



SOCIOECONOMIC REPORT *2004*



NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

ABOUT THE COVER

Agribusiness: 2004's growth in agriculture was largely due to exemplary performances in crop production, specifically corn, and fisheries which more than compensated for the underperformance of livestock and poultry.

Environment: The need to balance the needs of the production and household sectors within the country's ecological capacity remains a difficult task as the country suffers the aftermath of various environmental and natural resource disasters.

Infrastructure: Various road and bridge projects were implemented in 2004. Improvement of the Roll-On/Roll-Off Terminal System was accelerated and capacity of mass transportation in Metro Manila was increased thereby fulfilling the President's objective of strengthening the nautical highway system, decongesting Metro Manila and other urban centers, promoting tourism, and improving peace and order in Mindanao and other impoverished areas.

Tourism: DOT estimated that 2.8 million jobs were created in tourism making it the only industry to have hit the job generation target for 2004. Tourism arrivals expanded by 20.1 percent also hitting the target of 2.3 million visitors.

Housing Construction: Private Sector initiatives such as this Gawad Kalinga (GK) project in Bgy. Kapitolyo, Pasig City, contributed to direct housing provision particularly to the poor. As of December 2004, there were 361 GK communities amounting to 8,909 GK homes built.

Infrastructure: Investment in Subic and Clark has increased in 2004 to prepare the Subic-Clark area to be the best logistics and transportation hub in the Asia-Pacific Region. Photo shows the Subic Port Development Project.

Education: For the first and second quarter of 2004, the DepEd's Computerization Program devoted its activities to the distribution of computer packages to around 48 public secondary schools. By the end of 2004, 80 percent of public high schools have computer sets for academic use. Photo shows one of the beneficiary high schools in Cavite.

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- Board of Investments
- Bureau of Agricultural Statistics
- Bureau of Customs
- Bureau of Internal Revenue
- Bureau of Treasury
- Civil Service Commission
- Commission on Audit
- Commission on Elections
- Commission on Higher Education
- Commission on Population
- Council for the Welfare of Children
- Department of Agriculture
- Department of Agrarian Reform
- Department of Budget and Management
- Department of Education
- Department of Energy
- Department of Environment and Natural Resources
- Department of Finance
- Department of Foreign Affairs
- Department of Health
- Department of Interior and Local Government
- Department of Justice
- Department of Labor and Employment
- Department of National Defense
- Department of Public Works and Highways
- Department of Science and Technology
- Department of Social Welfare and Development
- Department of Tourism

Department of Trade and Industry
Department of Transportation and Communications
Government Service Insurance System
Home Development Mutual Fund
Home Guaranty Corporation
Housing and Urban Development Coordinating Council
Information Technology and e-Commerce Council
Land Registration Authority
Land Transportation Office
Metro Manila Development Authority
Metropolitan Waterworks and Sewerage System
National Anti-Poverty Commission
National Commission for Culture and Arts
National Commission on Indigenous Peoples
National Commission on the Role of Filipino Women
National Computer Center
National Council on the Welfare of Disabled Persons
National Disaster Coordinating Board
National Electrification Administration
National Food Authority
National Nutrition Council
National Statistical Coordination Board
National Statistics Office
National Telecommunications Commission
National Youth Commission
Office of the Presidential Adviser on the Peace Process
People's Credit and Finance Corporation
Philippine Economic Zone Authority
Philippine Information Agency
Philippine Institute for Development Studies
Philippine Sports Commission
Philippine Stock Exchange
Presidential Agrarian Reform Council
Professional Regulation Commission
Securities and Exchange Commission
Supreme Court of the Philippines
Technical Education and Skills Development Authority
Technology and Livelihood Resource Center
University of the Philippines Population Institute

Foreword

The Socioeconomic Report (SER) 2004 appraises the achievement of national development goals and objectives in 2004 vis-à-vis the 2001-2004 and the 2004-2010 Medium-Term Philippine Development Plan (MTPDP) targets. It also gives the outlook and policy directions for 2005.

This Report draws from the submissions of various agencies on their accomplishments in 2004. At the same time, the NEDA Secretariat, as coordinator for the preparation of the Plan and oversight agency for monitoring its performance, has also offered its own analysis, highlighting areas where reform has been proceeding slowly and suggesting how agency programs can better support the goals enunciated in the Plan.

The accomplishment in 2004 was checkered. The economy rose at a respectable rate of 6.1 percent on account of growth drivers such as the ICT sector, tourism, and OFW remittances. However, inflation and unemployment worsened. It was able to meet its fiscal targets, but the private banking sector remains hobbled by nonperforming loans and has not considerably expanded credit to the private sector. Targets were met in basic education, health, infrastructure and peace and order. However, there were areas where accomplishment fell short of targets due to fiscal constraints, misdirection of the budget to programs with less significant impact, and market-determined constraints such as in agriculture and environmental management. Institutional constraints, given that some programs are new, also slowed implementation such as in the One-Town-One-Product program.

For 2005, the focus of the Administration will be sustaining economic growth and managing inflation in the face of adverse development such as the El Niño, a possible downturn in the world IT sectors, and repercussions on consumer spending of high inflation brought about by continued high oil prices, passage of the VAT law and transport and wage increases.

Boosting investors' confidence by strengthening fiscal balance and addressing investor concerns such as the growth of infrastructure, high cost of power and peace and order will be prioritized.

To achieve pro-poor growth and mitigate the impact on the poor in the face of the slowdown in economic growth, the Administration will push with greater vigor the diversification of the agriculture sectors and the support for micro, small and medium enterprises. The provision of basic services will be made more cost-effective through partnership with the private sector and LGUs.

We thank the various agencies who have provided us their inputs for this Report. We look forward to the same cooperation so that the Administration can be fully successful in meeting its ultimate objective of building prosperity for the greater number of Filipinos, especially the poor.


ROMULO L. NERI
Secretary of Socioeconomic Planning

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Acronyms

ADB	Asian Development Bank
AEDS	Automated Export Declaration System
AFIS	Automated Fingerprint Identification System
AFMA	Agriculture and Fisheries Modernization Act
AFMP	Agriculture and Fisheries Modernization Plan
AFP	Armed Forces of the Philippines
ALS	alternative learning systems
ANI	Action for Nutrition Improvement
APC	Asset Participation Certificates
APJR	Action Program for Judicial Reform
ARC	agrarian reform communities
ARF	Agrarian Reform Fund
ARH	Adolescent Reproductive Health
ARMM	Autonomous Region in Muslim Mindanao
ASA	air service agreements
ASDSDPP	Ancestral Domains Sustainable Development and Protection Plans
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
ASG	Abu Sayyaf Group
ASTI	Advanced Science and Technology Institute
ATN	Assistance-to-Nationals
ATTF	Anti-Terrorism Task Force
BAC	Bids and Awards Committees
BALS	Bureau of Alternative Learning System
BANG	Bawal na Gamot
BAS	Bureau of Agricultural Statistics
BEAM	Basic Education Assistance to Mindanao
BEDC	Basic Entrepreneurship Development Course
BESE	Big Enterprise-Small Enterprise
BFAR	Bureau of Fisheries and Aquatic Resources
BI	Bureau of Immigration
BIN	Barangay Information Networks
BIR	Bureau of Internal Revenue
BJMP	Bureau of Jail Management and Penology
BMBE	Barangay Micro Business Enterprises
BnB	Botika ng Barangay
BNFE	Bureau of Non-Formal Education
BOC	Bureau of Customs
BOI	Board of Investments
BoP	Balance of Payments
BOT	Build-Operate-Transfer

BPA	Beijing Platform for Action
BPO	business process outsourcing
BPP	Board of Pardons and Parole
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
BuCor	Bureau of Corrections
CAB	Civil Aeronautics Board
CADT	Certificate of Ancestral Domain Titles
CALT	Certificate of Ancestral Land Titles
CAP	Community Action Plan
CARP	Comprehensive Agrarian Reform Program
CAST	Culture and Arts for Social Transformation
CATLU	Central Azucarera de Tarlac Labor Union
CBA	collective bargaining agreement
CBBS	Community Bulletin Board System
CBCP	Catholic Bishops' Conference of the Philippines
CBFM	Community-Based Forestry Management
CDA	Cooperative Development Authority
CDAP	Comprehensive Delineation Action Plan
CeC	community e-centers
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CenTExe	Centers of Technical Excellence
CEPT	Common Effective Preferential Tariff
CESB	Career Executive Service Board
CEZ	Community Employment Zones
CFC	Couples for Christ
CHARMP	Cordillera Highland Agricultural Resource Management Project
CHED	Commission on Higher and Education
CHEDIS	CHED-Information Systems
CIA	CARP-Implementing Agencies
CICT	Commission on Information and Communications Technology
CIDG	Criminal Investigation and Detection Group
CIDSS	Comprehensive and Integrated Delivery of Social Services
ckt-km	circuit-kilometer
CLUP	Comprehensive Land Use Plans
CMMI	Capability Maturity Model Integration
CMP	Community Mortgage Program
CMT	Change Management Teams
CMTS	Cellular Mobile Telephone Service
CNG	compressed natural gas
CNSL	cashew nut shell liquid
CNSP	children in need of special protection
COA	Commission on Audit
COC-IS	Cabinet Oversight Committee on Internal Security

COMELEC	Commission on Elections
CPI	consumer price index
CPIP	Credit Policy Improvement Program
CPLIMS	Core Local Poverty Indicators Monitoring System
CRMP	Coastal Resource Management Project
CSC	Civil Service Commission
CSR	Contraceptive Reliance Strategy
CTM	Communist Terrorist Movement
CWC	Council for the Welfare of Children
DA	Department of Agriculture
DA-BSWM	Department of Agriculture-Bureau of Soils and Water Management
DAC	Distinctive Areas of Competence
DAI	Digital Accessibility Index
DAP	Development Academy of the Philippines
DAR	Department of Agrarian Reform
DARAB	DLR Adjudication Board
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DENR	Department of Environment and Natural Resources
DENR-MGB	Department of Environment and Natural Resources-Mines and Geosciences Bureau
DepEd	Department of Education
DFA	Department of Foreign Affairs
DFS	Diversified Farming System
DHUD	Department of Housing and Urban Development
DICT	Department of Information and Communications Technology
DILG	Department of the Interior and Local Government
DLC	diamond-like-carbon
DLR	Department of Land Reform
DND	Department of National Defense
DOC	Documents of Compliance
DOE	Department of Energy
DOF	Department of Finance
DOF-NCC	Department of Finance-National Credit Council
DOH	Department of Health
DOJ	Department of Justice
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DOT	Department of Tourism
DOTC	Department of Transportation and Communications
DOTS	Directly Observed Treatment Short
DPG	Defense Planning Guidance
DPWH	Department of Public Works and Highways
DSAP	Drugstores Association of the Philippines

DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
DTOMIS	Drug Test Operations Management Information System
E-BESE	ECOP's BESE
eBPLS	Electronic Business Permit Licensing System
EC	electric cooperatives
ECARP	Every Child A Reader Program
ECC	environmental compliance certificate
ECCD	Early Childhood Care and Development
ECP	environmentally-critical projects
EDC	Energy Development Corporation
EER	Efficiency and Effectiveness Review
EIS	Environmental Impact Statement
e-NGAS	Electronic National Government Accounting System
ENR	environment and natural resources
EO	Executive Order
EPI	Expanded Program on Immunization
EPIRA	Electric Power Industry Reform Act
ERC	Energy Regulatory Commission
ESWM	Ecological Solid Waste Management
FAME	Furnishings and Apparel Manufacturers' Exchange
FAP	foreign-assisted projects
FARMC	Fisheries and Aquatic Resources Management Councils
FB	farmer beneficiaries
FDI	foreign direct investment
FEALAC	Forum for East Asia-Latin America Cooperation
FIC	full immunization coverage
FIO	Field Investigation Office
FITS	Farmers Information Technology Service
FMD	Foot and Mouth Disease
FMR	farm-to-market roads
FNRI	Food and Nutrition Research Institute
FOSARV	Follow-on Search and Rescue Vessel Acquisition Project
FP	family planning
FPIC	Free and Prior Informed Consent
FPIC	Free, Prior and Informed Consent
FPW	Framework Plan for Women
FRMP	Fisheries Resource Management Project
FSF	Financial Sector Forum
FSP	Forestry Sector Project
FY	Fiscal Year
GAA	General Appropriations Act
GAD	gender and development
GDP	gross domestic product
Genco	Generation Companies

G-EPS	Government Electronic Procurement System
GF	International Gateway Facilities
GFI	government financial institutions
GIP	Government Internship Program
GIS	Geographic Information System
GITR	Global Information Technology Report
GK	Gawad Kalinga
GNP	gross national product
GOCC	government owned and controlled corporations
GSIS	Government Service Insurance System
HB	House Bill
HDMF	Home Development Mutual Fund
HGC	Home Guaranty Corporation
HSRT	High School Readiness Test
HUDCC	Housing and Urban Development Coordinating Council
IAC	Inter-Agency Committee
IAS	Internal Audit Service
IAS	International Accounting Standards
IBP	Integrated Bar of the Philippines
ICAM	Institute for Cultural and Arts Management
ICT	information and communications technology
IDR	Integrity Development Review
IEE	Initial Environmental Examination
IFC	Intercessors for Christ
IIPA	International Intellectual Property Alliance
IP	indigenous peoples
IPDL	Intellectual Property Digital Library
IPP	Independent Power Producers
IPP	Investments Priorities Plan
IPR	Intellectual Property Rights
IRR	Implementing Rules and Regulations
IS	irrigation system
ISM	International Safety Management
ISP	Information System Plan
ISSC	International Ships Security Certificates
ITECC	Information Technology and E-commerce Council
ITU	International Telecommunications Union
IWG	Industry Working Groups
IWRM	Integrated Water Resource Management
IXC	Inter-exchange Carriers
JARD	Judicial Administrative Reforms and Decentralization
JBIC	Japan Bank for International Cooperation
JDA	Joint Defense Assessment
JDA-PAIG	JDA Planning and Implementation Group
Ji	Jemaah Islamiyah

JURIS	Judicial Reform Initiative Support
KALAHI	Kapit-Bisig Laban sa Kahirapan
KALAHI-CIDSS	Kapit-Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services
KARZones	(KALAHI) Agrarian Reform Zones
KasH	Kasanayan at Hanapbuhay Program
KKB	Kapangyarihan at Kaunlaran sa Barangay
LAMA	Land Administration and Management Authority
LAN	Local Area Network
LBP	Land Bank of the Philippines
LEC	Local Exchange Carriers
LGU	Local Government Units
LIAC	Local Inter-Agency Committees
LPRAP	Local Poverty Reduction Action Planning
LRA	Land Registration Authority
LTI	Land Tenure Improvement
LTO	Land Transportation Office
LWUA	Local Water Utilities Authority
LYDP	Local Youth Development Councils
MAP	Minerals Action Plan
MAP	Microfinance Availment Plans
MAP	modified atmosphere packaging
MAR	Multi-Access Radio
MBC	Makati Business Club
MBE	Molecular Beam Epitaxy
MBUSS	Mindanao Basic Urban Services Sector
MCLE	Mandatory Continuing Legal Education
MDG	Millennium Development Goals
MFI	microfinance institutions
MFO	major final outputs
MHRB	medium and high-rise building
MICE	meetings, incentives, conventions and exhibitions
MILF	Moro Islamic Liberation Front
MMBFOE	Million Barrels of Fuel Oil Equivalent
MOA	Memorandum of Agreement
MRDP	Mindanao Rural Development Program
MSME	micro, small and medium enterprises
MTEF	medium-term expenditure framework
MTPDP	Medium-Term Philippine Development Plan
MTPIP	Medium-Term Public Investment Program
MVEA	Mine Viability and Environmental Assessment
MW	megawatts
MWSS	Manila Water Sewerage System
MYCaPS	Multi-Year and Capability Planning System
NaFFAA	National Federation of Filipino American Associations

NALUA	National Land Use Act
NAPC	National Anti-Poverty Commission
NAP-EVAW	National Action Plan to Eliminate Violence Against Women
NAPOLCOM	National Police Commission
NAPWC	Ninoy Aquino Parks and Wildlife Center
NBI	National Bureau of Investigation
NCC	National Computer Center
NCC	National Credit Council
NCCA	National Commission for Culture and the Arts
NCIP	National Commission on Indigenous Peoples
NCMB	National Coordinating and Monitoring Board
NCR	National Capital Region
NCRFW	National Commission on the Role of Filipino Women
NDC	National Development Company
NDHS	National Demographic and Health Survey
NEA	National Electrification Administration
NEDA	National Economic and Development Authority
NEFCA	National Endowment Fund for Culture and the Arts
NEPP	National English Proficiency Program
NFA	National Food Authority
NG	National Government
NGA	national government agencies
NGC	National Government Center
NGO	nongovernment organizations
NHA	National Housing Authority
NHIP	National Health Insurance Program
NHMFC	National Home Mortgage Finance Corporation
NIA	National Irrigation Administration
NIPAS	National Integrated Protected Areas System
NLRC	National Labor Relations Commission
NLRC	North Luzon Railways Corporation
NLSF	National Livelihood Support Fund
NNC	National Nutrition Council
NPC	National Power Corporation
NPCC	National Price Coordinating Council
NPTC	National Plan to Address Terrorism and its Consequences
NRMDC	Natural Resources Mineral Development Corporation
NSO	National Statistics Office
NSTP	National Science and Technology Plan
NTC	National Telecommunications Commission
NTP	Notices to Proceed
NVS	natural vegetative strips
NWAR	National Warrant of Arrest Registry System
NWIN	National Water Information Network
NWRB	National Water Resources Board

NYC	National Youth Commission
OBU	Offshore Banking Units
OCD	Office of the Civil Defense
ODA	official development assistance
ODS	ozone depleting substances
OFW	overseas Filipino workers
OGCE	other government corporate entities
OMA	Office on Muslim Affairs
OMB	Office of the Ombudsman
OP	Office of the President
OPANGC	Office of the Presidential Adviser for New Government Centers
OPAPP	Office of the Presidential Adviser on the Peace Process
OPCEN	Operations Center
OSCA	Offices of Senior Citizens Affairs
OSND	Office of the Secretary of National Defense
OSSC	One-Stop Shop Committee
OTOP	One-Town-One-Product
OUSIC	Office of the Undersecretary for Internal Control
PAGCOR	Philippine Amusement and Gaming Corporation
PAIRTF	Presidential Anti-Illegal Recruitment Task Force
PAMB	Protected Areas Management Board
PAO	Public Attorney's Office
PARI	Philippine Association of Refrigerant Importers
PBD	Philippine Bidding Documents
PCARRD	Philippine Council for Agriculture, Forestry and Natural Resources Research and Development
PCASTRD	Philippine Council for Advanced Science and Technology Research and Development
PCCS	Position Classification and Compensation System
PCEP	Philippine Cultural Education Plan
PCFC	People's Credit and Finance Corporation
PCGG	Presidential Commission on Good Government
PCHRD	Philippine Council for Health Research and Development
PciP	Philippine Cultural Index Project
PCO	public calling offices
PCR	polymerase chain reaction
PDAP	Provincial Delineation Action Plan
PDEA	Philippine Drug Enforcement Agency
PDI	Parallel Drug Importation
PDIP	Parallel Drug Importation Program
PDR	Philippine Defense Reform
PDTF	People's Development Trust Fund
PEDP	Philippine Export Development Plan
PEMIP	Public Expenditure Management Improvement Program
PESFA	Private Education Students Fund Assistance

PESO	Public Employment Service Office
PFZ	Poverty Free Zones
PHIC	Philippine Health Insurance Corporation
PHIVOLCS	Philippine Institute of Volcanology and Seismology
PIC	Philippine Infrastructure Corporation
PIDS	Philippine Institute for Development Studies
PMC	Project Monitoring Committees
PNOC	Philippine National Oil Company
PNP	Philippine National Police
PNQF	Philippine National Qualifications Framework
PNRI	Philippine Nuclear Research Institute
POEA	Philippine Overseas Employment Administration
PPA	Philippine Ports Authority
PPCRV	Philippine Pastoral Council for Responsible Voting
PPO	Parole and Probation Office
PPRA	Program Performance Review and Analysis
PPSC	Philippine Public Safety College
PRRC	Pasig River Rehabilitation Commission
PSALM	Power Sector Assets and Liabilities Management Corporation
PTA	Philippine Tourism Authority
PTCA	Parents-Teachers-Community Associations
PTE	public telecommunications entities
PU	Private Utilities
PWD	persons with disabilities
QTP	Qualified Third Party
QUEDANCOR	Quedan and Rural Credit Guarantee Corporation
R&D	research and development
RA	Republic Act
RATE	run after tax evaders
RELIEF	Reconciliation and Listing of Establishments
RF	Radio Frequency
RH	reproductive health
ROW	right-of-way
RRP	reverse repurchase
RRTS	Roll-On/Roll-Off Terminal System
RSCWC	Regional Sub-Committee on the Welfare of Children
S&T	Science and Technology
SAR	Search and Rescue
SARS	Severe Acute Respiratory Syndrome
SAT	Site Acceptance Test
SBGFC	Small Business Guarantee and Finance Corporation
SC	Supreme Court
SCADA	Supervisory Control and Data Acquisition System
SCTEP	Subic-Clark-Tarlac Expressway Project
SCTEXT	Subic-Clark-Tarlac Expressway Extension

SDC	Social Development Committee
SEA-K	Self-Employment and Assistance Kaunlaran
SEC	Securities and Exchange Commission
SEIPI	Semiconductor and Electronics Industries in the Philippines, Inc.
SETUP	Small Enterprise Technology Upgrading Program
SFMA	Sustainable Forest Management Act
SHFC	Social Housing Finance Corporation
SLEX	South Luzon Expressway
SLT	Schools of Living Traditions
SME	small and medium enterprises
SMS	short message services
SONA	State of the Nation Address
SPM	Strategic Planning Matrix
SPP	State of the Philippine Population Report
SPUG	Small Power Utilities Group
SPVA	Special Purpose Vehicle Act
SRC	Seafarer's Registration Card
SRRFPDP	Social Reform Related Feeder Ports Development Project
SSL	Salary Standardization Law
SSS	Social Security System
SUC	state universities and colleges
SULONG	SME Unified Lending Opportunities for National Growth
SWAT-EOD	Special Weapons and Tactics-Emergency Operation Division
SWG	special working group
SY	School Year
T/L	transmission lines
TB	Tuberculosis
TECHNICOM	Technology Incubation for Commercialization
TESDA	Technical Education and Skills Development Authority
TESDP	Technical Education and Skills Development Project
TEZ	Tourism Economic Zones
TEZA	Tourism Enterprise Zone Authority
TIPC	Tripartite Industrial Peace Councils
TLRC	Technology and Livelihood Resource Center
TransCo	Transmission Corporation
TSP	total suspended particulate
TVET	technical vocational education and training
TWRG	Transmission Wheeling Rate Guideline
UCPB-CIIF	United Coconut Planters Bank-Coconut Industry Investment
UDP	Upland Development Programme
ULWU	United Luisita Workers' Union
UN-ASPA	UN and the American Society of Public Administration
UNFPA	United Nations Population Fund
UP MSI UP	Marine Science Institute

UPISSI	UP-Institute of Small Scale Industries
UP-NIP	UP National Institute of Physics
USGS	United States Geological Services
VAS	value-added service
VAW	Violence Against Women
VAWCC	VAW Coordinating Committee
VoIP	Voice over Internet Protocol
VRIS	Voter Registration and Identification System
VSAT	Very Small Aperture Terminal
WAC	World Agroforestry Centre
WASCO	Water and Sanitation Coordinating Office
WB	World Bank
WEIn	Wireless in Education Initiative
WESM	Wholesale Electricity Spot Market
WLL	Wireless Local Loop
WTO-TRIPS	World Trade Organization-Trade-Related Aspects of Intellectual Property Rights
YEP	Youth Entrepreneurship Program
YP4SC	Youth Profile for Starring Career

Chapter 1

The Economy

The economy performed respectably in 2004 despite adverse internal and external factors such as rising global oil and commodity prices, weak fiscal position, and uncertainty on the outcome of the May elections. Prudent fiscal management enabled the government to keep the deficit within programmed limits. However, the impact of the growth on quality of life was muted as inflation and unemployment rose despite faster growth. The banking sector also continued to be hampered by the large level of nonperforming loans accumulated since the 1997 Asian crisis.

For 2005, fiscal consolidation, management of inflationary pressures, and sustaining economic growth will be the major policy imperatives.

MACROECONOMIC PERFORMANCE IN 2004

The government achieved its growth, fiscal, and external payments targets on account of the continued expansion in global demand amid rising oil prices, continued investor interest in sectors such as ICT, trade, and real estate, and prudent fiscal and monetary management. However, there was failure to deliver on the targets that directly impact on people's quality of life, which are inflation and employment.

Real gross domestic product (GDP) expanded 6.1 percent in 2004, surpassing the growth in 2003, the MTPDP target and the forecast of many private analysts and multilateral agencies.¹ Gross national product (GNP) net of inflation likewise rose 6.1 percent, breaching the target of 5.2-6.0 percent. The expansion was also in line with other Asian economies, which posted robust rates of expansion due to favorable growth in exports and their recovery from the Severe Acute Respiratory Syndrome (SARS) epidemic.

However, although growth has been robust, the low investment and savings ratios and undiversified export structure pose a constraint to the acceleration of economic growth, if not addressed. Economic growth has been largely consumer-driven and funded by remittances from overseas Filipino workers. In 2004, the share of personal consumer spending to total GDP stood at 69.04 percent, higher than Indonesia (60.5%); Thailand (54.5%); and Malaysia (48.3%). Conversely, the Philippines' investment to GDP ratio stood at 17 percent in 2004, comparably less than those of Indonesia (22.7%); Malaysia (22.4%); and Thailand (27.1 %).

Meanwhile, OFW remittances rose to 9.9 percent of GDP in 2004, a slight increase from 9.6 percent in 2003. The ratio has steadily increased through the years, from 2.6 percent in 1990 (\$1.2 billion) to 9.9 percent of GDP in 2004 (\$8.5 billion). It is worthy to note however, that while consumption still has the highest contribution to growth, the country's gross domestic capital formation in real terms made a positive contribution to GDP growth (2.5 percentage points out of the 6.1 percentage points GDP growth), the first since 2001.

¹ For example, the Asian Development Bank projected a real GDP growth of 5.5%, International Monetary Fund, 5.2%, and World Bank, 5.4%.

TABLE 1.1 Aggregate Economic Performance

	2003	2004	
	Actual	MTPDP Target	Actual
Gross National Product, growth rate (%)	5.6	5.2 - 6.0	6.1
Gross Domestic Product, growth rate (%)	4.7	4.9 - 5.8	6.1
Investment/nominal GDP (%)	16.6	5.8-17.1	17.0
Inflation rate	3.5	4.0 - 5.0	6.0
91-day T-bill rate	6.0	7.5 - 8.5	7.35
Fiscal balance (% of GDP)	-4.6	-4.2	-3.86
Consolidated Public Sector Deficit (% of GDP)	5.2	6.7	4.8
Exports of goods, growth rate (%)	2.9	10.0	9.3
Imports of goods, growth rate (%)	5.8	13.0	7.5
Current Account Balance (US\$ Mn)	1396	1483	2080
(% of GDP)	1.8	1.7	2.4
Gross International Reserves (US\$ Bn)	17.06	15.0	16.23
Poverty Incidence (families) (%)	24.7 ^{a/}	25.69 - 26.04 ^{a/}	-
Unemployment rate (%)	11.4	12.0	11.8
Memo items:			
Dubai oil price, average (US\$/bbl)	26.79	33.44	33.63
P/\$ exchange rate	54.20	54.0 - 56.0	56.04

^{a/} The 2004 MTPDP target is higher than the 2003 actual because the MTPDP targets were finalized prior to the release of the actual 2003 poverty incidence, which turned out to be lower than projected by NEDA.

Sources: National Economic and Development Authority (NEDA), National Statistical Coordination Board (NSCB), Bangko Sentral ng Pilipinas (BSP), Bureau of the Treasury (BTr), National Statistics Office (NSO), Department of Finance (DOF)

TABLE 1.2 2003-2004 GDP Growth for Selected Asian Countries (In percent)

	2003	2004
Philippines	4.7	6.1
Singapore	1.1	8.4
Hong Kong	3.2	8.1
Malaysia	5.3	6.7
Indonesia	4.5	5.1
Thailand	6.9	6.1
South Korea	3.1	4.6
Taiwan	3.3	5.7
China	9.4	9.5

Sources: Country statistical websites

Exports remain vulnerable to the vicissitudes of the cycle in the global IT market, due to the dependence on electronics, which account for 67 percent of total exports in 2004, from 23 percent in 2001. The Ogive Index, which is a measure of the deviation of a commodity to an ideal share of $1/N$, and where perfect diversification will yield a value of 0, has also risen from 7.8 in 1991 to 13.0 in 2004, indicating a higher concentration ratio.²

Sources of Growth by Production Sector

Production expanded strongly across agriculture, industry, and services, with personal consumer spending and exports as the major forces of the expansion.

Agriculture. The agriculture, fishery, and forestry sector grew at a stronger pace of 4.9 percent from 3.8 percent in 2003,

² Concentration ratio = $(S_i - 1/n)^2$, where n = number of commodities; S_i is actual share $1/n$

**TABLE 1.3 Growth Rate (In percent) of Aggregate Economic Indicators
(At constant 1985 prices)**

	2003 Actual	2004 MTPDP Target	Actual
Gross National Product	5.6	5.2 - 6.0	6.1
Gross Domestic Product	4.7	4.9 - 5.8	6.1
Net Factor Income from Abroad	17.9	8.5 - 8.7	4.9
Production			
Agriculture, Fishery & Forestry	3.8	4.0 - 5.0	4.9
Industry	3.8	4.4 - 5.2	5.3
Mining and Quarrying	16.8	10.0 - 10.9	4.3
Manufacturing	4.2	4.5 - 5.3	5.0
Construction	-2.6	2.4 - 2.9	8.9
Utilities	3.2	3.3 - 4.3	3.9
Services	5.8	5.7 - 6.6	7.3
Trans., Comm. and Storage	8.6	9.5 - 10.4	12.2
Trade	5.7	5.6 - 6.5	6.8
Finance	7.1	5.7 - 6.4	8.4
O. Dwellings and R. Estate	4.0	3.3 - 4.2	6.0
Private Services	5.1	5.5 - 6.4	6.8
Government Services	2.9	2.2 - 3.1	1.6
Expenditure			
Personal Consumption	5.3	5.0 - 5.7	5.8
Government Consumption	0.5	0.8 - 1.7	-0.8
Investments	0.1	8.8 - 9.3	12.7
Of Fixed capital	2.9	4.7 - 5.4	5.1
Construction	-2.9	3.4 - 4.0	6.2
Public	-15.5	0.8 - 1.7	5.2
Private	6.8	4.5 - 5.4	6.8
Exports	4.4	3.4 - 4.4	14.0
Imports	10.2	7.0 - 8.0	6.3

reaching the high-end of the official target of 4.0-5.0 percent. Growth came largely from the robust increases in palay, corn, and fishery, which compensated for the poor performance of livestock and poultry, which were hit by the sharp rise in prices of imported inputs. Propping up the growth were favorable weather conditions and government support through the distribution of quality seeds and fertilizers, credit support, favorable prices due to higher demand and price support programs, and the effective control of pests and diseases. However, some issues relating to the effectiveness of various government programs remain, and these can weigh down the acceleration of growth and the sector's

diversification, if not addressed immediately (*see Chapter 3-Agribusiness*).

Industry. Industrial growth picked up to 5.3 percent in 2004 due to the recovery in construction and the expansion in manufacturing. Manufacturing strengthened in 2004, supported by strong consumer and export demand. Electronic products posted a hefty 13.1 percent growth during the year alongside 14 other subsectors including export-oriented industries like textile (8.0%), furniture and fixture (22.4%), nonelectric machineries (4.2%), as well as domestic-oriented manufactures such as food (8.7%), beverage (10.4%), publishing and printing (18.6%), and metal industries

(7.2%). All intermediate industries also posted positive growth including rubber products (24.8%), transport equipment (9.4%), chemicals (9.2%), nonmetallic mineral products (11.8%), basic metals (5.3%), and miscellaneous manufactures (0.7%).

Private construction benefited from higher demand for middle- and high-end housing and commercial office spaces from BPOs/call centers and the expansion of big and small retailers in the provinces and infrastructure projects. The rehabilitation of the North Luzon Expressway and the completion of LRT-2 (purple line) also bolstered construction spending.

Utilities turned in a modest growth due to the impact of higher electricity prices and energy conservation measures. The water subsector, however, benefited from greater connection of households to piped water operated by water concessionaires.

Notwithstanding the strong global demand for metals in 2003, the mining sector registered a modest increase of 4.3 percent due to the drop in oil and condensate yield from Malampaya, and in gold production on account of the closure of some mining operations.

Services. The services sector remained as the key growth driver, led by transport, communication, and storage, largely arising from the aggressive expansion and product diversification of major telecommunication players and investments in contact/call centers and BPOs (*see Box 1.1*). The expansion in ICT-related sectors has also spilled over into the real estate sector and private services. Ownership of dwellings and real estate rose six percent, mainly from sales of residential properties in and outside Metro Manila and leases to call center operations. Private services, which include business services, medical, recreational, and

hotel/restaurant services, also expanded vigorously.

Meanwhile, the financial sector expanded at a healthy pace, notwithstanding the tepid growth in bank lending, on account of higher interest income from the purchase of government securities and fee-based activities.

Sources of Demand

On the demand side, the main sources of growth were personal consumption and exports.

Consumption. Personal consumption expenditure expanded at a robust 5.8 percent with the increase in the pace of spending across most consumer items, except for fuel, light, and water. Driving the growth is the increase in rural incomes arising from the good performance of the agriculture sector, election campaign-related spending, and remittances from overseas Filipino workers (OFWs).

In contrast, government consumption expenditures contracted 0.8 percent from a weak 0.5 percent growth a year ago as the government undertook a fiscal consolidation program to attain its fiscal targets.

Investment. Capital formation rose 12.7 percent, but this came mainly from a buildup in the inventory of crude oil and petroleum products and sugar. Fixed investments grew at a more subdued pace of 5.1 percent, while the pace of spending on durable equipment slackened to 4.4 percent compared to 8.5 percent a year ago. Investments were mainly in telecommunications (14%), tractors (8.6%), and road vehicles (14%) with investments in other areas declining or growing at modest paces. These equipment

BOX 1.1

Philippines: A Major Destination for Offshore Contact Centers and BPO in Asia

The advent of contact/call center operations in Asia has by far, benefited the Philippines in terms of attracting investments and creating employment. Banking on its vast pool of an English proficient labor force, the Philippines is increasingly seen as the preferred destination for many offshore call centers and has already captured about 20 percent of the market share in the offshore call center industry in Asia. In 2003, a survey done by the Asian Call Center Review showed that by comparison, the country still has the highest level of English proficiency than any country in Asia. Similarly, the Offshore Outsourcing/ Global Guide Study of CIO also noted that Filipinos are by far one of the easiest-to-understand accents for most people whose first language is English. Starting mainly from providing e-mail response/handling support and technical support, the contact center industry in the Philippines has developed capabilities for almost any type of customer interaction, ranging from travel services, financial services, technical support services, education support services, consumer services, on-line business to consumer support and on-line business to business support.

The Board of Investments (BOI) reported that total investments made in contact centers grew at a hefty 24.6 percent to PhP8 billion in 2004 compared to the P6.42 billion investments registered in 2003. This accounts for about 79.14 percent share to the total investments made in the Information, Communication, and Technology (ICT) sector. According to BOI, more than 60 contact/call centers (majority of which are subsidiaries of US-based companies) are currently operating in the Philippines doing mostly inbound calls. The number of actual seats is estimated to be around 42,000 and employing at least 56,000 agents. With a projected growth of 80 percent by 2005, some 63,000 jobs are expected to be created by the end of next year.

The increasing market for contact centers has led to expansion in other major cities in the country such as Baguio and Cebu. Likewise, local governments of other provinces such as Leyte, Iloilo, Negros Oriental, and Davao were also intensifying their efforts to attract call center companies.

Another booming area for the Philippines is business process outsourcing (BPO). According to Gartner, Inc., a leading provider of research and analysis on global ICT industry, BPO is the delegation of one or more ICT-intensive business process to an external provider that, in turn owns, administers and manages the selected processes based on a defined and measurable performance matrix. It consists of four broad areas namely: business administration and sales, marketing & customer care, operations and supply chain management.

On the *Business Process Outsourcing Fast Facts* of the Board of Investments, the country's BPOs are classified according to two types: internal BPO vendors and external BPO vendors. Majority of the players, however, belong to the former. In 2004, there were around 14 companies that moved some of their services into centralized operations in the Philippines. These companies were either shared service centers of large U.S. and global corporations or ICT service companies with data entry capabilities and business process expertise. The limited number of pure-play BPO providers in the Philippines represents an important difference with India, where local or U.S. BPO vendors are beginning to actively position themselves as independent providers of back-office processing services. The advantageous position of the country in continuously capturing the BPO market are due to (a) best accounting skills (as cited by P&G Group Worldwide); (b) 20-40 percent cost savings after implementation; (c) productivity gain at 25-40 percent by the time shared services operation is fully developed (as quoted by *The Assets: Sharing A Backroom Revolution*); (d) usage of international standards and business experience; (e) strong service orientation; (f) positive cultural affinity; and (g) good infrastructure support.

investments coincided with the expansion of telecommunication companies (telcos), strong agriculture production, and recovery in construction performance. Overall, the investment-to-GDP ratio at 1985 prices reached 20.7 percent, slightly ahead of the 20.1 percent target.

Net exports. Total exports accelerated to 14 percent, breaching the conservative target

of 3.4-4.4 percent. This was caused by the upsurge in merchandise exports on account of various factors: the turnaround in the global electronics industry; continued expansion in the US, abetted by the recovery in Japan and rising demand from China; and a depreciation of the real and effective exchange rate that made Philippine exports cheaper. Among the merchandise

growth drivers were semiconductors, finished electrical equipment, ignition-wiring sets, bars/rods of copper, transmission apparatus, canned pineapple, centrifugal sugar, baskets, basketwares and iron agglomerates. Semiconductors in particular, turned around from the previous year's slump while transmission apparatus benefited from the advancing transport industry in the region.

Posting strong growth is nonfactor services exports, which grew 15.6 percent as tourism activity rebounded from the slump in 2003 due to the SARS epidemic. This was boosted by exports of call centers/BPOs, which are recorded as miscellaneous services and which expanded 5.3 percent. The growth is understated compared to the number of seats that have been expanding at about 100 percent yearly.

Meanwhile, imports of merchandise goods and nonfactor services imports slowed due to rising international commodity prices and the depreciation of the peso. Imports of base metals, cereals and cereal products, transport equipment, chemical elements and compounds, and metal manufactures contracted.

Fiscal Strengthening

Management of the weak fiscal position was the focus of macroeconomic policy in 2004. After the deficit problem exploded in 2002, the National Government (NG) embarked on a fiscal consolidation program in 2003. The modest fiscal headways in 2003 were sustained in 2004 as the national government turned in a lower-than-target deficit of PhP187.1 billion (3.9% of GDP). These have resulted in a primary surplus over the last two years equivalent to about 1.6 percent of GDP in 2004, up from 0.7 percent in 2003. The improvement in fiscal policy is also reflected in positive primary gap and tax

gap in 2004, which indicate that the economy generated primary balances and taxes higher than the amount necessary to stabilize the debt-to-GDP ratio. However, reforms need to be carried out strongly on a sustained basis as fiscal stress tests indicate that the fiscal ratios could still deteriorate significantly in the face of smaller than programmed growth in revenues, GDP, and exchange rate and interest rate shocks (*see Box 1.2*).

Balance the national government budget in six years

To achieve the goal of balancing the national government budget by 2010, the government undertook measures to improve collection efficiency and to control spending. This has resulted in 11.7 percent rise in revenues, equivalent to 14.4 percent of GDP, on account of higher than programmed collection from the Bureau of Customs (BOC) and Bureau of Treasury (BTr). However, the Bureau of Internal Revenue (BIR) missed its target by PhP8 billion, and taxes did not grow in line with GDP growth, resulting in a lower BIR tax-to-GDP ratio of 9.67 percent compared to 2003 and to the target of 10.25 percent. The BIR missed its target owing largely to below-target collections from VAT, net income and profit, and other percentage and domestic taxes. The undercollection in VAT was partly traced to the reinstatement of gross receipt tax on financial institutions in January 2004 (Republic Act 9238), even with the increase in percentage tax from banks and financial institutions.

To improve collection efficiency, the BOC overhauled its customs processing system and warehousing procedures. The peso depreciation, the increase in higher average tariffs from 5.26 in 2003 to 5.69 in

2004, and the excise taxes imposed on imported goods further lifted revenues.

Meanwhile, some initiatives are seen to improve BIR's surveillance capability and tax collection efficiency over the medium term. These include the Tax Compliance Verification Drive, the use of third party information, and the Reconciliation and Listing of Establishments (RELIEF) System, which facilitate the processing and use of data/information to detect leakages, recover revenue losses, and establish an audit trail. Strict monitoring of withholding tax remittances by local government units (LGUs) and national government agencies (NGAs) has also done a great deal in removing the obstacles to effective collection. Also, a joint DOF-DBM Circular No. 2-04 was issued December 16, 2004, reminding all departments, bureaus, commissions, agencies, and offices to adjust fees and charges in accordance with cost recovery principle as stipulated in EO 197 issued on January 13, 2000. The Attrition Act, or Republic Act (RA) 9335 was also passed in January 2005, and this is seen to optimize the revenue generating capability and collection efficiency of the BIR and

BOC through a system of rewards and sanctions.

These administration reforms are mostly in their early stages, and so administrative measures alone will not be adequate to cause an immediate and significant turnaround in tax effort. Hence, the need exists to complement these with legislative reforms that also correct the structural problems in the tax system. In 2004, RA 9334 or the law on the adjustment of excise taxes on alcohol and cigarette products was signed on December 20, 2004. The law, however, does not provide for periodic indexation of excise tax rates to inflation, a feature that could have easily addressed the erosion in the tax base that is inherent in noninflation-indexed excise tax system. Congressional deliberations to reform the value-added tax and the rationalization of fiscal incentives also began in 2004, with the intent to increase the tax base and make it more buoyant.

Nontax revenues posted a hefty increase, mainly on account of Bureau of Treasury's income of PhP64.7 billion, surpassing its target of PhP40.7 billion. The

TABLE 1.4 National Government Cash Operations (In billion pesos)

	2003		2004		2004	
	Actual	% of GDP	Actual	% of GDP	Program	% of GDP
Revenues	626.6	14.57	699.8	14.44	676.4	14.55
BIR	425.4	9.89	468.2	9.67	476.3	10.25
BOC	106.1	2.47	122.5	2.53	112.6	2.42
BTr	56.7	1.32	64.7	1.34	40.7	0.88
Other Offices	38.5	0.90	44.4	0.92	46.8	1.01
Expenditures	826.5	19.22	886.8	18.31	874.2	18.81
o.w. Interest Payments	226.4	5.27	260.9	5.39	265.9	5.72
Deficit	(199.9)	(4.65)	(187.1)	(3.86)	(197.8)	(4.25)
Primary Surplus*	31.6	0.73	79.1	1.63	76.0	1.64
Financing	199.9	4.65	187.1	3.86	197.8	4.25
External Financing	143.9	3.35	81.2	1.68	(6.6)	(0.14)
Domestic Financing	143.0	3.32	161.4	3.33	235.3	5.06
less: Change in Cash	25.8	0.60	(19.4)	(0.40)	6.9	0.15
less: Non-budgetary accounts	61.2	1.42	74.9	1.55	23.9	0.51

Details may not add up due to rounding off.

* Refers to revenues net of privatization less expenditures net of interest payments and net lending Source: MTPDP 2004-2010 and Revised Cash Operations Report, Bureau of Treasury (April 13, 2005)

Bureau was able to maintain the benchmark 91-day T-bill rate at 7.34 percent vis-à-vis target of 7.5 percent.³ This enabled the government to realize interest payment savings of Php4.9 billion. In addition, privatization receipts for the 2004 posted a total of Php9.08 billion, of which Php9.27 has been remitted to the National Treasury.⁴ The Presidential Commission on Good Government (PCGG) has recovered Php8.97 billion from the Marcos Swiss deposits and from the sale of ill-gotten wealth, which shall accrue to the CARP funds.

Expenditure management, on the other hand, was characterized by continued implementation of austerity measures with the issuance of Administrative Order (AO) 103 last August 31, 2004. Disbursements stood at 18.3 percent of GDP, lower than the target of 18.8 percent, due to interest savings. On the negative side, the fiscal austerity program has resulted in compressed spending (obligation basis) across various types of spending. As a percent of GNP, economic services declined to 2.99 in 2004 from 3.68 in 2003; social to 4.77 percent from 5.14; defense to 0.84 percent from 0.96

percent; and general services to 2.64 percent from 3.06 percent.

Another critical reform area in expenditure management was the institutionalization of the 2004-2010 Medium-Term Public Investment Program (MTPIP), preparation of which began in July 2004.⁵ The MTPIP will be the basis for drawing up the agenda for Investment Coordination Committee (ICC) processing and will guide the annual budgeting exercise. Moreover, the revised ICC Guidelines were issued in August 2004 to help ensure timeliness of ICC review and approval process. The updated guidelines were made available in the NEDA website for greater transparency in ICC action and to facilitate public access to information.

Reduce CPSD-to-GDP from 6.7 percent in 2004 to 1.0 percent in 2010

The consolidated public sector deficit (CPSD) significantly declined to 4.8 percent of GDP in 2004, which is lower than the program of 6.7 percent of GDP. The decline in CPSD was mainly on account

TABLE 1.5 Consolidated Public Sector Position
(In billion pesos)

Particulars	2003 Actual	% of GDP	2004 Actual	% of GDP	2004 Program	% of GDP
Total Surplus/(Deficit)	(221.7)	(5.2)	(233.5)	(4.8)	(316.0)	(6.7)
National Government	(199.9)	(4.6)	(187.1)	(3.9)	(197.8)	(4.2)
CB Restructuring	(15.7)	(0.4)	(17.5)	(0.4)	(17.1)	(0.4)
14 MNFGCs	(65.3)	(1.5)	(90.7)	(1.9)	(125.5)	(2.7)
SSIs (SSS, GSIS, PHIC)	17.6	0.4	25.1	0.5	11.7	0.2
BSP	6.9	0.2	3.3	0.1	1.0	0.0
GFIIs (DBP, LBP, Philexim)	4.9	0.1	5.2	0.1	5.2	0.1
LGUs	21.0	0.5	17.9	0.4	1.2	0.0
Adjustments*	8.7	0.2	10.3	0.2	5.3	0.1

*Adjustments include net lending and equity extended by NG to GOCCs and some amount to GFIs.

Source: Department of Finance (as of April 5, 2005)

³ The average interest rates for 182-day and 364-day T-bills were 8.321% and 9.218%, respectively.

⁴ Cumulative gross revenues, as of December 31, 2004 amounted to P213.7 billion, P141.2 billion of which was remitted to the National Treasury. These correspond to 493 cumulative number of accounts that were disposed, 74.2 % of which came from disposition of non-performing (transferred) assets. The Privatization Council also turned over the disposition of NG-owned 36 financial-form assets to LBP pursuant to Asset Servicing Agreement between the DOF/NG and LBP, executed on November 16, 2004.

⁵ The MTPIP is expected to be ready in March 2005.

of lower NG and GOCC deficits. The lower GOCC deficit was mainly brought about by the increase in NPC tariffs of PhP0.98/kWh, the privatization of six NPC's generating plants amounting to US\$567 million, and controlled capital spending.

Reduce the ratio of public sector debt-to-GDP to 90 percent by 2010

The NG regular debt slightly rose to 78.7 percent of GDP in 2004 from 78.03 percent in 2003. Meanwhile, the total consolidated nonfinancial public sector debt stood at 94.83 percent as of end-September 2004.

Although the debt ratios are high, the structure of the debt is sound with medium and long-term NG debt accounting for 84.4 percent of total debt. Under the Bond Exchange executed in February 2004, the Republic retired approximately US\$1.2 billion original principal amounts of Old Bonds, including inefficient Brady Bonds in exchange for bonds with a 2011 maturity. The successful exchange resulted in a smoother near-term maturity profile, longer average maturity, release of collaterals attached to some Brady Bonds, and introduction of new benchmarks with collective action clauses.

To manage contingent liabilities, the government limited the approval of NG guarantees to GOCC borrowings where the undertakings are financially viable and in accordance with the government's priority agenda. NG's *'willingness to guarantee'*, which is a requirement for Monetary Board's approval of GOCC guarantees, was reduced to PhP108.4 billion from PhP129.2 billion in 2003. Consequently, guaranteed loans were limited to PhP101.6 billion as against PhP149.9 billion in 2003.

With respect to official development assistance (ODA), greater adherence to project quality and the fiscal constraint has

led to a reduction in total commitments. As of December 2004 total commitment stood at US\$10.7 billion, which is 6 percent lower than in 2003 and 23 percent lower than in 2000. Problems remain with respect to ODA. ODA loans disbursement declined by 22 percent in 2004 compared to 2003 level, with project loans disbursement decreasing by 5 percent, and program loans disbursement falling by 78 percent. Key issues that affected implementation of ODA funded projects in 2004 were: budget cover for NG agencies, delays in the procurement of contracts in a number of GOCCs, and the 2004 elections especially for projects with LGU participation.

Financial Sector

Management of inflationary pressures

Cost-push pressures here and abroad lifted prices of goods and services, as the annual inflation rate reached 5.5 percent using the 1994 consumer price index (CPI) basket and 6.0 percent using the 2000 CPI basket, both breaching the inflation target of 4.0-5.0 percent. Increasing Dubai crude oil prices, hitting a record-high US\$37.54/bbl in October, led to increases in transport fares and electricity tariffs, the latter also caused by the need to address Napocor's financial losses. Rising demand from China also pushed up prices of commodities such as urea and soybean meal, which are inputs to agriculture. Meanwhile, typhoons *Unding*, *Winnie* and *Violeta* caused a seasonal increase in some agricultural commodities, mostly vegetables.

Given that the inflation uptrend in 2004 was largely caused by supply-side factors, which is beyond the control of monetary policy, the Bangko Sentral ng

Box 1.2 Fiscal Sustainability Assessment

The health of the Philippine fiscal position has become a major cause of concern. In recent months, Philippine debt papers have been downgraded by credit rating agencies on concerns over the high debt burden and financing gap, which heightens the vulnerability of the economy to exogenous shocks such as an uptick in global interest rates and shifts in international capital flows.

Sustainability and vulnerability are key concepts used in assessing the state of the fiscal sector. Put simply, debts are *unsustainable* if the debt ratio rises without bounds. Sustainability is related to solvency and liquidity while vulnerability pertains to the *risk* of insolvency or illiquidity.

From 1998, the debt-to-GDP ratio, a measure of solvency, started to rise due to deterioration in tax collection efficiency. The debt-to-GDP ratio exceeded the IMF's rule of thumb of 80 percent for severe indebtedness and 50 percent for moderate indebtedness.¹ Liquidity ratios are not as precarious on account of the long-term structure of the country's debts and adequate coverage of international reserves to finance imports and short-term debts by residual maturity. However, although liquidity ratios on external debt were not highly alarming, the liquidity position on national government debt as measured by NG debt service-to-revenues was worsening.

Concerns about the country's long-term growth potential amidst weakening investment rates, the narrow base of Philippine exports, and large external financing required to finance maturing obligations further heightened the risks of insolvency and illiquidity.

Recognizing that fiscal imbalance has been a major threat to macroeconomic stability, the Philippines embarked on a fiscal deficit reduction program beginning 2003. The program aims to attain balanced budget for the national government and consolidated public sector deficit equivalent to one percent of GDP by 2010. The program was off to a good start in 2004 as evidenced by modest improvement in sustainability indicators.² Both the structural primary gap and the tax gap of the national government finally turned positive in 2004. A positive structural primary gap means that the structural primary surplus exceeds the required primary surplus to stabilize the debt-to-GDP ratio. A positive tax gap also means that the tax-to-GDP ratio exceeds the required tax-to-GDP ratio to stabilize the debt-to-GDP ratio.

TABLE 1.6 Selected Vulnerability Indicators
(In percent)

FISCAL (National Government's Domestic and External Debt)	Average 1986-1992	Average 1992-1998	1998	1999	2000	2001	2002	2003	2004
NG Regular Debt-to-GDP	59.7	61.5	56.1	59.6	64.6	65.7	71.1	78.0	78.7
Share of short-term debt to NG debt	29.4	33.7	29.5	26.2	21.6	17.9	14.4	14.8	15.6
Share of medium & long-term debt to NG debt	70.6	66.3	70.5	73.8	78.4	82.1	85.6	85.2	84.4
NG debt service/Revenues	48.8	35.9	35.6	42.9	44.3	48.7	63.1	75.0	86.0
Primary balance-to-GDP ¹	3.3	3.5	1.8	-0.2	0.1	0.8	-0.6	0.7	1.6
EXTERNAL Debt (covers both public and private debt)									
External debt-to-GDP	73.9	59.8	73.4	67.0	67.5	72.9	69.9	72.3	66.2
External debt service burden/Exports	26.5	14.8	11.7	14.1	12.4	15.8	16.4	17.2	13.8
Short-term external debt/Gross International Reserves	154.6	63.1	54.2	32.9	36.6	38.4	34.4	36.6	35.9
Gross International Reserves/Debt Service Burden	98.1	184.5	212.1	226.7	247.3	238.3	217.2	211.7	269.9
GIR/ST debt by residual maturity ³	73.0	104.2	111.7	188.6	163.5	143.2	142.0	140.0	152.1

Source: DOF, BSP

¹ Refers to Revenues net of privatization less expenditures net of interest payments and net lending

² 2004 external debt-to-GDP figure, as of January-September; other 2004 indicators cover January-October data

³ Residual maturity refers to short-term debt on an original maturity basis plus amortization falling due within one year on medium-long term debts.

**TABLE 1.7 Structural Primary Gap and Tax Gap Analysis
of National Government Accounts (Percent of GDP)**

	1998	1999	2000	2001	2002	2003	2004
Structural Primary Gap	-14.96	1.99	-6.62	-5.75	-0.72	-1.47	1.83
Tax Gap	-16.92	0.15	-8.43	-7.59	-2.58	-3.32	0.08

Source: NEDA-NPPS estimates, as of March 2005. Constant NG debt-to-GDP ratio pertains to 1997 ratio, which marks the most recent episode where the NG debt ratio hit the highest point after a period of decline. Since then, the debt-to-GDP has continuously risen. The other peak years were 1987 and 1992.

Fiscal consolidation and macroeconomic reforms need to be sustained vigorously to reduce the vulnerability of the economy to shocks such as reduction in economic growth, lower revenue collections, interest rate increase and peso-dollar depreciation. Based on a fiscal stress test, the Philippines can achieve NG debt-to-GDP ratio of 65 percent by 2009 if the economy grows at seven percent and if revenue collection efficiency improves to 15.5 percent by 2009 (taking into account the fiscal program with administrative measures only). However, combined one-standard deviation shocks each on GDP growth and revenue growth significantly slows down the rate of decline (-0.8%) in NG debt-to-GDP over the medium-term vis-à-vis average rate of decline under the baseline scenario (-4.0%).

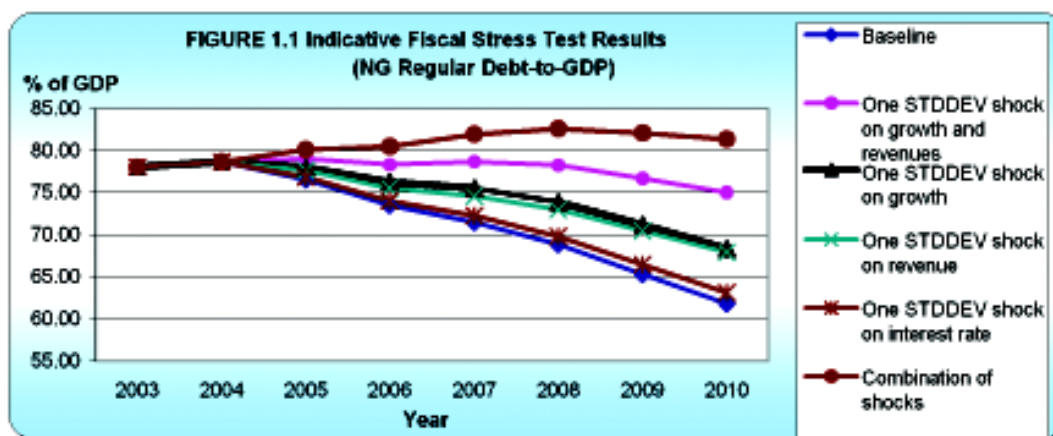


FIGURE 1.2 NG Regular Debt-to-GDP

	2003	2004	2005	2006	2007	2008	2009	2010
Baseline *	78.03	78.70	76.53	73.45	71.47	68.82	65.29	61.84
One STDDEV shock on growth and revenues	78.03	78.70	79.03	78.36	78.70	78.23	76.68	75.00
One STDDEV shock on growth	78.03	78.70	77.99	76.25	75.47	73.85	71.15	68.32
One STDDEV shock on revenue	78.03	78.70	77.57	75.53	74.58	72.95	70.42	67.90
One STDDEV shock on interest rate	78.03	78.70	76.79	73.96	72.21	69.77	66.43	63.12
Combination of shocks	78.03	78.70	80.12	80.54	81.98	82.58	82.08	81.38

Source: NEDA-NPPS estimates, as of March 2005

* Baseline scenario assumes MTPDP macro assumptions; core fiscal program; and P1 depreciation per year

* One standard deviation shock pertains to average standard deviation for the period 1998-2004.

Pilipinas (BSP) kept policy rates unchanged, with the overnight borrowing or reverse repurchase (RRP) rate at 6.75 percent and the overnight lending or repurchase (RP) rate at 9.0 percent. However, the liquidity reserve requirement was raised by 2 percentage

points in February as a preemptive measure against the inflation impact of the volatility in the foreign exchange market⁶.

Nevertheless, the National Price Coordinating Council (NPCC), through its member agencies and the cooperation of

⁶ <http://www.bsp.gov.ph>. Why was actual inflation in 2004 higher than the government target? An open letter to the President. 18 January 2005

private sector, implemented measures to counter supply-side inflationary pressures. These included the importation of chicken and pork in the 2nd quarter of 2004 to augment domestic supply, special importation of corn at zero tariff to help chicken and hog raisers cope with the increasing prices of livestock feeds, discounts prices on tires and fuel for jeepney and bus operators, and the Pinoy pandesal project, which allowed bakers to sell low-priced pandesal to consumers despite the increasing price of flour.

TABLE 1.8 Inflation Rates (In percent)

By Commodity Group	1994-Based		2000-Based	
	2003	2004	2003	2004
ALL ITEMS	3.0	5.5	3.5	6.0
Food, Beverage & Tobacco	2.0	5.6	2.2	6.2
A. Food	2.0	5.8	2.2	6.4
B. Beverages	2.1	4.0	2.1	4.1
C. Tobacco	2.0	1.5	2.4	1.7
NON-FOOD	3.9	5.5	4.6	5.8
A. Clothing	2.2	2.3	3.4	2.7
B. Housing & Repairs	2.9	3.3	4.3	3.8
C. Fuel, Light & Water	6.0	7.4	6.3	7.4
D. Services	6.1	8.7	5.6	9.2
E. Miscellaneous	1.8	2.2	1.9	2.2

Source: NSO

Promoting a stronger, stable, and deeper financial system

The 2004-2010 Medium-Term Philippine Development Plan (MTPDP) calls for a developed and stable financial infrastructure that promotes stronger and deeper domestic capital market in order to hike domestic savings to finance investments and spur growth.

