 5.5
Dollar value of exports (growth rate in %)	9.1	10.0	5.0
Exchange Rate (Peso: Dollar rate)	51.6	52.0-53.0	52.0 - 54.0
Dubai Oil Price (US\$/barrel)	24.4	23.21	31.26

Sources: National Economic and Development Authority

Bangko Sentral ng Pilipinas

** As approved by the Development Budget Coordination Committee on March 11, 2003*

corporations and partnerships.

With the stock market waning and bank lending weighed down by non-performing loans, the corporate sector switched to other capital market instruments to raise resources. As a result, a dramatic rise in registered securities was observed: equity shares (335%), commercial papers (108%) and proprietary/nonproprietary shares (53%).

PROSPECTS, CHALLENGES, AND POLICY DIRECTIONS FOR 2003

The vigor of the economy in 2002 provides firm basis for the country's growth prospects amidst uncertainties in the global and domestic fronts. Government has revised its GDP growth forecast for 2003 to 4.2-5.2 percent from the original forecast of 5.4-5.9 percent, and GNP growth from 5.5-6.0 percent to a slower 4.5-5.4 percent. The low end of the range is consistent with the scenario where the US-Iraq tension will escalate into a war throughout the first semester.

Agriculture is expected to pace 3.0-4.0 percent in 2003, as the government continues to implement El Niño-related mitigating measures and other productivity-enhancing measures. The sector's prospects will also be buttressed by policies and programs efforts to enhance agriculture lending and investments. Part of the administration's agenda in the short term is to push for the Farmland as Collateral Bill to stimulate agricultural investments.

A larger part of the downside risks due to the global uncertainty in 2003 is expected to show up in industry. The government's MTPDP forecast for industry was downscaled from 5.8-6.2 percent to 3.4-4.4 percent as projection of export receipts was adjusted from 10 percent to 5 percent, and domestic demand will be likely moderated by rising inflation rates. The original growth forecast for manufacturing (5.5%-5.9%) has been tempered to 3.4-4.4 percent. There are two important policies that will provide manufacturing firms with more

leeway for flexibility in coping with the expected oil price adjustments. First, there were no minimum wage adjustments issued in 2002 across regions. Second, tariff rates for capital goods and other inputs not locally produced have been reduced to one percent; this should provide buffer to manufacturing firms as they cope with expected oil increases. Tariff of about 40 IT-related product lines were also reduced to zero percent.

Mining and quarrying and construction will be the fastest growing sectors in industry. Construction will benefit from the joint efforts of the government and the private sector to enhance housing credit facilities. Mining will be boosted by higher global prices particularly in gold and copper, as well as favorable government policies.

Services will continue to be the fastest growing sector as it expands by 5.2-6.2 percent in 2003, led by telecommunication, trade and private services. Transport, communications and storage is expected to benefit from the government's efforts to reduce transport costs from Mindanao to Luzon. These efforts include the development of Pier 15 in South Harbor, and the construction of roll-on roll-off ramps in various ports nationwide. Communications will continue to ride on the rising demand for cellular phone services as new models flood the market and IT use expands in both the business and public sectors.

Trade will be boosted by the expansion of big local retailers in regions outside Metro Manila. The approval of bank assurance rules by the Monetary Board allowing the sale of insurance products by banks is expected to boost financial services. It is also hoped that the implementation of the SPAV Act will pave the way for greater financial activity in 2003 and over the medium term.

The government's move to boost tourism through, among others, the WOW Makati and WOW Philippines campaigns and the development of the Bagong Nayong Pilipino is seen to further stimulate demand for private

services.

The completion or near-completion of ODA projects in 2002 will also fuel economic and business activities. Among the largest projects are the Angat Water Supply Optimization Project, the Umiray Angat Transbasin Project, and the Metro Manila Light Rail Transit (LRT) Line 1 Capacity Expansion Project. Similarly, major infrastructure projects to be started in 2003 will support growth in the construction sector for the near term, and in other sectors over the medium term. These are the Metro Rail Transit (MRT) 3, Phase 2; the LRT Line 1 Extension Project; North Expressway Extension; the Bulacan Water Supply Project; and the DOTC Motor Vehicle Inspection System.

Growth of personal consumption expenditures will pace between 3.2-3.7 percent. The upbeat momentum of communications services demand is expected to spill over in 2003 while the planned expansion of malls in the major cities outside Metro Manila will continue to pull consumer demand. Government spending, on the other hand, is seen to decline between 3.1-2.6 percent as government tries to keep the fiscal deficit within target.

Investments shall expand by 2.6-3.1 percent. The opening up of more financing resources for micro, small and medium enterprises (MSMEs) and in housing in line with the government's sectoral programs is expected to lift investments. The commencement of major foreign assisted projects (FAPs) in transportation (New Communications, Navigation and Surveillance/Air Traffic Management Systems Development Project, Arterial Road Links Phase 6, Urgent Bridge Construction Project, etc.), flood control (Iloilo Flood Control Project) and agriculture (Bago River Irrigation System Rehabilitation and Improvement Project) is also expected to prop up public investments.

The attainment of growth in 2003 is tied

firmly to the extent in which a stable macroeconomic environment can be maintained and a critical level of business confidence can be restored. Policies and reforms that enhance market participation and trade openness are important in paving the way for private sector stakeholders to enhance productivity, generate jobs and eradicate poverty over the long term. The government looks at several factors to gauge the economy's stance and capability for growth.

One of these factors is price stability. Although brisker inflation rate may be expected in 2003, the outlook is still weighted towards the low end of the 4.5-5.5 percent target, even as the possibility of breaching the low end cannot be discarded. Government initiatives to manage the supply and distribution of rice and to mitigate the effect of El Niño on the agricultural sector will keep inflationary pressures in check. Likewise, subdued imported inflation bodes well for the inflation scenario.

Inflationary pressures in 2003 will stem from expected upward adjustments in electricity tariffs and oil prices, and a weaker peso. Electricity tariff will likely rise due to unbundling of rates as mandated by the Electric Power Industry Reform Act (EPIRA). In addition, the Energy Regulatory Commission's (ERC) has decided to allow Meralco to collect its deferred PPA. However, the administration's 10-point plan, spearheaded by the Department of Energy, is expected to temper increases in households' electricity bills. The plan includes the following measures:

- a) Reflect the true cost of service in the electricity rates;
- b) Introduce price incentives to stimulate demand for electricity;
- c) Optimize the utilization of generation capacity to minimize cost of electricity;
- d) Establish competitive wholesale market for electricity;
- e) Accelerate open access to electricity to

- give end-users the power of choice;
- f) Require the distribution utilities to perform efficiently;
- g) Strengthen the financial status of electric cooperatives;
- h) Seek to reduce IPP contract costs through the introduction of appropriate benchmarks;
- i) Explore financial engineering to reduce stranded costs left by excess electricity generation; and
- j) Enhance ERC's capability to promote consumer welfare/protection.

Meanwhile, the possibility of the US war against Iraq has been pushing up oil prices. Dubai oil prices are expected to average US\$31.3/barrel in 2003, from US\$24.1/barrel in 2002.

Equally vital to macroeconomic stability and growth is the management of the government's coffers. Concerned that an expanding fiscal deficit could hamper private sector growth, the government will pursue measures to contain the 2003 deficit at P202 billion (4.7% of GNP) from P210.7 billion in 2002 (5.3% of GNP). To achieve this, the government will intensify its advocacy efforts for the passage of key legislative bills as well as vigorously implement administrative measures. The BIR intends to implement a seven-point program to boost tax collections in 2007 as follows:

- a) More effective taxpayer compliance control systems;
- b) Effective detection and elimination of revenue leakages;
- c) Intensified enforcement;
- d) BIR-Private Sector Good and Honest Governance Programs;
- e) Organizational adjustments;
- f) Active support to legislative revenue measures; and
- g) Deployment of Productivity and Effectiveness Enhancement Technology, such as the following:
 - i. Relief data warehousing;

- ii. Computer linkage with excise taxpayers;
- iii. Stopfiler enhancement;
- iv. BIR-LGU project;
- v. E-metering;
- vi. BIR-LRA;
- vii. Benchmarking;
- viii. Computer audit; and
- ix. Use of fuse-on or barcode technology on excisable products.

The BOC, on the other hand, will continue with its intensified antismuggling campaign and warehousing reforms, which specifically include:

- a) Closure of common bonded warehouse (CBW);
- b) Phase out of CBW trading and its conversion to industry-based CBWs (per Customs Administrative Order (CAO) 7-2002);
- c) Filing of consumption entry and payment of taxes and duties by CBWs, which failed to renew their licenses by end-January 2003 to allow prior to importation;
- d) Nonentry of finished products into public or common CBWs;
- e) Moratorium on approval/renewal of licenses of all nonmanufacturing CBWs;
- f) Detailing of summary closure proceedings;
- g) Provision of centralized clearance system for application/renewal of CBWs; and
- h) Issuance of CAO on the different types of CBWs like garments/textile, public/private and miscellaneous.

Alongside revenue-enhancing reforms, the government will continue to strengthen expenditure management through the medium-term expenditure framework and other public expenditure management reforms, together with expenditure-reducing measures such as attrition (nonfilling of positions), deactivation of redundant agencies, and imposition of reserves.

Deficit financing in 2003 is expected to be a mix of 48 percent foreign borrowings and 52 percent domestic borrowings. To improve

liquidity in the longer-dated government securities, bulk of the borrowings from the domestic market will be sourced through Treasury bonds. Reform measures in the government corporate sector will also be pursued to instill discipline as well as to minimize the risk exposure of NG on projects and obligations of the GOCCs. As of October 2002, contingent liabilities arising from GOCC borrowings amounted to P549 billion.

To improve the approval process of the ICC for ODA-BOT projects, the following reforms will be pursued: (a) ascertaining project viability and the fiscal impact as core conditions for project approval; (b) treating oversight agencies requirements such as securing Environmental Compliance Certificate (ECC) and resolving right-of-way and resettlement issues as pre-implementation concerns; and (c) conduct of project-specific workshops that will supplant the iterative and repetitive process of raising and resolving issues. These measures are expected to shorten the ICC evaluation process to 4-6 weeks from the current period, which can take as long as 48 weeks.

For ongoing projects, NEDA will continue to work directly with implementing, oversight, and donor agencies to resolve implementation problems. Within each agency, project implementation officers have been designated to ensure speedy implementation of the agency's projects.

With a shaky global environment, policies that lead to the country's greater resiliency against external shocks will be vital. The government continues to adhere to a flexible exchange rate system as a primary strategy for maintaining the resiliency of the country's current and capital accounts. The peso is expected to weaken slightly to P52-P54/US\$1 in 2003 from P51.60/US\$1 in 2002, mainly due to a moderation in the growth of exports receipts because of global uncertainties. To minimize extreme movements in the currency market due to irrational speculation, the

monetary authorities will continue to pursue currency swap arrangements under the Chiang Mai Initiative of 2000. The initiative covers the ASEAN members, Japan, China and South Korea. The BSP has so far entered into currency swap arrangements with Japan, South Korea, and recently China.

In the banking sector, the issuance of the Implementing Rules and Regulations of the SPAV Act is expected to facilitate the plans of banks to dispose of their NPAs at least over the medium term. The law will help trim down transactions costs in disposing bad loans and idle assets through exemptions from capital gains and documentary stamp taxes as well as reduction in mortgage registration fees and similar costs. With the cleaning up of their balance sheets, banks can revitalize their lending operations. Meanwhile, the BSP is already building up a master registry of eligible NPAs to facilitate the smooth verification and clearance of banks' NPA dispositions on true sale basis.

The amendments to the Anti-Money Laundering Act are crucial for the country in obviating possible sanctions that may be imposed by the international Financial Action Task Force on non-cooperative countries and territories.

Other proposed reforms included in the President's 2002 State of the National Address (SONA) to improve the financial sector are the Securitization Act, the Revised Investment Company Act, Amendments to the Central Bank Act, and Amendments to the Securities Regulation Code, the Pre-Need Code, and legislation to increase corporate responsibility and accountability, consistent with reforms in corporate governance. Furthermore, the Securities and Exchange Commission is expected to begin developing a new Five-Year Strategic Plan for the Development of the Philippine Capital Market.

Chapter 2

Full and Decent Employment

The Administration's drive towards the achievement of full and decent employment was reinforced in 2002 through various programs. Notwithstanding this and the strength exhibited by the domestic economy in 2002, the labor market did not generate enough jobs at a pace faster than the growth of the labor force. Thus in 2003, programs will be strengthened to meet the challenges of

providing jobs to those joining the labor force. This will involve providing assistance and employment facilitation, especially to displaced workers, and skills training. The government will also continue to remain vigilant about developments in the Middle East and will continue to put in place contingency measures to protect and assist overseas Filipino workers (OFWs).

TABLE 2.1 Labor Market Indicators, 2001-2002

INDICATORS	ACTUAL		MTPDP 2002 TARGET		GROWTH RATE (%)
	2001	2002	LOW	HIGH	
Labor force ('000)	32,809	33,936	32,476	32,476	3.4
Employment ('000)	29,155	30,062	29,053	29,236	3.1
Employment rate (%)	88.9	88.6	89.5	90.0	(0.3)*
Employment level ('000)					
Agriculture	10,850	11,122	10,448	10,533	2.5
Industry	4,713	4,694	4,645	4,676	(0.4)
Services	13,593	14,246	13,960	14,027	4.8
Employment creation ('000)	1,703	906	874	953	(46.8)
Agriculture	669	272	137	184	(59.3)
Industry	259	(19)	140	155	(107.3)
Services	781	653	597	614	(16.4)
Unemployment rate (%)	11.1	11.4	10.5	10.0	0.3*
Underemployment rate (%)	17.2	17.0	-	-	(0.2)*
Less than 40 hrs. a week	11.0	11.1	-	-	0.1*
40 hrs. and above	6.2	5.9	-	-	(0.3)*
Labor Productivity (P'000) ¹	33.9	34.4	35.4	35.5	1.4
Agriculture	18.2	18.4	-	-	1.0
Industry	71.4	74.6	-	-	4.5
Services	33.5	33.6	-	-	0.6

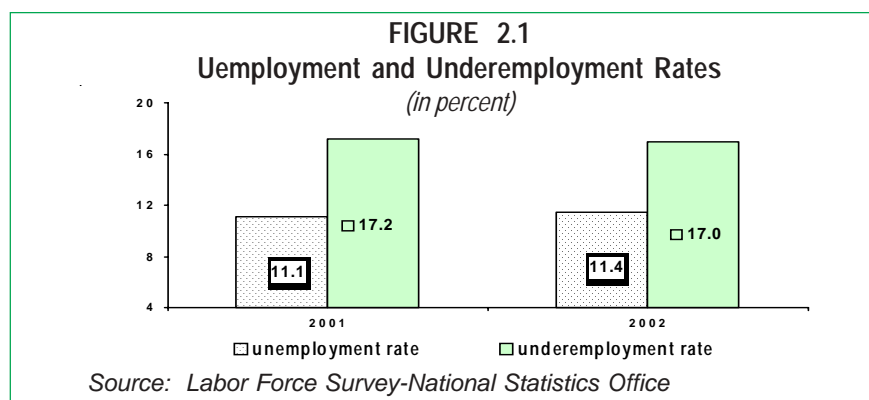
* Percentage point difference

- No MTPDP Targets

¹ Measured as GDP per person employed

Source: Labor Force Survey-National Statistics Office

Medium Term Philippine Development Plan, 2001-2004



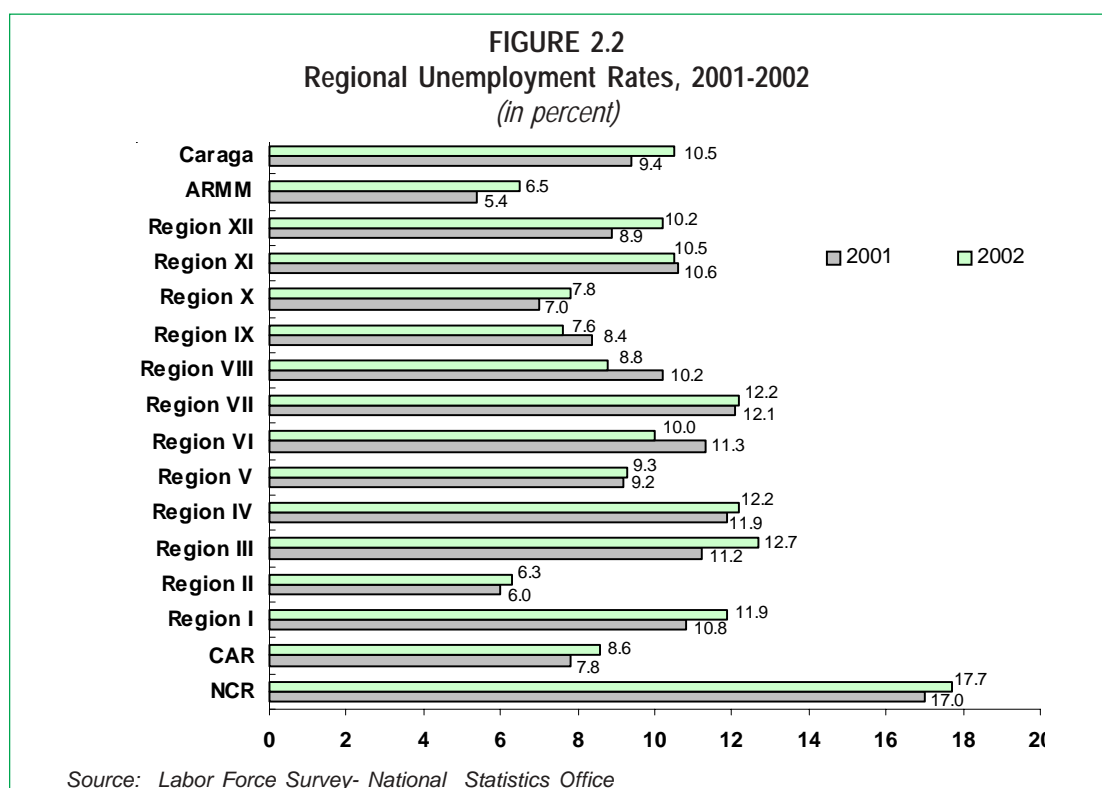
Labor Market Performance in 2002

As of 2002, 30.1 million workers were employed, exceeding the MTPDP high-end target by an average of 826 thousand workers (Table 2.1). Employment levels across all sectors surpassed their respective targets, especially in agriculture, which turned in 600 thousand more jobs than the target of 10.5 million.

Notwithstanding the above, the number of unemployed rose to 3.9 million in 2002 from 3.7 million in 2001 as the entrants to the labor

force rose faster than employment growth. This is mirrored in the unemployment rate which rose to 11.4 percent from 11.1 percent in 2001 (Figure 2.1). The 2002 unemployment rate is also above the 10-10.5 percent target in the MTPDP. Meanwhile, the actual number of workers in the labor force as of 2002 stood at 33.9 million compared to the forecast of 32.5 million.

Stronger growth in 2002 enabled the economy to create 906 thousand new jobs (net of losses). Although this meets the target of 874 thousand to 953 thousand new jobs in 2002,



this is a slowdown from the number of jobs generated in 2001. The sources of new jobs were services (653,000) and agriculture (272,000) while industry suffered a reduction (-19,000). Jobs were lost in manufacturing (-37,000) and in community, social and personal services (-25,000). In services, wholesale and retail trade led job generation.

The quality of employment weakened in 2002 as part-time jobs grew more than full-time jobs. Workers working less than 40 hours a week rose 3.4 percent while those working 40 hours or more rose only 2.5 percent. Underemployment also worsened as 5.1 million workers were underemployed in 2002, higher than the 5 million workers in 2001. However, as a percentage to the labor force, underemployment dropped to 17 percent in 2002 from 17.2 percent in 2001.

At the regional level, the unemployment rate increased in 12 out of 16 regions. Regions 6, 8, 9, and 11 saw declining unemployment rates (Figure 2.2).

On a positive note, the restructuring and retrenchment in the labor market led to a modest increase in labor productivity. Average labor productivity (GDP per worker) reached P34,400, a 1.4 percent increase from P33,900 in 2001, and a turnaround from the decline recorded in 2001. Labor productivity rose especially in industry (4.5%), pulled up by higher productivity in manufacturing (4.6%).

Employment Generation

Various agencies undertook several employment generating projects which supported the growth in employment in 2002. The Department of Labor and Employment (DOLE) implemented 37 livelihood projects benefiting 1,383 families in its Poverty Free Zones. The DOLE also developed the Workers' Micro-Finance Program, in coordination with the Social Security System (SSS), Government Service and Insurance System (GSIS), Department of Budget and

Management (DBM) and Employees Compensation Commission (ECC) to help fund livelihood projects for workers and organizations in private, public or informal sectors. By year-end, Department Order No. 31-02, was issued outlining the Implementing Rules and Regulations (IRR) of the program (see also Chapter 6).

The Department of Public Works and Highways (DPWH) also generated jobs through various road projects under the LGU Cost Sharing Scheme which benefited various LGUs and its constituents as well as through the regular construction and maintenance projects (e.g., roads, flood control and other public works) nationwide. The Department of Transportation and Communication (DOTC) PPA-Batangas Port Development Project Phase II also contributed to the generation of employment in Batangas City.

Agriculture-infrastructure support projects of the Department of Agriculture (DA) generated 56,703 jobs. In addition, its credit and financing program created 115,831 jobs among workers in the sector.

For its part, the Department of Environment and Natural Resources (DENR) contributed to the generation of employment through its various small business and livelihood projects, and environmental protection projects. As of December 2002, a total of 83,570 fisherfolk, upland dwellers, coastal community dwellers in different communities/barangays benefited from these projects.

On the other hand, the Department of the Interior and Local Government (DILG) provided work to some 269 laborers through its infrastructure projects and released P1.06 million worth of credit to 493 families with street and urban working children in 15 cities all over the country.

Various investments under the Board of Investments (BOI) resulted in the direct employment of 30,130 workers. Similarly, locators in the Philippine Economic Zone Authority (PEZA) also yielded direct

employment opportunities for 328,384 workers and indirectly provided jobs for 492,576 workers. The Administration's support for tourism also led to job creation. The Department of Tourism (DOT) Corregidor Foundation and Intramuros Administration facilitated the hiring of 4,916 workers for maintenance services and other tourism related activities.

Under the Department of Social Welfare and Development's (DSWD) Self-Employment Assistance (SEA)-*Kaunlaran* Program, a total of 925 SEA-K Associations have been organized and assisted, benefiting 21,141 families nationwide. For the SEA-K Level II, livelihood was provided to 446 families (see also Chapter 6). Meanwhile, about 329 persons ventured into livelihood activities after undergoing training in S&T Intervention Program for the Poor, Vulnerable and Disabled. Meanwhile, the loan program for 89 small and medium enterprises (SME) of the SSS generated an additional 67,834 jobs.

The Subic Bay Metropolitan Authority (SBMA) reported that some 21,234 jobs were generated from investments, mostly Japanese, in 2002. This is higher than the targets for direct and indirect employment by 467.2 percent and 40.6 percent, respectively. The Clark Development Corporation (CDC), on the other hand, hired the services of 10,158 workers in support of its trade and investment promotion activities.

Employment Preservation

In 2002, the various minimum wage orders issued in 2001 took effect. The average minimum wage rose 7.3 percent; in real terms, this amounted to an increase of 2.7 percent. Given these wage upticks, it was important for government, labor and employers to work closely to preserve existing jobs and to maintain industrial peace. The labor sector's adherence to the principle of maximum tolerance and their utilization of voluntary

arbitration in resolving disputes contributed to maintaining industrial peace. Further, with modest inflation in 2002 and with no adjustment in transport fares, there were no new proposals for wage adjustments in 2002. To maintain industrial peace, 12 industrial tripartite councils (ITCs) were organized at the provincial and regional levels covering 9,519 workers from 358 establishments as of 2002. Seven new social accords covering 734 establishments were also forged.

To preserve industrial peace, the DOLE also improved its efficiency in mediating and resolving labor disputes. DOLE recorded a disposition rate of 92.3 percent on actual conciliation and mediation cases, which means that of the 39 actual strikes/lockouts cases filed, 36 were expeditiously settled/disposed. Notices of strike/lock-out filed increased by 20 percent compared to a year ago while 751 new cases were docketed in 2002 compared to 623 in 2001. The increase in the number of cases also brought about a corresponding increase in the number of workers involved, from 142,706 in 2001 to 159,073 in 2002. Meanwhile, the disposition rate for preventive mediation stood at 94 percent. At the National Labor Relations Council (NLRC) Regional Arbitration Branches, around 60.5 percent of 48,728 cases were disposed in 2002 at the regional level while a total of 9,452 cases were disposed at the appellate level. These resulted in the awarding of P3.585 billion to some 53,188 workers. A total of 4,130 out of 4,906 small money claims cases were disposed in 2002. This involved awarding of P17.104 million to 2,972 workers. Nearly 128,000 workers were also awarded a total of P484.612 million as a result of the disposition of 10,053 labor standards cases out of the 13,531 handled by the regional offices of DOLE.

Employment Assistance and Enhancement

Cognizant of the challenge to continually gear up the workforce for global competitiveness, various government agencies

implemented employment enhancement programs to improve productivity, work values and work conditions. DTI conducted nationwide capability building programs such as the Achievement Motivation Training, Pro-Active Program Competitiveness, Livelihood and Skills Training, and Construction Training Courses for depressed communities, cooperatives, out-of-school youths, professionals and rank and file workers, supervisors, managers and labor officials.

Capability building activities were also carried out by the Department of Science and Technology (DOST) nationwide. DOST financially supported 12,410 scholars and trained 3,971 elementary and secondary science and math teachers. Through its Comprehensive Program to Enhance Technology Enterprises (COMPETE) Program, DOST conducted trainings on product packaging which benefited manufacturers and end-users, mostly small and medium scale entrepreneurs nationwide. Through its S&T Intervention Program for the Poor, Vulnerable and Disabled, DOST also extended training and technical assistance and provided equipment to 3,192 full-time and part-time urban poor workers, rebel returnees, indigenous people, trainors, vendors, displaced people, women, persons with disabilities (PWDs), and small and medium scale entrepreneurs. In Caraga, DOST's Small Enterprise Technology Upgrading Program (SET-UP) assisted in establishing several MSME projects including fish drying centers. Alternative livelihood activities were also provided to rebel returnees in Surigao del Sur and displaced residents from the Mayon volcano eruptions.

Meanwhile, the DOT conducted seminars/training for tourism industry personnel and tour guides and accredited 60,000 tourism industry personnel.

Under the President's Bridge Program Phase II, the DILG trained 261 national and local engineers on bridge substructure design and bridge installation. DENR also facilitated

trainings on small-scale mining and charcoal briquetting.

Under its regular skills training program, the Technical Education and Skills Development Authority (TESDA) trained nearly 1.2 million workers while 217 women workers enrolled in the Pre-Employment Training and Entrepreneurial Motivation Course at the Women's Center.

To improve DOLE's employment facilitation services, around 1,034 staffs of the DOLE's Public Employment Services Offices (PESOs) participated in the 10 basic and 57 skills upgrading sessions. DOLE's welfare programs/services benefited 8,873 rural workers from the 239 Promotion of Rural Employment through Self-Employment and Entrepreneurship Development (PRESEED) projects, of which 4,916 were provided with self-employment opportunities. About 3,378 women workers, on the other hand, participated in Women worker's Employment and Entrepreneurship Development (WEER) projects.

To improve productivity in the workplace, DOLE's productivity improvement programs provided training and orientation/briefing to 6,642 workers employed in 707 SMEs. The activity basically consisted of orientation and training on Industrious, Systematic, Time conscious, Innovative and possessing Value for work (ISTIV) technology, 5S (sort, systematize, sweep, sanitize, self-discipline) and other productivity technologies.

In support of the government's thrust of enhancing labor standards, DOLE trained 38 safety officers/supervisors from 10 companies in Regions 3 and 4 on two Wish-in-Plant Safety and Health Appraisal Trainings (WISHATs). DOLE also issued Administrative Order 296 (s. 2002), the Implementing Guidelines on the National Labor Enforcement Framework, which specifies the prioritization of establishments for inspection. Monitoring and consultation meetings with implementers of 12-hour work shifts in NCR and Region 4 were

conducted to gather inputs to improve the guidelines on the compressed workweek.

For government employees, 15,305 government employees participated in the Civil Service Commission (CSC) Improvement of Public Service Values Program. The Improvement of Clients Excellence Program trained 73 persons from three government agencies, while a total of 25,742 workers participated in its productivity enhancement programs.

To enhance the skills of OFWs, some 3,953 OFWs and their dependents were enrolled in various vocational/technical courses, where 3,946 seamen graduated from the training grants and refresher course programs. DOLE also assisted 125,322 OFWs through business counselling, livelihood skills trainings and skills upgrading.

Employment Facilitation

The government facilitated the employment of workers desiring to work locally and overseas. On domestic employment, the PESOs helped a total of 586,166 jobseekers obtain local employment. Meanwhile, the enhancement of the Phil-JOBNET resulted in the registration of more than 100,000 jobseekers and posting of 75,000 vacancies from 142 registered establishments. The enhancement consists of new modules on displaced workers, skills for hire, offline batch processing, and segregation of registrants' data.

A total of 62,690 displaced workers were assisted/benefited under the Quick Response Teams (QRT) Program. The QRT, which is being implemented nationwide, provides an array of interventions such as job referrals and placements, loan availments, skills training, as well as access to the other programs of DOLE, other government agencies and NGOs. Meanwhile, 13,287 sugar workers and their dependents were afforded with educational assistance, health care and livelihood services under the DOLE's Socioeconomic Project for

sugar workers.

Employment assistance was likewise extended to 1,165 people with disabilities (PWDs) through the DOLE's *Tulong Alalay sa mga Taong may Kapansanan* Program (TULAY 2004). Aside from this, a total of 3,283 PWDs were given skills training and were granted livelihood projects.

Private business groups assisted the government in its efforts to facilitate employment. Similarly, the Bishops-Businessmen's Conference (BBC) convened a dialogue with business organizations on the promotion and creation of QRTs as a mechanism to help the retrenched workers. The BBC chapters in the regions likewise undertook information campaigns on workers coops and QRTs. The Federation of Philippine Industries (FPI) also urged its member-companies to actively participate in the PhilJobNet of DOLE.

On overseas employment, the Philippine Overseas Employment Administration (POEA) deployed 889,881 workers abroad. Of these, 76 percent were land-based (680,288 OFWs) and 24 percent were sea-based (209,593 OFWs). POEA also concluded three bilateral agreements with foreign governments. These included the exchange of professional and vocational trainees with the Swiss Government; recognition of seafarers certification under Regulation 1/10 of the International Convention on Standards of Training, Certification and Watch Keeping for Seafarers (STCW) 1978 Convention as amended with 13 countries; and recruitment agreement with the Government of the United Kingdom and Northern Ireland.

The Overseas Placement Association of the Philippines (OPAP), in cooperation with POEA and TESDA, facilitated the placement of about 30,000 OFWs for varied positions, e.g., IT personnel and nurses in Germany, United Kingdom, and the United States. Relatedly, TESDA certified a total of 146,419 workers out of the 299,964 workers assessed for

overseas employment; these include workers in agriculture and fishery, health, tourism, maritime, and overseas performing artists, (OPAs).

Significant improvements were also introduced in overseas employment procedures. These include: (a) the deregulation on posting of overseas job ads and manpower pooling for professionals and skilled job applicants as well as returning OFWs; (b) the establishment of the Computerized National Manpower Registry of Skills (CNMRS) for easy access of information on Filipino manpower and their corresponding skills and competencies; (c) conduct of job fairs by DOLE Regional Offices (ROs), PESOs and LGUs in far-flung areas of the country to enable people from the rural areas access to job opportunities abroad; (d) the dissemination of 47 labour market updates on the terms and conditions of work in host countries, labour agreements/laws concluded with foreign employers and governments, and travel advisories to small-time recruiters and employment applicants; and (e) the completion of the Guidelines, Procedures, Manual and Flow Chart on the implementation of Department Order No. 10 (s. 2001), on the certification of 32,049 OPAs.

PROSPECTS AND POLICY DIRECTIONS FOR 2003

Jobs generation and preservation remain major objectives in 2003. The government is thus committed to enhancing the policy environment that will enable the private sector to increase production and employment in 2003 and over the medium term (see Chapter 1). For 2003, growth of employment is projected at 3.4-3.8 percent which will bring the unemployment rate down to 10.7-11.1 percent. Services will continue to lead job generation.

The national government shall continue to strengthen its various programs in 2002 as follows: (a) assist in setting up livelihood projects and in generating and advocating labor-

intensive jobs in infrastructure in coordination with LGUs; (b) implement a National On-the-Job Training Program thru apprenticeship and internship; (c) strengthen training programs for demand-driven skills in ICT, agri-fishery, tourism, and health services, among others; (d) collaborate with the labor and business sectors to preserve jobs and maintain industrial peace; and (e) strengthen labor market dissemination and employment facilitation. Improving the quality of employment through skills training and other productivity programs will continue to be pursued.

A major concern in 2003 is the global geopolitical tension which may adversely dampen the prospect of employment of OFWs. In preparation for a possible US-Iraq war, contingency measures will be carried out. The government has formed the interagency Presidential Middle East Preparedness Team (PMEPT) to address the critical developments in the Middle East. The Overseas Workers Welfare Administration (OWWA) has released P1 billion (or US\$50 thousand per embassy/consulate) for contingency measures, which include the establishment of evacuation centers in Nuwaiseeb, Kuwait and Amman, Jordan, should there be a need to evacuate the 60 thousand OFWs working in Iraq and Kuwait. Philippine embassies and consulates in the region have closely coordinated with their respective host countries and firms, and have implemented information programs disseminating the details of contingency measures designed to ensure the overall safety of OFWs in the Middle East. The government has also coordinated extensively with the International Office on Migration (IOM) concerning the additional financing of relocation/evacuation strategies. The OWWA will also provide corresponding assistance and information services to the concerned relatives and friends of OFWs in the region through the establishment of a 24-hour hotline and webpage providing up-to-date news and information regarding the situation in the Middle East.

Chapter 3

Enhancing Competitiveness of Industry and Services With Emphasis on Information and Communications Technology and Tourism

Enhancing the competitiveness of Philippine industries and the country's potential as an investment area is essential to achieving sustained growth. In 2002, various initiatives of the government supported the growth of micro, small and medium enterprises (MSMEs), sustained the country's competitive advantage in information and communication technology, and promoted tourism. Growth of services in 2002 surpassed expectations while industry was within track. However, investment flows remained timid in light of adverse domestic and international developments. In 2003, the government will be sustaining its programs to further invigorate the domestic economy. Focus will be on providing greater assistance to MSMEs, boosting tourism with the Visit the Philippines Year program, and strengthening the regulatory framework governing ICT transactions.

INDUSTRY AND SERVICES

Promoting Competition and Investments

Pursuant to RA 7042 or the Foreign Investments Act of 1991 (as amended), Executive Order (EO) 139 or the Fifth Regular Foreign Investment Negative List (RFINL) was issued on October 22, 2002. With this new policy, retail trade enterprises with a minimum paid-up capital of US\$2.5 million but less than US\$7.5 million were removed from the negative list, thus allowing 100 percent foreign ownership therein. On the other hand, practicing professions in agriculture and fisheries; manufacture, repair, storage, and distribution of products and/or ingredients requiring clearance from the Philippine National Police; and private radio communications networks were added to the negative list.

Meanwhile, foreign retailers which set up stores in the country following the deregulation of retail trade continued to expand during the

TABLE 3.1 Total Approved Filipino and Foreign Investments:
January to September 2001 and 2002
(in million pesos)

AGENCY	2001			2002			GROWTH RATE (%)		
	FILIPINO	FOREIGN	TOTAL	FILIPINO	FOREIGN	TOTAL	FILIPINO	FOREIGN	TOTAL
BOI	70,926	23,516	94,443	12,228	5,113	17,341	-83.8	-78.3	-81.6
PEZA	4,606	23,038	27,644	2,968	16,872	19,840	35.6	26.8	-28.2
SBMA	1,412	216	1,628	3,461	397	3,858	145.1	83.5	136.9
CDC	692	706	1,398	13,807	13,677	27,484	1,894.90	1,838.10	1,866.20
Total	77,637	47,476	125,113	32,464	36,059	68,523	-58.2	-24.1	-45.2

Source: NSCB 2002 Third Quarter Foreign Direct Investment Report

year. Existing foreign retailers (e.g. Orkam, Price Smart and Watsons) established 4 new stores, bringing to 16 the total number of stores established under the Retail Trade Liberalization Act. In mining, the Mines and Geosciences Bureau (MGB) prepared investment profiles of the top 20 mineral projects in the country, while databases on geology and minerals which are open to foreign investors were also made available on the website. A total of 17 sites were endorsed for declaration as small-scale mining areas, while 33 sites were identified and delineated as communal quarry areas.

Notwithstanding the measures implemented, total local and foreign investments approved by the various investment promotion agencies (Board of Investments (BOI), Philippine Economic Zone Authority (PEZA), Clark Development Corporation and Subic Bay Metropolitan Authority) declined by 45.2 percent or from P125.1 billion in 2001 to P68.52 billion in 2002 due to domestic concerns such as peace and order problems, the large fiscal deficit and heightened economic uncertainty in the light of the US-Iraq conflict (Table 3.1).

The government generally adhered to its tariff reduction program. Average nominal tariffs declined from 7.7 percent in 2001 to 6 percent in 2002. To lower the cost of raw materials, intermediate inputs and capital equipment not locally produced, EOs 83 and 91, which reduced to 1 percent the rates of duty on 917 tariff lines, were issued in March and April of 2002, respectively. EO 84, which implements the 2002-2004 tariff schedule for sensitive agricultural products was also issued. This EO provides local farmers more time to prepare for foreign competition. To help modernize agriculture and fisheries enterprises, EO 127, which exempts the importation of 118 items that are used exclusively by agriculture and fishery enterprises from the payment of duties without the need to secure a certificate of eligibility was issued on September 23, 2002.

A draft EO prescribing the 2002 tariff rates for the Common Effective Preferential Tariff (CEPT) was approved by the NEDA Board and submitted to the President for approval. The NEDA Board also maintained at 2002 levels the tariffs on items that are locally produced and suspended the CEPT concessions on 11 petrochemical products for two years starting 2003. The NEDA Board also approved the EOs granting zero duty on 41 information technology products under the e-ASEAN Framework Agreement, and 78 products to be imported from Cambodia, Laos, Myanmar and Vietnam under the ASEAN Integration System of Preferences.

Measures to reduce the cost of transport services and utilities were implemented. To reduce electricity rates to end-users, the sale of generated power by a generation company was made zero-rated with respect to the value added tax through all stages of sale in the implementing rules and regulations of the Electric Power Industry Reform Act of 2001.

In shipping, the President directed the Philippine Ports Authority (PPA) to peg the share of the government in the revenues of cargo handlers to 10 percent for domestic ports and 20 percent for international ports starting in October 2002. The planned 35 percent increase in port and wharfage fees, which was supposed to be implemented within the next five years, was disapproved. The Maritime Industry Authority (MARINA) was directed to unbundle sea transport costs to ensure transparency in rate setting by shipping operators.

Various agencies simplified their procedures to reduce the cost of doing business. The Securities and Exchange Commission (SEC) set up the SEC-iRegister which now allows online registration of companies 24 hours a day and 7 days a week. The web-enabled Business Name Registration system of the Department of Trade and Industry (DTI) also allows online same-day verification, registration

and approval of business names. The processing and approval procedures for the issuance of Environmental Compliance Certificates required for projects with significant environmental impact were also streamlined under Administrative Order No. 42.

Meanwhile, to reduce the cost of doing business for exporters and importers, the Bureau of Customs and the PEZA reduced the number of documents required under the Clearance Office Cargo Import Transfer System from 11 to 4 and automated the processing and release of import shipments and delivery to semiconductor and electronics firms operating in PEZA special economic zones (SEZs). The need for PEZA police escorts and transshipment fees for export shipments were eliminated by requiring importing companies to instead post a bond, making transactions more predictable and transparent. In the Laguna and Cavite SEZs, the automated export declaration system (AEDS) reduced the number of necessary documents, thereby cutting total processing time. Furthermore, the One-Stop Export Documentation Centers (OSEDs) in Subic and Clark acquired an ISO 9000 certification on their management systems, ensuring that business procedures used in OSEDs comply with international standards.

At the local level, the Department of the Interior and Local Government spearheaded an Anti-Red Tape Project and completed the draft Manual on Operations and Standards for business procedures to promote investor-friendly business-related procedures at the local level.

Accelerating the Development of Micro, Small and Medium Enterprises (MSMEs)

Recognizing the threats to the recovery of the world economy, the Administration directed its efforts to strengthening the domestic economy especially micro, small and medium

enterprises (MSMEs). This essentially consisted of enhancing their access to credit, markets, and technologies.

Recognizing that the bulk of the small enterprise sector is comprised of microenterprises that need special assistance to grow and develop, RA No. 9178 or the Barangay Micro Business Enterprises (BMBE) Act of 2002 was enacted in November. Under the law, BMBEs are provided incentives and other benefits including exemptions from income tax and the minimum wage law. The DTI also launched the SME Development Plan to create a vibrant SME sector that will provide a strong domestic supply base for globally competitive industries.

The Small Business Guarantee and Finance Corporation, now merged with the Guarantee Fund for Small and Medium Enterprises, completed the review and improvement of its existing lending and guarantee facilities. New credit programs for franchise financing, receivables financing and mutual guarantee were launched. The Trade and Industry Development Corporation, now known as the Philippine Export and Import Corporation, launched three new SME programs, namely: (a) @rating, a web-based global trade debt rating system, which assesses the creditworthiness and paying capacity of companies, thereby providing a reliable basis for setting customer's credit limit; (b) Special Credit Facility to Export Development which offers liberal terms and conditions to exporters with assets of not more than P15 million; and (c) the One-Billion Peso Guarantee Facility for Garment Exporters. The DTI's Credit Program for the Poorest of the Poor (CPPP) and *Tulong sa Tao* Self-Employment Loan Assistance (TST-SELA) Program extended P14.151 million in loans to 566 SMEs in 26 depressed provinces, generating employment for some 2,264 workers. Meanwhile, the DBP-administered Industrial Guarantee and Loan Fund lent

P86.113 million to 13 SME projects through its conduit financial institutions. The Department of Science and Technology (DOST) through its Small Enterprises Technology Upgrading Program (SET-UP) also extended P17 million in loans to 44 SMEs for technology acquisition. Moreover, S&T services such as technology selection, technology training, process and equipment design, research and development (R&D) for product quality/improvement, waste management, etc. were extended to 6,173 SMEs.

To promote efficient marketing and distribution of local products and services, DTI organized 22 trade fairs showcasing the products and services of 1,960 SMEs, generating aggregate sales of P353.83 million. To encourage the transfer of technologies in production, enterprise management, quality control and design, SME caravans were conducted in La Union, Davao, Negros Occidental and Quezon from January to October 2002. Various seminars and trainings were also conducted under the Entrepreneurship Training Program of the DTI and during the SME Development Week. Industry clustering was also promoted via the 2002 Investment Priorities Plan to facilitate the provision of cluster-specialized resources (such as technology, knowledge, skills, marketing and distributions system) to SMEs. To help bring SMEs into the mainstream of e-commerce, a computer-based training module for SMEs was completed.

Developing and Diversifying Products and Markets

Under the 2002-2004 Philippine Export Development Plan which was approved in June 2002, the government, in consultation with exporters, identified 10 revenue streams or priority product groups which have potential to compete in the global market. These are motor vehicle parts; IT-enabled services;

microelectronics; marine products; food products; organic products; home furnishings; construction materials; giftware and holiday decors, and wearables (Box 3.1).

The Philippines also continued to participate in the ASEAN Industrial Cooperation (AICO) scheme. The government issued EOs in early 2002 approving AICO arrangements of Goya, Inc., Toyota Motor Philippines Corporation, Honda Cars Philippines, Inc., Nissan Motor Philippines, Inc., Ford Motor Company Philippines, Inc. and Mitsuba Philippines Corporation.

To comply with international standards, the Bureau of Product Standards has aligned with international product standards 1,106 out of 1,860 domestic products standards as of November 2002. This is seen to facilitate the access of local products to foreign markets. Since the Philippines has become a full signatory to the Pacific Accreditation Cooperation/International Accreditation Forum Multilateral Arrangement (PAC/IAF MLA) for Quality Management System in August/September 2002, certificates issued by BPS-accredited certifying bodies will be recognized by all members of the PAC/IAF MLA in the APEC and ASEAN regions, thereby lowering Philippine exporters' cost of product certification.

Improving Productivity through Research and Development

The government continued to undertake research activities to improve productivity. The Packaging R&D Center (PRDC) of the DOST continued to provide packaging R&D, testing, training and information on the latest packaging techniques. As of end 2002, PRDC developed appropriate packaging and labelling designs for a number of locally processed food products for 61 SMEs in the different regions of the country. Based on DOST reports, a number of the SME beneficiaries have reported a 200

Box 3.1**TRADE DIVERSIFICATION THROUGH THE BRAND DEVELOPMENT PROGRAM**

The Brand Development Program involves the aggressive and focused export promotion of 10 “revenue streams”, namely, motor vehicle parts; IT-enabled services; microelectronics; marine products; food products; organic products; home furnishings; construction materials; giftware and holiday decors, and wearables.

To lay out a comprehensive industrial policy for the motor vehicle industry, Executive Order 156 was issued in December 12, 2002. The EO is intended to provide a clear and stable policy framework for the industry, create a level-playing field among competitors, and provide appropriate incentives needed to develop the country into a regional hub for motor vehicles and auto parts.

To promote Philippine organic products, the Center for International Trade Expositions and Missions launched the Herbal Products Development Program. The program helps local firms to get started in developing, marketing and distributing plant-based personal products and medicines. An Organic Certification Center is being established to ensure that local organic products comply with global product standards.

Investment missions to Asia, Europe and the US were organized for the benefit of the information technology services sector. These missions drew P4.53 billion worth of investments during the period January-November 2002, generating about 18,000 new jobs, and led to the establishment of four new call centers, which are expected to begin operations in 2003. Meanwhile, DTI-initiated events allowed Philippine firms to showcase their home furnishing, giftware/holiday décor and wearables products and generate US\$134,933 in total sales for the period January-October 2002.

Trade negotiations were conducted on behalf of Philippine exporters of marine and food products. Negotiations with Korea succeeded in lowering tariffs on Philippine bananas, while negotiations for reclassification and lower tariffs with China and India, respectively, paved the way for canned tuna exports to these countries. The government continues to advocate for a level playing field for exports of canned tuna to the US and the European Union, and is presently negotiating with Japan for trade concessions for banana, pineapple and nata de coco.

For the wearables sector, the Garments Export Industry Transformation Plan and Assistance Package was implemented to enable the Philippine garment industry to compete once the export quota system provided under the Multifiber Agreement is abolished in 2004. The garments and textile industry is being encouraged to continue shifting to the production of high-value items, explore other export markets, and reengineer its business plans and strategies in order to survive and remain competitive beyond 2004.

percent increase in product sales due to the improved packaging.

Collaborative R&D among government research institutes, academe and the private sector through the Virtual Centers for Technology Innovation under the Comprehensive Program to Enhance Technology Enterprises continued to be forged. With the establishment of the Microelectronics Design Laboratory, various R&D activities were carried out which included the design and testing of modules for wireless subsystem and systems-on-chip, which is an integrated circuit that can be used in network appliances and wireless devices.

Developing skills in component and subsystem design will help local companies become competitive in the manufacture of wireless microelectronic components and subsystems.

Through cost-sharing schemes with the private sector, 77 research contracts were carried out by DOST’s research and development institutes covering food and nutrition, agriculture, medicine, materials science, health and environment including solid waste management. In addition, R&D in biotechnology on the development of a cure for breast cancer and the sourcing of drugs from local marine and terrestrial resources, were undertaken.

Promoting Consumer Welfare and Sustainable Development Practices

While promoting free enterprise, the government also took steps to protect consumer welfare and promote industrial practices geared towards sustainable development.

In response to the growing need to protect consumers against “get-rich-quick” schemes, the DTI issued Department Administrative Order No. 8 on pyramid sales schemes pursuant to the Consumer Act (RA 7394). A Memorandum of Agreement (MOA) was likewise signed with the SEC to strengthen joint operations and investigations against pyramiding.

To protect consumers from unscrupulous contractors, three reports on blacklisted contractors were posted on the website of the Commission on Audit (COA) and distributed to concerned government agencies. Also made available in the COA website are information on prices of construction materials. Moreover, 528 licensing cases were investigated which resulted in the suspension of 63 contractors’ licenses while 10 applications for registration were denied. On dispute settlement, 28 arbitration cases involving construction contract disputes were resolved at an average period of three months and 10 days.

To monitor compliance with mining and hunting permits/contract obligations, 22 project sites were investigated and 17 Cease and Desist Orders were issued to stop illegal mining activities. In compliance with the Mining Act (RA 7942), a total of 61 MOA were signed to ensure just and timely compensation for potential damages and adverse effects of mining operations. The MGB collected a total of P1.39 million during the year as mine waste and tailings fees from different mining companies. These fees are deposited in a government trust account to be used as compensation for damages caused by mine and

waste tailings. In support of the reforestation program, 41 mining/quarrying companies are now active in the “Adopt-a-Mountain, Adopt-a-Forest” movement.

Meanwhile, measures to regulate the mining industry were focused on treasure hunting and shipwreck recovery; declaration of an emergency situation in the Diwalwal gold rush area by providing interim guidelines to address the critical and social consequences therein; and issuance of the Guidelines in the Collection and Allocation of Share of the Natural Resources Development Corporation and Service Fee of Contractors in Connection with the Diwalwal Direct State Development Project.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

The Administration has identified information and communications technology (ICT) as a major growth sector given the country’s comparative advantage in ICT. The Philippines ranked 3rd out of 49 nations in producing knowledge jobs in 2001, up from 8th place in 2000, according to the United States-based META Group’s global technology index (GTI). The GTI is the successor of the Global new E-Economy Index (GNEI), a cyber atlas which represents an important measure of the economic dynamism and strength, as well as the technological capabilities and potential of each country. Filipinos were ranked 1st in 1999 in the knowledge category, which included qualified engineers, availability of ICT skills and higher education enrollment.

To promote the continued growth of the industry, various policy measures and private sector initiatives were undertaken in 2002 along five areas: improving the country’s telecommunications and ICT infrastructure; enhancing the policy and legislative environment; further developing the country’s human capital; accelerating the application of

Box 3.2**PHILIPPINE COMPARATIVE ADVANTAGE IN ICT**

ADVANTAGES	INITIATIVES
High Quality Personnel <ul style="list-style-type: none"> - literacy rate of 94% - 350,000 college graduates / year - META ranked no. 3 worldwide in knowledge workers - 72% of population fluent in English; 3rd largest English-speaking country in the world - service oriented; ability to interpret cultural nuances 	Expanding Infrastructure <ul style="list-style-type: none"> - high quality, low cost bandwidth; expanding domestic network (6 platforms available) - redundant international connectivity - deregulated telecom industry - dedicated ICT zones
Lower Costs <ul style="list-style-type: none"> - cost differential vs. US & Europe 	Enabling the Workforce <ul style="list-style-type: none"> - enhancing high quality, English-speaking, ICT literate workforce
Proximity to Markets <ul style="list-style-type: none"> - centrally located in the Asian region - convenient travel time and routes from North America and Europe - hospitable lifestyle 	Creating Incentives, Level Playing Field <ul style="list-style-type: none"> - important and related sectors liberalized and deregulated - Investor incentives tailor-fit to respective needs - improving policies to further bring down cost of doing business

Source: Department of Trade and Industry

e-business and e-commerce; and expanding the use of electronic governance.

Infrastructure Development

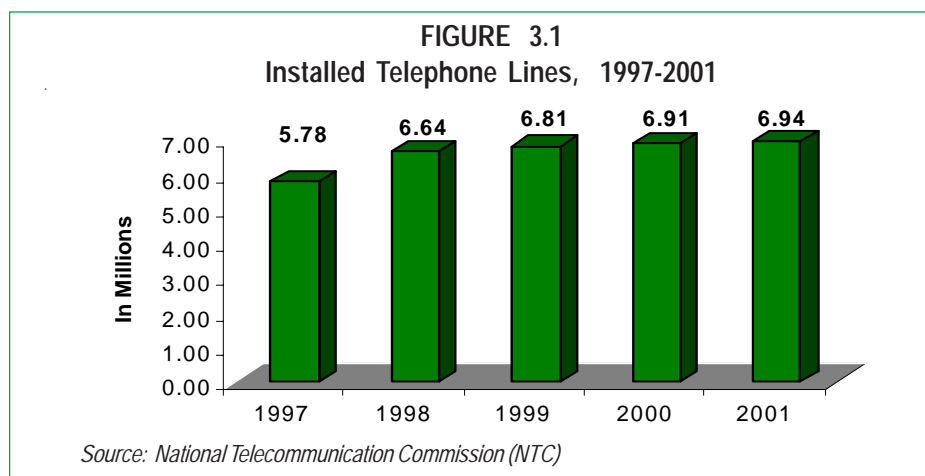
Telecommunication. About 32,800 telephone lines were installed in 2001, bringing the total number of main lines to 6,938,762 as of December 2001, a slight increase from 6,905,962 lines in 2000 (Figure 3.1). However, the telephone density, defined as the number of telephone lines per 100 people, slightly fell to 8.91 in 2001 from 9.05 in 2000 as cellular phones remained more popular.

The Cellular Mobile Telephone Service (CMTS) subscription reached a subscriber base of 15.2 million in 2002 from 12.2 million in 2001 (Figure 3.2), with Smart Communications and Globe Telecom dominating the market of cellular service.

Meanwhile, to improve consumer welfare, the cellular phone operators have agreed to block off stolen or lost cell phone units of both prepaid and postpaid subscribers in an effort to curb the growing problem of cellular phone theft.

Personal Computer Penetration and Internet Access. Based on Nua Internet Surveys, the introduction of prepaid Internet access cards, which result in lower access costs compared to Internet service providers subscription has allowed users to go online in Internet kiosks. The use of the Internet in the home has also led to a dramatic increase in the number of Internet users in the country. According to the report, the local Internet population has reached 4.5 million, around 70 percent of which are prepaid card users.

Meanwhile, results from an Online Consumer Survey of ACNielsen.consult, showed that as of June 2002, there were an

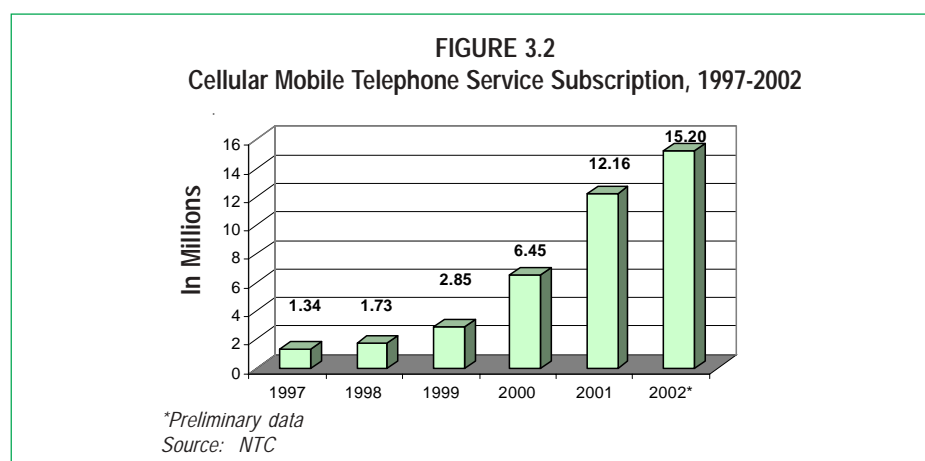


estimated 3.4 million Internet users. However, 1.3 million are occasional Internet users while only 935,000 are regular users¹, with an estimated 223,000 online shoppers, spending P3.6 billion (US\$69.912 million at P51.604=\$1) a year and 290,000 online bankers. The Digital Philippines Foundation which conducted a survey on the extent of ICT and e-commerce use among 498 SMEs in Metro Manila, Cebu and Davao showed that 35.7 percent of the 352 firms that are connected to the Internet have websites used primarily for promotion and advertising and only 27 percent of them doing actual selling or purchasing of goods and services online. Meanwhile, only 5 percent make use of Internet banking, primarily to check balances and transfer funds. Online

payments are still limited because of concerns about the security and privacy of online transactions. On the whole, these indicate a large scope for further expansion of ICT services.

Latest data from the International Telecommunications Union show that PC penetration per 100 people for the Philippines is at 2.2 in 2001 from 1.9 in 2000. On the other hand, the growth in Internet hosts or the number of computers with active Internet protocol addresses connected to the Internet rose to 4.0 in 2001 per 10,000 people from 2.5 in 2000.

On the policy front, the NTC awarded Certificates of Public Convenience and Necessity to Globe Telecom, Isla Communications Co. (Islacom), Digital



¹ACNielsen Philippines: Regular Internet users are defined as those who use the Internet at least once a week.

Telecommunications Philippines, Inc. (Digitel), Pilipino Telephone Corp. (Piltel) and Smart Communications, Inc., giving them permanent licenses to operate for the next 25 years.

The NTC issued last May 2002, Memorandum Circular (MC) 05-05-2002, which allows duly enfranchised public telecommunications entities (PTEs) to provide high-speed networks, services and connectivity in eight identified ICT hubs. The rules and regulations also provide deregulated rates in these areas, which are expected to result in more competition and lower cost of connectivity. To achieve universal access, the NTC issued MC 08-07-2002, “Rules and Regulations Authorizing Entities to Install and Operate Public Calling Stations/Offices and Telecenters” allowing MSMEs to invest in the provision of public calling station and telecenters particularly in unserved rural areas.

Likewise, the NTC also issued in July 2002 MC 09-07-2002, “Implementing Rules and Regulations for Specific Guidelines for Competitive Wholesale Charging for Interconnect Services” which aims to promote and encourage interconnections between and among all the telecommunications carriers. To address the prevalence of dropped calls, NTC also issued MC 07-06-2002 which provides for the service performance standards for the CMTS.

Various ICT-related bills are in various stages of formulation in both houses of Congress. These are the bills on the creation of the Department of Information and Communications Technology (DICT) and on the creation of Information Technology Authority (ITA), the convergence bill and the cybercrime bill. A consolidated bill on the creation of DICT, which outlines the powers and functions of DICT as a superbody governing ICT policies and development in the country, is at the committee level of the House of Representatives. The proposed creation of an ITA, under the supervision of the

Department of Transportation and Communications (DOTC), will absorb existing agencies such as the Telecommunications Office, the National Computer Center (NCC) and other offices of DOTC dealing with ICT. The convergence bill seeks to allow the convergence of telecommunications, broadcast media and the broadband facilities of cable television for two-way communication for faster, wider and more affordable public access to ICT and Internet, and is one of the legislative agenda in the Socioeconomic Pact of 2001.

Meanwhile, the draft bill on cybercrime seeks to create a super body to protect the country against hi-tech crimes, to be known as the Cybercrime Investigation and Coordinating Council, which shall be directly under the control and supervision of the Office of the President.

Human Capital Development

ICT Education. The government advanced the use of ICT and ICT courses at all levels of the education system. The Department of Education (DepEd) implemented the 2002 restructured Basic Education Curriculum, a product of 16 years of study. Learning areas in basic education was reduced from eight to five subjects, to increase student contact time for Science and Math. DepEd also distributed computer-based teaching modules and instructional materials in Science/Math.

In 2002, a total of 534 public schools in Luzon, 226 in Visayas, 234 in Mindanao were given personal computers (PCs) under the PCs for Public High Schools project of the DTI, in coordination with the DepEd and various school districts. The project, supported by a P600 million Japanese grant, aims to distribute 20,000 PCs to around 1,000 public high schools nationwide, providing each public high school with at least 20 PCs each.

Meanwhile, the Mobile Information Technology Classrooms project of the DOST enhanced the learning of science and mathematics through interactive courseware using a 32-seater fully air-conditioned bus equipped with notebook computers and audio-visual facilities. There are four buses deployed in CARAGA, Region 8 and in Northern Luzon, Region 5, which is shared by Region 1, 2 and CAR. A fifth bus is scheduled to be deployed in Region 4 before the end of 2003. This project is a tie-up between DOST Science Education Institute and Intel Philippines wherein Intel provides the hardware and software while DOST provides the buses.

The government continued to implement policies to upgrade ICT education and increase the number of Filipinos with competitive ICT skills. This has led to the continued rise in enrollees and graduates in ICT and ICT-related course. Data from the Commission on Higher Education shows enrollment for School Year (SY) 2001-2002 in ICT and ICT-related courses reached 619,099, or a 5.15 percent increase from 588,745 for SY 2000-2001 (Table 3.2).

ICT learning hubs are also provided for the training and certification of ICT professionals through the Virtual Center for Technology Innovation in Information Technology. Four ICT learning hubs are located at the University of Baguio, Baguio City; Cebu Property Ventures and Development Center, Cebu City; iThink

Technologies, Davao City; and Mindanao State University (MSU)-Iligan Institute of Technology, Iligan City.

The University of the Philippines Open University (UPOU) is giving distance learning in the country a giant step forward by collaborating with the DOST for its PREGINET (Philippine Research, Education and Government Information Network) facility. The PREGINET facility will allow UPOU to conduct remote monthly sessions for its 27 learning centers via video conferencing.

Likewise, the Technology and Livelihood Resource Center (TLRC) launched its distance learning, electronic library, and Greater Multimedia Access (GMA) Techno-vans projects in 2002. The Distance Learning Program enables the TLRC to broadcast via satellite its livelihood and business training activities simultaneously in all Local Government Unit (LGU) learning centers nationwide. At present, TLRC's E-library carries about 20,000 titles on technology, livelihood, and market information. On the other hand, targeted for deployment in far-flung areas, the Mobile GMA Techno-van carries audio-visual equipment, multimedia projectors and screens.