The savings-to-GDP ratio slightly improved to 20.9 percent, although this is due to higher public savings arising from the lower fiscal deficit rather than lower private consumption spending. Although low compared to other countries, the low savings rate does not currently pose as a constraint to growth given the low investment ratio.

The depth in liquidity of the financial system as measured by M3/GDP and M4/GDP shallowed in 2004, as banks remained

cautious in their lending activities because of the burden of their nonperforming loans.

Nonperforming loans decreased modestly in 2004. The reduction in banks' nonperforming assets (NPAs) was the upshot of the Special Purpose Vehicle Act (SPVA) of 2002, which fast-tracked the disposal of bank's nonearning assets by granting fiscal incentives to SPVs that acquire these NPAs. As of end-2004, the amount of NPAs transferred under the SPVA amounted to Php26.2 billion or a mere 6 percent of total NPAs of Php430.4 billion. As of 18 September 2004, the deadline for the registration of SPVs with the Securities and Exchange Commission (SEC), 36 SPVs have been set up, making them eligible to acquire NPAs until 8 April 2005.

To strengthen the capability of the Philippine Deposit and Insurance Corporation (PDIC) to respond in a quick and timely manner to emerging risks, its charter was amended. The law increased the Maximum Deposit Insurance Coverage to Php250,000 from the previous Php100,000. It also provided PDIC with enhanced receivership and liquidation authority and restored the authority to conduct on-site examination of banks with prior approval by the Monetary Board. Meanwhile, the bill proposing amendments to the BSP Charter is being taken up in Congress. The SEC also introduced risk-based capital adequacy framework for securities brokers and dealers.

Meanwhile, the establishment of a Financial Sector Forum is seen to strengthen the coordination among the BSP, SEC, PDIC, and the Insurance Commission.

The BSP also recommended a bill to Congress creating a central credit information bureau, which will have the ability to collect, consolidate, and distribute information to credit providers

TABLE 1.9 Financial Depth Indicators (In percent)

	2003	2004
Gross Domestic Savings as % of GDP	19.5	20.9
Gross Investments as % of Nominal GDP	16.6	17.0
Local Currency Bonds as % of GDP	30.4	31.1*
Foreign Currency Bonds as % of GDP	30.3	30.1 *
M3/GDP	40.1	38.9
M4/GDP	55.8	54.7
Market Capitalization-to-GDP	69.7	98.4
Gross Domestic Savings is computed as Gross Domestic Product less Personal and Government Consumption Expenditures in the National Accounts.		
* As of June 2004		
Source: BSP, NEDA, PSE, ADB		

TABLE 1.10 NonPerforming Asset Indicators

	2003	2004
NonPerforming Loans (in million pesos)	245,508.07	227,028.22
Ratio of NPLs to total loans (%)	14.05	12.72
Gross Assets (in million pesos)	3,441,173.96	3,770,636.26
NonPerforming Assets	442,270.16	430,392.36
Ratio of NPA to Gross Assets (%)	13.24	11.69
Source: Bangko Sentral ng Pilipinas		

and analysts. This not only increases credit access especially to small borrowers but also lowers credit transaction cost, cost of borrowing, and improves management of credit risk.

Bills have been filed in Congress on the Preneed Code, Corporate Recovery Act, Revised Investment Company Act, Amendment of the Cooperative Development Authority charter, and Amendment of the Insurance Code.

Rationalize government pension and retirement schemes

Preliminary results of the 2003 internal actuarial valuation of the Social Security System (SSS) showed that the life of the Social Security Fund was extended from 2015, based on the 1999 valuation, to 2019. Consequently, the deficit between member contributions less benefits narrowed from PhP3.3 billion to PhP940 million.

External Sector

The balance of payments external position turned negative as large capital and financial outflows offset the current account surplus, which was mainly supported by remittances from OFWs. However, the external position remains generally healthy. Gross international reserves are lower than in 2003, but are adequate to fund 3.7 months' worth of imports and can cover 160 percent of short-term external debt based on residual maturity, better than the 146 percent cover in 2003.

Total (both public and private) external liabilities as of end-2004 dropped to US\$54.8 billion, equivalent to 63.5 percent of GDP which is lower than the 2003 level. The debt statistics were revised in line with international best practice. Offshore Banking Units (OBU) that were previously treated as nonresidents for regulatory and statistical purposes, are now classified as residents in monetary and financial statistics.

The structure of debt remains well managed, with medium and long-term loans representing almost 91 percent of total debt stock. By creditor, official loans comprised

**TABLE 1.11 Balance of Payments
(in million US dollars)**

	2003	2004
Current Account	1,396	2,080
as % of GDP	1.8	2.4
Exports of Goods & Services	38,641	42,829
Imports of Goods & Services	45,821	50,492
Income	-226	147
Of which: Resident OFW	7,640	8,544
Remittances		
Current Transfers	8,802	9,596
Capital Account	23	-23
Financial Account	1,524	1,669
Direct Investment	150	57
Portfolio Investment	-1,305	1,434
Other Investment	-305	-265
Net Unclassified Items	220	-668
Balance of Payments	115	-280
as % of GDP	0.1	-0.3

Source: Bangko Sentral ng Pilipinas

TABLE 1.12 External Vulnerability Indicators

	2003	2004
Gross International Reserves (in million US dollars)	17,063	16,228
In months of imports	4.2	3.7
Short-term external debt cover (%) ^{a/}	146	160
Total External Debt/GNP (in %)	67.4	59.2
% Medium & Long Term	89.2	91.0
% Owed to private creditors	31.1	31.0
Debt Service/exports of goods, receipts of services and income ^{a/}	17.2	13.9

^{a/} Refers to adequacy of reserves to cover outstanding short-term external debt based on original maturity plus principal payments on medium- and long-term loans of the public and private sectors falling due in the next 12 months

Source: Bangko Sentral ng Pilipinas

**TABLE 1.13 Philippine External Debt
(in million US dollars)**

Borrower	2003	2004
Grand Total	57,395	54,846
as % of GDP	72.35	63.46
Medium- & Long-Term	51,216	49,800
Short-term	6,179	5,046
Public Sector	39,499	37,896
Banks	7,440	5,950
BSP	4,422	2,721
Government Banks	3,018	3,229
NonBanks	32,059	31,946
CB-BOL	182	101
National Government	31,876	31,845
Private Sector	17,897	16,951
Banks	3,807	3,701
Foreign Bank Branches	710	977
Domestic Banks	3,096	2,724
NonBanks	14,090	13,250

Source: Bangko Sentral ng Pilipinas

46 percent, foreign holders of bonds and notes, 28.9 percent, and banks and other financial institutions, 20.4 percent.

Employment and Poverty Situation

The economy was able to create more jobs in 2004 compared to 2003. There were 977,000 additional workers in 2004 compared to 574,000 in 2003. However, this still fell short of the target of 1.4 million to 1.6 million annual target to meet the 6-10 million jobs target for the period 2004-2010. The jobs created were also inadequate for the 1.29 million new jobseekers that entered the labor market in 2004, which doubled from 2003 (635,000). As a result, the unemployment rate increased from 11.4 percent in 2003 to 11.8 percent in 2004.

By sector, employment creation accelerated year-on-year with services being the banner sector with contributions from trade; public administration and defense, compulsory social security; financial intermediation, and, education. Other industries which contributed include agriculture; hunting and forestry; manufacturing; mining; and utilities.

The Plan identified key employment generating industries, namely, tourism, agribusiness, housing, ICT, exports and mining. Most of these industries were not able to hit their targets. Compared to the revised target of 33,000 jobs for mining, the sector only generated 16,296 jobs. Based on the assumption of the Mining and Geosciences Bureau, for every one person directly employed, there are 5 people indirectly employed in the mining industry. ICT, on the other hand, generated 118,200 jobs based on estimates of the Department of Trade and Industry that 1 seat generates 1.6 jobs, and 51,000 seats in BPO, medical

**TABLE 1.14 Employment Indicators
(In thousands)**

	2003	2004
Employment level	30,636	31,613
Labor Force	34,571	35,860
Labor Entrants	635	1,289
Unemployment Rate (%)	11.4	11.8
Net employment creation	574	977
Agriculture, Fishery and Forestry	98	161
Industry	145	158
Services	331	658

transcription and software development. This is also below the target of 133,000 employment generation targeted for ICT. Per HUDCC, the housing sector in 2004 delivered 69,439 completed housing units. Given that a housing unit requires 8.3 skilled and semi-skilled construction workers working for 3 weeks to complete or a total of 124 man-days, the jobs generated total 576,344 (69,439 houses x 8.3 persons), which is below the target of 1 million. Translated to annual full-time employment, 270,707 workers were employed in housing construction in 2004 assuming a maximum full-time annual employment of 264 man-days. Only tourism appeared to have hit the target. Using a multiplier of 1.22 per tourist arrival, the Department of Tourism estimated that 2.8 million jobs were created in tourism in 2004.

With the economy growing at a sustained pace, poverty incidence declined between the period 2000-2003. The proportion of the poor to total population declined from 33.0 percent to 30.4 percent, while the proportion of poor families to total number of families declined from 27.5 percent to 24.7 percent. As food prices rose modestly, subsistence incidence, or the proportion of population who could not afford to buy their basic food requirements, also fell from 15.8 percent in 2000 to 13.8 percent in 2003. In terms of families, subsistence incidence dropped from 12.3 percent in 2000 to 10.4 percent in 2003.

At the regional level, poverty incidence improved in 12 out of the 17 regions during

the same period. The regions of MIMAROPA (Region 4B), Zamboanga Peninsula (Region 9), Davao (Region 11) and Caraga (Region 13) experienced increases in poverty incidence while Northern Mindanao (Region 10) remained at 37.9 percent.

There was also a significant improvement in income distribution during the period. From 0.4822 in 2000, the national Gini ratio fell to 0.4678 in 2003— the largest reduction on record. Out of the 17 regions, ten experienced a more equitable distribution with the biggest improvement registered in

**TABLE 1.15 Regional Poverty Incidence
(In percent)**

Area/Region	2000	2003
Philippines	27.5	24.7
Metro Manila	5.7	5.0
I-Ilocos	29.4	24.4
II-Cagayan Valley	25.2	19.3
III-Central Luzon	17.3	13.7
IVA-CALABARZON	15.2	14.9
IVB-MIMAROPA	36.3	39.7
V-Bicol	45.3	40.5
VI-W. Visayas	36.6	31.3
VII-C. Visayas	31.5	23.7
VIII-E. Visayas	37.5	35.5
IX-Zambo. Peninsula	38.5	44.1
X-N. Mindanao	37.9	37.9
XI-Davao Region	27.7	28.1
XII-SOCSEKSARGEN	40.7	32.0
XIII-Caraga	43.7	47.3
CAR	30.7	24.8
ARMM	53.7	45.7

NCR, Eastern Visayas and Western Visayas. Likewise, the share of the richest income decile or 10 percent of families to the total income decreased from 38.3 to 36.7 percent. The share of the poorest 30 percent of families increased by 0.5 percentage points from 7.9 in 2000 to 8.4 percent in 2003.

POLICY DIRECTIONS AND ECONOMIC OUTLOOK FOR 2005

Based on latest indicators, the economy is seen to grow at a rate close to 5.3 percent, but with significant downside risks. The

downside risks to growth come from the adverse impact on consumer spending of the sustained increase in prices, essentially brought about by the continued high price of oil; worse than expected effect of the El Niño on the agriculture sector; and the short-

**TABLE 1.16 Share of Income
Across Deciles
(In percent)**

Region	2000	2003
Philippines	100.0	100.0
First decile	1.7	1.8
Second decile	2.7	2.8
Third decile	3.5	3.7
Fourth decile	4.4	4.6
Fifth decile	5.5	5.7
Sixth decile	6.9	7.1
Seventh decile	8.8	9.0
Eighth decile	11.7	11.8
Ninth decile	16.3	16.6
Tenth decile	38.3	36.7

run adverse impact of higher taxes on consumer spending.

Based on the April 2005 energy outlook of the Energy Information Administration, world oil prices are expected to continue to remain high in 2005 given the tight supply situation. EIA forecast the West Texas Intermediate oil to average \$54.54/barrel in 2005 and \$54.83 in 2006. Meanwhile, the IMF in its April 2005 World Economic Outlook also forecasts the weighted average spot price of oil to average \$46.50 in 2005, up from \$37.76 in 2004. Based on these forecasts and the future prices of oil, Development Budget Coordination Committee (DBCC) revised its Dubai crude oil forecast to \$48.55/barrel in 2005, a significant increase from the MTPDP assumption of \$32.96 per barrel.

All things remaining the same, NEDA estimates that for every 10 percent increase in the price of crude oil, GDP growth falls by 0.2 percentage points, while inflation increases by 0.67 percentage points.

SUSTAINING ECONOMIC GROWTH AND MANAGING INFLATION

To mitigate the impact of high oil prices on the economy and achieve the 5.3 percent GDP target, the following measures will be implemented.

- 1) On-time implementation of BOT/ODA infrastructure projects:

- Northrail Project
- Southrail Commuter Project (Caloocan-Magallanes-Calamba)
- Subic-Clark-Tarlac Expressway Project (PhP27 B)

**TABLE 1.17 Macroeconomic Projections
(Growth rate, in percent)**

	2004 Actual	2005 Forecast*
Gross National Product	6.1	5.3**
Gross Domestic Product	6.1	5.3**
Production		
Agriculture, fishery & forestry	4.9	4.0
Industry	5.3	4.5
Services	7.3	6.3
Expenditure		
Private Consumption	5.8	4.9
Government Consumption	-0.8	-2.0
Investments	12.7	3.8
Fixed Capital	5.1	5.8
Construction	6.2	6.8
Public	5.2	6.6
Private	6.8	6.0
Exports	14.0	7.6
Goods	13.8	6.0
Services	15.6	17.9
Imports	6.3	7.8
Goods	6.3	8.0
Services	5.5	4.4
Inflation Rate	6.0	7.8**
91-day T-bill rate	7.35	7.5-8.5
Fiscal balance (% of GDP)	-3.86	-3.4
Consolidated Public Sector	-4.8	-3.8
Deficit (% of GDP)		
Memo items:		
Dubai oil price, average (US\$,bbl)	33.63	45.35
P/\$ exchange rate	56.04	55.0-57.0

* Approved as of May 18, DBCC meeting

** GDP growth target is 5.3-6.3 percent. GNP growth target is 5.5-6.4 percent, and inflation target is 5.0-6.0 percent

- Subic Bay Port Project (PhP7 B)
 - South Luzon Expressway Alabang viaduct and Calamba-Sto Tomas phase (PhP1.96 B)
 - McArthur Highway Widening (PhP1.33 B)
 - Southern Tagalog Arterial Road (STAR)- Lipa-Batangas connection (PhP1.49 B)
 - Skyway extension
 - C-5 extension to Sucat
- 2) Sustain investor interest in the mining and ICT-related services (*Refer to Chapter 2-Trade and Investment*);
 - 3) Fast-track the implementation of agribusiness programs and support for medium and small enterprises through the One-Town-One Product Program (OTOP) and SULONG credit assistance program (*Refer to Agribusiness and Trade and Investment chapters*);
 - 4) Increase dollar flows by continuing to attract tourists (*see Chapter 6-Tourism*) and increasing the remittance inflows through the banking system and creating instruments for OFWs to channel their savings, such as through the use of the Philippine Postal System; and
 - 5) Adherence to fiscal discipline to strengthen investor confidence.

Inflation pressures are expected to continue building up in 2005 on account of the high world oil prices and impact of VAT reform. The inflation target for 2005 remains at 5-6 percent, but inflation is expected to average 7.8 percent given that inflation has hovered at 8.5 percent in the first months of 2005, and in view of additional pressures coming from the transport fare hike, the VAT

reform, wage increases, and the adjustment in power rates to improve the fiscal position of the National Power Corporation.

To prevent an undue rise in prices, the government will ensure the timely importation of agricultural products affected by the El Niño. The government will also balance the needs of various stakeholders in setting transport fares and adjusting minimum wages. Through the NPCC, the government will also continue to collaborate with the private sector to ensure that price increases are reasonable and justifiable.

FISCAL REFORMS

Fiscal consolidation will remain a major policy imperative. While keeping the MTPDP fiscal program (with legislative and administrative measures) as the yardstick for required effort to ensure fiscal consolidation in the medium term, the national government also maintains a core fiscal program.⁷ This core fiscal program incorporates revenue proceeds from the implementation of the sin tax law, the two percent tariff on petroleum imports, and some administrative measures of the BIR, BOC, and the BTr. These are expected to offset the additional interest payments of PhP18.2 billion from the NG absorption of PhP200 billion of NPC debt. Committed to fiscal discipline, the government has revised the national government fiscal deficit target from PhP184.5 billion to PhP180 billion.

Improving the revenue collection efficiency of the BIR and BOC will be vigorously pursued in 2005. At the BIR, a key program will be to run after tax evaders (RATE) and to continue matching tax receipts with VAT input credits and output taxes. At the BOC, combating smuggling

⁷ Reflected in the Strategy Planning Matrix of the Fiscal Chapter of the 2004-2010 MTPDP.

TABLE 1.18 Fiscal Program, 2005

	2005 MTPDP Program		2005 Core Program	
	In PhP billion	Ratio to GDP	In PhP billion	Ratio to GDP
Revenues	830.8	16.2	783.2	14.7
Expenditures (with NPC disbursements)	1,015.4	19.8	963.2	18.1
o.w. Interest Payments	301.7	5.9	295.3	5.5
NPC Requirement	30.8	0.6	18.2	0.3
Surplus/Deficit	(184.5)	-3.6	(180.0)	-3.4
Implied Primary Surplus**	155.1	3.0	139.8	2.6

* Based on NEDA's revised forecast for nominal level of GDP
 ** Refers to revenues net of privatization less expenditures net of interest payments and net lending

through the use of X-ray machines in key ports will be a major project.

At the same time, RA 9337 was signed into law, expanding the coverage of VAT. The law also raised corporate income tax to 35 percent until 2008 and gave the President the authority to increase the VAT rate to 12 percent in 2006 under certain conditions.

To instill greater fiscal discipline, the Government will work for the passage of legislation on the Fiscal Responsibility Bill. The proposed bill installs a rules-based fiscal framework by setting in place legislated national government and nonfinancial public sector debt targets that will drive the 3-year and annual fiscal programs.

The government also aims to rationalize the scope and functions of government agencies and reduce the share of personal services in the budget by June 2005 through a voluntary but time-bound separation opportunity under the Administrative rationalization program which started with the issuance of Executive Order 366 last October 4, 2004. At the same time, the government will advocate for the enactment of an Omnibus Reengineering Bill.

For 2005, incremental spending over 2004 levels will be directed to education (teachers, classrooms and teachers' salaries), provision of affordable but quality drugs for the poor; socialized housing; regional

infrastructure to link the archipelago; rural electrification; anti-corruption efforts; and information technology in government offices (E-Government Fund). The government will continue to implement austerity measures, especially with regard to energy conservation. The release and monitoring of expenditures will be improved by streamlining the release procedures; improving the monitoring of disbursements and cash utilization; and institutionalizing the Electronic Budget System and the Electronic Linkage Project to allow the DBCC to access timely and accurate information on the cash budget position.

Further streamlining of the coverage of ICC review and process will be undertaken. This entails (a) raising the cut-off cost to PhP500 million, except for BOT projects in the coverage of programs and projects to be reviewed; and (b) allowing only one-stage ICC approval instead of current practice of sequential first pass (project) and second-pass (contract) approval.

For ODA loans, the Government of Japan and GOP have agreed to restructure the Japan Bank for International Cooperation (JBIC) portfolio, which accounts for more than 60 percent of total ODA, by mid-2005 possibly by canceling, scaling down, restructuring or deferring

some projects with a view to ensuring full budget support for the remaining projects in the portfolio.

In the area of debt management, the government, through the BTr, will also engage into buy-back and bond exchange operations to reduce debt service and lengthen maturities.

FINANCIAL SECTOR REFORMS

For 2005, the BSP will continue to shore up its efforts to ensure the appropriate conditions for continued credit growth, especially for micro, small, and medium enterprises, to sustain economic growth while fulfilling its primary mandate of ensuring price stability.

The BSP will continue to pursue congressional support for an extension of the Special Purpose Vehicle Act to allow the banking system to dispose bad assets and provide fresh liquidity.

BSP shall provide a financial environment that encourages banks to lend to micro, small and medium enterprises (SMEs) by allowing them to rediscount with

the BSP loans to SMEs, including unsecured microfinance loans.

The regulatory framework will continue to be strengthened to promote corporate governance reforms, market discipline and banking institutions' compliance with international standards such as on risk management. The management of credit risk will be strengthened in line with international best practice through the adoption of the Basel II Accord, the International Accounting Standards (IAS) and International Valuation Standards (IVS). BSP will also continue to advocate for the passage of the Amendment of the New Central Bank Act to strengthen BSP's regulatory and supervisory powers with the goal of preventing or minimizing systemic risks. Reportorial requirements for banks will be reviewed to promote sound risk management. Coordination among domestic regulators (SEC, Insurance Commission and PDIC) will also be strengthened through the formal establishment of the Financial Sector Forum (FSF) and linking up with relevant overseas regulators.

Chapter 2

Trade and Investment

In 2004, one of the President's 10-point agenda under the trade and investments sector, as spelled out in the Medium Term Philippine Development Plan (MTPDP), 2004-2010, was implemented mainly through the SULONG program. This program supports the entrepreneurship activities of micro and small and medium enterprises (MSMEs). The loans provided under the SULONG program exceeded the target for 2004 which puts the government on track to achieve its goal of tripling the amount of loans to MSMEs by 2010.

Meanwhile, investments to gross domestic product (GDP) ratio was above target due to the expansion of investments in private construction. Likewise, foreign direct investment (FDI) commitments surpassed the target as a result of increased investments in the gas and information communication and technology sectors. Exports performance approximated the 10 percent growth target in 2004 as efforts to explore new markets and maintain existing and develop competitive export products continued.

In 2005, the government shall build on the accomplishments in 2004 by continuing to provide credit, technology, and marketing support to MSMEs focusing promotion on investment priority areas; pursuing a more balanced market mix; and expanding the base of products and services for exports to accelerate the country's growth and achieve a better life for its people.

ENTREPRENEURSHIP

Provide Credit, Technology and Marketing Support. In line with the President's call to triple the lending to MSMEs by 2010, the SULONG Program was enhanced to improve MSME's access to

various sources of financing. The program's lending procedures was simplified and standardized, and its documentary requirements was reduced to further facilitate the lending process.

Loan releases under the SULONG Program to MSMEs reached PhP26.9 billion in 2004. This is five percent more than the PhP25.6 billion committed by participating government financial institutions (GFIs) and government-owned and controlled corporations (GOCCs) in 2004 and 12.1 percent higher than the initial target of PhP24 billion. Meanwhile, loans released by the Development Bank of the Philippines (DBP) and Small Business Guarantee and Finance Corporation (SBGFC) expanded by 21 and 40 percent, respectively. The growth in the lending portfolio of DBP and SBGFC was a result of the implementation of the computer-based factoring of SME receivables program and adoption of policy measures that attracted more banks to lend to MSMEs, among others.

Lending to MSMEs by other participating GFIs/GOCCs (i.e., LBP, PHILEXIM, QUEDANCOR, NLSF, and SSS) declined (Table 2.1) because some lenders opted to wait for the results of the

2004 elections and/or invested in securities due to lack of activity in the loans market. The lack of mature SMEs that could readily absorb credit, stringent qualifying and reporting requirements, and the tendency of MSMEs to utilize their own funds instead of borrowing also contributed to the failure of participating institutions to meet their lending targets under the SULONG Program. The MSMEs could have benefited more from the program had these concerns been addressed.

Based on preliminary estimates of the SULONG Committee, around 15,880 MSMEs benefited from the loans released in 2004 under the SULONG program. The Committee cited that releases were loan renewals for existing SME borrowers and loans to conduit financial institutions for relending to microfinance organizations (i.e., credit cooperatives, NGOs). On the latter, although loans released to credit cooperatives or NGOs were relented to individual MSME members, only the borrowing microfinance organization is considered as the borrower.

In order to achieve the President's target to assist 3 million entrepreneurs, the SBGFC should further strengthen its existing

programs that provide financial assistance to new entrepreneurs. The loans granted under the SULONG program helped maintain and/or generate employment of an estimated 670,322 people¹.

Moreover, technology and marketing support were provided through the One-Town-One-Product (OTOP) Program. In 2004, 15 models (Table 2.2) were identified and made ready for marketing, while products for 1,497 towns are still being validated and prioritized based on each town's existing resources. As of March 2005, three additional OTOP models were identified and validated. The products undergo a series of consultations with involved stakeholders on their viability, consistency with municipal, city and national development plans and priorities and marketability. Subsequently, a plan of action for the commercialization of each model is formulated. Since the OTOP program is local government unit (LGU)-led, funding support comes from the LGUs. However, according to DTI-NCR, LGUs are hesitant to provide financing as this would mean losing a portion of its much needed resources.

TABLE 2.1 Lending Performance of Participating GFIs and GOCCs under the SULONG Program (In billion pesos)

GFI/GOCC	GFI/GOCC Commitment 2004	Actual Performance		Growth Rate
		2004	2003	(%)
Land Bank of the Philippines (LBP)	9.00	12.56	12.68	-1.0
Development Bank of the Philippines (DBP)	9.00	10.30	8.53	21.0
Small Business Guarantee and Finance Corp. (SBGFC)	3.00	3.27	2.33	40.0
Philippine Export-Import Credit Agency (PHILEXIM)	1.20	0.07	0.47	-85.0
Quedan and Rural Credit Guarantee Corp. (QUEDANCOR)	2.50	0.60	2.55	-76.0
National Livelihood Support Fund (NLSF)	.80	0.12 ²	0.20 ²	-40.0
Social Security System (SSS)	.10	N.A.	N.A.	
TOTAL	25.60	26.92	26.77	1.0
N.A. - Not Available				
Sources: SBGFC, DBP, LBP				

¹ The SULONG Committee estimates that a loan amount of PhP 40,000 is able to generate one job.

TABLE 2.2 Identified One-Town-One-Product (OTOP) Models, 2004

Region	Town	Province	Product
CAR	Tabuk	Kalinga	Roasted Coffee
I	Rosario	La Union	Wood Furniture
II	Bagao	Tuguegarao	Home Furnishing
III	Gapan	Nueva Ecija	Gifts, Housewares/ Decors
IV-A	Paete	Laguna	Wood Carving and paper mache
IV-B	Torrijos	Marinduque	Woven buntal
V	Tiwi	Albay	Ceramics
VI	Maasin	Iloilo	Bamboo
VII	Inabanga	Bohol	Woven raffia
VIII	Jiabong	Samar	Mussel
IX	Pagadian City	Zamboanga del Sur	Seaweed
X	Impasug-ong	Bukidnon	High value vegetables
XI	Davao City		Banana chips
XII	Makilala	N. Cotabato	Banana
CARAGA	La Paz	Agusan del Sur	Oil Palm

Source: DTI

Empower Existing SMEs to Generate Additional Employment through Increased Lending and Promotion of Big Enterprise-Small Enterprise (BESE) Program. The government supported the private sector-led BESE program through road shows and market matching activities. The eight SMEs that were matched with large firms generated sales amounting to PHP10.7 million in 2004. The low turnout in market matching activities was attributed to the lack of SME-participants, the inability of some SMEs to meet the specifications/standards set, and insufficient capital to comply with the volumes required by institutional buyers, among others.

To address this, the DTI initiated exploratory talks with the Securities and Exchange Commission (SEC) and potential investors to increase the participation of SMEs in the capital market. Moreover, 12 SME Centers were strengthened during the year to serve as one-stop shops providing various types of services to MSMEs. The Cooperative Development Authority (CDA) also setup express lanes in its central and regional extension offices to facilitate the registration of new cooperatives.

Cooperatives registered with the CDA would be able to avail of existing benefits including credit assistance. Moreover, the DTI provide capacity-building, entrepreneurship development and other business development services and training programs to 239 would-be and existing SMEs in the countryside. In addition, the UP-Institute of Small Scale Industries (UPISSI) conducted training programs on entrepreneurship, development, management, and productivity improvement for 1,455 SME participants nationwide in 2004.

Tap Returning Overseas Filipino Workers (OFWs) as Sources of Capital.

The SBGFC initiated talks with OFW organizations to encourage the latter to engage in income-generating activities. However, activities identified to encourage OFWs to invest in SMEs and utilize formal channels of remittance, e.g. establishing partnership with formal remittance channels, developing incentive programs to promote utilization of formal channels for remittances, are yet to be undertaken.

Provide an Environment Conducive to MSME Development. The Small and Medium Enterprises Development Council proposed amendments to the Magna Carta for small enterprises, including the coverage of microenterprises under Republic Act (RA) 6977, as amended by RA 8289, among others. The establishment of an SME Credit Bureau to improve the capacity of banks to evaluate loan applications for MSMEs was addressed through hearings on proposed legislations. The Department of Finance (DOF) was also requested to ease the registration requirements under RA 9178 or the Barangay Micro Business Enterprises (BMBE) Law by granting outright registration to qualified BMBE

applicants, particularly those with asset size of PhP500,000 and below. However, the DOF has yet to act on the request.

Of the country's 116 cities (excluding the Autonomous Region of Muslim Mindanao or ARMM) and 1,400 municipalities, nine cities and 505 municipalities have yet to implement the BMBE law and only 3,624 BMBE applications have been approved from 2002 to December 2004. Implementation issues including appropriations for information dissemination activities, inaccessibility of incentives, impact on local and national government revenues, nonremittance by PAGCOR of the mandated endowment fund of PhP300 million for the BMBE Development Fund, among others, are currently being reviewed by an interagency committee.

INVESTMENTS

Investment performance improved in 2004. With policy reforms aimed at improving the business environment already in place, the continued pursuit of aggressive promotion campaigns "business management" approach, and further simplification of business procedures made a positive impact on investments. The investments to GDP ratio increased from 19.48 percent in 2003 to 20.68 percent (in real terms) in 2004. This exceeded the target rates of 20.1 percent (low) to 20.2 percent (high) for 2004. The growth was fueled by

**TABLE 2.3 Total Foreign Direct Investments
(in million pesos)**

Agency	Approved FDI		%	Growth
	2003	2004	to total	Rate
TOTAL	34,010.3	155,509.4	100	357.2
BOI	8,348.5	109,503.2	70.4	1,211.7
PEZA	24,922.8	41,536.8	26.7	66.7
SBMA	365.3	2,314.8	1.5	533.7
CDC	373.8	2,154.6	1.4	476.4

Source: NSCB

**TABLE 2.4 Foreign Direct investments Approved
by Promotional Agencies (In million pesos)**

Sector	Approved FDI		%	Growth
	2003	2004	to total	Rate
TOTAL	34,010	155,509	100.0	357.2
Gas	1,827	96,524	62.1	5,182.6
Manufacturing	20,634	43,836	28.2	112.4
Services	4,609	11,196	7.2	142.9
Electricity	103.4	2,040	1.3	1,872.7
Construction	2,566.8	1,138	0.7	55.7
Others	4,270	776	0.5	

Source: NSCB

Note: Data on industry breakdown are not available.

the 6.1 percent expansion in private construction investments.

Actual foreign direct investment (FDI) inflows as reported in the Balance of Payments (BoP) rose to 35.45 percent in 2004 (January to September) due to increase in net equity capital. The FDI commitments increased by 357.2 percent from PhP34 billion in 2003 to PhP155.5 billion in 2004. Of these, 75 percent came from various nontraditional investor countries such as the Republic of Nauru for the natural gas project in Bataan.

Moreover, the information and communications technology (ICT) subsector including information technology (IT) services such as call centers and business process outsourcing; manufacture of semiconductors and other IT related equipment; and telecommunications accounted for PhP22 billion of total FDIs. This means an increase of 76 percent over the level last year. In addition, investment commitments by local investors also expanded but at a relatively slower rate of 25 percent, or from PhP30 billion in 2003 to PhP37 billion in 2004. The extraordinary rise in committed investments, if sustained and translated into actual investments, could contribute to the attainment of the target investment rate of 20.3 percent in 2005.

The investments committed, however, are not expected to create jobs substantially. About 103,024 jobs are projected to be

TABLE 2.5 Foreign Direct Investments by Country of Investor

Country	2003	2004	% to total
TOTAL	34,010	155,509	100.0
Australia	985	170	0.1
Germany	452	1,245	0.8
Hong Kong	256	1,369	0.9
Japan	8,841	26,596	17.1
Korea	712	3,260	2.1
Netherlands	3,866	1,473	0.9
Singapore	297	1,524	1.0
Switzerland	68	355	0.2
Taiwan	2,554	1,654	1.1
UK	2,381	1,683	1.1
USA	10,432	9,001	5.8
Manx	-	7,634	4.9
Nauru	-	96,529	62.1
Others	3,168.7	3,016	1.9

Source: NSCB

generated which is only 6.4 to 7.4 percent of the 1.4 to 1.6 million jobs targeted to be generated annually.

Draw Up a More Focused Incentives Package with Focus on Priority Areas.

Public consultations have been conducted on the draft 2005 Investments Priorities Plan (IPP). The IPP reduced the number of priority areas to be provided incentives from 16 to the identified 10 priority areas in the MTPDP, i.e. IT and IT enabled services, automotive, electronics, mining, healthcare and wellness, tourism, shipbuilding, fashion garments, jewelry and agribusiness. Promotion campaigns and the “brand management” approach also focused on the priority investment areas identified for promotion due to the country’s natural and human resource advantage. The following were undertaken to promote investments on the identified priority areas:

IT and IT-enabled services sector. (Refer to ICT Chapter)

Electronics. The Advanced Research and Competency Development Institute was

established to address the widening gap between engineers’ skills and industry to develop skills, upgrade technology, research and development (R&D) and other productivity enhancement. The DTI has been discussing with the local semiconductor and electronic industries on the possibility of putting up a research design and engineering training center that will develop human resource competencies in process, product, test, quality and equipment as well as analog and digital IC design, wireless communication and computer engineering proficiencies. The DTI also discussed with Taiwanese experts and local industry players about a possible cooperation to attract Taiwanese companies engaged in semiconductor manufacturing services (SMS) and electronics manufacturing services (EMS) to locate in the Philippines.

Mining. Following the issuance of Executive Order (EO) 270 or the “National Policy Agenda on Revitalizing Mining in the Philippines” on January 16, 2004, the Minerals Action Plan (MAP) was formulated and adopted for implementation on 13 September 2004. Procedures for securing mining permits were streamlined, shortening the processing time from 11 to 5 months for mining exploration, and from 12 to 6 months for mineral production sharing agreements. Due to this, 31 mining permits/contracts were issued from January to November 2004. On the other hand, the processing time for environmental compliance certificate (ECC) was cut down to a maximum of 120 days for all environmentally critical projects.

Moreover, One-Stop Shop Committee (OSSC) was constituted in the 15 Regional Offices of the Department of Environment and Natural Resources-Mines and Geosciences Bureau (DENR-MGB). The

OSSC is tasked, among others, to speed up the issuance of Area Status and Clearance for mining applications pursuant to the provisions of the Philippine Mining Act of 1995 and its implementing rules and regulations (IRR). A thorough inventory of all approved and pending mining tenements was initiated by the DENR to cancel nonperforming contracts and weed out speculators holding mining claims, thus, opening up these areas to serious investors.

In addition, three mining projects were developed in 2004. These are the US\$180 million HPP Nickel Mining Project of Coral Bay Nickel Mining Corp. in Palawan; the US\$42 million Polymetallic Mining Project of Lafayette Philippines, Inc. in Rapu Rapu Island, Albay; and the US\$7 million Canatuan Gold Expansion Project of TVI Resources Development Philippines in Siocon, Zamboanga del Norte. Within the next six to ten years, some 18-23 mining projects are expected to be developed. These are expected to generate US\$6 to 7 billion dollars in investments. The Supreme Court's decision on December 1, 2004 reversing its earlier decision that nullified the provisions of the Philippine Mining Act of 1995 pertaining to the participation of foreign owned corporations in mining is expected to further encourage mining. Under this Act, 100 percent foreign equity participation shall now be allowed for financial or technical assistance agreements or large-scale mining projects.

Automotive. The Philippines continues to actively participate in the ASEAN Industrial Cooperation Scheme. The EOs 337 and 338 issued on 23 July 2004 granted preferential tariffs on nominated products under Honda Corporation Philippines Inc. AICO arrangement. The Automotive Export Program, which aims to encourage local automotive assemblers to penetrate export

markets, was expanded to include other types of completely developed units and encourage relocation of automotive assemblers to the Philippines through the issuance of EO 312 on 1 May 2004. The Ford Motor Company which participated in the AEP in 2004, is expected to increase exports to 16,000 CBU units in the ASEAN region estimated at US\$220 million.

Agribusiness (Food). (Refer to Chapter 3-AgriBusiness)

Health Care and wellness. The BOI and PEZA are currently working together on policies and studying possible areas to be declared as medical zones. Tokushu-Kai, a Japanese firm, has committed to put up a 1,000-bed capacity hospital worth \$US100 million.

Jewelry and wearables. The IRR of the Jewelry Act was amended to streamline procedures for the duty free importation of raw materials, supplies and equipment; and the sharing of information among agencies involved therein. The country participated in international fairs to promote investments in the jewelry and fashion garments industries.

Shipbuilding. RA 9295 or the Domestic Shipping Development Act of 2004 was enacted to encourage the development of a viable shipbuilding and repair industry to support the expansion and modernization of the Philippine domestic merchant marine fleet. To encourage investments in shipbuilding and repair, the importation of capital equipment, machinery, spare parts, lifesavers and navigational equipment, steel plates and other metal plates including marinegrade aluminum plates to be used in the construction, repair, renovation or

alteration or any merchant marine vessel operated or to be operated in the domestic trade shall be exempted from the value-added tax.

Simplify investment registration procedures. The BOI put in place an electronic filing system for investment registration to reduce transaction costs, particularly transportation and mailing costs. The DENR and the PEZA issued the IRR of the memorandum of agreement (MOA) allowing the assistance in the processing of ECC applications of projects not classified as environmentally critical. Thus, processing time was reduced to 20 from 60 days.

Exports. Merchandise export earnings in 2004 amounted to US\$39.60 billion. This is 9.3 percent higher than the US\$36.23 billion posted in 2003. The country's export performance approximates the 10 percent target for the year. This was due mainly to electronics exports, which increased by 10.24 percent from US\$24.17 billion in 2003 (66.71 percent of total exports) to US\$26.64 billion in 2004 (67.27 percent of total exports). The rise in electronics exports can be attributed to the stronger-than-expected demand for personal computers and cellular phones.

However, several labor-intensive product groups saw revenues decline (Table 2- 4) during the year, highlighting the country's worsening labor competitiveness in world markets. In particular, garments exports fell 4.1 percent and will likely face leaner periods ahead, especially in the coming months, as competition intensifies with the expiration of the Multi Fiber Agreement quota arrangement. However, the domestic garments industry is optimistic that the quota abolition will work to its advantage. Domestic manufacturers are staying away from low cost, mass produced

TABLE 2.6 Exports of Labor-Intensive Products
(Growth rate, in percent)

	2002	2003	2004
Garments	-0.5	-5.3	-4.1
Textile Yarns & Fabric	9.9	0.7	-5.0
Footwear	-35.0	-2.7	-24.1
Travel Goods and Handbags	-52.0	-26.0	-37.2
Wood Manufactures	-5.4	-16.8	-6.8

Source: National Statistics Office

apparel, and positioning themselves as suppliers of higher quality designs and apparel under branded names. The Garments and Textiles Export Board reports that branded names such as Gap, Ann Taylor and JC Penney as well as international contractors such as Li & Fung have already increased their orders from the Philippines.

Maximize Exports and Investment Opportunities Offered by Trade Agreements. The Philippines is drawing closer to concluding the Japan-Philippines Economic Partnership Agreement. The various technical working groups are in the final stages of resolving issues in areas such as trade in goods, investments, rules of origin, services, and technical cooperation.

The country also continued to pursue trade liberalization under the auspices of the Association of South East Asian Nations (ASEAN). The EO 268 issued on 9 January 2004 reduced the duty on approximately 60 percent of the products in the Common Effective Preferential Tariff (CEPT) inclusion list to zero, to further encourage intra-ASEAN trade. Moreover, certain agribased, fisheries, healthcare, wood, textiles and automotive products were also identified under the ASEAN Priority Integration Program where tariffs will be eliminated in 2007 instead of 2010, i.e., ahead of the CEPT scheme. The Philippines has also begun preparations to

implement its tariff reduction/elimination schedules under the normal track of the ASEAN-China Free Trade Area which is set to begin by July 2005. Studies are also being done to assess the possible advantages and disadvantages of engaging in bilateral negotiations with other countries. The study on a RP-US Free Trade Area was completed by the Philippine Institute for Development Studies (PIDS) and presented in February 2005 to concerned government agencies.

Pursue a Market-Driven Strategy to Link Supply Capacity Closer to the High-Impact Markets. Almost all of the priority export products identified in the MTPDP posted increases in 2004. In particular, the 23.77 percent increase in exports of construction materials exceeded the target by 16 percent (Table 2.5). To promote construction services exports, nine Philippine Overseas Construction Board registration certificates and nine project authorizations were issued to allow domestic construction firms to undertake overseas construction projects.

However, exports of fishery products, contracted slightly by negative 0.92 percent from US\$505.72 million in 2003 to US\$501.07 million in 2004 causing its share to total exports to fall from 1.40 to 1.27 percent. This was due to the lower exports of marine products such as tuna, shrimps, prawns, octopus, lapu-lapu, round scad and crabs (Refer to Chapter on AgriBusiness) which the 11.64 percent growth in exports of seaweeds and carrageenan could not

offset as the latter only account for 17.89 percent of total fishery exports. However, Philippine producers are confident that the country will continue to hold its position as a reliable supplier of good quality food grade carrageenan. Meanwhile, concerned agencies and private enterprises are working on developing fishery products that comply with international standards to increase acceptability in the export market.

Philippine exports to the US, South Korea, and Taiwan declined in 2004. Although exports to the US decreased by only 2.53 percent, this was enough to dislodge the US as the top destination for Philippine exports. Exports to the US may further decrease as the slowdown in that country's economic growth constrains consumer spending and squeezes business profits. On the other hand, Philippine exports to Japan and China (which is expected to drive economic growth in the East Asia region) grew by 38.05 and 22.61 percent, respectively, in 2004.

Simplify Export and Import Procedures and Facilitation. The continued implementation of the Automated Export Declaration System (AEDS) facilitated the processing of export transactions. Under the AEDS, 148,956 export declarations were processed in 2004, a 322.3 percent increase from the 35,269 processed in the previous year. At present, 44 firms located in nine ecozones in Baguio, Taguig, Cavite and Laguna are using the AEDS. Moreover, a review of the IRR governing export procedures is also underway to make export procedures more efficient and less cumbersome.

Maintain Existing and Develop More Competitive Export Products and Services and Diversify Markets. Total exports to Middle Eastern countries increased by 14.89 percent from US\$250.81

TABLE 2.7 Export Growth (In percent)

	Target 2004	Actual 2003	2004
Marine products, seaweed & carrageenan	10	5.06	-0.92
Construction materials	7.7	13.72	23.77
Gifts, toys, housewares & holiday decors	0	0.4	0.89
Home furnishings	0	-12.03	5.81

Source: National Statistics Office

million in 2003 to US\$288.15 million in 2004. Exports to these countries, however, still account for less than one percent of total Philippine exports. Thus, the government continued to take measures to get into the Halal market. To do this, the DTI is working with other concerned agencies to establish a Halal certifying agency in the Philippines.

To develop competitive products, 1000 product standards, of which 77 percent are aligned with international standards, were developed. Mutual recognition arrangements on product standards were maintained with Indonesia, Japan and the United Kingdom. To increase awareness on product standards, a Standards Blitz as well as other promotional activities such as the Standards Week, 3rd Standards and Conformance Conference, among others, were conducted.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

The ICT sector continued to advance in 2004 as a major growth sector of the country through the influx of investments in physical infrastructure and ICT-related businesses. Government and private sector partnerships provided the impetus in promoting the level of ICT business in the global arena and in responding to local and global needs.

More Competitive Investment Packages. To further stimulate ICT business and attract long-term direct investments in the country, clear decisive steps were taken toward full deregulation of the telecommunications industry. Increased private sector participation in government ICT projects was encouraged through Build-Operate-Transfer (BOT) and similar schemes (e.g., Bureau of Immigration's ACR I-Card and National Bureau of Investigation's Extensible Automated Fingerprint Identification System).

The Commission on Information and Communications Technology (CICT) and DTI have also been actively sponsoring various fora, workshops and foreign missions in promoting the country as investment destination and service provider to the global market. As a result, total approved FDIs in ICT increased to PhP22 billion in 2004 from only PhP12.5 billion in 2003. This growth can be attributed to the influx of investments in ICT services and manufacturing towards the end of 2003. The five ICT services that continue to be the growing sources of revenue are call center services, software development, animation, medical transcription and business process outsourcing (BPO).

TABLE 2.8 Job Creation Opportunities in ICT Services

Services	2004*	2005	2006	2007	2008	2009	2010
Call Center	42,000	63,000	100,800	151,200	211,680	275,184	357,739
Business Process	15,000	22,500	38,250	76,500	130,050	195,075	253,598
Medical Transcription	6,000**	4,500	7,650	11,475	14,918	17,901	21,481
Animation		5,250	8,925	13,388	17,404	20,885	25,062
Software Development	30,000	39,000	50,700	65,910	85,683	111,388	144,804
Total Demand	93,000	134,250	206,325	318,473	459,735	620,433	802,684
Salary (average/year)	PhP260 T	PhP260 T	PhP260 T	PhP260 T	PhP260 T	PhP260 T	PhP260 T
Total value of jobs	PhP24.2 B	PhP34.9 B	PhP53.8 B	PhP82.7 B	PhP119.5 B	PhP161.3 B	PhP208.7B

Source: DTI (October, 2004)

* Statistics as of December 2004

** Combined number of jobs created under medical transcription and animation

**TABLE 2.9 Number of Call Center Seats
2003-2004**

Country	2003	2004 (Forecast)	Growth Rate
Australia	135,000	146,000	+8%
India	96,000	158,000	+65%
China	38,000	54,000	+42%
Philippines	20,000	40,000	+100%
New Zealand	12,000	13,500	+13%
Thailand	11,000	13,000	+18%
Singapore	10,000	10,100	+1%
Hongkong	10,000	10,700	+7%
Total	332,000	445,300	+24%

To date, a total of 68 call centers have set up shop in the Philippines. In 2003, DTI reported about a total of 15 to 20 companies engaged in business process (e.g., administration, finance, HR, billing, indirect procurement and payment services), 28 in medical transcription, 23 in animation, and 69 software development.

Of the five services, call centers registered the highest job contribution. In 2004, the number of call center seats grew to 42,000. This is slightly higher than the earlier forecast of 40,000 for that year. The number of seats earlier projected to reach 63,000 by 2005 is expected to grow to 80,000 seats. Although India holds top billing for outsourced businesses, the Philippines has become a competitive alternative and holds promise of continuous growth for the industry. Local industry estimates a total of 275,000 call center seats in four years, generating total revenues of up to \$US4 billion. The projected increase will come from call centers venturing into other businesses such as medical transcription. Between 70 to 80 percent of all ICT investments came from contact center operators, but the other four ICT services are expected to get about 60 to 70 percent more investments by the end of 2005. The growth would also come from 70 percent of the existing players, while the remaining 30 percent would come from the new ones.

Though still behind Australia, India and China, the Philippines has already captured about 20 percent of market share in the offshore call center industry in Asia by 2003 and is expected to control about half of the call center operations in the world by 2009. The 100 percent growth in the number of seats, from the 20,000 in 2003 to 42,000 in 2004, led to the recognition of the country as the emerging call center capital of the world.

The medical transcription industry in the US is estimated at US\$13 billion in 2004, with only two to three percent of the US requirements being subcontracted offshore. About 80 percent of the US demand is already captured by India while the Philippine share is barely 10 percent. The global revenue it would generate by 2005 is estimated to be about US\$25 billion. For digital animation, the global revenue is estimated at US\$16 billion in 2000, increasing by 20 percent annually. And by 2005, it is expected to reach about US\$50 to 70 billion. However, total combined jobs generated by the two services in 2004 were only 6,000. This is less than one percent share in the international market.

As ICT services continue to propel growth and generate new jobs, this growth should also be sustainable. To maintain the 100 percent growth rate of call center industry in 2005, at least 60,000 new agents should be employed. However, call center operators complain of the industry's very low absorption rate (the percentage of qualified applicants from the total applicants) of around three to five percent from the five percent growth rate in 2003. Of the 60,000 applicants, only around 3,000 successfully pass the tests given by call centers and only about a third of the number are hired.

According to call center operators, the industry is not able to hire the other

applicants due to the deteriorating quality of their English speaking skills, math and science proficiencies, and special skills and literacy levels. These include skills in programming, animation, transcription, among others.

In particular, medical transcription and animation services are said to be underutilized due to the shortage of qualified skilled manpower (i.e., medical transcriptionists are knowledgeable with medical standards, terminology and practices while computer animators are certified artists knowledgeable of 3D animation and emerging technologies); unavailability of specialized training centers, training course programs and/or integrated tertiary level curricula; and lack of awareness about the employment opportunities in said services.

Improved ICT Manpower. The rise of the country as one of the top global ICT service providers may be attributed to the significant contributions made by the CICT, DepEd, CHED, and CSC in previous years. This includes programs and projects supportive of the establishment of a ready pool of quality ICT human resources and with meeting the demands of the rapidly expanding global information economy. To start with, the recruitment of LGU personnel and the upgrading of their ICT skills were facilitated, while quality standards for the curricula of ICT subjects in basic and tertiary levels were established. Under the ICT Certification Program, 56 new ICT professionals were certified and for the Core Competency Development thru e-Learning Program, 23 IT Specialist Courses, ten ICT Users and executive courses on Information Systems Project Management, and five special courses tailored to agency-client needs were conducted. A total of four newly developed courses and seven enhanced courses on ICT were also adopted as

component of the Core Competency Development program. However, these are only small programs and projects that are short-term in nature and considered as the government's immediate response to the growing world market niche of the country.

The CICT was able to establish alliances with 64 state, universities and colleges (SUCs) and three nongovernment organizations (NGOs) and partnerships with international certification organizations like JITSE and Cisco. These efforts spearheaded the integration of specialized ICT degree programs and courses into the curricula of SUCs, including private academic institutions.

Through the projects such as Microsoft IT Academy Centers of DepEd and the Microsoft Philippines, VCTI in Information Technology of DOST, the UP IT Training Center of UP Diliman and the ICT Training Center of TESDA, industry-academe linkages which aims to address the demand for MS and PhD graduates in Math, Engineering and Computer Science courses were initiated.

Notwithstanding the aforementioned efforts made by the government, more focused and strategic programs and projects to further enhance the ICT labor force are needed. A plan on the manpower development should be laid out to be able to identify government priorities vis-à-vis industry demand. Programs and projects, which render longterm effects to the industry, such as certification systems and graduate courses should also be initiated.

Legislative Actions and Recommendations. In recognition of the role of ICT in the economy, EO 269, creating the CICT was signed on 12 January 2004 by President Gloria-Macapagal Arroyo. This provides for a central agency responsible for the planning and coordination of ICT

development in the country. Moreover, various bills such as the DICT and Cybercrime have been filed by CICT. This may foster ICT investments but still is pending in Congress.

POLICY AGENDA AND PROSPECTS FOR 2005

The MSMEs should continue to be strengthened to fully harness their potential as catalysts for economic development and contributors to employment creation. The SULONG Program should be made more effective as a credit support mechanism by encouraging the institutions accredited under the program to adopt measures that would improve their performance. These include the conduct of intensive information campaigns on how to avail of the SULONG funds, further simplification of credit application processes and requirements, fasttracking the development and adoption of new mechanisms (i.e., credit bureau/credit scoring system), expansion of the number of conduit banks in the regions, and conduct of frequent summits or dialogues of all stakeholders in MSME development, including foreign donors and legislators.

In addition, the acceptance of non-traditional collateral as guarantee for loans should be studied as an option to improve MSMEs access to credit, i.e., banks to lend to landowners holding only real property tax declarations, subject to basic requirements such as tax declaration issued under the landowners name, landowner has a certification from Local Assessor attesting that land subject of the loan transaction is covered only by one tax declaration, no other claimants to the land; and no pending cases, among others, should also be reviewed.

Moreover, new microfinance services and lending products should be developed

(i.e., possible extension of GRT exemption on loans to BMBEs of rural and cooperative banks relending GRT-exempt loans originating from financial institutions) and more rural banks and cooperative banks should be encouraged to participate in micro lending, and institutionalize mandatory savings for microborrowers.

On the part of the government, allocation of more funds to the SULONG Program is expected to allow certain GFIs/GOCCS to achieve, if not surpass, their individual target under the SULONG Program. The DTI should intensify its monitoring and reporting system for MSMEs that have availed of loans to preclude fund diversion, strengthen the capability of these enterprises to improve their businesses through business development services and improve the DTI database on SMEs.

The OTOP Program which is the mechanism for delivering product technology and marketing support to MSMEs should be promoted to LGUs. The adoption and implementation by LGUs should be facilitated through the commercialization of identified OTOP models.

Complementary activities and/or support to ECOP's BESE (E-BESE) Productivity Improvement Program, launched in February 2005 in support of the 10-point agenda of the President should be undertaken. The SME policies and regulations should continue to be reviewed and streamlined, respectively. Moreover, the amendment of pertinent provisions of the Magna Carta for Small Enterprises, systems and rules on government procurement for SMEs, mandatory allocation of banks' resources for SME credit, and the implementing guidelines and support programs under the BMBE law shall be pursued.

Investment commitments are expected to increase by nine percent due to growing business confidence in the country. Investors regard the country as one of the best investment locations in Asia due to the quality and good command of English of Filipino workers, among others. The 10 priority areas, particularly automotive, electronics and semi-conductor, mining, health and wellness and IT, are expected to lead the growth of investments and contribute to the generation of incremental investments needed to achieve the target investments rate of 20.3 percent of the GDP in 2005.

In addition, the government will continue to improve the investment climate to attract more foreign and domestic investments through simplification of procedures, strengthening and increasing the number of One Stop Action Centers and providing an attractive investment incentive package. In mining, the industry shall be revitalized in accordance with the Mineral Action Plan. For this purpose, DTI shall conduct investment missions to target countries to generate joint venture arrangements with foreign investors. Government-acquired mining assets shall also be privatized. Moreover, the Investment Retention, Expansion and Diversification (RED) campaign of BOI shall be pursued to encourage the growth of local business, while OFWs shall be tapped as source of investments.

In exports, the Philippines is expected to continue its strong performance. However, it is necessary to consciously diversify the Philippine export basket to reduce the dependence on electronics exports. Despite past efforts to promote other exportable products, electronics products, especially semiconductors, still comprise the bulk of Philippine exports. Export performance still remains sensitive to fluctuations in the global electronics

market. However, market opportunities in other sectors, such as marine products and seaweeds and carrageenan, should not be overlooked. Implementating strategies towards achieving a more balanced market mix and increasing number of products and services being offered to trading partners will be the key in achieving the target of US\$50 billion in export earnings by 2006.

The core elements of the Philippine Export Development Plan (PEDP) 2002-2004, i.e., industry clustering and concentration on certain priority product sectors or “revenue streams,” will be expanded under the PEDP 2005-2007. New initiatives to promote product/service development at the city or municipality level such as offering “bundles” of related products and services, and encouraging the creative industries to take a bigger role in achieving competitiveness for Philippine exports, among others, will also be undertaken. The PEDP, 2005-2007, also sets guidelines on how the financial sector can take a more active role in the development of the exports industry.

In the realm of market diversification, the PEDP, 2005-2007, will focus on five key markets that will absorb a majority of Philippine exports. Export promotion efforts will be geared toward capitalizing on opportunities offered by the growth of China, as well as sustaining trade with Japan and the ASEAN region. The PEDP also expands the definition of “markets” to include segments with cultural commonalities that transcend geographical borders. For example, the kosher or halal markets, and product promotion strategies will be tailored to capitalize on these culture-based market opportunities. The government shall also continue to expand market access through active participation in bilateral and multilateral agreements. The Philippines shall prepare for negotiations with India, Korea, Australia

and New Zealand and study the potential of entering bilateral trade agreements with Mexico and Canada. Moreover, the creation of the Halal Certification Board will be pursued as a beginning step towards penetrating the \$US150 billion Halal export market.

In line with the MTPDP 2004-2010, the CICT will undertake various ICT pilot projects and policy planning initiatives of the government critical to the enhancement of trade and investments in the ICT sector. Hence, consultations with individuals and stakeholders will be conducted to establish a favorable policy environment for private investments in ICT. In 2005, the following ICT-related legislative bills pending in Congress and various programs/projects will be pursued:

1. *Department of Information and Communications Technology (DICT) Bill.* By the end of 2005, the proposed law establishing a department-level agency responsible for the promotion and development of ICT in the country would have been passed. The creation of the DICT would also ensure the formulation and focused execution of ICT development programs/projects. To date, several bills creating the DICT have been filed in Congress. The House Bill (HB) 3218 is a consolidated version of bills previously filed in Congress and Senate supporting the creation of an ICT department. It aims to transfer all communications-related functions of the DOTC to the DICT. The DICT will likewise manage government R&D programs in ICT. In line with this, a public hearing was conducted on 19 January 2005 by the House Committee on ICT.
2. *Cybercrime Prevention Act.* The bill provides measures to effectively prevent and combat cybercrime not only in computers and computer networks but also in mobile devices. Moreover, the bill includes

measures on internet pornography by strengthening its detection, investigation and prosecution capability and antispyware measures for communication devices such as mobile phones.

To be the world's top call center and higher value-added ICT services destination/provider, it is imperative to ensure quality of ICT education. Hence, the following programs/projects will be pursued:

1. *National ICT Skills Development Plan.* The plan will serve as a blueprint in managing the deployment of ICT professionals in the industry.
2. *National ICT Skills Survey.* Annual nationwide survey will start in 2005 to determine human capital demand and projected supply in the ICT sector.
3. *Educational Alliance Program.* A total of 72 MOAs/partnerships shall be established with SUCs in 2005, to enhance ICT literacy, awareness and skills development in local areas.
4. *National ICT Certification Program.* This program will ensure that the country produces a pool of quality IT certified Filipino workers.

Lastly, with an environment of improved and sustainable quality ICT education, infrastructure and policies, compliance to international standards on the quality of ICT products and services that the country provides is needed. In addition, the Capability Maturity Model Integration (CMMI) – model for software process improvement project will be undertaken. This covers the assessment and enhancement of NCC's software development process to comply with the CMMI standard.

Chapter 3

Agribusiness

Agriculture production continued to generally grow robustly in 2004. It exceeded its Medium-Term Philippine Development Plan (MTPDP) output targets for the fourth year in a row. The major national agencies that support the sector implemented a wide range of interventions to uphold and maintain this strong production performance. Various factors, however, prevented the agencies to meet most of their Plan as well as the Agriculture and Fisheries Modernization Act (AFMA) targets and commitments for the year.