Research and Development. The DOST launched its science and technology web portal aimed at boosting the accessibility of research and development information on every aspect of science and technology to scientists,

TABLE 3.2 ICT and ICT-Related Enrollees and Graduates

DISCIPLINES/ PROGRAMS	ENROLLMENT			GRADUATES	
	1999-2000	2000-2001	2001-2002	1999-2000	2001-2002
ICT and related programs	205,633	226,203	247,640	31,014	30,835
Engineering and Technology	338,578	348,814	359,406	40,764	41,374
Mathematics	15,227	13,728	12,053	1,573	1,436
TOTAL	559,438	588,745	619,099	73,351	73,645

Source: Commission on Higher Education

researchers, students and the public.

Meanwhile, the Philippine Council for Health Research and Development, an attached agency of the DOST, embarked on a project to convert medical journals to electronic form and place them online. This is to provide better access and enhance resource sharing among and between health researchers. The project involves putting online the National Union List of Medical and Health Periodicals of the Medical Health Librarians Association of the Philippines. The web-based version of the third volume of the list for the period 1996 to 2002 is expected to be available by February 2003.

E-Business/E-Commerce

ICT Outsourcing Services. The Philippines ranks second, next to India, among Asian countries in making a bid for the global call center market. Significant developments in the industry include the expansion of Sykes Asia, a leading outsource call center provider in the country, with an additional investment of P200 million, making the Philippines the hub of its operations for the Asia-Pacific. Equivalent to about 1,131 seats, this investment translates to more than 2,000 jobs. (Another investor is Ambergris Solutions, Inc., a provider of solutions to United States clients, which opened a 300-seater at Ortigas Center.) To further promote the Philippines as an ICT outsourcing center, DTI pinpointed five areas of ICT outsourcing: (a) business process outsourcing (BPO) or e-financial shared services; (a) customer contact center services, (c) software development, (d) animation; and (e) medical transcription. At present, the Philippines has a capacity of less than 15,000 call center seats, but the number grows daily. According to DTI, there are now 13 companies in the Philippines engaged in BPO particularly in financial and accounting services, 30 in call center services, 42 in software development,

38 in engineering design, 13 in animation services and 14 in data transcription services.

ICT Promotion. ICT was included in the 2002 Investment Priorities Plan (IPP). The BOI issued several guidelines for the registration and administration of incentives under EO. 226 to firms providing the following services: ICT services; community access; Internet services; and ICT learning. The incentives provide for income tax holiday (ITH), employment of foreign nationals, additional deduction from taxable income for labor expense and unrestricted use of consigned equipment. If the project will be located in a less developed area or will provide community access to unserved municipalities, the firm shall be granted pioneer incentives, i.e., ITH for six years.

To attract investments in ICT, four more ICT parks were proclaimed by the President in 2002. These are the Philamlife I.T. Building in Muntinlupa City, Allegis Information Technology Park in Laguna, G.T. Tower International in Makati City and the Pacific Information Technology Center in Parañaque City. To date, there are 20 IT zones established in different parts of the country.

As of September 2002, P4.183 billion worth of ICT-related projects were approved by the BOI with a total projected employment of 5,699. Noteworthy projects are Globe Telecom with P2.25 billion and Imgame.com, Inc. with P481 million which will operate an Information Messaging Platform. Meanwhile, PEZA IT investments for 2002 amounted to P9.413 billion with total projected employment of 18,271.

Meanwhile, information and communications technology is being used to reduce interbank settlement risk. The BSP launched the Real Time Gross Settlement system, which allows the BSP to reduce interbank settlement risks for high-value payments and to monitor the liquidity positions of commercial banks throughout the day on a

transaction-by-transaction basis. Thirty-one commercial banks and eight thrift banks have been authorized by the BSP to conduct electronic banking (e-banking) operations.

In a sustained bid to make the country a center for ICT outsourcing in Asia, the Center for International Trade Expositions and Missions, concluded in February 2002 the E-Services Philippines Information Technology Outsourcing and Subcontracting Exposition or "E-services Philippines 2002". The expo bared the capabilities of local firms in such areas as business process outsourcing (application systems development, database design and management, finance and accounting services, supply chain management, and human resource development), customer contact (voice processing, web-based customer care and mobile solutions), consultancy (project management, Internet systems development) and content development (animation, engineering and design, software development, transcriptions and website development).

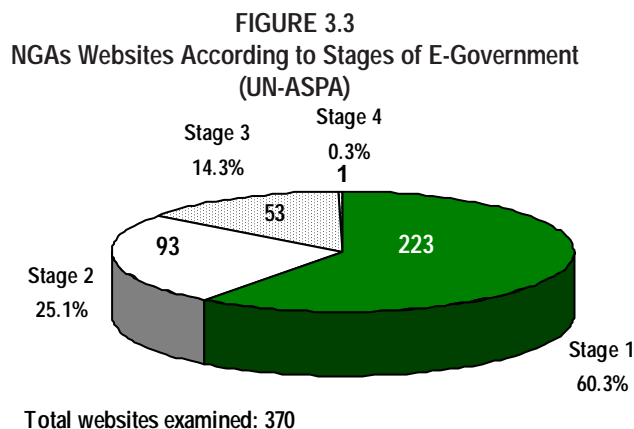
E-Governance

Electronic Procurement. Information and communications technology is being used to improve transparency and reduce the cost of government procurement. Under the Government Electronic Procurement System

(G-EPS) of the Department of Budget and Management (DBM)-Procurement Service (PS), 1,908 government agencies and 2,746 suppliers were registered in the G-EPS as of December 31, 2002. About 12,526 notices were posted while 2,677 awards were recorded. The DBM-PS also trained 2,697 government agencies, 1,988 suppliers and 439 COA auditors. The Public Tender Board, Supplier's Registry and the Electronic Catalogue are now fully operational. The project is currently being pilot-tested by DBM and will be developed as the government's electronic procurement portal.

Web Presence of National Government Agencies. Government agencies accelerated the development of their web pages in line with the provision of the E-Commerce Act that mandates that all government agencies must have a website providing basic public information. In a survey conducted by the NCC on the State of Web Presence of National Government Agencies (NGAs), as of December 31, 2002, 98 percent or 370 out of 379 NGAs have established their web presence while only 2 percent or nine agencies have no websites.

Out of the 370 agencies with websites, 223 or 60 percent are now in Stage 1, or the Emerging Web Presence Stage; 93 agencies or 25 percent are in Stage 2, or Enhanced Web



Source: National Computer Center (NCC), as of December 2002

Presence Stage; while 14.3 percent or 53 agencies are in Stage 3, or the Interactive Web Presence Stage. The Bureau of Internal Revenue (BIR) is the only agency that has reached Stage 4 or the Transactional Web Presence, a website that allows users to directly access services and conduct online transactions. The BIR started online filing and payment of income tax in 2001 under its Electronic Filing and Payment System (eFPS). Other major ICT projects of NGAs include the following:

- 1 The Information Technology Project of the Land Transportation Office (LTO) is almost 90 percent complete (LTO status report as of December 2002). The project is a comprehensive systems integrated solution infrastructure that will interconnect LTO's district offices nationwide and enable online transactions for its drivers' licensing and vehicle registration functions;
- 1 The Land Titling Computerization Project of the Land Registration Authority computerizes the processing and issuance of land titles to improve the land management record system in the country;
- 1 The Civil Registry System-Information Technology Project of the National Statistics Office (NSO) computerizes the archiving and retrieval of the civil registration documents nationwide. As of January 7, 2003, 66.7 million birth records for years 1945 to 2000 have been scanned, indexed and loaded in the computerized database of the NSO. Birth documents for these years, when applied in any of the Metro Manila Serbilis Centers, are released within the day if filed in the morning and released the next day if filed in the afternoon;
- 1 The Machine Readable Passports and Visas Project of the Department of Foreign Affairs aims to fully automate the processing and issuance of Philippine passports and visas and ensure compliance with the international standards on travel

documents. The project is presently in its Phase I or planning and development phase;

- 1 The e-GSIS project of the Government Service Insurance System will allow members to inquire and download their statement of accounts and transaction history related to their policy, salary, emergency, and housing loans through the agency's interactive website (<http://www.gsis.gov.ph>);
- 1 The Social Security System (SSS) embarked on a project to automate the transfer of data and funds as well as facilitate the members' access to SSS benefits through the SSSNet, using electronic data interchange (EDI) technology. The SSSNet has two EDI-based, value-added networks, which employers can use to transfer and pay for their employees' SSS contributions through BancNet and Equitable Bank. In response to the demand of SSS members for faster access to information, reduced waiting time and one-stop processing of transactions, the SSS also introduced SSS Online Inquiry System;
- 1 The DTI-Bureau of Trade Regulation and Consumer Protection's Business Name Registration System provides a wide range of services for business name registration applicants;
- 1 The Securities and Exchange Commission's SEC-iRegister is a web-based company registration system;
- 1 The Development Bank of the Philippines's m+SME Internet Café is a one-stop business development and information center for MSMEs;
- 1 The Automated Customs Operation System of the Bureau of Customs automates the steps that imported cargoes are subjected to, from the time the imported documents are filed up to the release of cargoes by the arrastre operators; and

- 1 The NCC's ongoing project entitled Jumpstarting Electronic Governance in Local Government project or "eLGU", a key component of DOST's Support Program for Electronic Governance (SUPRE-GOV), is geared toward making the LGUs self-sufficient in terms of employing the benefits of ICT in the area of local governance.

To further expand the use of ICT in general, the DTI, pursuant to the implementation of the E-Commerce Act, directed all government agencies to submit an E-Commerce Action Plan and conducted an assessment of the e-Commerce readiness of government agencies. It covers the evaluation of the back office systems, databases and ICT infrastructure of government agencies, focusing on mission critical applications. As of December 18, 2002, the DTI has reviewed the e-Commerce Action Plans of 92 agencies, out of which 55 have been rated while the rest (37) are still subject for validation. The top five agencies are the BIR; BOC; NSO; Trade and Investment Development Corporation of the Philippines; and Department of Energy.

In addition, the NCC also issued MC No. 2002-01 outlining the guidelines for government website content and the necessary coordination and technical assistance it will provide to some government agencies, LGUs and SUCs that have yet to comply with the E-Commerce Act.

TOURISM

Tourism was also identified as a major growth sector considering the country's natural resources endowments. In line with this policy, the government went on an aggressive tourism program which increased visitor arrivals by 7.6 percent from 1,796,301 in 2001 to 1,932,677 in 2002. There was an increase in tourist arrivals from Korea (38.7%), Hongkong (16.0%), Taiwan (20.9%), Singapore (30.6%), Malaysia (4.1%), and China (46.8%).

However, tourist arrivals in 2002 is 3 percent below the target of 2.0 million visitors for the year. Visitor receipts also rose modestly by 1.2 percent, or from US\$1.72 billion in 2001 to US\$1.74 billion in 2002, which is less than the target of US\$2.3 billion. The meager growth of visitor receipts can be traced to the decrease in the average daily expenditure of tourists from US\$102.89 to US\$100.92 and their shortened length of stay from 9.5 to 9.1 days.

Improving the Country's Image and Accessibility as a Tourist Destination

Development of Tourism Hubs. In line with the strategy to develop Manila, Cebu, Davao and Laoag as the country's tourism hubs, the government pursued the construction, repair, rehabilitation and improvement of roads and bridges leading to tourist destinations and attractions in these hubs and to adjoining areas. These include the Fort Bonifacio/Skyway to Terminal 3 (Phase 1), Manila-Cavite Toll Way, Cebu South Coastal Road, Bohol Circumferential Road, Davao City-Bukidnon Road, Pan-Phil Highway and Rosario-Pugo-Baguio Road. Municipal and provincial roads that will be converted to national roads were also identified to promote greater accessibility to tourism sites.

Encourage Investments in Tourism. To encourage business operations in key tourist destinations, the DOT and PEZA forged an agreement granting SEZ status to DOT-endorsed tourism development zones and tourism estates. In addition, 53 projects costing P731.02 million were endorsed to the Board of Investments and other concerned agencies. The proposed investments are in land transport (P383.43 million or 52.5%), hotels (P272.59 million or 37.3%), and water transport (P75 million or 10.2%).

Liberalization of Civil Aviation. In support of progressive air liberalization, the Civil Aeronautics Board instituted a trigger mechanism that automatically allows an airline

already operating at an average load factor of 70 percent to add more seats to immediately respond to market demand. The governments of Qatar, Hongkong and the United Arab Emirates have agreed to apply this mechanism.

The government also issued various memoranda authorizing the granting of transit visas and visas upon arrival of Chinese tourists (MO No. ADD 02-0002, MO No. ADD 02-023, MO No. 02-024). Safeguards, however, have been put in place to prevent abuse. The liberalization of visa requirements resulted in a 46.8 percent increase in the number of Chinese tourists visiting the country in 2002.

Tourism Promotion. The WOW (*Wealth of Wonders*) Philippines campaign which promotes the country's tourist destinations through various themes (e.g., Walk Our Walls, World of Weddings, Wonderfully Original Waterways) was intensified in 2002. The campaign was presented in more than 40 international tourism and trade events in

ASEAN countries, Korea, Taiwan, China, France and the US. This was complemented by the "Volunteer 12" program, which enlists the more than 7.5 million OFWs worldwide to bring in at least one foreign visitor to the country each year. A total of 13,207 volunteers from North America, South America, Asia, Europe, and the Middle East have joined the program as of December 16, 2002.

WOW Weekend Packages were developed to boost domestic travel during the Holy Week and summer months. Destinations included Bicol, Cagayan de Oro, Cotabato, Dipolog, Dumaguete, Marinduque, Puerto Galera, and Palawan, among others. Day tours were also offered in various destinations such as Bulacan, Cavite, Batangas, Corregidor, Quezon, Rizal, and Laguna.

Intensive preparations were also undertaken for *Visit Philippines Year* (VPY) 2003. Aggressive promotional campaigns were staged in the US, Japan, China, Korea,

TABLE 3.3 Tourist Arrivals from Top Tourist Markets, 2001-2002

Rank	Country	2001	% Share	2002	% Share	Growth Rate (%)
1	U.S.A	392,099	21.8	395,323	20.5	0.8
2	Japan	343,840	19.1	341,867	17.7	-0.6
3	Korea	207,957	11.6	288,468	14.9	38.7
4	Hong Kong	134,408	7.5	155,964	8.1	16.0
5	Taiwan	85,231	4.7	103,024	5.3	20.9
6	Australia	68,541	3.8	70,735	3.7	3.2
7	Singapore	44,155	2.5	57,662	3.0	30.6
8	Canada	54,942	3.1	54,563	2.8	-0.7
9	U.K.	60,147	3.3	48,478	2.5	-19.4
10	Germany	40,605	2.3	39,103	2.0	-3.7
11	Malaysia	30,498	1.7	31,735	1.6	4.1
12	China	18,937	1.1	27,803	1.4	46.8
	Total	1,796,301	100	1,932,677	100	7.6
Plan targets:						
	Visitor arrivals (in million)	1.9		2.0		
	Visitor receipts (US\$ billion)	2.2		2.3		

Source: Department of Tourism

Singapore, Hongkong and several European countries. The support of concerned LGUs in organizing various activities in Intramuros was also obtained.

In cooperation with Singapore Airlines and local and international tour operators, the Visit Islands Philippines (VIP) Travel Pass was launched during the World Travel Mart in London. This twinning program aims to promote the Philippines and Singapore as a single destination to provide a high-value and low-cost travel getaway package for Europeans. The VIP program involves the issuance of hotel value passes and “bonus nights” to foreign participants, the extension of special hotel rates to walk-in VIP discount card holders, and special discounts (at least 10%) on food and beverages and other facilities in participating outlets and restaurants up to 2003.

To increase tourist arrivals from China, an MOU on Tourism Cooperation was signed with China. A Memorandum of Cooperation was also signed with the Korean Underwater Diving Association (KUDA) to promote the country as a Beach and Scuba Diving Capital in Asia. Pursuant to this memorandum, DOT and KUDA will jointly support the creation of special dive tour packages for Koreans, the establishment of the first KUDA overseas branch in Cebu, and the promotion of the Philippines as Korea’s priority diving destination.

To provide greater security and safety to foreign and local tourists, the Philippines participated in an International Conference on Terrorism and Tourism Recovery which culminated with the signing of a resolution calling for the sharing of information on security; establishment of community-based programs to prevent tourism-related threats and tragedies and mitigate their effects; and the conduct of regular meetings to ensure the continuity of efforts to resolve terrorism considering its effects on the region’s travel

and tourism industry. The Supreme Court also issued Administrative Order No. 58-2002 requiring expeditious disposition by all courts of criminal cases involving tourists within 24 hours of a case’s filing in courts.

Enhancing Tourism Products and Services

Making Products Better and Affordable. The DOT accredited 1,891 tourism-related establishments and entities and inspected 1,472 tourism establishments to determine compliance with minimum standards. DOT also forged a Memorandum of Agreement on the Rationalization of Transportation Utility Vehicle System in Tourism with the DOTC. The system aims to (a) ensure the quality of tourist transport plying the international and domestic airports, seaports, and hotels; (b) discipline erring DOT-accredited tourist transport firms and drivers; and (c) recommend appropriate action against operators of accredited tourist vehicles who fail to maintain minimum standards. Rules and regulations governing the operation of spas and tertiary hospitals for medical tourism were drafted.

Projects to enhance the quality and price of tourism products and services were implemented to get tourists to stay longer and spend more in tourist destinations. These include the Tabon Caves Ecotourism Product Development Plan, Puerto Princesa Subterranean River National Park Cultural Tourism Program, San Juan Batangas Tourism Product Development, Central Manila Urban Renewal Redevelopment Plan, Panglao Island Tourism Estate Project, and Samal Islands Tourism Estate Project, and the Shoppertainment Project aimed at showcasing world-class Filipino products and talents in a one-stop trade and entertainment center. Research projects were also carried out on cultural tourism, dolphin and whale-watching network, agri-tourism, health/medical tourism,

and adventure/sports tourism (rafting/kayaking), adventure race, and cruise shipping development.

Investing in Human Resource Development. To enable local providers of tourism products and services to meet and maintain international standards of management and service, 78 training programs were conducted including a Japanese Tourism Course, Korean Language Course, and a course on frontline services skills for taxi drivers and tour guides. These courses benefited 3,136 participants/industry workers. The Mabuhay Host Program was also implemented to beef up the capabilities and skills of industry personnel.

To ensure effective and efficient implementation of tourism-related functions devolved from the DOT to the LGUs in the regions, the DOT, in cooperation with the Local Government Academy and the DILG, administered the Tourism Capability Building Seminar and Enhancement Program in seven regions, participated in by 122 cities and municipalities. This has enhanced the skills of LGUs on tourism planning, marketing, standards and regulations, and investment promotion.

Instilling a Tourism Culture

To promote a culture of tourism among Filipinos, a campaign was launched to encourage all Filipinos to keep their surroundings clean and to take care of tourists. The campaign was integrated in the curriculum of primary and secondary schools.

A national ecotourism strategy was formulated to provide the framework for ecotourism development in the country. Thirty-two key ecotourism sites wherein government and private sector resources will be dedicated for development and promotion purposes were identified. Pilot project sites include Mt. Pinatubo, Ifugao Rice Terraces, Puerto Princesa Underground River, Pamilacan

Island, and Mt. Apo. Community-based projects have been lined up in the pilot sites to make stakeholders self-reliant in the management and operation of ecotourism businesses. Area specific plans were also formulated for Mt. Pinatubo, Guimaras Island, Bohol/Chocolate Hills, and Camiguin.

PROSPECTS AND MAJOR POLICY DIRECTIONS FOR 2003

Industry and Services. In 2003, the government will vigorously push measures to improve productivity and reduce cost along various points of the supply chain. Airline liberalization, commercialization of port services, and implementation of competitiveness-enhancing trade measures shall be the major areas of action. The latter includes: (a) granting of CEPT rates on production sold by locators in SEZs to the Philippine customs territory; (b) automated liquidation of raw materials which will facilitate the release of imported raw materials to user-firms; and (c) simplification of registration procedures with the Bureau of Food and Drugs.

Various legislative bills such as the amendment of the Omnibus Investments Code or EO 226 to rationalize the system of granting incentives and the passage of the Revised Investment Company Act, the Securitization Act, and the Securities Regulation Code shall be pushed to enhance the business environment. Allowing foreign investors to have leasehold rights over lands shall also be pursued. Lowering the cost of doing business and minimizing graft will continue to be addressed by reducing and standardizing requirements and procedures for securing business permits and licenses at the local level, and implementing computerization plans for national government agencies and LGUs. Government will work towards improving the consistency and stability of policies, particularly those relating to the regulation of utilities and privatization to help minimize risks to investors.

The government will also focus its efforts on assisting SMEs through the implementation of the SME Development Plan 2002-2004. The integration of various SME development programs will focus on the five elements of financing, marketing, product development, human resource development/entrepreneurship training and advocacy for enabling environment.

ICT. The ICT sector is seen to strengthen further in 2003, with growth accelerating in 2004. The Semiconductors and Electronics Industries of the Philippines expects the growth of wireless and broadband products worldwide to support the industry's growth in 2003, in the face of slow global demand for computers. The industry will also work along the strategic roadmap it has set for itself.

Policies will be strengthened to make the Philippines the e-services hub of Asia. This will involve improvements in the legal, judicial and administrative framework to secure internet privacy and achieve multimedia convergence and high-speed interconnectivity. To promote e-commerce, not only for big businesses but also specially for the development of MSMEs, the government will support the passage of an act providing protection against cybercrimes and cyber-related fraudulent activities and laws on convergence. The government will continue to push for the creation of the Department of Information and Communications Technology.

Upgrading the skills of the labor force and the continued improvement of ICT professionals will remain a key challenge to tackle. To improve the quality of ICT education in the country, the teaching of science, math and English in basic education will continue to be prioritized.

The concept of an e-Government fund shall be pursued, wherein the equivalent of two percent of the annual maintenance and operating expenses and capital outlay budgets of all government agencies shall be pooled to finance priority e-Government projects. For 2003, the DBM estimates the fund to amount

to P4 billion. For succeeding years, the e-Government fund is planned to be institutionalized through a separate line item budget in the General Appropriations Act.

Finally, the Information Technology and E-Commerce Council (ITECC) shall pursue a strategic roadmap in 2003, which was formulated to maintain a balanced focus on each of the five ITECC pillars (i.e. e-government, human resource development, business development, legal and regulatory, and information infrastructure) in order to capitalize on the ICT services potential of the country. Priority shall be given to, among others, the establishment of a universal government portal and an e-Government center to provide the facility and for the sharing of resources; setting up of an e-learning competency center; creation of community e-centers; development of small- and medium-scale ICT enterprises; establishment of an R&D program to support niche ICT products; creation of a separate ICT department; improvement of cybercrime and security laws, as well as privacy and data protection.

Tourism. The marketing and promotion programs set in place in 2002, and the initiatives taken to ensure the protection and security of tourists are expected to increase tourist arrivals in 2003. The promotion of the Philippines as a shopping capital under the Visit the Philippines 2003 program is also expected to lure more tourists. Arrivals from nontraditional tourist markets particularly Korea, Singapore and China are envisioned to increase significantly on account of the agreements forged with the first two countries, and the liberalization of visa requirements for the Chinese. Tourism-related investments are also anticipated to pick up with the active marketing of DOT-endorsed tourism estates and tourism development zones accorded SEZ status, the support given to the development of the country's four tourism hubs, and the identification of ecotourism sites for development.

The government will strengthen its effort to improve peace and order to ensure the safety of visitors. The policy of progressive air liberalization will be pursued by negotiating more and better air services agreements and renegotiating existing ones, as needed, for greater accessibility of the country to tourists and investors.

The government will also strictly enforce minimum international standards to ensure compliance by accommodation facilities and other tourism-related establishments. The accessibility of tourist destinations will be improved via the continuing development of the tourism hubs in Manila, Cebu, Davao and Laoag. In Manila, Makati and the Bagong Nayong Pilipino will be promoted as tourist destinations.

Chapter 4

Infrastructure Development

The infrastructure requirements of the country remain large, including those that provide vital links to agriculture, industries and major tourism areas. Various projects were completed in 2002 to improve rural and urban transport, expand access to water services, and increase energy capacity.

Road projects supported the Administration's thrust to accelerate regional development and reduce traffic congestion, albeit there were shortfalls in construction due to funding constraints. Deregulating the energy sector within the framework set forth in the Electric Power Industry Reform Act was also a priority in 2002. In the water sector, the policy remained directed towards increasing access to water service and on expanding irrigation in anticipation of El Niño. In 2003, priority will be given to infrastructure projects that enhance interisland and interregional transport. Measures to improve the institutional capacity of agencies engaged in infrastructure development will continue to be undertaken.

TRANSPORTATION

Road and Urban Transport. In support of the Administration's thrusts to modernize agriculture, develop tourism, and decongest roads in the different urban and rural areas, 656 kilometers (km) of national roads and 5,158 lineal meters (lm) of national bridges were improved or constructed in 2002 under the Department of Public Works and Highways (DPWH). However, this represents only 58 percent of the target for 2002 as implementation of some projects suffered delays owing to funding constraints. Thirteen major roads and bridges were completely constructed and rehabilitated. In addition, 1,354

km of farm-to-market roads were built and renovated under the various projects of the Department of Agriculture (DA) and the Department of Agrarian Reform (DAR). Meanwhile, four bridges under the *Tulay ng Pangulo sa Barangay* and 14 under the *Tulay ng Pangulo sa Special Zone of Peace and Development* (SZOPAD) were constructed by the DPWH in fulfillment of the President's Bridge Program. Also, 36 bridges were completed by the Department of the Interior and Local Government (DILG) under the Phase II of the same program.

On water transport, the major rehabilitation projects for Light Rail Transit (LRT) Line 1 system were completed, resulting in improved urban rail operation and system patronage. These include (a) LRT Line 1 Track Maintenance and Ballast Renewal Project, which installed and upgraded ballast structures, replaced damaged concrete sleepers, and repaired drainage problems and joint sealing of structure gap; and (b) LRT Line 1 Rehabilitation Project – Phase 2, which was implemented to fully normalize and sustain fleet availability for LRT commuters.

Meanwhile, to improve LRT services, the automated fare collection system was installed in the LRT 1. This supports the medium-term plan to integrate Metropolitan Rail Transit (MRT) 3, LRT1, and MRT 2 by using only one set of tickets for all three rail lines. To accommodate increasing demand for LRT, preconstruction activities were also undertaken for LRT Line 1's South Extension Project and Capacity Expansion Project (Phase II). The construction of the Metro Manila Strategic Mass Rail Transit Development (Line 2) or MEGATREN was also substantially completed. The MEGATREN involves a 13.8

km mass transit line, which provides a convenient and fast mode of travel along the Santolan, Pasig-Cubao-San Juan-Manila corridor.

Preconstruction works began on two major build-operate-and-transfer (BOT) expressway projects which will help decongest Metro Manila, namely, North Luzon Expressway improvements from Balintawak to Sta. Ines, Pampanga and the South Luzon Expressway Extension from Calamba to Sto. Tomas, Batangas.

Meanwhile, under the regular maintenance program for national roads with an allocation of P3.35 billion, routine and periodic supervision of a total of 29,165 km of national roads was undertaken. In addition, the Road Board¹ approved an initial work program of P700 million for preventive maintenance and rehabilitation of 125 km of national roads, which was financed by the Special Road Support Fund. Also, with the Quick Response Fund of P75 million, the DPWH was able to improve the capacity of its central and local units to immediately respond to needed rehabilitation of infrastructure damaged by typhoons and flooding.

On the policy front, the Toll Regulatory Board, an attached agency of the DPWH, was transferred to the Department of Transportation and Communications (DOTC) on October 10, 2002. The transfer is expected to enhance the coordination of road and rail projects with those of the expressways.

In line with the enactment of the Clean Air Act, which required the DOTC and Land Transportation Office (LTO) to address the environmental concerns relating to land transportation, the DOTC/LTO inspected about 60,000 vehicles prior to registration during the year.

Water Transport. Various port development projects that enhanced the development of agriculture and tourism

industries were carried out in 2002. Under the Philippine Port Authority's (PPA) capital investment program, 29 locally-funded port projects were completed. These included the construction and rehabilitation of Roll-on Roll-off (RORO) ramps, construction of passenger terminal buildings, and improvement works in the ports of Aparri, Cagayan; Tubigon, Bohol; Hilongos, Leyte; Cagayan de Oro; and Zamboanga del Sur.

To boost livelihood, tourism, and local trade, the Administration initiated the construction of intermodal links. The President Diosdado Macapagal Agro-Tourism Highway, also known as Western Seaboard Intermodal Link Project, will complement the Pan-Philippine Highway RORO Ferry Terminal which covers the ports of Matnog, San Isidro, Liloan, and Lipata on the eastern seaboard. An interagency group was created to coordinate the completion of the remaining links.

Air Transport. In air transport, the major initiatives were aimed towards improving air navigation and safety. The Air Transportation Office (ATO) continued to implement the Nationwide Air Navigation Facilities Modernization Project; Phase III of the project involved the modernization of 29 selected airports and sites in the country, which is expected to be completed in June 2003.