When the administration received a fresh six-year mandate in 2004, it decided to shift to the agribusiness approach in order to significantly increase the welfare impact of government interventions in the sector. This means that government programs for the sector in 2005 is expected to be more balanced. The old production-side and commodity-based interventions will be rationalized putting greater emphasis on market-based and demand-side strategies. This is expected to result in the establishment of two million hectares of agribusiness lands that will generate at least two million new jobs and greater price-competitiveness, particularly of agricultural wage goods, within the next six years.

ACCOMPLISHMENTS IN 2004

Sector Performance

Overall agricultural production slightly exceeded expectations in 2004. It posted a real growth of 5.1 percent, which is 0.2 percentage point higher than the upper range targeted for the year (Table 3.1). This continuing strong performance underscored the sector's resiliency despite the development challenges it had to face during

the year. There were the disastrous effects of typhoons in the fourth quarter, the fiscal constraints that severely limited government support, and the rising costs of inputs as a result of a series of crude oil price increases.

Last year's growth in agriculture was largely due to exemplary performances in crop production and fisheries which more than compensated for the underperformance of livestock and poultry.

The fishery industry set the pace of growth (9.5%) of the whole sector at nearly double its production growth target for the year correspondingly increasing its share in the sector's output, from 22.5 percent in 2003 to 23.4 percent in 2004. This was mainly due to the impressive 17.9 percent surge in aquaculture production brought about by the increased availability of planting materials from newly established seaweed nurseries. More farmers also engaged in seaweed ventures due to the high overseas demand for the product. This more than offset the substantial slowdown in capture fisheries. Both municipal and commercial fishing posted much lower rates of growth compared to last year (6.7 *vs.* 2.4% and 6.5 *vs.* 1.9%, respectively). This may have been due to a decreasing natural

fish stock as fishing efforts may have reached beyond the sustainable level. This was especially true for commercial fishing which also failed to reach its reduced growth target for the year.

Crop production posted the second strongest growth largely due to the abundant harvests of cereals (corn and palay), tomatoes, and rubber. These more than made up for the contraction in output by commercial crops such as coffee, mango, tobacco, abaca, as well as garlic and onions. Better prices and government support reportedly boosted the production of the former, while unfavorable prices and weather in the production areas dampened the latter.

Corn harvest, in particular, exceptionally grew by nearly 20 percent. The Department of Agriculture (DA) partly attributed this to the implementation of forward- contracting scheme that linked producers and end-users, a system which assured farmers of a ready market for their produce. They also reported that many farmers in Negros, Bukidnon and Batangas, covering an area of about 18,000 hectares, shifted to corn due to the low buying price for sugarcane and an increase in the buying price for corn in the market. Local Government Units (LGUs) and private sector support for corn farmers were also reported to have helped boost corn production through the following schemes: distribution of seeds and fertilizers in Compostela Valley and Misamis Occidental and tractors in Pampanga, Tarlac and Bataan with counterpart funds from the LGUs and the private sector; loan schemes by LGUs sourced from their Internal Revenue Allotment (IRA) which led to the distribution of seeds and fertilizers in Looc, Compostela

Valley, Tangub, Misamis Occidental, and Josefina, Agusan del Sur; and tractors loaned in Pampanga, Tarlac and Bataan with counterpart funds from the LGUs and private sector. The LGU and private sector support for this crop may have been significant given that the national government (NG) program for the commodity, *Ginintuang Masaganang Ani* (GMA) Program for Corn, was estimated to account for only about one percent of the total corn seed requirement in the country.¹

Meanwhile, palay posted a strong 7.4 percent increase in harvest even though there was a reported net reduction in irrigated areas² and the production share of the rainfed palay remained the same. Given these production figures, this growth in output may have been then mainly due to an overall increase in productivity. Aside from the generally favorable weather, the DA also cited the GMA Rice banner program and the farmers' utilization of hybrid seeds as significant contributors to this performance. It reported that the area coverage of the banner program accounted for 42 percent of total rice production. It should be noted, however, that the GMA Rice program is estimated to have supplied only about one-fifth of the total rice seed requirement of the country.³ Meanwhile, hybrid rice production accounted for only about 7.6 percent of the total rice production for the year, not all of which was under the DA's hybrid rice program.

There was a modest overall increase in poultry output in 2004 mainly because of the decent growth in egg production. It was, however, not enough to meet the Plan target as poultry meat production,

¹ The percentage was estimated based on the total seeds distributed under the GMA Corn Program for 2004 relative to seed requirement per hectare multiplied by the total area harvested for corn for the year. Data used were obtained from the Bureau of Agricultural Statistics (BAS) Annual Report for 2004.

² The DA-National Irrigation Administration (NIA) reported that, while there were ongoing construction and rehabilitation of irrigation systems (IS) in palay areas, irrigation systems continuously deteriorated due to poor maintenance of the facilities, a deficient rehabilitation plan, and lack of proper protection of watershed areas which delimits irrigation water supply.

³ The percentage was estimated based on the total seeds distributed under the GMA Rice Program for 2004 relative to seed requirement per hectare multiplied by the total area harvested for palay for the year. Data used were obtained from the BAS Annual Report for 2004.

TABLE 3.1 Value Of Agricultural Production, 2003-2004(Growth rates, in percent)

	VOLUME OF PRODUCTION 2004 In '000 metric tons	VALUE OF PRODUCTION			
		Growth Rates (at constant 1985 prices) 2004		Growth Rates (at current prices)	
		Actual	Target	2002-2003	2003-2004
Agricultural Crops		4.9	3.1 – 4.5	5.6	15.8
Palay	14496.8	7.4	2.5 - 3.5	1.3	16.1
Corn	5413.4	17.3	2.9 – 3.8	14.2	45
Coconut	14344.9	0.4	1.9 – 2.0	8.5	32.5
Sugarcane	24963	4.1	1.0 – 2.0	-0.5	-7.5
Banana	5638.1	5	1.9 – 3.9	5.3	18.1
Pineapple	1759.3	3.6	4.5 – 6.5	9	-15.8
Coffee	100.9	-5.2	1.5 – 2.4	18.3	0.8
Mango	967.5	-3.8	6.0 – 6.5	-4.2	10.1
Tobacco	47.8	-9.6	1.9 – 2.4	-0.2	-13.8
Abaca	69.7	-0.2	1.8 – 2.7	32.2	27.6
Peanut	27.1	3.7	-	5.3	14.3
Mongo	26.5	1.9	-	-5.4	4.1
Cassava	1641.2	1.2	-	-10.5	16
Camote	544.2	-0.5	-	6.1	4.6
Tomato	170.8	13.8	-	75.3	-13.3
Garlic	15	-3.4	-	-18	-23
Onion	86.7	-7.6	-	38.2	-20
Cabbage	92.9	1	-	-15.6	5.2
Eggplant	182.7	3.2	-	9.3	14.7
Calamansi	179.2	-1	-	-6.1	-4.9
Rubber	291.4	6.4	-	56.7	45.7
Others	3451.3	0.5	-	15.5	-1.1
Livestock		-0.4	4.5 – 5.1	3.6	27
Carabao	138	4.3	1.5 – 2.4	-1.4	15.2
Cattle	256	-1	4.7 – 4.9	-0.1	8.8
Hog	1722.4	-0.6	4.8 – 5.4	4.4	31.4
Goat	74.7	1.2	3.0 – 3.6	6.2	11.8
Dairy	11.6	2.7	0.9 – 1.6	6.4	8
Poultry		4.2	4.7 – 5.8	8.9	20
Chicken	1231.8	3.6	4.7 – 6.0	10.2	21.2
Duck	53.2	-1.3	4.7 – 5.3	4.1	-10.3
Chicken Eggs	296.6	7.9	4.3 – 4.8	5.6	20.1
Duck Eggs	56.6	4.7	4.7 – 4.8	0.9	19.6
Fishery		9.5	5.4	5.8	16
Commercial	1130.3	1.9	4.6	5.9	15.3
Municipal	1080.8	2.4	1	6.6	12.3
Aquaculture	1714.9	17.9	9.3	5	20.9
TOTAL		5.1	3.9 – 4.9	5.8	18.4

Source: BAS and MTPDP 2001-2004

especially in duck meat, underperformed. This was attributed to high feed costs.

Meanwhile, overall livestock production contracted by 0.4 percent in 2004. This was largely attributed to the decrease in both hog and cattle production both of which were reportedly constrained by the high prices of imported inputs. Hog production, which accounted for at least 75 percent of total livestock production value, has slowed down since 2003 primarily because of the increased prices of feeds, particularly those with imported ingredients such as soybean meal (34 % from 2003 price level) and corn (22.3 % increase from 2003 price level). Cattle production has been declining much earlier (since 2001) reportedly due to constraints in the importation of feeder stock.

Thus, the double-digit growth in domestic corn production did not seem to have been sufficient to boost both poultry and livestock production to at least meet Plan target levels. This may point to a need to also address possible corn distribution/logistics constraints. In view of this, DA is pushing for an area shift that entices livestock and poultry growers to transfer their operations to major yellow corn areas particularly in the Mindanao region. This initiative, done through the partnership of the GMA Livestock and GMA Corn programs, is aimed at minimizing inefficiencies in the yellow corn supply chain which result in a high logistical cost that directly affects the livestock and poultry industry.

Farm gate prices posted a double-digit (12.7 %) average increase fueled by a combination of demand-pull and cost-push factors resulting in higher farm incomes. These include strong consumer spending boosted by the national elections during the second quarter of the year as well as inflation and, possibly, inflationary expectations due to rising oil prices during the latter half of the year. Thus, the nominal growth in gross

value added from agriculture was nearly 20 percent for the year.

It is, however, unclear whether this income increase was actually translated into significant welfare improvements for most farmers. Table 3.2 shows that the share of crop production has decreased in favor of livestock, poultry and fisheries production. Nevertheless, crop farmers continue to comprise the majority of farmers in the sector especially the small growers. They have generally failed to diversify production especially toward high-value crops. The crop production structure has remained virtually the same for at least the past 10 years. Farmers continued to depend mainly on traditional crops (i.e., rice, corn, coconut, sugarcane), the income potential of which is only a fraction of even the annual poverty line. The share of cereals in total crop production, in fact, even increased during the year.

The static crop production structure may also explain why employment creation in agriculture continues to be a challenge despite the sector's strong production performance. The range of jobs that can be generated from a traditional crop-based sector does not appear to be wide. Thus, both unemployment and underemployment in agriculture continue to be severe. The 158,000 jobs it generated in 2004 was not the highest it had achieved for the same rate of output growth (Table 3.3). Moreover, the sector's share of total employment has even declined vis-à-vis previous years.

SECTOR AGENCY PROGRAMS

Department of Agriculture

The commodity-based (Rice, Corn, High-Value Commercial Crops, Livestock and Fisheries) GMA Programs were the DA's major interventions funded by the

TABLE 3.2 Agriculture Production Structure, 1994 and 2004

SUB-SECTOR	Value of Production (PhP Million)		Share to Total Production (%)	
	1994	2004	1994	2004
Agricultural Crops	119575.5	135796.3	54.9	47.5
Palay	34564.9	47549.4	15.9	16.6
Corn	13241.4	16077.8	6.1	5.6
Coconut	17331.6	21804.3	8	7.6
Sugarcane	7557	7988.2	3.5	2.8
Banana	5731.8	10092.1	2.6	3.5
Pineapple	2463.9	3254.7	1.1	1.1
Coffee	2904.4	2339.1	1.3	0.8
Mango	2540.6	6995.2	1.2	2.4
Tobacco	627.1	722.3	0.3	0.3
Abaca	566.2	448.6	0.3	0.2
Peanut	309.2	230.5	0.1	0.1
Mongo	283.9	311.6	0.1	0.1
Cassava	2599.2	2314.1	1.2	0.8
Camote	1303.2	1034.1	0.6	0.4
Tomato	547.2	606.2	0.3	0.2
Garlic	746.4	695	0.3	0.2
Onion	474.7	544.7	0.2	0.2
Cabbage	398.8	428.4	0.2	0.1
Eggplant	596.8	873.5	0.3	0.3
Calamansi	252.1	914	0.1	0.3
Rubber	802.1	1323	0.4	0.5
Others	23733	9249.5	10.9	3.2
Livestock	26845.7	38708.2	12.3	13.5
Poultry	27095.3	44557.1	12.4	15.6
Fishery	44203.6	67084.5	20.3	23.4
Commercial	14052.1	17881.4	6.5	6.2
Municipal	14655.1	15660.4	6.7	5.5
Aquaculture	15496.4	33542.7	7.1	11.7
Total	217720.1	286146.1		

Source: BAS

TABLE 3.3 Job Creation by Sector, 2003 and 2004 (In thousands)

Sector	Level	Jobs Created		% Share to Total	
		2003	% Change	2004	2003
Agriculture	158	97	62.9	16.2	16.9
Industry	159	145	9.7	16.3	25.3
Services	659	331	99.1	67.5	57.8
Total	976	573	70.3	100.0	100.0

Source: Current Labor Statistics (DOLE-BLES); Labor Force Survey (National Statistics Office)

General Appropriations Act. These covered AFMA-mandated priority support programs that focused on strategic agriculture and fisheries development zones. They provided support in production, infrastructure (e.g., irrigation), marketing, research and development (R&D), and credit as well as postharvest facilities and other infrastructure support services (e.g., farm-to-market roads [FMRs], processing centers). For 2004, the activities implemented under the various GMA programs included the: (a) expansion of area planted to hybrid rice; (b) distribution of production inputs such as seeds, fertilizer, fingerlings, fish fry, feeds, animals, doses of semen straws, and doses of medicine to control and prevent animal diseases; (c) distribution of various postharvest/production facilities; and (d) establishment of seaweed nurseries.

Meanwhile, the major foreign-assisted projects (FAPs) were mainly in rural infrastructure development and agricultural support services. In 2004, the accomplishments of the major FAPs included the following:

The **Cordillera Highland Agricultural Resource Management Project (CHARMP)** continued to maintain and protect a total area of 6,560 hectares of reforestation and agro-forestry areas, and nearly completed its land tenure improvement program. Only three Certificate of Ancestral Domain Titles (Atok, Buguias and Masadiit) are under process. Their titles will be issued by National Commission on Indigenous Peoples after the CHARMP is terminated. The project also completed the construction of 39.6 kilometers (kms) of FMRs, 15 irrigation projects/systems with a total of service area of 971.0 hectares, and one domestic water supply system that is serving 159 households. Activities for techno-demos and micro-enterprise demonstrations, Farmer Field Schools, research and other farmers' trainings have been conducted.

The **Fisheries Resource Management Project (FRMP)**, under its fisheries resource management component, has almost completed the development of a geographic information system. The Philippine Fisheries Information System integration is about 90 percent done. FRMP likewise completed the preparation of 100 Municipal Coastal Environmental Profiles, prepared 82 Municipal Fisheries Ordinances, and installed Fisheries Licensing Systems in 91 municipalities. Also established were nine Fisheries Law Enforcement Teams with 1,174 law enforcers trained.

The **Mindanao Rural Development Program (MRDP-Adjustable Program Loan 1)** rehabilitated communal irrigation systems covering a total of 3,475 hectares under its Irrigation Development Service. The Program constructed and rehabilitated 127 units of pre- and postharvest facilities and distributed 54,800 pieces of planting materials for agro-forestry and integrated farming systems. A total of 3,535 animals for livestock/poultry production (2,160 heads) and integrated farming system (1,375 heads) were also distributed to the project beneficiaries.

The **Upland Development Programme (UDP)** engaged a number of service providers to support capacity building for LGUs and support services for marketing, agricultural infrastructure and rural finance. The aim was to ensure sustainability and continuity of the developments in the uplands even after the project ends. Also, the project facilitated the full-blown implementation of the Diversified Farming System (DFS) wherein there are about 6,000 hectares with diversified crops, contoured and protected by 6,000 farmer co-operators. It was reported that proper land care increased farm incomes in the areas. These DFS farms are now models for other farmers.

Department of Land Reform

The Department of Land Reform (DLR), formerly Agrarian Reform, continued to deliver programs and projects geared toward the Plan's goal of advancing social equity through agrarian reform. For 2004, the DLR focused on delivering its agency's committed major final outputs (MFOs). These included the following programs:

Land Tenure Improvement (LTI). This program promotes social equity through the distribution of public and private agricultural lands by awarding land ownership titles to agrarian reform beneficiaries thus securing farmers' tenure over the land. In addition to land distribution, the DLR implements the leasehold program that secures tenure of farmers in landowners' retained areas and other areas covered by the Comprehensive Agrarian Reform Program (CARP) but have not yet been distributed.

Delivery of Agrarian Justice. This program provides the venue for solving agrarian cases including those on land valuation, farmers' ejectment from the land, collection and fixing of lease rental, and cancellation of Emancipation Patents/Certificate of Land Ownership and Acquisition.

Program Beneficiaries Development. This program seeks to build Agrarian Reform Beneficiaries' (ARBs) social capital, as well as facilitate access to support services.

AGENCY ACCOMPLISHMENTS VIS-À-VIS TARGETS

Department of Agriculture

In 2004, the Department did not seem to have made much headway in substantially closing its achievement gaps in its 2001-2004

commitments under the Agriculture and Fisheries Modernization Plan (AFMP). Table 3.4 shows that the same set of three out of 11 targets that the DA had already achieved by end-2003 was again reported as its accomplishments by end-2004. These are irrigation rehabilitation, regional fish ports development, and the establishment of seaweed nurseries. This lack of significant progress may be traced to a combination of possible operational rigidities as well as resource insufficiency.

The DA's 2004 AFMP accomplishment report shows that, in terms of achievement rates relative to 2003 levels, the Department appeared to have focused more on the rehabilitation of regional and municipal fish ports rather than on productivity-enhancing investments. These efforts were undertaken by the department despite having met its target for the rehabilitation of regional fish ports in 2003 and rehabilitation of municipal fish ports already being a devolved activity under the Local Government Code. The DA did not seem to have given much attention to raising the country's total irrigation service area, the distribution of postharvest equipment, and the construction and improvement of postharvest facilities. Moreover, no inroads were made in the construction, rehabilitation/repair and improvement of FMRs, as well as in the establishment of mariculture parks.

The DA and the Department of Budget and Management (DBM) have differing views on the reasons behind the former's performance. The DA largely attributes its achievement gaps to the insufficiency and late release of its budget. Meanwhile, the DBM believes that the gaps were more due to the DA's lack of absorptive capacity.

The DA reported that the AFMA targets were based on the assumption that funds, as mandated under the modernization act, will be fully provided.

TABLE 3.4 AFMA Accomplishments, 2004^d

Commitments/ Medium- Term Target, 2001-2004	Accomplishments as of 2003		Accomplishments as of 2004		DA Remarks
	% Accomplishment with respect to 2001-2004 Target	Level of Accomplishment	% Increase from 2003 accomplishment level	% Accomplishment with respect to Target	
Rehabilitate 19 municipal fish ports	52	Constructed repaired, rehabilitated 15 municipal fish ports	50	79	Target was accomplished due to availability of budget and doability of target
Continue the rehabilitation of two regional fish ports	100	Constructed, repaired, rehabilitated seven regional fish ports	40	350	
Generate 172,391 has. from the construction of new irrigation systems	40	Generated 87,259 hectares of new areas	25	51	
Establish 14 seaweed village ecozones and 280 seaweed nurseries	140 ^a	Established 449 seaweed nurseries and 275 marine cages	15 ^a	160	Target was accomplished due to availability of budget and doability of target
Construct/improve 14,810 assorted postharvest-related infrastructures	11	Constructed/improved 1,763 postharvest-related infrastructures	11	12	
Rehabilitate 301,361 has. from existing but degraded irrigation systems	186	Rehabilitated 616,133 616,133 hectares of existing systems	10	204	
Distribute 21,863 assorted postharvest machinery and equipment	4	Distributed 885 machineries and equipment	9	4	High accomplish- ment rate is attributed to the priority accorded to rehabilitation of existing irrigation systems
Raise the country's total irrigation service area from 1.4 million to 1.6 million hectares	2	Total area, to date, is 1,401,743 hectares	0.4	0.9	
Construct 1,597 kms. and rehabilitation, repair and improvement of 601 km. of FMRs	52	Constructed, rehabilitated, repaired, and improved 1,148.46 kms. FMR projects	0	52	
Establish 16 mariculture parks	56	Established/maintained nine mariculture parks ^c	0	56	

Source: Planning Service, DA

^aseaweed nurseries

^bseaweed village ecozones

^cIsland Garden City of Samal, Davao City; Sto. Tomas Cove, La Union; Calbayog City, Samar; Babatngon, Leyte; San Jose, Northern Samar; Liloan, Southern Leyte; and Lawaan, Eastern Samar

^dFigures reported for 2004 still being validated by DA-NIA

TABLE 3.5 Fund Utilization By AFMA Component, 2004 (Final Report)

PARTICULARS	TOTAL ALLOTMENT (A)	DISBURSEMENT (B)	OBLIGATION (C)	DISBURSEMENT RATE % (B/A)	OBLIGATION RATE % (C/A)
AFMA					
A. Irrigation	3,433,251	1,518,557	2,780,734	44.2	81.0
B. Postharvest Facilities	349,393	44,888	68,797	12.8	19.7
C. Other Infrastructure	135,099	33,812	49,345	25.0	36.5
D. Agro-Industry Modernization Credit & Financing Program (AMFCP)	120,491	4,598	6,750	3.8	5.6
E. Farmer-Fisherfolk Marketing Assistance	51,109	26,642	43,377	52.1	84.9
F. Research and Development	441,205	162,111	433,024	36.7	98.1
G. Capability-building of farmers & fisherfolk organizations and LGUs	378,158	172,597	332,277	45.6	87.9
H. Salary Supplement of Extension Workers under the LGUs	379,134	256,232	370,610	67.6	97.8
I. National Agricultural & Fisheries Education System (NAFES)	-	-	-	-	-
J. National Information Network (NIN)	43,947	20,503	25,301	46.7	57.6
K. Rural Non-Farm Employment Training	-	-	-	-	-
Subtotal	5,331,787	2,239,940	4,110,215	42.0	77.1
Other attribution to AFMA					
L. Regulatory Services	630,511	208,659	395,022	33.1	62.7
M. Production Support	2,317,842	1,153,271	1,720,800	49.8	74.2
N. Policy and Planning	292,192	109,763	174,524	37.6	59.7
O. Human Resources Development	-	-	-	-	-
P. Program Management	101,788	53,805	85,994	52.9	84.5
Subtotal	3,342,333	1,525,498	2,376,340	45.6	71.1
TOTAL, AFMP	8,674,120	3,765,438	6,486,555	43.4	74.8
Source: DA Accounting Division					

However, budget releases were below what was planned and the Department had to internally adjust its activities on the basis of the lower budget. The DA, likewise, noted that some budget components were not released according to planned time schedules by the DBM.

The DBM, however, maintained that the release of the remaining balance was constrained by the DA's low utilization of initially released funds. Table 3.5 shows that the overall obligation rate for 2004 was around 74.8 percent while the disbursement rate was only 43.4 percent. It appears that the programs which had the least utilized

funds (postharvest facilities, Agro-industry Modernization Credit and Financing Program [AFMCP] and other infrastructure) were also those that did not reach their targets. The estimate of the DA's disbursement rate for 2004 was even lower than in previous years (i.e., 45.5% and 45.1% for 2002 and 2003, respectively).

Department of Land Reform and Department of Environment and Natural Resources ⁴

The DLR distributed a total of 104,069 hectares (Table 3.6) in 2004. This excludes

⁴ Please see Chapter 4 for detailed discussion on DENR accomplishments.

TABLE 3.6 Land Distribution Accomplishment (In hectares)

	Target	2003 Actual	%	Target	2004 Actual	%	Scope	Cumulative as of 2004	Balance
DAR	143,000	97,795	68%	152,699	104,069	68%	4,290,453	3,513,33	777,114
DENR	82,339	130,489	158%	82,339	127,530	155%	2,502,000	1,493,941	1,008,059
Total							6,792,453	5,007,280	1,785,173

Notes: Actual Figures are from the PARC Secretariat. This excludes ARMM provinces except Lanao del Sur and Basilan which are part of the DAR distribution scope.; DENR ISF/CBFM Target of 1.3 million hectares was completed in 2002; Total Scope including DENR ISF/CBFM is 8.0 million hectares.
Targets are from MTPDP 2001-2004

lands in the Autonomous Region in Muslim Mindanao (ARMM) provinces except in Lanao del Sur and Basilan which are still part of the DLR distribution scope. The total distribution exceeded by four percent the State of the Nation Address (SONA) target of 100,000 hectare with 71,682 farmer beneficiaries (FBs). However, the accomplishment did not meet the department's original 2004 Plan target of 152,699 hectares nor its agency target of 110,046 hectares. Budget shortfalls forced the DLR to downscale its 2004 Plan Target by 42,653 hectares which consisted mostly of Land Bank of the Philippines (LBP)-compensable private agricultural lands. As of December 2004, the area of agrarian land distributed by the DLR totaled 3.5 million hectares with over two million FBs.

Meanwhile, the Department of Environment and Natural Resources (DENR) was able to distribute 127,530 hectares of public alienable and disposable lands during the year. This surpassed both the SONA target (100,000) by 27 percent and the 2004 Plan target (82,339) by 64 percent. In addition, patents were issued to 127,530 beneficiaries. It should be noted that, aside from the Agrarian Reform Fund (ARF), the DENR was able to also tap financing from their regular budget.

As of December 2004, the combined land area distributed by DLR and DENR reached some 6.3 million hectares with over

3.7 million FBs. A balance of 1.8 million hectares, however, remains from the total 8.1 million hectares of land scheduled to be distributed until 2008.

The leasehold operation program was able to install 10,400 tenant-farmers covering 22,858 hectares of land. This accounts for about 83 percent of the DLR's target for the year. Since 1964, a total of 1.6 million hectares were placed under leasehold arrangement which benefited 1.1 million leaseholders.

The speedy delivery of agrarian justice remains a major concern of the DLR. Although the DLR Adjudication Board (DARAB) was able to settle 17,809 cases in 2004, a total of 12,515 cases are still pending with the DARAB. Apparently, the number of new cases being filed has outpaced the number of cases it has resolved. The difficulty in setting an accurate target on cases to be resolved is due to the varying nature of cases handled and the time-factor in solving these. The slow response time in solving cases is mainly due to the lack of manpower complement, particularly legal representatives.

The accomplishments of the CARP-Implementing Agencies (CIAs) in providing support services to the ARBs for 2004 are presented in Table 3.7. It shows general improvement compared to 2003 accomplishments.

The agrarian reform communities

TABLE 3.7 Total Support Services Accomplishment

SERVICE CATEGORY	2001	2002	2003	2004	CUMULATIVE TOTALS (1987-2004)
Extension Services					
Training Conducted (DAR, DTI, DOLE, NIA)	1,718	2,892	1,417	1,632	70,413
Farmer Beneficiaries (FB) Trained (Service Count)	158,911	179,062	88,904	204,882	3,483,168
Technical Assistance (DTI)					
FB/Los Benefited (Service Count)	88,644	49,487	102,913	131,097	2,285,387
Credit Support (DAR, LBP, GFIs)					
Production Loan to Small Farmers/Fisherfolk (LBP)					
Loans Released (in Million pesos) a/	12,920	13,408	14,016	12,039	155,479
Small Farmers Benefited (service count)	376,893	356,644	298,158	288,334	8,236,888
Credit Programs for ARBs (DAR/GFIs)					
Project Approved (No.)	54	189	197	217	782
Project Cost (in Million pesos)	66.17	226.37	338.24	387.30	1,183.19
ARBs involved (No.)	4,176	11,308	26,695	30,970	82,868
Infrastructure Support					
Rural Road Construction (DPWH)					
Completed Projects	117	410	174	103	4,115
Total Length (in Kilometers)	128	635	128	131	7,048
On-going Projects				180	180
Estimated Length (in Kilometers)				125	125
Project to be started				553	553
Estimated Length (in Kilometers) b/					
Communal Irrigation Projects (NIA)					
Completed Projects	26	30	23	23	380
Service Area (in Hectares)	4,931	3,473	2,995	6,755	93,049
FBs Benefited	3,168	2,357	3,370	4,017	57,720
On-going Project				88	88
Partial Service Area (in Hectares)				3,293	3,293
Target Area (in Hectares)				19,726	19,726
Common Service Facilities (DTI) c/					
Project Operationalized					366
FB/LO Served (No.)					11,342
a/ Also included the PhP 2.8 billion credit outlay charged against ARF. Report as of September 2004.					
b/ Total lengths will be determined after the pre-engineering study.					
c/ No funds allocated for this activity starting 2001.					

(ARCs) serve as convergent sites for the delivery of both social and economic services, ideally by all CIAs. These services include community organizing, training, infrastructure, credit and extension. A cumulative target of 2,035 ARCs was set to be launched in 2004. However, only 1,697 were established which is only 83 percent of the Plan target. This underachievement was partly due to the difficulty in complying with the “Must-Criteria” for the selection of ARCs, a pre-requisite for their development. The unmet conditions include: (a) area should have a large LTI scope whether under land

transfer or leasehold program (for land transfer, a minimum scope of 75 % should have been covered); (b) support services should have been initially provided; and (c) people organizations present in the area.

Due to the limitation of the ARCs’ reach and the increasing number of FBs in need of support services, the DLR expanded its scope of coverage. The ARCs are now expanded to Kapit-Bisig Laban sa Kahirapan (KALAH) Agrarian Reform Zones (KARZones). It is an expanded area targeted for the delivery of support services covering a contiguous area embracing both

ARC and non-ARC barangays within the zone. By end-2004, a total of 89 KARZones have been delineated nationwide. Out of these, 15 zones were launched consisting of 1,988 barangays with 260,594 beneficiaries. However, the slow process of identifying and pre-launching the KARZones which is really a modified ARC approach, also contributed to the slowdown in launching additional ARCs during the year.

POLICY DIRECTIONS AND OUTLOOK FOR 2005

Agriculture continues to be the foundation of the rural economy, on which the well-being of most of the population, especially the poor, rests. Thus, the government started to adopt the agribusiness approach to rural development and poverty alleviation in the tail end of 2004 in order to maximize the contribution of agriculture to job creation and income growth. Its goals are to (a) cost-effectively develop two million hectares of new agriculture lands that will generate two million new jobs in the next six years, and (b) make food plentiful at competitive prices. This means that several fundamental shifts in NG interventions in the sector will be undertaken. Greater emphasis will increasingly be given to

a) “steering” types of assistance (e.g., policy reforms, technology generation and transfer, credit facilitation) rather than “rowing” types of interventions, that will facilitate access instead of directly provide farmers and fishers’ production input requirements, thus, government will continue to provide public goods such as irrigation facilities and FMRs but will not be directly involved in the provision of private goods (e.g., postharvest facilities);

b) demand-side support such as

assistance in marketing and logistics; and

c) product diversification toward high-value commodities and value-adding activities such as processing, especially those with an increasing demand and niche in the international market. However, this paradigm shift started late in 2004, thus, the major programs and projects in the sector during the year were still largely a continuation of the old production support programs.

Although the sector has performed well in terms of exceeding its production targets, it is difficult to determine whether the welfare impact of this performance has been substantial, especially in terms of poverty alleviation, given its lack of successful diversification toward high-value crops and its mediocre employment impact. Thus, the sector agencies have to align more fully its strategies and programs with the agribusiness approach of the 2004-2010 MTPDP which the current administration believes will make more dent against unemployment and poverty. For instance, the DA should reconfigure its commodity-based programs, especially on cereals (e.g., GMA Rice and Corn Programs) and coconut to agricultural diversification (especially on high-value crops) and processing programs to significantly and sustainably increase incomes and employment. Administrative and institutional reforms will also have to be undertaken in order to improve the allocation and utilization of increasingly scarce public resources. Greater partnerships among the NG, LGUs and the private sector, such as those demonstrated in boosting corn production, must likewise be implemented to mobilize more development funds.

To pursue the goal of cost-effectively

developing at least two million hectares of new land for agribusiness, the following will be undertaken:

Department of Agriculture

- Identify over two million hectares of potential agricultural land and aquamarine areas to be developed into agribusiness enterprises where agricultural diversification and processing will be vigorously pursued. The target for 2005 is to open up approximately 287,000 hectares, which represents 14 percent of the six-year target of two million hectares, and generate 421,000 additional jobs or 21 percent of the two million jobs targeted by 2010.
- Launch the www.agribiz.com.ph site where agri-entrepreneurs and investors can access latest information on anything related to agriculture, including local and international situationers, accredited producers and buyers, and technical assistance on setting up agribusiness firms.

Department of Land Reform

- Fast track the completion of land distribution. In view of the extension on the completion of land reform by 2008—with a balance of 771,114 hectares and an average of 103,000 hectares (2001-2004) annual land distribution accomplishment—the DLR will undertake the validation of the estimated undistributed land balance to ensure more precise targeting. This will likewise address the constraints in the development and eventual launching of new ARCs. An ARC

prior to launching should have at least 75 percent of its land area already distributed to the farmers.

- Exercise stronger political will to prioritize land acquisition and distribution (LAD) over other services, and infusing more funding for these prioritized services.
- Initiate the identification and transformation of KARZones and ARCs as potential areas to be developed as agribusiness investment areas. The ARC strategy adopts the area-focused approach towards the integrated development of land-reformed communities. The KARZones development strategy, on the other hand, is aimed at expanding the impacts of development from the ARCs to cover wider geographical areas. Under these twin strategies, the Department shall launch around 105 ARCs for the year bringing the total number of ARCs launched to a total of 1,789.
- If government is to prioritize accomplishing CARP LAD targets by 2008, then the DLR (as well as the DENR) should organize their activities and decide which programs will need to be set aside in order to rechannel funds for LAD activities until 2008.

The accompanying priority legislation for the first goal is the enactment of the *Land Use Policy Code* to properly allocate land to various competing uses, preserve prime farm land, especially irrigated fields for agricultural purposes, and ensure community participation in defining local land use.

To achieve the second goal of making food plentiful at competitive prices, the following will be undertaken:

Department of Agriculture

- Set productivity targets for selected commodities. For instance, 2005 productivity targets for palay and corn are 3.8 MT/ha and 2.4 MT/ha, respectively.
- Facilitate the provision of credit for seeds and fertilizers and implement balanced chemical inputs usage programs, e.g., integrated pest management (IPM) and *Tipid Abono*. Facilitation of credit entails the establishment of linkages between farmers and credit institutions like the Land Bank of the Philippines and rural financial institutions, while the IPM and *Tipid Abono* programs give farmers the option to reduce their pesticides/fertilizer usage through the proper selection of the optimum/minimum and right amount and types/grades of chemicals appropriate to the soil conditions and varieties according to soil analysis.
- Rationalize the postharvest loss reduction program by using National Food Authority (NFA) facilities and upgrading private sector facilities.
- Provide corn farmers with entrepreneurial skills, technology and financing to further increase hybrid and open-pollinated variety corn seed production and thereby substantially reducing the cost of seeds for planting. The high cost of Mindanao corn, which is attributed to the high freight and other transport expenses could be reduced by bulk

handling, the repeal of Cabotage Law, and the removal of unnecessary checkpoints.

- Identify additional sites for “*bagsakan*” centers which would allow farmers to directly wholesale or retail their products to consumers.
- Focus on narrowing the gap between nutritional requirements and actual consumption of animal products, increasing production and improving livestock production coefficients, and transforming the livestock and poultry industry from resource-based to technology-based through the GMA Livestock Program. The program has still prioritized reduction of production costs while providing adequate services in areas of productivity such as production support, market development, credit, and R&D.
- Intensify efforts to prevent, control and eventually eradicate Foot and Mouth Disease (FMD) as part of the DA’s animal health program. The DA has targeted to have the whole of Luzon declared as FMD-free by the second half of 2005.
- Establish and operationalize the Agriculture and Fisheries Market Information System in 2005, as stated in the MTPDP 2004-2010.
- Establish reasonable retail prices for fish and involve the tri-media channels in information dissemination in order to help reduce marketing layers, thereby reducing prices.

- Review and improve the agricultural regulatory system (e.g., Fertilizer and Pesticide Authority, Bureau of Plant Industry, Bureau of Animal Industry) that affects the efficient distribution of agricultural commodities and production inputs.
- Adopt a strategy which links the agribusiness champions and the DA in order to facilitate the second linkage, i.e., between the agribusiness company and the small farmers.
- Negotiate with agribusiness and export groups such as mango exporters, banana associations, big integrators such as San Miguel Corporation, Republic Flour Mills Corporation, and Purina on how the DA and their firms can work together to help farmers link up with production input and credit sources, and ensure them markets and fair prices for their products.
- Provide a more vigorous marketing support to livestock and poultry producers and assist them in their business and market linking endeavors to improve the investment outlook of the livestock and poultry subsector, by conducting trade fairs, trade missions, and information campaigns.

Department of Land Reform

- Rationalize the delivery of support services by the CARP-implementing agencies.
- Continue the facilitation of the provision of support services such

as KALAHI Farm Centers, training, credit programs, infrastructure facilities and marketing assistance to the 89 identified KARZones, through the following activities:

- a) Work for economic integration of relatively developed ARCs with less developed ARCs and adjacent non-ARC areas through the convergence approach in agrarian reform zones.
- b) Establish around 78 KALAHI Farmers Centers which shall extend assistance to farmers such as providing farm technologies and marketing assistance.
- c) Continue implementing locally and foreign-assisted projects dealing with enterprise development, training assistance, and building of community infrastructure that support activities on farm-based products.

To provide the enabling policy environment to attain the second goal, the following priority Legislative Agenda should be actively pursued in the 13th Congress:

- 1) An Act to Provide Farmers Broader Access to Agricultural Credit to enhance access and flow of affordable formal credit for small farmers.
- 2) Amendments to the Agri-Agra Law to ensure that the agri-agra funds are used for rural credit.
- 3) Extension of the Utilization of the Agricultural Competitiveness Enhancement Fund to accelerate

the process of availment and to extend the utilization period.

- 4) Restructuring the NFA to rationalize the function and responsibilities of NFA and to effectively provide an appropriate implementing mechanism that will carry out the government's grains stabilization program and at the same time provide commercial services for a fee.
- 5) Disposition of Smuggled Agricultural Products to prevent leakage.

Administrative and institutional reforms to improve fund utilization and program implementation will also be put into operation by the sector agencies as follows:

Department of Agriculture

- Adhere to the Major Final Output-based budgeting system implemented by the Department of Budget and Management
- Execute committedly the implementation covenants of the Diversified Farm Income and Market Development Project which will initiate financial/budgeting and institutional reforms in the Department.

Department of Land Reform

- Intensify fund-generation activities for CARP. The DLR will build its capacity for enhanced collection of ARB amortization payments by closely working with the LBP for the installation of an improved land amortization collection system;

access grants and foreign assistance on land titling funding at greater concessionality than current assistance; hasten privatization of sequestered ill- gotten assets; and access coco-levy funds.

- Speed up the delivery of agrarian justice. The DLR would lobby for the passage of a legislative initiative to reorganize the DARAB and upgrade the status of legal officers employed by DLR. Also, the Department shall pursue innovative approaches to fast track resolution of agrarian cases affecting LAD, including: (a) resolution of agrarian cases based on position papers/ memoranda (summary proceedings); (b) resolution of cases aged one year and above within six months; (c) resolution of motion for reconsideration within 30 days; (d) availment of alternative modes of dispute resolution such as mediation and conciliation; and (e) institutionalization of aging of cases.

Furthermore, in line with developing greater partnership among NG, LGU and private sector, which would significantly contribute to increased productivity in the sector, the following activities will be undertaken:

Department of Agriculture

- Continue to support market owners who are able to sell "wage goods" at lower prices through the search for the "*Huwarang Palengke*" whereby consumers are assured of lower prices of "wage goods".

This will be done through the DA's coordination with the LGUs and market owners. The search was launched in December 2004 in Metro Manila and is expected to be conducted in major cities outside Metro Manila. The criteria for selecting the model market are: lowest prices, untampered weighing scales, and food safety and hygiene. The search is also expected to be conducted in major cities outside Metro Manila.

- Continue the implementation of production and marketing tie-ups with LGUs and markets such as the implementation of the forward-contracting scheme that link producers and end-users, a system which assured farmers of a ready market for their produce; distribution of seeds and with counterpart funds from the LGUs and the private sector; loan schemes by LGUs sourced from their IRA which led to the distribution of seeds and fertilizers in corn planting areas; and tractors loaned to farmers with counterpart funds from the LGUs and private sector.
- Encourage greater LGUs and farmers' participation/involvement

in planning, development, rehabilitation and improvement of irrigation systems. Pursue implementation of irrigation management transfer with irrigators' associations (IAs) for a more efficient and cost-effective operation and maintenance of national irrigation systems (NIS).

To further develop partnerships with the LGUs and increase participation of the private sector, the following legislative agenda should be ratified:

- 1) Representation of Small Farmers in the NIA Board to ensure the proper participation and representation of the farmers in the NIA Board.
- 2) Magna Carta for Agricultural Workers to ensure the efficient and effective delivery of agricultural services through the placement and protection of agricultural workers in cities and municipalities.
- 3) Representation of Small Grain Farmers in the NFA Council to ensure the proper participation and representation of farmers in the NFA Council who only have an observer status in the present set-up.

Chapter 4

Environment and Natural Resources

The need to balance the needs of the production and household sectors within the country's ecological capacity is crucial in attaining sustainable development. While efforts were made toward this end, the aftermath of the environmental and natural resource disasters that hit the country clearly shows that the challenge to achieve this balance remains difficult. Most of the targets committed under the MTPDP 2001-2004 and MTPDP 2004-2010 were not achieved due to various constraints including lack of strategic focus and sequencing in the implementation of the various strategies, and insufficiency of resources allocated for the sector.

In the medium term, the Arroyo Administration's strategic focus is directed toward the provision of water in priority "waterless" areas, reforestation in critical watershed areas, and land management activities. Moreover, to mitigate natural disasters, geohazard maps will be generated and the flood control structures will be constructed. As regards developmental interventions, the implementation of responsible mining will be vigorously pursued. Resources from all concerned sectors will be mobilized to ensure that these are sufficiently made available to implement the aforementioned interventions.

PERFORMANCE VIS-À-VIS PLAN TARGETS

For the environment and natural resources (ENR) sector, the assessment covered two sets of targets committed in the two planning periods: MTPDP 2001-2004 and MTPDP 2004-2010. Based on the assessment of the MTPDP 2001-2004 targets, the Department of Environment and Natural Resources (DENR) underperformed achieving only 5 out of 16 targets (Table 4.1).

Compared with the 2001-2004 Plan, the

ENR chapter has more detailed targets in the MTPDP 2004-2010 and covers a wider range of interventions by various agencies. In addition to the traditional targets on natural resource ecosystems, targets on mining, air pollution reduction, water provision, waste management, and flood control mitigation have been identified. Thus, aside from DENR interventions, those of the Department of the Interior and Local Government (DILG), the National Anti-Poverty Commission (NAPC), Department of Public Works and Highways (DPWH), and Local Water Utilities Authority (LWUA) were included. It should be noted, however, that both the ENR chapters in the MTPDP of 2001-2004 and of 2004-2010 did not provide annual breakdowns of targets. Nonetheless, if equal annual distribution of targets were assumed, then accomplishments for 2004 would generally be unsatisfactory to ensure attainment of the full Plan targets.

1. MTPDP 2001-2004

In the MTPDP 2001-2004, the DENR committed 16 targets. Of these targets however, only the target for land

distribution had an annual breakdown, the rest were lumped together. Thus, assessment was for the whole Plan period and not only for 2004.

Only five targets committed for the period were achieved: (1) development and management of Community-Based Forestry Management (CBFM) areas; (2) issuance of patents; (3) management of Protected Areas Management Boards (PAMBs); (4) mangrove areas rehabilitation; and (5) coastline management. Among these, the target of rehabilitating mangrove areas had the most notable accomplishment with a 605 percent attainment. This was attributed to the successful implementation of the mangrove

rehabilitation component of the Forestry Sector Project (FSP) 1. CBFM areas, on the other hand, were developed and managed as this approach was the major strategy adopted by the Department in implementing reforestation interventions.

Issuing patents became faster with the decentralization of authority to the DENR Regional Offices. Moreover, the extension of the processing of free patents until December 2020 contributed to this achievement.

Meanwhile the issuance of Certificate of Ancestral Domain Titles (CADTs) and Certificate of Ancestral Land Titles (CALTs), which the DENR was originally

TABLE 4.1 MTPDP 2001-2004 Targets and Accomplishments

Program/ Indicators	2001-2003 Accomplishments	2004 Remaining Targets	2001-2004 Actual Accomplishments(%)
Mangrove areas rehabilitated (has)	11,817	114	605
PAMBs managed (no.)	516	-	362
LGUs adopting coastal management- Coastline covered (km)	3,237	884	137
Patents issued (has)	225,624	127,533	107
CBFM areas developed and managed (has)	5.7 M	5.7 (for mgt only)	100
Livelihood projects established	286	123	99
Regional Coastal Resource Information System formulated	14	-	93
LGUs adopting coastal management- Plans drawn up	171	41	85
Priority watershed areas characterized/ profiled	112	15	82
Coral Reef managed (has)	21,942	-	81
Degraded forestland rehabilitated (has)	72,147	20,333	80
Miniforests established (no.)	133	53	25
PA established/ proclaimed	10	6	20
Municipalities implementing User's Pay Principle	43	-	17
Cadastral survey of unsurveyed municipalities conducted (has)	3,445	Cadastral survey of 65 unsurveyed municipalities and 286 partially surveyed including re-survey of 115 with defective surveys	
CADTs and CALTs issued	9 CADTs 44 CALTs	41 CADTs 6 CALTs	54 (CADTs) 96 (CALTs)

mandated to do, was transferred to the National Commission on Indigenous Peoples (NCIP). For the period 2001-2004, the NCIP reported that 27 CADTs and 48 CALTs were issued, falling short of the 50 CADTs and 50 CALTs plan targets.

A number of targets were not achieved due to various reasons. The cadastral survey of unsurveyed municipalities targets were not met because budget was not allocated for the activity. Non-attainment of targets on mini-forest establishment and the implementation of user's pay principle was due to the absence of specific guidelines by local government units (LGUs) on standard fees and charges. The establishment/proclamation of protected areas, on the other hand, continued to be hampered by the tedious process prescribed under the National Integrated Protected Areas System (NIPAS) Act as its amendment has yet to be enacted.

Based on the report of the Department of Budget and Management, the DENR budget from the General Appropriations Act for 2001-2004 decreased by an average of 5.1 percent. This trend had to a large extent negatively affected the DENR's numerous plans and programs as it tried to pursue their implementation with limited budget instead of completely stopping these.

2. MTPDP 2004-2010

a. Forestry

The government continued to protect 116 watersheds as previously prioritized in the MTPDP 2001-2004. Of the 116, only 18 are actually covered under the 140 priority watersheds targeted under the MTPDP 2004-2010. Of the 116, only 18 watersheds have direct impact in terms of supporting the irrigation requirement of the agriculture sector. It may be noted that the state of denudation was the only consideration in

prioritizing interventions in the watersheds in the past plans. The 140 priority watersheds, on the other hand, were identified in consultation with the National Irrigation Administration (NIA) that considered those which could have the greatest direct impact in terms of supporting the irrigation requirement of the agriculture sector. Thus, given that only 18 of the 116 watersheds are expected to directly support the irrigation requirement of the agriculture sector, the impact of this intervention on the overall agriculture sector is not expected to be significant. In addition, alternative approaches other than the DENR's Community-Based Forest Management approach, would have to be explored to fast track reforestation efforts.

b. Coastal

Out of the 10,500 hectares of mangrove target for replanting for 2004-2010, only about 283.5 hectares (2.7%) were covered in 2004. This accomplishment already included LGU initiatives. In view of this very low accomplishment, there is a need to intensify collaboration with other stakeholders to achieve the Plan targets.

No marine sanctuaries were reported to have been established in the coastal areas by the DENR as this activity will be implemented starting 2005. A total of 128 marine sanctuaries have to be established for the period in coordination with LGUs.

Alliances were established with the Bureau of Fisheries and Aquatic Resources (BFAR), Department of National Defense (DND), Philippine National Police (PNP), Fisheries and Aquatic Resources Management Councils (FARMCs) and LGUs to strengthen the enforcement of coastal laws. As part of the implementation of the Coastal Resource Management Project (CRMP) in Region 7,

“CLEAR 7” or the Coastal Law Enforcement Alliance in Region 7 was established.

c. Biodiversity

Of the total target of proclaiming 100 Protected Areas, only six sites (6%) were proclaimed as protected areas for inclusion in the National Integrated Protected Areas System (NIPAS) in 2004. These were: (a) Manleluag Spring Protected Landscape (Pangasinan); (b) Quirino Protected Landscape (Quirino); (c) Marinduque Wildlife Sanctuary (Marinduque); (d) Timpoong and Hibok-Hibok Natural Monument (Camiguin); (e) Mt. Hamiguitan Range Wildlife Sanctuary (Davao Oriental); and (f) Ninoy Aquino Park and Wildlife Nature Center (Quezon City). The next challenge for these areas is to establish PAMBs so they can be managed properly. As mentioned earlier, the NIPAS Act will have to be amended in order to expedite the proclamation process, otherwise the target will not be achieved. The establishment of wildlife farms, on the other hand, is targeted for implementation in 2005.

With the Ninoy Aquino Parks and Wildlife Center (NAPWC) re-established as a NIPAS initial component, a Memorandum of Agreement (MOA) with Malagos Garden was signed in June 2004, to be partner in developing the Center. Relatedly, efforts are also being pursued to formulate a Master Plan to develop NAPWC as a premier urban ecotourism destination and people's park in Metro Manila.

d. Land Management

Of the target on ground validation/verification of forestland boundaries of 76,291 kms, only about 2,903 kms (3.8%) have been surveyed. This critical activity must be prioritized to safeguard the

remaining protection forests in the country and maximize the production forest for development activities such as agroforestry. Subsequently, the identification of appropriate land uses for production forest areas will have to be initiated.

e. Mining

For 2004, a major developmental initiative in the sector is in the mining subsector. The National Policy Agenda on Revitalizing Mining in the Philippines was issued under Executive Order 270 on January 16, 2004. The EO mandated the DENR to formulate a Minerals Action Plan (MAP) to resolve the concerns for the full revitalization of the minerals industry. The MAP was subjected to consultations with the minerals industry, professional group and academe, civil society, and media. On September 13, 2004, Memorandum Circular No. 67 was issued directing the operationalization of the MAP. In addition, a major development occurred with the Supreme Court's reversal of its earlier decision declaring as unconstitutional certain provisions of the Mining Act, particularly those allowing the 100 percent participation of foreigners in the large-scale exploration, development and utilization of the mineral resources.

Of the total target of implementing 18-23 medium-large scale mining projects, the government was able to generate a total of 2,716 and 13,580 direct and indirect jobs, respectively. Moreover, it was able to facilitate the securing of requirement for the development and construction stage of the operation of three mining projects with an estimated investment of US\$ 194 million. Two of these projects are expected to be in full operation by 2005 contributing substantially to the development of communities and local governments with mineral resources.

The creation of a conducive climate for investment through the streamlining of procedures in the granting of mining rights and permits was pursued in 2004. As a result of this effort, the processing time of Free and Prior Informed Consent (FPIC) for mining projects in the indigenous peoples' (IPs) ancestral domain areas was reduced by 44 percent while that in non-IP areas, by 54 percent. This improvement significantly helped in facilitating the processing of the management of the three mining projects.

On the Marcopper issue, a technical working group was organized to review the various options for the rehabilitation of the area as provided in the Environmental, Human, Health Risk and Monitoring Plan II submitted by the United States Geological Services (USGS) Team.

Regarding the construction of the final Mabatas tailings dam, the Natural Resources Mineral Development Corporation (NRMDC) is awaiting the release of the Php140 million loan from the Development Bank of the Philippines (DBP) for the construction of a 30-hectare tailings dam. In the meantime, the NRMDC is currently preparing the Environmental Impact Statement (EIS) necessary for the issuance of the environmental compliance certificate (ECC).

In order to determine the current status of abandoned mine sites and identify the appropriate actions necessary to facilitate the clean-up and rehabilitation in these areas, the Mine Viability and Environmental Assessment (MVEA) Guideline was designed. This tool will be used by the government to decide if abandoned mine sites should be rehabilitated or re-developed.

The liberalization of the implementation of the Philippine Environment Impact System (EIS) and the issuance of the (ECC) was also undertaken. In this regard, guidelines were formulated on the use of the

Sectoral Initial Environmental Examination (IEE) checklists for ECC application for selected projects for the following sectors: infrastructure, food processing, energy, livestock, aquaculture, forestry and agriculture, processing of forest products, small-scale resource extractive, and tourism projects. A procedural manual was also prepared redefining four types of environmentally critical projects (ECPs) into non-ECPs. As such, processing of ECC applications will be done at the regional offices. These projects include: (a) power plants with capacity from 10MW to 50MW; (b) golf courses with less than 18 holes; (c) roads and bridges; and (d) reclamation projects less than 50 hectares. The general impact of this intervention, however, has yet to be determined.

f. Air Quality

The "*Linis Hangin*" Program, an integrated approach to abate air pollution, was launched on November 8, 2004 and participated in by the Metro Manila Development Authority (MMDA), Land Transportation Office (LTO), and various LGUs in Metro Manila. The program has three components:

1. "*Bantay Tambutso*" – mitigation of air pollution from mobile sources;
2. "*Bantay Tsiminea*" - mitigation of air pollution from stationary sources; and
3. "*Bantay Sunog Basura*" - mitigation of air pollution from area sources.

This program contributed to the reduction of the total suspended particulate (TSP) level in Metro Manila by 6.41 percent from 156 ug/NCM in 2003

to 146 ug/NCM in 2004. This, however, is still way above the acceptable standard level of 90ug/NCM. Therefore, air pollution remains a threat to the people.

g. Water Resources

As part of the Integrated Water Resource Management (IWRM) approach, the following programs/activities were undertaken by the National Water Resources Board (NWRB) to pilot test the implementation and operationalization of IWRM in the local setting, with the goal of replicating these in other parts of the country:

1. Commissioning of a study to create a Water Resources Regional Council (WRRC) in Region VII under the Enhancement of Processing Water Permit Application, Billing and Other Related Information Systems;
2. Development of a proposal to test the raw water pricing methodology and the actual administrative procedures for the assessment and collection of the raw water fee in Bohol and Negros Oriental; and
3. Formulation of policy recommendations for water constrained areas to effect efficient allocation and conservation of water resources undertaken in Metro Manila and Metro Cebu.

In further pursuit of IWRM, the National Water Data Collection Network (NWDCN) was completed in 2004. The network aimed at improving the three national primary monitoring networks for streamflow, groundwater and water quality. Moreover, the establishment of the National Water

Information Network (NWIN), which links the databases of the collection agencies and provides easy data access, was 98 percent complete in December 2004. To maintain and sustain the database, water assessments were continued with priority given to water-constrained areas.

To oversee the President's water program to increase water service coverage in 212 "waterless" areas in Metro Manila and 633 "waterless" municipalities outside Metro Manila, including those in Peace Agreement areas, the National Anti-Poverty Commission (NAPC) Secretary was designated as the Water and Power Czar. Furthermore, the Water and Sanitation Coordinating Office (WASCO) was created within the NAPC Secretariat to provide assistance to the Secretary.

Outside the priority waterless areas, the Manila Water Sewerage System (MWSS) Patubig Program provided water to 199,000 people in Metro Manila while the Local Water Utilities Authority (LWUA) provided water to 473, 000 people outside Metro Manila.

On the other hand, the Department of the Interior and Local Government (DILG) has extended water and sanitation services to 16 school and public toilets in 11 municipalities in Ilocos Sur and two municipalities in Mindoro Oriental under the Rural Water Supply and Sanitation Sector Project Phase V. Installation of 4,223 Level 1 facilities, which will benefit 63, 345 households in 270 municipalities, have been completed under the Rural Water Supply and Sanitation Sector Project. Level I and II water systems in seven municipalities have been put up under the German Government Integrated Water Resources Management Project. Nine Level III water facilities in nine municipalities in Isabela, Laguna and Bukidnon were established, benefiting

16,478 households. Based on all these interventions, about 1.07 million people were provided with water. As of 2003, about 16 million people in the country did not have access to water. In this regard, only about seven percent has been reached by the aforementioned programs/projects.

To protect the country's water bodies from land-based sources of pollution (e.g., industries, mining agricultural operations as well as community or household operations), the President signed the Clean Water Act on March 22, 2004. The implementing rules and regulations (IRR) were developed through several regional consultations with various stakeholders and will be finalized by the first quarter of 2005.

In response to the rising cases of water-borne diseases in areas served by individual or communal water supply systems, the implementation of the "Tapwatch" Program was continued. Water sampling in 2004 found only eight sites safe for consumption. Also, 95 barangay sites were monitored for fecal coliform levels.

The "Beach Ecowatch" was pursued to generate information on the water quality of beaches frequently visited by foreign and local tourists. A total of 57 priority bathing beaches were identified nationwide where 35 beaches were monitored. Only nine consistently passed the Class SB (safe for body contact) water quality. It may be noted that the monitoring of 35 beaches is only 21 percent of the total plan target of areas to be monitored.

h. Waste Management/Toxic and Hazardous Waste

The "*Linis Estero*" Program was launched on November 30, 2004 at Barangay Bahay Toro, Quezon City in order to address the problem of clogged esteros due to the increasing volume of solid wastes. A total

of 49 clogged esteros nationwide were identified for clean-up. Barangay Bantay Estero, comprising barangay local executives, community groups and qualified residents, was deputized to oversee the clean-up.

On the implementation of the Ecological Solid Waste Management (ESWM) Act, a total of 48 model LGUs nationwide were monitored. It was reported that of these LGUs, only about 42 percent (or 20 LGUs) model sites were able to complete their eco-waste management system. Moreover, the ability to replicate these models for other LGUs has yet to be established. Other accomplishments in support of the implementation of the ESWM Act include:

1. Assessed 133 open dumpsites and 130 potential solid waste disposal sites in response to LGUs requests;
2. Conducted a massive information campaign among local officials nationwide to submit requirements needed for the conversion of open dumps to controlled disposal facilities. To date, 44 Notices to Proceed (NTPs) were issued for the conversion of solid waste management facilities to controlled dumpsites;
3. Collaborated with various institutions in undertaking ESWM schemes. These include the DILG for the Nationwide Search for Model Barangays for Ecological Solid Waste Management System, Ayala Foundation, Inc. and Tetra Pack Philippines in implementing a program on the collection and recycling of tetrapak cartons, and the Araneta Group, in undertaking

the “*Bawas Balot Program*” aimed at educating consumers on the solid waste problem and instill the practice of waste reduction by avoiding the use of overpackaged products;

4. Conducted geological assessments of potential solid waste and disposal sites for LGUs. A total of 124 existing and proposed solid waste disposal sites and landfill areas were assessed;
5. Established a management system as well as facilities for toxic and hazardous wastes (e.g., inventory of toxic wastes, registration of establishments utilizing toxic materials, and clean-up drive on former US Military Bases in Region 3);
6. Promoted usage reduction of ozone depleting substances (e.g., technical and financial assistance given to eligible industries). The scheme on the application and implementation of the Voucher System was already approved by the World Bank. The Project Monitoring Unit is now in the process of screening/evaluating applications for accreditation of suppliers of tools and equipment for eligible service shops; and
7. Advanced the development of a system for the recovery, reclamation and recycling of ozone depleting substances (ODS). Meetings were conducted with the Philippine Association of Refrigerant Importers (PARI) to come up with the reclamation scheme as well as the forms necessary to monitor the consumption of the servicing sector and gather data on the recovered

refrigerants. The equipment specifications for the reclamation facility was finalized and endorsed to the World Bank for review/comments/approval.

i. Natural Disaster Prevention

The protection of about 358,226 hectares of flood-prone areas are targeted in the medium term. In support of this target, the Department of Public Works and Highway (DPWH) undertook 2,198 flood control projects in 2004 in Metro Manila and other flood-prone areas in the country. Among the major projects were: (1) Metro Manila Flood Control Project (West Manggahan Floodway, located along the north shores of Laguna Lake West of Manggahan from Lower Bicutan, Taguig to Manggahan Floodway, Pasig City) where new open channels have been constructed, drainage routes have been improved and more efficient drainage of storm water is expected; (2) Agno River Flood Control Project Phase II-B that is expected to create a better environment for residents in the flood-prone areas, increase agricultural activity, stimulate industrial activities and promote regional economic growth; and (3) Contract Package 5, Dredging and Pilot Channel Excavation at Pasac Delta and Third River, consisting of dredging in the Delta Areas. Data on the contribution of these projects in attaining the full Plan target of protecting 358,226 hectares are however not yet available.

Following the directive of the President, the DENR collaborated with the Philippine Institute of Volcanology and Seismology (PHIVOLCS) and the Department of Agriculture-Bureau of Soils and Water Management (DA-BSWM) to generate 1:250,000 geohazard maps for three priority regions in the country, namely, Regions V, VIII and XIII. To further pinpoint potential

hazard areas, larger scale maps were generated, that is, two scales of maps—1:50,000 maps for regional planning and 1:10,000 maps for detailed warnings and disaster preparedness.

The shortfall in the attainment of the Plan targets may be attributed to the lack of strategic focus and sequencing in the implementation of the various strategies in the Plan (e.g., forest delineation activities should have been prioritized together with reforestation) specially given inadequate national government resources. This may have led to the resources being spread too thinly to significantly accomplish many of the set goals. Moreover, this points to the need to further mobilize other stakeholders such as the LGUs and private sector to supplement the resources and efforts of the national government.

PROSPECTS AND POLICY DIRECTIONS FOR 2005

The Arroyo Administration deems that the strategic focus where significant impact can be realized in the ENR sector should be in the provision of water in priority “waterless” areas, reforestation in critical watershed areas and land management activities. Moreover, to mitigate natural disasters, geohazard maps will be generated and flood control structures will be constructed. As regards developmental interventions, the implementation of responsible mining will be vigorously pursued. Details of these interventions follow:

- a) The provision of potable water nationwide will be pursued and priority will be given to the 212 “waterless” areas in Metro Manila and 633 “waterless” municipalities outside Metro Manila. With the focused effort of NAPC to coordinate the interventions of the various water sector agencies, it is expected that headway will be made in achieving this target. In addition, the full implementation of the Clean Water Act is expected to provide additional support in achieving this target.
- b) The major reforestation activities will be implemented in the critical watersheds of the provinces of Aurora, Quezon, Pampanga, Bicol and Iloilo. To expedite reforestation initiatives, new approaches to reforestation such as the Land Care and Tree of Life Approaches will be implemented. (Boxes 4.1 and 4.2) Moreover, with the creation of the Anti-Illegal Logging Task Force, the fight against all forms of illegal logging activities will be intensified. On the other hand, the current log ban policy will have to be actively reviewed in terms of its overall effects on the environment and the socioeconomic conditions of the country.
- c) Land management initiatives will be focused on the delineation of protection forest boundaries to support the reforestation interventions. Once protection forests have been delineated, appropriate land uses for the production forest areas can be determined accordingly.
- d) The generation of geohazard maps will be expanded to cover other priority areas in the country. To help protect lives, reduce damage on both public and private properties, and minimize the disastrous effects of the floods on low-lying and

flood-prone in the country, the implementation of flood control projects will be vigorously pursued.

- e) The mining sector will be revitalized with the full implementation of the Minerals Action Plan. Moreover, the standing problems of abandoned and idle mines will be addressed to stop their negative consequences on affected communities.
- f) On the legislative front, the passage of the Sustainable Forest Management Act (SFMA) and the National Land Use Act (NALUA), both still pending in Congress, will be continuously pushed.

Equally important is to ensure that sufficient resources are made available for the implementation of the aforementioned interventions. In this regard, resources from all concerned sectors will be mobilized through the following:

- a) Implementation of community-based forest management in the critical watershed areas with increasing counterpart resources from the communities and local government units;
- b) Augmentation of forest protection through partnership with other government agencies, LGUs, and non-government sectors. For

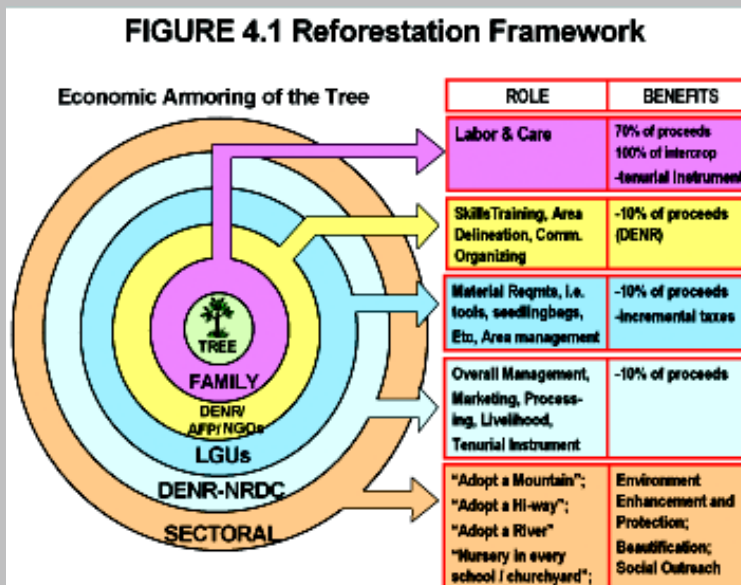
BOX 4.1 **The Landcare Approach**

The Landcare approach was developed in Australia in the mid-1980s to mobilize the collective action of local communities in partnership with the government to deal with land degradation and natural resource management and development issues. The approach centers on the formation of community groups that work together to identify problems, mobilize resources, and influence resource policy.

In the Philippines, the World Agroforestry Centre (WAC), previously known as the International Centre for Research in Agroforestry, has been working with farmers in Mindanao and the Visayas to test Landcare as an approach to upland development since 1996 (with support from Australian and Spanish research and aid organizations). Landcare is a triad partnership composed of: (1) grassroots Landcare groups; (2) local government units (LGU); and (3) technical service providers (NGOs, government line agencies/national government agencies and facilitators). The success of Landcare as an approach is dependent on how these three key actors interact and work together in various interrelated and interdependent elements or facets which are: (a) appropriate technologies; (b) community institution development; and (c) partnership building. The grassroots approach is now recognized as a key success in all community development endeavors in the Visayas and Mindanao especially in terms of the rapid adoption of soil conservation and agroforestry practices. There are currently more than 8,000 natural vegetative strips (NVS) and agroforestry adopters in the study sites representing about 3,000 hectares of cropped areas applied with conservation technologies. In Claveria, an exponential rate of adoption of conservation farming technologies and production of seedlings was observed while in WAC sites in Leyte and Bohol, about 33 to 45 percent of sloping areas of farmer adopters are applied with technologies, mainly NVS, the rest with enriched NVS and rock walls. On the average, about 60 percent of initial NVS adopters moved to agroforestry (i.e., planting of timber and fruit trees and perennial crops [e.g., banana or coffee] along the NVS, on farm boundaries and in small woodlots).

BOX 4.2 The Tree of Life Approach

This non-traditional approach to reforestation is anchored on the twin strategies of: (1) strong enforcement and (2) family-based reforestation. The key to the success of the program is the **STAKE** of the families in the uplands who will plant the trees. Many reforestation efforts in the past failed because planters of trees were treated merely as hired labor and not owners. This reduces the accountability among families to shoulder the protection and management of our forests. By empowering upland families, the “*Puno ng Buhay*” offers 70 percent of all future proceeds from trees planted and 100 percent of the intercrop as key to elicit “free” labor. This concept works on the basis that hired labor eats



up 70 percent of the total reforestation costs. This approach will completely depart from the concept of families as merely reforestation laborers but rather as reforestation managers/ operators. Along with the issuance of “*Puno ng Buhay*” tenurial instruments, families must be assisted by various stakeholders such as the Department of Environment and Natural Resources (DENR), Armed Forces of the Philippines (AFP), Local Government Units (LGUs), Philippine Forest Corporation (PFC), and other local boards and councils in community organizing, skills training, resource mobilization and marketing, among others. This approach has yet to be tested by the Natural Resources Development Corporation (NRDC), the focal agency under the DENR, in the pilot sites of Bicol, Cotabato and Aurora.

- instance, the incorporation of forest protection as a key result area for the Philippine National Police and military contingents covering watershed areas will be pursued;
- c) Development of a water-user fee and a plowback mechanism for forest protection and management of Protected Areas;
- d) Promotion of private sector investment in the provision of water to waterless areas; and
- e) Conduct of mining conferences/ advocacy activities to attract international and local investors.

Chapter 5

Housing Construction

In 2004, the housing sector posted modest performance in the delivery of shelter security through direct and indirect housing provision, flagship housing and resettlement projects, and urban asset reform. With its high multiplier effect, housing construction contributed to job generation for skilled and unskilled workers. Efforts were continued to expand private sector participation in housing finance and construction. Policy reforms were instituted to further rationalize coordination and improve housing regulation. The sector also worked towards the improvement of the lives of slum dwellers in support of the Millennium Development Goals (MDGs). Future policy directions involve further enhancing housing finance by creating a viable secondary mortgage market and the strengthening of housing institutions primarily through the establishment of the Department of Housing and Urban Development and the Local Housing Boards.

I. PROVIDING SHELTER SECURITY

A. Direct Housing Provision

To address the growing housing needs, the housing sector provided security of tenure and affordable housing to a total of 172,534 households in 2004 valued at PhP 24.70 billion. This accomplishment was 57.5 percent of the targeted 300,000 housing units for the year (see Table 1 below). In addition, this output is about 23.4 percent of the total housing need of 736,417 housing units for 2004. The housing sector managed to deliver modest outputs despite resource constraints due to the fiscal crisis, institutional refocusing and streamlining. In 2004, the shelter agencies led by the Housing and Urban Development Coordinating Council (HUDCC) focused their efforts on the land tenurial assistance for the urban poor initiatives in support of the MDG on improving the lives of 100 million slum dwellers globally. The focus on the asset reform program, Community Mortgage

Program (CMP), and relocation efforts may have led to the underperformance in the delivery of socialized housing.

Under the land tenure for the urban poor program, security of tenure was provided to 57,372 informal settlers mainly through the issuance of Presidential Proclamations declaring public lands as alienable and disposable for housing purposes and relocation projects, the CMP, the National Government Center (NGC) Project, and the North and South Rail Relocation. The number of households provided with security of tenure in 2004 was 77.46 percent higher than the 32,329 households served in 2003.

Socialized housing and slum upgrading services in the form of resettlement and sites and services improvement, were provided to 32,404 households belonging to the bottom 30 percent poor through the various housing programs of the National Housing Authority (NHA) including the North and South Rail Relocation, Resettlement Program, Slum Upgrading,

TABLE 5.1 Comparison of Housing Targets vs. Accomplishments

Priority Activities	Targets (2004) No. of Households)	Actual Accomplishments	Percentage of Accomplishment
Direct Housing Provision:			
Land Tenure for Urban Poor	150,000	57,372	38.2%
Presidential Proclamations	10,000	28,153	
Community Mortgage Program		14,137	141.3%
NGC Project		5,327	
North and South Rail Relocation		9,755	
Socialized Housing	70,000	32,404	46.3%
Resettlement		2,432	
Slum Upgrading		1,812	
Sites and Services		2,036	
Land Tenurial Assistance Program		600	
Technical Assistance		2,057	
Core Housing		2,444	
HDMF Socialized Housing Program		13,564	
Mt. Pinatubo Resettlements		7,459	
Low Cost Housing Program	80,000	82,758	103.4%
HDMF Housing Program		42,986	
SSS		147	
GSIS		4,995	
DBP		45	
LBP		1,030	
CREBA		2,619	
SHDA		30,936	
TOTAL	300,000	172,534	57.5%
Indirect Housing Provision			
Retail Guaranty	28,728	5,253	18.3%
Development Guaranty	3,192	5 projects	
Issuance of License to Sell	137,853	172,883	125.4%
	2,130 projects		
Provision of employment in housing construction	1,063,037 workers	576,344 workers (270,707 equivalent full time annual employment)	54.2%
Development of Secondary mortgage market	Established a viable and liquid secondary mortgage market by 2010	PhP3 billion worth of HGC Zero Coupon Bond Special Sales issued to GFIs and GOCCs as partial settlement of guaranty obligations	
		NHMFC disposed PhP13.4 billion of nonperforming loans to Deutsche Bank	
Fast-tracking disposition of assets and nonperforming loans to generate additional funds	Disposal of PhP3.4 billion of assets in 2004	HGC disposed acquired assets and attained a total sales value of PhP912.81 million	100%

Source: Strategy Planning Matrices, MTPDP 2004-2010
HUDCC

Sites and Services, and Land Tenurial Assistance Program, among others and the Home Development Mutual Fund (HDMF)–PAG-IBIG’s socialized housing program valued at PhP3.183 billion.

Lastly, low-cost housing loans were extended to 82,758 low-salaried government and private sector employees amounting to PhP20.436 billion through the different home lending programs of HDMF, Government Service Insurance System (GSIS), Social Security System (SSS), Land Bank of the Philippines (LBP), and Development Bank of the Philippines (DBP).

Community Mortgage Program. The CMP, which provides security of tenure to the bottom 30 percent poor households through land acquisition, site development and distribution of lots continued to be administered by the National Home Mortgage Finance Corporation (NHMFC). For 2004, the amount of mortgage take-outs reached PhP694.91 million benefiting some 14,137 families. A total of 105 projects for informal settler families were extended financial assistance. Despite resource constraints, the CMP exceeded its 2004 target of 10,000 families for an accomplishment rate of 141.3 percent.

North Rail Resettlement Project. The North Rail Resettlement Project involves the relocation of some 40,505 families (from Caloocan to Clark, Pampanga) to pave the way for the implementation of the North Rail Development Project. The total funding for the project is PhP6,635 million of which, PhP1,067 million has been raised (PhP957 million released by DBM to NHA and PhP130 million representing non-interest bearing loan from the North Luzon Railways Corporation (NLRC). As of December 2004, a total of 401 families of the 6,507 pre-qualified by NHA from Malabon-Valenzuela segment were relocated. This includes 300 families from Valenzuela who volunteered

to move to Barangay Bignay, Valenzuela City in October 2004 and 101 volunteer-families relocated by NHA to the same site in December 2004. The Caloocan segment was totally cleared of 626 families occupying the railways with 149 families relocated to NHA Resettlement Site in Towerville, San Jose del Monte, Bulacan, 261 families relocated by NLRC to Harmony Hills also in Bulacan while 216 families opted for the “*Balik Probinsiya*” Program.

The families affected by the project were offered a menu of options that included: (a) serviced lots in NHA resettlement sites specifically at Towerville, San Jose del Monte, Bulacan and Barangay Bignay, Valenzuela City; or (b) PhP50,000 housing financial assistance grant which will be utilized for “*Balik Probinsiya*”, transfer to other areas, and equity for land purchase elsewhere or livelihood assistance.

South Rail Resettlement Project. The South Rail Project starts from Caloocan South and ends in Laguna. About 43,019 families are expected to be affected by the project in Caloocan South, Manila, Makati, Taguig, Parañaque, Muntinlupa, and Laguna. In 2004, 60 families have been relocated to Cabuyao, Laguna. The Local Inter-Agency Committees (LIAC) have been convened and the resettlement areas in Laguna have been prepared for the prioritized 3,900 informal settler families from Laguna during the same year.

Administrative Order No. 111 was issued on November 8, 2004 authorizing the HUDCC Chairman to perform all powers and functions necessary to implement the resettlement and relocation programs to clear the rail rights-of-way of the Philippine National Railways Lines. Moreover, relocation action centers (both at the origin and resettlement site) have been established to assist affected families and ensure smooth flow of relocation.

To improve the access of poor urban households in securing land tenure, affordable shelter, basic municipal infrastructure and community facilities, the HUDCC and DBP implemented the ADB-assisted Development of Poor Urban Communities Sector Project (DPUCSP). In 2004, the first year of project implementation, the project accomplished the following, among others: (a) approved and inaugurated the first subproject on October 22, 2004 in Pulungbulu, Angeles City, Pampanga, one of the pilot LGUs of the Project; (b) 17 LGUs submitted Letters of Intent to avail of the project and seven LGUs submitted Sanggunian Resolutions signifying their intention to participate in the project; (c) Angeles City has prepared and submitted its Community Action Plan (CAP) while six LGUs are in the process of preparing their CAPs and Feasibility Studies; (d) conducted orientation workshops with 51 microfinance institutions (MFIs), 24 NGOs, 11 rural banks, 15 cooperatives; (e) 10 MFIs submitted letters of intent while four MFIs are in the process of preparing their Microfinance Availment Plans (MAPs).

Private sector initiatives such as the Couples for Christ (CFC) Gawad Kalinga (GK) Program contributed to direct housing provision particularly to the poor. As of December 2004, there were already 361 GK communities with a total of 8,909 GK homes built. Gawad Kalinga has proven to be a holistic but cost-effective socialized housing program combined with urban development, livelihood, and values formation efforts.

Addressing the housing requirements of the formal and informal sectors particularly for socialized and low-cost housing is anchored on the improvement of the security of tenure of households, improvement of land registration process, and development and adoption of innovative tenure

arrangements to enhance affordability. HDMF thus further enhanced the PAG-IBIG housing loan program through: (a) expansion of loan purposes that can be covered under the program; (b) increased the loan to collateral ratio from 90 percent to 100 percent for loan packages amounting to over PhP500,000 to PhP750,000 under developer accounts with buyback guaranty; and (c) additional provisions necessary to make the program more appropriate to answer members' varying needs.

B. Indirect Housing Provision

The Housing and Land Use Regulatory Board (HLURB) issued licenses to sell nationwide to 2,262 residential projects with an equivalent number of 172,883 saleable lots, houses and lots which increased by 31.8 percent from the 131,130 licenses issued in 2003. To respond to the need for further streamlining the processes in securing permits and licenses for housing and land developments, as well as in securing housing loans, the HLURB also pushed for and implemented amendments. These are: (a) sections of PD 957 and BP 220 relative to the requirements for Notice of Publications for Certificates of Registration and License to Sell; (b) Comprehensive Land Use Plans (CLUP) review and approval guidelines to streamline procedures, update the parameters for review and integrate recent policy issuances relevant to the approval of Provincial Physical Framework Plans, CLUPs and Zoning Ordinances; and (c) review and approval process of CLUPs of Metro Manila cities and municipalities to integrate concerns of the Pasig River Rehabilitation Commission (PRRC) and other agencies. The HLURB also vigorously advocated for the passage into law of a bill prescribing time periods for the issuance

of housing related certifications, clearances and permits and providing sanctions thereof. The bill on the establishment of Local Housing Boards in every city and municipality was likewise pursued by the shelter agencies and LGUs which is for floor deliberation in the House of Representatives.

Meanwhile, the Home Guaranty Corporation (HGC) continued to provide housing guaranty cover and assist in asset disposition. HGC is mandated by RA 8763 or the Home Guaranty Act of 2000 to guarantee the payment of mortgages, loans and other credit facilities arising from financial contracts for residential purposes; assist private developers to undertake socialized, low-cost and medium-cost mass housing projects by encouraging private funds to finance such housing projects through a viable system of long-term mortgages, guaranties and incentives; and pursue the development and sustainability of a secondary mortgage market for housing. In 2004, the HGC guaranteed a total of 17,167 housing units valued at PhP4.78 billion through its Retail and Developmental Guarantee Programs and Abot-Kaya Program. However, to date, the guaranty system of HGC has not been fully utilized. Out of a total guaranty capacity of PhP109 billion, only PhP39 billion has been utilized, primarily due to the low demand for guaranty cover from banks and financial institutions that extend housing loans.

II. CREATING JOBS THROUGH HOUSING CONSTRUCTION

In support of the 10-point Legacy/Agenda on the Creation of six to ten million jobs, the housing sector was able to construct a total of 69,439 completed housing units, valued at PhP8.69 billion and generating 576,344 jobs in 2004. With about 8 skilled and semiskilled construction workers completing a housing unit in about 3 weeks

or a total of 124 man-days, the jobs created in the sector is equivalent to providing annual full-time employment to 270,707 workers assuming a maximum full-time annual employment of 264 man-days.

III. EXPANDING PRIVATE SECTOR PARTICIPATION IN SOCIALIZED HOUSING FINANCE AND CONSTRUCTION

To expand private sector participation in housing, the government as the catalyst, instituted the following reform measures:

- Pursued the creation of a viable and sustainable source of housing finance through the establishment of an active and liquid secondary mortgage market. In line with this, the disposition of 55,000 Unified Home Lending Program (UHLP) highly delinquent loans/accounts amounting to PhP13.4 billion to the Deutsche Bank Global Opportunities through public bidding was undertaken on May 18, 2004. This is aimed at generating additional funds for housing to operationalize the clean-up of the portfolio in preparation for the eventual operation of the Secondary Mortgage Institution (SMI). The PhP13.4 billion is part of the PhP42 billion non-performing loans portfolio of the NHMFC for disposition. In 2004, the NHMFC has also completed the design of the SMI. Moreover, the identification and segregation of possible accounts for securitization has also been completed. The launching of the SMI Pilot Program would be subject to the sale of the NPLs.

- Issued Php3.0 billion worth of Zero Coupon Bond Special Series by the HGC to government financial institutions (GFIs) and government owned and controlled corporations (GOCCs) as partial settlement of guaranty obligations mostly from the Securitization Program commonly known as the Asset Participation Certificates or APCs.
- Disposed HGC acquired assets and attained a total sales value of Php912.81 million. Of the total 1,258 housing units that have been disposed, 1,194 units were new sales and 64 units were restructured or updated accounts. Moreover, the HGC entered into amicable settlement with various private entities to resolve failed and unfinished Asset Participation Certificates (APC) projects, which were initiated to save needed funds from costly litigation and carry-out immediate disposition process to recover corporate exposure.
- Amended the HDMF guidelines implementing the PAG-IBIG Developmental Loan Program, which seeks to create additional housing inventories through the provision of developmental financing at easier terms and lower rates to developers/proponents of housing projects. During the year, HDMF approved a total of 65 projects that are expected to generate a total of 16,988 housing units valued at Php3.72 billion. The HDMF also approved 12 medium and high-rise building (MHRB) projects (11 in NCR and 1 in Cavite).
- Amended the HDMF guidelines implementing the PAG-IBIG City

Program which aims to provide a ready inventory of completed housing units in a project known as PAG-IBIG City, which shall be available for sale at more affordable prices to PAG-IBIG members, who shall likewise be assured that the project meets the standards of the HDMF in terms of land development and housing construction. In 2004, the HDMF approved two mass housing projects under the PAG-IBIG City Program.

IV. STRENGTHENING INSTITUTIONAL CAPACITY OF HOUSING INSTITUTIONS

To strengthen institutional capacity of housing institutions, the following were undertaken:

- Advocated for the passage into law of the bill creating the Department of Housing and Urban Development (DHUD) which will elevate the HUDCC into the DHUD. To date, Congress is conducting floor deliberations on the DHUD bill.
- Meanwhile, in pursuit of organizational strengthening and streamlining for cost effective and efficient management, HGC implemented the Early Separation and Incentives Program to keep the corporation viable. A total of 251 HGC employees or 72 percent of regular work force availed of the program.

V. ENHANCING THE CAPACITY OF LOCAL GOVERNMENT UNITS

To further enhance the capacity of local government units (LGUs) in local housing

regulation and housing development, the HLURB amended the CLUP review and approval guidelines to streamline procedures, update the parameters for review and integrate recent policy issuances relevant to the approval of Provincial Physical Framework Plans, CLUPs and Zoning Ordinances. Likewise amended was the review and approval process of CLUPs of Metro Manila cities and municipalities to integrate the concerns of the Pasig River Rehabilitation Commission (PRRC) and other agencies.

Continuing advocacy was exerted for the passage of the bill on the establishment of Local Housing Boards in every city and municipality. The bill was subject to committee hearings in the House of Representatives. Moreover, the bill on Prescribing Time Periods for the Issuance of Housing Related Certifications, Clearances, and Permits and Providing Sanctions was also pursued. This bill seeks to strengthen EO 45 (Prescribing Time Periods for the Issuance of Housing Related Certifications, Clearances, and Permits and Imposing Sanctions for Failure to Observe the Same) issued in 2002. EO 45 has effectively reduced the processing time of housing permits from 90 days to 30-45 days, and the number of required signatures from 299 to 40.

VI. POLICY DIRECTIONS

The housing sector will continue to advocate for the needed policy and program reforms through legislation with the end view of rationalizing coordination of key shelter agencies, promoting sustainable source of housing finance, and strengthening housing regulation.

To rationalize coordination of shelter agencies, the creation of a Department of Housing and Urban Development (DHUD)

will be vigorously supported by the Housing and Urban Development Coordinating Council (HUDCC) and key shelter agencies. The DHUD Bill seeks to elevate the HUDCC into the DHUD with powers to better implement the housing and urban development program. The DHUD Bill is scheduled for floor deliberation in the House of Representatives.

To promote sustainable source of housing finance, the bills on strengthening the HDMF Charter and the creation of a Social Housing Finance Corporation (SHFC) shall be pushed. The HDMF Charter amendment is envisaged to be transformed into a sound and viable mutual provident saving system which shall be private in character. On the other hand, the SHFC Bill strengthens the SHFC which was created by EO 272 in 2004 by allowing its capitalization of PHP15 billion and empowering the corporation to enter into loans or issue bonds to raise funds for housing construction.

To strengthen housing regulation, the sector will seek passage of the following bills: (a) Establishing Local Housing Boards in Every City and Municipality; (b) Prescribing Time Periods for the Issuance of Housing Related Certifications, Clearances, and Permits; (c) Instituting of the National Land Use Policy; and (d) Creating of Land Title Insurance.

To attain the MDG on improving the lives of slum dwellers, there is a need to continuously meet the housing requirements of the informal settlers which would entail: (a) scaling up proven multi-stakeholder and cost-effective housing programs; (b) improving the security of tenure of households, improving land registration process, and adopting and developing innovative tenure arrangements to address the affordability factor; (c) relocating informal settlers occupying

danger areas in Metro Manila in a just and humane manner; (d) supporting LGUs and private sector-led housing programs; and (e) developing new centers for housing in Luzon, Visayas, and Mindanao.

Proven multi-stakeholder and cost-effective housing programs that may be expanded include the Community Mortgage Program, the Gawad Kalinga 777, and the Habitat for Humanity Projects. Innovative tenure security arrangements that need to be further developed and pilot-tested include public rental, lease/ purchase and shared ownership, rent-to-own, usufruct or long-term lease of up to 99 years particularly for properties in urban centers. To address the influx of informal settlers in danger zones (e.g., railways, riverside, and *esteros*) in Metro

Manila, the relocation of these settlers must be given priority and undertaken in a just and humane manner. Identified priority sites for relocation include the North and South Rail, Pasig River and *esteros* in Metro Manila.

There is also a need to pursue an urban asset reform program by providing property rights to informal settlers. This would involve unlocking “dead capital” or lands occupied by informal settlers through the granting of legal rights to the occupied lands. The informal settlers can use the rights to raise capital for microenterprises. This approach should be pursued as it provides security of tenure and livelihood opportunities for slum dwellers.

Chapter 6

Tourism

Visitor arrivals in the Philippines increased in 2004, meeting its target number for visitors and tourism-related jobs. However, tourism receipts fell short of the projected level as the average length of stay of visitors declined while average daily expenditures increased minimally.

Despite the influx of visitors, the country's tourism performance remained below par compared with its ASEAN neighbors. The country also failed to take full advantage of the increases in global travel and tourism, more particularly visitor inflows to Asia and the Pacific and ASEAN which accelerated rapidly. With this, pursuit of more aggressive, refocused marketing and promotion activities should be implemented. Moreover, tourism development in priority tourism destinations has to be intensified. More competitive tourism products and services need to be offered to attract more visitors, encourage them to stay longer and increase income for the country's products and services.

MARKET-PRODUCT FOCUS APPROACH

Tourism arrivals expanded by 20.1 percent in 2004, hitting the target of 2.3 million visitors. These generated 2.81 million jobs as projected for the year, and US\$1.99

billion in tourism receipts or increases of 20.6 percent and 30.7 percent, respectively, over the 2003 levels. Tourism receipts, however, were below target as the length of stay of visitors slid down to 9.11 nights in 2004 from 9.17 nights in 2003 while expenditures increased by a modest 2.84 percent (Table 6.1 and 6.6).

Arrivals from various tourism markets increased (Table 6-2), but the structure of the country's tourist markets remained unchanged. In 2003, visitors from East Asia and North America comprised 47.0 percent and 23.7 percent of total arrivals, topped by the USA (20.9 percent), Japan (16.7 percent) and Korea (16.5 percent) (Tables 6.1 and 6.2). Moreover, "first visit tourists" were lesser (28.63 percent) than "repeat visitors" (56.29 percent). This indicates the country's apparent weakness in attracting new visitors. This also means that the surge in visitor arrivals could not be attributed solely to the initial implementation of the market-product

TABLE 6.1 Tourism Performance

Indicator	TARGET	ACTUAL PERFORMANCE		GROWTH RATE (%)
	2004	2004	2003	2003-2004
Visitor Arrivals ('000)	2.300	2.291	1,907	20.1
Visitor Receipts (in US\$ billion)	2.24	1.99	1.52	30.7
Tourism/Tourism-Related Employment (in million)*	2.81	2.81	2.33	20.6

Source: Department of Tourism*Note: Jobs created assuming 1.22 jobs per tourist

TABLE 6.2 Philippines' Top Tourist Markets by Country

RANK	COUNTRY	ARRIVALS		GROWTH	SHARE (%)
		2004	2003		
1	USA	478,091	387,879	23.3	20.9
2	Japan	382,307	322,896	18.4	16.7
3	Korea	378,602	303,867	24.6	16.5
4	Hongkong	162,381	139,753	16.2	7.1
5	Taiwan	115,182	92,740	24.2	5.0
6	Australia	89,175	69,846	27.7	3.9
7	Canada	64,537	53,601	20.4	2.8
8	Singapore	60,253	51,257	17.6	2.6
9	UK	56,770	47,447	19.6	2.5
10	Germany	45,092	38,684	16.6	2.0
11	China	39,581	32,039	23.5	1.7
12	Guam	34,326	29,220	17.5	1.5

Source: Department of Tourism

tourism promotion on identified products and markets (i.e., China, Japan, Korea, North America). According to partial results of the visitor sample survey and the 2004 arrival/departure cards, the Philippines was selected as a destination not through its promotion via travel brochures, posters and the like, but mainly through information from friends, relatives and business associates.

Other factors that attracted visitors include the country's enhanced image (as it recovered from the major problems due to kidnapping and political uncertainties), the heightened interest in Philippine destinations and the tourism products being offered, and the ease with which research could be undertaken on various local destinations through the internet. However, the forms of tourism promotion in the priority markets need to be modified and the inclusion of other markets where visitors to the Philippines have been coming in from increasing numbers starting 2003 (e.g., Taiwan, Australia, China, Canada, UK and Singapore) (Table

6.2) should be addressed.

The country was likewise not competitive enough to take full advantage of the increases in global travel and tourism which grew by 10.0 percent dominated by Europe (54.5 percent), Asia and the Pacific (20.2 percent) and America (16.3 percent); and the influx of tourists to Asia and the Pacific (29.4 percent) and ASEAN (32.8 percent) (Tables 6.4 and

6.5). However, the Philippine market share of world tourism arrivals minimally increased in 2004, while its share in arrivals in the Asia and the Pacific and ASEAN regions decreased (Table 6.4). Philippine tourism arrivals in 2004 was only 0.30 percent of the world's total, 1.49 percent of arrivals in Asia and the Pacific, and 5.02 percent of ASEAN.

Compared to its ASEAN neighbors, the Philippines continued to lag behind in attracting visitors. Of the 45.6 million total arrivals in ASEAN, the country

TABLE 6.3 Tourist Arrivals To The Philippines by Country or Residence

Country of Residence (by Region)	2004	% Share	2003	% Share	Growth (2003-2004)
Asia					
ASEAN	149,017	6.5	131,136	6.9	13.6
East Asia	1,078,053	47.0	891,295	46.7	21.0
South Asia	24,997	1.1	21,543	1.1	16.0
Middle East	22,773	1.0	18,456	1.0	23.4
America					
N. America	543,621	23.7	442,390	23.2	22.9
S. America	2,246	0.1	1,874	0.1	19.9
Europe					
W. Europe	100,337	4.4	85,448	4.5	17.4
N. Europe	86,557	3.8	71,014	3.7	21.9
S. Europe	19,017	0.8	15,449	0.8	22.7
E. Europe	4,304	0.2	3,617	0.2	19.0
Australasia/Pacific	132,186	5.8	106,109	5.6	24.6
Africa	1,700	0.1	1,442	0.1	17.8
Others & Unspecified	22,802	0.1	17,039	0.9	33.8
Residences					
Overseas Filipinos	103,742	4.5	100,324	5.3	3.4

Source: Department of Tourism

captured only five percent. This was way below the market shares of Malaysia (34.4 percent), Thailand (18.7 percent), Singapore

TABLE 6.4 Philippines' Market Share to World, Asia Pacific and ASEAN Tourism Arrivals, 2003-2004

	2004	2003
Share to World (%)	.30	.27
Share to Asia and the Pacific (%)	1.49	1.61
Share to ASEAN (%)	5.02	5.56

(18.3 percent), Indonesia (11.7 percent) and even Vietnam (6.4 percent) (Table 6.5). Other ASEAN countries performed well because they were able to capture intraregional tourists. For instance, the bulk of Malaysia's 15.7 million tourists in 2004 are Singaporeans (9.5 million), Thais (1.52 million) and Indonesians (0.78 million). On the other hand, Singapore's top market is Indonesia (1.77 million).

Competitiveness of tourism products and services need to be significantly improved. Visitors came on their own (61.29 percent) rather than through tour packages (18.95 percent). Tourists also spent minimally on guided tours (0.14 percent), and modestly in shopping. The bulk of spending went to accommodation (34.7) and food and beverages (21.58 percent). The average length of stay of visitors shortened, mainly for a holiday and visit to friends and

relatives. To address this, tourism products need to be enhanced to lure more visitors and encourage them to stay longer. Transforming the country into a shopping and entertainment hub could also be a means of further boosting the country as a tourist destination. Moreover, the type of accommodations that will be offered need to be geared towards upgrading establishments such as apartels, youth hostels/dormitories, pensions/inns/lodges, among others. Promotion also needs to be focused on emerging and potential markets, and should capitalize on how the country is perceived by visitors, i.e., a place of warm and friendly people.

DESTINATION-FOCUS STRATEGY

The destination-focus strategy which aims to develop and attract tourists to identified major (Manila plus Tagaytay, Cebu/Bohol/Camiguin, Palawan, and Davao), minor (Vigan/Laoag and Clark/Subic) and special interest (Baguio/Banaue and Boracay) destinations has yet to be fully implemented. Initiatives already undertaken in pursuit of the strategy include the conduct of a study on the creation of the Tourism Enterprise Zone Authority (TEZA) and institutionalization of its structure and funding which also include the Tourism Economic Zones (TEZs). Security in the identified tourism zones/areas was enhanced with the formation of Task Force Stingray (formerly TOP-COP), composed of officers from the Philippine National Police and the Coast Guard. The construction, repair, improvement of identified tourism infrastructure in destinations is also ongoing (refer to Chapter on Infrastructure).

Based on the visitor profile survey (Table 6.5), the country was not able to attract visitors to as many tourist destinations as possible. With the exception

TABLE 6.5 Tourism Arrivals In Selected ASEAN Countries, 2003-2004 (In millions)

Country	2004	Percent	2003	Percent	Growth
	Share (%)		Share (%)		Rate
Malaysia	15.7	34.43	10.58	30.82	48.50
Thailand	8.52	18.68	6.93	20.19	23.00
(Jan-Sept)					
Singapore	8.33	18.27	6.13	17.86	35.92
Indonesia	5.32	11.67	4.47	13.02	19.02
Vietnam	2.93	6.43	2.43	7.08	20.55
Philippines	2.29	5.02	1.91	5.56	20.10
Cambodia	1.06	2.32	0.70	2.04	50.53
Myanmar	0.66	1.45	0.60	1.75	10.03
Lao PDR	0.79	1.73	0.58	1.69	37.40
(Jan-Nov)					
Total	45.6	100.00	34.33	100.00	32.83

Sources: Malaysia Tourism Promotion Board, Vietnam National Administration of Tourism, Singapore Tourism Board, Tourism Authority of Thailand, ASEAN Secretariat

TABLE 6.6 Visitor Profile And Travel Characteristics, 2003-2004

	2004 (%)	2003 (%)		2004 (%)	2003 (%)
Mode of Travel			Major Expenditure Items		
Air	98.64	98.58	Accommodation	34.68	38.45
Sea	1.36	1.42	Food and Beverage	21.58	19.06
			Shopping	18.60	16.98
			Entertainment	11.21	10.14
			Local Transport	6.81	6.93
			Guided Tour	0.14	0.12
			Miscellaneous	6.96	8.30
Sex			Type of Accommodation		
Male	60.99	62.25	Hotel	60.50	59.10
Female	37.52	36.05	Resort	5.90	5.30
			Pension/Inn/Lodge	2.30	2.90
			Youth Hostel/Dormitory	0.90	1.10
			Apartel/Rented Homes/Apartments	2.30	3.00
			Homes of Relatives/Friends	23.50	24.00
			Others		4.70
Average Age	38.70 yrs. old	38.16 yrs. old	Motivating Factor for Choosing the Philippines as a Place to Visit		
			Warm, friendly people		
			Have friends/relatives in the Phils.	59.70	65.30
			Never been to the Philippines/ curiosity	10.10	9.80
			Interesting nightlife	6.20	4.20
			Past experience/have been here before	3.00	1.10
			Inexpensive to spend holiday	1.70	1.10
			Pleasant climate	0.70	0.90
			Wife is from the Philippines	0.50	0.90
Frequency of Visit			Main Source of Information		
First Visit	28.63	28.54	Friends/relatives/business	67.20	71.00
Repeat Visit	56.29	56.74	Associates		
			Travel Books/Guide Books/Directories	9.40	9.80
			Travel Agent	12.00	7.20
			Previous Visit	2.80	6.10
			Myself	0.90	1.60
			Travel Brochures/Posters/Television/ Radio/Film/Video Cassette Program	2.30	0.70*
Travel Arrangement			Traveling Companions		
Package	18.95	19.05	No one/alone	59.40	61.10
Independent	61.29	63.01	Friends	14.10	13.80
			Spouse	9.00	9.40
			Business Associates	7.60	9.60
			With relatives	3.90	3.20
			With children	3.00	2.70
Purpose of Visit			Places Visited outside Metro Manila		
Holiday	43.59	43.34	Tagaytay	NA	
Visit friends/relatives	30.29	27.98	Cebu		15.70
Business	13.20	14.98	Pagsanjan/Los Banos		12.80
Convention	1.02	0.11	Laguna		12.60
Official Mission	0.11	1.30	Batangas/Nasugbu/Calatagan		11.00
			Matabungcay		
			Boracay/Aklan		8.50
			Pampanga/Angeles		8.30
			Cavite		8.20
			Baguio		8.20
			Olongapo/Subic		7.20
			Puerto Galera/Mindoro		6.60
			Davao		4.40
			Palawan		4.00
Average Length of Stay	9.11 nights	9.17 nights	Activities done in the Philippines		
			Business/client meeting		31.80
			Visit friends/relatives		25.50
			Sightseeing		19.80
			Shopping		17.10
			Beach Holiday		8.20
			Trade/Business/Corporate Meetings		3.10
			Sports/Mountain climbing		2.00
Average Daily Expenditure	US\$90.76	US\$88.25	Investment Opportunities		1.40

*Television, Radio and Cinema ads only

Source: Arrival/Departure Card and Annual Visitor Sample Survey, Department of Tourism

of Cebu, places frequented by tourists outside Metro Manila were either near to the latter or within Luzon i.e., Tagaytay (15.7 percent), Cebu (12.8 percent), Pagsanjan/Los Baños/Laguna (12.6 percent) and Batangas/Nasugbu/Calatagan/Matabungay (11 percent). Only 8.5 percent went to Boracay, 4.4 percent to Davao and 4.0 percent to Palawan. This indicates that tourism development in identified priority major, minor and special interest destinations need to be addressed.

Remove Barriers to Investments and Free Flow of Tourists

The efforts in 2004 focused more on encouraging tourism investments and free flow of tourists rather than directly addressing the barriers. Undertakings include networking with investment promotion agencies for the provision of incentives to investors, the conduct of industry conferences, inbound and outbound missions, and investment assistance to potential investors. The Department of Tourism's (DOT's) representation in the Civil Aeronautics Board (CAB) and the integration of tourism interests in air service agreements (ASAs) were also pushed.

Recast DOT and its Attached Agencies

The DOT started the formulation of its rationalization plan to ensure effective and maximum use of resources. The site for its office in Cebu has been identified and its transfer plan has been formulated. Moreover, a DOT Cebu Liaison Office was set up with the DOT Assistant Secretary for Special Concerns manning the office.

POLICY DIRECTIONS AND OUTLOOK FOR 2005

With the strategies to reinvigorate the

Philippine tourism industry already in place, aggressive implementation is expected to sustain if not boost the growth in visitor arrivals, receipts and tourism-related employment to reach 2.7 million visitor arrivals, US\$2.59 billion in visitor receipts, and 3.25 million jobs by 2005.

The marketing and promotion programs shall be modified to effectively attract visitors and capture a bigger share of visitor arrivals from major world tourism markets in Asia and the Pacific and the ASEAN region. The forms of tourism promotion in the priority markets should be modified. For instance, promoting the country in other markets (e.g., Taiwan, Australia, China, Canada, UK and Singapore) should also be considered. To increase the Philippines' share in tourist arrivals from Asia and the Pacific and the ASEAN, emphasis shall be given to capturing intraregional travelers in the ASEAN. Moreover, Singapore, Malaysia, Thailand and Indonesia are strategic markets which the country could embark on to proximity and the convenience/ease of (i.e., visa-free) entry.

The Philippines shall be promoted through television, radio, film, the internet, among others, so that information about the country's tourist destinations could reach a wider market. The DOT website shall continuously be updated and improved to provide recent information about the country's tourist destinations, products/packages and services, and tourism investment opportunities. Moreover, the language barrier for non-English speaking tourists shall be addressed. The DOT website should be made available in major languages (Chinese, French, German, Korean, Japanese, among others) while collateral materials, brochures, posters, should be provided in specific languages of target markets (China, Japan, Korea, among others).

Frontline services shall also be

improved to establish good impressions for arriving tourists. Moreover, major ports of entries (Manila, Cebu and Davao airports) shall be provided with ushers and interpreters to non-English speaking visitors through the DOT's "Meet and Greet" program. Foreign embassies, consulates abroad, as well as, Balikbayans/OFWs shall be tapped/utilized in promoting the country as a tourist destination and in providing information about the Philippines.

Market plans for China, Japan, Korea and North America shall be implemented in partnership with the private sector. To sustain the country's marketing and promotion efforts in other strategic and high growth markets, participation in identified major travel fairs, exhibitions and expositions, sales missions and other promotional activities in the rest of the Asia Pacific markets (Taiwan, Hongkong, ASEAN and Australia), Europe and North America shall be given equal consideration.

New tourism products shall be developed to encourage visitors to increase their availments and stay longer. The private sector will be organized and tapped to encourage them to develop tour packages/products and guided tours identified in the Medium-Term Philippine Development Plan (MTPDP). The meetings, incentives, conventions and exhibitions (MICE) markets shall be developed by packaging business travels/tourism with the leisure and holiday tourism package, capitalizing on the country's natural attractions and ecotourism.

Moreover, the short-haul and beachgoer, and sightseeing/shopper and domestic; and the niche-based short-haul recreation travelers, and ecotourists markets will be developed by implementing the Surfing Tourism Integrated Program for Siargao, Eastern Samar and Bicol, among others. These areas will be developed as premier and world-class surfing destinations. In addition, tour programs and packages that will attract

and encourage tourists to travel not only within Metro Manila and Luzon areas, but also in the Visayas and Mindanao regions, shall be developed. These tour programs and packages should highlight the country's culture, history, heritage, sports, health, cuisine, among others.

The Philippine Tourism Authority's (PTA) tourism-related assets shall be sold or leased or opened for joint ventures so that the PTA could focus on its mandate to develop tourism in a pioneering capacity and as DOT's infrastructure arm. The PTA should start implementing its five-year medium-term plan wherein 50 percent of its tourism-related assets/properties shall be sold or leased out to develop infrastructure projects. The retiring OFWs and Filipino citizens abroad should be encouraged to invest in these assets.

Moreover, the study on the creation of the TEZA and the institutionalization of the structure and funding for TEZs and TEZA shall be completed and implemented. Coordination with the Philippine Economic Zone Authority for the establishment and promotion of the TEZs and with the Board of Investments for facilitating the investments in priority tourism-related activities and projects should be undertaken. Technical assistance to local government units (LGUs) and other organizations on tourism planning, product development, marketing and promotion and investment shall be continued. The DOT shall also coordinate with concerned agencies to facilitate the implementation of tourism infrastructure projects identified in the MTPDP and MTPIP.

The private sector and the LGUs shall be given greater role in developing and promoting domestic tourism. The "I Love Philippines" program, which aims to encourage Filipinos and *balikbayans* to travel and visit the country's tourist destinations nationwide, shall be

implemented. The domestic and *balikbayan* markets shall be steady sources of visitor inflows to the country's tourism destinations. This would help ensure financial viability of tourism enterprises. The program, which also involves developing and promoting tour packages, will use ads and guestings in radio, television, print, cinema and the internet in partnership with the private sector.

Participation in multilateral, regional and bilateral fora (e.g., World Tourism Organization, Pacific Asia Travel Association, ASEAN, among others) and negotiations on economic partnership agreements (e.g., Japan-Philippines Economic Partnership Agreement, Agreement on Comprehensive Economic Cooperation between ASEAN and China,

ASEAN-India, among others) shall be undertaken to ease the barriers to free flow of investments and tourists.

Moreover, the rationalization plan of the DOT shall be completed and implemented. This will enable the DOT to perform its mandated functions more effectively and efficiently. New systems and technologies to effect efficient dissemination and sharing of tourism information between and among the government agencies, private sector and the general public (e.g., geographic information system-tourism profiling system, enhanced travel and tourism statistical system, improved visitor sample survey, among others) shall be developed and instituted.

Chapter 7

Infrastructure

Various road and bridge projects were implemented in 2004, which addressed several of the Administration's priorities for the medium term. Improvement of the Road – Roll-On/Roll-Off Terminal System (RRTS) was accelerated and safety in transportation was given importance. The increased capacity of mass transportation in Metro Manila was also a significant accomplishment last year. These fulfilled the President's objective of strengthening the nautical highway system, decongesting Metro Manila and other urban centers, promoting tourism, and improving peace and order through affirmative action in Mindanao and other highly impoverished areas. Meanwhile, infrastructure investment in Clark and Subic has increased in 2004 to prepare the Subic-Clark area to be the best logistics and transportation hub in the Asia-Pacific Region.

The environment for increased private sector participation in infrastructure was also enhanced through the review of the Build-Operate-Transfer (BOT) Law and creation of the Philippine Infrastructure Corporation (PIC).

Developments in the telecommunications sector, especially recent innovations in short message services (SMS) or text messaging through mobile communications have been largely private sector-led. Connectivity costs had remarkably dropped, due to market forces and rapid technological advancement. Efforts have been made to further develop information and communications technology (ICT) human resource. However, well-trained and competent trainers/educators in ICT are still deficient. Various bills still need to be ratified, foremost of which is the classification of Voice over Internet Protocol (VoIP) as a value-added service (VAS) to pave the way for new entrants in the market and further lower the cost of international calls.

A. TRANSPORTATION

In 2004, about 4,774 kilometers (km.) of national roads, more than 500 km of farm-to-market roads and 41,741 lineal meters (lm.) of national bridges were improved and/or constructed with a total value of about PhP16.5 billion. Meanwhile, 32 bridges under the *Tulay ng Pangulo sa Barangay* with a total length of almost 980 lm. costing PhP440.28 million, and 142 bridges under the *Tulay ng Pangulo sa SZOPAD/Mindanao* with a total length of 2,778 lm. costing PhP1.25 billion were constructed.

In addition, under the President's Bridge Project Phase II, 156 local bridges were completed in 121 beneficiary-municipalities and 12 beneficiary-cities while 58 local bridges are ongoing. The roads and bridges delivered last year have increased accessibility in Mindanao and priority areas for peace and development. Children can go to school faster, and traders can reach their markets more conveniently.

Also, farm-to-market roads increased the mobility of farmers and farm products, lowered the hauling and transportation costs, and reduced the travel time of getting fruits and vegetable to the end consumers.

Also in 2004, the local government units (LGUs) through the Department of the Interior and Local Government (DILG) started to take an active role to identify missing links in the road network and pinpoint the areas which most need access to markets. This was facilitated through DILG Memorandum Circular No. 2004-78 that enjoins all provinces, cities and municipalities to organize local Project Monitoring Committees (PMCs) in their respective areas of jurisdiction. The same circular also advised LGUs to allocate resources to undertake monitoring and evaluation activities, as these are part of their regular functions.

The following major impact projects were completed by the Department of Public Works and Highways (DPWH) last year:

- a. Puerto Princesa-Langogan Road, Contract Package 6P, which leads to El Nido and supports the priority program for the development of tourism;
- b. Cebu South Coastal Road Project, Metro Cebu Development Project, Phase III, Segment 1, Talisay Land Based Section which cuts travel time from southern to northern Cebu by approximately one hour as this bypasses the central business district of Cebu City;
- c. Malicboy-Pitogo-Macalelon Road, Contract Package 6L-4 in Quezon Province;
- d. Contract Package IV-A, San Juanico Bridge Section in Samar and Leyte;
- e. Contract Package IV, Calbiga-San Juanico Bridge Section in Samar and Leyte which supports the growth of agricultural, industrial, fishing, commercial and tourism activities in the project area; and
- f. Contract Package I, 9 Sub-Projects in Pangasinan, consisting of 80.14 km of concrete pavement, one pre-stressed concrete deck girder bridge with a length of 104.66 lm. and costing PhP982.78 million.

To improve the level of safety in transportation, the development and implementation of a road safety program to cover “black spots” and other accident-prone areas on national roads was pursued. Improvements in maritime safety include the completion of the Follow-on Search and Rescue Vessel Acquisition Project (FOSARV) and delivery of two units of 56-meter Search and Rescue (SAR) Vessels and ten 35-meter SAR Vessels. Also, out of 169 Philippine registered ships engaged in international voyages, 164 (97%) have been issued International Ships Security Certificates (ISSC) and 166 (98%) were issued Continuous Synopsis Records (CSR). The level of safety in air transport was likewise improved through the implementation of the Nationwide Air Navigation Facilities Modernization Project Phase III (ANF III) in March 2004. This modernization project includes the replacement of the present system of existing equipment for improvement of air traffic services and the replacement of aging equipment.

Nautical Highways to Link the Entire Country

Being an archipelago, the Philippines has to be interconnected by a good

transport network that will open up new economic opportunities, reduce transportation and transaction costs of business, and increase access to social services. The Nautical Highway System will specifically provide the link needed to address concerns on transportation costs.

In December 2004, the Philippine Ports Authority (PPA) issued Administrative Order No. 03-2004 which prescribes the procedures in processing applications for the development, construction, management and operation of the Road-RORO Terminal System (RRTS). It also covers the procedures for the privatization of PPA-owned RORO terminals listed in the Western, Central and Eastern Nautical Highways. Also, the identification and prioritization of government-owned RORO ports/terminals for privatization were pursued in 2004. Furthermore, discussions for a Port Masterplan, which shall be recognized by all owners, operators and stakeholders in maritime transport services, were carried out

during the period. Maritime transport cost-efficiency was enhanced and monopolies and cartels were discouraged.

As identified in the MTPDP, the Western, Central and Eastern Nautical Highways provide strategic transport infrastructure that will serve as the country's transportation backbone. Table 7.1 presents the list of ports that are RORO capable as of 2004.

In November 2004, the IRR of RA 9295 entitled "An Act Promoting the Development of Philippine Domestic Shipping, Shipbuilding, Ship Repair and Ship Breaking, Ordaining Reforms in Government Policies Towards Shipping and For Other Purposes" was approved. This policy will deregulate the routes and rates of maritime transport services.

Strengthening the nautical highway system also involves raising the standards of safety both in road and maritime transport. The Ship Safety Inspection System was officially adopted through the

TABLE 7.1 List of RORO-Capable Ports along the Nautical Highway

Route	Status
Western Nautical Highway (a.k.a. SNRH)	
Dipolog-Dumaguete City RORO	Dumaguete is RORO-capable.
Dumaguete-Samboan, Cebu RORO	
Toledo-San Carlos City RORO	San Carlos City is RORO-capable.
Bacolod-Iloilo City RORO	Iloilo is RORO-capable.
Caticlan, Aklan-Roxas, Mindoro Oriental RORO	Caticlan, Roxas, Calapan and Batangas are all RORO-capable. Further developments for Caticlan includes a RORO ramp and RC pier. Reclamation is 65% completed.
Central Nautical Highway	
Balingoan, Misamis Oriental-Guinsiliban,	Balingoan serves as a partner-port of Quinsiliban and Benoni (both in Camiguin Island) and has existing RORO ramps. Quinsiliban is only 7 km. from Benoni, which is already RORO-capable.
Mambajao, Camiguin-Jagna, Bohol RORO	Mambajao can accommodate RORO vessels. Jagna has existing RORO facilities and construction of an additional RORO ramp is ongoing. RORO facility in Mambajao is not being used due to draft limitation.
Tubigon, Bohol-Cebu City RORO	Tubigon is presently RORO-capable.
Claveria, Masbate-Pantao Albay RORO	The development of Pantao to become RORO-capable is ongoing.
Eastern Nautical Highway	
Surigao City-Liloan, Southern Leyte RORO	Both ports are RORO-capable. Further improvement of Liloan will be pursued.

IRR of RA 9295 in December 2004. As of 2004, 66 companies were issued Documents of Compliance (DOC) under the International Safety Management (ISM) Code and 70 companies under the National Safety Management (NSM) Code. Likewise, there are 269 vessels issued Safety Management Certificates under ISM and 148 vessels under NSM.

Decongestion of Metro Manila

Mobility in the National Capital Region coupled with the spread of development is the twin priority transport activities in the area that included implementing several mass public transportation systems and establishing new government centers outside Metro Manila. Along this line, the Metro Manila Strategic Mass Rail Transit Development (Line 2) Project started operation in December 2003 and full revenue operation of the whole line (Santolan to Recto) commenced on 29 October 2004. Also, the LRT Line I Capacity Expansion Project Phase 2 (Package B, Air-Conditioning of the Existing Fleet) was completed in July 2004.

Furthermore, critical infrastructure bottlenecks in Metro Manila have been identified last year, the whole stretch of R-10, from Delpan in Manila to Araneta Avenue in Caloocan, has been 97 percent upgraded. The North Luzon Expressway (NLEX), has also been fully rehabilitated under the BOT Scheme and the private sector started operations in December 2004.

Meanwhile, construction works for the Southern Tagalog Arterial Road (STAR, Lipa – Batangas City Section), the South Luzon Expressway (SLEX) Alabang Viaduct Rehabilitation and the Calamba–Sto. Tomas, Batangas Section have been scheduled to commence in 2005.

In support of the Administration's thrust

to decongest Metro Manila, new government centers will be established in regions where they are needed most as follows:

- Department of Agriculture (DA) in Mindanao;
- Department of Land Reform (DLR) in Iloilo;
- Department of Tourism (DOT) in Cebu;
- Department of Transportation and Communications (DOTC) in Clark; and
- Department of Public Works and Highways (DPWH) in Bicol.

These agencies prepared their preliminary plans, work programs and specifications on the site of transfer and renovation of office buildings, and standard package of assistance and benefits for affected employees in addition to those provided in the Civil Service Code. The standard package for affected employees, which includes moving out cost and housing arrangements, was prepared in coordination with the Office of the Presidential Adviser for New Government Centers (OPANGC)¹.

Furthermore, the DOT has already set-up a liaison office in Cebu to facilitate the transfer. The DLR has also been coordinating with the Iloilo provincial government on the use of the old capitol building as the agency's new office.

Tourism Infrastructure: Access to Major Tourism Destinations

Since tourism has great potential to contribute to economic development, major tourism destinations have been the focus of improvement plans and accessibility enhancement initiatives.

¹ Executive Order 352, *Creating the Office of the Presidential Adviser for New Government Centers, Defining its Mandate, Powers and Functions and for Other Purposes*, was issued by the President on 27 August 2004 to facilitate the transfer of the concerned departments

Various stakeholders stepped up their activities to promote and attract both local and foreign tourists. The national government, on the other hand, accelerated the provision of infrastructure leading to tourist destinations, (i.e., improving roads and ports along the Nautical Highway, increasing road capacity towards tourist areas and upgrading safety standards in land, sea and air transport). Airport, seaports and roadways were improved in 2004 and will continue to be enhanced. Specifically, these include (a) modernization of the air navigation facilities in airports across the country; (b) making several seaports across the country RORO capable (Table 7-1), at the same time increasing their capacity to accommodate more RORO vessels; and (c) completion of roads leading to destinations in Palawan, Cebu, Samar and Leyte. Meanwhile, the number of aircrafts, marine vessels and public land transportation have increased, enhancing competition, lowering fees and raising the quality of services provided.

Affirmative Action for Peace and Development in Mindanao and Other Highly Impoverished Areas

To alleviate poverty throughout the country, strategic roads and ports were provided to make markets accessible. The overall physical accomplishment for the Social Reform Related Feeder Ports Development Project (SRRFPDP) is at 79.70 percent in 2004. The project involves formulating a master plan and detailed engineering of 36 feeder ports and construction of 35 feeder ports in the Social Reform Agenda (SRA) municipalities. While 26 ports have already been completed, construction of nine remaining ports has not yet started due to budgetary constraints. The following are the major road projects

completed during the period:

- a) 43.85 concrete pavement, construction of 10 bridges and repair of five bridges in Zamboanga del Sur;
- b) Zamboanga - Pagadian Road, Buug -Kabasalan Section (43 km) and Kabasalan - Ipil Section (12 km.);
- c) Surigao -Davao Road Rehabilitation Project, Tabon-Tabon - Sibaga - Bayugan Section (34.14 km.); and
- d) Surigao -Davao Road Rehabilitation Project, Tagum - Carmen Section (12.05 km.).