To improve air traffic control and management within the Philippine air space, the implementation of the New Communication, Navigation and Surveillance/Air Traffic Management (CNS/ATM) Systems Development Project was further pursued. The project, aimed to improve communication between aircraft, adjacent ATM facilities, and airline freight operation center, is expected to facilitate the replacement of land-based technology with satellite-based technology in the conduct of civil aviation. The rehabilitation of the Manila Terminal Radar Approach Control Facility was also undertaken. The

¹ Created under RA No. 8794, otherwise known as the Motor Vehicles Users' Charge Act

TABLE 4.1 Completed Major Roads and Bridges, CY 2002

PROJECT NAME	SCOPE	COST		SIGNIFICANCE
		(P Million) AND FINANCING	a) START b) COMPLETION	
Tagaytay-Palico Road	Reconstruction of 21.3 km existing road through Asphalt Concrete (AC) overlay	104.3 ADB ^{1/}	a) Aug-00 b) Mar-02	Safer travel to Batangas
Nasugbu-Palico-Batangas City Road	Reconstruction of 68.24 km existing road through AC overlay	505.13 ADB ^{1/}	a) Aug-98 b) Jul-02	Faster travel in Northern Batangas
Langogan-Roxas Road	Portland Cement Concrete Pavement (PCCP) construction of a 54.14 km road	695.6 ADB ^{1/}	a) Aug-00 b) Oct-02	Improved access to Northern Palawan
Calauag-Matnog Road Rehabilitation (Daraga-Matnog Section)	Rehabilitation of a 120.3 km PCCP road and the rehabilitation of 8 bridges with a total length of 832.3 km.	583.13 JBIC ^{2/}	a) Sep-99 b) Oct-02	Faster travel to/from/within Bicol Region
West Leyte Road Project (Maslog-Buenavista Road Section)	Construction of 30.24 km PCCP road and the rehabilitation of 5 RCDG bridges with a total length of 146.4 km	496.75 JBIC ^{2/}	a) Mar-00 b) May-02	Improved access to depressed municipalities in Southern Samar
Surigao-Agusan-Davao Road (Langkilaan-Monkayo Section)	PCCP reconstruction of 18.4 km PCCP road and the rehabilitation of 2 bridges with a total length of 80.7 km.	289.5 JBIC ^{2/}	a) Mar-00 b) Jul-02	Faster travel along North-South backbone of Mindanao
Pan-Philippine Highway Region (PPH) II	Includes the rehabilitation of Reina-Mercedes-Tumauni-Iguig Section, Isabela; 7 Bridges along Aritao-Reina Mercedes Section, Nueva Vizcaya; and Isabela, and Dalton Pass, Nueva Vizcaya & Nueva Ecija	487.5 JBIC ³	multiple project completion dates	Improved access to Cagayan Valley, supports agriculture
Reconstruction of bridges along Arterial Road Project	Construction of the 210.6 km Aloragat Bridge and its approaches	112.5 JBIC ^{2/}	a) Aug-01 b) Nov-02	Supports agriculture & tourism
Cebu South Coastal Road	Construction of a 4,859 km six-lane AC coastal road and two PCDG bridges	2,095 JBIC ^{1/2}	a) Jan-98 b) Oct-02	Faster travel between Cebu City and 11 southern municipalities
Davao-Bukidnon Road (Buda-Maramag, Campo-Uno Section)	Construction of 55.4 kms AC pavement and 1 steel truss bridge with a length of 70 km	766.12 IBRD ^{3/}	a) May-99 b) Apr-02	Shorter route from Davao to Bukidnon & Cagayan de Oro
Asingan By-Pass Road (Bridge component)	Construction of three PCDG bridges with a total length of 360 km	118.18 GOP ^{4/}	a) Aug-99 b) Oct-02	Alternate route to Manila North Road, bypassing Urdaneta, supports tourism
EDSA/Quezon Ave. Interchange	Construction of a 1,126 km interchange	664.9 JBIC ^{2/}	a) Dec-00 b) Nov-02	Decongests traffic
SMART Traffic Signal System, NCR	Installation of computerized, demand actuated system in 419 intersections	574 Australia	a) Sep-97 b) Jan-02	Improves traffic flow using computerized demand actuated system

Source: DPWH Submissions, as of 27 January 2003

^{1/} Asian Development Bank

^{2/} Japan Bank for International Cooperation

^{3/} International Bank for Reconstruction and Development

^{4/} Government of the Philippines

project seeks to improve the efficiency of air traffic management within their terminal maneuvering area to ensure a high level of safety and efficiency in air navigation and air traffic services at the Ninoy Aquino International Airport.

On airport development, the implementation of the Third Airports Development Project was extended as land acquisition and resettlement problems plagued the project. The project is intended to upgrade key domestic airports in the Southern Philippines to meet relevant International Civil Aviation Organization (ICAO) standards as well as spur economic activities in the area.

ENERGY

Power Generating and Service Delivery Capacity. In 2002, an additional capacity of 1,701 megawatts (Mw) throughout the country was installed, thus, expanding the cumulative installed capacity to 14,703 Mw. This is 8.8 percent more than the 2001 level but 0.63 percent lower than the MTPDP target of 15,199 Mw. The additional capacity in 2002 came from the commissioning of the 1,200 Mw Ilijan Natural Gas Power Plant, the 500 Mw San Lorenzo Natural Gas Power Plant in Batangas, and the 1-Mw generating facilities in the small island grids of Ticao Island, Masbate and Camotes Island, Cebu. During the same year, the aging Sucat 3 and 4 Diesel Power Plants, with a total installed capacity of 400 Mw, were retired by the National Power Corporation (NPC).

With the commissioning of two natural gas plants, reliance on imported sources of fuel has declined as the share of natural gas power plants to the power generation mix reached 6 percent in 2002 from zero in 2001, while the share of oil-fired generation plants decreased to 12 percent from 19 percent in 2001. Meanwhile, the share of geothermal, hydro, and coal in the power generation mix remained generally the same.

Expanded Access to Electricity in the Countryside. The government through the *O' Ilaw* Program energized 1,699 barangays in 2002, bringing the total number of energized barangays to 36,599. This is equivalent to an electrification level of 87.15 percent which is slightly higher than the MTPDP target of 87 percent.

Electric Power Industry Reforms. On February 27, 2002, the Joint Congressional Power Commission (JCPC) approved the implementing rules and regulations (IRR) of the Electric Power Industry Reform Act (EPIRA) of 2001. Thereafter, the following major activities were undertaken in line with the implementation of the EPIRA:

- a) Promulgation of the Wholesale Electricity Spot Market (WESM) Rules in June 2002, in preparation for the WESM commercial operation in 2003;
- b) Approval by the JCPC of the National Transmission Corporation (TRANSCO) and NPC Privatization Plans and the subsequent approval by President Macapagal-Arroyo of the NPC Privatization Plan in October 2002;
- c) Issuance of EO 119 in August 28, 2002, which paved the way for (i) financial, institutional, and managerial restructuring of electric cooperatives (ECs), (ii) the assumption of Rural Electrification Loans by Power Sector Assets and Liabilities Management (PSALM), and (iii) the reorganization of National Electrification Administration;
- d) Renegotiation by the Department of Energy (DOE) and PSALM with the Independent Power Producers (IPPs) for possible reduction in contract price and for other concessions that could possibly reduce the purchased power adjustment (PPA) charged to end-users, as recommended by the Inter-Agency Committee for Review of IPP Contracts; and

- e) Issuance of EO 100 in May 2002, which directs, among others, the (1) reduction of royalty on the exploitation and development of natural gas and geothermal energy to achieve parity between the royalty on indigenous energy sources and duties on imported energy fuels; (2) reduction by the Energy Regulatory Commission (ERC) of power rates from all indigenous energy sources to reflect the reduction in royalty, thus, ensuring lower rates to end-users of indigenous energy sources; and (3) implementation of the ERC-mandated effective rate reduction by all generation companies and distribution utilities.

WATER RESOURCES

Water Supply, Sewerage and Sanitation. About 2.2 million people benefited from the expansion of water connections in 2002 in three areas: (a) Metro Manila, served mainly by the Metropolitan Waterworks and Sewerage System (MWSS) through its two concessionaires, Manila Water Company, Inc. (MWCI) and Maynilad Water Services, Inc. (MWSI), while the remaining portion of the

Metropolis served by Small Scale Independent Providers; (b) provincial urban, served by water districts (WDs), local government units (LGUs) and private utilities; and (c) provincial rural, served by Rural Waterworks and Sanitation Associations (RWSAs), Barangay Waterworks and Sanitation Associations (BWSAs) and LGUs.

The total population served by MWSS through its concessionaires as of the first quarter of 2002 stood at about 9.6 million or 82.8 percent of the 11.6 million total population under the MWSS service area. This represents an increase of 100,000 in served population from 9.5 million in December 2001. It is significantly higher than the 7.3 million population served prior to privatization: the number of people served rose by 32 percent while water production rose by 46 percent (Table 4.2). Nonrevenue water also fell from 61 percent to 60 percent.

The Umiray-Angat Transbasin Project was completed on June 30, 2002. The project, which started on May 28, 1996, involved the construction of a 13-km tunnel which will divert additional riverflow from the Upper Umiray River Basin to the existing Angat Reservoir. The diversion work is expected to increase

TABLE 4.2 Incremental Water Supply in Metro Manila
As of 1ST Quarter 2002

SERVICE INDICATORS	PRIOR TO PRIVATIZATION	PRIVATIZED CONCESSIONAIRES			COMBINED GROWTH
		MWCI	MWSI		
No. of Service Connections	779,380	443,245	599,436	1,042,681	34%
Population Served (Million)	7.3	4.0	5.6	9.6	32%
Water Production (MLD)	2,800	1,712	2,379	4,091	46%
Water Availability (Hrs.)	17	21	21	21	24%
Non-Revenue (Water (%))	61%	51%	69%	60%	-2%

Source: MWSS, 30 January 2003

TABLE 4.3 Incremental Population Served By DPWH/DILG Major Water Supply Projects, CY 2002				
PROJECT		FUNDING	ADDITIONAL HOUSEHOLDS SERVED	ADDITIONAL POPULATION SERVED
A. RURAL				
1)	Rural Water Supply and Sanitation Sector Project (RW3SP)	ADB	17,100	102,600
2)	Rural Water Supply and Sanitation Project V (RWSSP-V)	JBIC	14,280	28,680
3)	Water Program	GTZ ^{1/}	30	180
	Subtotal for Rural Areas		31,410	131,460
B. Urban				
	Local Government Units Urban	World Bank	5,491	32,946
1)	Water and Sanitation Project (LGUWSP)			
	Subtotal for Urban Areas		5,491	32,946
	TOTAL		36,901	164,406
Source: DILG, 30 January 2003				
^{1/} German Technical Corporation Agency				

water availability to an average annual flow of 10 cubic meters per second (m³/s.).

On the other hand, the country's rural population served by DPWH/DILG water supply projects increased by more than 131,400 at the end of 2002 while 32,946 people in urban areas were served by the Local Government Units Urban Water and Sanitation Project (LGUWSP) (Table 4.3). For other provincial

areas served by WDs, the coverage increased from 10.8 million in 2001 to 11.1 million by mid-year 2002 (Table 4.4).

Irrigation. To improve the rural infrastructure network and as an El Niño contingency measure, the government undertook massive rehabilitation of irrigation facilities in 2002. Almost 166,800 hectares were rehabilitated, more than double the

TABLE 4.4 Water Supply Development Programs By Water Districts, CY 2001-2002				
INDICATORS	2001 ACTUAL	ACTUAL (as of June 2002)	PROJECTED (CY 2003-2004)	PROJECTED CUMULATIVE ACCOMPLISHMENTS BY 2004
No. of Service Connections	1.80	1.85	0.15	2.02
Total Population Served by WDs	10.80	11.10	0.80	11.90
Population in Urban Areas Outside MWSS	21.30	21.50	1.00	22.80
Coverage				
Percent of Population Served (%)	50.70	51.60	0.90	52.20
Source: Local Water Utilities Administration (LWUA), 30 January 2003				

TABLE 4.5 Targets vs. Accomplishments for Irrigation, CY 2002
(Area in Hectares)

	2001 ACTUAL	TARGETS	2002 ACTUAL ACCOMPLISHMENTS	PERCENTAGE OF TARGET
NEW	21,050	55,986	25,590	45.71%
REHABILITATED	148,122	82,575	166,791	201.99%
TOTAL	169,172	138,561	192,381	138.84%

Sources: National Irrigation Administration (NIA), 30 January 2003; MTPDP 2001-2004

targeted coverage of 82,575 hectares. However, only about 46 percent of the targeted new areas were irrigated (Table 4.5). The shortfall was attributed to delays in the release of government funds, inadequate local funds, right-of-way problems, and instability of the peace and order situation in some areas. Notwithstanding, the improved irrigation facilities supported the increase in rice production of more than 349,000 metric tons from the previous year and benefited 126,283 farmer-beneficiaries (Table 4.6).

Flood and Drainage Management. By the end of 2002, the DPWH installed river control and drainage facilities in 1,164,989 hectares or 59.81% of the potential coverage area. For major infrastructure projects, DPWH covered about 71.72 percent (213,936 hectares) of the total potential coverage area of 298,274 hectares including Metro Manila.

A major institutional reform was the transfer of flood-control functions/responsibilities from the DPWH to the Metropolitan Manila Development Authority

(MMDA) on July 9, 2002 through a memorandum of agreement. The transfer of functions was aimed at easing the load of the DPWH to allow it to focus on other infrastructure projects, while enabling MMDA to perform its mandate under RA 7924, which is to formulate and implement policies, standards, programs and projects for flood control and drainage management in Metro Manila.

PROSPECTS AND POLICY DIRECTIONS FOR 2003

Transportation

Road and Urban Transport. In 2003, consistent with the government's medium term plan of accelerating regional development, priority will continue to be accorded to roads that serve agricultural production areas, tourism hubs and spokes, and growth centers. Private sector investment will be encouraged through the build-operate-transfer scheme especially

TABLE 4.6 Impact of Irrigation Projects, CY 2002

PROJECT COVERAGE	INCREMENTAL RICE PRODUCTION (Metric Tons)	NUMBER OF FARMERS BENEFITED
Luzon	133,178	47,404
Visayas	14,095	5,331
Mindanao	49,294	18,818
Nationwide	152,460	54,730
TOTAL	349,027	126,283

Source: NIA, 30 January 2003

in the heavily traveled corridors. At present, construction works on the modernization and expansion of the existing 84-km North Luzon Expressway (NLE) from Balintawak in Quezon City to Sta. Ines in Mabalacat, Pampanga have already started while project arrangements for South Luzon Expressway Extension (SLEX) from Calamba to Sto. Tomas and the Lipa City-Batangas City section of the Southern Tagalog Arterial Road (STAR) are being evaluated and/or discussed.

In major urban centers, traffic engineering and management, intermodal integration, signalization, and selected interchanges and bypasses will be set up to improve traffic flow at main corridors

The task of improving the institutional capacity of DPWH will continue in 2003. Specifically, streamlining of operations, monitoring system through computerization, road network planning and programming, pavement and bridge management, and financial management shall be prioritized. The DILG will oversee implementation of the ADB-assisted formulation of the Rural Roads Development Policy Framework, covering planning, financing, maintenance and institutional strengthening of local government units (LGUs) in local roads management. This will enable the LGUs to effectively carry out their mandate for local roads development and management.

Rail Transport. The restructuring and privatization of the Philippine National Railways (PNR) will be prioritized to strengthen its regulatory capability in the light of the policy to rehabilitate the Northrail and Southrail lines. On January 16, 2003, the Investment Coordination Committee approved the project to rehabilitate the Manila South Commuter Rail Project with the commitment that private sector be allowed to participate in its operations and maintenance through a concession agreement. On the other hand, the Northrail Corporation and the Bases Conversion Development Authority (Northrail/BCDA) are

already preparing to put on stream the Caloocan-Malolos section of the Manila-Clark Rapid Railway System (Northrail, Phase I, Section I).

Water Transport. Port services standards (e.g. improved and streamlined cargo handling and berthing procedures) will be established in consultation with port users or clients. Foreign-assisted and locally funded priority projects identified by the PPA will be pursued to address the port infrastructure requirement of some areas in the country, particularly the Mindanao region, which is currently the focus of a massive infrastructure development program. Port development programs to be pursued include: (a) modernization of North Harbor and expansion of South Harbor; (b) further development of the Manila International Container Terminal; (c) implementation of Batangas Port Development Project Phase II and the Philippine Ports Development Package; (d) improvement of the RORO ports identified in the Pan Philippine Highway Ferry Terminal Project; (e) implementation of Western Seaboard Intermodal Link, also known as Agro-Tourism Highway Project; and (f) the completion of ASEAN Highway Project and the Cagayan de Oro Port Expansion.

The PPA will continue adopting fiscal disciplinary measures to keep its operating costs at manageable level and achieve 100 percent collection efficiency ratio for the current year's revenue and 60 percent for prior years' receivables. Other major projects and activities include the stepped-up implementation of the PPA Management Information System (MIS) Computerization Program and the institution of reforms in the delivery of management/administrative support services.

Meanwhile, to address the need for safety and security in navigation, the DOTC will be acquiring new ships and aircraft and accompanying support systems in addition to

the current inventory of 7 ships, 41 small craft and 4 aircrafts.

Air Transport. Parallel to its vision of making the air transport network conform with the international and industry standards (i.e., ICAO Standards and Recommended Practices), the ATO will develop one airport of internationally accepted standard in each of the political regions in the country, based on traffic, economic and financial viability, and tourism potential. To improve the delivery of front-line services, measures to reduce minimum processing time of licenses and air-worthiness, together with the ongoing computerization program, will be implemented. Meanwhile, restructuring of the civil aviation sector through the corporatization of the ATO to separate its regulatory and operation functions will be fully evaluated as an alternative mode for institutional reform.

Energy

In 2003, the privatization of NPC and TRANSCO will be pursued. Competition in the generation sector will be introduced through the operation of the WESM in September 2003. Electric cooperatives will be restructured to prepare them for a deregulated electricity market.

To meet the targeted 90.96 percent barangay electrification level in 2003, member agencies of the *O'Ilaw* Program will intensify efforts to energize the barangays assigned to them.

With the utilization of Malampaya-sourced natural gas for power generation, the next phase will focus on its commercialization for transportation, industrial, commercial and residential users. The rules and regulations governing the transmission, distribution and supply of natural gas are slated to be finalized in 2003. The move is expected to attract new players in the construction and operation of gas pipelines and refilling stations that supply

compressed natural gas for public transportation and the industrial sector.

Water Resources

Water Supply, Sewerage and Sanitation. An Integrated Water Resource Management approach shall be developed as an alternative to the current system for implementing government programs and projects. Under this approach, coordinated development and management of water, land, and related resources are established to optimize economic and social welfare, without compromising the sustainability of vital environmental systems.

Meanwhile, MWSI has already filed a Notice of Early Termination of Concession on November 5, 2002, citing MWSS' failure to service its obligations under the Concession Agreement. This case is currently undergoing international arbitration.

Irrigation and Flood Control. The government will intensify collection of reinstated irrigation service fees per Administrative Order No. 17. The management structure of the NIA will continue to be rationalized through the transfer of irrigation management to irrigators associations.

The government will also endeavor to implement small-scale, labor-intensive irrigation projects, together with the rehabilitation and improvement of existing irrigation systems and critical irrigation watersheds.

To facilitate the smooth transfer of flood control functions from the DPWH to the MMDA, the latter shall be given full support in terms of policy formulation and capacity-building.

Chapter 5

Agricultural Modernization, Agrarian Reform, and Sustainable Management and Use of Natural Resources

Reducing rural poverty is a key goal of the Administration. Thus, the government continued to widen the opportunities for income growth in the countryside by adopting the Agriculture and Fisheries Modernization Act as the framework for enhancing agriculture production and support service delivery. The Comprehensive Agrarian Reform Program was also vigorously pursued to promote asset reform and facilitate its completion by 2008. Conservation and rehabilitation activities were undertaken in partnership with local stakeholders to ensure the sustainability of the natural resource base.

SECTORAL PERFORMANCE

The year 2002 was a banner year for the agriculture, fishery, and forestry sector in terms of output and income growth.

The sector was generally on track in terms of its key MTPDP growth targets for agricultural production. It posted an overall output growth of 3.7 percent for 2002 (Table 5.1), one percentage point higher than what was targeted for the year. This better-than-expected growth performance mainly came from the fishery as well as the livestock and poultry industries. Their strong performance more than offset the underperformance of the crops subsector which missed its growth target by 0.7 percentage points. Nevertheless, it posted a 1.4 percent year-on-year increase in output, with some commodities producing more than the target.

The robust performance of the livestock and poultry industries is not unique to 2002.

These subsectors have been pacing the growth of agriculture for several years now, enabling them to account for an increasing share of total agricultural output (19% in 1992 vs. 25% in 2002). The growth in livestock was mainly attributed to increased number of animals slaughtered, stocks of hog fatteners, and inventory of milking cows in cooperative farms. Meanwhile, the increase in number of broilers from commercial farms and chicken layers boosted the growth in poultry production. These developments point to the prospect of even higher production in the near term as the production base of these industries continues to expand.

The exemplary performance of the fishery industry is a more recent phenomenon, made more special by posting the highest growth in the sector. This was attributed to improved commercial fishing operations, increased demand from fish canneries in selected areas, expansion of seaweed areas, improved fingerling dispersal, and improved cultural and management practices. Equity and poverty alleviation, however, continued to be a challenge for the subsector as municipal fisheries production increased by only about 2 percent compared to 9.6 percent and 6.6 percent for aquaculture and commercial fisheries, respectively. This can be attributed to the still fragile near-shore fishery resource base.

An even newer positive development is the reversal in the contraction of forestry output. This subsector posted a 9.1 percent growth in output in 2002 from a 33.5 percent decline in 2001. This may be traced to the

government's reforestation and community-based forest management programs, whose impacts are beginning to emerge.

Meanwhile, the shortfall in output growth for the crops subsector can be partly attributed to the onset of the El Niño phenomenon during the last quarter of the year. Hardest hit were corn, coffee, abaca and sugarcane, all of which posted lower production in 2002. Nevertheless, other crops such as coconut, banana and mango did well, exceeding the expected growths for the year. The growth of palay production was also higher than the Plan target for the year although lower than what was achieved in 2001. More importantly, crop farmers posted a double-digit increase in farm incomes due to favorable farm gate prices. This can be seen in the more than 10 percent rise in the nominal value of crop output. This reversed the trend of recent years where output growth, modest as it may have been, outpaced income growth which, in turn, dampened the welfare and antipoverty impact of increasing crop production.

A downside, however, to the generally favorable developments in the sector is its inadequate generation of employment in 2002. Rural unemployment and underemployment rates went up from 8.3 and 20.0 percent in 2001 to 8.7 and 20.2 percent in 2002, respectively. This means that 1.5 million and 3.2 million rural workers were respectively unemployed and underemployed during the year. Thus, the rate and kind of growth posted by both the agriculture and non-agriculture sectors of the rural economy were not enough to absorb new entrants into the labor market, much less those previously unemployed.

A minimum of one million jobs must be created annually just to fully absorb new job seekers, not including the previously unemployed. Only 906 thousand new jobs were generated in 2002, with the agriculture sector contributing 30 percent of the total. This may mean that targets for agricultural growth

will have to be raised further and that generating nonfarm employment must, likewise, be a priority. Moreover, government programs in agriculture must focus on high-value commodities and farming systems that promote full-time rather than seasonal employment.

SECTORAL AGENCY ACCOMPLISHMENTS

Programs

The key agencies in the sector continued to implement their banner programs in 2002 to meet the sectoral objectives espoused in the MTPDP of increasing income, promoting equity, and ensuring the sustainability of the resource base.

The Department of Agriculture (DA) has the *Ginintuang Masaganang Ani* (GMA) Programs on Rice, Corn, High-Value Crops, Livestock and Fisheries, which were designed to attain the Plan goal of modernizing agriculture and fisheries. These were developed within the framework and development strategies of the Agriculture, Fisheries Modernization Act (AFMA). These programs continued to serve as the main vehicle for channeling support to raise agricultural productivity and incomes, as well as ensure food security. These include the provision of the needed infrastructure, increased access to modern inputs and technology, as well as credit and marketing support. Some of the more notable accomplishments of these programs in 2002 include the following:

- 1 192,126 hectares irrigated from both new and rehabilitated systems benefiting 126,912 farmers;
- 1 960,000 kilograms of seeds under the Open-Pollinated Variety (OPV) Seed Subsidy Program were provided to 48,000 corn farmers;

TABLE 5.1 Volume and Value of Agricultural Production, 2002 <i>(growth rate, in percent)</i>					
	Volume of Production (In thousand metric tons)			Value of Production (At constant prices)	
	Growth Rates		Target	Growth Rates (%)	
	Actual			Actual	Target
AGRICULTURAL CROPS				1.4	2.0 - 3.3
<i>Major Crops</i>				1.4	1.7 - 2.5
Palay	13,270.7	2.4	1.0	2.4	1.0 - 2.0
Corn	4,319.3	-4.6	2.2	-4.6	2.2 - 3.2
Coconut	13,682.6	3.6	1.9	3.6	1.9 - 2.0
Sugarcane	27,202.9	-4.7	1.0	-4.7	1.0 - 2.0
Banana	5,264.5	4.1	2.0	4.1	2.0 - 2.0
Pineapple	1,635.9	1.1	4.0	1.1	4.0 - 5.0
Coffee	124.2	-5.0	1.5	-5.0	1.5 - 2.4
Mango	955.9	8.7	4.5	8.7	4.5 - 5.5
Tobacco	50.2	4.2	1.5	4.2	1.5 - 2.4
Abaca	67.1	-7.9	1.4	-7.9	1.4 - 2.7
<i>Other Crops</i>				1.3	2.8 - 5.1
Peanut	26.2	0.3	1.6	0.3	-
Mongo	27.4	-1.4	2.6	-1.4	-
Cassava	1,626.3	-1.6	2.1	-1.6	-
Camote	549.3	0.7	1.7	0.7	-
Tomato	149.2	2.2	2.6	2.2	-
Garlic	16.3	5.8	3.5	5.8	-
Onion	96.2	16.4	2.6	16.4	-
Cabbage	91.4	2.0	2.0	2.0	-
Eggplant	179.5	5.7	2.0	5.7	-
Calamansi	181.2	-0.3	1.8	-0.3	-
Rubber	263.2	1.5	2.0	1.5	-
Other Fiber Crops				1.5	-
Others	2,923.4	0.6	3.0	0.6	-
LIVESTOCK				4.4	3.9 - 4.4
Carabao	132.4	5.8	1.5	5.8	1.5 - 2.4
Cattle	261.1	0.0	4.5	0.0	4.5 - 4.9
Hog	1,667.8	5.3	4.0	5.2	4.0 - 4.5
Goat	74.8	0.3	3.0	0.2	3.0 - 3.6
Dairy	11.0	1.9	0.9	1.8	0.9 - 1.5
POULTRY				6.1	4.1 - 5.0
Chicken	1,173.8	6.8	4.0	6.8	4.0 - 5.0
Duck	54.1	1.1	4.7	1.1	4.7 - 5.3
Chicken eggs	260.8	5.7	4.3	5.7	4.3 - 4.5
Duck eggs	53.6	-0.5	4.5	-0.5	4.5 - 4.8
FISHERY				6.8	3.2
Commercial	1,041.4	6.6	2.5	6.6	2.5 - 2.5
Municipal	988.9	2.0	-0.5	2.0	(0.5 - 0.5)
Aquaculture	1,338.2	9.7	7.0	9.7	7.0
FORESTRY		9.1		9.1	
TOTAL AGRICULTURAL OUTPUT		3.7	2.7	3.7	2.7

Source: Bureau of Agricultural Statistics (BAS)

- 1 established and rehabilitated 14 auction markets, 17 abattoirs, 2 dairy plants, 16 milk collection centers and 13 meat processing centers;
- 1 vaccinated 226,641 animals and disinfected 557 abattoirs;
- 1 107 million fingerlings dispersed to fish farmers, 36 million fingerlings to communal water bodies, and 134 seaweed nurseries and 88 marine cages established; and
- 1 declaration of Visayas, Palawan and Masbate as FMD-free zones, in addition to Mindanao, by the Office International des Epizooties (OIE). This means lower operational costs for both commercial livestock raisers and backyard farmers thereby giving the country the opportunity to participate in global trade

Also included in these programs are the El Niño mitigating measures, which include the construction, installation and rehabilitation of small-scale irrigation projects consisting of small water impounding projects (SWIPS) and diversion dams (DDs) and shallow tube wells (STWs). Other measures include cloud seeding and the installation of pump irrigation system open-surfaces (PISOs) and open-surfaced pumps (OSPs). The National Irrigation Administration also closely monitored the status of water levels of three major dams, namely Pantabangan, Magat and Angat. Production support, through distribution of palay and corn seeds, fertilizer, liming and materials as well as distribution of chicken, swine, and other livestock and drugs/biologics to at least 1,053 farmers, were undertaken to augment incomes during the El Niño period. Information, education and communication activities were also pursued to improve farmers' awareness of El Niño and the mitigation measures being imparted by government.

In line with the Plan strategy of developing Mindanao as a food basket and exporter of high-value agriculture and fisheries products, two major projects were pursued, through official development assistance, to improve

agricultural productivity and alleviate the poverty situation in Mindanao. The *Upland Development Programme in Southern Mindanao* provided agriculture and fisheries support, irrigation development, infrastructure and postharvest facilities, R&D, credit facilitation, and market development services. This program was reported to have generated 26,606 jobs and benefited 7,524 individuals in the target area. Meanwhile, the *Mindanao Rural Development Program* provided irrigation to 1,486 hectares of agricultural lands, 147 kilometers of farm-to-market roads, 662 community based subprojects under the Community Fund for Agricultural Development, and technical assistance in the formulation of 446 barangay development plans and the establishment of 38 techno demo farms.

The Department of Agrarian Reform (DAR) has five major programs to advance the Plan goal of advancing social equity through agrarian reform. These include the following:

- 1 *The Salin-Lupa Program* – this covers land tenure improvement mainly through land distribution. Also included in this program is the promotion of leasehold contracts where tenants are provided security of tenure and a greater share in the produce, thereby giving them higher incomes. These arrangements are implemented in landowners' retained areas;
- 1 *The Bayanihan Program* – this is for Program beneficiaries development where support services like infrastructure, credit, training, extension, and community organizing are provided to Agrarian Reform Communities (ARC);
- 1 *Katarungan Program* – this is the DAR's agrarian justice program where it seeks to resolve agrarian cases which includes, among others, land valuation cases, farmer's ejection from their land, collection and fixing of lease rentals, cancellation of Emancipation Patents (EPs)/Certificate of Land Ownership and Acquisition (CLOA).

- 1 *Kaba'yanihan Program* – this involves partnership and consultation with POs and NGO to resolve issues such as cancellation of CLT/EP/CLOA, CARP coverage, exemption, tenancy relationship, request for security assistance from the Department of National Defense (DND), illegal conversion, and payment of disturbance compensation; and
- 1 *Kamalayan Program* – this the DAR's awareness building program which included training programs in support of the four key components of ARC development, to wit: Land Tenure Improvement-Related (LTI), Social Infrastructure and Local Capability Building (SILCAB), Sustainable Area-Based Enterprise Development (SARED) and Basic Social Services Development (BSSD).

The Department of Environment and Natural Resources (DENR) covered four major areas where it committed targets to promote the Plan goal of promoting sustainable management and use of Natural Resources. These include the following:

- 1 *Community Based Forest Management Program (CBFMP) and Watershed Approach* – this is the primary strategy for achieving the sustainable management of forestlands and resources. Its objectives include: (a) community empowerment through the granting of access and resource use rights to forest dependent communities and indigenous peoples; (b) integration of all people-oriented forestry programs under one coherent organizational structure and a common unified tenure instrument; (c) deregulation and resource allocation reforms to better support the emerging stability and growth of forest-based and livelihood focused enterprises; (d) devolution and greater local support for on-ground implementation. The watershed management strategy being

adopted is guided by the following principles: holistic, integrated approach; multiple-use management; multisectoral and inter-disciplinary; sustainable management and development; participatory and equitable management; and efficient resource use;

- 1 *Lands Disposition Program* – this involves the distribution of government lands in urban areas to poor lowland communities for the socialized housing program. In here, patents are issued, public land applications are processed and the administrative titling of lands expedited;
- 1 *Establishment and Declaration of Protected Areas* – this deals with the establishment and management of an integrated protected areas system, preservation of biological diversity and genetic resources, protection and conservation of wildlife sanctuaries and conservation and propagation of endangered Philippine flora and fauna; and
- 1 *Integrated Coastal Resource Management (ICRM) program* – this seeks to integrate all efforts related to the protection, conservation and management of coastal resources with the participation of coastal communities and other stakeholders. It involves activities such as resources inventory and assessment, community organizing, mangrove rehabilitation, coastal database development and updating, alternative livelihood development, among others.