Meanwhile, DILG initiated the formulation of a policy for LGUs for the approval of the Rural Roads Development Framework. The Rural Road Development Project, however, was temporarily shelved due to uncertainty on the availability of GOP counterpart funding considering the policy of DBM-DOF regarding zero grant to LGUs on devolved functions like road rehabilitation. Also, construction of bus terminals has commenced in several LGU beneficiaries through the Mindanao Basic Urban Services Sector (MBUSS) Project.

Development of Subic-Clark

The realization of the Clark-Subic area as the multimodal distribution and regional logistics center and major transshipment point of goods and services in the Asia-Pacific region hinges on the development of adequate infrastructure that will enhance its competitive advantage as prime investment areas. In 2004, the expressway and rail line that will serve the Subic-Clark area started their initial stages of

implementation. The completion of these two vital transport infrastructures will ensure that the Subic-Clark area will be capable to serve the logistics needs of the region.

The Office of the Presidential Adviser on the Subic-Clark Area Development was formed in the last quarter of last year where several potential industries to be developed in the Subic-Clark corridor and the lead persons to develop the business development plans for each industry were identified. Studies on the development plans for the area commenced that year and are expected to be completed in June 2005.

Phase 1 of the NorthRail Project, which will link Metro Manila with Central Luzon, is being implemented by the North Luzon Railways Corporation (NLRC). Voluntary relocation of informal settlers along the right-of-way (ROW) in Valenzuela started in December 2004. As of the end of 2004, about 112 families have been relocated.

The financial negotiations on the cost of civil works for Subic-Clark-Tarlac Expressway Project (SCTEP) Phase 1 have already concluded. Also, the Bases Conversion Development Authority (BCDA) has already filed expropriation complaints for the remaining 105.04 hectares of ROW. On the other hand, BCDA started preparations for a Subic-Clark-Tarlac Expressway Extension (SCTEXT), which would extend the SCTEP from Tarlac to Rosario, La Union (Phase 1) and San Fernando, La Union (Phase 2).

Bureaucratic and Legislative Reforms

Bureaucratic reforms and anti-corruption strategies including regulatory, legal and institutional reforms were implemented to ensure transparency and accountability and to mitigate, if not eradicate, administrative impropriety of respective government agencies. Safety,

quality, environmental and legal standards were also improved and enforced. In line with these thrusts, DPWH established the following policy directions and reforms in 2004: (a) fast-tracking project implementation; (b) transparent operations; (c) enhanced quality of work; (d) maximized use of information technology (IT); (e) re-orientation of DPWH officials and restructuring; and (f) accountability of DPWH officials.

Reforms to Resolve Financing Issues

Due to the tight fiscal situation, the government admits that private sector participation remains the primary option in the delivery of utilities and services to the people. Because of this, the national government made improvements in the BOT law to incorporate lessons learned in past years. Initiatives were made to review the Local Government Code (LGC) of 1991, assess the success of devolved responsibilities, and assimilate the lessons from more than 10 years of implementation.

The proposed amendments to the BOT Law and its IRR seek to further improve the framework for private sector participation in the provision of public infrastructure. The BOT IRR Committee has thus undertaken discussions on the general principles and major provisions in the proposed amendments while an interagency Technical Working Group (TWG) was created by the IRR Committee to further discuss the proposed amendments in detail. While the IRR Committee earlier chaired by NEDA has made substantial agreements on the proposed amendments, the Secretary of Trade and Industry (DTI) was designated as Chair of the BOT IRR Committee pursuant to the Memorandum of Executive

Secretary Ermita issued on December 6, 2004.

On July 1, 2004, the DTI began organizing the PIC. By December 2004, the Office of the President (OP) approved the creation of PIC along with the approval of the National Development Company (NDC) of the concepts of its creation and the Department of Finance (DOF) endorsement of PIC as a GOCC. On January 27, 2005, PIC has registered with the Securities and Exchange Commission (SEC), and as of February 2005, NDC has scheduled a preliminary organizational meeting of the PIC Board.

The “users pay” culture where road users will pay for the maintenance of the roads, has been identified to address the gap in the maintenance of transport infrastructure, especially roads. In 2004, the North Luzon Expressway was rehabilitated through the BOT Scheme. Aside from the road users pay scheme for the maintenance of the infrastructure for toll roads, a fuel levy has also been considered. RA 8794 (An Act Imposing a Vehicle User’s Charge on Owners of All Types of Vehicles and for Other Purposes), however, has yet to be amended.

Meanwhile, the national government through DPWH, DOTC and DILG has yet to establish possible cost-sharing arrangements among infrastructure project stakeholders such as LGUs, private landowners and citizens. Of utmost importance is to increase capability and decrease dependence of LGUs on the national government. In December 2004, DILG conducted a workshop to establish the capacity of 5th and 6th class municipalities to generate financing and implement projects as frontline providers of development and basic services. Also, a core group composed of DILG and DOF officials was created to conduct a broad review of the implementation of decentralization and

propose amendments to the 1991 Local Government Code.

POLICY DIRECTIONS AND OUTLOOK FOR 2005

The national government through DPWH has been tasked to undertake the following programs under the 10-point agenda of the current administration:

1. Complete the Nautical Highway and RORO system consisting of the Western, Central, and Eastern Nautical Highways to transport the produce of Mindanao to Visayas and Luzon.
2. Decongest Metro Manila. This will be done by:
 - a) Developing Clark and Subic, which will be supported by the improvement of McArthur Highway in conjunction with the North Expressway Project.
 - b) Developing South Luzon / STAR Expressway as an industrial belt from Metro Manila to Batangas Port.
 - c) Undertaking other projects to speed the flow of traffic out of Metro Manila such as the Skyway Extension, McArthur Highway and the C-5 extension to Sucat.
3. Address critical infrastructure bottlenecks, both urban and rural, to provide fast and convenient flow of people and services.
4. Improve access to major tourist destinations, including Cebu–

Bohol–Camiguin, Davao, Batangas, Palawan, Cordillera and Clark-Subic.

5. Improve roads to support the affirmative action for peace and development in Muslim Mindanao and other conflict-affected or impoverished areas.

Under the 2005 DPWH budget as submitted by the President to Congress, the DPWH targets by the end of 2005 include the improvement, construction and rehabilitation of 1,399 km. of national roads and retrofitting and rehabilitation 17,075 km. of bridges, flyovers and interchanges with an investment of PhP30.6 billion.

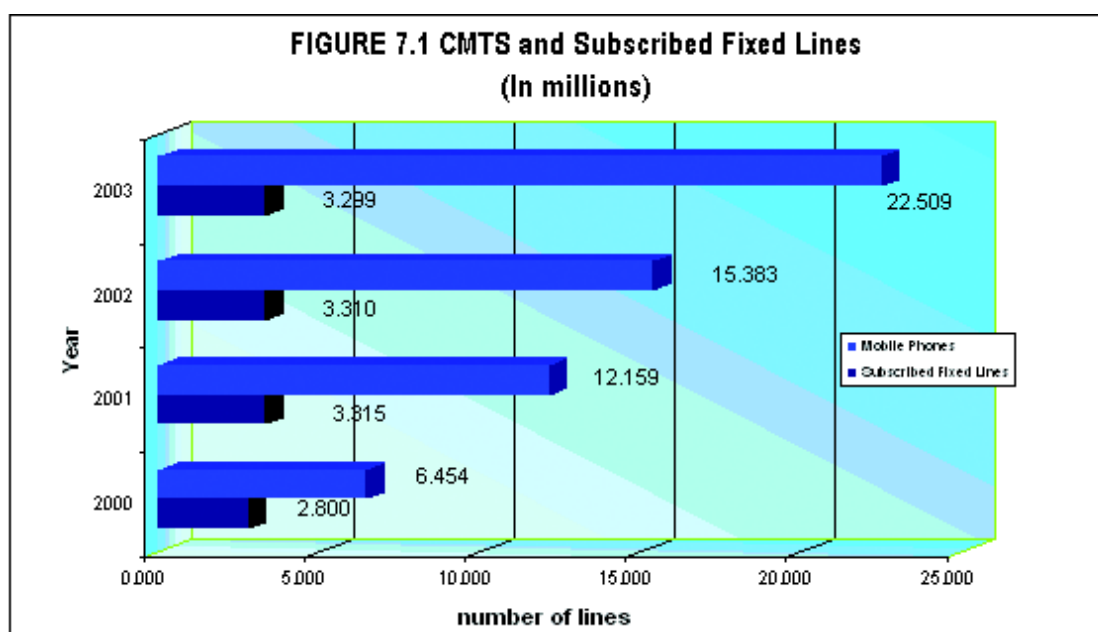
For the same period, the DOTC will pursue the implementation and completion of all on-going and future project in accordance with the MTPDP 2004-2010. The Department will develop a transport network that will promote development from the NCR towards other regions. Discussion on the Port Masterplan shall be finalized and adopted. Also, DOTC shall ensure the following: a) improve that inter-regional linkages to facilitate trade and

investment; b) enforce compliance with international transport safety and security standards; c) accelerate implementation and completion of rail-based mass transport systems, in partnership with the private sector; d) encourage private sector investments in transport infrastructure and operations through applicable incentive programs; and e) promote the “users-pay” culture in the provision of services.

In addition, DILG aims that fifteen (15) target provinces will have accepted the Rural Roads Development Framework by the end of 2005. Also, the DILG shall continue to organize and coordinate the possible updating of the LGC of 1991 and efforts to increase LGU capability and decrease LGU dependence on the national government will be pushed.

B. DIGITAL INFRASTRUCTURE

The number of Cellular Mobile Telephone Service (CMTS) lines increased to more than 22 million, while both installed and subscribed lines went down to 6.56 million and 3.3 million, respectively as of end 2003 (Figure 7.1). Significant



strides were made, particularly in mobile telephony as shown by 2003 figures.² Cellular mobile telephone density stood at 27.77, a significant leap from the 2002 19.36 CMTS density. By the end of 2003, CMTS has covered 100 percent of major highways and corridors connecting major provincial capitals and cities achieving the full targets under the MTPDP 2001-2004. On the other hand, installed fixed line and subscribed line teledensities stood at 8.09 and 4.07 lines per 100 persons out of the total population of 81.05 million, respectively.

Unfortunately, most of these services are clustered around urban areas. In fact, nine provinces have no CMTS while several others only rely on payphones and public calling offices (PCOs) for their communication needs. Of the 1,602 municipalities and cities all over the country, 99 still have no basic communications services as of end of 2003. Of these, 20 are in Leyte, which has 60 municipalities. Meanwhile, regional distribution of telephone lines (Table 7.2) show that these are concentrated on highly populated areas such as the National Capital Region (NCR)

and Southern Tagalog (Region IV), with the Autonomous Region of Muslim Mindanao (ARMM) at the bottom of the list.

As of December 2003, the local telecommunications industry consisted of 73 Local Exchange Carriers (LEC), 14 Inter-exchange Carriers (IXCs), 11 International Gateway Facilities (IGF), seven CMTS, 10 Public Trunk Repeater Service providers, eight radio paging service providers and 307 VAS providers.³

It is no surprise then that with regard to network readiness,⁴ the country ranked 69th out of 102 countries surveyed by the Global Information Technology Report (GITS) in 2003-2004. This is a decline from 62nd place in 2002 and from 58th place in 2001. As such, further deployment of infrastructure and services should therefore be swiftly accelerated and be paramount in the short-term agenda. It is also essential that these vital communication infrastructures (e.g. PCOs and payphones) be well-maintained and secured from vandals and other adverse conditions.

In terms of accessibility, the Digital Accessibility Index (DAI) 2003 (Table 7.3)

TABLE 7.2 Regional Distribution Of Telephone Lines, 2003

REGION	POPULATION	INSTALLED CAPACITY		SUBSCRIBED LINES	
		TELEDENSITY		INSTALLED	SUBSCRIBED
CAR	1,492,050	93,567	33,527	6.27	2.25
NCR	10,935,524	2,818,358	1,647,671	25.77	15.07
I	4,345,194	195,088	108,888	4.49	2.51
II	2,977,032	30,236	29,000	1.02	0.97
III	8,130,440	431,626	260,328	5.31	3.20
IV	12,206,054	1,064,590	564,370	8.72	4.62
V	5,001,342	124,957	72,656	2.50	1.45
VI	6,660,110	412,984	117,154	6.20	1.76
VII	5,856,441	458,637	185,620	7.83	3.17
VIII	3,977,372	127,264	16,339	3.20	0.41
IX	3,374,312	33,849	31,940	1.00	0.95
X	3,054,139	147,518	50,412	4.83	1.65
XI	5,646,477	381,295	104,730	6.75	1.85
XII	2,847,063	82,349	31,291	2.89	1.10
XIII	2,222,812	125,116	37,264	5.63	1.68
ARMM	2,327,967	29,969	8,162	1.29	0.35
TOTAL	81,054,329	6,557,403	3,229,352	8.09	4.07

Source: NTC

² 2004 figures not yet available.

³ NTC Annual Report 2003

⁴ Network Readiness-the degree to which a community is prepared to participate in the Networked World; a top ranked country is the one with the most highly developed ICT networks and the greatest potential to exploit those networks' capacity (GITS 2001).

by the International Telecommunications Union (ITU) categorized the country as having medium access (0.43) among four categories (high, upper, medium and low). This means that the overall ability of individuals in our country to access and use ICTs is average compared to other countries. From the data provided, the country ranked low in terms of infrastructure development and quality of bandwidth deployed, both of which contributes to the low number of ICT usage and users but has a human resource competitive with other countries in Asia.

Cost of Connectivity

Internet connectivity cost has significantly dropped from US\$12,000 in 2002 for E-1⁵ connection to only US\$4,000-5,000 in January 2004. Due to this price fall, the cost of local Internet connections dropped from PHP24 per hour to PHP5 per hour. The combination of several IGFs entering the world market including other market players as well as the fast technological development in the sector contributed to the decline of Internet connection costs.

The availability of high-speed broadband

transmission services continued to rise in all Metro Manila cities and municipalities, as well as in Calamba, Clark, Subic, Naga and Davao City. Likewise, broadband connections are also available in Laguna, Baguio, Pampanga, La Union, Dagupan, Tarlac, Batangas, Quezon, Pangasinan, Bulacan, Mactan and Cebu. Based on paying accounts, there are about 675,000 dial-up subscribers and 125,000 broadband subscribers by the end of 2003.⁶

Despite these gains, broadband pricing in the country is still high and was reported to be double than the price in Hong Kong.⁷ This limits the market of broadband services to corporations and to posh households. According to an ongoing PIDS research, the major reasons for the absence of critical mass for broadband services are the following: (a) prohibitive pricing; (b) limited broadband business applications for SMEs; and (c) cash flow potentials from prepaid dial-up Internet accounts.⁸

Radio frequencies for wireless networks such as Wireless Local Loop (WLL), Multi-Access Radio (MAR), Very Small Aperture Terminal (VSAT) and Satellite Phones were allocated to provide accessibility to remote areas. In anticipation of the flood of

TABLE 7.3 Digital Accessibility Index, 2003

COUNTRY	INFRASTRUCTURE	AFFORDABILITY	KNOWLEDGE	QUALITY	USAGE	DAI
S. Korea	0.74	0.99	0.96	0.74	0.65	0.82
Hong Kong	0.93	1.00	0.83	0.68	0.51	0.79
Taiwan	0.98	0.99	0.95	0.56	0.45	0.79
Singapore	0.78	0.99	0.87	0.54	0.59	0.75
Japan	0.72	0.99	0.94	0.47	0.64	0.75
Malaysia	0.35	0.97	0.83	0.31	0.38	0.57
China	0.22	0.87	0.79	0.24	0.05	0.43
Philippines	0.13	0.80	0.90	0.26	0.05	0.43
Indonesia	0.06	0.62	0.80	0.20	0.04	0.34
India	0.04	0.78	0.57	0.18	0.02	0.32
Vietnam	0.05	0.45	0.83	0.19	0.02	0.31

Source: ITU

⁵ E-1: A dedicated digital communication link in European standard that offers 2.048 megabits per second data rate, commonly used for carrying traffic to and from private business networks and Internet service providers.

⁶ NTC Annual Report 2003

⁷ Pyramid Research 2004

⁸ Padojinog, W.C. Untitled. forthcoming.

demand for wireless notebooks and handheld devices in the future, hotspots or access areas in Metro Manila and nearby provinces were created and are located in malls, Internet cafes and even hotels. Although use of 2.4 GHz was prohibited before due to a clash with the operations of Meralco's Supervisory Control and Data Acquisition System (SCADA), the National Telecommunications Commission (NTC) memorandum circular last September 2003 allowed certain providers to operate as long as these hotspots do not interfere with the SCADA system.

By the end of 2004, 10 telecenters or community e-centers (CeC) were built: 7 in Mindanao, 2 in Visayas and 1 in Luzon.⁹ About 211 CeCs are targeted to be established by the end of 2005. Content development and social preparation such as promotions, advocacy, training, and community discussions must be incorporated in the program to ensure not only sustainability but also that the CeCs would strengthen existing local social, economic and institutional capacities and have a deeper impact on the community as well as on individuals.

Involving rural communities in the development and adoption of "content" suitable to the needs of the local populace in a language and layout, which can be easily comprehended, appreciated and eventually used, is a major challenge imposed upon these CeCs. It is understood that these CeCs would perform more than just a basic telecenter functions but also provide training and capacity building on the use of ICT to its direct beneficiaries to ensure local support and program sustainability. These E-communities should mature and evolve from a mere provision of access to E-government public services to facilitating private services such as support to SMEs, e-banking, e-commerce, etc.

ICT Human Resource Development

Personnel recruitment and upgrading of skills in LGUs were facilitated and quality standards were established for the curricula of ICT subjects, not only in higher levels of learning but in primary and secondary levels of education as well. A number of training programs were implemented and/or conducted such as the on-the-job training (OJT) programs for colleges/universities, transmission training, wireless engineering educational program, among others.

It is essential to shift the level of Filipino IT skills from "users" to "developers" and address the demand of industry (especially multinationals located in export processing zones and IT parks), universities and training institutes for ICT professionals with graduate degrees. The lack of well-trained and competent trainers/educators in ICT and ICT-related subjects qualified to teach at the university level must be dealt with immediately to meet the challenges of attaining a skilled ICT manpower pool and to further realize our competitiveness in the knowledge economy. These concerns should be addressed by the National ICT Survey and Development Plan.

Regulatory and Legislative Reforms

In January 2002, EO 269 was issued by the President, creating the Commission on Information and Communications Technology (CICT). The Department of Information and Communications Technology (DICT) Bill is still pending in Congress and needs to be enacted to provide for an entity that serves as the primary policy, planning, and coordinating administrative body for ICT development and promotion in the country.

⁹ Upi, Maguindanao; Quezon, Bukidnon; Maramag, Bukidnon; Tubod, Lanao del Norte; Kapatagan, Lanao del Norte; Kitcharao, Agusan del Norte; Maguinda, Butuan City; Ubay, Bohol; Talibon, Bohol; and Roces, Quezon City.

To facilitate further the development of the sector addressing affordability, access and security of communication systems, several bills still need to be enacted. Among them are the passage of the Convergence Bill and the amendment of protectionist provisions in the 1987 Constitution to establish a policy framework that would allow multiple services (i.e., telecommunications, broadcast media, information technology, electronic commerce, etc.) to be carried in the same physical network; the Cybercrime Prevention Act; and the reorganization of NTC as an independent quasi-judicial body whose members enjoy a fixed tenure free of outside political interference through the NTC Reorganization Bill.

At present, only duly enfranchised and authorized public telecommunications entities (PTEs) are permitted to offer VoIP services with compensation. RA 7925, known as the ‘Public Telecommunications Policy Act’ and EO 546 series 1979, cover the legal issues on the liberalization of VoIP. Meanwhile, VoIP is yet to be defined whether as a telecommunication service or a VAS. It is necessary that the deregulation of VoIP must be pursued to attract new players and to reduce communications cost in the country.

POLICY DIRECTIONS AND OUTLOOK FOR 2005

In 2005, the national government, through the CICT, will continue to pursue the passage of various ICT-related legislative bills pending in Congress. These include: (a) DICT Bill, which seeks to establish the DICT; (b) NTC Reorganization Bill, that proposes the reorganization and strengthening of the NTC; (c) Cybercrime Prevention Act, which seeks to establish measures that would allow the country to effectively prevent and combat cybercrime;

and (d) Convergence Bill, which would optimize the utilization of infrastructures available and invite further capital infusion for digital expansion and development. More importantly, the NTC is set to issue the necessary guidelines to govern the use of VoIP in the country, which includes the establishment/implementation of VoIP networks before the end of 2005.

About 211 CeCs will be deployed to establish public access points for delivery of e-government and other services to the public. Implementation of the Digital Infrastructure Deployment Program will provide necessary broadband infrastructure that would connect local research, education, government and research institutions nationwide, allowing the delivery of high-speed and high-capacity applications (e.g., multimedia, video conferencing, data, etc.) for government’s education, health, employment, public information, and other information and communication requirements. Moreover, the enhancement of access to government information and services through the establishment of E-Government Portal and other ICT-related services/applications shall be accelerated.

In addition, noninfrastructure related initiatives will be carried out to improve ICT manpower through certification programs, skills development and training, and accelerating knowledge creation and transfer to upgrade technologies and increase productivity, among others. The annual national ICT Skills Survey will be conducted starting in 2005 to determine human capital demand in the ICT sector as well as projected the supply. Afterwards, the National ICT Skills Development Plan will be formulated to serve as a blueprint in managing the deployment of ICT professionals in the industry.

Network security, affordable costs, and skills development are necessary for a robust digital infrastructure. The government, in consultation with stakeholders, shall establish a favorable policy environment for private investments in ICT and related industries. It is imperative that clear and unambiguous policies are formulated and implemented to attract higher levels of

private sector investment in ICT. Most importantly, to assure that active and expansive participation in the networked society be achieved and to make available the benefits of ICT to all especially in alleviating poverty—the unserved and underserved areas should be prioritized in the deployment of infrastructures and services.

Chapter 8

Labor

Labor market conditions improved in 2004 compared to 2003, but performance generally fell below Plan target. Net employment creation rose to almost one million workers, most of which are for salaried jobs rather than unpaid work. However, unemployment rose as more of the working age population joined the labor force. Productivity growth also rose modestly while compliance to labor standards declined. One positive development is the more generally peaceful labor-employer relations, although this was marred by the Hacienda Luisita strike. Meanwhile, the US-Iraq crisis tested the government's capacity to protect overseas Filipino workers (OFWs).

For 2005, the government shall continue to pursue programs in support of employment generation, preservation, enhancement, and facilitation.

LABOR MARKET PERFORMANCE IN 2004

The labor market fell short of the target employment creation for 2004, employing an additional 977,000 workers vis-à-vis the targeted 1.4-1.6 million workers. On a positive note, employment creation is higher than the 574,000 employment generated in 2003. However, the unemployment rate rose to 11.8 percent from 11.4 percent the previous year as the number of labor entrants normalized to the average level of about one million from 2003 levels where the number of labor entrants declined from the previous year. The return of the working age group in the labor market may be due to the perceived employment prospects from a strengthening economy and anticipation of work from election-related activities during the first half of 2004.

By industry, the employment increment were largely in the service sector (658,000), followed by agriculture (161,000) and lastly,

by industry (158,000). The trends in employment creation mirrored the sectoral growth pattern. One noteworthy development is the growth in manufacturing, which was the biggest generator of industrial jobs in 2004.

With employment mainly coming from industry and services, quality of employment improved as the number of wage and salary workers rose (7.3%) while the number of unpaid family workers declined (-6.3%).

Most of the workers also worked 40 hours and above a week. Notwithstanding this, workers still wanted to work more hours as indicated by the higher underemployment rate of 17.6 percent. Workers likely wanted to work more as real wages hardly rose during the period, growing at most by 0.8 percent on the average.

Real wages could not increase significantly due to modest productivity growth. Labor productivity has practically remained static over the years and has grown at levels below the other Asian countries as can be gleaned in the Figure 8.1 below. Considering, however, that

TABLE 8.1 Summary Indicators on Labor and Employment, 2003-2004

Indicators	Level (in '000, except rate)		Growth Rate (%)	
	2003	2004	2003	2004
Labor Force	34,57	35,860	1.9	3.7
Labor Entrants	635	1,289	-43.6	102.9
Employment Level	30,636	31,613	1.9	3.2
Net Employment Creation	574	977	-36.7	70.0
Unemployment Rate (%)	11.4	11.8	0.0*	0.4*
Underemployment Level	5,221	5,575	2.2	6.8
Underemployment Rate	17.0	17.6	0.0*	0.6*
Employment by No. of Hours Worked				
Less than 40 hours a week	11,311	11,613	0.2	2.7
40 hours and above	18,845	19,367	3.8	2.8
Employment by Class of Workers				
Wage and salary workers	15,354	16,472	4.8	7.3
Own-account workers	11,517	11,614	1.0	0.8
Unpaid family workers	3,765	3,527	6.1	-6.3
Net Employment Creation, by Industry				
AGRICULTURE, FISHERY, FORESTRY	98	161	-64.0	65.0
Agri, Hunting, Forestry	(7)	57	102.9	889.7
Fishing	105	104	328.6	-1.0
INDUSTRY SECTOR	145	158	-906.9	8.8
Mining & Quarrying	(9)	14	190.0	250.0
Manufacturing	72	120	295.9	67.8
Electricity, Gas and Water	(5)	8	-125.0	266.7
Construction	87	17	731.0	-80.2
SERVICE SECTOR	331	658	-49.3	98.8
Wholesale & Retail Trade, Repair of Motor Vehicles, Motorcycles & Personal & Household Good	(11)	270	-103.1	2502.2
Hotel & Restaurants	57	56	128.0	-2.2
Transportation, Communication & Storage	149	116	-239.4	-21.7
Financial Intermediation	(9)	25	-145.6	380.6
Real Estate, Renting & Bus. Activities	96	51	244.1	-46.9
Public Ad & Defense, Compulsory Social Security	(28)	77	-145.9	376.6
Education	(9)	13	-162.7	235.1
Health and Social Work	23	(10)	-33.8	-145.6
Other Community, Social & Personal Service	(20)	(27)	21.8	-35.4
Private Households with Employed Persons	85	88	-11.0	3.5
Extra-Territorial Organizations & Bodies	(1)	(1)	0.0	0.0

*percentage point difference

Source: Labor Force Surveys, National Statistics Office

minimum wages were static for two years and in view of the erosion of purchasing power due to increase in prices during the period, all regions except Region IV-B, have issued minimum wage orders granting minimum wage increases, cost-of-living allowance or integration of cost-of-living allowances into the basic pay, most of which were implemented in August. The National Capital Region still has the highest minimum wages for non-agricultural workers at PhP300.00 and Autonomous Region in Muslim Mindnao (ARMM) has the lowest at PhP150.00.

Labor productivity grew by 2.9 percent in constant terms from PhP35,302 in 2003 to PhP36,316 in 2004. This is slightly higher than the growth posted in 2003 of 2.7 percent. Productivity of workers in the services sector fell from 3.4 percent to 2.6 percent, while a rise in labor productivity growth was experienced in agriculture (from 2.90% to 3.4%) and industry (from 0.7% to 2.0%).

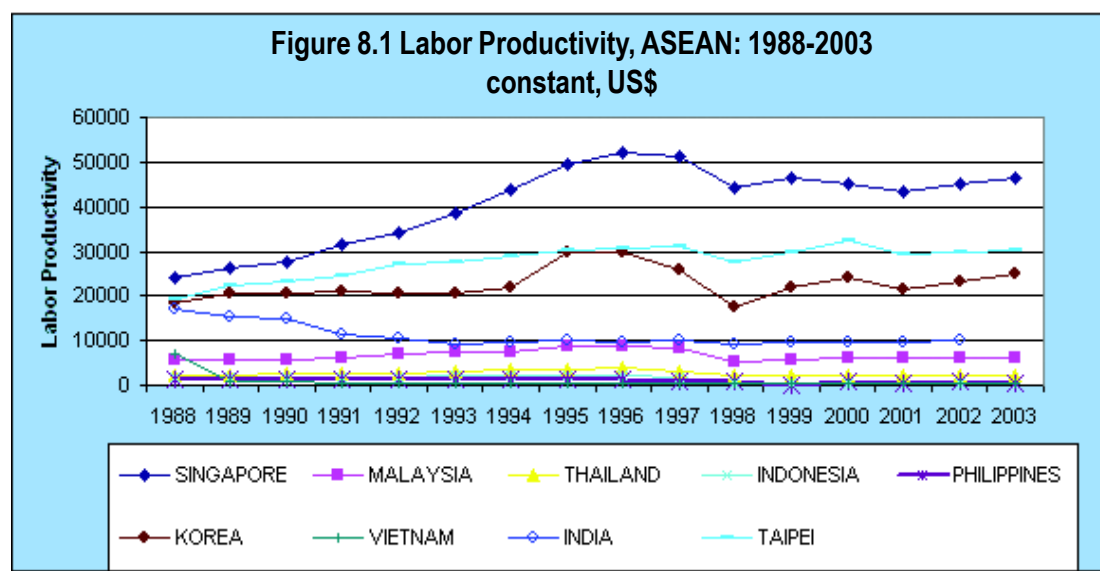
Overseas employment, on the other hand, remained a key source of jobs for Filipinos with 934,000 Filipinos deployed in 2004, almost equivalent to the number of net domestic employment creation

(977,000). However, this fell short of the target of one million per year.

Support for Employment Generation

To ease the unemployment problem, the government, through the Department of Labor and Employment (DOLE) implemented projects to assist OFW families and reintegrate returning OFWs into the domestic economy. These included the launching of the OFW Groceria Project which grants interest-free loans to qualified OFW Family Circles, which has 200,000 members. The project is funded by the OWWA Fund sourced from OFWs. Under the program, a returning/displaced OFW is given PhP50,000 worth of grocery items as start-up entrepreneurial capital. As of 2004, 276 OFW Groceries were set up, benefiting 11,000 OFW families. This, however, falls short of the 500 target OFW Groceries for 2004. Under OWWA's National Livelihood Support Fund (NLSF), 35 OFW enterprises were provided with technical and financial assistance during the year.

To provide employment in the poor communities, 20 Poverty Free Zones (PFZ)



Source: Basic data (www.adb.org)

TABLE 8.2 OFW Deployment by Major World Group, 2001-2004

MAJOR WORLD GROUP	DEPLOYMENT LEVEL			GROWTH RATE OF DEPLOYMENT (%)				
	2001	2002	2003	2004	2001	2002	2003	2004
OFW Deployment	867,599	891,908	867,969	933,588	3.1	2.8	(2.7)	7.6
Total Land Based	662,648	682,315	651,938	704,586	3.0	3.0	(4.5)	8.1
Middle East	297,533	306,939	285,564	352,314	5.0	3.2	(7.0)	23.4
Asia	285,051	288,481	254,520	266,609	(2.4)	1.2	(11.8)	4.7
Europe	43,019	45,363	37,981	55,116	9.5	5.4	(16.3)	45.1
Americas	10,679	11,532	11,049	11,692	40.1	8.0	(4.2)	5.8
Africa	4,943	6,919	8,750	8,485	15.0	40.0	26.5	(3.0)
Trust Territories	6,823	6,075	5,023	7,177	(8.1)	(11.0)	(17.3)	42.9
Oceania	2,061	1,917	1,698	3,023	(13.6)	(7.0)	(11.4)	78.0
Not reported	11,530	10,882	46,279	1	66.6	(5.6)	325.3	(100.0)
Total Sea Based	204,951	209,593	216,031	229,002	3.3	2.3	3.1	6.0

Source: Philippine Overseas Employment Administration

were established in some of the country's poorest communities as of end of 2004, adding to the 18 PFZ project sites established in 2003. These generated sustainable employment for 324 workers and an additional average monthly income of Php1,400/worker, an improvement from the Php1,116 additional average monthly income offered by the program in 2003. Though the target number of PFZs was met, the target of at least 480 additional employed every year was not. Meanwhile, DOLE's other livelihood/support projects provided employment to 381 individuals earning an additional average monthly income of Php1,700/worker. These incomes are modest compared to the poverty threshold of Php5,111.00¹ per month for a family of five. The program therefore needs to be geared to activities with greater income-generating potential.

Also, at least 75 workpreneurs were provided with jobs and income through the establishment of Community Employment Zones (CEZs) in five pilot areas (CAR, Tacloban City, Davao del Sur, Quezon City and Mandaluyong City. The CEZ is a component of Capacity Development of Local Institutions to Promote and Protect the Informal Sector (CLIPPS).

In terms of assistance to displaced workers, there were 57,904 workers assisted with quick response interventions such as work placement, retooling, and livelihood development. The proportion of displaced workers provided assistance, at 82.0 percent, was significantly higher than the 50 percent target for 2004. In addition, guidelines/procedures and consultations in preparation for the establishment in 2005 of the Tripartite Assistance and Supervising Committee that will assist displaced workers on a tripartite basis were drafted.

In view of the fact that of the five key employment generating industries identified in Chapter 1, only one has met the target, efforts have to be exerted at all fronts to boost employment creation. The employment created by the above cited programs is very minimal compared to the number of unemployed people, although

TABLE 8.3 Labor Relations Indicators, 2003-2004

Indicators	2003	2004
Strike Incidence	38	25
Mandays lost	50,465	53,434
Disposition of actual strikes (days)	21	11
Duration (days)	42	39
Settlement of notices of strikes/lockouts		
Preventive mediation cases	29	28

Source: Department of Labor and Employment

¹Based on 2003 Poverty Indicators National Statistical Coordination Board

one should recognize that employment generation is a private sector driven market-determined outcome. To reduce the impact of DOLE programs, the PEZ Program and its Component Employment Zones should be rationalized with the One-Town-One-Product approach of the government through the Department of Trade and Industry (DTI) for agribusiness promotion of the Department of Agriculture (DA).

TABLE 8.4 Case Resolutions			
Indicators	2003	2004	2004 Target
Conciliation & Mediation			
Strike Prevention Rate	94.3	96.2	94.0
Disposition Rate			
Handling notices of strikes/lockouts	90.0	88.1	76.0
Handling preventive mediation cases	95.0	92.7	94.0
Labor Dispute Resolution			
Disposition Rate (%)			
Compulsory Arbitration	62.0	63.3	-
Compulsory Arbitration at Appellate level	52.0	53.0	87.5
Med-Arbitration cases	77.5	74.9	85.0
Med Arbitration cases at Appellate level	70.1	70.4	-
Source: Department of Labor and Employment			

Employment Preservation

Striving to keep existing jobs, labor-management relations was relatively peaceful in 2004. Strike incidence in 26 years hit record low in 2004 with only 25 actual strikes due to the 24-hours-7-days a week action on labor cases. As such, actual strikes were disposed of within an average of 11 days, faster than the 21 average days required in 2003. As a result, total mandays lost also decreased by 65 percent from 150,000 in 2003 to 53,000 in 2004. The duration to settle notices of strikes/lockouts and preventive mediation cases was also shorter in 2004, from 42 days in 2003 to 39 days in 2004 for notices of strikes and from 29 days to 28 days for preventive mediation cases.

However, the strike at Hacienda Luisita marred the generally peaceful labor environment. The strike revolved around two issues, namely: (a) deadlock in collective bargaining agreement involving the Central Azucarera de Tarlac Labor Union (CATLU); and (b) Union Busting charges filed by the United Luisita Workers' Union (ULWU). To address the first issue, the DOLE issued a resolution on January 14, 2005 ordering CAT management to indemnify employees a one-time lump sum of PhP12,500 on top of the PhP15.00 per day adjustments on their salaries covering the fourth and fifth years of their collective bargaining agreement

(CBA). The CAT management was also directed to pay its workers of their unpaid salaries for six months retroactive to July 1, 2004, when the fourth and fifth years of the CBA was supposed to take effect. The Central Azucarera de Tarlac Labor Union (CATLU) members who participated in the strike were ordered to report back to work within five days from the time the parties received their copies of the decision while management was ordered to immediately accept the striking union members without retaliatory action. In the same resolution, DOLE ordered the termination of the CATLU officers for their failure to observe the mandatory requirements before proceeding with the strike. The second issue, on the other hand, has been forwarded to the National Labor Relations Commission (NLRC) for action. According to the latest news from the DOLE, operations have been suspended in the two companies. Despite this, the DOLE maintains that it has addressed the issue to the full extent allowed by labor laws.

In terms of case resolution efficiency, disposition of conciliation and mediation cases posted a decline while labor dispute resolution showed improvements year-on-year. In terms of the average cases disposed per month, 25 cases were disposed by each Labor Arbiter, still below the 2004 target of 27 cases per month. Each labor relations

commissioner, on the other hand, disposed an average 51 cases per month. To improve case disposition at the NLRC, an electronic case management and tracking system will be in operation by August 2005. The Commission on Information and Communications Technology (CICT) released the project's fund amounting to P41.4 million from the e-Government Fund in February 2004 and the bidding for the project was completed by year-end. A bill has also been filed in 2004 at the Senate with the proposal of "rationalizing the composition and functions of the National Labor Relations Commission".

To standardize determination of arbitral awards, the DOLE issued Department Order 284 which provided for the adoption of a model for determining arbitral awards on wage and non-wage benefits of workers through CBAs.

To minimize friction between management and labor, the DOLE regional offices conducted 2,877 labor education seminars benefiting 74,845 workers from both the organized and unorganized labor sector and 121 management education seminars on workers' rights, dispute

prevention and settlement, covering 2,924 participants from 1,430 establishments.

In December 2004, the labor, management and government representatives signed the Social Accord on Industrial Peace and Stability which contained agreements on keeping the peace, minimizing job losses, and setting up fund for quick response interventions for displaced workers due to company closure or retrenchment.

At the regional level, there are now 99 existing Tripartite Industrial Peace Councils (TIPCs) covering 2,415 establishments and 86,325 workers, broken down as follows: ten Regional TIPCs; 35 Provincial TIPCs; and, 54 City/Municipal TIPCs. These Councils conducted 121 symposia/orientations for 1,057 employers and 1,098 workers; and 276 consultative meetings involving 5,005 participants as a mechanism for generating the views of the various sectors regarding certain policy issuances.

There were also 152 new Labor Management Cooperation established, up by 83 percentage points from the 83 LMCs formed in 2003.

Employment Enhancement

TABLE 8.5 Assistance to Vulnerable Groups

Indicators	2003	2004	Target
Youth			
Apprentices	41,355	50,405	200,000
Special Program for the Employment of Students	75,699	75,840	70,000
TESDA-Private Education Financial Assistance	13,800	13,800	13,800
TESDA-Technical Education and Skills Development	5,109	5,109	5,109
Vulnerable Groups			
Children rescued from worst forms of child labor	406	177	500
Persons with disabilities assisted under TULAY program	2,878	1,503	2,000
Occupationally-disabled workers placed under KAGABAY II program	25	75	100
Informal sector workers placed	2,104	10,710	6,312*
under SSS	-	9,404	
under Philhealth	-	1,306	

Source: Department of Labor and Employment

*based on the target of an annual increase of 200%

Note: most of the targets in the Strategy Planning Matrix actually starts 2005, but was reflected above just to serve as benchmark for 2004

TABLE 8.6 Condition of Working Children Aged 5-17 Years Old

Indicators	2001
Households with children 5-17 years old	10.44M
Households with working children 5-17 years old	2.74M
Children 5-17 years-old	
Exposed to any hazardous environment (chemical, physical or biological hazards)	2.39M
Had work-related injury	0.94M
Had work-related illness	0.75M
Share of those who used any tool/equipment at work who had safety device/equipment/material	35.2%

Source: 2001 Survey on Children 5-17 Years Old (ILO-IPEC and NSO)

Trainings

The DOLE, in support of the national thrust of strengthening the capacity of micro, small and medium enterprises (MSMEs) of the country has provided various assistance to 4,269 MSMEs in the form of technical assistance, information services and through the ISTIV (Industrious, Systematic, Time-Conscious, Innovative, Strong Value for Work) program. It is noteworthy to mention that the number of MSMEs assisted has exceeded the target of 1,800 per year. Nonetheless, there are still a lot of work to be done considering that what was accomplished was just a small fraction of the 807,334² MSMEs which still need to be assisted in order to enhance their productivity and prepare them for greater challenges ahead.

Assistance to Vulnerable Groups

To address youth unemployment which comprise nearly half of total unemployed, the Kasanayan at Hanapbuhay Program (KasH), a program in partnership with the private sector, was initiated to afford new graduates and young workers with the opportunity to acquire the six-month work experience and entry-level requirement of the industry. Surpassing the 50,000 target for 2004, there were 50,405 apprentices provided with job-specific trainings from selected industries.

These programs address only a small

fraction of the unemployment problem and government resources will not be adequate to address the issue. Efforts should, therefore, be focused on partnering with the private sector to provide training and apprenticeship. Also, a longer term solution for the unemployment problem is to ensure that the educational system equips graduates with the skills to find employment.

Given the alarming incidence of working children in the country, reaching 4 million in 2001, with 2.39 million being exposed to hazardous environment³, a more aggressive targeting mechanism has to be made to address the problem. One initiative that seeks to address the problem is the national movement against child labor composed of government agencies, non-government organizations (NGOs), trade unions, employer's groups, academe, as well as international donor community, which has been diligently campaigning and implementing various programs to eradicate child labor in the country especially its worst forms.

In terms of social protection, the target of 200 percent increase in the coverage of informal sector workers in the Social Protection Program was surpassed as 9,404 informal sector workers were covered by the Social Security System and 1,306 were enrolled in Philhealth. This is low compared to the magnitude of workers in the informal sector, but having surpassed the target can be considered a major feat when compared

² as of 2003

³ Source: 2001 Survey on Children 5-17 Years Old (ILO-IPEC and NSO)

to what can be realistically delivered given the limited resources.

Enforcement of Labor Standards

A new Labor Standards Enforcement Framework was implemented in 2004 to promote a culture of safety and health, self-regulation, and voluntary compliance to labor standards and productivity. However, progress towards the target for 2004 was slow with actual performance falling short of the targets.

There were 816 firms covered by advocacy activities on Family Welfare Programs, higher than the 538 firms targeted for 2004 but lower than the 916 firms covered in 2003. The aim of the Family Welfare Program is to promote health, nutrition, responsible parenthood, balancing family and work life, among others in the workplace.

The DOLE, through the Department Advisory No. 02, provided guidelines to employers and workers in the private sector who wish to adopt a mutually acceptable work schedule suitable to the needs of their respective establishment. One feature of the guideline is the provision of safeguards against abuse of workers in case of the adoption of a compressed workweek.

Protection of OFWs

To improve the working condition of OFWs, bilateral agreements were forged through Memoranda of Understanding

(MOUs) and Letter of Understanding (LOUs) with the governments of Lao, Netherlands, Malaysia, Poland and Ukraine. There were also marketing and welfare missions to countries like Korea, Taiwan, Kuwait, United Arab Emirates and Lebanon.

The fight against illegal recruitment remains a challenge as the number of cases filed edged up in 2004 (2.8%) and the number of erring agencies increased by 37.9 percent. By year end, the Presidential Anti-Illegal Recruitment Task Force (PAIRTF) completed 521 AIR surveillances resulting in the apprehension of four illegal recruiters, and closure of 39 establishments, the filing of 630 illegal recruitment cases for preliminary investigation, and 15 inquest. Meanwhile, the POEA also disposed 645 IR cases out of 1,402 IR cases handled, benefiting 4,689 victims of IR and recruitment violations.

Employment Facilitation

There are a number of improvements in the employment facilitation program of DOLE, with the application of information technology on the department's procedures and connectivity.

On local employment, the Phil-JOBNET was redesigned and a module on open job search was added to quicken and widen public access to job vacancies and available skills. With the new feature, a client can easily browse through the job postings and obtain contact information

TABLE 8.7 Enforcement of Labor Standards

Indicators	2003	2004	2004 Target
Compliance with General labor standards			
% of those inspected	71.7	57.1	75.0
% of those who conducted self-assessment		76.1	85.0
Ratio of inspected units complying with technical safety standards (%)	95.6	93.3	
Source: Department of Labor and Employment			

about the employer. An own-account worker, such as a plumber or a carpenter, can also advertise his craft and skill through its Yellow Pages. By year-end, the enhanced Phil-JOBNET had been accessed by more than 52,000 applicants. The SMS version of the Phil-JOBNET is being developed to enable jobseekers anywhere to find job openings simply by texting. Dubbed as "*Trabaho Mo, I-Text Mo*", the alternative job search system will be operational in 2005.

In 2004, 821,578 jobseekers were placed for local employment out of the 1.031 million referrals by Public Employment Service Office (PESO). This translates to the placement of eight out of every ten applicants referred by the PESO, an improvement from the 7.5 out of ten applicants ratio in 2003..

In 2004, 648 job fairs were conducted nationwide which facilitated the on-the-spot hiring of 65,029 applicants, or 124 percent increase from the 28,994 placed in 2003.

On overseas employment, the e-linking project was able to implement and install the following components: (1) the eSubmission component for seabased recruitment agencies; (2) the OFW contract processing, reducing the transaction time from 6 hours to three hours, and the issuance of Seafarer's Registration Card (SRC) from eight hours to one hour; (3) the prototype of eRecruit system web pages which includes registration, employer negotiation, job-matching, recruitment documentation, administrative and related pages; and (4) the *Balik-Manggagawa* Processing (swiping mode) and the Landbased Performance Venue Module. The hardware acquisition and software development are ongoing.

POLICY CHALLENGES AND PROSPECTS FOR 2005

For 2005, the government needs to create employment for 1.7 million workers to meet

its 10 million employment target by 2010. Programs that could contribute to this are the continued credit assistance to small and medium enterprises (SMEs) through the SULONG Program; strengthened microfinancing; spurred livelihood through the OTOP Program; and accelerated agribusiness development.

In light of the limited resources of government, and along with the need to create greater employment impact, the DOLE is currently rationalizing its employment generation programs by adopting a convergence approach. For instance, livelihood programs such as PRESEED and WEED shall be subsumed under the PFZ Program in order to benefit a larger number of workers, and communities. Convergence also entails coordinating with various government agencies to assist in the implementation of the programs such as DOST for technology assistance and product development, DTI for marketing, TESDA for skills training, local government for financial assistance, among others.

In addition, the DOLE could rationalize its support for employment generating activities by intensifying participation of LGUs and tying-up the PFZ with the DTT's OTOP program and DA for the agribusiness programs to make a bigger impact on employment creation, improvement of worker welfare and poverty reduction.

To address the persistent problem of youth unemployment, strong linkages and coordination between the educational and training institutions, and industry have to be forged considering that the entry-level requirement of the labor market requires at least six months of work experience.

Efforts to facilitate employment need to be further expanded to make a big dent on the current unemployment level of 4.2 million. More vigorous efforts should be

exerted to include more companies in the PESO.

To enhance employment, DOLE must intensify its productivity program.

On improving labor relations and workers' conditions, efforts shall be directed to strengthening capacity for dispute settlement and creation of Labor Management Councils and TIPC's. This will address employment preservation, improve voluntary compliance with labor standards through advocacy and information campaigns, rationalize the structure of concerned agencies for faster case dispositions, promote voluntary and firm level labor-management cooperation, and introduce and strengthen labor policies through legislation.

In particular, some of the activities in line for employment preservation in 2005 include: (1) monitoring plant level advocacy activities and alternative dispute settlements that were started in 2004; (2) referral for voluntary arbitration of 100 percent of cases

filed with NLRC involving interpretation and implementation of CBA, and passed through Grievance Machineries; (3) implementing the revised curriculum for Labor Education for Management by 3rd quarter of 2005; and (4) establishment of the Tripartite Assistance and Supervising Committee.

In addition, the ongoing review of the Labor Code and several bills filed at both houses of Congress are expected to have significant impact on labor policies. The bills tackle policies on wages, compensation, flexible work arrangements, productivity incentives, occupational safety and health and structure of institutions dealing with labor policies. These bills together with those bills that are seeking to encourage investment in the country and create employment in the process could greatly change the landscape of the Philippine labor market over the medium term.

Chapter 9

Energy Independence and Power Sector Reform

The performance of the energy and power sectors in 2004 was mixed, ranging from shortfalls to successful implementations. For the 2001-2004 MTPDP, among the targets that were not met included energy savings, transmission line construction and system loss reduction while the desired self-sufficiency level and installed power supply capacity exceeded the targets. For the 2004-2010 MTPDP, the targets in promoting the energy independence agenda were attained, while other activities, specifically the privatization of transmission and generating assets under the power sector reform agenda are delayed.

ON THE 2001-2004 MTPDP TARGETS

Indicators show that the targeted self-sufficiency level was exceeded by almost 4 percent when actual self-sufficiency level reached 55.91 percent (Table 9.1). Installed generating capacity at 15,763 megawatts (MW) surpassed the 15,479 MW target. Energy savings for 2004 at 6.42 Million Barrels of Fuel Oil Equivalent (MMBFOE), which slightly decreased from the 2003 figure of 6.60 MMBFOE, fell short of the 2004 target. However, more energy savings are expected with the development of alternative energy sources such as biomass and ethanol.

The construction of new transmission lines (T/L), however, has not been actively pursued as the focus was on the rehabilitation and upgrading of existing transmission lines. The new T/L constructed in 2004 only stood at 157.1 circuit-kilometers (ckt-kms), way below the target of 6,885 ckt-kms. The reduction in system losses for the Private Utilities (PUs) and ECs has been short by about 1 percent. The PUs' system loss for 2004 registered at 10.67 percent compared to the 9.5 percent target, while the corresponding figure for ECs was 15.08 percent vis-à-vis a target of 14 percent. Total barangay electrification by 2008 is being actively

TABLE 9.1 Assessment of the 2001-2004 MTPDP Targets

INDICATOR	TARGETS	ACCOMPLISHMENTS (2004)	ACCOMPLISHMENTS (2003)
Self-sufficiency level	52%	55.91%	53.30%
Installed generating capacity	15,479 MW	15,763 MW	15,124 MW
Energy savings	24.2 MMBFOE	6.42 MMBFOE	6.60 MMBFOE
Transmission lines constructed	6,885 ckt-kms	157.1 ckt-kms	41.8 ckt-kms
System losses	PUs: 9.5% ECs: 14%	PUs: 10.67% ECs: 15.08%	Data not available
Barangay electrification	38,849 barangays (92.6%)	38,763 barangays (92.41%)	37,761 barangays (90.02%)

Source: DOE

pursued as the actual performance approaches the targeted achievement. As of 2004, 38,763 barangays have been electrified, equivalent to 92.41 percent, slightly below the 2004 target. The table below summarizes the targets vis-à-vis accomplishments for 2004 (Table 9.1).

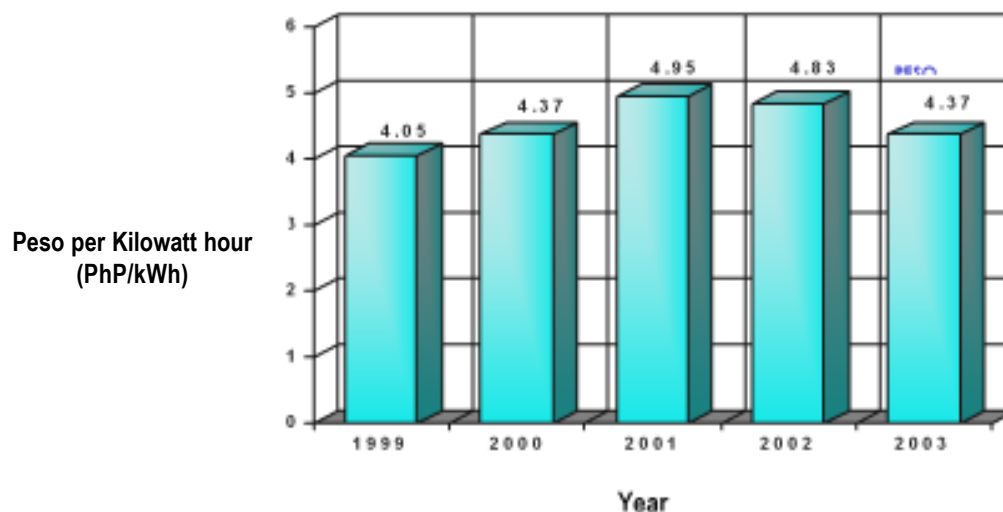
The Philippine National Oil Company (PNOC) and its subsidiaries increased generating capacity through the 98 MW Mindanao Geothermal Power Plant and the committed 40 MW PNOC-Energy Development Corporation (EDC) Wind Power Project, although under Chapter V of Republic Act (RA) No. 9136 or the Electric Power Industry Reform Act (EPIRA) of 2001, the National Power Corporation (NPC) may not incur any new obligations to purchase power through bilateral contracts with any generation companies or other suppliers.

Since the government could not finance much-needed power infrastructure facilities, private sector participation in the power generation business is being pursued. The government through the Department of Energy (DOE) has already opened the window for investment opportunities to interested private parties, but the current

investment climate seems to forestall the entry of private investments in the power generation business. The weak investment climate is being currently addressed and expected to improve with the implementation of the Wholesale Electricity Spot Market (WESM), Open Access and Retail Competition, which will promote competition in the power generation sector. The Transmission Wheeling Rate Guideline (TWRG) has been drafted to create a tariff mechanism that will balance the interests of investors with those of consumers.

The above mentioned activities are also expected to reduce electricity rates. The Power Sector Assets and Liabilities Management Corporation (PSALM) renegotiations with Independent Power Producers (IPPs), privatization of NPC assets, and the implementation of the cross-subsidy removal are also envisioned to contribute to the reduction of power cost. Donors' consent from the World Bank (WB), Asian Development Bank (ADB) and Japan Bank for International Cooperation (JBIC), has yet to be granted thus delaying the privatization of NPC assets.

Figure 9.1 Average System Rates of BCs



Source: National Electrification Administration (NEA) Chronicles 2001-2003

The historical average system rates of the electric cooperatives (ECs) from 1999 to 2003 are presented in Figure 9.1 below. Average system rate is the average cost of electricity derived from the ratio of the total sales in peso to the total sales in kilowatt-hour. The graph shows a gradual increase for the first three years at an average of PhP0.35/kWh and a slight decrease for the last two years at an average of PhP0.29/kWh. The decrease in rate could be attributed to the removal of the amortization component from the rates collected by the ECs from their member-consumers as a result of the implementation of the loan condonation pursuant to the EPIRA.

For the biggest private utility in the country, the average annual electricity price range of MERALCO is presented in Figure 9.2. Its electricity prices increased by 21 percent from 2000 to 2004, despite a slight decrease in year 2002. The slight decrease in 2002 is mainly due to the unbundling of the electricity rates pursuant to the EPIRA. The biggest year-on-year increase was posted at around 13 percent in 2001.

TABLE 9.2 Meralco Average Annual Electricity Rates (PhP/KWh)

Year	2000	2001	2002	2003	2004
Residential	4.833	5.547	5.456	5.937	6.175
Commercial	4.809	5.655	5.724	6.266	6.363
Industrial	4.219	5.094	5.013	5.370	5.446

Source: Meralco

ON THE 2004-2010 MTPDP TARGETS

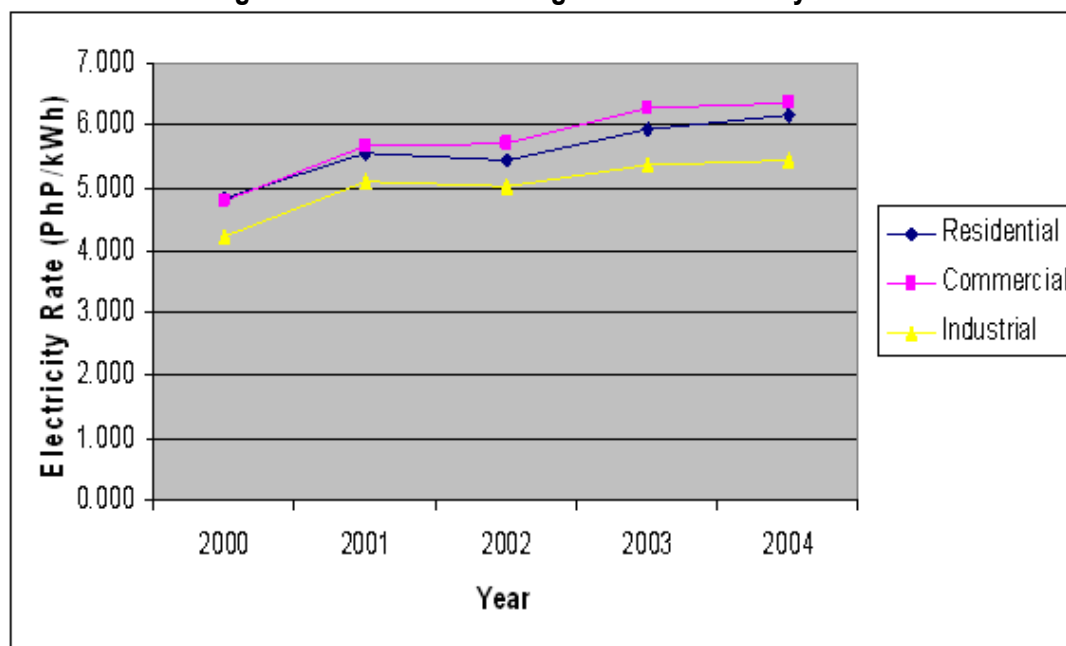
A. Energy Independence

The following are the updates on the targets set for 2004 and the first quarter of 2005 under the MTPDP 2004-2010 relative to the promotion of energy independence agenda. This strategy takes central stage amidst the current escalating world oil prices over which the government has no control.

Expanding the Use of Natural Gas

The commercial application of compressed natural gas (CNG) is accorded high priority. The agreement for local bus operators to purchase 140 units of CNG-fed buses was signed on September 3, 2004 in China. The bus operators that signed up

Figure 9.2 MERALCO Average Annual Electricity Rates



include HM Transport, RCG Lines and Pascual Liner, among others. The target was even exceeded since more operators such as 1st CNG and Grade Star bus lines purchased CNG-fed buses. On the establishment of Mother-Daughter stations, the Mother station will be located in the Malampaya On-Shore Gas Plant in Batangas while the initial Daughter station will be near the South Luzon Tollway in Laguna. However, the deployment of CNG buses supposedly to start plying the Manila-Laguna route by the first quarter of 2005 has been postponed to June 2005 since the groundbreaking for the stations was held March 5, 2005.

Developing Fuel Blends

Cooperation with Thailand through the Petroleum Authority of Thailand was forged to help the country in developing ethanol as a mandatory fuel alternative. In addition, the Philippine Fuel Ethanol Alliance was founded with DOE, Department of Agriculture, and Sugar Planters Association of the Philippines, among its members. The draft Bioethanol Fuel Act of 2005 that was drafted in consultation with relevant stakeholders, including the oil companies and ethanol feedstock groups, was already presented to and approved by the House of Representatives. The draft Act mandates the nationwide selling of gasoline with 5 percent ethanol (by volume) two years after its enactment, and subsequently to a 10 percent blend two years thereafter.

The Coco-Biodiesel Program launched in San Pablo City in April 2004 currently has two accredited manufacturers and 27 participating government agencies. About 1,000 vehicles are now using coco-biodiesel as an alternative fuel.

Promote Public Contracting Rounds (PCR)

In line with the PCR, DOE has recently conducted the first wind power contracting

round last March 10, 2005. The previous PCR coverage on geothermal and petroleum potentials has been expanded.