Performance vis-à-vis Plan Targets

Several key goals have been achieved during the year. However, it appears that the key sectoral agencies have generally underperformed relative to their MTPDP and Department targets and commitments for 2002, with the land distribution programs as the only notable exception. This can be seen in the following:

Department of Agriculture

Based on the performance of the department in 2002 vis-à-vis their commitments under the Agriculture and Fisheries Modernization Program (AFMP) (Table 5.2), only four of DA's 11 targets by end-2004 may be achievable given present trends. These are in irrigation rehabilitation, regional and municipal fish ports development, and the establishment of seaweed nurseries. The construction of new irrigation systems, expansion of irrigation service areas, farm-to-market roads, the establishment of mariculture parks and seaweed village ecozones, and especially the provision of postharvest facilities experienced delays as of 2002 which may compromise the achievement of the targets by 2004.

This under-performance could be explained in part by the low rate of utilization of the DA components of the AFMA funds. Table 5.3 shows that the overall obligation rate for 2002 is around 81 percent, while the disbursement rate is less than 50 percent. It appears that the programs which least utilized the funds (postharvest facilities, other infrastructure, marketing assistance, research and development and irrigation) were also those that under-performed in terms of target achievements. Pending the finalization of the figures, it appears that the latest disbursement rate of the DA is not much different from the rates achieved in previous years (e.g., 81% for 2001).

According to the DA, the AFMA targets were based on the assumption that funds, as mandated under the AFMA, will be provided. However, amounts were not released according to what was planned and the DA had to internally adjust targets on the basis of the lower budget. The DA, likewise, noted that budgets were not released according to planned time schedules.

On the other hand, the DBM pointed out that 75 percent of the 2002 budget was released as early as March 2002. It further maintains that the release of the remaining balance was constrained by the DA's reported low utilization of the initially released amount.

These contrasting views point to the need for a review to validate these claims and to determine the extent in which financial and operational factors were responsible for the agency's underperformance in terms of its key targets. It may be noted that a study¹ on the DA's performance in the 1990s shows that its' inadequate fund utilization (which was lower than DAR's and DENR's) may partly be traced to complicated procurement processes and higher degree of centralization that caused delays in the liquidation of central office funds disbursed to the regions and LGUs.

On the other hand, policy inroads have been made, especially in the grains sector. These included the lifting of National Food Authority's (NFA) monopoly in rice importation and allowing the private sector, especially farmers' organizations and cooperatives, to participate through the Farmer as Importer of Special Rice (FAISR) Program. The NFA also piloted schemes that will further enhance the participation of rice farmers in rice marketing and distribution. These were made through the implementation of the President's Grains Marketing Assistance (PGMA) programs. These programs include free a warehousing scheme and enabling farmers to be rice distributors.

Department of Agrarian Reform

A bright spot in the sector agencies' performance is the land distribution program. The DAR distributed 111,722 hectares of land in 2002, exceeding the 100,000-hectare State of the Nation Address (SONA) target by 12

¹ David, C. and Inocencio, A., 2000, "Rural Sector Public Expenditure: Key Issues, Strategies and Performance Indicators", *Philippines : RD & NRM: Trends, Strategies and Framework Performance Indicator System, Annex 9, Government of the Philippines and the World Bank*

TABLE 5.2 AFMP Accomplishments, 2002

Commitments /Medium-Term Target, 2001-2004	Accomplishments as of 2002		DA Remarks
	Level of Accomplishment	%	
Irrigation and water			
1. 301,361 hectares from the rehabilitation of existing but degraded systems	1. Rehabilitated 417,787 hectares from existing systems ^b	139	1. High accomplishment rate is attributed to the priority accorded to rehabilitation of existing irrigation systems.
2. 172,391 hectares from the construction of new irrigation systems	2. Generated 49,198 hectares of new areas	28	2&3. Additional irrigation service areas are realized only later in project life due to the multi-year nature of new irrigation systems
3. Raise the country's total service area by 200,000 (from 1.4 to 1.6 million hectares) ^a	3. Total area to date is 1,387,235 hectares ^c	0	hence the low level of accomplishment.
Farm-to-Market Roads (FMRs) and Related Infrastructure			
4. Construction of 1,597 km and rehabilitation, repair, and improve-improvement of 601 km of farm-to-market roads)	4. Constructed, rehabilitated, repaired and improved 1,045 CY 2001 farm-to-market road projects covering 736.5 km	34	4. A total of P1.27 billion over the allocation of P700 million for 2001 was released by DBM, sourced from approved realignment requests from mandatory savings. Disbursement has reached P1.22 billion as of December 2002 by the DPWH. However, no funds were released for FMR in 2002 as intended fund was allocated and released for El Niño mitigating activities.
5. Rehabilitation of 2 regional fishports	5. Repaired/rehabilitated Market Halls 1&2 at the Navotas Fishport complex and Refrigeration Building roofing, Administration Bldg. Market Hall, and refrigerating compressors and contact freezers at Iloilo Fishport complex.	100	5. Target was accomplished due to availability of budget and doability of the target.
6. Rehabilitation of 19 municipal fishports	6. Completed the construction/ expansion and/improvement of 6 municipal fishports (MFP); Puerto Princesa, Malolos, Minglanilla, Tukuran, Jolo Fish Landing, and Oton Fish Landing; ongoing construction of 4 MFPs; Sta. Ana (Cagayan), Catarman (Camiguin), Guinayangan (Quezon) and Obando, (Bulacan); and	90	6. The 2001 budget for fishports rehabilitation was released only in June 2002, while no budget was released for 2002. Detailed engineering studies, however, are available and ready to be implemented once budget becomes available.

Commitments/Medium-Term Target, 2001-2004	Accomplishments as of 2002		DA Remarks
	Level of Accomplishment	%	
	construction of seven 7.5MT ice plant and cold storage facilities in Pitogo and Casigura (Quezon), Dingalan (Aurora), Boac (Marinduque), Maluso (Basilan), Jolo (Sulo), and Guiuan (Eastern Samar).		
7. Establishment of 16 mariculture parks	7. Continued the implementation of the Mariculture Park in Island Garden City of Samal; completed the signing of the MOA between DA and the local government of Masinloc and Palauig, Zambales and SEAFDEC on the establishment of mariculture park in Masinloc-Palauig, Zambales.	6	7. Unavailability of budget constrained the establishment of mariculture parks. While dialogue with LGUs are ongoing for 3 more sites, lack of investors constrain the replication of such projects.
8. Establishment of 14 seaweed village ecozones	8. Established and maintained 134 seaweed nurseries and 88 marine	48 ^d	8&9. There were no seaweed village ecozones established during the year as focus shifted to the establishment of nurseries which are deemed more beneficial to the fisherfolk. Rapid Resource Appraisal for 66 potential sites are on-going.
9. Establishment of 290 seaweed nurseries	marine cages		
Postharvest Facilities			
10. Distribution of 21,863 assorted postharvest machinery and equipment	10. Distributed 809 machines and equipment	4	10&11. The targets for postharvest-related activities were based on the assumption that the P2B allocation provided for under AFMA will be released in full. However, only P439.5M was allocated and only P228.8M was released in November 2002 which explains the low level of accomplishment for this commitment.
11. Construction/improvement of 14,810 assorted postharvest-related infrastructures	11. Constructed/improved 1,141 postharvest-related infrastructures	8	
^a status of Irrigation Development as of December 2000			
^b includes 86,516 hectares from CY 2000 carry-over programs			
^c per report of the National Irrigation Administration as of 11 March 2003			
^d percentage accomplishments for seaweed nurseries only			

percent (Table 5.4). This accomplishment also exceeded DAR's original 2002 MTPDP target of 105,318 hectares and its official target of 110,917 hectares which includes the Autonomous Region of Muslim Mindanao (ARMM). This benefited over 75,000 farmer-

beneficiaries (FBs) who were given titles to their lands. This places the total land distributed since 1972 at 3.32 million hectares benefiting a total of 1.9 million FBs. With the DENR distributing a total of 89,884 hectares the total land distribution as of December 2002 is 2.57

TABLE 5.3 Fund Utilization by AFMA Component
As of 31 December 2002 (Preliminary)

Particulars	TOTAL ALLOTMENT (A)	DISBURSEMENT (B)	OBLIGATION (C)	PERCENTAGE (%) (C/A)**
AFMP				
A. Irrigation	5,865,039	2,728,517	4,670,990	79.6
B. Post Harvest Facilities*	439,506	47,417	115,624	26.3
C. Other Infrastructure	283,571	105,850	217,795	76.8
D. Agro-Industry Modernization Credit and Financing Program (AMCFP)	5,078	4,243	4,942	97.3
E. Farmer-Fisherfolk Marketing Assistance	67,155	33,105	56,998	84.9
F. Research and Development	588,896	255,041	520,785	88.4
G. Capability-Building of Farmers and Fisherfolk Organizations and LGUs	736,262	408,847	566,868	77.0
H. Salary Supplement of Extension Workers under the LGUs	385,748	227,902	314,115	81.4
I. National Agricultural and Fisheries Education System (NAFES)				
J. National Information Network (NIN)	74,163	11,164	24,742	33.4
K. Rural Non-Farm Employment Training				
Sub-total	8,445,418	3,822,086	6,492,859	76.9
Other attribution to AFMA				
L. Regulatory Services	1,129,634	89,658	1,040,627	92.1
M. Production Support	941,147	711,387	873,446	92.8
N. Policy and Planning	45,036	37,127	44,609	99.1
O. Human Resources Development	7,935	2,340	3,748	47.2
P. Program Management	381,547	316,647	379,618	99.5
Sub-total	2,505,299	1,157,159	2,342,048	93.5
TOTAL, AFMP	10,950,717	4,979,245	8,834,907	80.7
* SARO dated 30 October 2002 amounting to P228,800,000 for Post Harvest Facilities was received by the Department in November 2002				
**or utilization rate				
Source: Planning Service, Department of Agriculture				

million hectares or 68 percent of the total 3.77 million hectares target. As of December 2002, the combined lands distributed by DAR and DENR reached to 5.89 million hectares, or 73 percent of the total CARP scope of 8.06 million lands scheduled to be distributed until 2008.

The other accomplishments of the DAR and other CARP implementing agencies for 2002 are presented in Table 5.5. It presents their achievements in the provision of support services to the ARBs showing general improvements relative to the 2001 accomplishments. However, it is hard to assess the efficiency and effectiveness of their performance in these areas due to a lack of any sufficiency and impact indicators.

On the policy front, the department drafted an EO entitled *Improving the Negotiability and Sustainability of Agrarian Reform*

Bonds which seeks to enhance the attractiveness and competitiveness of agrarian reform bonds vis-à-vis the other government bonds. The bonds will be used to enable the small landowners to invest or engage in small- or medium scale industries.

Department of Environment and Natural Resources

Except for land distribution, no annual targets were committed by the Department of Environment and Natural Resources (DENR) under the MTPDP 2001-2004. Tables 5.4 and 5.6 show that the Department distributed 89,884 hectares, exceeding the 2002 MTPDP target of 40,000 hectares but not the 2002 SONA target of 100,000 hectares for the same year. This was partly due to the large backlog on the issuance of free patents which started in

TABLE 5.4 Land Distribution Accomplishment
(in hectares)

LAND TYPE	2001			2002		
	TARGET	ACTUAL	%	TARGET	ACTUAL ^a	%
DAR	101,318	104,261	103	110,917 ^c	111,722	101
Rice and Corn lands	7,566	5,651	75	8,614	5,150	60
Settlements and Landed Estates	6,927	11,867	171	9,474	18,191	192
Gov't Owned/GFI lands	9,123	18,475	203	8,119	19,624	242
Other Private Agricultural lands	77,702	68,268	20,388	84,710	68,615	81
DENR^b	70,109	4,499	6	113,755 ^d	89,884	79
Public A & D lands	70,109	4,499	6	113,755	89,884	79
Grand Total	171,427	108,760	63	224,672	201,606	90

^a Preliminary, subject for validation

^b Issuance of CBFM Agreement under CARP was completed in CY 2000; figures solely consist of patents issued for A&D lands

^c Adjusted from MTPDP 2002 target of 105,318 has, inclusive of target for ARMM

^d Includes MTPDP target of 40,000 has (funded under ARF) and SONA target of 100,000 has (funded by Supplemental Fund from Fund 101).

1992 with the devolution of this task to local government units (LGUs). It was only in 2001 that this function was returned to the Land Management Bureau (LMB) of the DENR. Another reason is the expiration of the Free Patent Law in 2000. The extension of the processing of free patents until December 2020 was implemented only in November 2002.

Meanwhile, the processing of Certificate of Ancestral Domain Titles (CADT) and Certificate of Ancestral Land Titles (CALT) by the National Commission on Indigenous Peoples (NCIP) suffered from a lack of technical knowledge on surveying and mapping.

The rest of the DENR's targets were lumped for the medium term. Cumulative data for 2001 and 2002 shows that if the current rate of achievement is not accelerated, the department may only achieve three of its seven major targets by end-2004. These are in Watershed Characterization and Profiling, the promotion of local Integrated Coastal Management Plans, and possibly the issuance of patents. Programs for which targets may not be achieved by 2004 are on Community-Based Forestry Management (CBFM),

Mangrove Area Rehabilitation, Community Livelihood Assistance Special Program (CLASP) and the establishment of integrated protected areas (NIPAs).

The operational factors reported to be behind the slow implementation of the affected programs were the following:

- 1 *Community Based Forest Management Program (CBFMP)* – Resistance from the beneficiaries of previously implemented people-oriented forestry programs, such as the Integrated Social Forestry Program (ISFP) and activities related to the recognition of ancestral domains, has caused delays in the implementation of the CBFM. These beneficiaries continue to insist on household level forest management approaches and destructive indigenous knowledge system and practices. Moreover, the weak coordination between the two key institutions responsible for implementing the CBFMP (DENR and the concerned LGUs) contributed to the delays in implementation.
- 1 *Integrated Coastal Resources Management (ICRM) Program* – The

targets on the coastal areas to be rehabilitated and the regional coastal resources information systems to be established can only be achieved through the implementation of the local ICRM plans. While significant number of LGUs have adopted their ICRM plans, full implementation was constrained by the limited funds and technical capability of LGUs. Moreover, the delineation of the municipal waters, which is important particularly for coastal area rehabilitation, was delayed due to the conflict in policies which existed between the DA and DENR.

- 1 *Community Livelihood Assistance Special Program (CLASP)* – The establishment of livelihood projects in community-based forest management areas was hampered by the lack of NGOs who met the criteria of having a good track record in implementing livelihood and community organizing activities.
- 1 *National Integrated Protected Areas System (NIPAS)* – The proclamation of protected areas was constrained by the tedious legal process required under the NIPAS act.

CONCLUSION

Given the absence of sufficiency and impact indicators, it is difficult at this point to determine the extent, if any, to which government programs in the sector have been able to influence the performance of the sector. The most that can perhaps be said is that sectoral performance could have been better had the sectoral agencies been able to meet all the MTPDP and department targets.

However, this conclusion would have varying degrees of applicability by subsector. For instance, since most of the DA's interventions and resources were targeted on the crops subsector, then the direct influence of its programs on the performance of the

livestock, poultry, and fishery industries may not be as substantial. On the other hand, given the relatively larger resources poured by the department on the crops subsector, then we can conjecture that its output growth could have even been slower due to the El Niño phenomenon had not government intervened.

The overriding reason cited by the agency for the nonattainment of the targets is the insufficiency of the budget, given the tighter fiscal picture. However, given the DBM's reported schedule of budget releases and the sector agencies' fund utilization rate, operational rigidities and difficulties may be the more immediate reasons for their underperformances. It may also be noted that the departments resorted to shaving the allocated budget for all programs rather than prioritizing agency projects and temporarily cutting down on less urgent programs. Because of this, funds were thinly spread which resulted in the poor performance of most of the programs/activities.

This leads to the issue of where, when and how should government intervene in the sector to more effectively achieve the Plan goals, especially in a regime of greater fiscal constraints. The DA, for instance, has retained the function of directly providing agricultural inputs (eg., seeds, machineries, postharvest facilities) and services (e.g., technology) as one of its Major Final Outputs (MFOs), in spite of the devolution of most of these to the LGUs. This MFO has been ranked even higher in importance than the other DA MFOs. Given the tighter NG budget, however, the DA could not be expected to adequately directly provide the farmers all these inputs to substantially influence the sector's performance. For instance, to what extent can the reported provision for 2002 of 43 farm implements, 53 recirculating mechanical dryers, and 242 mechanical corn shellers under the GMA Corn Program affect total corn production in the country? Or the 14 auction markets, 17 abattoirs, 2 dairy plants under the GMA

TABLE 5.5 Total Support Services Accomplishment

SERVICE CATEGORY	2001	2002	As of December 2002
Extension Services (DAR, DTI, DOLE, NIA)			
<i>Trainings Conducted</i>	1,718	1,446	65,918
FBs trained (service count)	158,911	108,593	3,118,913
<i>Technical Assistance</i>			
FBs/Los benefited (service count)	88,644	49,487	2,009,370
Credit Support (DAR, LBP, GFIs)			
Loans released (million pesos) ^a	12,920	13,408	129,424
Small farmers benefited (service count)	376,893	356,644	7,541,375
<i>Credit Programs for ARBs</i>			
Project approved (No.)	54	189	973
Project cost (million pesos)	65.17	225.37	1,371.13
ARBs involved (No.)	4,176	11,308	94,419
Infrastructure Support			
<i>Rural Road Construction (DPWH)</i>			
Completed projects	117	420	3,951
Total length (kilometers)	128	635	6,922
Ongoing projects		72	72
Estimated length (kilometers)		47	47
Projects to be started		168	168
Estimated length (kilometers) ^b		6	6
<i>Communal Irrigation Projects (NIA)</i>			
Completed projects	26	30	358
Service area (hectares)	4,913	3,283	29,280
FBs benefited	3,188	4,889	54,369
Ongoing projects		101	101
Partial service area (hectares)		6,986	6,986
Target area (hectares)		26,003	26,003
<i>Common Service Facilities (DTI)^c</i>			
Project operationalized			366
FBs/Los served (No.)			11,342

^a Also included the P2.768 billion credit outlay charged against ARF

^b Total length will be determined after the pre-engineering study

^c No funds allocated for 2001 and 2002

Source: DAR-PARC

Livestock Program? Or the 5 cold storage facilities in the GMA Fisheries Program? Perhaps this MFO, as well as the other MFOs of the sectoral departments should be circumscribed and prioritized according to its catalytic and antipoverty potential. This means to prioritize and fully fund only those inputs with substantial multiplier effect (e.g. seeds vs. machineries or postharvest facilities) and,

as a rule, to limit most of these services to, perhaps, only the 5th and 6th class agricultural communities.

Meanwhile, in the case of the CARP, the DAR and the other CARP implementing agencies were able to keep accomplishments on track with DAR even exceeding its distribution target. DENR, for its part, was able bounce back from its last year's land distribution

**TABLE 5.6 Selected Accomplishment Indicators:
Natural Resources Management**

INDICATORS/PROGRAM	ACCOMPLISHMENT			MTPDP TARGET	%
	2001	2002	TOTAL		
A. Forestry (CBFM)					
1.Community-based forest management					
-Area developed and managed (ha)	127,569	149,934	277,503	2.9M has	10
- Livelihood established (no.)	53	12	65	414	16
2.Watershed management					
-Watershed areas characterized/profiled	41	37	78	154	51
B. Lands (Land Disposition)					
-Patents issued (no.)	2,226	82,543	84,769	274,460	31
C. Protected Areas (PA/NIPA)					
-PAs established/ proclaimed		4	4	80	5
D. Coastal Environment (ICRM)					
1. Area rehabilitated (hectares)	162	108	270	2,000	13
2. LGUs adopting Integrated Coastal Management Plans (no.)	22	108	130	250	52
3. Regional Coastal Resources Information System (RCRIS formulated no.)	2	4	6	15	40

slump. This improved performance was due to the injection of supplemental fund to the agency's budget allocated for land distribution. With the promulgation of RA 9176 extending the processing of free patents up to December 31, 2020, the improved performance is further seen to be maintained by the DENR in the remaining CARP years. Given this, and as long as DAR maintains its momentum and the government provides sufficient funding, the remaining 27 percent of the total land to be distributed by 2008 can be seen to be completed on time.

PROSPECTS AND POLICY DIRECTIONS FOR 2003

Agriculture Modernization. Efforts in 2003 will be directed to the implementation of El Niño mitigating measures and in enhancing agricultural productivity in rice, corn, fisheries, and other high-value crops. Meanwhile, the GMA Corn Program aims to produce 1,032,000 metric tons of corn in 240,000 hectares (under the program) by 2003. Non-program areas are expected to gain a 3.2 metric ton per hectare

yield and produce 660,000 metric tons of corn.

Recognizing that improving agricultural productivity remains a major challenge, the government will be pursuing a systems and supply chain approach in designing its interventions. The interventions will focus on reducing the bottlenecks that hamper productivity along various points of the production and marketing channels in rice, corn, fisheries, sugar, coffee and coconut, which are considered winners and have high potential for stimulating growth in the economy.

Grains Sector Reforms. Policy reforms will be continued to make grains production in the country more efficient and rice farmers more competitive. These will cover the further rationalization of the NFA to separate its conflicting regulatory and proprietary functions, removing the quantitative restrictions on rice and replacing this with appropriate tariff measures, and replacing the current general food subsidy scheme to a more targeted one for the poor.

In pursuit of these policy measures, the processing and passage of the following

proposed bills pending in Congress will have to be fasttracked:

- 1 HB No. 4698, known as “*An Act to Enhance the National Food Security by Creating the National Food Corporation in Place of the National Food Authority, Creating the National Rice Board and for Other Purposes*”;
- 1 HB No. 1763 known as “*An Act Reforming the National Food Authority, Converting it into a Government Owned Service Corporation, Defining its Powers to Insure Food Security, and Appropriating Funds Therefore*”; and
- 1 HB No. 3339 entitled “*An Act To Place Safety Nets For Filipino Rice Producers By Imposing Tariffs In Lieu Of Quantitative Restrictions On Rice Imports, Directing Tariff Collections From Rice Imports To Projects And Programs That Enhance Rice Productivity And Increase Farmers’ Incomes, And For Other Purposes.*”

Land Reform. Existing programs will continue to be pursued. The DA is gearing up to distribute a minimum of 100,000 hectares of agricultural lands and fast track the completion of land acquisition and distribution in ARCs in collaboration with DENR. The Department is expected to accomplish a sizeable portion of its plan targets with the promulgation of RA 9176 which extends the processing of free patents up to December 31, 2020.

To speed up the delivery of agrarian justice, the DAR legal offices nationwide shall be enhanced and strengthened by implementing an organizational restructuring and corollary manpower training programs for both legal and paralegal officers. New systems shall likewise be adopted in order to assist the legal officers to resolve cases at a faster pace.

The delivery of support services shall be further rationalized, integrated and institutionalized. For 2003, additional 335 ARCs shall be launched to bring the total ARCs to 1,877 ARCs. A total number of 234 Bayanihan

Agrarian Reform Zones (BARZones) shall be established and operationalized to extend program reach to more non-ARC ARBs.

To further hasten and make the implementation of CARP more effective and efficient, the government will push for the passage of the Farmland as Collateral Bill. The proposed bill enables a farmer beneficiary to mortgage his right to farm the land awarded to him, without losing his security of tenure and providing that the Certificate of Land Ownership Award issued to him under CARP shall be accepted by banks and other financial institutions as collateral for loans.

Resource Management. Ongoing programs where significant gains have already been made will be continued. In addition, programs such as the promotion of clonal technology in the nursery system to support the establishment of timber corridors will be pursued. Increased private sector participation in the various activities in the sector will also be explored.

On the legislative front, the passage of Sustainable Forest Management Act (SFMA) and the National Land Use Act (NALUA) will be supported.

To facilitate implementation of projects and programs, the DENR will streamline the processing and approval for the granting of the Environmental Compliance Certificate (ECC). If no decision is made within the specified processing timeframe, the ECC application is automatically cleared and approved and the approving authority shall issue the ECC within five working days after the prescribed processing timeframe. Moreover, elimination of misfits within the Department shall be pursued. At the same time, the DENR shall endeavor to build up the capability of LGUs in environmental and natural resource management. Lastly, the commitments in global environmental and sustainable development concerns will be pursued aggressively.

Chapter 6

Comprehensive Human Development and Protecting the Vulnerable

Various interventions in education, health, housing, and social services were pursued in 2002 to uplift the conditions of the poor and enhance human development. However, the improvements in human development indicators relative to 2001 were generally modest, and were below Plan targets, except in health. In 2003, these programs will be strengthened to meet the goal of winning the war against poverty within the decade. Special attention will be given to the expansion of the *Kapit-Bisig Laban sa Kahirapan* (KALAHARI) program and the advocacy of the population program.

EDUCATION AND TRAINING

Basic Education Services. The country's performance in basic education for schoolyear 2001-2002 (Table 6.1) generally improved compared to SY 2000-2001; however, the slight

improvements fell short of desired outcomes, except for the participation rate at the elementary level. This indicates that, notwithstanding the additional resources and numerous interventions in education, challenges remain in terms of attracting and keeping children in school, which are influenced by factors such as family income, health status of schoolchildren, and pedagogical effectiveness.

The increase in participation rates especially at the elementary level can be traced to more aggressive construction of school buildings and measures to lower the cost of education. In pursuit of the government's commitment to provide basic education to all school-age children, the establishment of elementary schools for 1,617 barangays was prioritized. The budget for elementary pupils increased to P5,200 compared to P4,600 per student in 2000. In some cities and municipalities, Local School Boards provided

additional funds for educational facilities. The Department of Education (DepEd) also tapped the Department of Public Works and Highways (DPWH), the Armed Forces of the Philippines (AFP), and the Federation of Filipino-Chinese Chamber of Commerce and Industry, Inc. (FFCCCII) to provide schools to about 35 percent of these barangays.

Local governments and official development assistance (ODA) also assisted the DepEd in augmenting the decreasing

TABLE 6.1 Indicators in Basic Education

INDICATORS	ACTUAL		TARGET
	SY 2000-01	SY 2001-02	SY 2001-02
Participation Rate (%)			
Elementary	96.4	97.0	96.8
Secondary	72.3	73.4	74.2
Cohort Survival Rate (%)			
Elementary	67.2	67.1	69.4
Secondary			
Based on Gr 1	49.8	49.9	50.1
Based on Yr 1	73.1	73.2	73.9
Textbook-Pupil Ratio	1:5	1:2 ¹	1:1 ²

¹ 1:1 in Grades/Years I-IV; 1:2 in Years III-IV; 1:5 in Grades V-VI

² 1:2001 State of the Nation Address

Source: MTPDP 2001-2004 and Office of Planning Service, DepEd

budget per student and in addressing the education and health needs of schoolchildren in Mindanao. In Region XI (Southern Mindanao), Caraga and the Autonomous Region of Muslim Mindanao (ARMM), the DepEd launched the AusAID-assisted Basic Education Assistance for Mindanao (BEAM) in November 2002. The project aims to improve the skills and knowledge of teachers and educational managers in addressing education needs of indigenous peoples and community-based Muslim schools (Madaris).

Two pipeline projects were developed in 2002, which are the Comprehensive School- and Community-Based Worm Control Project and the Educational Facilities Improvement Project (EFIP) for ARMM, both of which are scheduled for implementation in 2004. The first project focuses on intensive advocacy activities both in schools and communities (i.e., training, provision of instructional and advocacy materials) and the treatment of children (i.e., provision of school clinic basic medical equipment, deworming, iron supplementation and feeding). The project will cover all public elementary schools in ARMM, Regions 9 and 12. The second project will provide classrooms with toilet and water facilities to elementary and secondary schools and science laboratory rooms in secondary schools.

At the elementary level, the banning of compulsory contributions in elementary schools helped in reducing the cost of education. Meanwhile, around 0.65 million children in both public and private schools had access to pre-school educational services.

Aside from providing physical inputs such as classrooms and books, curricular reforms were also adopted to improve the quality of education. DepEd began implementing in schoolyear 2002-2003 the Restructured Basic Education Curriculum (RBEC), which reduces the curriculum from eight subjects to five subjects namely, Science, Mathematics, English, Filipino and *Makabayan*. About

583,178 teachers and administrators in both public and private schools were trained prior to the start of classes to prepare them for the new curriculum. The initial impact of this new curriculum will be assessed from the diagnostic testing of Grade 3 pupils and First Year high school students. The assessment testing of Grade 6 and Year IV students was also shifted from the usual end-of-school cycle to mid-cycle to determine learning difficulties early on and to introduce the necessary remedial measures in succeeding grade or year levels.

Middle Level Skills Development.

Middle level skills education is directed to enhancing technical education and training (TET) towards meeting the skills needs of industries and enhance employment opportunities of workers. To increase the access of the poor to middle level skills training and improve their chances of finding gainful employment, the Technical Education and Skills Development (TESDA) awarded 13,800 scholarships under the Private Education Student Financial Assistance (PESFA), 4,008 scholarship vouchers under the TESDA-ADB project, and 100 ICT scholarships from the President's fund. In addition, TESDA's community-based programs reached 535,328 out-of-school youths and adults, in partnership with local governments, industry associations, chambers of commerce, and civic-oriented groups.

TESDA provided and coordinated skills training to an estimated 1.2 million Filipinos. Of these, 22 percent are from TESDA-administered schools, training centers, dual training systems and community-based programs while the rest were trained by various private training institutions, state universities and colleges (SUCs) and other government agencies. In 2002, about 136,358 were trained in information and communications technology (ICT); 110,247 workers in agri-fishery; 23,209 workers in tourism; and 20,308 workers in health. The overall employment rate for graduates was 58 percent, 3 percentage points

higher than the Plan target.

Efforts were undertaken to improve the delivery of training, equivalency, and competency assessment programs such as the Quality Assured Technical Education System program, the TESDA Occupation Certification and Qualification System (TOCQS) and the Registration and Competency Assessment and Certification in Maritime. Guidelines for the registration of a training program in TESDA Centers of Excellence were improved. Training was given to TESDA personnel which led to an enhanced TESDA Procedure Manual that obtained the seal of approval of the *Societe Generale de Surveillance* (SGS), an external audit organization. Competency standards for 48 priority occupations were also developed in addition to eight more for other occupations. However, more stringent standards resulted in a 50 percent passing rate, 15 percentage points lower than the target, indicating that the quality of teaching in TET still needs major enhancements. Nonetheless, the Philippines ranked 3rd overall during the Fourth ASEAN Skills Competition held in Jakarta, Indonesia. The country also bagged four major awards in the APEC IT Camp in Seoul, Korea. To protect the public from non-accredited programs, TESDA also published a Compendium of Registered Programs in 2002 and conducted a compliance audit of registered programs nationwide.