Energy Efficiency and Conservation Programs

The government efforts that are geared towards energy efficiency and conservation are continuing. On the MTPDP targets, Administrative Order No. 110 was issued on October 25, 2004 for the mandatory 10 percent reduction in fuel and electricity consumption among government agencies while the shift to energy efficient lighting by 2004 is yet to be completed.

B. Power Sector Reforms

The MTPDP 2004-2010 enshrines the strategies to address the financial problem of government (particularly NPC), to reduce electricity rates, ensure sufficient and reliable power and encourage private sector participation in the power sector. Actual accomplishments for activities targeted for completion in 2004 (including the first quarter of 2005) are assessed below.

1. Meeting the Power Needs in the Medium Term

For 2005, priority will be sustaining the barangay electrification program, privatizing NPC assets, and energy conservation.

On the demand-supply scenario, the DOE has projected that Mindanao will need additional capacity additions of 150 MW by 2005. Luzon and Visayas, on the other hand, will require 150 MW and 100 MW capacity additions by 2008, respectively. The additional capacity projections are based on an extreme case scenario, which include the expected impact of the El Niño phenomenon aside from the ERC-required 30 percent reserve margin.

For Mindanao, the proposed transfer of three power barges (PB) with an aggregate capacity of 75 MW will not be sufficient to meet the projected demand for 2005. This can be supplemented by the full utilization of PB 117 and PB 118 (which can deliver an additional 35 MW aggregate) so as to meet the 2005 demand net of the required reserve margin. Furthermore, DOE and the respective Distribution Utilities (DUs) have agreed to use manual load droppings¹ if the supply of electricity will not be enough during peak hours. Nevertheless, the committed and indicative generation projects (Tables 9.3-A and 9.3-B) have to be put on stream as scheduled in order to address the future electricity demand in the country especially in Mindanao. Furthermore, the expeditious rehabilitation of the Pulangui IV Hydropower plant is needed to optimize the hydropower resource in Mindanao. For Visayas, the 225-MW aggregate capacity of committed projects is more than enough to meet the 100-MW requirement by 2008. For Luzon, while the aggregate capacity of the committed projects at 65 MW is insufficient to meet the 150 MW projected demand by

2008, power can be imported from the Visayas region since both islands are already interconnected.

Privatization of the National Transmission Corporation (TransCo) and NPC

On the Transco privatization, the Office of the Government Corporate Counsel has directed PSALM to proceed with negotiations after two failed public biddings in 2004. A series of preliminary discussions and meetings were then held with interested parties but no negotiations were consummated on October 13, 2004. In order to fully satisfy transparency expectations from all sectors, the Government decided that it would undertake another round of open public bidding for the TransCo concession. PSALM is currently amending the bidding term sheet and transaction documents that will be provided to interested parties for comment. In addition, PSALM is simultaneously consulting with Congress on TransCo's privatization. PSALM did not

TABLE 9.3-A List of Committed Projects

Project Name	Capacity, MW	Commissioning	Location
LUZON			
Northwind Power	25	Feb 2005	Ilocos Norte
PNOC-EDC Wind Power	40	Aug. 2006	Ilocos Norte
Sub-total	65		
VISAYAS			
Pinamucan transfer from Luzon	110	Jun 2005	Panay
Talisay Bioenergy	30	2007	Negros
Northern Negros Geo	40	Jul 2007	Negros
PNOC-Palipinon Geo	20	Jul 2007	Negros
Bais Bioenergy	25	2008	Negros
Sub-total	225		
MINDANAO			
Transfer of PB 101,103 & 104	75	2005	South Mindanao
Mindanao Coal (2x 100)	210	Jan 2007	Misamis Or.
Sub-total	285		
TOTAL	575		
Source: DOE			

¹Load droppings are short interruptions in the supply of electricity resulting in localized brownouts during peak hours

TABLE 9.3-B List of Indicative Projects

PROJECT NAME	CAPACITY,MW	COMMISSIONING YEAR	LOCATION
LUZON			
Tarlac Bioenergy	40	2008	San Miguel, Tarlac
Pagbilao Coal III	350	Dec 2008	Quezon
Tanawon Proj.(Bacman Opt.)	40	2009	Sorsogon
Limay Conversion	600	2009	Bataan
Sucat Conversion 1	600	2009	Metro Manila
North Luzon Wind Proj Phase 2	40	2009	Ilocos Norte
Sucat Conversion 2	300	2010	Metro Manila
Greenfield Natgas 1	1200	2010	
Manito-Kayabon Geo Project	40	2011	Manito, Albay
Greenfield Natgas 2	600	2011	
Greenfield Natgas 3	900	2012	
Malaya Conversion	600	2013	Rizal
Greenfield Natgas 4	300	2013	
Greenfield Natgas 5	1200	2014	
Sub-Total	6810		
VISAYAS			
Toledo Coal Expansion	100	2008	Cebu
KEPCO Clean Coal	200	2008	Cebu
Bogo Bioenergy	25	2008	Bogo, Cebu
Panay Bioenergy	2	2008	Antique
Cabalian Geo Phase 1	50	2010	So. Leyte
Cabalian Geo Phase 2	40	2011	So. Leyte
Dauin Geo Project	40	2012	Negros Or.
Sub-Total	457		
MINDANAO			
Mt. Apo Geothermal Expansion 1	20	2007	North Cotabato
Cabulig Hydro	8	2007	Misamis Or.
Minergy Expansion	30	2007	Cag. De Oro
Mt. Apo Geothermal Expansion 2	50	2008	North Cotabato
Tagoloan Hydro	68	2008	Bukidnon
Sultan Kudarat Coal	200	2009	Sultan Kudarat
Sub-Total	376		
TOTAL CAPACITY	7,643		
Source: DOE			

specify a target date for Transco's privatization.

The privatization of the NPC generating assets is already delayed as stipulated under RA 9136 (EPIRA of 2001). Moreover, the 30 percent target sale of NPC assets for 2004 as planned was not attained. The delays are being attributed to the pending donor's consent and the weak investment climate. As of end 2004, only six power plants with an aggregate capacity of 608.5 MW were sold amounting to US\$567 million. Actual sales translate to only 11.5 percent of NPC

assets (in terms of megawatts). PSALM's schedule for the bidding of the power plants for 2005 is presented below (Figure 9.3).

The assets scheduled per sequence are as follows:

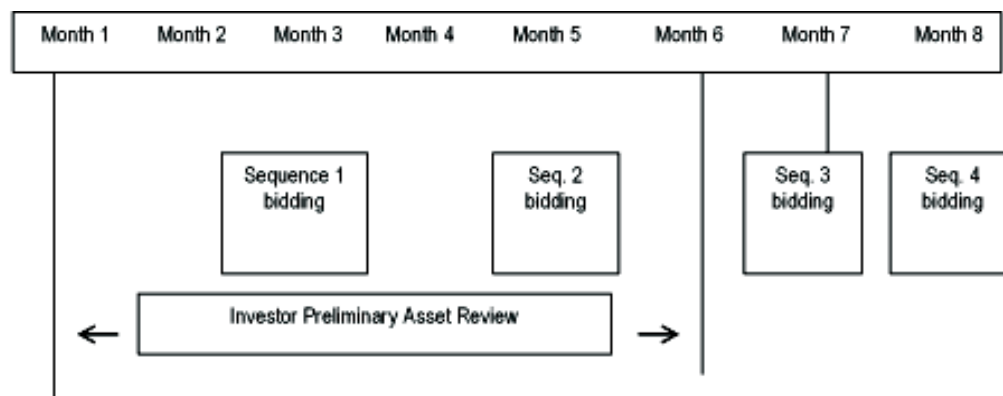
Wholesale Electricity Spot Market (WESM)

The establishment of WESM is well underway for the plan targets. Likewise, registration for the trial operations program

started last February 2005 with six participants as of March 8, 2005. For Luzon, trial operations are set in June 2005 while commercial operation is targeted for December 2005. In addition, the Site Acceptance Test (SAT) of the Market

Management System for WESM is about to be completed within the first quarter of 2005. The SAT covers hardware test, market infrastructure, market application, metering data warehouse and accounting system. The guidelines for the Transmission

Figure 9.3 NPC Generation Companies (Genco) Privatization Timeline for 2005



Sequence 1

Genco	Fuel	Capacity (MW)	Grid
Calaca	Coal	600	Luzon
Masiway	Hydro	12	Luzon
Pantabangan	Hydro	100	Luzon
Bacman	Geothermal	150	Luzon

Sequence 2

Genco	Fuel	Capacity (MW)	Grid
Lima+site	Diesel	620	Luzon
Magat	Hydro	360	Luzon
Tiwi-Makban	Geothermal	685	Luzon

Sequence 3

Genco	Fuel	Capacity (MW)	Grid
Sucat	Bunker	850	Luzon
Navotas I&II	Diesel	310	Luzon
Palinpinon	Geothermal	193	Luzon
Ambuklao/Binga	Geothermal	175	Luzon

Sequence 4

Genco	Fuel	Capacity (MW)	Grid
Angat	Hydro	246	Luzon
Panay/ Pinamucan	Bunker	147	Visayas
Iligan I&II	Diesel	114	Mindanao
Tongonan	Geothermal	113	Visayas
Bohol	Diesel	22	Visayas
Amlan	Hydro	1.8	Visayas

and Wheeling Rate Charges have already been approved in December 2004 and are available at the Energy Regulatory Commission (ERC) office or at the ERC website. Meanwhile, lifeline rates have been fully implemented as of December 2004.

Cross-Subsidy Elimination

While intergrid cross subsidies have been fully eliminated earlier than scheduled, the removal of the remaining 33 percent intragrid subsidies is scheduled for September 2005. On the other hand, ERC has completed the evaluation for the interclass cross subsidy phase out and will be released simultaneously with the approval of loan condonation. Complete elimination of interclass cross-subsidies is due on October 2005.

The two-phase removal scheme of interclass cross subsidy for Meralco Electric Company customers was approved by ERC on October 4, 2004. The first phase covers the removal of 40 percent subsidies that began in October 2004 while the second phase covers the remaining 60 percent removal by October 2005.

IPP Renegotiation

As of November 2004, 18 contracts had been resolved, nine are still under renegotiations, six had expired/turned-over to NPC while the two contracts were excluded. The government gained about US\$1.03 billion for this activity, which translates to an equivalent reduction of P0.098/kWh over the remaining life of the contracts. PSALM targets to complete the IPP renegotiations by 2005. There have been no reported changes in the IPP renegotiation status since then.

Strengthening of Electric Cooperatives (ECs)

The National Electrification Administration (NEA) has started preparatory activities for the establishment of the Management Academy for ECs, which is targeted to be established by 2005. The construction of the training facility in Toledo City (Cebu) is already at the finishing stage. In the meantime, NEA is conducting rural development trainings with the ECs. A Memorandum of Agreement (MOA) was also signed with the Meralco Management Leadership and Training Center Foundation Institution and University of the Philippines-National Engineering Center for management and technical training programs.

Encouraging Private Sector Participation

A vigilant campaign to encourage private sector participation is being pursued with more vigor. Various seminars, programs and packages have been launched by DOE to inform the private sector about the investment opportunities in the power sector.

The guidelines for the Qualified Third Party (QTP) implementation of waived areas have already been drafted by ERC. The Distribution Development Plan 2004-2012 has been published and now serves as reference to interested parties. Meanwhile, the privatization of an NPC-Small Power Utilities Group (SPUG) area and pilot bidding for an EC is still being worked out.

POLICY DIRECTIONS AND OUTLOOK FOR 2005

While the government is bent on completing the targets/goals that have lagged behind, efforts are geared to attain the 2005 targets that were set in the Strategic Planning Matrix (SPM) of the 2004-2010 MTPDP. The continuing activities include the privatization of transmission and generating assets, development and application of alternative fuels, promotion of new and renewable energy resources, total barangay electrification, system loss reduction among distribution utilities, and the implementation of energy efficiency and conservation programs. On the other hand, the 2005 targets per the MTPDP 2004-2010 include the acquisition of a modern fleet vessel to support the development of indigenous resources, the commercial operation of WESM, development of metering rules to pave the way for the introduction of the time-of-use tariff, the privatization of at least 70 percent of the NPC's generating assets in Luzon and Visayas, finalization of renegotiations with the IPPs, complete removal of cross-subsidy, system loss reduction among ECs to 13 percent, and the establishment of the management academy for ECs.

Chapter 10

Responding to Basic Needs of the Poor

Accomplishments in 2004 were mixed insofar as responding to the basic needs of the poor is concerned. Despite vigorous efforts to improve accessibility and enhance the quality of services to the poor and increase resources for such services, accomplishments were generally modest and some were below Plan targets.

Strides were made in the areas of microfinance, health insurance and empowerment – where both Plan and agencies' targets were successfully met.

In 2005, emphasis will be directed towards the strengthening of MFIs and their clients, hastening of asset distribution, development and operationalization of a social protection framework, pursuing the implementation of the Health Sector Reform Agenda, and institutionalizing empowerment strategies through stronger political participation of the poor.

EXPANDING LIVELIHOOD AND MICROFINANCE OPPORTUNITIES FOR THE POOR

Microfinance

Appropriate policy and regulatory support to microfinance initiatives were pursued by the Bangko Sentral ng Pilipinas (BSP). These initiatives sought to encourage more private financial institutions to go into microfinance operations by allowing them to rediscount with the Bank the loans to micro, small and medium enterprises (MSMEs) including unsecured microfinance loans. To facilitate this, BSP examiners and microfinance-oriented banks were trained on best practices in microfinance and microfinance technology. The goal of the BSP is to establish at least one microfinance institution for each province.

In order to ensure quality services by microfinance institutions (MFIs), the National Credit Council (NCC), with participation of concerned microfinance stakeholders, formulated a set of performance standards to assess the financial and management viability and sustainability of MFIs. These standards are being tested and advocated among microfinance practitioners. In the same vein, a technical working group composed of the Cooperative Development Authority (CDA), Department of Finance-National Credit Council (DOF-NCC), Credit Policy Improvement Program (CPIP), BSP, and representatives from the cooperative sector, was created to develop and establish a manual for the effective regulation of cooperatives with savings and credit services. To date, 1,841 cooperatives have adopted the Standard Chart of Accounts/Performance Standards (SCA/PS).

Aside from these standards, quality performance of MFIs is being supported through the People's Development Trust Fund (PDTF). The Fund is intended to finance capability-building activities of MFIs. To date, the National Anti-Poverty Commission (NAPC) has acquired seed money for PDTF from the National Federation of Filipino American Associations (NaFFAA) worth US\$300,000 and PhP100 million in loans from the Land Bank of the Philippines (LBP) and the National Livelihood Support

Fund (NLSF). Dialogues with the Philippine Amusement and Gaming Corporation (PAGCOR) and the Department of Budget and Management (DBM) were held to thresh out issues arising from the allocation of regular funds to the PDTF in the General Appropriations Act (GAA). Based on Republic Act (RA) 8425 or the Social Reform and Poverty Alleviation Law, the amount to be allocated to PDTF shall come from the government agencies' share in the earnings of PAGCOR.

In terms of resources, intensified funding assistance was directed to MFIs by donor entities specifically for on-lending credit, institutional development and strengthening, and microenterprise development. Some institutional development interventions were geared towards enhancing the capacities of the LBP, the People's Credit and Finance Corporation (PCFC), MFIs and cooperatives in financial discipline, and good management. Technical assistance on microenterprise development focused on bridging the gap between entrepreneurial stock and requirements of microentrepreneurs particularly on business development and market linkages.

In mainstreaming gender concerns into the microfinance practice, the National Commission on the Role of Filipino Women (NCRFW) continues to advocate with NAPC and other appropriate agencies the policy recommendations in the study "Microfinance Towards Financial Stability, Poverty Reduction, and Women's Empowerment", particularly on the provision of gender-responsive microfinance services through the credit plus approach.

As a result of these efforts and investments, the number of microfinance borrowers increased and the quality of microfinance and microenterprise performance of both financial institutions and borrowers improved. At least 379,034

new borrowers and PhP2.724 billion in new loan releases for microfinance have been registered by PCFC, United Coconut Planters Bank-Coconut Industry Investment (UCPB-CIIF), Technology and Livelihood Resource Center (TLRC), and Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) from January to November 2004. An additional PhP168.72 million was likewise raised by PCFC from various sources such as Development Bank of the Philippines (DBP), Upland Development Programme (UDP) and Advocates of Cotabato Rural Development, Inc (ACCORD). These figures do not take into account the beneficiaries covered by the microfinance services offered by other private financial institutions.

The PCFC has maintained active partnership with 199 MFIs, which operate in all 80 provinces all over the country (including Zamboanga Sibugay), in 115 cities and 1,263 municipalities. At the end of 2004, the wholesale portfolio of PCFC was posted at PhP2.88 billion or 106 percent of the PhP2.7 billion target. This current loan outstanding portfolio has provided credit assistance to a total of 1,396,326 active members (actual cumulative outreach), 95 percent of whom are women. The overachievement of PCFC's targets in terms of loan assistance and active borrowers can be attributed to the continuous efforts to expand and enhance MFI accounts management, audit/credit review and risks assessments, as well as additional resources for a wider outreach of microfinance assistance.

Livelihood and Entrepreneurship

The government continued to pursue and expand livelihood convergence projects through investments in areas with the greatest impact to the poor and vulnerable

sectors. The establishment of additional 20 Poverty Free Zones to the existing sites through the Department of Labor and Employment (DOLE) in some of the country's poorest communities in 2004 generated 324 sustainable employment in core community enterprises with an additional average monthly income of PhP1,400 per worker.

The Department of Social Welfare and Development (DSWD) organized and assisted a total of 738 Self-Employment and Assistance Kaunlaran (SEA-K) Associations, benefiting 16,169 families or 60 percent of 26,750 targeted families nationwide with capital seed fund releases amounting to PhP72,093,275. A total of 17 SEA-Kabayans comprising 799 families were provided with a higher level of capability and entrepreneurial skills. Aside from the initial capital for their livelihood, the beneficiaries were provided with additional funds for business expansion, home improvement and shelter construction needs. The low coverage of targeted families was a result of reprioritization done by DSWD to focus on improving the productive capacity of current SEA-K members in order to improve their repayment rates and eventually mainstream them into the market-based credit institutions.

Of the total PhP118.99 million loan applications of cooperatives with QUEDANCOR, PhP7.7 million was released to five coop-borrowers while the rest are still being processed. Cooperatives were accredited by CDA and the National Livelihood Support Fund (NLSF) as fund conduits for the various microfinance and livelihood programs of the NLSF for the cooperative sector.

In 2004, the Youth Entrepreneurship Program (YEP) of the National Youth Commission (NYC) benefited a total of 1,175 youth through its orientation seminars and Basic Entrepreneurship Development Course (BEDC). It also established 20 more

youth networks nationwide. All these efforts paved way for the birth of 109 more youth entrepreneurs in the country.

HASTENING ASSET REFORM FOR THE LANDLESS AND ASSETLESS

Prioritization of the Land Administration and Management Authority (LAMA) Act in the legislative agenda was pursued through the NAPC En Banc. The Department of Environment and Natural Resources (DENR) was tasked to oversee the crafting of the bill in consultation with concerned stakeholders. The passage of the LAMA bill will essentially provide the overall institutional infrastructure to effectively manage asset reform programs.

Agrarian Reform (Cross-reference with Chapter 2: Agribusiness)

On the delineation of municipal waters for the priority use of artisanal fisherfolk, the Department of Agriculture (DA) has issued partial guidelines (DAO 1)-“Guidelines for the delineation and delimitation of municipal waters of municipalities and cities without offshore islands”. In effect, this has amended DENR's Administrative Order No. 17, series of 2001. The remaining part of the guidelines has yet to be completed by the Department due to a pending case filed in the Navotas Trial Court by commercial fishers for a Petition for Declaratory Relief. While awaiting resolution of the case, the Department has been coordinating with concerned entities to guide LGUs to develop and issue ordinances on delineation of municipal waters.

Ancestral Domain

To intensify reforms related to ancestral domain, the National Commission on Indigenous Peoples (NCIP): (a) formulated

and consolidated the Provincial Delineation Action Plan (PDAP) in each Provincial Office into a Comprehensive Delineation Action Plan (CDAP); (b) formulated Survey Guidelines to fast track titling; (c) formulated 13 Ancestral Domains Sustainable Development and Protection Plans (ASDSDPP); and (d) developed, printed and disseminated ASDSDPP guidelines and primer.

In 2004, a total of 236,796.50 hectares of ancestral domains and 1,063.86 hectares of ancestral lands were awarded to 73,427 IPs and four IP claimants, respectively. Though there are only 13 Certificates related to Free, Prior and Informed Consent (FPIC) process compliance issued, there were 101 CPs issued to proponents in 2004. The issuance of the CP ascertains the presence or absence of ICCs/IPs and/or ancestral domains in the areas covered by the application for license or lease, including whether there are overlaps between or among ancestral domains. The shortening of the prescribed 104 to 90 days to process granting of FPIC is expected to hasten the FPIC process.

In the same year, NCIP placed priority on the processing of ancestral domain claims which would benefit a larger group (community) than claims on ancestral lands (individual land owners). As a result, the number of ancestral domains issued doubled from nine in 2003 to 18 domains in 2004 while the issuance of CALTs went down from 44 in 2003 to four in 2004. Nevertheless, issuance of CADT/CALT is a demand-driven process, i.e., processing of CADT/CALT claims depends on the application filed, including preparedness of IP proponents and compliance to requirements. As a proactive measure, NCIP regularly conducts advocacy and capacity building to facilitate IPs' claims on their ancestral domains/lands.

MAKING ESSENTIAL SERVICES MORE ACCESSIBLE AND AFFORDABLE: HEALTH

Cost of Essential Medicines

To reduce the cost of essential medicines, the Parallel Drug Importation Program (PDIP) was expanded through the Department of Health's (DOH) project, GMA 50 (*Gamot na Mabisa at Abot Kaya*). Through this project, parallel drug imports achieved an estimated average of 60.9 percent price reduction, a figure above the 50 percent target. In widening the distribution of commonly used drugs, an additional 800 *Botika ng Barangay* (BnB) were given license to operate in January 2005 bringing to 3,002 BnBs established and functioning nationwide. Low priced medicines are available in 72 DOH hospitals and three local government unit (LGU) hospitals. Relatedly, the Philippine International Trading Corporation (PITC), through its program, "*Presyong Tama, Gamot Pampamilya*" which signed up with 18 local pharmaceutical companies, supplied low cost medicines to 1,496 municipalities; 2,400 BnBs; 112 outlets of the Drugstores Association of the Philippines (DSAP); and 10 outlets of the Coops for Christ. It also signed a Memorandum of Understanding (MOU) with China's Hebei Medical University and India's Pharmexcil to expand the supply base of low cost medicines from other countries.

Health Insurance

In expanding health insurance, the total number of beneficiaries enrolled in the National Health Insurance Program (NHIP) has reached 69.5 million in 2004 covering about 84 percent of the country's population from 48.1 million or about 54 percent in 2003. This shows that the 2004

target of 70 percent coverage was already surpassed through the implementation of the Plan 5/25M under the Sponsored/Indigent Program. At the end of 2004, there were already 31.2 million indigents (or 6.2 million poor families) enrolled in the program compared to only 8.8 million in 2003. The challenge remains on how this universal coverage can be sustained.

The Philippine Health Insurance Corporation (PHIC) accredited an additional 42 hospitals in 2004 resulting in 1,576 accredited hospitals. On the other hand, there was a decrease in the number of accredited medical professionals from 20,259 in 2003 to 18,677 in 2004. This was attributed to the following factors: (a) doctors migrating to other countries; and (b) doctors shifting to become nurses. Moreover, most of the accredited health care professionals are concentrated in the National Capital Region (NCR). PHIC added new benefit packages to its program such as the maternity care package for normal spontaneous deliveries; SARS package; and outpatient treatment of tuberculosis. Currently being developed are increased inpatient benefits, better dialysis benefits, and low-priced quality drugs.

Public Health Programs

To pursue public health programs, the government strengthened health promotion and disease prevention control programs on tuberculosis, measles and HIV/AIDS. The Tuberculosis (TB) Control Program adopted the Directly Observed Treatment Short (DOTS) course reaching a nationwide coverage of 100 percent. The case detection rate was posted at 61 percent in 2003, representing an increase from the 2002 figure of 53 percent. With regard to measles vaccine coverage, the DOH undertook the "Follow-Up Measles Campaign for 2004" to further reduce the number of children at risk

of getting measles since the mass measles immunization campaign in 1998. With the Expanded Program on Immunization (EPI), the full immunization coverage (FIC) among infants increased over the last three years. According to the 2003 National Demographic and Health Survey (NDHS), 70 percent of children were fully immunized, although the increase is still below the FIC in the late 1990s. On HIV/AIDS, prevalence rate remains consistently below one percent.

To improve the intake of essential nutrients among Filipinos, the government adopted measures to ensure the successful implementation of Philippine Food Fortification Program. The Philippine Food Fortification Act of 2000 which took effect in November 2004, mandates implementation of the fortification of staple foods such as rice with iron, wheat flour with Vitamin A and iron; refined sugar and cooking oil with Vitamin A in the market. The Food and Nutrition Research Institute (FNRI) adopted the following measures in support of the law: (a) Commercialization and Technology Generation of Enriched-Rice Premix (Iron Fortified Rice); (b) Technology Generation of Margarine with Vitamin A and B1, Iron, Iodine and Omega-3 and -6 Fatty Acids; and (c) Promotion on the Effects of Iodized Salt on the Quality of Selected Processed Food.

Other priority public health programs that were pursued include: Rabies Control Program, with emphasis on responsible pet ownership; Dengue Control Program, focusing on case management and prevention and control in cities and schools; Severe Acute Respiratory Syndrome (SARS), in fighting emerging infections; and the Healthy Lifestyles Promotion including Smoking Cessation Program and Diet.

Dangerous Drugs Program

The current situation of substance abuse in the country is very alarming and is being considered among the top priorities of the Arroyo administration. According to the Drug Test Operations Management Information System (DTOMIS) of DOH, out of the 2,786,245 clients served in 2004, 10,213 (37%) were screened positive for drug use. Moreover, confirmed positive cases mostly came from NCR followed by Regions IV, III, VI and VII. In 2003, the DOH took over the secondary (treatment) and tertiary (rehabilitation) care services for persons with drug abuse problems. The DOH is now operationalizing a standard system for drug testing centers and offering tests at a lower rate in some government hospitals. The Department has accredited 1,188 Drug Testing Laboratories of which 43 are government laboratories that provide services at a lower cost.

In addition, the East Avenue Medical Center was established as National Reference Laboratory. A total of 396 heads of laboratory (pathologists and physicians) and 1,669 analysts (medical technologists and chemists) were trained to increase the pool of qualified laboratories nationwide. Consistent with Medium-Term Youth Development Plan for 2005-2010, the NYC developed the '*Bawal na Gamot*' (BANG) training module and consequently disseminated IEC materials. The agency also integrated antidrug abuse modules in all 11 '*Kabataan sa Mindanao Natin*' activities.

IMPROVING ACCESS OF THE VULNERABLE GROUPS TO SOCIAL PROTECTION

A total of 103,952 individual clients were served by the DSWD through its retained community-based programs and services and operation of residential and

nonresidential centers and institutions. In terms of clientele category, this is composed of 80,972 children in need of special protection (CNSP); 5,039 youth with special needs; 5,453 women in especially difficult circumstances; 10,303 persons with disabilities (PWDs); and 2,185 older persons. Efforts to devolve some community-based services (social mobilization of PWDs and older persons) to the LGUs are continuously being pursued by DSWD. The Department will instead focus on the provision of technical assistance and resource augmentation for the LGUs. On the other hand, the management of center-based program services will still be maintained and further strengthened within the authority and resources of DSWD since LGUs still lack the technical and financial capacity to take over the operations of these centers and institutions. In 2004, the Department has served 17,975 clients in 71 residential and nonresidential centers/institutions nationwide. Most of these clientele groups include abandoned/neglected children, street children, and young girls/ women in especially difficult circumstances.

Children in Need of Special Protection (CNSP)

On February 23, 2004, Executive Order (EO) 286 was issued to promote the Bright Child Program as a convergence/integrative strategy to fasttrack the implementation of Early Childhood Care and Development (ECCD) Law. An amount of Php5 million was allocated for the promotion of the Bright Child Program and the provision of seed money to initially implement the Program in nutritionally depressed municipalities. To facilitate these efforts, the Council for the Welfare of Children (CWC) signed a Memorandum of Agreement with the Regional Sub-

Committee on the Welfare of Children (RSCWC) for the Bright Child implementation in 24 nutritionally depressed municipalities in Regions V and VIII. An ECCD Checklist was developed to ensure that the development of the Filipino child's growth and development is being monitored at the local level.

To put greater emphasis on child health and nutrition, the National Nutrition Council (NNC) formulated the Action for Nutrition Improvement (ANI) as a national program that can be replicated at the local level. ANI aims to fuel economic activity at the grassroots level by creating linkages on food production, processing and utilization with the end view of improving the nutritional status of children. The Social Development Committee (SDC) of NEDA Board approved the program and signed a resolution integrating nutrition objectives and components in the *Kapit-Bisig Laban sa Kahirapan*-Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) program and other antipoverty programs of the government.

Youth with Special Needs

To decrease unemployment and enhance productivity and employability among the youth, 176 youth were hired under the Government Internship Program (GIP). *SIKAP Kabataang Pinoy*, a collaborative program among agencies on various areas of concern, was continuously implemented in coordination with the concerned youth-serving agencies. These efforts are consistent with the 4Es (employability, equal opportunities, entrepreneurship, employment creation) of the MTYDP for 2005-2010.

The NYC and CWC likewise intensified efforts in support of the passage of the Comprehensive Juvenile Justice Bill. The NYC is a member of the Juvenile Justice

Advocacy Network and has actively participated in the House and Senate Committee hearings on the said bill.

In terms of advocacy for the provision of adolescent health services, the MTYDP also included adolescent and youth development (AHYD) as one of its 10-point agenda for 2005-2010. Moreover, POPCOM continued to popularize the second issue of the State of the Philippine Population Report (SPPR) at the regional and local levels where Adolescent Reproductive Health (ARH) is its main theme.

Women in Difficult Circumstances

Advocacy initiatives are being done with relevant government and nongovernment agencies to promote maternal health, women's health and nutrition, and responsible parenthood.

To protect women in especially difficult circumstances, President Arroyo, through the various NAPC En Banc meetings, agreed to support the Reproductive Health Bill provided that the bill be retitled "Responsible Parenthood." The NAPC Secretariat has specifically advocated for the bill to be included in the MTPDP 2004-2010.

In family planning (FP), President Arroyo advocated the implementation of the four pillars of the population and FP policy, namely, (a) responsible parenthood; (b) respect for life; (c) birth spacing; and (d) informed choice. The DOH formulated policies in support of the National FP Program. Policies include adopting guidelines on the management of donated commodities under the Contraceptive Reliance Strategy (CSR) and ensuring continued increase in FP use for eliminating the unmet need for FP.

The DOH, in coordination with POPCOM, conceptualized the Door-to-

Door Campaign tagged as “*Ligtas Buntis*” which aims at universal access to FP and maternal care information and services for men, women and couples of reproductive age (15-49 years old). The objective is to directly deliver the needed FP and maternal care services to the target population of about two million men and women of reproductive age to their homes.

As for the empowerment of women and prevention of violence against women and children, IEC and advocacy materials on women-related laws like RA 9262 (Anti-Violence Against Women and Children Act) and RA 9208 (Anti-Trafficking of Women Act) were developed and disseminated. Gender perspective was also mainstreamed in the Violence Against Women (VAW) training materials of DSWD, DOH, DepEd, PIA, DILG and PNP.

To implement the National Action Plan to Eliminate VAW (NAP-EVAW), the Operational Plan for the development of an integrated documentation system was formulated, and the VAW core messages were finalized. The latter will serve as basis for the development of training modules for frontline service providers. The implementation of the NAP-EVAW was further enhanced with the institutionalization of the VAW Coordinating Committee (VAWCC), establishment of Inter-Agency Committee (IAC) on VAWC, and continuous strengthening of the IAC on Anti-Trafficking. A partnership was also forged with UNFPA to provide capacity-building activities for front line service providers of VAW. DOJ prosecutors, for one, were trained to handle cases falling under RAs 9208 and 9262.

Persons with Disabilities

The NCWDP focused its programs on Presidential Proclamation No. 240,

“Declaring 2003 to 2012 as the Philippine Decade of Persons with Disabilities.” To intensify implementation and monitoring of PWD laws and policies particularly the Accessibility Law, the Department of Public Works and Highways (DPWH) developed an inventory of accessibility facilities for government and private institutions and establishments. Likewise, the newly approved New Building Code contains a checklist of accessibility provisions, which architects/designers must meet prior to the issuance of the building permit.

Older Persons

RA 9257 enacted into law on February 26, 2004 amended the Senior Citizens Act to include additional benefits and privileges for all senior citizens of the country regardless of income status. The DSWD organized the National Coordinating and Monitoring Board (NCMB) to redesign the Senior Citizens ID Card in compliance with the new provision of the law. A series of advocacy fora was undertaken to support the implementation of the law. In terms of institutional support, the Department reported that the total number of cities and municipalities with Offices of Senior Citizen Affairs (OSCAs) is 1,179 or 65.8 percent of the total 1,794 cities and municipalities

Indigenous Peoples

As for providing IPs access to social services, NCIP already achieved the targeted educational assistance to 11,222 poor but deserving IPs. However, the nonrelease of the balance will disrupt education of about 2,000 IP grantees. Out of the Php84 million in needed funds, only Php30 million was released for SY 2004-2005. Meanwhile, the NCIP exceeded the

2010 target by implementing 258 basic services in the 12 regions ranging from small-scale livelihood to infrastructure, health and nutrition services, cultural and nonformal education assistance. The overshoot in target was due to delayed fund releases supposedly for FY 2002 and 2003. Thus, 2004 accomplishments also covered activities which were not fully implemented before the year.

It should be noted that although NCIP is an oversight agency, it continues to deliver basic services similar to implementing agencies. This is peculiar to NCIP because of the service delivery mandate given by RA 8371 otherwise known as the Indigenous Peoples Rights Act.

Disaster Management

The Office of the Civil Defense (OCD) embarked on activities vital to risk and vulnerability reduction. These include: (a) development of 299 hazard/risk maps in coordination with PAGASA and Mines and Geo-Sciences Bureau, DENR, PHIVOLCS and LGUs; (b) identification of 40,243 communities at risk to natural and man-made disasters; and (c) recommendation on the integration of disaster management in local development plans. The OCD likewise monitored all the natural and man-made disaster incidents that hit the country, and extended emergency relief and rehabilitation in areas affected by 633 disaster events. Most notable is the dispatch of 21 medical and surveillance teams from government and nongovernment agencies to Infanta, Real and General Nakar, Quezon which were repeatedly and severely affected by tropical cyclones “Unding”, “Violeta”, “Winnie” and “Yoyong”.

The DSWD likewise extended Php28.85 million (18 % of the total Php164.18 million worth of relief) in augmentation assistance

to 804,484 families (3,942,202 persons) or 46 percent of 1,737,305 families (8,531,321 persons) affected by disasters such as the typhoons, flooding, BASECO fire, SuperFerry 14 sea-tragedy, and deportation of illegal Filipino migrants from Malaysia.

INSTITUTIONALIZING EMPOWERMENT OF THE POOR

The full localization of the government's regular Comprehensive and Integrated Delivery of Social Services (CIDSS) program led by DSWD was realized in 2004 as the provision of CIDSS augmentation support funds to concerned LGUs was finally completed. These localization efforts covered a total of 539 communities (423 barangays, 98 urban poor communities and 18 indigenous people's communities), 371 municipalities and 74 provinces nationwide. This localization process required the institutionalization of CIDSS strategies and components at the local level which include community organizing; total family approach; focused targeting and convergence; planning, management and governance; and monitoring and evaluation. In preparation for the full localization of the CIDSS program, social preparation activities were undertaken including the formulation of municipal and barangay resolutions adopting CIDSS localization schemes as well as the automatic yearly provision of funding support to CIDSS areas in the barangay and municipal economic development plans.

The localization of the CIDSS was a policy responsive to the expressed desire of LGU executives to turn over to them the management of the CIDSS. Based on a 2004 Impact Study on CIDSS Localization, it was noted that while the reduction of

TABLE 10.1 Changes in Unmet Needs throughout Milestone Years, by Region

Unmet Needs	Percent of Households		
	Baseline 1995/1996	After localization 1999/2000	Last MBN Survey 2002-2003
Luzon			
1. Family income is above subsistence level	37.1	36.3	46.9
2. Family with access to potable water	49.9	78.2	83.5
3. No child below 7 years old left attended	52.0	86.5	87.3
4. Head of the family employed	52.3	63.6	68.5
5. Housing durable for at least 5 years	52.7	61.7	70.2
Bicol-Visayas			
1. Family income is above subsistence level	16.8	29.3	38.1
2. Head of the family is employed	42.6	52.7	56.5
3. Family with access to potable water	48.2	70.4	78.7
4. Family with sanitary toilet	52.0	80.2	87.4
5. Housing durable for at least 5 years	55.9	62.4	70.2
Mindanao			
1. Family income is above subsistence level	26.2	73.0	42.0
2. Family with access to potable water	27.4	74.2	73.8
3. Family with sanitary toilet	45.0	73.7	72.6
4. Head of the family employed	49.4	60.3	58.7
5. Housing durable for at least 5 years	57.4	69.7	68.2
Source: DSWD Impact Study on the Localization of CIDSS, November 2004			

households with unmet needs was not dramatic, it was nonetheless significant enough to spell success of the localization process. The most substantial reduction was in the number of households lacking potable water supply, toilet facilities and durable housing. Although there were significant improvements in income and livelihood indicators, the problem percentages remained high across regions. In Mindanao, the marked deterioration, after localization, in the percentage of household with family income above subsistence level can be attributed substantially to the continuing

problem of armed conflict.

The study confirmed that benefits and gains outweigh the costs of localizing the CIDSS processes at the lowest level, considering the people empowerment being created. The amount of resources generated to provide CIDSS services was much less than those required for similar areas without CIDSS. This was because of the strong volunteerism and resource sharing that took place under CIDSS. This operational strategy further strengthened the spirit of the Local Government Code in decentralizing national initiative program/projects that cut across

several other processes currently being implemented, such as: problem identification, analysis, planning, resource mobilization, convergence, monitoring and evaluation, community and LGU partnership with the end goal of meeting the basic needs of the families.

To expand the empowerment benefits of the regular CIDSS program, the government continues to institutionalize the *Kapit-Bisig Laban sa Kahirapan (KALAHI)* as the government's overall strategy for empowerment and poverty reduction. Under the programmatic dimension of the KALAHI strategy, the National Anti-Poverty Commission (NAPC) coordinated the provision of asset reform, human development services, livelihood, and social protection assistance to 850 identified barangays in 37 cities and 242 municipalities in 62 provinces in all regions under the various KALAHI modes.

The year 2004 likewise saw the expansion of the World Bank-assisted KALAHI-CIDSS-*Kapangyarihan at Kaunlaran sa Barangay* (KK) Project of DSWD covering 20 provinces across 12 regions. This reached out to 34 more municipalities with 867 barangays due to the continued commitment of LGUs and national government, infusion of external assistance and more meaningful participation and ownership of the beneficiaries themselves. Beneficiaries and their local governments

contribute about 40 percent of the total costs of community projects, demonstrating the project's ability to trigger high local resource mobilization. To date, this community-driven development project covers 42 provinces of 12 regions, in 101 municipalities and 2,373 barangays.

As a scaled-up version of the CIDSS, the KALAHI-CIDSS-KKB Project continued to implement a community-driven development approach with an open menu of subprojects based on the needs and wants of the community. As of March 31, 2005, the KALAHI-CIDSS-KKB delivered a total of 496 subprojects while 237 subprojects are ongoing. The most common projects implemented are barangay roads, foot bridges, Level 2 (communal) water supply systems, day care centers, barangay health stations, 2-classroom elementary school buildings, and multipurpose buildings. However, comparing CIDSS and KALAHI-CIDSS-KKB, the CIDSS has been found to be more cost-effective in subproject implementation (see Table 10.2). The higher cost of KKB may be attributed to the added features and implementation support of the project in terms of more extensive social preparation, engineering assistance, community facilitation, and monitoring as well as the requirement of local counterpart contribution to augment the KKB grant of

TABLE 10.2 CIDSS vis-à-vis KALAHI-CIDSS-KKB

Sub-Project Category	CIDSS Average Cost/ Beneficiary Family (in pesos)	KALAHI-CIDSS-KKB Average Cost/ Beneficiary Family (in pesos)
Roads	1,023	2,595
Bridges	760	1,433
Water Supply	958	3,601
Day Care Center	2,951	5,508
Health Station	—	936
School Bldg.	—	1,482
Multi-Purpose Bldg.	1,935	1,298

Php300,000 to the barangay per subproject.

To promote the nationwide adoption and implementation of the enhanced Core Local Poverty Indicators Monitoring System (CPLIMS) and Local Poverty Reduction Action Planning Process by the LGUs, UNDP SIMCPAE-2 project executed by the NAPC in 2003 and 2004 included a subproject implemented by the DILG that covered 28 barangays, 11 cities, 167 municipalities in 67 provinces in 16 regions. LGUs were trained on the Core Local Poverty Indicators and Local Poverty Reduction Action Planning. As of December 2004, 557 LGUs (21 cities, 79 provinces, 457 municipalities) have organized functional Local Poverty Reduction Action Teams.

To increase youth participation and involvement, NYC continuously monitored seven LGUs with Local Youth Development Councils (LYDPs). NYC is also currently assisting a big number of LGUs regarding the creation of LYDPs. Taking off from the national youth assessment study, the NYC formulated the MTYDP 2005-2010.

POLICY DIRECTIONS

To expand microfinance reach, the government will ensure funding support for the PDTF for capacity building of microfinance institutions and beneficiaries. The BSP will intensify policy reforms to encourage more financial institutions to go into microfinance practice. Meanwhile, the PCFC will concentrate its efforts in reaching 128 of the remaining 234 unserved and hard-to-reach municipalities through the expansion programs of its duly accredited partner MFIs. In order to service the microfinance needs of the targeted number of active clients for 2005 alone, PCFC will intensify its efforts in sourcing additional funds of about Php550 million from both

domestic and foreign sources. NCRFW will make sure that these microfinance initiatives strategically contribute to women's economic empowerment.

As for asset reform, the NCIP will intensify the ancestral domains recognition and development with the issuance of CADTs and CALTs; facilitation of ADSDPP; assistance to ADSDPP implementation; and ADSDPP integration in local development plans. These will be complemented by efforts along the following: legal assistance and other special programs for the IPs; indigenous health knowledge and practices; organization of IP cooperatives; enhancing IP skills for socioeconomic productivity, opportunities and self-employment; creation of tribal barangays; and agrotechnical program development and implementation.

To make the low cost medicines program successful, PITC shall implement programs in partnership with the DOH, BFAD, PCSO and NAPC. The government shall continue to focus its efforts and resources on the Parallel Drug Importation (PDI). There will be sourcing of products from China, Pakistan, India, and Thailand to offer quality products at considerably lower prices to Filipino consumers. The DOH will promote continuous advocacy for the use of generic and generic equivalents that are safe and of good quality. On dangerous drugs, DOH shall conduct drug testing among high school students nationwide and train treatment/rehabilitation center personnel to provide quality care for drug dependents. On health insurance, PHIC shall increase the support value of health insurance benefit packages to cover more from the existing out-of-pocket spending of health consumers especially the poor.

Under the protection of the vulnerable strategy, an operational definition of social

protection and a framework for the convergence of implementation of social protection programs/projects will be developed and subsequently operationalized.

Pursuant to the provision of the Early Childhood Care and Development (ECCD) Law, the CWC will: (a) finalize and validate the standards for the ECCD Curriculum to determine its applicability to all children; (b) develop a Human Resource and Development Program to ensure quality and efficiency of service delivery; and (c) develop a framework for Parent Education and Involvement, Advocacy and Mobilization of Communities. Furthermore, the CWC will push for the following priority legislative agenda: Establishing the Comprehensive Juvenile Justice System; Strengthening the Law against Child Pornography and Pornographic Materials; Amending provisions of the Family Code to allow legitimation of children born to underage parents; Foster Care Bill; etc.

With support from the United Nations Population Fund (UNFPA), NYC will implement a project on adolescent and youth participation in reproductive health that will commence in March 2005.

For nutrition, “Brighter Children, Wealthier Farmers” is being developed by the NDA-DA, DepEd, and NNC as an offshoot of the ANI program. In this program, it is targeted that one million children would be rescued from malnutrition, and PhP1 billion in revenues would be generated for over 30,000 rural families. The Program has the following components: (a) feeding program; (b) social mobilization; (c) capacity building; (d) project development; (e) nutrition information and education; and (f) growth monitoring.

In family planning, access to reproductive health (RH) services will be increased to attain the MDG target of 60 percent in 2010. There will be improved program targeting to ensure that everyone,

particularly the poor will have adequate information and access to FP/RH services. The “*Ligtas Buntis* Campaign” is set from February to March 2005 in time for the celebration of the International Women’s Day and Women’s Month in the Philippines. The campaign will be conducted nationwide with prioritization in the following areas: urban slums, barangays in cities and municipalities established to be among the 25 percent poorest, communities of indigenous people, difficult areas and identified areas with high unmet needs in FP.

The DSWD will continue to provide technical assistance and capability building to LGUs, community- and center-based social workers, local implementers, and other intermediaries to improve delivery of services for the poor and vulnerable groups. Likewise, it will continue its efforts along standards setting, institutional strengthening, and implementation of special projects.

The NCRFW will continue to influence and support agencies and institutions at the national and local levels to integrate in their plans, policies and programs concrete and sector-specific concerns spelled out in the Framework Plan for Women (FPW) using the rights-based approach. Moreover, it will also push for the implementation of the country’s commitments to various international fora such as the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), the Beijing Platform for Action (BPA) and the Millennium Development Goals (MDG).

Among others, the NCWDP will: (a) institutionalize a universal design concept, including accessible ICT on all development activities to benefit PWDs with mobility problems; (b) establish welfare plans to serve as the source of funding during the unemployment period

TABLE 10.3 Summary of Targets vis-à-vis Accomplishments

Indicators	Targets	2004	Actual Performance	
	2010 (MTPDP, 2004-2010)		2004	2003
LIVELIHOOD AND MICROFINANCE				
PCFC's Loans Outstanding	PhP43.5 billion ^a	PhP2.7 billion ^b	PhP2.8 billion ^b	PhP2.53 billion ^b
PCFC's Current No. of Active End-Clients (cumulative)	4.2 million ^a	800,150 ^b	1,396,326 ^b	1,052,476 ^b
No. of Families Served		26,750 ^d	16,169	
No. of SEA-K Associations Organized		52 ^d	738	22,116
No. of SEA-K Kabayans Organized			17	979
				31
ASSET REFORM				
No. of CADTs issued	306		18	9
No. of CADTs issued	406		4	44
No. of FPIC certificate of compliance issued	125		13	9
No. of ADSDPPs formulated	329		13	
ESSENTIAL SERVICES: HEALTH				
Health Insurance Coverage	85	70 ^e	84	54 ^e
EMPOWERMENT OF THE POOR				
Cumulative No. of provinces	42	42	42	22
No. of municipalities	182	96	101	67
No. of barangays implementing and have institutionalized KALAHI-CIDSS	4,530	2,258	2,373	1,505
^a Targeted loan disbursements by PCFC, SBGFC, TLRC, QUEDANCOR, LBP and other microfinance practitioners, MTPDP 2004-2010				
^b PCFC targets and actual performance, MTPDP, 2001-2004				
^c Targeted new microfinance borrowers, MTPDP, 2004-2010				
^d DSWD targets				
^e 2003 PHIC data				

of the PWDs; (c) establish productivity centers for PWDs in selected LGUs; (d) expand Work-at-Home Project for PWDs in selected LGUs; and (e) monitor and evaluate NGA program and projects for PWDs.

As for the localization of the empowerment strategies, the operational guidelines need to be more attuned to the level of preparedness of the different LGUs. Technical assistance should also continue to be provided not only by DSWD but all the

involved national government agencies in the convergence process to avoid dependence on DSWD. Best that could be done is the adoption of the processes (Community Organizing, Total Family Approach, Focused Targeting, Convergence and Use of the Minimum Basic Needs) by all the national departments with primary services to provide the Minimum Basic Needs.

To build on the gains of the KALAHI

areas, the government will explore funding sources to respond to unmet needs through pro-poor services. Likewise, convergent implementation of anti-poverty programs and projects by improving mechanisms (i.e. regional convergence groups) will be strengthened.

There will be a nationwide implementation of the Local Poverty Reduction Action Planning (LPRAP) Process, including the institutionalization of the Core Local Poverty Monitoring Indicators

System. Through the use of 14 income and non-income poverty community-based indicators, specific needs and corresponding interventions will be effectively identified in the community.

Meanwhile, the NYC shall spearhead the localization of the MTYDP 2005-2010 in 34 initial areas. Localization shall entail coordination with LGUs towards the creation of LYDCs and the formulation of local youth development plans.

Chapter 11

Automated Elections

Slow progress marked the effort to modernize and automate the Philippine electoral process as the Commission on Elections (COMELEC) continued to underperform in all the three components of its Electoral Modernization Program, i.e., completion and cleansing of the voter registration database; Automation of counting and canvassing; and Electronic data transfer of results.

Meanwhile, the COMELEC has also initiated efforts towards voter education for civic responsibility through the conduct of continuing citizens and voters' education in partnership with civil society groups and other government institutions.

CLEANSING OF THE VOTERS' LISTS

The first component of the COMELEC Modernization Program is the completion and cleansing of the voters' lists and the database of registered voters to minimize preelection and registration fraud and the number of disenfranchised voters. The activity includes a continuing registration of voters, implementation of a voters' validation system, printing and distribution of voters' identification system, establishment of an automated fingerprint identification, an information campaign, and training of COMELEC personnel. As of 2004, an estimated 40 percent of total voters (about 17 million out of 43 million voters in May 2004), both local and overseas, have been captured/validated by the system. Out of the registered voters, 866,887 voters were identified as double/multiple registrants based on algorithmic matching (same, name, initial, birthdate and gender). Likewise, 1,500 sets of double/multiple registrant cases were filed at the COMELEC Law Department for prosecution. Under the program, 7.3 million

voter registration records/IDs were printed and distributed.

AUTOMATION OF COUNTING AND CANVASSING

Vote counting and canvassing in 2004 again reverted to manual mode after the Supreme Court (SC) declared null and void the PhP1.3-billion contract won by a Korean firm-led consortium that would have allowed the use of automated counting machines. The court decision zeroed in on the irregularities that attended the bidding process, which favored Mega-Pacific eSolutions, the winning bidder. The SC decision prevented the use of the machines already procured, stored and paid for by COMELEC. In its decision, the SC directed the COMELEC to return the automated counting machines to Mega-Pacific and recover the money. A motion for reconsideration filed by the COMELEC was also denied by the high court.

On December 9, 2004, COMELEC filed a "Most Respectful Motion for Leave for Use in the August 8, 2005 Elections in the ARMM". COMELEC is now awaiting the Supreme Court decision to allow the use of the Automated Counting Machines (ACMs) that it was prevented from using in the 2004 elections and were kept in storage in COMELEC since then.

However, inasmuch as the Supreme Court has already decided on the issue with finality, the COMELEC should have accepted the SC decision and moved on, so to speak, and not anymore persist with filing urgent requests for reconsideration with the highest court of the land.

A year earlier, the Supreme Court similarly struck down COMELEC's controversial tamper-proof voters' ID system, or the Voter Registration and Identification System (VRIS), for an anomalous bidding process that awarded the contract to Photokina Marketing Corporation.

ELECTRONIC DATA TRANSFER OF ELECTORAL RESULTS

The third component of the modernization program is the electronic data transfer of electoral results through the lease of a Very Small Aperture Terminal (VSAT) technology and the provision of a National Consolidation Center Services. The technology will speed up transmission of electoral results from various COMELEC stations. The COMELEC is working for a bill, which will be submitted to the House Committee on Suffrage and Electoral Reforms, to expedite the procurement of the VSAT technology.

VOTER EDUCATION FOR CIVIC RESPONSIBILITY

The COMELEC initiated consultations for the conduct of a continuing and systematic citizen and voter education campaign, in partnership with the Philippine Pastoral Council for Responsible Voting (PPCRV) and Intercessors for Christ (IFC) and other government agencies and citizens' groups. A Nationwide Voters Education Campaign Plan, which has been submitted

to the Commission *en banc*, will become the basis of such reform initiative.

To pursue the integration of voter education in the school curriculum, COMELEC together with the Commission on Higher and Education (CHED) and the Department of Education (DepEd) is working on a curriculum framework for voters' education in elementary and high schools.

POLICY AGENDA AND PROSPECTS

To prevent COMELEC's Electoral Modernization Program from being further stalled, COMELEC should accept the SC decision and move on, by re-bidding the automation project, taking extra care in prequalifying bidders, so as to avoid having its contracts voided once more by the high court. Instead of persisting with filing urgent requests for reconsideration with the highest court of the land, COMELEC should expedite its collection suit against Mega-Pacific eSolutions, so that it could use the money for the procurement of new automated counting machines.

Continuing efforts to ensure a credible and transparent electoral system highlight the aim of the Arroyo administration to strengthen the country's democratic institutions and processes. Thus, the modernization of the electoral reforms should be pursued with greater vigor through the implementation of the following components: (a) completion and cleansing of the database of registered voters; (b) automation of the counting and canvassing; and (c) electronic data transfer of election results. Furthermore, the COMELEC shall revitalize the electoral process through voter education for civic responsibility. The COMELEC shall seek to strengthen civil society participation to effectively advocate political and electoral

reforms. Civil society's role in the reform process will be strengthened in such areas as monitoring of campaigns and elections, uncovering of public violations and mobilization of public opinion against violations.

Chapter 12

Peace and Order and the Rule of Law

In 2003 and 2004, various reform programs were undertaken to regain the trust and confidence of the people toward the criminal justice system and to accomplish the targets in the last and current Medium-Term Philippine Development Plan (MTPDP) on the five pillars of the justice system. Important gains were made such as reducing the crime rate. However, gaps remain in the court system and prosecution pillars.

Hence, measures to improve the disposition of justice and to reduce criminality and fight terrorism are set for 2005.

THE COURTS

The Supreme Court of the Philippines (SC) continued to implement programs and projects in the Action Program for Judicial Reform (APJR). To improve case adjudication and access to justice, the country's first "mobile court" under the Justice on Wheels project was inaugurated on December 20, 2004. On its first day, 40 cases were immediately resolved. Twenty-six juveniles in conflict with the law from the Manila Youth Reception Center were also released after due hearing by the mobile court.

Correspondingly, the caseload management system and its accompanying manual developed under the Caseload Management Pilot Project were fully implemented in 2004. The judiciary have been closely monitoring the performance of the system for further improvements.

To create an enabling environment for judicial reform and independence critical support systems for the long-term sustainability of reforms were built. The Judiciary, in cooperation with the Integrated

Bar of the Philippines (IBP), implemented the Jail Decongestion Project. With this project, 627 detainees were released exceeding the target of 400 in Manila and Pasay City Jails while 299 detainees were released in Quezon City and Pasig City Jails surpassing its target of 200. A total of 489 paralegals were also trained.

In order to provide sufficient public information and improve collaboration with society, the SC came up with draft literature on the justice system and reform efforts. These include: (a) Guidebook for Journalists Covering the Courts; (b) Glossary of Legal Terms; (c) Comprehensive Communication Plan for the Supreme Court; (d) "Justices to Journalists, Journalists to Justices": A Reader on Judiciary-Media Relations; and, (e) eight feature articles on the APJR.

In support to the Alternative Dispute Resolution (ADR) Act of 2004 (RA 9258), ADR model courts were launched in Pampanga and Bacolod on July 30, 2004 and August 27, 2004, respectively under the Judicial Reform Initiative Support (JURIS) project. In the following years, the ADR courts will be introduced nationwide and are expected to declog court dockets and improve people's access to a speedy and less expensive way of settling disputes.

The Judiciary has addressed almost all

its targets in the Medium-Term Philippine Development Plan (MTPDP), 2004-2010. Some projects and programs under the APJR were completed and some are still ongoing.

On the other hand, despite its efforts to address the issue on case decongestion and declog court dockets, many cases are still pending and for disposal in 2005.

THE PROSECUTION PILLAR

TABLE 12.1 APJR Projects

COMPLETED	ON-GOING
8	9

TABLE 12.2 Summary Report of Cases, 2004

Pending Cases as of 12/31/03	Case Inflow	Case Outflow	Pending Cases as of 12/31/04
836,382	358,635	356,846	839,544

Source: Court Management Office-Office of the Court Administrator (SC)

The Department of Justice (DOJ) has been pushing for an intensified recruitment of 500 more prosecutors to expedite the resolution of cases. Complimentarily, Republic Act 9279 was implemented on March 30, 2004, increasing the allowances of prosecutors and lawyers in the Legal Staff of the Office of the Secretary of Justice.

However, despite the increase, figures (Table 12.3) show that there are still more prosecutors needed in the National Capital Region (NCR) where a big number of cases are yet to be prosecuted. More prosecutors are also needed in the Southern part of the

TABLE 12.3 Number of Prosecutors in NCR

Authorized	Filled	Unfilled
502	386	116

Source: National Prosecution Service-DOJ, as of 26 April 2005

country (data not supplied) where few takers are enticed due to unpleasant environmental condition and threats to the lives of would-be prosecutors.

To improve free legal service in the Department, the Public Attorney's Office

(PAO) extended legal assistance to the public through the KALAHARI program. It likewise conducted seminars on the diversion of convicted minors and training programs for its staff. It also assigned lawyers to the Philippine Drug Enforcement Agency (PDEA) and Criminal Investigation and Detection Group (CIDG) on a 24-hour basis to assist indigent persons under tactical interrogation. The DOJ Action Center regional offices were also established nationwide.

Moreover, the DOJ Academy in Clark Air Base was established and used as a venue for seminars such as the Mandatory

Continuing Legal Education (MCLE), held in cooperation with the UP Law Center.

In 2004, the National Prosecution Service assisted the Department of the Interior and Local Government (DILG) in disseminating information on Katarungan Pambarangay and in training barangay officials, consistent with its target to maximize utilization of the Katarungan Pambarangay System.

Furthermore, despite the enactment of RA 9279, the number of applicants in the prosecution, particularly in Mindanao remained low because of low salary being offered. A small number of applications are still pending and for consideration of the Office of the President.

Despite the constraints, the DOJ has improved its free legal service and extended legal assistance to the public that help pauper litigants in voicing out their rights and seeking affordable and fair justice. The DOJ in cooperation with the PAO continues to intensify this program for better legal services to the poor.

THE LAW ENFORCEMENT PILLAR

The incidents of criminality were addressed by law enforcement agencies. Various anti-crime programs were implemented and sustained to decrease the country's crime rate. One of these was the mobilization of community based-institutions/organizations to provide immediate police assistance.

As a result, crime incidents went down by 7.7 percent, from 83,704 cases in 2003 to 77,253 in 2004. Of the total number of cases, 69,417 were resolved depicting a crime solution efficiency rate of 89.9 percent.

In the last quarter of 2004, the PNP

situation in the country. To sustain anti-crime initiatives, the upgrading of recruitment standards and increasing personnel recruitment of the Philippine National Police (PNP) will be vigorously pursued in order to attain the 1:525 police to population ratio by 2010 and 1:500 by 2012.

To address the training requirements of personnel, career training and development program was lined up for the PNP, National Police Commission (NAPOLCOM), Department of the Interior and Local Government (DILG) and the Philippine Public Safety College (PPSC) in 2004. In January-December 2004, some 10,293

TABLE 12.4 Crime Solution Efficiency Rate

Year	No. of Crimes Reported	No. of Crimes Solved	Percent Increase in the Crime	Crime Solution Efficiency Rate
2003	83,704	76,246	2.4%	91.1%
2004	77,253	69,417	- 7.7%	89.9%

Source: Department of the Interior and Local Government

adopted a scheme wherein uniformed personnel (police) were redistributed from headquarters to field units depicting a 10 percent to 90 percent distribution ratio. This scheme is an enhancement from the 15 percent to 85 percent distribution ratio during previous years. The action intensified police visibility in streets, malls and crime-prone vicinities and strengthened the anticriminality campaign of the PNP. At the same time, it improved the peace and order

PNP personnel participated in various education and mandatory training courses. Recruitment standards for the PNP were also upgraded in accordance with Memorandum Circular No. 2003-009 by NAPOLCOM.

In addition, the Government vigorously and continuously pursued the programs on weeding out misfits and scalawags among rank and file. This was done through the strict implementation of LOI *Patnubay* (Inculcation of CARE – Courtesy, Action, Results and Example; *TABA* – *tamad, abusado, bastos, ayaw madisiplina*; and the Conduct of Transformation Program (Value Formation)). As a result, 92 kotong cops

TABLE 12.5 PNP Annual Police to Population Ratio

Year	Estimated Population	Actual PNP Strength as of Year End	Police to Population
2003	81,081,457	112,508	1:721
2004	82,663,561	115,499	1:716

Source: Philippine National Police

TABLE 12.6 Percentage Distribution of PNP Personnel

Unit	2003 Actual	2004 Target	2004 Actual
Headquarters	15%	10%	10%
Field Unit	85%	90%	90%

Source: Department of the Interior and Local Government

TABLE 12.7 Number of PNP Personnel Who Took Degree and Career Courses

Courses	Number
Degree Courses	
BS in Public Safety (Cadetship)	119
Career Courses	
Officers' Courses	954
Non-Officers' Courses	8,981
Specialized Technical Courses	239
TOTAL	10,293
Source: Department of the Interior and Local Government	

were apprehended from July to December 2004 and 1,144 police personnel were found guilty of being "TABALA." One hundred and ninety-eight police personnel have undergone Values and Leadership Course at the PNP Reformatory School in Olongapo City while 946 others were subjected to appropriate disciplinary measures.

The rationalization of the role and functions of PNP vis- a-vis NAPOLCOM, PPSC and DILG was also recognized. Currently, the PNP continuously monitors the status of its Reorganization Plan pending in Congress.

Sufficient provision of basic equipment and facilities and improvements in crime prevention infrastructure and technology was deemed essential for effective and credible law enforcement. Existing mobile units were repaired and additional vehicles were procured and issued to different PNP units nationwide.

Statistics shows that as of 2004, 60.24 percent-uniformed personnel of the PNP were filled-up in terms of long firearms due to additional 1,575 pieces of refurbished M16 Rifles from AFP, which comprised the total of 4,647 M16 Rifles. Moreover, through the implementation of LOI *Bawi*, 9,612 assorted firearms were recovered from retired, AWOL and resigned PNP personnel. These firearms were issued to enlisted PNP personnel.

On the other hand, the government

continued its effort to enforce laws to minimize terrorism, syndicated crimes and common crimes against property through intensified police operations, improved intelligence/counter intelligence and community oriented policing and investigation efforts. This yielded positive results, such as: (a) decrease in kidnap-for-ransom incidents, from 82 in 2003 to 31 in 2004 or a 62 percent decrease, with 20 or 65 percent of the 2004 incidents solved; and, neutralization 10 of the Top Most Wanted KFR personalities; (b) neutralization of five international drug rings and 83 local drug syndicates; arrest of 20,328 pushers and users; dismantling of 15 clandestine laboratories and storage warehouses; confiscation of drugs with costs estimated at PhP2.53 billion; filing of 16,283 drug-related cases in court; and, clearing of 3,221 drug-affected barangays; (c) arrest of 113 illegal gambling financiers and 16,501 gamblers; filing of 6,723 cases in court; and confiscation of cash bets amounting to PhP5.71 million; (d) recovery of 900 out of 2,252 reported stolen vehicles representing a recovery efficiency rate of 40 percent as well as neutralization of five carnapping groups and 204 persons and filing of 17 cases in court; (e) neutralization of 390 crime syndicates/groups; (f) confiscation of PhP61.6 million worth of smuggled/pirated goods; (g) reduction of street crimes by 31 percent, from 17,813

in March to December 2003 to 12,342 in March to December 2004 with 90 percent street crime solution efficiency rate during the period; and, (h) arrest of 557 communist terrorists and 252 Southern Philippines secessionist groups/individuals, in part through the efforts of Task Force “SANGLAHI”.

Likewise, the Special Units of the PNP (*i.e.*, Task Force on Narcotics and the Dangerous Drugs, Task Force on Law Enforcement and Task Force on Police Anti-Crime Emergency Response) tied up with the DOJ, particularly in gathering evidence involving high profile cases. Special pools of prosecutors now receive and act on complaints filed by these Task Forces.

Overall assessment revealed that despite financial constraints, the law enforcement pillar accomplished its mandated tasks.

THE CORRECTIONS AND REHABILITATION PILLAR

The Bureau of Jail Management and Penology (BJMP) provided quality jail management and services in all district, city and municipal jails through efficient and humane safekeeping and rehabilitation of inmates. In 2004, the BJMP has approved 448 jails with an inmate population of 30,623 for adoption under the Adopt-a-Jail Project. The Project seeks to involve

TABLE 12.8 Accomplishments: Kidnap for Ransom

Particular	CY 2003	CY 2004
Reported KFR incidents	82	31
Cases Solved	65	20
Solution Efficiency Rate	79.3%	64.5%
Personalities neutralized	126	94

Source: Department of the Interior and Local Government

TABLE 12.9 Accomplishments: Illegal Drugs

Particular	CY 2003	CY 2004
Pushers/users arrested	31,180	20,328
Neutralized international drug syndicates	7	5
Neutralized local drug syndicates	186	83
Estimated DDB Value	Php 13B	Php 25.3B
Dismantled laboratories/chemical warehouses	16	15
Drug affected barangays cleared	4,231	3,221

Source: Department of the Interior and Local Government

TABLE 12.10 Accomplishments: Armored Car Robbery

Particular	CY 2003	CY 2004
No. of bank armored car robbery incidents	14	3
No. of bank robbery incidents	41	48
No. of bank armored car robbery incidents solved	8	9
No. of persons neutralized	16	23

Source: Department of the Interior and Local Government

TABLE 12.11 Accomplishments: Smuggling/Piracy

Particular	CY 2003	CY 2004
No. of reported cases	833	365
No. of persons arrested	579	203
No. of cases filed in court	156	97
Amount of confiscated good	Php 82.13 M	Php 61.6 M
Source: Department of the Interior and Local Government		

TABLE 12.12 Accomplishments: Carnapping

Particular	CY 2003	CY 2004
No. of reported carnapping incidents	2,272	2,252
No. of vehicles recovered	738	900
Recovery Efficiency Rate	32%	40%
Average lost per day	6	6
No. of syndicates neutralized	11	5
No. of suspects arrested	227	204
No. of cases filed in court	150	172
Source: Department of the Interior and Local Government		

TABLE 12.13 Accomplishments: Street Crimes

Particular	March – December 2003	March – December 2004
No. of reported street crime incidents	17,813	12,342
No. of cases solved	16,443	11,140
Street Crime Solution Efficiency (%)	92%	90%
Source: Department of the Interior and Local Government		

community-based support groups and individuals in providing efficient and effective jail services. In addition, 55,919 inmates have undergone rehabilitation projects and activities, such as livelihood projects and recreational and religious activities; vocational programs; and health care services. Lastly, a total of 65,781 qualified inmates were released in accordance with various applicable laws.

On the other hand, the Bureau of Corrections (BuCor) implemented the Formal Education Program for the primary level in all its prison and penal farms. The Parole and Probation Office (PPO) employed Therapeutic Community Program for drug cases. Moreover, it actively supported Administration of Juvenile Justice in consonance with the Convention on the Rights of Children.

Efforts were exerted to prevent problems in jails and in rehabilitation. Among these efforts were the repair and improvement of some equipment and jail facilities as well as the ongoing transfer of inmates to other penal colonies to decongest cells. Despite these, there were overcrowding of jails and jailbreaks due to financial constraints. Thus, a need to improve the security of jail facilities along with an effective decongestion and rehabilitation program and an adequate budget to finance the program is necessary.

THE COMMUNITY PILLAR

To beef up community-based approach in crime prevention, Barangay-based institutions which were instrumental in the maintenance of peace and order and public

safety, were organized and strengthened. The Barangay Information Networks (BINs) were established nationwide in 2004. As of December 31, 2004, the government had established BINs in 53,222 barangays nationwide with 153,000 informants. These BINs were instrumental in the neutralization of criminal syndicates (e.g., Rivera Group and Joso-Joso Group) and the arrest of 120 most wanted criminals.

The COPS-Kababayan Centers were also established and maintained nationwide wherein PNP personnel spent 24 hours a day conducting mobile and foot patrols in identified crime-prone areas. To respond quickly to bomb incidents, the government also established 208 Bomb Incident Centers attached to the PNP Special Weapons and Tactics-Emergency Operation Division (SWAT-EOD).

Moreover, the PATROL 117 Program was intensified by installing call centers in 28 cities and one municipality, and a telephone hotline in one city as of December 31, 2004 with average response time recorded at 6.47 minutes. State-of-the-art telecommunication facilities (landline and radio communication) were also installed in 12 cities to respond to emergency calls.

The community pillar has developed people's awareness of and concern for the country's peace and order. However, some sectors of the society are still hesitant in reporting the crime incidents for fear of retribution. Thus, assurance that sufficient protection will be extended to those who will report a crime and or to witnesses is needed to remove the fear.

PROSPECTS AND POLICY DIRECTIONS FOR 2005

To enhance the judicial system, the government through the Judiciary will continue to adopt a holistic approach to

reform as contained in the APJR. This program is founded on a comprehensive assessment of the underlying causes of case congestion and delay as well as dynamics within which dysfunctions and efficiencies occur. The Judiciary, among other efforts, will also adopt a streamlined and adequate Rules of Court that provides for efficient and speedy judicial processes, ensures impartial adjudication of cases, and easily comprehensive and user-friendly provisions. It will also encourage the wider use of ADR as a means of settling disputes out-of-court and at lower cost, together with the installation of ADR options in the courts.

In support of the projects under the APJR, the Judiciary will pursue the following programs and projects in 2005: (a) Sponsorship of the SWS Presentation to Judges of Survey Results on the State of the Judiciary and the Legal Profession in the Philippines; (b) Study on the Development of Criteria for Courts and Judge Positions; (c) Implementation of Guidelines for the Judicial Apprenticeship Program; (d) Reengineering of Management Information System Office (MISO); (e) Knowledge Sharing and Technical Visit to Spain; (f) Interface of Cordillera Customary Law and State Law Towards Improving Access to Justice in the Cordillera; (g) Training of Trainers for Barangay Justice System Strengthening; (h) Legal Handbook for the Public; (i) Public Education and Advocacy on the Rule of Law (PEARL); (j) Judicial Administrative Reforms and Decentralization (JARD) Project; (k) Improvement of the Statistical Reporting System and Capacity Building of the Supreme Court (NSCB Proposal); and (l) Strengthening Judiciary and Media Relations Phase 2.

On the other hand, the National Prosecution Service (NPS) of the DOJ will

strengthen the Monitoring and Reporting System consistent with its target to conduct an inventory of all cases pending before it. The Prosecutors' Regional and Field Offices shall also be strengthened through (a) continuous training/legal education of prosecutors; (b) realization of the ideal ratio of support staff pursuant to EO 910 series of 1988, which will provide additional manpower in the prosecution service; and, (c) inventory of present equipment and supplies, particularly IT equipment and consequent improvement of the same.

On law enforcement, intensified operations to neutralize terrorism and other organized crime groups shall continue. Law enforcement agencies aim to register an increase in the crime solution efficiency rate and response time to crime recorded at 89.9 percent in 2004. In addition, increase in the percentage of arrested suspected offenders/wanted persons vis-à-vis crime suspects/offenders/wanted persons, as compared to 2004 is also targeted through the following systems in 2005: (a) Automated Fingerprint Identification System (AFIS); (b) Geographic Information System (GIS) to monitor and plot the hub of criminality; and, (c) National Warrant of Arrest Registry System (NWAR),

a database system of wanted persons.

The PNP will continue to fill-up current shortages of personnel in order to attain the statutory police-population ratio of 1:500. The government will also develop programs of instruction course and conduct regular training courses for basic intelligence along with intelligence seminars in PROs quarterly. It will also pursue the continuous implementation of CARE and TABA Programs to achieve the "zero kotong cop" target. In fighting corruption, the PNP will strictly implement the PNP Anti-Corruption Plan.

As regards corrections and rehabilitation, the BJMP aims to increase the percentage of inmates provided with rehabilitation interventions in 2005. It also aims to reduce by 50 percent the incidents of jailbreaks. The Board of Pardons and Parole (BPP), in cooperation with BuCor plans to formulate and adopt new guidelines on pardons and parole for consideration by the President. These new guidelines are expected to address the problem of having a low number of inmates considered for parole and executive clemency, and improve coordination between the BPP and the BuCor in processing pardons and parole.

Chapter 13

Education and Culture

Investing in education was a major priority of the Administration in 2004. Policy reforms across the entire education sector from basic to tertiary were geared to improve quality and relevant education. The accomplishments, however, remain inadequate relative to the goals and the country's educational needs although some gains were made on reducing the teacher and book backlogs, increasing access to technical vocational education, and linking cultural program to the country's overall development goals.

For 2005, cost-effective initiatives in partnership with the local government units (LGUs) or the private sector is perceived to increase access and quality to education. Culture will continue to be integrated in development efforts focusing on the promotion of culture and arts, support for artistic excellence, peace and cultural tourism.

CLOSING THE CLASSROOM GAP AND IMPROVING LEARNING CONDITIONS IN PUBLIC ELEMENTARY AND SECONDARY SCHOOLS

Consistent with the government's 10-point agenda, the provision of critical resources to basic education continued to be a priority. The total number of classrooms constructed in 2004 reached 7,437 surpassing the target of 6,000 classrooms per year. However, it should be noted that this figure included carry-over of unfinished projects in 2003. With this construction, the classroom backlog with double-shift classes went down from 17,873 in 2003 to 10,436 by end of School Year (SY) 2004. The classroom construction figure, however, does not include classroom construction in "school-less" barangays undertaken by LGUs in coordination with

the Department of Education (DepEd) and the Department of National Defense/Armed Forces of the Philippines which completed 355 school buildings in 2004. The reduction of classroom backlog to only 10,437 from the projected 12,873 by the start of SY 2005-2006 is a significant indication for the sector to meet the zero backlog target by SY 2006-2007.

In terms of other critical resources, backlogs remain high. While a textbook-pupil ratio of 1:1 for core subjects was achieved at the start of SY 2004-2005, textbook backlog increased from 24.22 million in Fiscal Year (FY) 2003 to 34.7 million in 2004. Uniform distribution of textbooks for all subjects also remains problematic resulting in schools with three or more students sharing a textbook. Classroom desks/seats backlog, meanwhile, was reduced to 3.9 million seats at the end of FY 2004 from 4.87 million in FY 2003.

With the adoption of double-shift classes and a 1:50 classroom-student ratio, the backlog in teacher items was reduced to 20,113 in 2004 from 46,356 items (with a classroom-student ratio of 1:45) in 2003. At the national level, teacher-student ratio was computed at 1:36 for elementary and 1:42 for high school. These figures,

however, account for all teacher items including nonteaching (eg., principals, administrators, librarians) posts.

For the first and second quarter of 2004, the DepED's Computerization Program devoted its activities in the distribution of computer packages to around 48 public secondary schools. By the end of 2004, 80 percent of public high schools have computer sets for academic use. To enhance the capacity-building of teachers in ICT integration into the curriculum, about 48,000 secondary school teachers were trained through the Intel Teach to the Future Program. Moreover, around 1,200 secondary school principals were oriented on the effective and efficient management of ICT environment in the schools.

Tapping private sector participation in addressing the inadequacy of school resources was intensified in SY 2004–2005. More vigorous advocacy and information dissemination campaigns were done to mobilize private sector support for programs like the Adopt-A-School and “*Brigada Eskwela*” programs. These activities have raised enough resources and volunteerism to improve learning environments in selected schools around the country.

Despite the various initiatives, the public school system still needs to work hard enough to efficiently utilize its existing budget, mobilize resources from various sources and adopt or expand tested and cost-saving innovative strategies including alternative delivery modes of schooling in order to cope with the realities of classroom backlog, school facilities gaps, uneven textbook distribution, and problems on other school resources. Flaws in the textbook distribution scheme would have to be corrected before the start of SY 2005–2006 to avoid previous experience of uneven distribution while the areas of high shortage should be helped via effective in-

service teacher training in instructional materials development. More indigenous ways of addressing classroom seat backlogs would have to be considered at the school-based level, in coordination with the Local School Boards and Parents-Teachers-Community Associations (PTCAs) and other organizations.

IMPROVING THE ACCESS OF ECONOMICALLY AND SOCIALLY DISADVANTAGED LEARNERS

In line with the promotion of nonschool-based learning, Executive Order (EO) No. 356 was issued on September 13, 2004 which renamed the DepED's Bureau of Non-Formal Education (BNFE) to Bureau of Alternative Learning System (BALS). The reorganization of the BNFE to BALS is expected to strengthen the functions of the bureau to meet the learning needs of marginalized learners and ensure that all types of learners outside the school system are reached through a more flexible approach.

Likewise, training programs under the Strong Republic Schools/Distance Learning Program were continued to enable the teachers, parateachers, learning facilitators and teacher soldiers to utilize technology in teaching. In December 2004, 28 formal and nonformal teachers and eight teacher-soldiers were trained on the use of the existing Makabayan multimedia materials.

Alternative learning systems (ALS) remain largely unknown and information on the availability of such programs does not reach intended beneficiaries. Advancing ALS to reach out to more learners needs to be given more importance and effective strategies should be developed by the DepEd. The bias for in-school education places more expectations on publicly provided education services and has

consequently worsened the crises in our basic education system. In partnership with nongovernment organizations (NGOs) with proven track records for delivering nonschool based learning, government should further intensify its mandate to provide alternative learning tracks to economically and socially disadvantaged groups specially children in conflict areas, street children, and other school leavers who may not necessarily have to be physically in school to benefit from education services. An alternative learning system for out-of-school youths and adults who have not acquired literacy needs to be further strengthened.

IMPROVING THE QUALITY OF EARLY CHILDHOOD AND BASIC EDUCATION

As an overarching reform program for basic education, the Schools First Initiative (SFI) was launched in 2004. With the SFI providing the impetus for adequate planning and financing reforms in the basic education system, higher quality, better mobilization of resources and fundamental restructuring of the system are expected.

Directly addressing the quality improvement and school retention goals, the Every Child A Reader Program (ECARP) and the National English Proficiency Program (NEPP) were also launched in line with the Education For All targets. The ECARP aims to develop the pupils' reading and communication skills by the time they reach the third grade. The Program, which involves the development of teacher and pupil materials, has developed and finalized six modules with 24 lessons in Grades I-III, of which 3,120 copies were reproduced and distributed to three divisions and 51 districts for pilot implementation. The NEPP, on the other hand, aims to improve the English proficiency of teachers and administrators

to enhance their overall teaching effectiveness. A Self-Assessment Test was administered to about 50,818 high school teachers of English, Science and Math. Results of the test showed that for every 10 teachers, 2 are highly proficient in their respective subject areas, 7 are average in proficiency and 1 is less proficient.

To further ensure that high school-bound students could cope with academic work, the Bridge Program was launched in June 2004 on an optional basis. The Program is an intensive one-year remedial program in English, Science and Math for incoming first year high school students aimed at improving the basic competencies of the students needed to complete a full high school curriculum. For SY 2004-2005, about 41 percent of public high schools have enrolments in the Program. The Bridge Program likewise necessitates the administration of the High School Readiness Test (HSRT) to determine the learning gaps. The HSRT results were dismal as more than 99 percent of incoming freshmen did not master the basic competencies of elementary education.

Efforts to strengthen Madrasah education was also pursued with the issuance of DepEd Order No. 51, s. 2004 enjoining all public schools and private Madaris in Muslim communities to implement the "Standard Curriculum for Elementary Public Schools and Private Madaris" effective SY 2005-2006. Along this line, a National Orientation Workshop was conducted in December 2004 for the implementation of the said curriculum.

Overall, the DepEd endeavored to initiate reforms in 2004 aimed at improving the quality of formal basic education in the country. Sustaining and pushing these reforms further would entail a strong leadership and the cooperation of all stakeholders – school administrators,

teachers, students, parents, communities and their respective local governments. Initiatives toward institutionalizing early childhood education as a prerequisite to elementary have yet to be put in place. Improving the quality and relevance of informal and nonformal education also need to be seriously considered as these are equally effective channels and modalities for promoting values education.

INCREASING THE ACCESS TO AND IMPROVING THE COMPETITIVENESS OF TECHNICAL VOCATIONAL EDUCATION AND TRAINING

Enrolment in technical vocational education and training (TVET) declined in 2004 to 1,037,289 compared to the previous year's enrolment of 1,264,768. Similarly, there was a marked decrease in the number of graduates to 618,030 in 2004 from 1,006,561 in 2003. Compared, however, to the targets of the MTPDP, 2001- 2004, both enrolment and graduates from TVET far exceeded the Plan targets. Despite the decline, the unexpected high enrolment figures suggest an emerging social demand for TVET courses.

The subsector also was able to achieve its targets on improving equity and access to quality TVET. A total of 18,909 TVET students in SY 2004-2005 benefited from scholarship assistance. These include 13,800 students through the Private Education Students Fund Assistance (PESFA) and 5,109 students through the Technical Education and Skills Development Project (TESDP). Under the *"Iskolar ng Mahirap na Pamilya"* program, 1,979 indigent families were given Certificates of Educational Assistance.

Important policy and institutional reforms were also adopted in 2004 to improve the quality of the TVET subsector

and improve its outputs to match industry needs. The SEEK-FIND-TRAIN strategy was adopted following a new TVET paradigm that will sustain employability and productivity. The program includes three important components: (a) seek jobs in the labor market; (b) find the right people fit for the jobs; and (c) train the right people for available jobs. This will entail system enhancement of matching TVET outputs with available jobs. TESDA shall SEEK jobs through domestic and international market intelligence reports to pinpoint exact requirement for the job vacancies. The agency shall also FIND the right people who can be trained to fit the jobs in partnership with NGOs, social welfare agencies/institutions, schools and community organizations. TESDA shall likewise TRAIN these people using standards of quality for TVET developed in consultation with various industry sectors. TESDA shall also broaden the opportunities offered by its training programs by assisting individuals or groups who prefer to go into micro business, small and medium enterprises or entrepreneurship training.

To facilitate matching of skills available developed with job opportunities, the four Industry Working Groups (IWGs) in priority occupations (ICT, Health, Tourism, Agri-Fishery) continued the finalization of the National Sectoral Skills Plans. Also maintained were Technical Advisory and Technical Experts Panels for nine sectors, namely: (a) processed food and beverages, (b) metals and engineering, (c) decorative crafts – gifts, toys, housewares, and ceramics, (d) decorative crafts – jewelry, (e) furniture and fixtures, (f) garments, (g) construction, (h) maritime and (i) land transport. Moreover, consultation with POEA and DOLE-Bureau of Local Employment regarding

one-stop shop e-link systems were initiated. This initiative would ensure a more viable labor demand – labor supply matching utilizing a functional labor market information system.

Another major initiative started in 2004 was the preparation for the Youth Profile for Starring Career (YP4SC) program as a major strategy for skills-job matching. The YP4SC involves a yearly nationwide survey of third year high school students and interested OSYs that will capture an individual's aptitude and potential in being "starring" in a particular field, profession or occupation. This will assist students and out-of-school youths in making informed career choices and career decisions.

Competency-based TVET curriculum exemplars on 18 Distinctive Areas of Competence (DACs) were developed and adopted in the 40 Centers of Technical Excellence (CenTExes). Contextual learning in TVET incorporating science, math and English communication was adopted in the TVET curricula. Values and gender and development (GAD) concerns were also included.

The *Kasanayan at Hanapbuhay* or the expanded Apprenticeship Program was launched on August 23, 2004 with an MOA signing between and among the government agencies represented by TESDA and DOLE and the employer groups notably ECOP, PCCI, PMAP, FCCCI, MAP-Philippines and PhilExport. To operationalize the program, implementing guidelines, covering compulsory related instruction on contracts between an apprentice and an employer on an apprenticeable occupation, were issued by the Secretary of Labor. The year saw the registration of a total of 50,186 apprentices. Of those registered apprentices, 21,733 apprentices completed their training. Only 1,243 apprentices, however, were absorbed by companies.

Another major step to further promote TVET and encourage the upward academic mobility of TVET students, EO 358 was issued by the President on September 15, 2004. The Ladderized Interface Between TVET and Higher Education policy lays down the equivalency pathways and access ramps for easier access and progression between the two subsectors. This will be implemented by TESDA and CHED within the Philippine National Qualifications Framework (PNQF).

Essentially, major strides toward improving the TVET subsector were pushed in 2004. The subsector, however, continues to be weighed down by the low regard for TVET as an adequate educational merit for employment. TESDA as the key government institution mandated to provide the enabling environment for TVET development should continue and strengthen social marketing programs and ensure the sustained engagement of the private sector, particularly those in priority industries, in providing TVET services. The subsector's capacity for labor market monitoring and analysis should also be further strengthened to ensure effective match of skills developed and the labor market requirements as well as promote TVET as viable occupational options for young people.

INCREASING THE ACCESS AND IMPROVING THE QUALITY OF HIGHER EDUCATION

The higher education subsector posted a relatively decent performance in 2004. Enrolment in higher education is constantly increasing annually with a total of 2,431,278 students enrolled in SY 2003-2004. However, total enrolment is still short of the targeted 2,966,311 students. In State Universities and Colleges (SUCs),

enrolment increased by 1.7 percent from 733,827 in 2001 to 746,269 in 2004. Overall, the SUCs served approximately 31 percent of the total number of higher education students in the country.

The number of graduates produced by SUCs also went up from 106,083 in 2001 to 134,910 in 2004 for an increase of 12 percent. In particular, the increase is evident in priority programs such as teacher education, engineering and technology, business and agriculture. Moreover, higher education graduates in all disciplines increased by 11.6 percent from 363,640 in 2001 to 405,716 in 2004 and by 15 percent in the priority disciplines, namely; sciences, maritime, medicine and health-related, engineering and technology, agriculture engineering, forestry and veterinary medicine and teacher education. Graduates who took Licensure Examinations in these disciplines registered an average passing rate of 42 percent which is still below the 50 percent target of the previous Plan. (This points to the still low quality of graduates produced by the country's HEIs.)

In terms of providing educational opportunities through various scholarship and student financial assistance programs, a total of 52,510 scholars/grantees in SY 2003-2004 were provided with financial assistance under the various CHED-administered assistance programs, surpassing the target of 50,385.

A five-year CHED-Information System Plan (ISP) called CHEDLINK was fully implemented. This ICT-aided data collection, processing and information dissemination system covers the installation of the CHED-wide local area network and development of the CHED-Information Systems (CHEDIS). Selected personnel of CHED Central Office, CHED Regional offices and state universities and colleges (SUCs) have undergone training on database

administration, MIS, network management and programming.

Initiatives related to higher education in 2004 were focused mainly on strengthening the institutional capability of CHED to command the directions of higher education system in the country. Initiatives to improve the quality of higher education were focused on maintaining the standards of key institutions particularly the 275 Centers of Excellence/Centers of Development (COEs/CODs) lodged in 70 higher education institutions around the country. While CHED administration of student scholarship and financial support programs have continuously attracted students, reforms are needed to restructure and rationalize the country's student loan system to attract more students to enroll into priority degree programs. The political will and concrete attempts to pursue the EDCOM policy of fewer universities and a more rational classification of higher education institutions need to be further demonstrated. Restructuring existing SUCs into regional university systems based on amalgamation, phaseouts and program consolidation would promote significant education fiscal reform that may work towards quality assurance.

MAINSTREAMING AND PROMOTING CULTURE AND DEVELOPMENT

For 2004, a total of PhP166.01 million from the National Endowment Fund for Culture and the Arts (NEFCA) was allocated for the implementation of the various projects of the National Commission for Culture and the Arts (NCCA). A total of 139 projects were completed, 36 are ongoing and are for completion in 2005, and 48 were approved for implementation in 2005.

Activities under the Philippine Cultural

Education Plan (PCEP) were implemented in coordination with concerned agencies, specifically the Department of Education (DepEd) and the Commission on Higher Education (CHED). The *Sanggunian: Philippine Cultural Index Project* (PCiP) started in the last quarter of 2004. The National Education and Cultural Enrichment subprogram supported 14 training workshops and lectures for teachers and four regional satellite courses implemented through the Institute for Cultural and Arts Management (ICAM), benefiting some 2,500 cultural workers, artists, teachers and students.

Between 2003 and 2004, 36 Schools of Living Traditions (SLTs) were approved and created, nine of which have been completed, 22 are on going, and five to be implemented in 2005. In these schools, young members of the community can learn about their indigenous heritage and hone their skills in the traditional art forms from the community elders and *manlilikha* masters.

A number of conservation projects for both tangible and intangible cultural heritage are currently being implemented. The NCCA spearheaded the conservation of the 34 built heritage sites, among these are the 26 churches declared as National Cultural Treasures. The four Baroque churches declared as UNESCO World Heritage Sites were assisted in coordination with the concerned agencies and institutions and their respective local government units (LGUs). The year also saw the implementation of the first phase of the three-year action plan for the preservation and promotion of the Hudhud Chants of the Ifugao, declared by UNESCO as one of the Masterpieces of the Oral and Intangible Heritage of Humanity.

The Culture and Peace Program was fully implemented to provide assistance to peace projects, especially in Mindanao. There were 28 projects approved ranging from

performances, workshops, conferences and lectures, festivals, exhibits, and competitions.

Overall, while the policy environment has provided good avenues for culture to be interwoven into specific development activities – peace, international relations, tourism, education and indigenous peoples welfare, the integration of culture and development concerns in other aspects of development remained to be a big challenge. The vitality of the sector has not been contagious enough to encourage other sectors to seriously look at culture as important consideration and as a sustainability factor of development. The NCCA and other culture agencies have to further push a more strategic approach to influence other agencies and sectors to make culture dimensions an integral part of development.

PROSPECTS AND POLICY DIRECTIONS FOR 2005

Education shall continue to be a high priority of government in 2005 and in the medium term. To ensure the attainment of medium-term goals of improving access to quality education, and mainstreaming culture in overall development, there is a need for the education and culture sector to specifically focus on more practical and cost effective initiatives within the year.

Early Childhood and Basic Education

The DepEd, instead of centrally managing basic education services, should endeavor to institutionalize mechanisms and practices for school-level responsibility and accountability for better educational outcomes. School-governing councils around the country should be established and institutionalized to strengthen school

improvement planning and bring about an effective school-based resource management scheme. An incentive system for school heads/principals who are able to internalize the directions for quality improvement in teaching and learning and in managing and mobilizing school-level resources should be put in place.

DepEd, particularly its regional directors and division heads, should proactively engage their respective LGUs in investing in appropriate basic education services and to actively take accountability for school-level educational outcomes. Innovative, cost efficient and tested approaches need to be adopted, including partnerships with the private sector, to effectively deal with the burgeoning backlogs in school resources (classrooms, furnishings, textbooks, computers, science laboratories, libraries, cafeteria, clinics, play area, toilet and sanitary facilities) and to address other education issues such as poor nutrition of students, school-leavers and dropouts, and teachers' welfare. Good practices and lessons learned from concluded and on-going ODA-assisted projects such as the Basic Education Assistance to Mindanao (BEAM) project and the Third Elementary Education Project, should also be mainstreamed to enrich policy, program, operational or institutional areas particularly in curriculum development and teacher education and training.

To ensure greater capacity and performance of public school teachers, it is necessary to introduce competency-based teacher appraisal standards, instruments and measurements to guide the hiring, promotion, redeployment and professional development of teachers. In line with Republic Act 9155, DepEd should be able to provide a medium-term forecast of future teacher demand with scheduled implementation of progressively higher minimum standards for beginning teachers

at the regional level. Likewise, DepEd should proactively take primary responsibility preservice teacher education by coordinating with the Commission on Higher Education (CHED) and teacher education institutions in determining the content, methods and development of curriculum.

The Early Childhood Care and Development (ECCD) Council needs to provide the framework and guidelines to initiate and pursue the Plan direction of developing a standardized curriculum for 5-year olds. DepEd should institutionalize arrangements for the engagement of private providers to provide early childhood education that would bring about the readiness of 6-years olds to enter primary school and facilitate the formal inclusion of preschool as a prerequisite to grade school.

In partnership with NGOs with proven track records for delivering nonschool based learning, DepEd should further intensify its mandate to provide alternative delivery modes of learning to economically and socially disadvantaged children specially children in conflict areas, street children, and other school leavers. Moreover, engagement of private providers to provide alternative learning system for out of school youths and adults who have not acquired adequate literacy has to be strengthened and expanded.

Technical Vocational Education and Training

For TVET to be socially accepted as viable occupational option and significantly contribute to job facilitation in the identified priority industries in the Plan, the devolution of TVET as a long-sought after reform should be pursued within the year. Decentralization of TVET tasks to local

government will primarily entail building up the capabilities of LGUs for the conduct of community-based education and training. LGUs should be able to identify relevant skills needed by their constituents and by local labor markets. Aggressive social marketing of TVET should be done early through regular career counseling and guidance starting in the second or third year high school or even in the upper elementary grades as part and parcel of expanded labor market information system.

TESDA, in consultation with CHED, TVIs and HEIs should provide the policy guidelines to further promote life-long learning, progression and articulation of prior learning. This shall include the provision of procedural guidelines for the implementation of EO 358 or the Ladderization Scheme which promotes the upward academic mobility of TVET graduates to higher education and vice versa. This, however, should be pursued within the Philippine National Qualifications Framework (PNQF).

The sector should proactively promote a private-sector led and market-driven TVET. TESDA as the TVET authority should ensure the active participation of industries to identify TVET priority areas, ensure the employability of TVET graduates, and promote TVET as a desirable educational attainment. The SEEK-FIND-TRAIN strategy should be vigorously pursued together with a strengthened TVET-labor market intelligence system link. This will ensure that TVET occupations are first identified and that the right people are trained to appropriately fill such jobs.

Towards cost effectiveness and efficiency of TVET programs, continuing review of the per capita cost of TVET, trainers training, improvement of the capabilities of TVET institutions and development of partners/stakeholders should be undertaken regularly. Competency

standards, assessment and certification instruments should be developed to guide program implementation. New priority TVET sectors/occupations should be identified in 2005 based on the results of sectoral consultations. These should be finalized to ensure attainment of the target of 29 occupational areas by 2009 from the existing identified 12 priority sectors.

Higher Education

To better comply with the strategy of direct channeling of public resources to students to promote greater purchasing power and freedom of choice, CHED, in coordination with legislature, the academe and other stakeholders, should be able to develop a reform program on student loans and scholarship system that will help remove barriers to national and personal investment in education, training and skills development using as basis best practices from other countries like Australia and Thailand which currently administer income contingent loan schemes for higher education. While student loans, vouchers, scholarships, fund assistance and even employment programs are in place, the accessibility and targeting system have yet to be improved to optimize the use of scarce resources in favor of the most deserving beneficiaries. CHED should thus explore the possibility of institutionalizing a mechanism which offers all eligible students an income contingent loan facility to pay their undergraduate or postgraduate fees in courses offered in public or eligible private higher education institutions.

On the other hand, there is still a need to further push within the year the formulation of rules and guidelines on the creation, conversion, upgrading and amalgamation of SUCs that are acceptable

to both the executive and legislative branches of government. A moratorium on SUC creation and conversion of state colleges into universities should be considered pending the passage of responsive legislation. The government does not have to spend much more to fund, manage and maintain costly SUCs for broadening access. Together with the direct channelling of resources policy, the restructuring of the existing SUCs into regional university systems based on amalgamation, phase-outs and program consolidation consolidation per RA 8292 or the Higher Education Modernization Act is an option that would make SUCs more productive and competitive, and spread out the benefits of high quality higher education.

Culture

For the year, culture activities should focus on the following:

- Sustain the documentation of indigenous knowledge systems, customary laws and practices; provide technical assistance in the production of traditional crafts; provide support to cultural community festivals and tribal congresses; and the establishment of an IP Cultural Center.
- Implement priority programs and projects in line with culture and development such as the convening of a Summit on Culture and Arts for Social Transformation (CAST) with the focal theme: “Breaking the Culture of Corruption to Alleviate Poverty”; development of the concept of a Debt for Culture Swap program; technical assistance in the preparation of local Cultural Tourism Development Plans;

implementation of the Cultural Industries Subprogram to support the production of traditional and contemporary crafts and products; conduct of various seminars/workshops and outreach for the NCCA Cultural Care Giving for the Poor and Marginalized in coordination with the private sector.

- Conduct advocacy for the passage of the Omnibus Cultural Heritage Law, the Magna Carta for Artists and Cultural Workers and the ratification of the UNESCO Covenant for the Protection and Promotion of Cultural Diversity.
- Promote sustainable conservation approaches for both tangible and intangible cultural heritage. A priority activity on the preservation of intangible cultural heritage is the implementation of the second phase of the three-year action plan on the conservation of the Hudhud Epic of the Ifugao. The operation of the existing NCCA SLTs should be sustained and maximized — synergizing with the DepEd, CHED and public information agencies and organizations to crystallize integration of cultural tradition studies into the curricula and media materials. The putting-up of *Manlilikha ng Bayan* Centers where GAMABA awardees provide trainings will similarly be continued.
- Implement the Philippine Cultural Education Plan (PCEP). This shall include the implementation of the *Sanggunian: PCiP* project and the continuation of the provincial

cultural mapping. The ICAM courses, particularly those to be implemented in the regions and the new module on “cultural care-giving for the poor and the marginalized” will also be implemented.

- Continue the initiatives in support of peace and unification priorities of

the Government such as the MINDANAO NATIN Program. This shall include the implementation in Mindanao of the second phase of the National Cultural Exchange Program in coordination with the DOT, Office on Muslim Affairs (OMA), and NCIP.

Chapter 14

Science and Technology

The government recognizes the critical role of science and technology (S&T) in development. Knowledge creation efforts were directed to address problems in the environment that impact on health and to improve productivity in agriculture, industry and information and communications technology (ICT). Efforts were also directed to assisting small and medium enterprises (SMEs) to access S&T services including technology acquisition, packaging and labeling, product standard development and linkages. However, the number of SMEs benefiting from these technology services remain modest, capturing less than five percent of SMEs.

For 2005, efforts aim to intensify knowledge alleviation through the use of ICT.

ACCELERATE KNOWLEDGE CREATION AND TRANSFER TO UPGRADE TECHNOLOGIES AND IMPROVE PRODUCTIVITY

Knowledge Creation

In pursuit of knowledge creation, the government continued to embark on priority research and development (R&D) programs. Specifically, the R&D institutes of the Department of Science and Technology (DOST) redirected the R&D efforts to address the following National Science and Technology Plan (NSTP) concerns: (a) pressing national problems such as water, energy and environment, shelter, health and nutrition; (b) productivity improvement; (c) development of new technologies and products for global competitiveness; and (d) capacity development in pioneering areas such as materials science, microelectronics and biotechnology.

Environmental protection and health concerns

For R&D activities to address pressing national problems, some notable

breakthroughs were achieved. In environmental monitoring, the Philippine Nuclear Research Institute (PNRI) and the UP Marine Science Institute (UPMSI) were able to develop a new technology in detecting and monitoring shellfish poisoning (SAXITOXIN) in “red tide” affected areas. The PNRI has also introduced the Cesium-137 technique as an effective and efficient means to assess erosion rates over a 30- to 35-year time frame.

In the area of disease prevention, monitoring and control, the schistosomiasis dipstick has been developed through the collaborative work of the Philippine Council for Health R&D (PCHRD) and the Research Institute for Tropical Medicine of the Department of Health (DOH). The Philippine Council for Advanced Science and Technology R&D (PCASTRD) forged partnerships with the BIOTECH of UP Los Baños for the development of the polymerase chain reaction (PCR)-based detection kit for salmonella, and with the Advanced Science and Technology Institute (ASTI) for the microprocessor-based pasteurizing system.

R&D for productivity improvement

In the conduct of R&D for productivity improvement, breakthroughs were made in: *in vitro* fertilization of superior dairy-type animals; production of high genetic water buffaloes; transgenic papaya varieties with delayed ripening and ringspot virus resistance characteristics; new variety of silkworms; and propagation of dwarf plant varieties obtained through irradiation, among others.

The continuous R&D efforts in the production of superior dairy-type animals have facilitated the buffalo genetic improvement in the country to help the farming communities in the propagation of highly productive buffaloes. Primarily, the animal's meat and milk served as a source of additional income and nutritious food for children in the farming community.

Developing products for global competitiveness

For new industrial products, the cement-bonded bamboo boards, chemicals from cashew nut shell liquid (CNSL), carrageenan hard capsule, natural textile dyes, and new tropical fabric blends have been developed. There were also breakthroughs in modified atmosphere packaging (MAP), autofeed decorticator for coconut, abaca tuxying, Philippine timber stress grading, and optical analysis of fertilized pond and visual indicator for gamma-irradiated products.

On the other hand, in order to sustain the strategic thrust of developing products for global competitiveness, the government supported R&D efforts in strategic areas such as wireless communications and other information and communications technologies (ICT). The most recent R&D breakthroughs that could lead to globally competitive products are: PC-based access

point and Radio Frequency (RF) training kit in advanced broadband wireless systems; developer's kit for bluetooth system software for wireless mobile devices; the Bayanihan Linux software; and the Molecular Beam Epitaxy (MBE)-based discrete devices for Local Area Network (LAN) communication developed by the UP National Institute of Physics (UP-NIP) with support from PCASTRD of DOST.

Capacity development in pioneering areas

Meanwhile, the government continued to support efforts of ongoing researches in pioneering areas such as materials science and advanced biotechnology. Example of this is the UP-NIP research on prototype plasma devices that produce nitrides or diamond and diamond-like-carbon (DLC) films intended for industrial coating applications.

R&D partnerships

The scarce R&D resources were supplemented through research contracts with private firms and other government institutions, which reached 58 in 2004. This translates to 10.68 percent of the total target of partnerships forged by 2010. It was noted that the most number of research contracts was in food manufacturing.

Although much have been done, the government shall still address the continuing decline on R&D expenditures of the DOST, DA, Department of Environment and Natural Resources (DENR), Department of Energy (DOE), and other R&D units of other agencies. Based on the latest survey, R&D to Gross Domestic Product ratio declined from 0.22 percent in 1992 to 0.19 percent in 1996. Furthermore, tie-ups and networking arrangements with the private sector,

academic and international institutions should be strengthened to augment the gap brought about by the tight fiscal scenario of the country.

Also, the country is lagging behind in terms of knowledge and S&T manpower. In 1996, the Philippines had 156 scientists and engineers engaged in R&D per million population, Japan had 4,909; Russia, 3,801; while the US had 3,676.

Meanwhile, in a study made by the Semiconductor and Electronics Industries in the Philippines, Inc. (SEIPI), it was found out that the competitiveness of the workforce is declining as compared to the growing number of graduate students from the neighboring countries. In 2002-2004, there were only 25 PhD and 219 MS graduates in the field of engineering. The UP College of Engineering was able to identify that for every Engineering MS graduate in the Philippines, Vietnam produces 6, Thailand produces 25 while Singapore and Japan each produce 200. Hence, in order to remain competitive, SEIPI forecasted that there should be at least 200 engineers with PhDs and 600 engineers with MS for absorption by the industry; and 60 PhDs and 200 MS holders for the academe by 2010.

Protection of IPR

To sustain efforts in creating new technologies for commercialization, the knowledge creators' rights have to be protected. While the Philippines continues to be in the US Intellectual Property Rights (IPR) watch-list, the International Intellectual Property Alliance (IIPA) recently reported a significant six percent reduction in the country's piracy rate, following PGMA's strong commitment to tackling IPR issues, the sustained campaigns versus piracy by the Optical Media Board, and a recent Supreme Court affirmative ruling allowing

courts to grant *ex parte* search warrants.

Still, there is urgent need for the Philippines to fully implement through needed legislation its commitments under the World Trade Organization-Trade-Related Aspects of Intellectual Property Rights (WTO-TRIPS) Agreement to drastically reduce current levels of copyright piracy in the country and work for its removal from the US IPR watch list.

In terms of patent applications filed in 2002, the Philippines performed poorly, with only 125 resident and 3,440 nonresident applications. On the other hand, Singapore had 8,188 patents applications by residents and 29,467 by nonresidents. Thailand and Malaysia had 238 and 179 resident patent applications, while their non-resident patent applications were 5,205 and 6,272, respectively. In this regard, the government should undertake the necessary steps in increasing IP awareness. Specifically, there is a need to provide assistance on making patents documents available through the Intellectual Property Digital Library (IPDL). Collaboration with universities for the promotion of IP is also another option.

Knowledge transfer

In relation to the strategy of knowledge dissemination, the government shall take advantage of existing government infrastructure for knowledge sharing. There is also a need to tap the mass media and strengthen knowledge sharing institutions to undertake knowledge dissemination activities. Extension centers like the Community e-Centers and the FITS Centers should be promoted as a vehicle for knowledge dissemination.

In 2004, the Technology and Livelihood Training Center (TLRC) continued to pioneer innovative

approaches in disseminating technology information that can be used by people to start their own livelihood activities. The Center was able to conduct a total of 479 technology courses and 15 fora aimed to impart income-generating skills to entrepreneurs and people who wanted to start their own business.

TLRC promotes the use of business and livelihood technology by developing publications that not only teach the skills but encourage the public to earn using them. In this connection, TLRC operates the technobank, a techno-library that houses over 21,000 reference materials on 6,000 livelihood and business technology. The Center also regularly publishes the *Gabay sa Pagnenegosyo* (business guides) that is available at leading bookstores nationwide.

Furthermore, TLRC prints business and livelihood technology information materials that present step-by-step procedures of a featured technology. These materials are packaged into VCD and VHS formats.

Meanwhile, support for product development is being carried out through the Small Enterprise Technology Upgrading Program (SETUP) and the Technology Incubation for Commercialization (TECHNICOM) program of the DOST. The SETUP provides technology support services, training and seed money to SMEs. Specifically, it aims to enhance productivity of SMEs by providing S&T services ranging from technology upgrading and acquisition, packaging and labeling, technical consultancy services, product standards development and identification, technology training, networking and linkage assistance. SMEs are the backbone of the economy and the main provider of jobs in the country. Thus, the establishment of more SMEs and further strengthening of the SME sector will have clear positive effects on the overall performance of the economy.

SETUP ACCOMPLISHMENTS

By the end of 2004, 521 SMEs were provided assistance under SETUP, while a total of 643 technology interventions were extended also under the program, resulting in the creation of 13,673¹ additional jobs in 2004. Likewise, the average increase in gross revenues of program client SMEs was reported at 28 percent in 2003 and at 31 percent level in 2004. Moreover, a total of 311 SMEs were provided with packaging and labeling services. These SMEs were reported to have developed capacity and confidence to export products to markets in the US, Italy, Japan, Hong Kong, Taiwan, Norway, France, Germany, China and Australia, to name a few.

However, the outreach of this program to SMEs remain miniscule of needs to be expanded to reach more SMEs. The number of SMEs assisted under the SETUP program translates to 4.71 percent of the total target of SMEs to be assisted by the end of 2010. Meanwhile, the number of technology intervention for 2004 represents .87 percent of the total target of technology interventions by the end of 2010.

On the effort to strengthen SMEs, a total of PhP10.3 billion was released by the Development Bank of the Philippines (DBP) in 2004 to SMEs and conduit institutions under the SME Unified Lending Opportunities for National Growth (SULONG), the umbrella program for SMEs. This figure is 13.6 percent higher than the amount released in 2003. Among the product lines that gained market volume in 2004 is the Instant Working Capital or commonly called Factoring, which provides “instant” working capital to SMEs that serve as suppliers to prime corporations. Accounts receivables purchased under factoring amounted to

¹Computed on the basis of a person working for 20 days in a month regardless of the nature of employment i.e., contractual, seasonal, etc.

PhP1.8 billion close to three times the amount in 2003.

TECHNICOM ACCOMPLISHMENTS

On the other hand, the TECHNICOM program specifically aims to fasttrack the commercial application of innovative technologies developed by the S&T community. The program laid the foundation for the commercialization of eight new technologies in 2004, in addition to 13 technologies in 2003. An example of this is the development of a process for fortifying rice with iron using an extrusion technology. This progress is in line with the requirement of the Food Fortification Act of 2000 that mandates iron fortification of staple food like rice.

In collaboration with the private sector, the pilot-scale production of iron fortified rice premix has been successfully conducted. The licensing and technical assistance agreement with the private company is now being finalized. Aside from these eight technologies commercialized under the TECHNICOM program, the DOST have commercialized 21 more technologies in the year 2004. Of these technologies, six were adopted in the health sector while the rest were adopted by SMEs/trade sector.

Another important aspect of technology transfer process is securing the intellectual assets of researchers and/or R&D institutions. Towards this end, the TECHNICOM program also supports the protection of intellectual property rights, with assistance given to the patent applications for nine technologies made during the year. This represents six percent of the total target by the end of 2010. However, the government has to intensify further the protection of intellectual property rights as the actual performance failed to meet the targets set for 2004.

Meanwhile, under the Technology Transfer Program, 1,806 technologies developed through R&D are continuously diffused for adoption by private entities. A total of 93 technologies were also commercialized during the period. The technologies developed like kiln dryers and spray booths for the furniture industry had the most number of adaptors. Other technologies like enriched rice premix, natural dye technology, production of Philippine tropical fabrics, ready-to-serve ethnic food mixes, vermimeal production, digital multimeter, locally developed PC-based access point deployment kit, and shop-fabricated houses for various purposes also had many adaptors.

To help SMEs develop new products, improve quality and competitiveness; various scientific and technological services in the form of testing and calibration, technical assistance and consultancy were extended. This initiative benefited 58,996 laboratories throughout the country. Furthermore, 13,895 clients were rendered calibration services and 3,644 consultancy service calls were responded to during the year.

There have been strong advocacies on the commercialization and diffusion of innovative technologies developed by the S&T community, as the actual number (1,806 technologies) of technologies diffused was 100 percent more than the target (684 technologies). On the other hand, the actual number of commercialized technologies, as mentioned above, for 2004 exceeded the targets of 79 technologies by about 10 percent, or 14 commercialized technologies more than the target.

Extension Centers

Meanwhile, knowledge transfer was facilitated through the Farmers Information

Technology Service (FITS) Center of the Philippine Council for Agriculture, Forestry and Natural Resources Research and Development (PCARRD). FITS is an information and technology service center that provides readily accessible services to users of agricultural research as it links various organizations and networks of offices. It helps facilitate the clients' critical role in decision-making towards improved agricultural production, processing, trading and marketing. The center has a pool of experts that render services that suit its intended clients. Furthermore, in the interest of providing better service to its clients, the center constantly seeks to fine-tune and match its information and technology services according to the clients' needs and characteristics, using feedbacks from clients. As of December 2004, a total of 159 FITS centers are operating in the country.

Moreover, DOST-PCASTRD, Department Land Reform (DLR) and DA-Philrice, in cooperation with the Development Academy of the Philippines (DAP) launched in 2004 the "Knowledge Networking Towards Enterprising Agricultural Communities" to bring the benefits of modern agriculture to farmers and farming communities throughout the country through ICT.

POLICY AGENDA AND PROSPECTS FOR 2005

To intensify knowledge dissemination to rural and urban poor, partnership between mass media and knowledge institutions should be promoted. Conduct of seminars, fora and conventions must be promoted while best practices should be documented, packaged and distributed.

Knowledge transfer should be further accelerated through the roll-out of various projects and programs in 2005. One priority

program is the Community E-Center (CeC). The program aims to link communities, facilitate trade and commerce, and empower rural communities socially, culturally, economically, and politically. A total of 211 CeCs are targeted to be deployed nationwide in 2005.

On the other hand, the e-Learning project envisions accelerating knowledge and technology transfer, empowering and enhancing capabilities of local communities. The project entails the undertaking of various strategies/activities such as training, seminars, institutional strengthening, information education campaign, etc.

In congruence with the e-Learning Project, the e-Barangay project must be undertaken to address the digital divide down to the barangay level. Under the project, e-Barangay centers will be established to serve the basic ICT needs of the community. Local applications such as the Community Bulletin Board System (CBBS) and the portal will form part of this center. Around 100 e-Barangay centers are targeted to be established in 2005.

Moreover, the e-Governance Center of Excellence aims to promote successful e-government projects or success stories in ICT implementation towards effective and efficient governance; showcase best e-government applications developed by both proprietary companies and open source advocates enabling the national and local government units to know and learn the most appropriate technology that will suit their needs; and conduct series of ICT training, seminars and workshops that will develop and enhance the technical skills and knowledge of ICT practitioners and would-be practitioners in the area. Three e-Government centers will be established in 2005.

To further exploit the benefits of

e-government by making government services more accessible to ordinary citizens, the wider use of Short Messaging Service (SMS) through the Infotext SMS Service project should be promoted. This involves the development of SMS applications of various agencies nationwide. In 2005, 41 agencies are targeted to provide this service.

Meanwhile, the government must pursue more focused training strategies and programs to upgrade the skills levels of knowledge and S&T manpower. In support of this, the Free Open Source in Education Endeavor will be pursued. The project involves the development of content for e-learning courses for adoption in the secondary and tertiary level. Seven open source specific technologies for e-learning are targeted to be developed in 2005.

Another project is the Wireless in Education Initiative (WEIn) that involves setting up of a wireless laboratory in selected public schools nationwide. Five wireless

Internet laboratories will be established in 2005.

Meanwhile, R&D efforts for knowledge creation should continue to be geared toward addressing pressing national problems such as water and energy, productivity improvement, development of new technologies and products for global competitiveness, and capacity development in pioneering areas such as materials science, microelectronics and biotechnology as laid out in the NSTP. In relation to this, various government agencies doing R&D would allocate bigger percentage to their budgets to increase R&D expenditures to GDP ratio by one percent at the end of 2010.

Furthermore, IPR awareness should be intensified to improve competitiveness of local industries. Furthermore, assistance would be provided to patent applications especially for technology innovations and knowledge creation.

Chapter 15

Anticorruption

Progress has been made in the campaign against corruption, with much of the credit going to the renewed zeal of the Office of the Ombudsman (OMB). Erring military generals are being court-martialed and facing graft charges in civilian courts. Ranking government officials have been indicted, suspended or dismissed for unexplained wealth. Graft busters mean business, but their message is slow in getting out because of the slow progress in the prosecution of high-profile graft cases. The latest Political and Economic Risk Consultancy Ltd. survey, which ranked the Philippines as the second most corrupt country in Asia after Indonesia, is a reminder of how much work remains to be done in stamping out corruption.

EXPAND AND INSTITUTIONALIZE “LIFESTYLE CHECK”

The perception of slow progress with efforts to combat corruption arises largely from the small number of high-profile corruption cases successfully prosecuted. Recognizing this, the Arroyo Administration committed to investigate and prosecute corrupt government officials through the Lifestyle Check Program. The program started in 2003 and aims to investigate high-ranking government officials with assets and liabilities disproportionate to their legitimate income.

Over 100¹ lifestyle check cases were filed with the Office of the President and the OMB in 2004. This led to the dismissal or suspension of 19 high-ranking officials (i.e., Undersecretary, Deputy Commissioners, Assistant Secretary/Commissioner, Director and Assistant Director) from the Department of Public Works and Highways (DPWH), Land Bank of the Philippines, Public Estates Authority, Bureau of Customs (BOC) and Bureau of Internal Revenue (BIR). The 19 percent conviction rate was an improvement over

the 2003 conviction rate of 14 percent and the 2002 conviction rate of six percent. Meanwhile, the lifestyle check units of various agencies, e.g., DPWH, Departments of Finance (DOF), Agrarian Reform (DAR), Health (DOH), Environment and Natural Resources (DENR), and Education (DepEd) continued to cooperate with the OMB and the Presidential Anti-Graft Commission (PAGC) in identifying and investigating suspected officials.

Indeed, the Lifestyle Check program has been proven effective against corrupt high-level officials. However, much remains to be done to enhance the effectiveness of the program and underscore the President's resolve to curb corruption within government ranks. The Administration should focus on pooling the expertise, resources and manpower of all anticorruption, judicial and law enforcement agencies in identifying leads, gathering information, prosecuting accused public officials and strengthening systems of disclosure of assets and liabilities. The government should also continue to mobilize civil society in gathering and

¹Number of cases refers to combined cases handled by the OMB and the PAGC

monitoring information to ensure a meaningful pursuit of cases.

MAKE THE BIR AND BOC SHOWCASES IN THE FIGHT AGAINST GRAFT AND CORRUPTION

Corruption is prevalent in the tax system with its painful costs reflected in the insufficient collection of government revenues. In the 2004 Common Country Assessment of the United Nations Development Programme, 13 percent of the national government budget was at risk of being lost to corruption. It is estimated that the greatest losses happen at the revenue generation agencies, namely the BIR and BOC. This is the reason for the President's priority to curb corruption in the BIR and BOC through lifestyle checks, among others.

Efforts over the past years to improve tax and customs administration include the aggressive simplification of transaction procedures in the BIR and BOC which lessened discretionary powers, increased transparency and accountability, and reduced opportunities for corruption.

The BIR automated and computerized various tax collection processes through various electronic services such as the e-submission, e-broadcasting, and electronic filing and payment system. The BIR also embarked on a Personnel Integrity Program through the conduct of quality investigation of administrative cases involving erring revenue personnel. For 2004, the program resulted in the dismissal of nine revenue personnel. Complementing the integrity program is the Internal Audit Program which resulted in recommendations for administrative action against tax collection officers and other accountable employees found guilty of corrupt behavior.

The streamlining and automation of customs processes eliminated many opportunities for illegal gains and reduced

incentives for bribery and opportunities for embezzlement. The BOC Asycuda World or the e-Customs project is expected to automate the complete loop of import and export transactions. The BOC has also worked for the approval of the establishment of an Internal Audit Office which will conduct performance audits of BOC employees.

Reforms in the BIR and BOC should be improved through an integrated program of systems and institutional reforms including the effective use of information and communications technology and the implementation of an integrity and internal audit program.