More public awareness programs were introduced by TESDA to promote TET as a viable path towards gainful employment. Aside from the annual “*Kabalikat*” Awards and the “President Ramon Magsaysay Outstanding Filipino Workers Awards”, TESDA launched regular radio-programs about its program offerings and availment procedures and developed an Information System Strategic Plan to enhance information networking and dissemination. Employers now have access to an on-line verification of certified workers in maritime and other occupations, while applications for training and program

registration can also be done on-line. Moreover, public queries made through the TESDA Homepage, Short Message Service (SMS) or Hotline is responded to within 24 hours. The public’s increasing awareness for technical education and training and increasing demand for compliance to program standards resulted in the registration and accreditation of 2,557 new training programs.

Meanwhile, to improve its responsiveness to market needs, TESDA is studying the results of 27 industry demand studies, 64 researches by TESDA-administered schools, and a 2002-run Graduate Tracer Study.

Higher Education. Responding to the challenge of making higher education more accessible to students, the Commission on Higher Education (CHED) expanded scholarship opportunities to more academically deserving but poor students in 2002 by developing new scholarship programs and providing funding support. For academic year 2002-2003, 17 scholarships and student loan programs were administered benefiting 41,346 scholars, 2,700 more students than those assisted in 2001. Policies and guidelines were also updated to improve management of existing scholarship programs.

CHED, likewise, widened the implementation of alternative delivery schemes such as the Expanded Tertiary Education Equivalency and Accreditation Program (ETEEAP), an educational assessment scheme that recognizes knowledge, skills and prior learning obtained by an individual from nonformal and informal educational experiences. Out of 27 deputized higher education institutions (HEIs) tasked to implement the ETEEAP nationwide, authority was given to seven HEIs in Metro Manila to assess the applicants’ knowledge, skills and attitudes relevant to a particular discipline and consequently to award equivalent and appropriate certificates or degrees. A total of 150 graduates were produced in various disciplines.

To upgrade the quality and excellence in higher education, the CHED established and maintained 275 Centers of Excellence (COEs) and Centers of Development (CODs) in different disciplines in 79 HEIs across the country. HEIs with proven excellence in teaching, research and extension were provided funds to support student scholarships, faculty development, library and laboratory upgrading, research and extension services, instructional materials and development and networking of existing COEs and CODs. Total funding assistance to COEs and CODs as of December 2002 amounted to P671.4 million sourced from the Higher Education Development Fund (HEDF). Initiatives to benchmark HEIs to global standards were undertaken. CHED facilitated the international training of 43 faculty members from various local universities and colleges and the country's membership in University Mobility in Asia and the Pacific (UMAP), which opened new windows of opportunities for Filipino students to study in Asia-Pacific countries. CHED also issued Memorandum Order (CMO) on the International Practicum Training Program in support of the ratification of UNESCO countries on Mutual Recognition of Degrees, Diplomas and Certificates.

Using information and communication technology as a tool for learning, CHED identified electronic or online learning (e-learning) as one of the components of distance education. It organized a consortium composed of 11 state universities and colleges (SUCs) and 7 private institutions offering Open Learning and Distance Education (OLDE) on degree and nondegree programs on agriculture, education, computer science, arts, social studies, maritime education, mass communication, and business administration, among others. The Commission also fully implemented the CHED-Information System Plan (ISP) called CHEDLINK, a five-year plan that aims to direct the application of IT in higher education programs that are supportive

to the needs of the global economy.

With the country as one of the more important sources for international seafarers, CHED collaborated with the Department of Labor and Employment (DOLE) in spearheading the signing of the memorandum of agreement (MOA) with the Philippine Seafarer's Union-ALU-TUCP to train apprentices, cadets and learners to become world-class seafarers according to set guidelines in the placement of seafarers. Meanwhile, 64 Maritime HEIs have complied with the International Maritime Education standards and are included in the International Maritime Organization (IMO) White List.

Culture Media, and Sports. The National Commission for Culture and the Arts (NCCA) finalized the Medium-Term Philippine Development Plan for Culture and the Arts (MTPDP-CA), 2002-2005 as well as the Philippine Cultural Education Plan (PCEP), 2003-2007 which provides direction in the development of cultural education in the country. To preserve intangible heritage, the NCCA maintained seven schools of living traditions, and continued to work with local governments for the restoration and rehabilitation of heritage sites including the Metropolitan Theater.

Sports activities were revitalized in 2002 to promote peace and unity and propagate excellence in sports. Among the programs implemented by the Philippine Sports Commission (PSC) are the "*Nasa Isports ang Bukas mo Bata*" for street children and migrant youths, the TOP-START program (Trainers and Officials Program Sports Training for Athletes) and the *Alay sa Gintong Medalya* Concert Series. The PSC entered into a Memorandum of Understanding (MOU) with the Cuban Ministry on a partnership program in sports science, coaching, training, transfer of research, information, and education.

The country joined the Asian Games and the Far East and South Pacific (FESPIC)

Games for the Disabled. Meanwhile, 40 local government units (LGUs) participated in the 2nd Mindanao Friendship Games held in Cagayan de Oro City in October 2002.

HEALTH

Health and Nutrition

Public Health Services. The treatment of tuberculosis (TB), polio, and measles were the major public health programs in 2002. The National Tuberculosis Control Program (NTCP) was implemented using the Directly Observed Treatment Short-Course (DOTS) in 78 provinces and 84 cities or a national coverage of 97 percent. TB case detection rate was at 53 percent while the success rate of the treatment was placed at 88 percent.

On child health, the number of children immunized against polio during the two rounds of the nationwide “*Balik Patak Kontra Polio*” campaign exceeded the 12 million target by 2.7 percent. The overachievement is attributed to intensive advocacy campaigns including the door-to-door strategy, and the mobilization of all sectors of society including local chief executives and nongovernment units (NGOs). Disease and possible death from measles were prevented among 99 percent of children 9 months to 8 years old through *Iwas Tigdas* 2002, which was conducted in the National Capital Region (NCR).

The DOH also actively participated in providing necessary health services and in ensuring immediate assessment and adequate, timely response to disasters and crises which includes: (a) deployment of doctors to Malaysia to assist the Filipino deportees; and (b) sending of a four-man team of doctors and nurses to Bali, Indonesia to extend assistance in the treatment of Bali bombing survivors. In addition, the DOH responded to several internal

crises and emergencies. In particular, the local health authorities held disease surveillance activities in evacuation centers during the Mayon Volcano eruption. Likewise, a resolution was issued to facilitate clean-up operations of the dumpsite during the chemical spill in Barangay Citrus, Sapang Palay, Bulacan.

Health Care and Regulatory Reforms.

To reduce the cost of medicines, the parallel drug importation program was expanded in 2002 through the GMA 50 (*Gamot na Mabisa at Abot Kaya*). Using parallel drug imports for 41 drugs including antihypertensives and antibiotics, prices were reduced by an average of 49 percent (the range is from 34% to 81% reduction). These medicines are sold in 72 DOH-retained hospitals and three provincial hospitals.

The DOH continued to introduce reforms in the hospital system to ensure quality health care. Four standard operating procedures and treatment guidelines for emergency room (ER) services have been developed, and integrated hospital operations and management program have been institutionalized.

Relatedly, the government focused its efforts on improving capacities for drug registration. To strengthen the capacity of the Bureau of Food and Drugs (BFAD) in ensuring quality of drugs, the renovation and upgrading of satellite laboratories in Davao and Cebu started. These improvements translated to a 10 percent reduction in processing time for initial product registration and 30 percent reduction in license renewals.

Meanwhile, to improve local health systems, the government provided P62.5 million to upgrade facilities in 13 LGU convergence sites in 2002 and an additional 16 sites in 2003. Likewise, it facilitated the establishment of 30 interlocal health zones¹.

¹ An interlocal health zone is composed of a core referral hospital and a number of primary level of care facilities wherein health care providers, communities and other stakeholders for health work together to provide quality, equitable and accessible health care.

Health Financing. Health insurance is essential to health care financing. For the period July 2001 to June 2002, a total of 649,956 urban poor families were enrolled in the National Health Insurance Program (NHIP), surpassing the 2001 State of the Nation Address (SONA) commitment of 500,000 urban poor families.

To encourage enrollment in the NHIP, benefit ceilings were increased by as much as 34 percent for drugs and medicines and 45 percent for x-ray and laboratory expenses. A total of 113 LGUs are implementing the NHIP outpatient diagnostic package.

Nutrition. Guided by the Philippine Plan of Action for Nutrition (PPAN), the National Nutrition Council (NNC) continued efforts to uplift the country's nutrition status. At the national level, the NNC undertook programs on breastfeeding, the adoption of standards on growth potential of children, and the adoption of desirable food and eating practices. With the support and commitment of the DepEd in the integration of nutrition education in school curricula, the Teacher-Child Parent approach of the program was adopted by 17,304 schools or 48 percent of the 36,000 public elementary schools in the country. The Child Nutrition Bill was also filed in the House of Representatives to institutionalize the school feeding program currently being undertaken by the DepEd and NNC in selected public elementary schools across the country. About 265,428 (63%) of the targeted public school children were reached by the food assistance program in mid-2002.

At the local level, efforts to arrest the rise in the prevalence of protein-energy malnutrition (PEM), iron deficiency anemia (IDA) and vitamin A deficiency (VAD) were undertaken through the following measures: (a) home and community food production (HCFP); (b) micronutrient supplementation and food fortification; (c) credit assistance for livelihood; (d) nutrition information and education; and (e) food assistance. Specific activities for

micronutrient supplementation included the provision of iron supplements to infants, pregnant and lactating women. Meanwhile, vitamin A supplementation gained wider coverage with the DOH's *Garantisadong Pambata* Project, which focused on under four-year old children.

To set in motion the implementation of RA 8979 or the Food Fortification Law, the Food Fortification Strategic Plan and the Implementing Rules and Regulations (IRR) were formulated. Among its activities is the nationwide market-to-market testing of iodized salt called "*Patak sa Asin*" that showed that 45.1 percent of salt sold in the market are iodized. However, despite an intensive campaign and high awareness on iodized salt (80-90% of households), utilization remains very low (25%). This could be attributed to the low production of iodized salt, high price, large importation of noniodized salt, and the slow response of local chief executives (LCEs) to enforce RA 8972 or the "Act for Salt Iodization Nationwide" (ASIN) Law. To address this gap, the House Oversight Committee on Health was convened to review the law following the issuance of the Joint NNC Governing Board (GB) and Salt Iodization Advisory Board (SIAB) Resolution No. 1, Series 2002 endorsing to Congress the report on the implementation of the ASIN Law, 1996-2001. The Resolution recommended a set of actions which include active enforcement of sanctions and the aggressive conduct of IEC campaigns. In addition, the DOH-BFAD also coordinated the review and revision of the IRR of the ASIN Law to strengthen the provisions on the sanctions for noncompliance. Furthermore, a strong advocacy campaign was pursued through press and radio conferences and use of posters and flyers for the utilization of iodized salt to eliminate iodine disorder.

To encourage LGUs to increase funding support for nutrition programs, NNC implemented an incentive and award system

where LGUs with outstanding support performance in local nutrition program management and implementation are conferred with the Nutrition Honor Award (NHA), Consistent Regional Outstanding Winner in Nutrition (CROWN) and CROWN Maintenance Awardees. Trophies and cash prizes are awarded to outstanding barangay nutrition scholars (BNS) to recognize their exemplary performance in the delivery of basic nutrition services to the people.

Population

Reducing population growth is a key development challenge. Guided by the Philippine Population Management Program (PPMP) 2001-2004, (Box 6.1), the government focused on addressing the unmet need for family planning (FP) of poor couples, and the sexuality and fertility information needs of adolescents and youths, especially among the poor.

To provide the policy framework for reproductive health and FP, the DOH issued the following administrative orders (AOs): AO No. 50 contains the National FP Policy refocusing the FP Program from a demographically driven program to a health intervention program and prescribing essential FP policies as elements of reproductive health (RH); AO No. 125, for its part, adopts the National Natural FP Strategic Plan 2002-2005 where policies, standards, strategies and activities needed to mainstream NFP methods within the National FP Program are underscored.

The government also started working strategically toward a multistakeholder collaboration approach that includes a partnership with the Catholic church on natural family planning (NFP). To get the support of stakeholders to the program, POPCOM organized various institutional activities such as the launching of the State of the World Population Report (SWPR), World Population

Day, and the annual celebration of the Population and Development (POPDEV) Week, LGU awards, National and Regional Population Congress, Media Professionals and LCEs Recognition Program, and the Rafael M. Salas POPDEV Award. On the other hand, the DOH organized activities to celebrate the annual National FP Day and the AIDS Awareness Month.

To mobilize resources to sustain the country's FP Program, POPCOM together with concerned agencies implemented the six strategic options of the Sustainable FP (formerly called the Contraceptive Interdependence Initiative or CII) Action Agenda namely: (a) ensure presidential and congressional articulation of support to the population and RH/FP programs; (b) ensure domestic funding for contraceptives; (c) institutionalize a mechanism to ensure contraceptive supply across all sectors; (d) ensure continued donor support; (e) increase the participation of NGOs; and (f) expand the participation of the private/commercial sector. Accomplishments so far include the approval of the expansion of the existing Social Marketing Project through the procurement of additional contraceptives, and the filing of the "Integrated POPDEV Act" and the "Reproductive Health Care Act of 2002" in both the Houses of Congress.

The country participated in the 5th Asian and Pacific Population Conference (APPC) last December 2002 in Bangkok, Thailand reaffirming the Philippines' support to the population policies espoused in the Bali Declaration on Population and Sustainable Development, International Conference on Population and Development (ICPD) Programme of Action and the Millennium Development Goals (MDG). These included: (1) respect for life which entails no abortion; (2) informed choice of family size, birth spacing and FP method which are in accordance with the couple's conscience, religious and cultural beliefs; and (3) responsible parenthood (RP).

Box 6.1**PHILIPPINE POPULATION MANAGEMENT PLAN (PPMP)**

The Philippine Population Management Program Directional Plan (PPMP-DP) for 2001-2004 serves as the blueprint for all programs and projects geared towards attaining a rational population growth that is supportive of sustainable development. The Population Program seeks to help couples and individuals achieve their desired fertility of 2.7 by 2004 and improve their reproductive health. The Program has four components: Reproductive Health/Family Planning, Adolescent Health and Youth Development, Population and Development Integration, and Resource Generation, Programming and Mobilization. A plan to carry out population advocacy efforts more efficiently and effectively at all levels is also included.

The RH/FP component aims to assist couples/parents achieve their desired family size within the context of responsible parenthood for sustainable development. Adolescent Health and Youth Development ensures that adolescents are provided with scientific and policy-consistent information, knowledge, education and services on population and RH. The Population and Development Integration component provides for the integration of the population variables, with emphasis on migration and urbanization, into development policies, plans and programs at all levels. Support mechanisms and technical assistance to facilitate data-based policy formulation at all levels will be established and provided. And lastly, the Resource Generation, Programming and Mobilization component will ensure the sustainability of the program by developing/identifying alternative methods of financing.

To integrate population variables in planning at all levels, particularly in the LGUs, the National Statistical Coordination Board (NSCB) approved 27 POPDEV indicators that will be collected and updated periodically by various national agencies and institutions through surveys and statistical reports. These indicators will be used for local policy formulation, planning, and monitoring as well as for determining the level of development in the local governments. Relatedly, POPCOM continued to maintain a web page, which made storage, retrieval and dissemination of population related data/information possible. The Demographic and Socio-Economic Indicators System (DSEIS) manual was finalized, installed and pre-tested in the POPCOM Central Office and in selected regions (Regional Population Offices II, VI and XII). The 27 POPDEV indicators were integrated in the NPDIS.

HOUSING**Assistance and Security of Tenure for Informal and Low-Salaried Workers**

Government housing agencies and financial institutions implemented programs in support of the Administration's goal of providing decent shelter especially for the poor. Notwithstanding these programs, only around 198,731 beneficiaries in both the formal and non-formal housing sectors benefited from the housing assistance programs as of November 2002 compared to 221,483 households in 2001. This brings the accomplishment rate in 2001-2002 to approximately 70 percent of the 600,000 target beneficiaries for the period. One reason for the modest accomplishment in 2002 is the underutilization of funds for the program; the assistance amounted to only P9.6 billion compared to the available resource of P20 billion. The low utilization rate is attributed to

TABLE 6.2 Housing Sector Target vs. Accomplishment: 2001-2002

PROGRAM	TARGET NO. OF HOUSEHOLDS	ACCOMPLISHMENT			% ACCOMPLISHMENT
		2001	2002 (JAN-NOV)	TOTAL 2001-2002	
A. Socialized Housing: Non-Settlers	170,000	56,025	70,824	126,849	74.62
B. Formal Sector	160,000	37,899	43,594	81,493	50.93
C. Provision of Security of Land Tenure to Urban Poor Settlers	270,000	127,559	84,313	211,872	78.47
TOTAL	600,000	221,483	198,731	420,214	70.04

Annualized Medium-Term Philippine Development Plan 2001-2004 Targets
2002 data covers the period January to November
Source of basic data: Housing and Urban Development Coordinating Council (HUDCC)

the relatively high cost of housing despite measures to lower the cost of borrowing and lengthen the payment period (see next section).

On providing security of tenure especially for the urban poor, a total of 19 Presidential issuances and proclamations declaring certain public lands as alienable and disposable for housing purposes were signed by the President in 2002. This translates to approximately 20,906.14 hectares of public land, which benefited about 91,260 urban poor families. At the same time, the government initiated steps to address the problem of professional squatting by issuing EO 53 (signed December 16, 2002) entitled, *Instituting the National Drive to Suppress and Eradicate Professional Squatting and Squatting Syndicates*. The Housing and Urban Development Coordinating Council (HUDCC) was tasked to take the lead in identifying professional squatters and squatting syndicates and to curtail their activities.

Creating A Sustainable Housing Finance System

The government continued its efforts to increase access to housing finance and reduce the cost of borrowing following the general downtrend in interest rates in 2002. Moreover,

loan ceilings for socialized and low-cost housing were increased to keep pace with the general increase in prices. The loan ceiling for socialized housing was raised to P225,000 from P180,000, while the maximum ceiling for low-cost housing under level 2 was increased to P2 million from the previous ceiling of P225,000. The inclusion of a 2-level package under the low-cost housing ceiling is intended to expand eligibility of banks under RA 7835, which provides that all unused agri-agra allocation funds from banks in the preceding year should be invested in socialized and low-cost housing with loans of up to P2 million eligible for the rediscounting facility of the *Bangko Sentral ng Pilipinas* (BSP).

The loan to collateral value ratio was likewise increased. Loans of over P500,000 can be availed of equivalent to 90 percent of the collateral. The loan term for loans over P500,000 was also extended from 20 to 25 years. The equity requirements for loans up to P500,000 were also dropped.

To make its housing loans more affordable to its members, the HDMF or Pag-IBIG also reduced its interest rates from 9-16 percent to 6-12 percent. The reduction in HDMF rates followed the general downtrend in interest rates in 2002, spurred by falling T-bill rates (see Chapter 1).

TABLE 6.3 Loan Ceiling of Housing Packages

HOUSING PACKAGE	LOAN CEILING (P)	
	PREVIOUS	NEW
Socialized	180,000 and below	225,000 and below
Low-cost	180,000 - 225,000	Level 1 225,000- 500,000
Economic	225,000 - 500,000	Level 2 500,000- 2 M

Source: HUDCC

The National Home Mortgage and Finance Corporation (NHMFC) continued its Community Mortgage Program (CMP) and provided financial assistance to organized community associations in depressed areas through land acquisition loans, site development, and house construction/improvement. The CMP, as of November 2002, benefited 18,320 families with loans totaling P 598.05 million.

The government financial institutions (GFIs) which include the Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), Government Service Insurance System (GSIS) and the Social Security System (SSS) also extended a total of P2,369.84 million in housing loans which covered 7,293 housing units for the period January to October 2002.

TABLE 6.4 Interest Rates of Housing Packages

HOUSING PACKAGE	LOAN AMOUNT (P)	INTEREST RATE (%)
Socialized	150,000 and below	6
	150,000 - 225,000	9
	225,000 - 500,000	10
Low-Cost	Over 500,000 - 2,000,000	12

Source: HUDCC

For the period January-October 2002, Pag-IBIG released a total of P5,564.73 million equivalent for 37,823 housing units broken down as follows: Socialized Housing Program – P736.46 million for 4,911 housing units; End-user Financing¹ – P2,650.51 million for 7,921 housing units; and Development Loan Financing² – P2,177.75 million for 24,991 housing units.

Housing guaranties totaling P6,138.86 million were extended by the Home Guaranty Corporation (HGC) for 16,992 housing units: P5,475.50 million or 11,726 units under the Retail Guaranty line; P220.07 million or 2,291 units under the Developmental Guaranty line; and P443.29 million or 2,969 units under the Cash Flow Guaranty. The HGC also raised P7.0 billion from the capital market through the flotation of HGC Zero Coupon Bonds.

¹ End-user Financing – housing loans provided to homebuyers

² Development Loan Financing – loans extended to developers for subdivision development

For its part, the National Housing Authority (NHA) constructed 19,341 housing units (start-up and completed).

SOCIAL WELFARE AND DEVELOPMENT

Social Assistance

Social Assistance Programs. The Comprehensive and Integrated Delivery of Social Services (CIDSS) is a major program of the Department of Social Welfare and Development (DSWD) to help disadvantaged families and communities in all 5th and 6th class municipalities meet their minimum basic needs. In 2002, only 74 percent of the targeted 3,054 barangays in 79 provinces was covered by CIDSS, although more communities were helped in these barangays. One reason for the shortfall is the transfer of CIDSS to LGUs in 456 municipalities to achieve program sustainability and community ownership and responsibility.

The Self-Employment Assistance–*Kaunlaran* (SEA-K) program benefited a total of 23,309 member families (80.2% of the target), through the SEA-K associations, and 446 member families (13.6% of target) through 12 KABAYANs (*Kabuhayan* and *Kabahayan* Livelihood and Shelter). The decrease in outreach from 2001 to 2002 is due to the following reasons: (a) the transfer of funds from the associations to the regions which resulted in the latter concentrating more on collecting from existing associations rather than on reaching additional beneficiaries; and (b) generally weak capability among the potential beneficiaries to form a KABAYAN. Focus was also given to building up of regional capability in managing the KABAYANs.

The Promotion of Rural Employment through Self-Employment and Entrepreneurship Development (PRESEED) of DOLE reached only 82.5 percent of its targeted beneficiaries. Moreover, the number

of beneficiaries decreased to 9,025 beneficiaries in 2002 from 10,282 beneficiaries in 2001. The decrease can be attributed to the shift from self-employment to wage employment of target beneficiaries. One noteworthy development is the increase in employment absorption of graduates from 53 percent in 2001 to 56 percent in 2002. The program provides self-employment opportunities among rural workers and their families through entrepreneurship training, credit, and technical assistance (see Chapter 2).

Meanwhile, the Youth Entrepreneurship Program (YEP) of the National Youth Commission (NYC) only achieved 30.7 percent of its target due to budgetary and implementation problems.

There was, however, a significant accomplishment in terms of providing microfinancing. The People's Credit and Finance Corporation (PCFC) served a cumulative total of 791,099 borrowers since July 2001 or 150 percent of the target. In relation, SONA Year 1 (July 1, 2001 – June 2, 2002) targeted new microfinance enrollees totaled 312,129 exceeding the SONA target of 300,000 new women borrowers. For the first 6 months of SONA Year 2 (July 2, 2002 – December 2, 2002), the number of beneficiaries reached a total of 204,356 in 78 provinces out of the targeted 79 provinces.

Kapit-Bisig Laban Sa Kahirapan. In line with the Administration's goal of winning the war against poverty within the decade, the government intensified the implementation of the *Kapit-Bisig Laban sa Kahirapan* (KALAH) in 2002. The KALAH is the administration's overall service delivery program for poverty reduction. It has five core strategic thrusts namely: (a) asset reform (land security and access to productive resources); (b) human development services (continued and expanded access to basic social and human development services); (c) livelihood and employment opportunities (capital and credit,

**TABLE 6.5 Social Welfare and Community Development Indicators:
Accomplishments vs. Targets**

MTPDP INDICATORS	2001			2002		
	ACTUAL	TARGET	ACCOMPLISHMENT RATE (%)	ACTUAL	TARGET	ACCOMPLISHMENT RATE (%)
Social Assistance						
No. of Barangays covered by CIDSS	2,968	2,425	122.40	2,256	3,054	73.90
No. of Urban poor communities with CIDSS	100	100	100.00	190	150	126.60
No. of new entrepreneurs under the YEP	101	105	96.00	43	140	30.70
No. of Beneficiaries under the PRESEED	10,282	10,442	98.46	9,025	10,943	82.50
No. of member families benefited by SEA-K						
- Associations	24,422	26,411	92.50	23,309	29,052	80.20
- <i>Kabayan</i>	956	2,983	32.00	446	3,281	13.60
PCFC clients served (since June 2001)	482,243	391,295	123.00	791,099	520,423	152.00
Social Security						
Membership (new entrants)	1,124,110	938,755	119.70	978,670	951,916	102.80
Contributions (in Pbillion)	31.37	32.48	96.60	34.14	38.11	89.60
Earnings (in Pbillion)	14.24	13.61	104.50	11.63	14.50	80.20
Return on Investments (%)	8.10	8.20	98.80	7.69 (Nov.)	8.60	89.40

Sources: Department of Social Welfare and Development (DSWD), National Youth Commission (NYC), Department of Labor and Employment (DOLE), People's Credit and Finance Corporation (PCFC), and Social Security System (SSS).

production, technology, markets and basic infrastructure for poor communities); (d) social protection and security from violence (social safety nets, social insurance and peace-building/conflict resolution); and (e) participation of the basic poor sectors in policy making.

KALAHl programs and projects were implemented and completed in 265 barangays in 151 cities and municipalities throughout the country. In each barangay, about 150 families in far-flung *sitios*/areas and about 1,000 families in the urban barangays were served during the KALAHl Community Days. Regional line agencies, local government units (LGUs), Congress representatives, the private sector and non-government organizations (NGOs)/people's organizations (POs) converge in KALAHl communities and provide financial resources or undertake programs that meet basic needs.

Meanwhile, the World Bank (WB)-funded *Kapit Bisig Laban sa Kahirapan*-Comprehensive and Integrated Delivery of Social Services: *Kaunlaran at Kapangyarihan sa Barangay* (KALAHl-CIDSS: KKB) project is an innovative program that focuses on empowering the poorest barangays and sectors in communities by addressing pressing problems while working towards long term solutions. Barangays get involved in participatory planning, implementation and management of local development activities, and formal and informal institutions are strengthened to become more inclusive, accountable and effective.

The KALAHl-CIDSS: KKB project was pilot-tested in Dolores, Quezon. The Rapid Poverty Mapping Project was implemented in 2002 to determine the poverty rankings of municipalities/cities by province, which will be used for poverty reduction target-setting.

Phase 1 of the nationwide implementation will start in January 2003 and will cover the first 11 poorest provinces based on the result of the survey.

Assistance to Specific Vulnerable Groups. In 2002, the DSWD served a total of 1,892,289 individual clients through its community-based programs and services, special projects and operations of residential and nonresidential centers and institutions. These included 1,830,664 children, 10,209 youth, 41,691 women, 7,892 persons with disabilities, and 1,833 senior citizens.

To enhance its delivery of services, DSWD granted licenses to a total of 152 NGOs involved in community and center-based services for children and youth to operate as a social welfare agency. These NGOs represent 100 percent of the total applications assessed for licensing during the said period. A total of 2,368 day care centers/day care workers (DCCs/DCWs) and 17 centers/institutions were also accredited.

The Council for the Welfare of Children (CWC) focused its efforts on strengthening the capacities of LGUs particularly in localizing the CHILD 21 program, a child-rights and life-cycle based local development and investment plan for children. It facilitated the conferment of Presidential awards to 12 child-friendly LGUs and strengthened the capabilities of the National Indigenous People, Children and Youth Federation. Meanwhile, the World Bank (WB) and Asian Development Bank (ADB)-funded Early Childhood Care for Development (ECCD) project provided services to a total of 1,673 barangays in 13 provinces benefiting 1,759,226 children. The ECCD was designed to supplement the LGUs' resources meet the needs of 0-6 year-old children on essential health, nutrition, psychosocial development and early education services. The mechanisms for the pilot implementation of RA 8980 (ECCD Act) were also set up in priority regions (Regions 5, 8, 9 and NCR).

The Vulnerable Group Facility (VGF) facilitated the provision of the following services to the vulnerable groups: (a) rice and educational supplies for street and urban working children (SUWC) attending formal and nonformal education activities, livelihood activities for parents of SUWC and construction of social development centers in 25 cities nationwide; (b) health, nutrition, small infrastructure and other projects that addressed minimum basic needs in 524 barangays in 24 provinces across 6 regional areas of Mindanao including the ARMM; and (c) introduction of new teaching strategies and materials used in the Restructured Basic Education Curriculum.

On gender and development, the National Commission on the Role of Filipino Women (NCRFW) continued to monitor the submission of compliance reports on the gender and development (GAD) budget policy. It also continued to promote awareness on the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW) provisions through printing and distribution of advocacy materials. With support from the United Nations Development Program (UNDP) and the Canadian International Development Agency (CIDA), GAD-related tools were also published to harness the capability of government agencies in gender-responsive planning, policy formulation, program development and implementation, monitoring and evaluation.

DOLE also led the adoption of the International Labor Organization (ILO) Decent Work Framework Document for the Philippines, which is built on four major objectives namely: employment creation, labor standards, social protection, and social dialogues and tripartism. The implementation of the framework as outlined in a three-year Decent Work Program is intended to further strengthen the government's strategies on employment generation, facilitation, enhancement and preservation. Meanwhile,

the Philippine Time-Bound Program (PTBP) for the Elimination of Child Labor was launched outlining the government's program to eliminate child labor in the Philippines. The United States (US) DOLE provided a \$10-million fund assistance to support PTBP initiatives and its education component.

Initiatives to promote the welfare of persons with disabilities (PWDs) were undertaken, which include: (a) implementation of the Legal Assistance Program within the National Council on the Welfare of Disabled Persons (NCWDP) for the protection of the rights of PWDs and other legal issues that impede the Council's operations; (b) continued promotion of the establishment of an Office for Persons with Disability Affairs (OPDA) at the local level; (c) strengthening of the special monitoring team to monitor buildings and establishments for public use in compliance with the Accessibility Law; (d) the TAWAG or "*Tulong Aral Walang Sagabal*" which provided continuing services to children and out-of-school youths with disabilities to enhance their physical, social, mental and psychological functioning for integration into day care services, special/regular schools or into the community life; (e) provision of trainings and employment through the "*Tulong Alalay sa Taong May Kapansanan*" (TULAY), National Vocational Rehabilitation and Area Vocational Rehabilitation Centers strategically located nationwide, and the Rehabilitation sheltered Workshop; (f) conduct of safety regulation programs through the Occupational Safety and Health Center (OSHC) for the prevention of accidents in workplaces and occupational disabilities; and (g) strengthening of Management Information System within NCWDP as a disability resource center on the demographic, social and economic data of PWDs.

Meanwhile, two Ancestral Domain Titles, one in Bakun, Benguet and the other in Lanuza, Surigao del Sur were awarded to indigenous

people (IP). In Bakun, the title covered a land area of 29,444.35 hectares benefiting the Kankanay-Bago Tribe while in Lanuza, 11,811.6 hectares of land were awarded benefiting the Manobo tribe. Cultural mapping of IP Communities in Regions 1, 2, 3, and 6, and 7, and identification, survey and delineation in Regions 1, 2, 3, 5, 6, 7, 9, 10, 11, 12, and 13 were also undertaken. To improve access of IPs to economic opportunities, 11 IP cooperatives were organized in coordination with the Cooperative Development Authority (CDA). Various programs in infrastructure, education, health, nutrition, and special programs for IP vulnerable groups were also implemented. To enhance and strengthen the role of the IPs in governance, 104 tribal councils were strengthened and/or organized. Legal assistance services were also extended to provide protection and security to the IPs.

On government's efforts to respond to and mitigate disasters and calamities, the DSWD through its Disaster Response Augmentation Program, provided financial augmentation support to LGUs for relief and rehabilitation assistance to victims of disaster. In 2002, the Department provided P18.68 million to LGUs, serving 449,518 families or 52 percent of 864,432 families (4,034,786 individuals) affected by armed conflict in Mindanao, typhoons, flashfloods, big waves and deportation. Out of the accounted 19,169 Filipino deportees from Sabah, 16,104 or 84.01 percent were served. The National Disaster and Coordinating Council (NDCC), meanwhile, embarked on various capacity building initiatives to improve their capability to immediately and effectively respond to disaster by (a) implementing the full regionalization of the Office of Civil Defense as the operating arm and secretariat of the NDCC; (b) the establishment of a system to facilitate the expeditious entry of international search and rescue groups, equipment and emergency relief items, as well as solicitation of donations from

the international community for victims of disasters; (c) provision of remuneration for disaster response workers; and (d) the institutionalization of Information and Communications Technology (ICT) - based applications for the country's disaster management system.

Social Security

New members covered by social security reached 978,670, exceeding the target new membership of 951,916 but lower than the 2001 accomplishment. There was a slowdown compared to 2001 because of the higher priority given to increasing collection efficiency of contributions of present members rather than expanding membership.

The government took steps to increase access of workers to social security facilities. The SSS, in partnership with the DOLE and accredited banks, also piloted a daily deposit-remittance scheme which allows an informal sector worker to open a special savings account with the pilot bank under preferential terms and conditions (e.g., lower initial deposit and maintaining balance, minimal service fee) and to make daily nominal deposits which shall be cumulated for his monthly social security contributions. This program is expected to provide greater access of informal sector workers to the social security benefits, many of whom cannot afford a one-time payment of their monthly SSS contributions. In November 2002, the SSS and the Government Service and Insurance System (GSIS) signed an agreement with Spain to provide adequate social security protection for overseas Filipino workers (OFWs) who have paid contributions in either country.

With the adoption of the United Nations General Assembly Millennium Declaration, which embodies specific targets and milestones in eliminating extreme poverty and worst forms of human deprivation in September 2000, the

Philippine government, through the Multi-sectoral Committee on International Human Development Commitments (MC-IHDC) of the NEDA Board Social Development Committee (SDC) led the preparation of the first Philippine Progress Report on the Millennium Development Goals (MDG). The process benefited from a series of consultations with our various partners in the socioeconomic development field, such as the National Forum on the Philippine Country Report on the MDG, and Social Development Committee-Cabinet Level and Technical Board.

Social Safety Nets

Basic food commodities were made available through various propoor programs of the administration, such as the *Tindahan ni Gloria Labandera* Rolling Stores (TGL-Rolling Stores), the Targeted Rice Distribution Program (TRDP), and the *Bigasan ni Gloria sa Palengke* (BGP). Priority areas classified as highly depressed were also identified as target beneficiaries of these propoor programs. The National Food Authority (NFA) distributed a total of 1,163,165 metric tons of rice nationwide in 2002, 56 percent higher than in 2001. It also released 44,974 bags of rice to various relief institutions for distribution to calamity victims. The rolling stores were deployed to 115 hotspot areas on a daily basis of which, 80 hotspot areas are located in Metro Manila. Fifteen barangays were specifically identified by the President in Manila (5), Quezon City (3), Mandaluyong City (2) and Pasay City (2), Taguig (1), Caloocan City (1), and Pasig City (1). As of December 15, 2002, 1,320 TGL-Rolling Stores were accredited by NFA and operated by its participating partners while a total of 205 rolling stores were directly operated by NFA. As of the year-end, 2,851 TRDP outlets have served some 424,683 targeted beneficiaries, with a total sales of

P21.6 million. This program reached 96.72 percent of 250,000 targeted families in the first batch and 82.34 percent of 222,000 targeted family beneficiaries in the second batch (expanded TRDP). The TRDP sold rice at P14.00/kg only to beneficiaries identified by the DSWD as the poorest of the poor in three mega cities (NCR, Cebu, and Davao) and 20 provinces.

The BGP was launched on July 24, 2002 to strengthen the NFA's distribution effort and ensure the availability, accessibility and visibility of NFA rice stocks at any given time. As of December 31, 2002, there were 1,670 BGPs in 856 cities and municipalities, which served some 2,102,398 customers.

PROSPECTS AND POLICY DIRECTIONS FOR 2003

Education. For basic education, the DepEd shall continue to strengthen the reforms adopted in 2002 to further improve the quality and increase access to elementary education. Focus will be on accelerating the decentralization process, especially on school-based management.

For middle level skills development, TESDA will conduct an assessment and certification study mission in countries where demand for skilled Filipino workers is high and will enhance the system for assessment and certification for overseas bound workers. It will undertake more public awareness programs. It will also strengthen partnerships with LGUs, business sector, NGOs and other partners particularly in expanding the implementation of the Dual Training System (DTS) which has not yet reached a nationwide coverage as envisioned by the Dual Training System Act of 1994 (RA 7686).

On higher education, CHED will continue to pursue the key policies stated in the Medium-Term Higher Education Development and Investment Plan (MTHEDIP) 2001-2004,

which are: (a) upgrading of HEI programs and standards towards global competitiveness; (b) ensuring labor market responsiveness of higher education; (c) rationalizing and expanding student financial assistance; and (d) rationalizing SUCs' programs and resource allocation. CHED will continue to advocate the moratorium on the creation of new SUCs to stop the ballooning share of SUCs in the education budget. As a tool for local productivity enhancement and promoting poverty alleviation, the extension programs of SUCs will be revitalized in partnership with the Departments of Tourism, Agriculture, and Health.

In culture and arts, the focus will be on promoting cultural tourism. In sports, the PSC will strengthen its role as the vanguard of a sustainable sports development by formulating a Master Plan for Philippine Sports.

Health. Programs on health and nutrition will be strengthened to meet the MTPDP targets which are also in line with the country's commitments under the Millennium Development Goals. On child health, nationwide immunization coverage for children ages 9 months to under-five years will increase to 90-95 percent, and make measles elimination possible. Likewise, there will be an increase of 90 percent in the percentage of government health facilities providing regular measles immunization. The Food Fortification Law will be enforced and advocacy campaigns on nutrition will be intensified to reduce the prevalence of micronutrient deficiencies.

The government will pursue with greater vigor, the *Operation Timbang* (OPT) and micronutrient supplementation and other local nutrition programs to meet the goal of reducing by half the number of underweight children by 2015. The implementation of the ASIN and the Food Fortification Laws will be strengthened. On infectious disease control, the coverage of Directly Observed Treatment Short-Course (DOTS) will be expanded to

attain the global target of 70 percent case detection and the 85 percent success rate will be maintained.

The NHIP will also strengthen its advocacy to encourage more LGUs to provide counterpart contribution for premium subsidy. The GMA 50 will also be strengthened to make medicines more available. The delivery of health services will be improved by adopting standards of Affordability, Quality and Accessibility (AQUA) on health services and products.

The Family Planning Program will be strengthened and refocused as a health intervention program, rather than as means for population control. NFP will be promoted and encouraged, while all services will be provided—both natural and artificial—from which couples can freely choose. This will include services for voluntary surgical sterilization (VSS) of older age groups with completed families. Contraceptives will likewise be provided from the resources of various donor and partners.

On healthy lifestyle, the smoking cessation program will be anchored on the Framework Convention for Tobacco Control, which is expected to be signed in May 2003 in Geneva and to be subsequently ratified by the Philippine Senate as the country's Tobacco Control Law.

The Bureau of Food and Drugs will be restructured to improve food and drug regulatory capacity and capabilities, thereby increasing access to safe and high-quality food and drugs.

Moreover, the government will work for a common ground with the Church on Reproductive Health and promotion of scientific NFP; parent education on Adolescent Reproductive Health; and Migration Information Center as well as with women's organizations on gender equality; male participation and shared responsibility; and reproductive rights (in the Philippine context).

Advocacy for domestic funding for modern FP methods will be explored through:

(a) national funding/procurement; (b) PhilHealth Coverage; (c) LGU financing/procurement; (d) private sector procurement; and (e) Human Ecological Security (HES), among others.

Finally, a mechanism will also be set in place for localized implementation of population policies through ordinances and resolutions, programs and projects.

Housing. The government will continue to implement programs to provide assistance to 600,000 families by 2004.

Access to housing finance will be expanded by allocating more funds for the construction of housing from P20 billion in 2001-2002 to P27.35 billion for 2002-2003, sourced from the social security institutions, NG and LGUs.

A comprehensive in-city or near-city relocation program for informal settler families occupying "danger" areas, particularly those along the north and south rails and priority *esteros* will be implemented. The relocation efforts will be supported with the necessary economic, social, cultural interventions in close coordination with concerned agencies. At the same time, efforts to prosecute professional squatter syndicates will be intensified.

The government will continue to simplify the process for securing housing permits, housing loan applications, and requirements for developmental financing for housing developers and end-user financing for homebuyers and families. This is seen to increase the utilization of loan facilities that are being offered by the government.

The government will continue to advocate the passage of legislation on: (a) creation of the Department of Housing and Urban Development; (b) creation of Local Housing Boards in Cities and Municipalities; and (c) National Land Use Code.

Protecting Vulnerable Groups. In 2003, the KALAHI program is expected to benefit from the commitment of the NAPC *en banc*.

The NAPC *en banc*, which is chaired by the President, and its interagency task forces, will undertake the following policies: (a) fasttracking of the thrust of granting land and housing security to urban poor; (b) provision of livelihood and social protection programs/assistance to coconut farmers; (c) promotion of welfare protection for the workers of the informal sector (WIS); and (d) effective stoppage of child labor and curtailing of child recruitment by rebel groups, among others. The efforts will be geared towards implementing KALAHATI on a nationwide basis with the assistance of the World Bank and the ARMM Social Fund.

Microfinance programs will be expanded with a target of new 1 million active borrowers by the end of 2003. A proposal for a second phase of the ADB-funded Rural Microfinance Project to augment funds of the project's first phase (by relending funds to microfinance institutions) shall be formulated.

Policies, programs and other initiatives for PWDs will be intensified with the implementation of the provisions of the *Biwako* Millennium Framework for Action Towards an Inclusive, Barrier Free and Rights Based Society for PWDs in Asia and the Pacific, and Proclamation No. 240 declaring 2003-2012 as the Philippine Decade of PWDs.

Social insurance institutions will reach out to more beneficiaries. SSS will continue to expand its coverage for both formal and informal sector workers as well as improve delivery of services. Among the innovations it plans to implement are: (a) setting up mobile registration and ID capture stations in malls, markets, universities and barangay halls; and (b) enrollment of employees and self-employed (SE)/voluntary members (VMs) in the Electronic Data Interchange (EDI) and Automatic Debit Arrangement (ADA), respectively, that will automatically remit their SSS contribution and loan payments. The SSS will recommend to the President an increase

in the contribution rate from 8.4 percent to 9.4 percent to be shouldered entirely by employers in order to fully support the present employee benefit structure, and to provide a higher level of investible funds for SSS to further improve its operational efficiency. It will also study the effectiveness and efficiency of establishing a separate social security benefits package for informal sector workers. The New Disability Program will be implemented wherein internationally accepted standards and definitions will be adopted.

GSIS will seek to further improve its efficiency and effectiveness in dealing with customers, and improve its processing time and backlog. It shall also improve its service delivery through the enhancement of structure and expansion of service outlets and the use of banking facilities for premium remittance and benefit and loan payments. Raising awareness among members of GSIS of the benefits and services as well as their obligations shall also be pursued.

Chapter 7

Regional Development With Peace and Prosperity in Mindanao

Balancing the uneven pace of development across regions is crucial to the government's overall development agenda (see Box No. 7.1).

For the past two years, government programs have been directed at encouraging the growth of urban centers outside of Metro Manila and addressing the problems attendant to Metro Manila's development such as traffic congestion and solid waste. LGUs' capacity as economic units was enhanced to enable

them to catalyze local development. In support of planning for local development, measures that would expand the establishment of a well-coordinated local statistical system were likewise pursued.

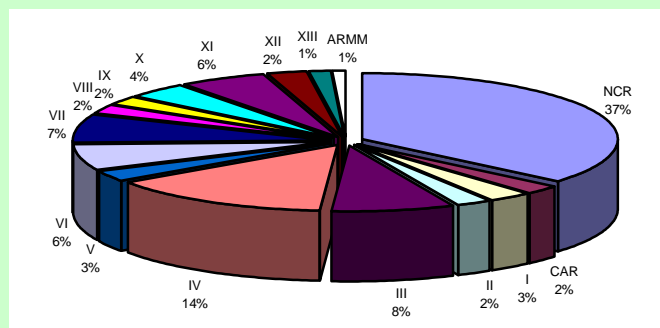
Special focus has been given to the conflict-affected areas in Mindanao through peace- and confidence-building efforts, and through programs that address the immediate socio-economic needs of the population and accelerate growth in the area.

Box 7.1

DISPARITIES IN THE LEVELS OF DEVELOPMENT AMONG REGIONS

The disparities in regional shares to Gross Domestic Product (GDP) reflect the uneven development across regions. Among the country's 17 regions, Metro Manila accounts for the bulk of the overall economic production. In 2001, it accounted for about one-third of GDP. Its three adjoining regions, Regions 3 and 4A and 4B, whose proximity to Metro Manila allowed them to benefit from the latter's development, have the next largest shares. In fact, these four regions account for more than half of the national output (58%).

FIGURE 7.1
Percent Share to 2001 GDP by Region
(At Current Prices)



On the other hand, Regions 7, 6, and 9 had GDP shares ranging from six to seven percent. The rest of the regions lagged much behind with GDP shares of four percent or less. Those with the least contribution to the national economy include the conflict-affected areas in Mindanao such as the ARMM and Regions 9 and 12.

GOVERNMENT PROGRAMS

Despite regional disparities, all regions recently recorded economic growth while some had managed to achieve even faster growth (see Box No. 7.2). Programs on agriculture, industry and services put in place by the government contributed to their economic performance and at the same time, addressed the uneven level of development across regions. Major infrastructure projects, for instance, were stepped up to promote greater development outside of Metro Manila while affirmative programs were implemented in conflict-affected areas to boost their socio-economic situation.

Transportation Networks for the Physical Integration of Regions. The implementation of transportation networks leading northwards to Subic-Clark and southwards to Calabarzon and Batangas Port

started in 2002. Preparatory activities for the Northrail project which will link Clark and Manila have been undertaken. These involved the completion of the review of the feasibility study, terms of reference for site preparatory works, geodetic survey of the right-of-way and land acquisition and selection of security services. Initially this will cover the areas of Caloocan to Malolos, Bulacan. On the other hand, project preparation activities for the construction of the North Luzon Expressway Extension have been completed and construction is scheduled to commence on February 15, 2003. The South Luzon Tollway is also in progress with the finalization of the bidding activities and loan arrangements for the Calamba-Sto. Tomas Road and Lipa-Batangas City Road.

The construction/rehabilitation of roll-on/roll-off (RORO) ramps, construction of passenger terminal buildings and improvement

Box 7.2

2001 REGIONAL ECONOMIC PERFORMANCE

In 2001, the levels of Gross Regional Domestic Product increased in all regions. However, with the deceleration of GDP growth from 4.4 percent in 2000 to 3.2 percent in 2001, economic growth in 13 of the country's 17 regions slowed down (Table 7.1). Only Regions 1, 5, 8, and 10 experienced faster growth, drawing much of their strength from agriculture and services.

Agriculture and services sectors remained resilient in all regions, but industry generally weakened. In agriculture, the highest growth rates were recorded in Region 3 at 12.7 percent, followed by CAR and Region 5. In services, the National Capital Region (NCR) posted the fastest growth at 5.2 percent as a result of the expansion in its transportation, communication and storage subsectors. Meanwhile, industrial output contracted in the conflict-affected areas in Mindanao (Regions 9, 12, ARMM) and also Regions 1, CAR and 13. Region 2 recorded the strongest growth (11.8 %) owing to the expansion of the construction subsector.

TABLE 7.1 Gross Regional Domestic Product*

Region	2000	2001			
		TOTAL	Agriculture	Industry	Services
Phils.	4.4	3.2	4.0	1.3	4.4
NCR	5.8	3.7	-	1.2	5.2
CAR	1.3	0.7	9.8	(1.9)	3.1
I	2.7	3.1	4.5	(2.8)	4.0
II	2.9	2.7	0.4	11.8	2.0
III	5.0	3.9	12.7	0.1	2.7
IV (A and B)	3.5	2.8	0.2	2.7	4.7
V	1.5	4.5	7.4	3.5	3.0
VI	3.0	2.7	1.5	1.8	4.1
VII	6.3	4.4	5.5	2.7	5.2
VIII	1.6	2.5	5.5	0.1	2.2
IX	3.3	0.6	0.9	(5.5)	2.9
X	4.0	5.0	6.8	3.8	4.7
XI	4.6	2.1	0.8	2.7	2.9
XII	3.3	2.1	3.5	(0.9)	4.4
XIII	9.1	1.5	3.5	(3.6)	4.3
ARMM	(1.2)	2.5	6.2	(10.9)	0.5

* 2002 figures will be available by July 2003.

Source: NSCB

works in the ports of Aparri; Tubigon, Bohol; Hilongos, Leyte; Cagayan de Oro; and Zamboanga were likewise undertaken in 2002. Furthermore, as part of the plan for an intermodal link, the President Diosdado Macapagal Agro-Tourism Highway, also known as the Western Seaboard Intermodal Link Project, will complement the Pan-Philippine Highway RORO Ferry Terminal on the eastern seaboard.

Traffic and Solid Waste Management.

The MMDA executed measures to address the traffic problems in Metro Manila through the deployment of more traffic personnel. As of January 2003, a total of 861 PNP personnel were assigned in different traffic districts. The current number of traffic personnel is projected to reach 1,200 by the end of 2004. The implementation of the Small Scale Traffic Improvement Measures (SSTRIM) was completed in November 2002.

Physical infrastructure improvements were also undertaken, such as the geometric modification of busy thoroughfares in Manila, widening of the four corners of some intersections, establishment of EDSA north and south terminals and provision of designated U-turn areas.

Noninfrastructure measures were also implemented to ease up traffic congestion. Among these is the provision of two lanes in major roads dedicated only for public utility vehicles (PUV), and the designation of alternate truck routes for round-the-clock operations.

The modernization of traffic management system has also progressed substantially with the full operationalization of the traffic command center. A total of nine closed circuit television (CCTV) cameras in strategic places have been linked to the center.

On solid waste management, the Metro Manila Development Authority will pursue its commitment for the establishment of a railroad transport and processing facility 150 km radius away from Metro Manila. The DENR has already identified five ideal sites for this

purpose, while the Philippine National Railways has committed to provide the railroad requirements for this program.

The implementation of other waste management measures are, likewise, being pursued. These include the waste segregation in Las Piñas Waste Transfer Station, Manggahan Depot in Pasig City and the Smokey Mountain Depot in Tondo; and the planned pilot-testing of the market waste volume reduction program in the markets of EDSA Central, Farmers, Divisoria, Paco and Pasig. The MMDA also actively endorsed its compost fertilizer production to encourage growth in the volume of biodegradable waste being converted to commercial grade fertilizer using their composting facility. Urban barangays were, likewise, empowered and tasked to help manage waste reduction and disposal.

Enhancing the Roles of LGUs as Economic Units. The national government sustained efforts toward building up the capability of LGUs as economic units, providing them with infrastructure assistance, and enhancing their governance.

To spur local economic growth, the national government implemented infrastructure development assistance for the construction of 49 bridges in 47 cities and municipalities, transportation terminals, public markets, and the conduct of nine feasibility studies for these kinds of infrastructures in eight cities and municipalities. The government initiated activities to measure the state and level of socioeconomic and development of LGUs through the pilot-testing of the Local Development Watch Project in 39 cities and municipalities. This will lead to the identification of interventions needed to improve local economic conditions. Further, the implementation of Computerized Tax Revenue Assessment Systems (TRACs) Project in six cities is expected to increase tax collections of these LGUs.

The LGUs continued to monitor their performance in terms of productivity and governance through a self-assessment tool that was already on its second year of implementation in 2002. This tool involved assessing LGU performance particularly in revenue collection, implementation of programs and projects, and service delivery.

Building up of Local Statistical Database. In support of local development planning, the government carried out statistical development, advocacy, and organizational measures in specific regions and provinces with the end in view of strengthening the local statistical system.

The statistical requirements of the government's poverty reduction program at the local level was addressed with the estimation of provincial poverty indicators; development of poverty maps as advocacy materials for LGUs; and, estimation of the CY 2000 Human Development Index by province. Local health accounts were also developed in collaboration with the Department of Health in seven provinces throughout the country.

In the area of advocacy, the government conducted activities in support of the System of Designated Statistics for LGUs. This system aims to rationalize the use of resources for statistical activities by local institutions through the identification of core indicators and development of their standards. Intensive efforts to increase the appreciation of LGUs in the generation and use of local level statistics were also conducted. Statistical publications now include additional provincial and city level indicators, as well as the continued dissemination of these publications and relevant statistical information to LGUs¹.

Further development of local statistical systems was pursued with the establishment of a regional office of the National Statistical

Coordination Board (NSCB)/National Statistical Information Center (NSIC) in Northern Mindanao and the creation of Provincial Statistical Coordination Committee and NSIC satellite offices in other provinces. These offices shall spearhead the development of local statistical systems and widen the dissemination of statistical information at the local levels. Various resolutions from the Regional Statistical Coordination Committees were also issued to improve the generation of relevant local level indicators. Meanwhile, the national government created a Technical Working Group to work on the disaggregation of agriculture and fisheries production data of certain LGUs in Mindanao.

PEACE BUILDING EFFORTS IN MINDANAO

Various efforts were undertaken to advance peace efforts with the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF) and to enhance relationships among the tri-peoples (Christians, Muslims and Lumads/Indigenous Peoples), who have been at the center of conflicts.

Peace Talks with the MILF. A series of peace talks between the government and MILF was conducted in 2002. The talks fleshed out the details of the Tripoli Agreement on Peace of 2001, covering security, rehabilitation and ancestral domain aspects to promote the general interest of the Muslims and the indigenous peoples. The Agreements on the Security Aspect and on the Implementing Guidelines on the Humanitarian, Rehabilitation and Development Aspects were signed in 2002 while the draft Agreement on Ancestral Domain, which is the remaining agenda of the Tripoli Agreement on Peace, is now with the Cabinet Oversight Committee on Internal Security for review.

¹ These efforts gave the National Statistical Coordination Board (NSCB) the Special Awards for Public Information Program/Project for the Regional/Local category in the Gawad Oscar Florendo Award.

Talks between the Government of the Republic of the Philippines (GRP) and MILF was facilitated by the coordinating Committee on Cessation of Hostilities (CCCH) which provided a venue for the clearing up of issues involving both parties. Discussions at the CCCH level indicated positive prospects of reaching a negotiated settlement with the MILF.

In support of the rehabilitation and development aspects of the peace process, the Bangsamoro Development Agency (BDA) was established as the project implementing body of the MILF. Among the initial activities identified to jumpstart development programs were: (a) the conduct of needs assessment survey; (b) conduct of values formation program; and (c) setting-up of model farms in the conflict-affected areas.

Implementation of the 1996 Government of the Republic of the Philippines – Moro National Liberation Front (GRP-MNLF) Final Peace Agreement. The 1996 GRP-MNLF Final Peace Agreement has been substantially complied with. About 500 former MNLF members still remain to be integrated into the Armed Forces of the Philippines (AFP). Full integration is targeted during the first quarter of 2003.

Mechanisms to enhance autonomy are gradually being put in place following the ratification of the new Organic Law for the Autonomous Region in Muslim Mindanao (ARMM), Republic Act 9054, on August 14, 2001 and the subsequent installation of its new leadership. These mechanisms included the issuance of EO 125 devolving to the ARMM certain powers and functions of the national government and creating an ODA Office in ARMM, and RA 1954 operationalizing the Regional Command of the AFP for ARMM.

Relief and Rehabilitation of Conflict-Affected Areas in Mindanao. As of October 2002, almost 100 percent of the 26,900 evacuee-families displaced at the height of the

hostilities in 2000 have returned to their homes or have been relocated to new sites by the Department of Social Welfare and Development (DSWD). The agency constructed housing units, day care centers, water reservoirs and provided livelihood assistance and skills training to about 2,500 evacuee families displaced by the conflict in Matanog and Buldon, Maguindanao; Kabacan, North Cotabato; Isulan, Sultan Kudarat; and Carmen, Cotabato. A host of projects worth P87.8 million are being implemented by this agency and concerned LGUs with the assistance of the Philippines Canada Development Fund (PCDF).

The Department of Agriculture (DA) also implemented the Household Enhancement and Livelihood Program for Muslim communities in the municipalities of Matanog, Barira and Buldon in Maguindanao (formerly Camp Abubakar). The project involved the distribution of fruit tree seedlings, rehabilitation of demo orchards and the conduct of trainings for farmers and extension workers. This project was complemented by the Iranun Sustainable Integrated Area Development Program, a capability-building program aimed at promoting agricultural and industrial development in these three municipalities.

The government stepped up its assistance to Basilan Province, one of the most heavily affected by armed conflicts. Under the Basilan Integrated and Livelihood Assistance Program, the DA provided farm inputs and animals, established nursery demo farms, and rehabilitated community irrigation systems.

Assistance to former MNLF communities was likewise extended. The AFP initiated several projects to rehabilitate Camp Abubakar, the former MNLF camp, such as the repair of the Libungan Irrigation System; concreting and/or repair of Sarmiento-Abubakar, Parang-Sumisid and Rumayas-Sumisid roads; and the construction of a hanging footbridge, solar dryers and day care centers.

The USAID-assisted Livelihood Enhancement and Peace (LEAP) Program also provided assistance to about 3,000 former MNLF combatants to boost production in rice, corn, seaweeds and other crops. The project provided pre- and postharvest equipment and facilities to target communities.

The Third Phase of the GOP-UN Multidonor Programme (MDP3), which began in June 2001, continued to support partnerships among the MNLF, LGUs, national government agencies, and civil society organizations. The coverage of the programme was expanded in 2002 to include the indigenous peoples and Christian communities. Capability building activities, the delivery of basic services including reproductive health services, livelihood, and peace-building activities in the Peace and Development Communities (PDCs) were intensified.

Meanwhile, the SZOPAD Social Fund (SSF), a project funded by the World Bank and Organization of Petroleum Exporting Countries (OPEC) for former MNLF combatants and their families, other poor Muslim communities and the Lumads came to a close in 2002. Among its accomplishments include the construction of social and agricultural support infrastructures; water and sanitation facilities; provision of equipments; and technical assistance for the delivery of community services. A successor project focusing on the ARMM was approved last year.

Confidence-building Measures and Promotion of Social Cohesion among Mindanao's Tri-People. As part of confidence-building, the Macapagal-Arroyo Administration has so far appointed in the executive branch of the government, 47 Muslims which include MNLF members. The Armed Forces of the Philippines has seven Muslim senior officers, one of whom has the rank of Brigadier General. In the Philippine National Police, there are some 169 senior officers, four of them having the rank of one-star General.

The government initiated measures to enhance social cohesion among tri-people by promoting the welfare of Indigenous Cultural Community (ICC/IPs). The National Commission on Indigenous Peoples (NCIP) issued Certificates of Ancestral Domain Title (CADT) for about 11,800 hectares of land to Manobo tribes in Surigao del Sur; and processed 2,500 hectares of Certificate of Ancestral Domain Claim (CADC) of Manobo tribes in Carmen, Cotabato. In addition, livelihood, social and small infrastructure projects were also implemented such as Coop Seed Capital Project, abaca fiber production, indigenous craft making, fruit tree planting and distribution of farm inputs, construction of solar dryer and multipurpose tribal hall and educational support services for IP students. Indigenous cultural and governance systems were also supported through the strengthening of Tribal Councils, advocacy on indigenous rights and interests and support in tribal festivals and activities.

Socioeconomic Upliftment in Mindanao. Several programs in health, education, social welfare, agriculture, infrastructure, trade and investment and tourism were pursued to address the immediate needs of the population and accelerate growth in the affected areas of Mindanao.

Health programs. The Department of Health (DOH) implemented the following ODA-assisted projects:

- 1 *Reproductive Health (RH) Services Program* in ARMM, Lanao Norte, Davao Del Sur, and Zamboanga Peninsula (Component 4 of the GOP-UN Multi-Donor Program) involving an orientation of local leaders and drafting of RH plans;
- 1 *Public Health Component of the Belgian Integrated Agrarian Support Program (BIARSP)* focusing on the provision of basic health services in agrarian reform communities (ARCs) in Zamboanga del Norte and Zamboanga Sibugay;
- 1 *Mindanao Settlement Sustainable Area*

Development (MINSSAD) in seven ARCs in Bukidnon, Surigao del Norte/Sur, Agusan Sur, Compostela Valley, and Davao del Norte/Oriental involving the upgrading of Barangay Health Stations (BHS), provision of equipment and institutional support;

- 1 *Basic Health Services in Muslim Mindanao Communities* in selected villages in Lanao del Sur and Marawi City;
- 1 *Community-based Malaria Control and Prevention Project* for pilot villages in Agusan Sur;
- 1 *In-country Training Program* for Health Workers in ARMM on community organizing and management; and
- 1 *Country-Focused Training Program* for health professionals from ARMM in Japan.

Education. Improvements in the quality of public elementary in education were pursued through the implementation of the Third Elementary Education Project (TEEP) in Agusan del Sur, Cotabato, Surigao del Sur and Zamboanga del Sur. Among the accomplishments were the following: (a) the construction of 549 new classrooms and two Division Offices; (b) repair/improvement of 884 classrooms; and (c) distribution of textbooks, provision of computers, printers, TV and VCR to 104 Elementary Leader Schools (ELS), training of all teachers and administrators and provision of support-to-teachers materials, such as formative tests and an associated teaching activities.