STRENGTHEN THE CAPABILITY OF THE OMBUDSMAN

The Administration's antigraft campaign slowly gained attention from the international community. The World Bank lauded the government's anticorruption efforts and offered continued support to the Administration's campaign through a financial assistance extended to the OMB to enhance its capability in fighting corruption in the bureaucracy. Meanwhile, the national government raised the 2005 budget of the OMB, from PhP480 million to PhP535 million, to enable it to hire more personnel to investigate and prosecute graft cases, conduct lifestyle checks, and pursue its anticorruption projects. The President recommended to Congress to finance the hiring of 48 additional prosecutors and 111 additional investigators.

Upgrading the capacities of the OMB should be a priority in bringing corrupt officials, particularly those in high places, to justice. The Ombudsman must be given both the legal means and the capabilities to effectively address corruption. A comparison between the Philippines' Ombudsman and Hongkong's Independent

Commission Against Corruption (HK-ICAC) shows the Ombudsman with 88 field investigators for a bureaucracy of 1.5 million or a ratio of 1:17,045 compared with the HK-ICAC with 837 field investigators for a bureaucracy of 174,175 or a ratio 1:208. The disabling lack of manpower including training and development opportunities are practical problems of the OMB.

The OMB has been in the process of analyzing and correcting its long time institutional weaknesses particularly in the areas of public assistance, investigation and prosecution. To reinforce gathering of evidence and case build-up, the OMB formed a Field Investigation Office (FIO) patterned after the Operations Division of the HK-ICAC. To strengthen the institutional competence of the OMB, various training programs were institutionalized for its prosecutors (e.g., trial advocacy) and field investigators (e.g., forensic accounting, conduct of financial and fraud audits, and field surveillance and investigation). Field investigators embarked on surveillance training conducted by Federal Bureau of Investigation agents, experts from the United States Customs and the Philippine Air Force Intelligence Service.

Recognizing the significant role of former Deputy Commissioner Tony Kwok in steering the HK-ICAC as a successful anticorruption body, Kwok was appointed chief adviser of the OMB's three-year Corruption Prevention Project. The project, which is sponsored by the European Union, is envisioned to reduce opportunities for graft in government, promote fair competition in business and provide more resources to agencies that offer services to the poor.

IMPLEMENT THE SOLANA COVENANT

Another significant cooperative undertaking among anticorruption agencies

is the Solana Covenant. Signed on March 16, 2004 by the heads of the Civil Service Commission (CSC), Commission on Audit (COA) and OMB, the covenant lists doable initiatives to be undertaken against graft and corruption within the next five years. Among the objectives of the covenant is the strict implementation of the rules regarding the liquidation of cash advances wherein failure to liquidate within the prescribed period constitutes a prima facie case of Gross Neglect of Duty as defined under existing Civil Service laws. In response, the COA submitted to CSC and OMB financial irregularities discovered during auditing such as reports of cash advances which remained outstanding or unliquidated beyond the prescribed period.

The strengthening of the resident ombudsman program is another objective of the covenant. Two Memoranda of Agreement were forged with the Land Transportation Franchising and Regulatory Board and the Insurance Commission providing for the installation of organic Resident Ombudsmen in their agencies. To date, there are 29 agencies included in the Resident Ombudsman program. For 2005, the Resident Ombudsman will focus on its corruption prevention and public assistance functions, which include the monitoring of agency compliance in the posting of agency-specific procedures and flow charts.

RATIFY THE UNITED NATIONS CONVENTION AGAINST CORRUPTION

One of the highlights of the 19th anniversary celebration of the EDSA People Power Revolution on February 25, 2005 was the formal signing by President Gloria M. Arroyo of the United Nations Convention Against Corruption.

By signing the subject UN Convention (adopted by the UN General Assembly on October 31, 2003), the Philippine

government commits itself to declare all corrupt practices as major crimes. In general, the convention urges signatory countries to enact measures that would qualify a wide range of corrupt practices as major crimes if they have not yet declared these practices as such under their legal framework. The convention also requires signatory countries to support the freezing, tracing, seizure and confiscation of the proceeds arising from corrupt practices.

STRENGTHEN THE IMPLEMENTATION OF THE GOVERNMENT PROCUREMENT REFORM ACT

The passage of the Government Procurement Reform Act (RA 9184) brought a lot of promise to efforts designed at combating corruption. The new law requires all agencies to use the Government Electronic Procurement System (G-EPS) which includes a Public Tender Board for posting procurement opportunities, notices, awards and reasons for award; an Electronic Catalog, to support purchases of goods and services; and a Supplier Registry, which is an electronic database of all manufacturers, suppliers, distributors, contractors and consultants registered under the system.

In April 2004, the Department of Budget and Management (DBM) entered into a contract with Ayala Systems to enhance the G-EPS. The contract involved the development of new features of the G-EPS i.e., Electronic Payment, Virtual Store and Electronic Bid Submission. The DBM is also continuously conducting training on the G-EPS. As of 2004, a total of 3,558 government agencies received training on the G-EPS and 2,993 registered with the system. Meanwhile, a total of 3,186 suppliers were trained on the use of the G-EPS while 11,176 suppliers registered with the system.

The G-EPS has shortened processing time and generated savings for government.

In the Department of the Interior and Local Government (DILG), the G-EPS shortened the waiting time for the opening of sealed bids e.g., National Police Commission (from 24 weeks to one week), Local Government Academy (from one month to two weeks), Philippine Public Safety College (from two weeks to one week) and Bureau of Fire Protection (from 56 days to 41 days). While the G-EPS has great potential for improving the transparency and efficiency of procurement, much remains to be done in terms of ensuring that agencies have the resources or capacity to support the G-EPS.

In line with the need to enhance the understanding of various stakeholders on RA 9184, the first edition of the Philippine Bidding Documents (PBDs) for the Procurement of Goods, Civil Works and Consulting Services was released in August 2004. Training seminars in the use of the PBDs have been conducted. In addition, the Generic Procurement Manual is being finalized and would be tested in selected government agencies prior to its official release in 2005.

To ensure the most cost-efficient project design and avoid overpricing of projects, the draft guidelines for value engineering for all major infrastructure projects (costing Php50 million and above) is expected to be finished in 2005 by the Government Procurement Policy Board. Specific provisions on encouraging alternative bids for infrastructure projects shall form part of said value engineering guidelines.

One of the hallmarks of reforms in procurement is the participation of civil society in monitoring public procurement activities. To strengthen civil society participation in procurement reform, an alliance representing the academe, religious groups, nongovernment organizations, professional associations and civil society organizations was formed. The alliance is

composed of the following members: Procurement Watch, Inc., Catholic Bishop's Conference of the Philippines (CBCP), National Movement for Free Elections and Makati Business Club (MBC), among others. The alliance intends to produce a standard module and establish a deployment system for observers and conduct training seminars for volunteers of member-organizations. The government should continue involving civil society in the public procurement process to enhance accountability and transparency at both national and local levels.

STRENGTHEN THE IMPLEMENTATION OF THE ELECTRONIC NATIONAL GOVERNMENT ACCOUNTING SYSTEM (e-NGAS)

Financial management improvements are becoming harmonized around the effective use of the e-NGAS, which is being adopted across all levels of government. The e-NGAS aims to: (a) simplify government accounting; (b) conform to international accounting standards; and (c) generate periodic and relevant financial statements for better performance monitoring.

The COA has continually improved its system through the e-NGAS, which enhances the application of government accounting rules and facilitates the consolidation of financial reports. The e-NGAS, which was made available in September 2004, includes the roll-out of accounting and budgeting systems to national government agencies, government-owned and controlled corporations and local government units (LGUs). The roll-out of the e-NGAS software was completed for 17 agencies in 2004. E-NGAS will be rolled-out in more than 100 agencies in 2005.

The government will have to take careful measures to ensure the e-NGAS implementation takes place without the risk of a serious breakdown of financial controls

during its transition to the new system. To address these risks, COA has adopted a strategy of phased implementation: (a) setting up the basic manual system; (b) computerization; and (c) developing a Government Integrated Financial System that will provide management and financial information at various levels of government.

IMPLEMENT ANTI-RED TAPE MEASURES AND PRODUCTIVITY-ENHANCING MEASURES IN GOVERNMENT

To streamline local operations and slash red tape at the local level, DILG, together with other government agencies, has implemented the Anti-Red Tape Project. The project utilizes Anti-Red Tape Audit Teams to periodically audit business-related rules, procedures and administrative systems of local governments. For 2004, the project resulted in the installation of one-stop shop processing centers in 249 municipalities, establishment of customer complaint desks in 211 municipalities and simplification of civil application systems in 251 municipalities.

The DBM, together with the Development Academy of the Philippines, has been implementing the project entitled "Institutionalizing Public Service Performance Excellence in the Public Service thru the Establishment of ISO 9000-Aligned Quality Management System (QMS)" which aims to make government agencies more responsive, competitive, effective and innovative. The project involves the alignment of operations of an agency with quality systems standards (e.g., ISO standards) to maintain the quality of services/products provided. The project started at the Land Transportation Office (LTO)(licensing service), DepEd (procurement operations), DOH (Bureau of Health Facilities and Services) and the

DBM (Organization and Productivity Improvement Bureau). As a show of commitment to the project, the LTO launched its QMS Project with a celebration entitled, “*LTO goes ISO*” in March 2004.

STRENGTHEN THE INTEGRITY INFRASTRUCTURE OF PUBLIC SECTOR INSTITUTIONS

The OMB, together with the DBM, PAGC and Transparency and Accountability Network (TAN), assisted ten agencies most vulnerable to corruption in the finalization of their corruption prevention plans: DepEd, BIR, BOC, DPWH, DOH, DILG, Department of Justice, National Labor Relations Commission (NLRC), DENR and Department of Land Reform. The plan contains efforts that are focused on areas of vulnerability of said agencies, where results are visible and have high impact and where public clamor for redress and reform is high. The PAGC would monitor the implementation and compliance of the 10 agencies relative to the anticorruption plans submitted.

An innovative tool, the Integrity Development Review (IDR) has been widely utilized to improve governance in the public sector by providing tools for objective corruption vulnerability assessment and a systematic approach to monitor agency efforts in corruption prevention. The IDR, also known as the Corruption Vulnerability Assessment, is an instrument for agencies to locate likely areas of corruption and institute corruption control mechanisms. A “Do-It-Yourself” handbook was produced and disseminated to public managers which would aid the conduct of the IDRs. Initial IDRs were conducted for the OMB and DepEd.

On December 15-17, 2004, a Presidential Anti-Corruption Workshop was conducted by Tony Kwok, former Head of Operations of the HK-ICAC, to facilitate

the formulation and implementation of a National Integrity Development Action Plan. The workshop produced a 22-point action plan which includes measures on prevention, education, deterrence and partnership.

The Administration has also gained support from the different sectors in fighting corruption with the formation of the Coalition Against Corruption on September 21, 2004 composed of the MBC, Caucus of Development-Nongovernment Organization, CBCP, National Secretariat for Social Action, Bishop Businessman’s Conference for Human Rights, TAN and the Transparent and Accountable Governance project. The coalition has the following objectives: (a) observe proceedings in government bids and awards committees; (b) monitor the government’s acquisition and supply of textbooks and medicines; (c) monitor the internal revenue allotment of LGUs through the internal Revenue Allotment Watch; (d) monitor the use of pork barrel allocated by Congressmen; (e) encourage Filipinos to report public officials living beyond their means; and (f) push for election, tax and customs reforms.

INSTITUTIONALIZE VALUES FORMATION IN THE EDUCATIONAL SYSTEM AND IN PUBLIC INSTITUTIONS

Recognizing the call of the President to institutionalize “moral governance” in government and society, the PAGC, in partnership with other government institutions and civil society organizations in the “Good Citizenship Movement”, promoted good citizenship values (i.e., values enshrined in the Philippine Constitution) to national and local government employees and officials. The Presidential Council on Values Formation, CSC and the PAGC are the lead agencies

in providing continuing ethics training, moral recovery programs and values formation programs to government agencies. Values information seminars are being readied for the DPWH, BOC and BIR.

The CSC plays a preventive role in the fight against graft and corruption by setting standards for government appointments and a punitive role by meting out penalties for violations of civil service rules. It also intensified its involvement in anticorruption by implementing new initiatives such as the Women Against Graft. It has also taken the lead in establishing feedback mechanisms such as the *Mamayan Muna, Hindi Mamaya* (Citizens Now, Not Later) Program and the Text-CSC, which are client feedback mechanisms to improve the delivery of public service. The Career Executive Service Board (CESB) for its part worked for the implementation of a Code of Conduct for government to build up the integrity of government executives.

POLICY AGENDA AND PROSPECTS

The high ranking of the Philippines in the international community's corruption scale highlights the need to strengthen the country's state institutions. This becomes

even more urgent in the face of a lagging economy and a degraded environment that threatens the sustainability of the country's socioeconomic development. These circumstances demand a strong state to establish the infrastructure for the market to operate, on the one hand; and to preserve the nation's natural resources from further degradation against the encroachment of vested interests, on the other.

Anticorruption efforts in 2005 will continue to focus on three areas of reform: (a) punitive measures that include "lifestyle checks" and enforcement of mechanisms within revenue generating agencies with BOC and BIR as showcases; (b) preventive measures that include the improvement of integrity systems, conduct of integrity development reviews, strengthening of financial accountability reforms and (c) promotion of zero tolerance for corruption through societal values formation that includes values formation and ethics compliance for government officials and employees as well as the strengthening of people's values to achieve zero tolerance for corruption. The success of the government's anticorruption strategy will, however, only be determined by effective and sustained implementation.

Chapter 16

Bureaucratic Reforms

There has been a noticeable improvement in the frontline services in many government offices, mainly through reforms fostered by information and communications technology (ICT). Much remains to be done, however. Strategic interventions for instance, are necessary to create a strong, market-oriented state that would advocate and implement institutional reforms addressing issues ranging from corruption and weak bureaucracies to better systems of participatory governance. Another such intervention is the proposed rationalization of the bureaucracy, including its compensation and benefits structure.

In 2004, various efforts to reshape public sector agencies have been initiated including the promulgation of Executive Order (EO) 366, calling for “The Administrative Rationalization of the Executive Branch.” It authorizes the rationalization of the bureaucracy in order to reduce the fiscal burden and improve the delivery of public services. Through this EO, the groundwork for the administrative rationalization of the Executive Branch has already been laid out. Reforms to improve the compensation and incentive system of government workers have also been pursued.

IMPLEMENTATION OF ANTI-RED TAPE MEASURES IN GOVERNMENT FRONTLINE SERVICES AND HEAVY RELIANCE ON INFORMATION AND COMMUNICATIONS TECHNOLOGY

Since red tape increases opportunities for graft and corruption, the President directed various government agencies to implement anti red tape measures. Several ICT initiatives were put into place to reduce red tape, improve public service delivery and decrease opportunities for graft and corruption.

Frontline services have improved in many government offices, mainly through reliance on ICT. There are now five major ongoing ICT-related Build-Operate-Transfer (BOT) projects, namely: (a) Land Titling Computerization project of the Land Registration Authority (LRA), (b) the Machine Readable Passports and Visas project of the Department of Foreign Affairs (DFA), (c) the Civil Registry System project of the National Statistics Office (NSO), (d) the Database Infrastructure and Information Technology System project of the Land Transportation Office (LTO), and (e) the Alien Certificate of Registration Identification Card (ACR I-Card) project of the Bureau of Immigration (BI).

These agencies have adopted strong measures to cut the number of steps in the frontline services. All five agencies have computerized their most important services: LRA’s titling; NSO’s civil registry system; DFA’s machine-readable passports and visas; LTO’s database infrastructure; and the BI’s ACR I-Card. They have demonstrated the success of the BOT scheme in these five projects. The results include shorter queues and shorter waiting time for the public.

To ensure a more coordinated and integrated development of ICT in the country, the President issued on January 12, 2004, EO 269 creating the “Commission on Information and Communications Technology (CICT).” The CICT, a cabinet-level agency, is primarily responsible for the promotion and development of ICT and its allied sectors in the country. The creation of the CICT is seen as a transitory measure for the establishment of a permanent government department.

In connection with developing the ICT and telecommunications sector, the National Telecommunication Commission (NTC) has launched the implementation of Phase 1 of the e-NTC Project in the 3rd quarter of 2004, which will computerize and modernize NTC facilities and services in line with the e-Government and e-Commerce objectives of government. The project will develop information systems for better efficiency in the delivery of services to the public and to address functional and operational concerns of NTC.

The NTC needs to be strengthened so that government can be more responsive to the requirements of the ICT and telecommunications sector. Currently, the lack of necessary equipment and other resources hampers the ability of the NTC to effectively monitor the performance of telecommunications companies. Moreover, it failed to pursue needed policy reforms and more fully harness benefits from the utilization of new technologies like voice-over Internet protocol (VoIP). These problems could be addressed by providing the NTC with adequate resources and the legal mandate to pursue needed reforms in the ICT and telecommunications sector.

Government commitment to sustain efforts in harnessing ICT to further enhance government operations and services were demonstrated by the creation in 2003 of the

e-Government Fund to finance priority ICT projects of the government. In 2003, about PhP4 billion¹ was allocated to the e-Government Fund, which was extended in 2004. The e-Government Fund has become a major funding source for ICT projects that cut across departments/agencies. The Information Technology and E-commerce Council (ITECC), now CICT, was given the authority to evaluate and recommend projects for funding and implementation under the Fund. As of 2004, a total of 24 projects, costing around PhP2.981 billion were funded.

To rationalize prioritization of projects to accelerate e-governance, a special working group (SWG) on e-Government Frontline Services was formed to ensure that projects funded by the e-Government Fund are citizen-centric and mission critical cutting across sectors and agencies. The SWG shall also be monitoring e-governance projects to ensure their sustainability.

Wider and more active private sector participation in the implementation of government ICT projects through the BOT and similar schemes were institutionalized through the adoption of guidelines for the review and approval of BOT-ICT projects. The guidelines aim to address the need for transparency, for faster implementation and to facilitate other requirements specific to ICT projects. Since its adoption, two BOT-ICT projects have been approved: the Alien Certificate of Registration Identity Card Project of the BI in 2003 and the National Bureau of Immigration’s (NBI) Extensible Automated Fingerprint Identification System in 2004.

With the planned amendment of the implementing rules and regulations of the BOT Law, the integration of the BOT-ICT Guidelines should be pursued. This shall further facilitate the implementation of BOT-ICT projects.

¹The actual 2003 e-Government Fund allocation is PhP3,721.2 billion less PhP850 million that was sourced to the COMELEC Computerization.

In the case of LGU involvement in the BOT-ICT scheme, only the Koronadal City IT Project is set to be deployed. In 2003, ICT-related projects for BOT financing comprised 24 percent or 10 out of 41 BOT projects for investment, and seven out of these 10 ICT projects in the pipeline were by Local Government Units (LGUs). Information obtained from the BOT Center indicate that although many LGUs have shown interest in implementing their ICT projects under the BOT scheme, they have not been successful in attracting investors. Creative schemes or approaches to finance these LGU ICT projects need to be explored in order to fast track these projects.

In April 2002, the President instructed all government agencies to be at least in Stage 1 of the UN and the American Society of Public Administration's (UN-ASPAs) "Five Stages of e-Government"². This means that all agencies must already have websites providing basic information to the public on their organization, functions, programs and activities. As of December 31, 2004, 99.5 percent of the 368 national government agencies (NGAs) have established their presence on the web.

Using the same benchmark, only the BIR, NSO and SEC websites have reached Stage 4, while the websites of 91 agencies have reached Stage 3, 152 agencies at Stage 2, and 122 agencies at Stage 1. Those in Stage 4, now have the capability to conduct complete and secure transactions online. As of September 2004, of the 111 state universities and colleges (SUCs) studied, 96 percent, or 107 already have websites, while 4 percent or 4 of the SUCs still had no website or were in the process of setting up one.

Although most of the 1,690 LGUs in the country now have Web presence, data from the National Computer Center (NCC) indicate a large percentage of these websites

are still at stage 1, which means that these websites only post static elementary information. In 2004, 160 LGUs have advanced to the status of Stages 2 and 3 of the UN-ASPAs Scale for e-Government Presence.

To continue harnessing the potentials of ICT to provide wider access to government services, the government should, more importantly, periodically monitor and evaluate the functionality and content of these websites. As provider (i.e. of content, ICT services, technology and application), the NGAs and LGUs should bear in mind that the major goal in utilizing ICT is to improve the quality of life of citizens; and hence agencies should be aggressive in making appropriate e-government and other content available online, and strive to make their websites more interactive (stage 3). Furthermore, agencies, where appropriate, should create websites that will allow people to use credit cards, debit instructions and stored value cards to avail of government services and pay for them through the Internet or short messaging system (SMS).

In pursuit of e-governance, several ICT projects were initiated such as the e-LGU, which aims to accelerate government interconnectivity and information sharing and communication through the Internet. Under the e-LGU is the eRPTS, a web-enabled open source Real Property Tax System, which has been installed in 60 pilot LGUs as of December 2004. The development of the eRPTS, an important LGU revenue-generating system that is offered to pilot LGUs for free with the corresponding training, must be accelerated to meet its target of reaching out to 100 LGUs per year. Another initiative launched under the e-LGU in 2004 was the Electronic Business Permit Licensing System (eBPLS), now on its testing stage.

² The Five Stages of E-Government are the following: Stage 1 – Emerging Web Presence; Stage 2 – Enhanced Web Presence; Stage 3 – Interactive Web Presence; Stage 4 – Transactional Web Presence; and Stage 5 – Fully Integrated Web Presence.

The 2003 Government ICT Resources Survey reveals the state of computerization in the government particularly the distribution of various ICT resources in government. The objective of the survey is to know the state of government computerization for the establishment of baseline ICT statistics database. The survey identified the hardware/computer equipment and software used in the government and made an impact assessment on the effectiveness and efficiency of the government's computerization efforts.

The survey, which was conducted among 348 respondent government agencies in June 2002 and May 2003, revealed that microcomputers are widely used among NGAs with a total of 43,537 units, while laptops or notebook computers total 3,083. Majority of the microcomputers used by NGAs are Pentium-based or its equivalent, 30 percent of which are using Pentium 3, while 13 percent are Pentium 4. The ratio of computer-to-personnel in the government in general is 1:4. Based on the latest survey conducted by the National Computer Center, 72 percent has a ratio of 1:4 or less. The DTI, DOE and NEDA are among the agencies with a 1:1 or near 1:1 ratio, while the DPWH, DND and DSWD registered a ratio of 1:19, 1:13 and 1:18, respectively.

While the ICT plans, strategies and the policy environment on e-governance are already in place, the government has yet to fully maximize the benefits of ICT in facilitating more accessible government services and making government operations more efficient and effective. This can be attributed to a lot of factors, among others, such as weak institutional framework and mechanisms to support ICT development in the government, and weak coordination among government agencies in implementing ICT projects.

PURSUE THE PROGRAM ON RATIONALIZING THE BUREAUCRACY

Various administrative streamlining initiatives have been the current focus of reform in public sector management in the absence of a legislation that would initiate massive government reengineering. The Arroyo administration hopes to early retire about 20 percent of the government workforce once it starts the rationalization of the bureaucracy in the second quarter of the 2005. The rationalization of the bureaucracy will allow the government to save about PhP3 billion in personnel services in 2006. The framework on streamlining the bureaucracy has been laid out under EO 366 (Administrative Rationalization of the Executive Branch) signed on October 4, 2004 by the President. The government is expected to implement the retrenchment plan after Congress approves tax measures proposed by the executive department.

To prepare the groundwork for the implementation of EO 366, the Department of Budget and Management (DBM), in partnership with the Civil Service Commission (CSC), Development Academy of the Philippines (DAP), and Technology and Livelihood Resource Center (TLRC), conducted a series of briefings/dialogues with various stakeholders, e.g., judiciary, national government agencies, GOCCs, Congress and public sector unions/federations.

As a result of the vigorous public information campaign on the Rationalization Program, 16 departments, i.e., DA, DepEd, DENR, DOF, DFA, DOH, DILG, DOLE, DLR, DPWH, DOST, DOT, DTI, DOTC, NEDA and DBM have officially organized their respective Change Management Teams (CMTs) to lead in the conduct of the

strategic review of their respective operations and organization in preparation for the implementation of the rationalization effort. Other agencies are already in the process of establishing their CMTs.

Impact mitigation measures for personnel who may be affected by the rationalization program have been set in place. A Memorandum of Agreement (MOA) between the CSC/DBM and the Government Service Insurance System (GSIS) was prepared to ensure the timely release of retirement/separation benefits to personnel who may be affected by the Rationalization Program. Likewise, a MOA between the DBM/CSC and the Home Development Mutual Fund (HDMF) was prepared to facilitate the timely release of the refund of the PAG-IBIG contributions of personnel who may be affected by the rationalization effort.

Moreover, a Skills/Livelihood and Investment Program Team was organized to provide retooling, investment counseling, business management and skills/livelihood opportunities to affected employees to enable them to begin a new life after government service. The Team is composed of the DTI, Cooperative Development Authority (CDA), LBP, Quedan and Rural Credit Guarantee Corporation (QUEDANCOR), Small Business Guarantee and Finance Corporation (SBGFC), Technology and Livelihood Resource Center (TLRC), Department of Labor and Employment, Technical Education and Skills Development Authority (TESDA), Philippine Overseas Employment Administration (POEA), Development Bank of the Philippines (DBP), and the Bureau of the Treasury (BTr).

The Implementing Rules and Regulations (IRR) of EO 366 have been finalized to guide departments/agencies in the implementation of the directive. A Communications Plan for the Rationalization Program is also being

finalized by the DBM. A Rationalization Program Primer is being developed by the DBM and DAP for distribution to key officials and personnel of the different departments and agencies of the Executive Branch, including other stakeholders.

While administrative measures are being instituted through EO 366, the Executive Branch continues to shepherd the passage of the Reengineering Bill in Congress.

IMPLEMENT ORGANIZATIONAL PERFORMANCE INDICATOR FRAMEWORK (OPIF) IN ALL DEPARTMENTS/AGENCIES

The Public Expenditure Management Improvement Program (PEMIP) of the national government established a multiyear reform program that can potentially impact all aspects of public expenditure management in the Philippines. The medium term expenditure framework (MTEF), Organizational Performance Indicator Framework (OPIF) and Efficiency and Effectiveness Review (EER) constitute the pillars of the government's public expenditure management program.

The centerpiece of the PEMIP is the utilization of the medium-term expenditure framework (MTEF). The MTEF was introduced in FY2000 to provide a more predictable resource environment for program planning and implementation. The OPIF, also introduced in FY2000, seeks to institutionalize outcome-oriented performance indicators in judging agency performance, while the periodic assessment of ongoing programs, projects and activities (PAPs) was introduced in FY2001 as the EER.

The OPIF aims to increase the accountability of the agencies through a reporting of their outputs and outcomes that measures the impact of the agency on the goals and objectives of the MTPDP.

In 2004, the DBM conducted a series of workshops to review and finalize agency MFOs and confirm the 2005 performance targets of 13 pilot Departments and 3 attached agencies, namely, DOLE, DOJ, DENR, DILG, DPWH, DOH, DFA, DOT, DAR, DA, DOE, DBM, DSWD, TESDA, PNP and NAPOLCOM. The workshops focused on the establishment of the linkage of agency programs and projects with department MFOs, identification of performance targets and the establishment of measurement/monitoring systems for performance reporting. The DBM shall submit a full OPIF-based budget to Congress by July 2005.

STRENGTHEN THE ROLE OF OVERSIGHT DEPARTMENTS OVER GOCCS

A draft EO has been prepared by the DOF and DBM providing for a mechanism that would strengthen the overall supervision of the Office of the President on GOCCs/ other government corporate entities (OGCEs), as well as improve the operational responsibility of the supervising departments/agencies over said government corporate entities attached to them. The EO further directs the signing by the Presidential appointees to the boards of GOCCs/OGCEs of a covenant on the adoption of ethical standards as prescribed under RA 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), and on compliance with the policy directions and guidelines prescribed by the Administration.

RATIONALIZE THE COMPENSATION STRUCTURE OF CERTAIN GOCCS/GFIS

The civil service salary schedule with 33 grades has come under pressure leading to numerous entities being granted exemptions

from salary standardization on the basis of their revenue generation capacity. These exemptions, which created a special class of civil servants whose compensation increased disproportionately to those covered by the Salary Standardization Law (SSL), have demoralized many civil servants and contributed to the government's difficulty to recruit and retain personnel for highly technical and managerial positions.

In support of the Presidential directive to rationalize GOCC salaries, particularly those exempted from SSL, the DBM initiated a study of existing pay plans of GOCCs/GFIs. The study aimed to work for the legislation of a law that will create a fair and more transparent and equitable compensation for GOCCs/GFIs and the rest of the government agencies. By comparison, GOCCs/GFIs' special retirement/separation plans are generally more generous vis-a-vis the retirement/separation benefits granted to the rest of government employees under existing laws. Hence, the DBM incorporated in the drafting of a Fiscal Responsibility Bill, a provision that will put a cap on GOCC compensation, as well as institute stricter measures to instill fiscal discipline in the corporate sector.

RATIONALIZE THE RETIREMENT AND COMPENSATION BENEFITS OF GOVERNMENT WORKERS

The existence of various laws and administrative issuances governing the retirement of four major beneficiary groupings in the government, i.e., members of the Judiciary, uniformed personnel, members of Constitutional Offices and all other civilian workers, have resulted in confusion and frustration among retirees and, at some point, provided budgetary burden to the government.

To address this dysfunction, the DBM

embarked in 2002 on a project entitled, “Rationalization of the Retirement Benefits of Government Workers”. The project aims to compile and review all retirement laws, administrative issuances covering government workers so that inequity issues, legal infirmities and overlaps may be identified and addressed. The first phase of the project involved the study of existing retirement schemes including the cost of implementing the desired schemes. Activities in the second phase which would continue until 2005 are the design of a unified, equitable and fiscally sustainable retirement scheme, and the preparation and advocacy for a rationalized retirement bill.

Likewise, reforms in the Position Classification and Compensation System (PCCS) are being spearheaded by the Civil Service Commission (CSC), in coordination with the DBM, and financed by the World Bank. The project is designed to create a compensation package for government employees that is comparable to the private sector, with continuing professional education, merit-based system of promotion, modern facilities, and sufficient logistical support. Phases 1-3 of the project involve: (a) review of current system; (b) development of a compensation and benefits philosophy; (c) job analysis, evaluation and pricing; (d) review of the salary administration systems; and (e) preparation of a communication strategy.

POLICY AGENDA AND PROSPECTS

Government will continue building on the gains of the Rationalization Program, strengthen results-based expenditure management, and rationalize the retirement and compensation benefits of the public sector. The Administrative Rationalization of the Executive Branch (EO 366) under a voluntary but time-bound separation

opportunity would proceed through the creation of agency Change Management Teams which would conduct strategic reviews of agency operations, implement impact mitigation measures for those who may be affected and develop holistic capability building programs for retained personnel, among others. The Implementing Rules and Regulations (IRR) of EO 366 as well as Communications Plan for the Rationalization Program are being finalized by the DBM to guide departments/agencies in the implementation of the EO. A Rationalization Program Primer would also be developed for distribution to key officials and personnel of the different departments/agencies of the Executive Branch, including other stakeholders. The Executive Branch would also pursue the enactment of an Omnibus Reengineering Bill in Congress.

The government shall also continue to exploit the use of ICT as a tool to improve access to and delivery of government services and promote a culture of performance, results and accountability in public sector institutions. The passage of the DICT bill shall be pursued, as the creation of the DICT would provide a cabinet-level agency that would ensure a more focused development of ICT and conduct needed promotional activities to encourage local and foreign investments in ICT in the country.

The early passage of the NTC Reorganization bill shall also be sought in order to make the regulatory agency more responsive to the requirements of the ICT and telecommunications sector. Apart from the ICT policy initiatives that shall be pursued in 2005, the government shall also undertake various programs and projects in line with the MTPDP’s objective of harnessing the full potential of ICT for faster and efficient delivery of government services. These programs/projects include

the following: (a) Computerization and Modernization of NTC Facilities and Services (Implementation of eNTC) Project; (b) e-LGU project; (c) e-Remittance System; (d) e-Governance for Efficiency and Effectiveness (E3) Project; (e) Government e-Mail Service; (f) NCC Web Hosting Facility; (g) e-Government Fund Project Monitoring and Evaluation Service, and (h) GISP Identified Systems Development.

Chapter 17

Defense Against Threats to Security

The Department of National Defense (DND) and the Armed Forces of the Philippines (AFP) are mandated to uphold the sovereignty, support the Constitution, and defend the territory of the Republic of the Philippines against all enemies, foreign and domestic.

The attainment of strategic victory over the various internal threats remained the main focus of the DND/AFP in 2004 through sustained AFP/PNP internal security operations. The DND-AFP conducted high level workshops on Inter-Agency Convergence participated in by various agencies to synchronize efforts against the insurgency problem and to educate other government officials on their critical role in counter insurgency.

As a result, the strength of the Communist Terrorist Movement (CTM) continued to decrease. On the other hand, the situation in Mindanao was stabilized as the armed threat groups in the island were contained. The AFP tactical engagements favored the AFP. Positively, this aspect indicates that the AFP was on the initiative and has tried to set the momentum.

ASSESSMENT

The DND/AFP implemented the following programs and activities in 2004 in support of its four-point thrust in the Medium-Term Philippine Development Plan for 2004-2010:

1. Philippine Defense Reform

A thorough assessment of the defense and military establishment resulted in the formulation of the Philippine Defense Reform (PDR) program. The Department marked 2004 with a series of strategic

initiatives. Against a backdrop of continued human resource development through participation and attendance in local and foreign courses and seminars, streamlined procurement and modernization processes, and nationwide stakeholder consultations, DND implemented several reform measures to prepare it for the uncertainties of a future environment.

A Defense Planning Guidance (DPG) 2004 was approved on December 28, 2004 to provide a framework for translating Government direction and Presidential policy into doable, efficient and effective programs that deliver affordable, sustainable, and credible national defense and security services to the nation. Further inward-looking measures were undertaken with the creation of a Technical Working Group for Organizational Rationalization.

The Office of the Secretary of National Defense (OSND) identified four reform areas as vital to the implementation of defense reforms, namely: policy, programs, personnel morale and welfare, and political will.

The RP-US Joint Defense Assessment (JDA) continued to be identified as a major springboard for reform. A JDA Planning and Implementation Group (JDA-PAIG) was constituted to complete the JDA five-year notional implementation plan through a Program of Action and Milestones.

The OSND structure was realigned along functional lines and the Office of the

Undersecretary for Internal Control (OUSIC) was created to institutionalize procurement and fund disbursement reforms through an Internal Audit Service (IAS) unit. The OUSIC immediately adopted a mechanism for the timely release of the AFP logistical budgetary requirements. With the active support of the DND Commission on Audit (COA) Field Office, the OUSIC proposed the creation of a separate Responsibility Center under the Electronic New Government Accounting System (e-NGAS) to ease the liquidation of the AFP operational and tactical expenses.

The DND continued the implementation of Department Order 165, which was issued on September 10, 2003 to increase the level of authorization for local procurement. Executive Order 235 issued September 11, 2003 further pursued reform through the collapse of 119 Bids and Awards Committees (BACs) into a single BAC for the entire AFP based at GHQ and the streamlining of the rules and procedures for defense contracts. These reforms will be complemented by follow-through issuances that will further rationalize operational systems and reporting procedures with appropriate DND structures.

The DND likewise took decisive steps to mobilize non-budget sources to support its programs. The Department also submitted proposals for a draft Executive Order mandating other government agencies to source their ammunition from GA, and a draft proclamation, which was consequently approved, i.e., Presidential Proclamation No. 71 signed on May 6, 2003, redesignating the GA reservation to “defense-industrial” and facilitating optimal investment in the modernization of the Arsenal.

On personnel welfare, over 300 hectares on military reservations all over the country were allotted by the President for off-base housing for soldiers. Ongoing housing projects under Gawad Kalinga provided a

total of 2,000 housing units nationwide, 1,600 units in Fort Bonifacio, and 2,000 units in Camp Aquino. Meanwhile, 54 units in Camp Riego de Dios were awarded on December 20, 2004. Moreover, a total of 174.5 hectares of off-base housing were allocated for Camps Tinio, Tecson, Evangelista, and Lapu Lapu. About 473.47 hectares more await Presidential issuances. In addition, 2,300 condominium units within the 7-hectare area in Fort Bonifacio were allocated for the AFP personnel to be administered by the Housing and Urban Development Coordinating Council (HUDCC). Out of 9,797 AFP-assisted housing units projected by private developers through MBI, PAG-IBIG and AFPSLAI, 1,881 housing units were awarded for officers and men of the AFP for the period.

2. AFP Capability Upgrade Program

The DND was able to set the AFP Modernization Program on track with the approval and implementation of 19 contract projects. Out of 28 projects, 23 were obligated in the amount of PhP5.8 billion during the year to advance the modernization of the AFP.

The six approved/delivered contracts were: the purchase of 402 Squad Automatic Weapons delivered to the Philippine Army and the Philippine Marines, the Acquisition of Armored Recovery Vehicle, the 20W Man pack Radio Project, the BN Islander Aircraft Upgrade, the PN Diving Suit Acquisition, and the GHQ Dental Equipment. There were two approved projects with partial delivery: Procurement of 20 Helis (UH-1H), and the GHQ Geographic Info System.

There were 11 approved projects but still awaiting delivery: Upgrade of the Jacinto Class Patrol Vessel, Refurbishment of 10 UH-1H, VHF FM H/H Transceiver,

PA-PMCHF/SSB Man Pack Radio, OV-150 LARSU Upgrade, JCPV Generators, Hydragraphic Equipment Lot1, E-Services Portal Acquisition and Base Communication Network, SPSC (BCN) and Hydrographic Equipment (Lot 1).

The DND conducted the Triennial National Defense Review, DND-wide Program Performance Review and Analysis (PPRA), and reviewed the Bureau Plans of Actions Programs and Budget. It also conducted a stakeholders' consultation to conceptualize a framework for the Multi-Year and Capability Planning System (MYCaPS). This resulted to the development of the AFP Capability Upgrade Plan (CUP) with 6-, 12-, and 18-year horizons and the Defense Acquisition System (DAS). In addition, the Defense Department continued to strengthen the DND BAC through the creation of the Office of the Undersecretary for Defense Acquisition as a precursor to the Defense Planning System (DPS).

Support to Peace Process

The AFP sustained the existing cooperative mechanism with the Office of the Presidential Adviser on the Peace Process (OPAPP), the linkage with National AntiPoverty Commission (NAPC) and actively participated on convergence of social development initiative designed to address the root causes of insurgencies. Further, the Department continued the implementation of the Peace agreement, specifically on the MILF Peace Talks and adhered to the provisions of the ceasefire coordinating actions of the AFP.

Enhance Anti-Terrorism Capability

The DND, through the COC-IS Operations Center (OPCEN) initiated the implementation of the National Plan to Address Terrorism and its Consequences

(NPTC). The NPTC provides the overall framework for government action against terrorism, specifically against hostage taking, bombings, sabotage, hijacking and piracy, particularly in Mindanao.

On the other hand, the Anti-Terrorism Task Force (ATTf) was created on March 2004 under the Cabinet Oversight Committee on Internal Security (COC-IS) initially designating SND as the Head of the Task Force. The joint military and police forces neutralized terrorist operations, which led to the arrest of known Abu Sayyaf Group and Jemaah Islamiyah personalities.

Pursuant to Administrative Order No. 104, series of 2004 dated September 22, 2004, COC-IS was dissolved, thereby, transferring the ATTf Chair to the Office of the Executive Secretary, OP, and Vice Chairmanship to the Office of the National Security Adviser, while DND continued its support activities as Coordinating Center of the Task Force.

The DND also intensified its international engagements and enhanced its defense diplomacy program through strengthened bilateral defense and security cooperation or relations with friendly countries. These efforts helped the Government fulfill its commitments with allies and neighboring countries.

On the overall, the DND pursued its 2004 objectives with commitment and determination despite budgetary and logistic constraints. The DND performance was very satisfactory for CY 2004 within the resource made available.

PROSPECTS AND POLICY DIRECTIONS FOR 2005

The DND Defense and Military establishments continue to perform their mandates in response to current and emerging security threats.

The Philippine Defense Reform (PDR) program provides the framework for introducing a comprehensive reform package at the strategic level for the defense and military establishment that will address systemic deficiencies to include the root causes of grievances outlined in the reports of the Feliciano and Davide Commissions. For 2005, the DND and the AFP will implement in the short term, specific recommendations of the Feliciano Commission without awaiting the impact of the comprehensive, strategic and systemic reforms under the PDR.

In particular, programs of action and milestones are being developed focusing on the 10 key areas of improvement to enhance capabilities from a systematic and strategic perspective: (a) Multi-Year Defense Planning System (MYDPS); (b) Improvement of AFP operational and training capacity; (c) Improve Logistics Capacity; (d) Staff Development; (e) Development of an effective AFP Personnel Management System; (f) Planning, programming and execution of a Multi-Year Capability Upgrade Program for the AFP; (g) Optimizing the defense budget and improving management controls; (h) Creating a professional acquisition workforce and establishing a centrally managed defense acquisition system; (i) Increasing capability of the AFP to conduct Civil Military Operations; and (j) Development of accurate baseline data on critical AFP functional areas.

On promoting the welfare and enhancing the benefits of soldiers, the following shall be immediately pursued: (a) On-base housing program; (b) Construction of 16-door condo for Officers and Employees; (c) Construction and distribution of 10 off-base housing projects; (d) Improvement of Medical and Health Services; (e) Efficient and speedy allocation of benefits to families

of soldiers 'Killed in Action' or permanently incapacitated; (f) Grant of scholarship for soldiers and their dependents; (g) Rationalization of AFP Retirement Fund and Pension Benefits; (h) Establishment of Grievance Mechanism; and, (i) Implementation of specific recommendations of the Feliciano and Davide Commissions in the short term.

On the other hand, the DND shall continue the formulation of the Multi-Year AFP Capability Planning System (MYCaPS). This will define a national military strategy in the conduct of internal security operations covering a six-year period that will feature defined and measurable targets and objectives. Within anticipated financial limits, the AFP will identify the required resources to upgrade its land, air force and maritime capabilities in areas such as mobility, firepower, communications, force protection and combat life support to enable the organization to more effectively perform its missions. In addition, programs to upgrade the operations and training of land force, maritime force, air force as well as Joint Command and Control shall continue to be enhanced.

The AFP will likewise pursue a multi-year, financially viable and cost effective Capability Upgrade Plan (AFP Midterm CUP) that focuses on enhanced capabilities in the conduct of ISO. The program will feature streamlined and rationalized planning, programming, budgeting, and acquisition process.

On the peace process, the AFP will continue in its mission of protecting our people against internal security threats. Thus, the government's peace initiatives to sustain the peace process with the Moro Islamic Liberation Front (MILF) and observance of the ceasefire by both parties enjoy the support of the defense and

military establishment. The DND will continue to assist the Office of the Presidential Adviser on the Peace Process (OPAPP) by supporting the social development initiatives of government designed to address the root causes of insurgency.

The protection of our people against internal security threats shall be the continuing mission of the AFP. In line with this, the AFP will be guided by the intents to defeat the terrorists. It shall also work toward the preemption of the resurgence of the ASG and assist the PNP in neutralizing the JI terrorist group.

The desired end state is the decisive defeat of threat groups in order to contribute to the overall government effort to attain and maintain peace and security for national development. Thus, the government's peace initiatives to sustain the peace process with the Moro Islamic Liberation Fronts (MILF) and observance of the ceasefire by both parties will continue to enjoy the support of the defense and military establishment.

To counter terrorism, the AFP will enhance its capability to combat terrorism through (a) continued training and organization of equipped units, (b) integration of anti-terrorism and counter terrorism into the basic doctrine, training and equipment of forces, (c) pursue improved intelligence linkage that will facilitate information and technology sharing with neighboring countries and international defense and security allies, and (d) reorganization of DND resource management structure around force/capability groupings responsible for the development of its capabilities by undertaking five specific programs and policy directions, namely: Program 1-Land Force Philippine Army (PA); Program 2-Air Force (PAF); Program 3 – Maritime Force [PN and

PN (M)]; Program 4 – Joint Command and Control (C2) Training; and, Program 5 – DND-level Central Administration and Support group together all DND Bureaus except the AFP.

While the AFP have effectively addressed the threat of terrorism in the Southern Philippines and throughout the region with its commitment to continue its operations against the remnants of the Abu Sayyaf and seek to further degrade its strength and prevent its resurgence, the AFP will continue to monitor the activities of other terrorist groups and deny them sanctuaries, training grounds or bases of operation.

Further, the AFP will continue to actively participate in the global fight against terrorism. Additional counter-terrorist units will be created and trained. Specialized and technical trainings will be enhanced. Improving intelligence fusion among the DND, AFP and other government agencies which form part of the intelligence community as well as establishing linkages and stronger ties with our neighbors in the region will facilitate the exchange of information and technology, and contribute to the capability of the AFP to deal with the terrorist threat.

Overall, the institutional and strategic improvements in the defense and military establishment aimed to be achieved in the MTPDP will provide the foundation for a strong and mission-capable DND and AFP. Implementing the needed defense reforms under the PDR framework and investing in the capability upgrade of the DND and AFP to meet its defined missions augur well for the government's campaign to achieve a lasting peace that will establish an environment conducive to economic growth and development.

Chapter 18

Responsive Foreign Policy

As a responsible member of the community of nations, the Philippines supported international collective action especially in the war against terrorism. In particular, the Arroyo Administration entered into a number of bilateral and international economic and security agreements in the fight against terrorism.

A major legacy of the Arroyo administration was the improvement of RP-US defense relations. The Philippines actively supported the US in the global fight against terrorism since 9/11, and President Gloria Macapagal-Arroyo has been actively working as the chief anti-terrorist advocate in the Association of Southeast Asian Nations (ASEAN). It is significant that the leadership role of the Philippines under President Arroyo in the war against terrorism is acknowledged in the ASEAN region. Thus, the Philippines was designated as a major non-NATO ally and is treated as a reliable partner in the war against terrorism. It also made possible the flow of greater amounts of military assistance from the United States.

ENSURE THE NATIONAL SOVEREIGNTY AND TERRITORIAL INTEGRITY OF THE REPUBLIC

Initiatives to formally establish RP's territorial and maritime boundaries included advocacy for the passage of the Cuenco Bill, the Administration's proposed baselines law. Meanwhile, maritime boundary delimitation talks between Indonesia and the Philippines remain in the preliminary stage pending the passage of legislation delineating Philippine maritime boundaries.

Steps to settle territorial disputes in the South China Sea in a peaceful and friendly

manner included the signing of the RP-China Joint Marine Seismic Undertaking during the State Visit of President Arroyo to China on September 1-3, 2004. The Philippines also continuously implemented the provisions under the Declaration on the Conduct of Parties in the South China Sea (DOC).

Other initiatives that foster friendly and peaceful coexistence with other countries were continuously pursued in 2004. The Department of Foreign Affairs (DFA) led efforts at cooperation in marine and oceans issues within the context of ASEAN, the ASEAN Regional Forum, the Asia-Europe Meeting (ASEM), the Southwest Pacific Dialogue and the International Maritime Organization.

PROMOTE REGIONAL PEACE AND SECURITY THROUGH ENHANCED BILATERAL AND MULTILATERAL TIES

In the aftermath of the September 11 terrorist attack, the US-led strikes against terrorism, the Taliban government in Afghanistan and the war in Iraq, the Macapagal-Arroyo administration concentrated its efforts on reviewing and readjusting Philippine relations with the United States and on measures to be undertaken in tandem with the ASEAN, ASEAN + 3 and APEC partners, to implement the President's initiatives on the

war against terrorism and other transnational crimes through diplomacy and international relations.

The common fight against terrorism engendered heightened cooperation among governments bilaterally, regionally and globally. The Philippines remained at the forefront of the war on terrorism, and actively cooperated in the areas of law enforcement, legal matters, and information sharing. These efforts have complemented RP's capacity-building initiatives for the military, the police, immigration, and other law enforcement authorities.

The Philippines and the United States have concluded several joint military training and exercises, Balikatan 2004 being the major one in 2004. Under the US Excess Defense Articles program, the Armed Forces of the Philippines will receive 30 flyable aircraft plus unutilized spares by 2005. The Steering Committee of the Philippine Defense Reform (PDR) which is a US-assisted program that aims to develop the capability of the AFP to address current and emerging threats, visited Manila in 2004. (*Refer to Chapter 17-Defense Against Threats to Security*).

During the State Visit of President Arroyo to China in September 2004, the Philippines and China agreed to exchange visits between defense ministers and work on the establishment of a security dialogue mechanism. The first RP-India Security Dialogue held in March 2004, focused on enhancing cooperation in counter-terrorism, maritime security, and illegal trafficking of drugs. The RP-Australia dialogue on defense and political security concerns is also a continuing process.

The membership of the Philippines in the UN Security Council in 2004 not only enabled the country to promote its national interest, but also provided a unique

opportunity to project its image as a strong nation and as an active and responsible player in world affairs.

The prospect of a successful conclusion of the ongoing peace process in Mindanao and the additional development opportunities that peace will bring is a major accomplishment of the Arroyo Administration. The settlement of the problems facing Southern Philippines and the rehabilitation of ARMM and Central Mindanao are being accomplished through a variety of development assistance that would provide financial and technical support for developing Southern Philippines' human and social capital. Bilateral and multilateral donors are looking forward to contributing to the Mindanao Trust Fund that is expected to channel significant donor and government investment to conflict-affected areas upon completion of a peace agreement. (*Refer to Chapter 12-Peace and Order and the Rule of Law*).

STRENGTHEN INVOLVEMENT IN SHAPING THE REGIONAL ENVIRONMENT THROUGH ENGAGEMENT WITH ASEAN AND ASEAN'S ENGAGEMENT WITH THE MAJOR POWERS

The commitment to ASEAN remains a cornerstone of Philippine foreign policy. The Philippines continued to attach great importance to its relations with the member countries of ASEAN, individually and as an organization. RP's commitments to ASEAN's efforts to become a community by 2020 have been incorporated in the Medium-Term Philippine Development Plan 2004-2010. The Philippines, through ASEAN, actively engaged China, Japan, and the Republic of Korea in the

development and integration efforts of Southeast Asian countries, specifically in the BIMP-EAGA region.

As a member of the ASEAN, the Philippines adopted in November 2004 the Plans of Action of the ASEAN Socio-Cultural Community, which is one of the pillars of the ASEAN Community envisioned by the Bali Concord II. The Philippines also participated in the negotiations of the commitments for the ASEAN-India Partnership for Peace, Progress, and Shared Prosperity; Joint Declaration on ASEAN-China Strategic Partnership for Peace and Prosperity; ASEAN-Japan Joint Declaration for Cooperation to Combat International Terrorism; Joint Declaration for Comprehensive Cooperation Partnership between ASEAN and the Republic of Korea; Joint Declaration of the Leaders at the ASEAN-Australia and New Zealand Commemorative Summit; ASEAN Declaration Against Trafficking in Persons particularly Women and Children; and ASEAN-China MOU on Transport Cooperation, among others. The Philippines also hosted the ASEAN Regional Forum Intercessional Meeting on Counter-terrorism and Transnational Crime and co-chaired the ARF Seminar on Cyber-terrorism in October 2004 in the Republic of Korea.

EXPAND DFA ECONOMIC DIPLOMACY EFFORTS

The DFA substantially contributed to economic security through the utilization of economic and commercial representation activities in the country's top 20 Foreign Service Posts. The Philippines promoted RP goods and services through the conduct of the IT Outsourcing Conference and Exhibition, business mission to India,

Vietnam and Russia. The DFA also helped promote foreign participation in local fairs through the conduct of the Manila Furnishings and Apparel Manufacturers' Exchange (FAME) International from April to October 2004, the Philippine International Furniture Show 2004, and the Mindanao Trade Expo 2004.

To strengthen logistical support to RP posts, the DFA developed standard operating procedures for the direct referral by RP posts of trade and investment leads to action agencies in the Philippines. These shortened the response time to emergent opportunities as well as problems. The specific standards developed concern trade/product inquiries, investment inquiries, complaints against erring Philippine exporters, background checks on Philippine firms, and invitations to bid for overseas contracts and projects.

PROMOTE THE FILIPINO IDENTITY AND CULTURE BY DEVELOPING INSTITUTIONAL CAPACITIES FOR CULTURE

In pursuit of developing institutional capacities for culture, the DFA worked for the following: (a) Development of Philippine studies program in Latin American universities through the Forum for East Asia-Latin America Cooperation (FEALAC) mechanism; (b) Adoption of the UN General Assembly resolution on inter-religious dialogue; (c) Promoted inter-faith dialogue in the ASEM, and the Southwest Pacific Dialogue; and (d) Promotion of ASEAN awareness, regional identity, and values through the adoption of the Plan of Action of the ASEAN Sociocultural Community.

The DFA has also worked for the creation of a Cultural Diplomacy Unit as

well as advocated for the Amendments of RA 7157 (the Philippine foreign Service Act of 1991), which is pending in the Senate Committee on Foreign Relations.

PROTECT THE RIGHTS AND PROMOTE THE WELFARE AND INTERESTS OF FILIPINOS OVERSEAS

Mindful of the millions of Filipinos now living and working all over the world, the Philippines worked closely with other countries, and created alliances designed to protect and provide them every means of assistance, so that they may contribute to national development while abroad and after they come home.

The Office of the Undersecretary for Migrant Workers Affairs of the DFA undertook missions to various posts where there is a huge concentration of Filipinos and where cases have dragged on in foreign courts. The Department conducted independent investigations into such cases. The missions were sent to Kuwait, Manama, Abu Dhabi, Amman, Beirut, Tehran, Kish Island, Brunei, Singapore, Malaysia and Korea.

The government adopted a more proactive approach in the monitoring of the conditions of Filipinos overseas. The DFA disbursed around PhP125 million under the Assistance-to-Nationals (ATN) Fund from 2001 to 2004 for Filipinos in distress abroad and over PhP25 million in 2001-2004 from the Legal Assistance Fund (LAF) for legal assistance to overseas Filipino workers (OFWs). The ATN Fund has been used to handle cases ranging from individual and mass repatriation to legal assistance, to follow-up of employment, insurance and death benefit claims, to shipment of remains and personal effects of deceased Filipinos. Other cases involved work-related problems, tracing of whereabouts of relatives and assistance to imprisoned, detained, injured

and sick compatriots. Legal assistance funds were also disbursed to hire the services of legal counsels, to post bail bonds, and to pay court fees and other litigation-related expenses for these cases.

To reduce the vulnerability of OFWs to terrorist attacks, the DFA made representations with countries contiguous to Iraq and their missions in Manila in an effort to prevent the entry of OFWs from their respective borders into Iraq. An appeal was also made to employers for the provision of adequate protection and security to OFWs who might be deployed to Iraq. Countries that have been requested to ban OFWs from entering Iraq through their borders include: Kuwait, Kingdom of Saudi Arabia, United Arab Emirates, Jordan and Turkey.

IMPLEMENT THE OVERSEAS ABSENTEE VOTING LAW

The DFA sought to strengthen its capacities in the implementation of the Overseas Absentee Voting Law. In the 2004 elections, the DFA registered a 65 percent voter turnout from a total number of 364,187 registered voters. DFA conducted an evaluation of the implementation of the Overseas Absentee Voting in July 2004 in order to effectively formulate the proper approaches for the implementation of the law. Meanwhile, the amendments to the Overseas Absentee Voting Act of 2003 are still awaiting passage in Congress.

POLICY AGENDA AND PROSPECTS

The DFA should substantially intensify its economic and commercial representation activities in the country's foreign service posts, promoting Philippine goods and services and linking industrialists, entrepreneurs and Filipino

firms to markets overseas. To achieve this goal, it has to strengthen its recruitment effort for foreign service personnel, who have wider background in emerging opportunities as well as problems in trade, investment, and tourism. Aside from recruitment, it also needs to refocus its in-house training programs to improve the economic diplomacy skills of its existing personnel in establishing linkages and direct referral of trade and investments to firms and action agencies in the Philippines, shorter response time to trade and product inquiries, investment inquiries, complaints against erring Philippine exporters, background checks on Philippine firms, and

invitations to bid for overseas contracts and projects.

For 2005, the Philippines foreign policy will continue to support agreements to strengthen national security against external threats, especially terrorism; ensure the protection of national sovereignty and territorial integrity; and promote regional peace and security through enhanced bilateral and multilateral ties. It will also continue to protect the rights and promote the welfare and interests of Filipinos overseas as well as ensure the fair and effective implementation of the Overseas Absentee Voting Law.

Chapter 19

Constitutional Reforms

Being an election year, 2004 saw the intensification of debates on constitutional reforms. Two issues, namely, the mode to be adopted in proposing changes to the 1987 Constitution and the specific amendments that must be incorporated in it dominated the discussions on charter change. As part of their constitutional mandate, the House of Representatives made significant steps to address the clamor for constitutional reforms. This year, Congress is expected to determine the appropriate mode to be adopted in introducing amendments to the Constitution and laying out the parameters for constitutional reforms.

ASSESSMENT

Recognizing that constitutional change is the basic tool for reforming politics and improving the level of governance, the House Committee on Constitutional Amendments of the 12th Congress proposed a total of 21 proposed measures during the first semester of last year.

The most important of these measures is the proposed Concurrent Resolution No. 14, which called on the Senate and the House of Representatives to organize themselves as a Constituent Assembly for the purpose of introducing amendments to the 1987 Constitution. Unfortunately, this measure did not push through in view of the fundamental objections over the employment of Constituent Assembly as the mode of changing the Constitution. The measure was also derailed by the May 10 national elections.

The opening of the 13th Congress on July 2004, also saw the introduction of 15 proposed measures to the House Committee on Constitutional Amendments. Such measures consisted of proposals calling for a Constitutional Convention or convening Congress into a Constituent Assembly, while

the rest of the measures sought to introduce specific amendments to the Charter.

The House Committee on Constitutional Amendments likewise deliberated on the measures dealing on the mode of proposing constitutional amendments and invited renowned experts on Constitution to give their views on the current issues on charter change. However, the moratorium on charter change debates declared by the President and the House Speaker, held in abeyance its activities.

In the meantime, the House Committee on Constitutional Amendments decided to work on the following administrative matters:

- 1) Conducting analysis on the merits and demerits of the various proposals on charter change including those propounded during the last Congress;
- 2) Studying the two modes of effecting constitutional amendments; their corresponding rules and expenses that may be incurred for each mode; and

- 3) Touching base with its Senate counterparts to get an initial feel of their sentiment on Charter change.

However, the progress of constitutional reforms is still being hindered by the lack of consensus on the appropriate mode for introducing amendments to the Constitution. The debate on the acceptability of Constituent Assembly against Constitutional Convention as the mode for changing the constitution emerged as an immediate concern. This is the first important issue that must be immediately resolved by the legislators.

Through active advocacy by the Executive branch, Congress may take into consideration the Medium-Term Philippine Development Plan (MTPDP 2004-2010) in determining the proper mode for changing the Constitution and the specific amendments that should made.

PROSPECT AND POLICY DIRECTIONS FOR 2005

The House Committee on Constitutional Amendments, with the help of its counterpart in the Senate would continue its active deliberation on the measures dealing with the mode of changing the Constitution in the first quarter of this year, after the lapse of the moratorium declared by the President and the House Speaker.

The formulation of the MTPDP 2004-2010, which espouses Constitutional Convention as the mode of introducing changes to the Constitution and defines the specific amendments toward reforming politics and improving the level of governance, is expected to help settle the issues on the matter. Congress may use the current Plan as a guide in introducing changes in the Constitution.