Agriculture and Agrarian Reform. In line with the vision for Mindanao as the country's food basket, the DA implemented various integrated development projects to promote agricultural productivity. These are the: (a) SOCSARGEN Integrated Security Plan; (b) Davao Integrated Development Plan; (c) Caraga Integrated Development Plan; (d) ZAMBAS Integrated Rural Development Plan; and the e) Metro Kutawato Development Alliance (MDKA). Accomplishments of these programs included the construction and rehabilitation of farm-to-market roads, bridges,

communal irrigation systems and diversion dams; installation of mechanical dryers; and provision of alternative livelihood to the people in the area.

The "Pagkain para sa Masa for Uplands in Mindanao," on the other hand, trained about 9,000 farmers and provided them with packages of planting materials and chicken for raising.

Other ODA-assisted projects implemented by the DA were the following:

- 1 *Upland Development Program (UDP)* in Southern Mindanao which involved distribution and establishment of planting materials, construction of small agricultural infrastructure support and strengthening of farmer organizations.
- 1 *Mindanao Rural Development Program* involving the provision of rural infrastructure, community fund for agricultural development and rural development planning for agricultural productivity.

On agrarian reform, the Department of Agrarian Reform (DAR) has intensified its interventions in Agrarian Reform Communities (ARCs) to enhance farm productivity, increase household incomes and promote sustainable rural development. Among its projects involving Mindanao are:

- 1 *Agrarian Reform Communities Development Project (ARCDP)* involving provision of rural basic infrastructure, agricultural and enterprise development, and strengthening of cooperatives in the ARCs;
- 1 *Agrarian Reform Communities Project (ARCP)* involving provision of basic infrastructure and development support services to Agrarian Reform Beneficiaries (ARB) households in 68 ARCs;
- 1 *Agrarian Reform Infrastructure Support Project II (ARISP)* involving the construction and rehabilitation of rural infrastructure, including irrigation facilities, farm-to-market roads and postharvest facilities, and development of farmers' organizations in 47 ARCs;

- ¹ *Belgian Integrated Agrarian Support Program (BIARSP)* which integrates support to Primary Health Care Services, Basic Education Services, Drinking Water Supply and Sanitation Services, Rural Infrastructure Support, and Agricultural Productivity; and,
- ¹ *Support to Agrarian Reform Communities in Central Mindanao (STARCM)*, focusing on the alleviation of rural poverty and reducing economic disparities in the four provinces of Central Mindanao

Infrastructure. Major ongoing road projects include the improvement of the Zamboanga-Pagadian Road, Davao-Bukidnon Road and the Agusan-Davao Road. Pre-construction activities were also undertaken for Agusan del Sur-Davao del Norte road. Negotiations for the funding for the Basilan Circumferential road and the Cotabato-Upi-Lebak road were pursued. In addition, the upgrading of the airports of Dipolog, Pagadian, Butuan, Cotabato and Sanga under the Third Airport Development Project of the DOTC started in 2002.

BIMP-EAGA. As a follow through to the Administration's policy to renew the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) initiative, the government formulated the Philippine-EAGA Work Plan for 2002, which will guide the Philippines' involvement in BIMP-EAGA. A number of agreements involving energy resource development, business chamber cooperation, and sea and air linkages were reached during the visit of President Arroyo to Brunei Darussalam and Malaysia. Likewise, commitments on improving border security and promotion of investment, trade and tourism were solicited from EAGA-member countries. The Philippines also participated in High-Level/Senior Officials Meetings and EAGA-related briefings, meetings and trade missions in Mindanao.

Tourism. The promotion of Mindanao as a tourist destination complemented other socio-economic development programs in the area. Among the initiatives undertaken were tourism awareness programs and packaging and marketing of tours and special events and festivals. Advocacy campaigns were enhanced through the distribution of brochures on tourist attractions.

PROSPECTS AND MAJOR POLICY DIRECTIONS FOR 2003

The growth outlook across the regions remains bright despite some global and national threats to growth. In agriculture, the regions are expected to benefit from measures that will mitigate the effects of El Niño and enhance agricultural productivity. Industrial growth shall be supported by policies that will boost mining, housing and micro, small and medium enterprises. The renewed thrust on mining is expected to benefit Regions VI, XI, V and CAR, which are major mining areas and producers. Regions, especially the highly urbanized ones, will also benefit from the continued growth in telecommunications, trade and private services.

The need to reduce disparity in provincial and regional poverty incidences remains the compelling challenge for interregional programs by the national government. The improvement in infrastructure across the country's regions remains a major priority. Focus shall be on roads leading to regional growth centers and in less developed areas.

A primary strategy of the MTPDP in this regard is the strengthening of local capabilities. Thus in 2003, LGUs will continue to be trained, provided technical assistance, and exposed to innovative practices and approaches to development in order to fully equip their local leaders as accountable and enterprising economic development managers. National government will continue to support local planning, policymaking and program

development, as well as, in extending ODA to supplement local sources. These are all directed at assisting the LGUs in fully assuming their role in stimulating regional and local economy.

Parallel to this, the government shall continue to pursue the generation and compilation of local indicators necessary for local development planning and decision-making. This will entail the use of frameworks on provincial indicator system, provincial product accounts, gross regional domestic account, and poverty indicators. Accessibility of subnational statistics shall be improved through stronger advocacy in the form of policies and standards issued at the local level. The System of Designated Statistics for LGUs will also be implemented on a pilot basis. In support of these activities, the government shall undertake capacity-building activities for local institutions in the sphere of statistics generation, dissemination, and analysis.

Various programs and project shall be intensified to give sustainable solutions to the problems besetting Metro Manila and, therewith, ensure well-managed development of the metropolis.

The building of commuter and transport systems will be a major thrust with priority given to the North Luzon Expressway, the South Luzon Expressway, the Northrail and the Southrail. Traffic road schemes shall be formulated, implemented and evaluated to improve traffic congestion especially in major roads. These include the reassessment of the effectiveness of the six-year old Unified Vehicular Volume Reduction Program, full signal operation of 600 intersections, maximum utilization of secondary and tertiary roads and flyovers and allocation of sidewalks to pedestrians by clearing the sidewalk with road obstructions and illegal vendors.

On solid waste management, the MMDA shall formulate a unified system in handling, collecting and disposing garbage in Metro Manila. With this scheme, the MMDA shall

collect and collate data that would serve as basis for decision-making for efficient and cost-effective garbage collection and disposal. It shall also pursue the reopening of the San Mateo Sanitary landfill facilities that have been closed for quite some time. An exploratory talk initiated by the MMDA with the town of San Mateo and Antipolo City has been conducted to explore the possibility of reopening the landfill facilities while awaiting the completion of similar waste disposal facilities.

In Mindanao, much remains to be done in the pursuit of lasting peace and development. The Administration shall continue to enhance the peace process and promote cultural harmony among the tri-peoples (Christians, Muslims and Lumads/Indigenous Peoples). The government shall work for the finalization of a peace agreement with the MILF. At the same time, it shall seek to fulfill the remaining commitments to the 1996 GRP-MNLF Final Peace Agreement, particularly with regard to the devolution of functions to the new ARMM Regional Government.

The recognition and protection of IP rights, specifically ancestral domain and land claims, will continue to be promoted. In addition, the government will continue to facilitate the establishment of self-sustaining and self-governing IP communities.

The plight of communities affected by the conflicts shall be continuously addressed through core social and economic programs that will reintegrate them into the economic mainstream. Continuing efforts will be directed at alleviating poverty and addressing the socio-economic needs of Mindanaoans. The *Kapit-Bisig Laban sa Kahirapan* (KALAHI) and the ARMM Social Fund shall be the centerpiece program for non-ARMM areas and for the ARMM regional government, respectively. Productivity-enhancing investments in agriculture and fisheries will be sustained to attain food security, increase income and generate jobs.

Chapter 8

Good Governance

The need to raise the quality of governance in the country, and further secure peace and order were vital priorities of the national government in 2002. Programs to improve public service delivery and stamp out corruption through procurement reforms were put in place. The Administration gave a greater push to improving peace and order by vigorously pursuing anti-crime measures and neutralizing forces that threaten national security. The Administration also supported several bilateral and international economic and security agreements and efforts particularly in the fight against terrorism. These measures will be pursued with greater vigor in 2003. In addition, the government will work towards improving the electoral system and granting overseas Filipino workers the right to vote.

PUBLIC SERVICE DELIVERY

Anti-Graft and Corruption. Recognizing the deteriorating effects of graft and corruption, the Arroyo administration stepped up efforts to confront this problem.

A major accomplishment towards eradicating corruption in public procurement of goods, services and infrastructure projects was the enactment into law of the Government Procurement Reform Act (RA 9184). This law creates greater transparency in the acquisition of goods, civil works, and consultancy services and opens up government procurement to competition. The law penalizes fraud, conspiracy, connivance and collusion for a period of not less than six years and one day

but not more than 15 years of imprisonment.

Meanwhile, the implementing rules and regulations (IRR) of Executive Order (EO) No. 40, which requires all government agencies to use the Government-Electronic Procurement System (G-EPS) was published on March 20, 2002 and became effective on April 4, 2002. The G-EPS provides for an electronic bulletin board, registry of suppliers, and a catalogue of product lines to improve transparency and reduce transaction costs in public procurement. The G-EPS is also expected to shorten acquisition time by two weeks, and eventually, deliveries can be made without delay. The Department of Budget and Management (DBM) established the monitoring mechanism and implementation standards to ensure compliance by government agencies in adopting and implementing e-procurement in service delivery, pursuant to R.A. No. 8792 (E-Commerce Law). As of December 2002, all departments and Government Owned and Controlled Corporations (GOCCs) have registered with the G-EPS, while 2,760 suppliers downloaded documents from the G-EPS. The Department of the Interior and Local Government (DILG) generated the highest savings from purchases of supplies and various fire and hospital equipment¹.

On fighting corruption, the Presidential Anti-Graft Commission (PAGC), which has the power to investigate officials with the rank of assistant director up to the highest member of the Cabinet, continued its proactive investigation of reports linking Presidential appointees to graft and corruption. It compiled

¹ DBM 2002 Report

antigraft laws into a primer on prohibited acts of government personnel, which were distributed to all government agencies.

To streamline local operations and reduce red tape at the local level, the DILG spearheaded the Anti-Red Tape Project wherein audit teams periodically audit business-related rules, procedures and administrative systems of local governments. The DILG also set up the *Sagot Ko Yan Action Center* (SKYACT) in July 2002 to receive and act on reports of graft and corruption involving local officials. As of December 31, 2002, 74 complaints were under investigation by SKYACT.

Service Delivery. In various offices, the efficiency of public service delivery was improved by reducing the number of signatures, posting flowcharts, and establishing service facilities. Among the agencies with marked improvements in efficiency are, as follows:

- 1 At the DILG, the processing time for police clearance was shortened from 3-4 days to 10 minutes;
- 1 The Department of Foreign Affairs (DFA) reduced passport application time from 5 days to 3 days;
- 1 The Land Registration Authority reduced the number of signatures from 112 to 71 for land registration;
- 1 Processing of Government Service and Insurance System (GSIS) and Pag-IBIG applications was shortened from 16 to 8 days;
- 1 The Professional Regulations Commission opened a courtesy lane to speed up the processing of professional credentials for Filipino nurses; and
- 1 The processing of veterans' claims can now be done through a bank remittance scheme, and claimants can check the status of their pensions through a call center.

Arising from the government's efficiency initiatives, the number of complaints against public servants was reduced from 77 percent

in 1998 to only 5 percent by 2002 as reported by the *Mamayan Muna* In Action Program of the Civil Service Commission (CSC).

Computerization and automation were also accelerated to reduce face-to-face interactions which provide opportunities for discretionary action. The Bureau of Customs (BOC) continued to automate processes to reduce the number of procedures by: (a) Electronic lodgment through Entry Encoding Center (EEC), Electronic Data Interchange (EDI), and Internet; (b) Transshipment/transfer systems for Ninoy Aquino International Airport and Philippine Economic Zone Authority; and (c) Data Exchange linkages with five government agencies (DOF, BIR, DTI, NSO and DA). The BOC improved its operations in the metroports to facilitate flow of transaction through the signing of memoranda of agreement on the use of container x-ray machines as alternative to physical examination.

Meanwhile, various government agencies have set up websites to expedite the delivery of public services (see Chapter 3). The Securities and Exchange Commission (SEC)-iRegister allows clients to file applications for registration, pay appropriate registration fees and receive approvals online. The Job Opportunity Bank System (JOBS), an online job search and placement facility of the CSC, assisted 783 job seekers in 2002. A new version of the Computer-Assisted Tests (CAT), which revolutionized the pencil and paper type of civil service career examinations, was designed for visually impaired persons.

To rationalize project approval, the President issued EO 109, streamlining the contract review process for all government projects. The EO streamlines the scope of the National Economic and Development Authority's review and the evaluation of government contracts requiring approval from the President. Department secretaries are now given full authority to enter into all contracts regardless of the amount, except for contracts required by law to be acted upon and/or

approved by the President.

To streamline the scope and functions of the Executive Branch, EO 72 transferred 13 agencies to the DBM and abolished 61 agencies attending to locally-funded projects and other similar entities whose mandates have been completed or are being implemented by other departments or agencies. The Presidential Committee on Effective Governance (PCEG), which oversees the institutional reforms in the bureaucracy, prepared guidelines on the winding-up of activities of these agencies.

Auditing and Accounting Reforms. Various measures were implemented to strengthen public accountability and improve the timeliness of financial reporting. The New Government Accounting System (NGAS), which was embodied in Commission on Audit (COA) Circular No. 2001-004 dated October 30, 2001, took effect on January 1, 2002. The NGAS is a simplified set of accounting concepts, guidelines and procedures designed to ensure correctness, completeness, and timeliness in the recording of government financial transactions and production of financial reports. To provide timely, valid and reliable cost information, the Commission also established the Government Purchases Information System (GPIS), a computer-assisted system of gathering and consolidating cost data from purchase orders and other sources. GPIS provides reliable analysis and appropriate recommendations on cost information, property appraisal, contract review and technical inspection.

The COA also pursued reforms in its organizational structure to move towards financial and value-for-money or performance audits from mere compliance audits. The Audit Team Approach (ATA) is a nonresidency audit thrust which promotes efficiency and objectivity in its audits and deters connivance with personnel of audited agencies. For 2002, using the ATA, a total of 1,342 teams were constituted, and 6,903 agencies and 9,684 barangays were audited.

Local Governance Reforms. Capacity building of local governments focused on strengthening barangays as frontliners of good governance. The training of 286,627 barangay officials resulted in the formulation and implementation of the barangay's action plan or barangay executive agenda in 62 percent of barangays nationwide. Meanwhile, the *Gabay sa Mamamayan* Action Center of the DILG provided immediate access to information on government services such as livelihood and job opportunities, peace and order and public safety, health and sanitation, education and welfare, agricultural support services, and sports development.

To minimize the delay in the processing of internal revenue allotment (IRA) funds, the DBM adopted the Direct Credit System (DCS) in the release of IRA. Under the DCS, the DBM issues the IRA checks to the head offices of the government depository banks, which, in turn, credit the fund to the individual accounts of the different LGUs nationwide through bank-to-bank transactions with their local branches.

PEACE AND ORDER

Anti-Crime Initiatives. The Arroyo Administration vigorously pursued a number of crime prevention and control programs to arrest the deterioration in peace and order and public safety.

Efforts to stamp out kidnap-for-ransom groups were intensified, particularly the Abu Sayaff. Kidnap-for-ransom incidents decreased by 32 percent in 2002 or to 67 cases from 99 kidnap-for-ransom cases in 2001. Civil society groups such as the Volunteers Against Crime and Corruption, the Citizens Action Against Crime, the Movement for the Restoration of Peace and Order assisted in this effort.

In response to the President's call for a proactive approach to crime prevention, the Patrol 117 Program was intensified. The

program, a barangay-based security and development program, brings together the Metro Manila Development Authority, Department of Transportation and Communications, Barangay PATROL (Reinforced Tanod), *Barangay Kaunlaran Dakilang Hangarin*, and other law enforcement agencies in fighting crime. Under the program, 49 telephone hotlines in 10 regions were installed compared to last year's 27 hotlines that covered only the National Capital Region. The government also strengthened the local Peace and Order Councils and reinstituted the community-oriented police system to provide immediate police assistance in each locality. Eighty-six percent of barangays in the country have organized Peace and Order Councils.

On the use of illegal drugs, President Arroyo signed the 2002 Comprehensive Dangerous Drug Act (RA 9165) which imposes heavy fines and stiff penalties for illegal drug trafficking. RA 9165 also provides for the mandatory drug testing of drivers of motor vehicles and firearm holders and the random testing of students and employees of government and private sectors. The law also provides for the compulsory education on dangerous drugs for elementary, secondary and college students.

On smuggling, the BOC investigated 19 cases of illegal importation. The Bureau's antismuggling measures resulted in the decline of apprehensions for smuggled rice from more than one million bags in 2001 to 348,640 bags in 2002.

Professionalization of the Police and Military. Several initiatives were undertaken to professionalize the police and military with a view to strengthening crime prevention and external defense capabilities.

To instill a community-based approach in crime prevention, the Police Cadetship Program of the Philippine National Police Academy (PNPA) shifted from a para-military

training system to a disciplined civilian and community-based system. The PNP's intensified education and training program was a major factor in the 48-percent decline in administrative cases filed against PNP personnel in 2002.

The salary increases for uniformed PNP personnel were fully implemented in 2002. The lowest ranking police officer now receives a monthly pay of P12,155.00, which includes monthly allowances for quarters, laundry, subsistence and clothing, hazard pay, and the Personnel Equity Retirement Account. Rank adjustments of 96 police-commissioned and police noncommissioned officers were also authorized.

Beefing up its force, the PNP was able to fill 2,000 positions of the 4,000 recruitment quota for 2002.

Meanwhile, to enable the Armed Forces of the Philippines (AFP) to effectively perform its mandate, the President ordered the release of P10 billion for the Armed Forces of the Philippines Modernization Program (AFPMP). This will fund the acquisition of various equipment and weapons like artillery, military trucks, helicopter and communications equipment.

Judicial Reforms. Initiatives aimed at speeding up the delivery of justice were undertaken, albeit these are seen to generate results over the medium term. Several diagnostic studies were undertaken with the assistance of the United Nations Development Programme (Technical Assistance to the Philippine Judiciary on Justice and Development) and the World Bank (Philippine Human Resource Development Grant for Judicial Reform). These studies led to an Action Program for Judicial Reform which provides the framework for reforming the judiciary and identifying the strategic investments and resource requirements to implement the identified reform priorities of the Court in the medium term.

The Supreme Court also instituted reforms to improve the administration of justice and case dispensation. The Court formulated a case decongestion and delay reduction strategy. It also distributed an online case management system that would allow the establishment of a transparent, publicly accessible, and comprehensive database of all cases. The Court also published and distributed the Benchbook for Trial Court Judges all over the country.

To improve access to justice particularly by the poor and disadvantaged sectors of society, preparations for a nationwide survey on public perception, knowledge and attitudes on the Judiciary were undertaken, as well as assessment studies on the other pillars of the criminal justice system. The Supreme Court also continued the review and assessment of the barangay justice system and alternative dispute resolution mechanisms to facilitate the resolution of cases and declog court dockets.

REVITALIZED ROLE OF THE PHILIPPINES IN THE GLOBAL COMMUNITY

Multilateral and Inter-Regional Socio-Economic Cooperation. Initiatives that foster friendly and peaceful coexistence with other nations continued to be pursued in 2002.

The Administration revived the Brunei-Indonesia-Malaysia-Philippines-East ASEAN Growth Area (BIMP-EAGA) as a potential area for expanded cooperation in transportation, communication, agriculture, infrastructure development, and trade and commerce.

In recognition of China's growing economic influence in the Southeast Asian Region, the government established a consulate in Shanghai. Diplomatic relations with East Timor, San Marino, and Caracas, Venezuela were also initiated.

Economic relations with Japan were also strengthened. The country signed the Economic Partnership Agreement with Japan in January 2002 while the 25th Yen Loan Package and the Agreement on the 4th Batch of the Special Yen Loan Package were inked in March 2002.

Relations with Europe were intensified. The Philippines and the European Commission (EC), during the 3rd RP-EC Senior Officials Meeting agreed to take their partnerships forward by developing a roadmap for increasing trade and investments, and promoting a positive image of the Philippines in Europe. The Philippines also participated in the 4th ASEM (Asia-Europe Meeting) Finance Ministers' Meeting (FinMM4) in Copenhagen, Denmark and hosted the 2nd Asia-Europe Parliamentary Partnership Meeting (ASEP II) in August 2002 to strengthen economic partnership and accelerate EU cooperation.

The Philippines fully supported Asia Pacific Economic Cooperation (APEC) initiatives in 2002. The Philippines proposed the hosting of a High-Level Meeting of APEC officials on building capacity in maritime security. The government also advocated the consolidation of a regional policy on biotechnology in agriculture through APEC.

The Philippines also expressed its support to the United States of America's campaign for Intellectual Property Rights. The DFA prepared an action plan to address IPR concerns as embodied in the 2002 Special 301 Report of the US.

Security Cooperation. The Administration entered into a number of agreements to strengthen national security against external threats, especially terrorism. The Philippines supported the ASEAN Declaration on Joint Action to Counter Terrorism. On May 7, 2002, the Philippines, Malaysia, and Indonesia signed the Trilateral Agreement on Information Exchange and Establishment of Communications Procedures. The three

ASEAN countries took a strong and proactive position against terrorism as reflected in the Agreement. The Philippine government's involvement in the global fight against terrorism is based on the United Nations Security Council Resolution 1368, which mandates member-countries to join the international coalition to combat terrorism.

The Administration also signed the Policy Framework and Guidelines for the Philippine participation in UN peacekeeping operations. The Philippines maintains its presence in two major UN peacekeeping operations, East Timor and Kosovo. The Philippines also signed the Joint Ministerial Statement on the Comprehensive Nuclear Test Ban treaty on September 14, 2002.

The RP-US Mutual Logistics Support Agreement (MLSA) was signed on November 21, 2002 to facilitate logistical support for approved activities under three existing RP-US Agreements (Mutual Defense Treaty, Military Assistance Agreement and VFA). The RP-US cooperation on defense and security will continue for the next five years.

On maritime security, the Philippines sent a maritime mission to France in October 2002 to seek cooperation on various maritime security arrangements such as the establishment of sea lanes, domestic ship routing, hydrographic surveying and the production of the required electronic nautical charts. The Philippines and China also adopted a Regional Code of Conduct in the South China Sea to view the area of conflict as an area of opportunity where interests may converge in the future. To combat piracy and armed robbery against ships within and beyond the territorial water jurisdictions of the Philippines, the Philippines participated in the Governmental Working Group Meeting in Tokyo to develop a Regional Cooperation Agreement on Anti-Piracy in Asia.

The Philippines also entered into a defense cooperation with Brunei to strengthen RP-

Brunei defense relations. This involves the regular exchange of visits of defense and military personnel and exchange of study and observation tours for both AFP and the Royal Brunei Armed Forces.

Support for Filipinos Overseas. To promote and protect the welfare of Filipinos overseas, the Philippines signed bilateral treaties on the transfer of sentenced persons with Panama and Austria. It concluded a No-Visa agreement for holders of diplomatic, official and consular personnel with Russia and Brazil.

The DFA also negotiated and signed a Protocol on Inter-Country Adoption with Spain; an Agreement on the Employment of Dependents of Diplomatic and Consular Personnel with Papua New Guinea; and a Memorandum of Understanding (MOU) with Mauritius on Mutual Recognition of Seafarers Certificates and an MOU with the United Kingdom on Bilateral Cooperation on Health Care. Bilateral consultations were undertaken with Lebanon.

PROSPECTS AND POLICY DIRECTIONS FOR 2003

In 2003, the Administration will continue to undertake reforms and programs to improve governance.

Public Service Delivery. Reforms to rid the bureaucracy of graft and corruption remains a priority in 2003. The revitalization of the Inter-Agency Committee on Graft and Corruption is expected to facilitate prosecution of violators in high positions. The implementing rules and regulations of the Government Procurement Reform Act, which will be released in 2003, will give more teeth to the government's anticorruption efforts. The participation of civil society organizations in the monitoring of procurement will continue to be encouraged.

The government will also support the passage of the Civil Service Code to enhance

efficiency and productivity of the civil service system. To countercheck information on government employees, the government will embark on building a common database system for the CSC, DBM, GSIS and the BIR.

On local governance, waste and traffic management will be given priority. The institutionalization of a reward system for Metro Manila LGUs and the preparation of a mechanism to monitor the adoption of best practices in governance will be accomplished in 2003.

Civil society organizations will be required to declare among themselves their own system of transparency and accountability through a Code of Conduct and a system of accreditation. Private business groups and professional organizations will also be required to submit the same set of audited financial statements to the Bureau of Internal Revenue and the Securities and Exchange Commission and other private sector entities such as banks.

The Office of the President will install a performance evaluation system for the corporate governance practices of the board of directors of GOCCs and GFIs. The BSP, SEC and the Insurance Commission will work together to implement a mechanism to ensure that banks, corporations and institutions will adopt corporate reforms in line with internationally accepted best practices.

Peace and Order. The Administration will intensify efforts to ensure peace and order. It will accelerate the campaign against the armed social movements. The government together with the private sector will launch an information education campaign against various forms of crimes e.g., kidnap-for-ransom and illegal drug trafficking. A comprehensive media plan for the anticrime campaign will be prepared.

To further professionalize the police, the government will improve the screening process for application of policemen and intensify efforts to rid the PNP of scalawags. A massive

inventory of all government-issued firearms and stricter policies on the issuance and disposition of firearms and ammunitions will be undertaken. Meanwhile, the implementation of the AFP Modernization Program will be accelerated.

In support of judicial reforms, the Supreme Court will closely coordinate with Congress in drafting a Judicial Reform and Modernization Act to provide the enabling environment for the full implementation of the judicial reform program.

Improvements in the electoral process will be a key thrust in 2003. The Commission on Elections (COMELEC) will modernize the registration process mainly through validation of about 38 million registered voters nationwide; automation of counting of ballots through the purchase of 2,000 counting machines and procurement of new ballot boxes; and, the electronic transmission and consolidation of precinct-level results through the establishment of a Central Nerve Center for the 2004 elections. The Commission aims to complete election results 48 hours after the closing of the polls. The government will also advocate the passage of the Campaign Finance Bill which shall include audit by an external auditor of campaign contributions and disclosure of campaign contributions before elections. The filing of appropriate charges against erring COMELEC officials will also be pursued next year.

International Cooperation. As a responsible member of the community of nations, the Philippines will support international collective action especially in the war against terrorism. The government will ensure that the welfare of eight million Filipino nationals abroad will be protected in light of the threat of war in the Middle East.

The passage of the Absentee Voting Act will provide a system for qualified Filipinos residing or working abroad to exercise their right to suffrage as well as to secure the

secrecy and sanctity of the ballot. Similarly, the passage of the Dual Citizenship Act will be sought to allow natural born Filipinos, who have acquired foreign citizenship, to retain their Philippine citizenship. The measure will strengthen the unity of Filipinos here and abroad and encourage them to engage in economic activities and investments in the country.

The Administration will continue to support initiatives to enhance trade and investments, particularly through the World Trade Organization, the ASEAN, and the APEC.

TABLE 4.1 Completed Major Roads and Bridges, CY 2002

PROJECT NAME	SCOPE	COST (P Million) and a) START FINANCING b) COMPLETION		SIGNIFICANCE
Tagaytay-Palico Road	Reconstruction of 21.3 km existing road through Asphalt Concrete (AC) overlay	104.3 ADB ^{1/}	a) Aug-00 b) Mar-02	Safer travel to Batangas
Nasugbu-Palico-Batangas City Road	Reconstruction of 68.24 km existing road through AC overlay	505.13 ADB ^{1/}	a) Aug-98 b) Jul-02	Faster travel in Northern Batangas
Langogan-Roxas Road	Portland Cement Concrete Pavement (PCCP) construction of a 54.14 km	695.6 ADB ^{1/}	a) Aug-00 b) Oct-02	Improved access to Northern Palawan
Calauag-Matnog Road Rehabilitation (Daraga-Matnog Section)	Rehabilitation of a 120.3 km PCCP road and the rehabilitation of 8 bridges with	583.13 JBIC ^{2/}	a) Sep-99 b) Oct-02	Faster travel to/from/within Bicol Region
West Leyte Road Project (Maslog-Buenavista Road Section)	Construction of 30.24 km PCCP road and the rehabilitation of 5 RCDG bridges with a total length of	496.75 JBIC ^{2/}	a) Mar-00 b) May-02	Improved access to depressed municipalities in Southern Samar
Surigao-Agusan-Davao Road (Langkilaan-Monkayo Section)	PCCP reconstruction of 18.4 km PCCP road and the rehabilitation of 2 bridges with a total length of 80.7 km.	289.5 JBIC ^{2/}	a) Mar-00 b) Jul-02	Faster travel along North-South backbone of Mindanao
Pan-Philippine Highway Region (PPH) II	Includes the rehabilitation of: Reina-Mercedes-Tumauni-Iguig Section, Isabela; 7 Bridges along Aritao-Reina Mercedes Section, Nueva Vizcaya; and Isabela, and	487.5 JBIC ^{2/}	multiple project completion dates	Improved access to Cagayan Valley, supports agriculture
Reconstruction of bridges along Arterial Road Project	Construction of the 210.6 km Aloragat Bridge and its approaches	112.5 JBIC ^{2/}	a) Aug-01 b) Nov-02	Supports agriculture & tourism
Cebu South Coastal Road	Construction of a 4,859 km six-lane AC coastal road and two PCDG bridges	2,095 JBIC ^{2/}	a) Jan-98 b) Oct-02	Faster travel between Cebu City and 11 southern municipalities
Davao-Bukidnon Road (Buda-Maramag, Campo-Uno Section)	Construction of 55.4 kms AC pavement and 1 steel truss bridge with a length of 70 km	766.12 IBRD ^{3/}	a) May-99 b) Apr-02	Shorter route from Davao to Bukidnon & Cagayan de Oro
Asingan By-Pass Road (Bridge component)	Construction of three PCDG bridges with a total length of 360 km	118.18 GOP ^{4/}	a) Aug-99 b) Oct-02	Alternate route to Manila North Road, bypassing Urdaneta, supports tourism
EDSA/Quezon Ave. Interchange	Construction of a 1,126 km interchange	664.9 JBIC ^{2/}	a) Dec-00 b) Nov-02	Decongests traffic
SMART Traffic Signal System, NCR	Installation of computerized, demand actuated system in 419 intersections	574 Australia	a) Sep-97 b) Jan-02	Improves traffic flow using computerized demand actuated system

Source: DPWH Submissions, as of 27 January 2003

^{1/} Asian Development Bank

^{2/} Japan Bank for International Cooperation

^{3/} International Bank for Reconstruction and Development

^{4/} Government of the Philippines